NEW CENTURY REIT INC
Form 424B3
August 13, 2004
Table of Contents

Filed Pursuant to Rule 424(b)(3)

Registration File No. 333-114709

18400 Von Karman, Suite 1000

Irvine, California 92612

Dear New Century Financial Stockholder:

Whether you are a new stockholder or one who has been investing in New Century Financial for several years, on behalf of our board of directors and executive management team, I want to thank you for your investment in and support of the company.

On April 5, 2004, we announced that, after careful consideration, our board of directors unanimously approved a plan to convert New Century Financial to a real estate investment trust, or REIT, subject to stockholder approval and other conditions. We believe that conversion to a REIT will put us in a better position to achieve our long-term growth objectives, diversify our revenues in a more tax-efficient manner and increase long-term stockholder value. Following the REIT conversion, we plan to continue to grow our production franchise, while diversifying our revenues by building a portfolio of self-originated mortgage loans, which we believe will produce a stable revenue stream.

If approved by our stockholders, New Century Financial will become the wholly-owned subsidiary of New Century REIT, Inc., a Maryland corporation recently formed by New Century Financial. In connection with the REIT conversion, New Century REIT will change its name to New Century Financial Corporation and, subject to market conditions, will raise approximately $750 million in new capital. We believe this additional capital will assist us in executing our business plan and help protect the company during times of market disruption.

I invite you to attend our 2004 annual stockholder meeting, which will be held at our headquarters located at 18400 Von Karman, Suite 1000, Irvine, California, on September 15, 2004 at 9:00 a.m., local time. At the annual meeting, you will be asked to approve and adopt the agreement and plan of merger dated as of April 21, 2004, or the merger agreement, elect three Class I directors, approve a new performance incentive plan and ratify KPMG LLP s appointment as our Independent Registered Public Accounting Firm for 2004. We strongly recommend that all stockholders vote FOR the approval and adoption of the merger agreement incentive, FOR the election of the three Class I director nominees, FOR approval of new performance plan and FOR ratification of KPMG LLP s appointment as our Independent Registered Public Accounting Firm for 2004.

This proxy statement/prospectus is a prospectus of New Century REIT as well as a proxy statement for New Century Financial and provides you with detailed information about the REIT conversion and the other proposals being voted on at the annual meeting. We encourage you to carefully read this entire proxy statement/prospectus, including all of its annexes, and we especially encourage you to read the section on Risk Factors beginning on page 22.

We believe the conversion to REIT status will help us achieve our common goals of continued revenue growth, earnings diversification and increasing stockholder value. With your support, I believe the best is yet to come.

Sincerely,

Robert K. Cole
Chairman and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the shares of common stock to be issued by New Century REIT under this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This proxy statement/prospectus is dated August 13, 2004, and is being first mailed to stockholders on or about August 16, 2004.

Table of Contents

REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about New Century Financial from other documents that are not included in or delivered with this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference in this proxy statement/prospectus by requesting them in writing at New Century Financial Corporation, 18400 Von Karman, Suite 1000, Irvine, California, 92612, Attention: Vice President of Investor Relations, or by telephone at (949) 440-7030, or email at cmarrell@ncen.com.

If you would like to request documents from us, please do so by September 8, 2004 in order to receive them prior to the annual meeting.

See Where You Can Find Additional Information beginning on page 222.

Table of Contents

18400 Von Karman, Suite 1000

Irvine, California 92612

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

August 13, 2004

NOTICE IS HEREBY GIVEN that New Century Financial Corporation, or New Century Financial, will hold its 2004 annual meeting of stockholders on September 15, 2004 at 9:00 a.m., local time, at our headquarters located at 18400 Von Karman, Suite 1000, Irvine, California, for the following purposes:

1. to consider and vote upon a proposal to approve and adopt the agreement and plan of merger dated as of April 21, 2004, by and among New Century Financial, New Century REIT, Inc., a newly formed wholly-owned subsidiary of New Century Financial, and NC Merger Sub, Inc., a wholly-owned subsidiary of New Century REIT, Inc., which will implement the restructuring of New Century Financial to allow New Century Financial to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes;

2. to re-elect Fredric J. Forster, Edward F. Gotschall and Richard A. Zona as Class I directors for three-year terms ending in 2007;

3. to vote upon a proposal to approve the New Century Financial Corporation 2004 Performance Incentive Plan;

4. to ratify KPMG LLP s appointment as our Independent Registered Public Accounting Firm for 2004; and

5. to transact any other business that is properly brought before the annual meeting or at any adjournments or postponements of the annual meeting.

We reserve the right to delay the merger or the REIT conversion or cancel the merger and the REIT conversion altogether even if our stockholders vote to approve and adopt the merger agreement, which will effect the REIT conversion, and we satisfy the other conditions to the completion of the merger, if our board of directors determines that the merger, the REIT conversion or the related public offering is no longer in the best interests of New Century Financial and our stockholders.

If you were a stockholder of record at the close of business on July 30, 2004, you are entitled to notice of, and to vote at, the annual meeting. As of that date, there were 34,045,201 shares of New Century Financial common stock outstanding. Each share of New Century Financial common stock is entitled to one vote on each matter properly brought before the annual meeting. For at least 10 days before the annual meeting, we will make a list of our stockholders available at our offices at 18400 Von Karman, Suite 1000, Irvine, California.

Your vote is important. Whether or not you plan to attend the annual meeting, please complete, sign and date the enclosed proxy card and return it promptly in the enclosed postage prepaid envelope, or vote your proxy by telephone in accordance with the instructions on the proxy card. You may revoke your proxy in the manner discussed in the accompanying proxy statement/prospectus at any time before it has been voted at the annual meeting.

The New Century Financial board of directors unanimously recommends that you vote *FOR* the approval and adoption of the merger agreement that will effect the REIT conversion, *FOR* the election of the three Class I director nominees, *FOR* the approval of the 2004 Performance Incentive Plan and *FOR* the ratification of KPMG LLP s appointment as our Independent Registered Public Accounting Firm for 2004.

By Order of the Board of Directors,

Stergios Theologides
Secretary

Irvine, California

August 13, 2004

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

Table of Contents

ANNEXES

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE REIT CONVERSION

Q: What transactions are proposed?

A: Our board of directors has approved a plan to change our capital structure to enable New Century Financial Corporation, a Delaware corporation, or New Century Financial, to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes. We describe these changes in greater detail in Summary Structure of the Merger on page 15. This plan consists of the following key components:

- reorganizing New Century Financial and New Century REIT, Inc., a Maryland corporation, or New Century REIT, through the merger of NC Merger Sub, Inc., a wholly-owned subsidiary of New Century REIT, or NC Merger Sub, with and into New Century Financial, resulting in New Century REIT becoming the parent company of New Century Financial;

- raising additional capital in the form of equity, debt or some combination of the two. Subject to market conditions and the price of our common stock, we currently anticipate raising $750 million through the sale by New Century REIT of shares of its common stock to the public;

- having New Century REIT use substantially all of the net proceeds of the public offering to purchase 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 acquire all of the capital stock of New Century Credit Corporation (formerly known as Worth Funding Incorporated), or New Century Credit, and New Century Mortgage Securities, Inc., or NCMSI, both of which are currently indirect wholly-owned subsidiaries of New Century Financial, which will become qualified REIT subsidiaries 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.

Q: What is a REIT?

A: A REIT is a company that derives most of its income from real estate mortgages or real property. If a corporation qualifies as a REIT, it generally will not be subject to U.S. federal corporate income taxes on income that it distributes to its stockholders, thereby reducing its corporate-level taxes.

Additionally, in general, a REIT can have two types of corporate subsidiaries, as follows:

- *Taxable REIT subsidiary*. A taxable REIT subsidiary is a corporation in which a REIT has an interest and that has elected to be a taxable REIT subsidiary. Taxable REIT subsidiaries pay corporate tax at regular rates on their taxable income. Through these taxable REIT subsidiaries, we will be able to continue certain business operations that would otherwise jeopardize our REIT qualification or, in the case of income from the sale of properties held for sale to third parties, would be subject to penalty taxes if conducted outside a taxable REIT subsidiary.

Qualified REIT subsidiary. A qualified REIT subsidiary, on the other hand, is a corporation in which a REIT owns all of the stock and for which the REIT does not make a taxable REIT subsidiary election. As such, the qualified REIT subsidiary s separate existence will be disregarded for U.S. federal income tax purposes, and its assets, liabilities and items of income, deduction and credit will be treated as the REIT s assets, liabilities and items of income, deduction and credit. Although a qualified REIT subsidiary will not be subject to U.S. federal corporate income taxation, it may be subject to state and local taxation in certain jurisdictions.

Q: What happens in the merger?

A: In the merger, NC Merger Sub, a wholly-owned subsidiary of New Century REIT, will merge with and into New Century Financial. Following the merger, New Century REIT, which is currently a wholly-owned subsidiary of New Century Financial, will succeed to and continue the business of New Century Financial.

In connection with the merger:

- each outstanding share of common stock of New Century Financial will be converted into one share of common stock of New Century REIT;
- 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 REIT has applied to have its shares listed on the New York Stock Exchange, or NYSE, under the symbol NEW ;
- 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 the board of directors, committees of the board of directors and management, respectively, of New Century REIT;
- New Century REIT will assume all of New Century Financial s stock incentive plans, including the 2004 Plan, if approved at the annual meeting, 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 New Century REIT common stock pursuant to the terms of the stock incentive plans and the other related documents, if any; and
- the rights of the stockholders of New Century REIT will be governed by the Maryland General Corporation Law, or the MGCL, the amended and restated charter of New Century REIT, or New Century REIT s charter, and the amended and restated bylaws of New Century REIT, or New Century REIT s bylaws.

We have attached a copy of the merger agreement as *Annex A* and copies of the forms of New Century REIT s charter and bylaws as *Annex B* and *Annex C*, respectively, to this proxy statement/prospectus.

Q: How will the REIT conversion and the related public offering affect our business?

A: 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 of our taxable REIT subsidiaries. Following completion of the public offering, we expect to be able to originate mortgage loans through New Century Credit, our qualified REIT subsidiary which is authorized to originate mortgage loans in a majority of states. We expect to use these loan originations, together with mortgage loans that New Century REIT and its 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 Credit will become authorized to originate mortgage loans in the states in which it is not currently authorized.

Q: Why are we proposing the REIT conversion?

A: We are proposing the merger agreement, which will implement the REIT conversion and the related restructuring transactions, primarily for the following reasons:

- the expectation that the REIT conversion and the related public offering will support our efforts to diversify our revenues by enabling us to increase in a more tax-efficient manner the proportion of our revenues represented by interest income on loans held for investment and decrease the proportion represented by gain on sale income, thereby providing the prospect of a generally higher total return to our stockholders than if we remain a C corporation;

- the ability to make distributions to our stockholders in the tax-efficient manner permitted by the rules and regulations governing taxation of REITs, while retaining the flexibility to increase our capital by retaining some or all of the after-tax earnings in our taxable REIT subsidiaries;

the potential expansion of our stockholder base to include investors attracted by yield, which may improve the liquidity of our common stock and provide a more diversified stockholder base; and

the expectation that our increased market capitalization following completion of the public offering will attract increased research coverage and greater investor interest.

Our board of directors considered the advantages against the potential risks of the REIT conversion, including the risks discussed below. To review the background of and reasons for the REIT conversion in greater detail, see Proposal 1 Approval and Adoption of the Merger Agreement Pursuant to Which the REIT Conversion Will Be Effected The REIT Conversion beginning on page 49.

Q: What are some of the risks associated with the restructuring?

A: There are a number of risks relating to the REIT conversion and applicable to New Century REIT, including the following:

the REIT conversion may not be completed, which could harm the market price of New Century Financial common stock;

the market price of New Century REIT common stock that you receive upon completion of the merger may be less than the market price of your shares of New Century Financial common stock prior to and as of the date of the merger, including on the date of the annual meeting;

our use of taxable REIT subsidiaries may harm the price of New Century REIT common stock relative to the stock prices of other REITs;

there are some important differences between your rights as a New Century Financial stockholder and your rights as a New Century REIT stockholder due to the differences between Delaware law and New Century Financial s amended and restated certificate of incorporation and amended and restated bylaws, on the one hand, and Maryland law and New Century REIT s charter and bylaws, on the other;

in order to facilitate our compliance with the REIT rules, there will be restrictions on ownership of New Century REIT common stock;

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

raising additional capital through the sale by New Century REIT of shares of its common stock will be dilutive to you; and

if New Century REIT fails to qualify as a REIT or fails to remain qualified as a REIT, we will have reduced funds available for distribution to our stockholders and our income will be subject to taxation at regular corporate rates without a deduction for dividends paid.

Additionally, as a REIT, New Century REIT will be unable to retain earnings as it is required each year to distribute to stockholders at least 90% of its REIT taxable income (determined without regard to the dividends paid deduction and by excluding any net capital gain). To the extent that New Century REIT does not distribute 100% of its REIT taxable income, it will be taxed on any undistributed amounts. In addition, we cannot assure you that we will have access to funds to meet the distribution and other REIT qualification requirements. 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. Furthermore, we will need to comply with the highly complicated REIT qualification requirements.

After-tax earnings generated by New Century REIT s taxable REIT subsidiaries and not distributed to New Century REIT 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. For the first full quarter after

Table of Contents

the consummation of the merger, we expect that approximately 80% of our pretax earnings will be generated by our taxable REIT subsidiaries and will be subject to taxation at regular corporate rates. We expect that this percentage will decrease over time as we build our portfolio of mortgage loans held for investment.

For more information regarding risks associated with the REIT conversion and New Century REIT, see Risk Factors beginning on page 22.

Q: What will I receive in connection with the REIT conversion? When will I receive it?

A: *Shares of New Century REIT common stock*

If the merger is completed, you will receive one share of New Century REIT common stock in exchange for each of your currently outstanding shares of New Century Financial common stock.

Special E&P Distribution

Neither a REIT nor one of its qualified REIT subsidiaries is permitted to retain earnings and profits accumulated during years when the company or its predecessor was taxed as a C corporation. Therefore, in order to qualify as a REIT, we may have to distribute any current and accumulated earnings and profits of New Century Credit and/or NCMSI by paying a one-time special distribution to our stockholders payable in cash. We expect the amount of any such distribution to be immaterial. We refer to this potential distribution as the special E&P distribution.

If we are a successor to New Century Credit s and/or NCMSI s earnings and profits, we expect that the special E&P distribution, if necessary, will be declared in December 2004, after completion of the merger and the public offering, and payable in January 2005 to the stockholders of New Century REIT on the record date for such distribution.

If you dispose of your shares of New Century REIT common stock before the record date for the special E&P distribution, you will not receive the special E&P distribution.

Q: Am I entitled to dissenters rights?

A: Under Delaware law, you are not entitled to any dissenters or appraisal rights in connection with the merger or the REIT conversion.

Q: Will I continue to receive regular quarterly distributions on my New Century Financial common stock before completion of the merger?

A: Yes, to the extent such distributions are declared by our board of directors and have a record date prior to the completion of the merger. However, the actual timing and amount of such distributions will depend on our financial condition, earnings and other factors, many of which are beyond our control. We cannot assure you that any such distributions will be declared by our board of directors.

If you dispose of your shares of New Century Financial common stock before the record date for a distribution, you will not receive that distribution.

Q: Will New Century REIT make regular quarterly distributions in the future?

A: As a REIT, New Century REIT generally will have to distribute annually at least 90% of its REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gain and the income of its taxable REIT subsidiaries to the extent not distributed to New Century REIT).

The principal component of New Century REIT distributions will be the income the REIT will earn on the mortgage assets it holds. We may supplement that component from time to time with a portion of the earnings from our taxable REIT subsidiaries. However, we expect to retain some or all of the after-tax earnings of our taxable REIT subsidiaries in such subsidiaries.

New Century REIT expects to begin payment of regular quarterly distributions following completion of the REIT conversion. However, the actual amount and timing of any distributions will be as determined and declared by New Century REIT s board of directors, will be designed to facilitate its compliance with applicable REIT qualification requirements, and will depend on, among other factors, its financial condition and earnings. Accordingly, we cannot assure you of any distributions in the future.

If you dispose of your shares of New Century REIT common stock before the record date for a distribution, you will not receive that distribution.

Table of Contents

Q: When will the REIT conversion be completed?

A: We expect the REIT conversion will be completed in October 2004 at the earliest. Between now and then we will need to obtain stockholder approval and must satisfy or waive all of the merger agreement s other closing conditions, including:

- entering into an underwriting agreement for the public offering; and

- pricing the public offering on satisfactory terms, including raising enough capital to support our operating plan and to satisfy the REIT tests.

While we may be able to complete the necessary steps by October 2004, we may decide to delay the REIT conversion until late 2004 or early 2005 if we believe market conditions are unfavorable for raising capital for the REIT.

In addition, we reserve the right to delay the REIT conversion or cancel the REIT conversion altogether even if our stockholders vote to approve and adopt the merger agreement and we satisfy the other conditions to the completion of the merger, if our board of directors determines that, due to general economic conditions or other factors, the merger, the REIT conversion or the related public offering are no longer in the best interests of New Century Financial and our stockholders. However, because the pricing of the public offering is a condition to the merger, we will not complete the merger and the REIT conversion unless and until our board of directors elects to proceed with the public offering.

Q: How much common stock will New Century REIT sell to the public in the public offering immediately following the merger?

A: It depends. We have filed a registration statement with the Securities and Exchange Commission for $750 million of New Century REIT common stock. We believe we could qualify for REIT status with a smaller public offering. The minimum amount of capital that is required for us to convert to a REIT depends on the amount that is necessary for us to acquire a portfolio that meets the REIT asset test as of the end of the first calendar quarter during which we convert, which test we are required to satisfy in order to qualify as a REIT. This amount is in turn dependent on the value of our taxable REIT subsidiaries immediately preceding the REIT conversion. If, at conversion, we are valued at our current stock price, the value of the taxable REIT subsidiaries will be approximately $2.1 billion and New Century REIT will need to acquire assets totaling $8.4 billion in order to satisfy the REIT asset test. Assuming that New Century REIT does not obtain financing from a third party or structure an intercompany loan on terms satisfactory to us, New Century REIT must use net proceeds from the public offering, together with the financings underlying the portfolio, to acquire the portfolio. We expect New Century REIT to pay between 5% and 6% over the par value of the mortgage-related assets acquired, and so the minimum capital required to acquire the portfolio is between $420 million and $504 million. However, our intent in arriving at the $750 million offering size was to raise sufficient capital so that we would have some flexibility as to when we would attempt to obtain additional capital in the future.

The exact size of the public offering will depend on market conditions and our stock price at the time of the public offering. If our board of directors considers the market to be unfavorable at the time of the public offering, we may reduce the size of the public offering, delay the public offering or cancel it altogether or supplement that offering with other financing, which may include debt. Accordingly, no assurance can be given as to the actual size of the public offering or the actual amount of net proceeds from the public offering.

Q: How will you use the net proceeds of the public offering of the common stock of New Century REIT?

A: We intend to use the net proceeds of the public offering for general working capital purposes, including to build a portfolio of self-originated mortgage loans and, if necessary, to purchase mortgage-backed securities and treasury securities from third parties.

We may need a significant amount of time to fully invest the available net proceeds of the public offering in our intended investments and to implement fully our leveraging strategy to increase the total amount of our investments to our desired level.

Table of Contents

Q: Am I being asked to vote on any other proposals at the annual meeting?

A: Yes. You will be asked to consider and vote upon proposals to:

re-elect Fredric J. Forster, Edward F. Gotschall and Richard A. Zona as Class I directors for three-year terms ending in 2007;

approve the New Century Financial Corporation 2004 Performance Incentive Plan, or the 2004 Plan; and

ratify KPMG LLP s appointment as our Independent Registered Public Accounting Firm for 2004.

Q: Who will be the directors and officers of New Century REIT?

A: Each of the 10 directors of New Century Financial immediately prior to the merger, including the three directors to be elected at the annual meeting, will become directors of New Century REIT and will serve for identical terms as provided by their applicable class or until their successors are qualified and elected. New Century Financial s executive officers immediately prior to the merger will have identical positions at New Century REIT following the merger.

Q: What is the purpose of the 2004 Plan?

A: The 2004 Plan is designed to allow us to retain, motivate and reward those individuals upon whose efforts we will rely for the continued success and growth of our business by providing the individuals adequate future incentives. If our stockholders approve the 2004 Plan, we will not grant any additional awards under the New Century Financial Corporation 1995 Stock Option Plan after the annual meeting. We have attached a copy of the 2004 Plan as *Annex D* to this proxy statement/prospectus.

Q: What votes are required?

A: *The Merger*. The approval and adoption of the merger agreement requires the affirmative vote of the holders of a majority of the shares of New Century Financial common stock outstanding on the record date as well as the approval of holders of a majority of the outstanding shares of common stock of New Century REIT and NC Merger Sub. New Century REIT currently owns all of the issued and outstanding shares of NC Merger Sub common stock and is currently a wholly-owned subsidiary of New Century Financial. New Century Financial will cause New Century REIT to vote for the approval and adoption of the merger agreement by New Century REIT and New Century REIT will cause NC Merger Sub to do the same.

The Directors. The three director nominees who receive the greatest number of FOR votes of the shares present, either in person or represented by proxy, at the annual meeting and entitled to vote will be elected as Class I directors of New Century Financial.

The 2004 Plan. The affirmative vote of a majority of shares present, either in person or represented by proxy, at the annual meeting and entitled to vote is required to approve the 2004 Plan.

The Ratification of Our Independent Registered Public Accounting Firm. The affirmative vote of a majority of shares present, either in person or represented by proxy, at the annual meeting and entitled to vote is required to ratify the appointment of our Independent Registered Public

Accounting Firm for 2004.

Q: What will be the effect on the other proposals if the merger agreement is not adopted and approved by the stockholders?

A: Even if the merger agreement is not adopted and approved by our stockholders, the election of the Class I directors, the approval of the 2004 Plan and the ratification of our Independent Registered Public Accounting Firm will proceed.

Q: How do the directors and executive officers of New Century Financial recommend I vote on the proposals?

A: Our board of directors has approved the REIT conversion, including the merger agreement and the other transactions contemplated by the merger agreement, and has determined that these actions are advisable and in the best interests of New Century Financial and our

Table of Contents

stockholders. Our directors and executive officers unanimously recommend that you vote:

FOR the approval and adoption of the merger agreement;

FOR the re-election of the three director nominees;

FOR the approval of the 2004 Plan; and

FOR ratification of KPMG LLP s appointment as our Independent Registered Public Accounting Firm for 2004.

We currently expect each of our directors and executive officers who owns shares of New Century Financial common stock to vote his or her shares FOR each proposal. As of July 30, 2004, our directors and executive officers owned approximately 14.2% of the outstanding shares of common stock of New Century Financial. If such persons vote all of the shares that they own as of July 30, 2004 in favor of the approval and adoption of the merger agreement as expected, the vote of approximately 12,215,432 additional shares of New Century Financial common stock (or 35.9% of the shares of New Century Financial common stock outstanding as of that date and entitled to vote) will be required to approve and adopt the merger agreement.

Q: When and where is the annual meeting?

A: Our annual meeting will take place on September 15, 2004, at 9:00 a.m., local time, at our headquarters located at 18400 Von Karman, Suite 1000, Irvine, California.

Q: Can I attend the annual meeting and vote my shares in person?

A: Yes. All stockholders of record on July 30, 2004 are invited to attend and can vote in person at the annual meeting. If your shares are held by a broker, bank or other nominee, then you are not the stockholder of record and you must bring to the annual meeting appropriate documentation from your broker, bank or other nominee confirming your beneficial ownership of the shares in order to vote at the annual meeting.

Q: What do I need to do now?

A: You should carefully read and consider the information contained in this proxy statement/ prospectus, including its *annexes*. This proxy statement/prospectus contains important information about the issues our board of directors considered in evaluating the REIT conversion and the merger agreement.

Thereafter, please mail your completed, dated and signed proxy card in the enclosed postage-paid envelope as soon as possible so that your shares can be voted at the annual meeting, or vote your proxy by telephone in accordance with the instructions on your proxy card.

Q: What happens if I abstain?

A: If you fail to respond, it will have the same effect as a vote against approval and adoption of the merger agreement, and will have no effect on the election of directors, the approval of the 2004 Plan or the ratification of our Independent Registered Public Accounting Firm for 2004. If you respond and abstain from voting, your proxy will have the same effect as a vote against approval and adoption of the merger agreement, and will have no effect on the election of directors, the approval of the 2004 Plan or the ratification of our Independent Registered Public Accounting Firm for 2004.

Q: If my broker holds my shares in street name, will my broker vote my shares for me?

A: Your broker will provide you with directions on voting your shares, and you should instruct your broker to vote your shares according to those directions. Under the rules of the Nasdaq National Market, your broker is permitted to vote your shares in the election of directors even if the broker does not receive instructions from you. Your broker, however, will not be able to vote your shares with respect to the merger, the approval of the 2004 Plan or the ratification of our Independent Registered Public Accounting Firm unless you provide your broker with instructions on how to vote your shares. You should instruct your broker to vote your shares, following the procedure provided by your broker. Without instructions, your shares will not be voted and you will, in effect, be voting against the merger. In contrast, your shares will count neither for nor against, and will thus have no effect on, the approval of the 2004 Plan or the ratification of our Independent Registered Public Accounting Firm.

Table of Contents

Q: Can I change my vote after I have mailed my signed proxy card?

A: Yes. You may change your vote at any time before your proxy is voted at the annual meeting. You can do this by giving written notice to our corporate secretary, by filing another proxy with a later date, or by attending the annual meeting and voting in person. See Annual Meeting Voting Procedures on page 48.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, we will send to you instructions for exchanging your stock certificates that currently represent your existing New Century Financial stock for new stock certificates representing your New Century REIT stock.

Q: Where will my New Century REIT stock be traded?

A: We have applied to have the new shares of New Century REIT common stock to be issued in the merger listed on the NYSE. We expect that the New Century REIT stock will trade under the symbol NEW following completion of the merger.

Q: What is the deadline to propose actions for consideration at the 2005 annual meeting of stockholders or to nominate individuals to serve as directors?

A: You may submit proposals, including director nominations, for consideration at future stockholder meetings.

Stockholder proposals for inclusion in our proxy materials. If you intend to have a proposal considered for inclusion in our proxy materials for presentation at the 2005 annual meeting, you must submit your proposal in writing to our corporate secretary at New Century Financial Corporation, 18400 Von Karman, Suite 1000, Irvine, California 92612. We must receive your proposal no later than January 22, 2005. If the date of the 2005 annual meeting is changed by more than 30 days from the anniversary date of the annual meeting, the deadline for receiving your proposal is a reasonable time before we begin to print and mail our proxy materials. For more information on how to include a proposal in the proxy statement for our 2005 annual meeting, please see Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Presenting a proposal at a stockholder meeting if the merger is not completed. If the merger is not completed, then your rights as a stockholder will be governed by the Delaware General Corporation Law, or the DGCL, and New Century Financial s amended and restated bylaws. The following is a summary of the process for making stockholder proposals and nominating directors under New Century Financial s amended and restated bylaws. If you would like to present a stockholder proposal at the 2005 annual meeting, you must notify our corporate secretary of the proposal at least 60, but not more than 90, days before the date of our 2005 annual meeting. If less than 70 days notice is given of the 2005 annual meeting, notice is timely if delivered no later than the 10th day following the day on which public announcement of the date of the 2005 annual meeting is first given. The proposal must set forth a brief description of the business to be brought before the 2005 annual meeting and any material interest that you or the beneficial owner of the shares, if any, has in this business. In addition, the proposal must be accompanied by your name and address as they appear on our records, the name and address of the beneficial owner, if any, and the class and number of shares that are owned by you and the beneficial owner, if any. If your proposal is submitted according to our bylaws and is a proper matter for consideration, you will be allowed to present it from the floor during the 2005 annual meeting.

Presenting a proposal at a stockholder meeting if the merger is completed. If the merger is completed, your rights as a stockholder will no longer be governed by New Century Financial s bylaws but rather will be governed by the MGCL and New Century REIT s bylaws. To submit a director nomination or stockholder proposal for consideration at a stockholder meeting of New Century REIT, notice must be received by the corporate secretary of New Century REIT within the time periods described in Proposal 1 Approval and Adoption of the Merger Agreement

Pursuant to Which the REIT Conversion Will Be Effected Comparison of

8

Table of Contents

Rights of Stockholders of New Century Financial and New Century REIT.

Nomination of Director Candidates. The policy of our governance and nominating committee is to consider candidates properly recommended by our stockholders. In evaluating any such candidates, our governance and nominating committee will consider the criteria set forth under Proposal 2 Election of Directors Corporate Governance Director Nominations Qualification of Candidates on page 202 of this proxy statement/prospectus. Any such recommendations should include the nominee s name and qualifications for membership on our board of directors and should be directed to our corporate secretary, New Century Financial Corporation, 18400 Von Karman, Suite 1000, Irvine, California 92612. In addition, our bylaws permit stockholders to nominate directors for election at stockholder meetings. To nominate a director, stockholders must give timely notice to our corporate secretary in accordance with our bylaws, which require that the notice be received by our corporate secretary within the time periods described above in this answer under Stockholder proposals for inclusion in our proxy materials.

Copy of Amended and Restated Bylaw Provisions. For a free copy of the relevant bylaw provisions of New Century REIT or New Century Financial regarding the requirements for making stockholder proposals and nominating director candidates, please visit the Investor Relations section of our website at *http://www.ncen.com/companyInformation/investorRelations/index.htm*, or you may write to Carrie Marrelli, our vice president of investor relations, at 18400 Von Karman, Suite 1000, Irvine, California 92612, or send her an e-mail at cmarrell@ncen.com.

Q: Whom should I call with questions?

A: If you have any questions about the merger, which will effect the REIT conversion, or any of the other proposals, or if you would like additional copies of this proxy statement/prospectus, our 2003 annual report on Form 10-K, as amended, that is being mailed to you with this proxy statement/prospectus, or a new proxy card, or if you have questions or need assistance with the completion of your proxy card, please contact us at:

New Century Financial Corporation

18400 Von Karman, Suite 1000

Irvine, California, 92612

Attention: Vice President of Investor Relations

(949) 440-7030

email: cmarrell@ncen.com

SUMMARY

This summary highlights material information contained elsewhere in this proxy statement/prospectus. You should carefully read this entire proxy statement/prospectus and the other documents to which this proxy statement/prospectus refers in order to better understand the REIT conversion and the transactions related to the REIT conversion, including the merger and the public offering. In particular, you should read the annexes attached to this proxy statement/prospectus, including the merger agreement, which is attached as Annex A. You should also read the forms of New Century REIT s charter and bylaws which are attached as Annex B and Annex C, respectively, because they will be the charter and bylaws governing your rights as a stockholder of New Century REIT following the completion of the merger. See the section entitled Where You Can Find Additional Information beginning on page 222. For a discussion of the risk factors that you should carefully consider, see the section entitled Risk Factors beginning on page 22.

The information contained in this proxy statement/prospectus, unless otherwise indicated, assumes the REIT conversion and all the transactions related to the REIT conversion, including the merger and the public offering will occur. When used in this proxy statement/prospectus, the terms company, we, our and us refer to New Century Financial Corporation and its subsidiaries with respect to the period prior to the merger and the REIT conversion, and New Century REIT and its subsidiaries, including New Century Financial, with respect to the period after the REIT conversion.

Overview

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

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

Table of Contents

According to Inside B&C Lending, an industry trade publication, we were the second largest originator of subprime loans in 2003. During that year, we originated over $27 billion of mortgage loans, $8.3 billion of which were originated in the fourth quarter of 2003. We experienced a compounded annual growth rate in our origination volume of 87.6% from 2000 to 2003, and had a market share of 8.3% for the year ended December 31, 2003 compared to 3.0% for the year ended December 31, 2000. In the first half of 2004, we originated $20.7 billion of mortgage loans. Approximately 62% of our mortgage production for the first half of the year consisted of cash-out refinancings, where the borrowers refinanced their existing mortgages and received cash representing a portion of the equity in their homes. For the same period, approximately 32% of our mortgage production was represented by home purchase finance loans. The remainder of our mortgage production was represented by transactions in which borrowers refinance their existing mortgages to obtain a better interest rate or loan maturity, or rate and term refinance transactions.

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

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

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

General

Our board of directors has approved a plan, pending the approval of the stockholders of New Century Financial and the pricing of the public offering, to restructure New Century Financial s business operations so that New Century REIT, as the parent of New Century Financial and the successor of substantially all of New Century Financial s assets and business operations following the completion of the merger, will qualify as a REIT for U.S. federal income tax purposes. In addition, New Century REIT will seek to raise additional capital in the form of equity, debt or some combination of the two. Subject to market conditions and the price of our common stock, we currently anticipate raising approximately $750 million in a public offering of shares of New Century REIT common stock. The REIT conversion and the related public offering are designed to enable New Century REIT, as the business successor of New Century Financial, to reposition its assets and business operations in a manner eligible to elect to be treated as a REIT for U.S. federal income tax purposes.

We are distributing this proxy statement/prospectus to you as a holder of New Century Financial common stock in connection with the solicitation of proxies by our board of directors for your approval of a proposal to

Table of Contents

approve and adopt the merger agreement which will implement the REIT conversion, including the merger and related restructuring transactions described in this proxy statement/prospectus. A copy of the merger agreement is attached as *Annex A*. This proxy statement/prospectus is also the prospectus of New Century REIT relating to the shares of New Century REIT common stock to be issued to you in the merger. A separate registration statement has been filed by New Century REIT to register its shares of common stock to be sold in the public offering.

We reserve the right to cancel or defer the merger or the REIT conversion even if our stockholders vote to approve and adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived, if our board of directors determines that the merger or the REIT conversion is no longer in the best interests of New Century Financial and our stockholders.

We estimate that one-time transaction costs incurred in connection with the REIT conversion will be approximately $2.5 million and will be paid from company funds. Further, one-time transaction costs incurred in connection with the public offering will be approximately $1.0 million and we will use a portion of the net proceeds raised in the public offering to pay these expenses.

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:

- strengthening our production franchise by expanding our total loan production and increasing market share and volume on the East Coast and in other metropolitan areas outside of California;
- growing our portfolio of mortgage-related assets by retaining self-originated loans through on-balance sheet securitizations, which we believe will increase net interest income and reduce our reliance on our origination franchise to grow earnings;
- strengthening our balance sheet by increasing our liquidity and capital position with the net proceeds from the public offering and future offerings and by increasing available capacity under our lines of credit. We believe these efforts will better protect our franchise and provide the ability to respond to disruptions in the market or other adverse conditions and allow us to meet the distribution and other REIT qualification requirements;
- actively managing the interest rate and credit risks relating to our portfolio of mortgage-related assets in an effort to generate an attractive risk-adjusted return on our stockholders equity;
- expanding our servicing platform by taking advantage of our technical capabilities, capitalization and economies of scale; and
- diversifying our revenues by evaluating and executing strategic acquisitions and new business opportunities.

Competitive Advantages

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

- we are the nation s second largest subprime mortgage finance company when measured by loan production volume, with a wholesale network of approximately 31,200 approved independent mortgage brokers and a retail network of 74 branch offices in 29 states;

- our structure and business strategy provide us with the flexibility to both securitize a portion of our loan originations for our portfolio and sell the balance for cash, which we believe allows us to provide a

Table of Contents

broader product offering, better manage our cash flows and respond to the secondary market environment, thus enhancing the return on our stockholders equity;

we have developed long-standing relationships with a variety of institutional loan buyers, including Bear Stearns, Credit Suisse First Boston, Deutsche Bank, Goldman Sachs, Morgan Stanley and UBS Real Estate Securities, Inc., or UBS Real Estate Securities. These loan buyers regularly bid on and purchase large loan pools from us and we frequently enter into committed forward loan sale agreements with them. We also have lending relationships with a variety of institutional lenders, including Bank of America, Bear Stearns, CDC Mortgage Capital, Citigroup Global Markets (formerly Salomon Brothers), Morgan Stanley and UBS Real Estate Securities;

unlike mortgage REITs without origination capabilities, we believe our ability to originate loans through our qualified REIT subsidiaries and purchase loans originated by our taxable REIT subsidiaries will allow us to accumulate mortgage loans at a lower cost and with greater reliability than would be available through secondary market purchases;

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 and which we believe enables us to generate attractive risk-adjusted returns as a result;

we believe our origination process is easier for our borrowers and brokers to use because of our ability to provide prompt responses and consistent and clear procedures, with an emphasis on ease of use through technology, including our FastQual® system, our Web-based underwriting engine; and

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 subprime mortgage segment of the non-conforming market, which consists of loans that generally do not satisfy the credit characteristics of the conforming market.

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

In addition to faster growth, the subprime mortgage market has historically focused on home purchases and cash-out refinancings, rather than interest rate driven refinancings, which have caused this market segment to be less interest rate sensitive, and therefore less volatile, than the prime mortgage market. For example, for the nine quarters ended March 31, 2004, the prime loan origination market experienced substantial volatility with a peak quarterly growth rate of approximately 52% in the second quarter of 2003, and a peak quarterly decline of approximately 51% in the fourth quarter of 2003. In contrast, during the same period the subprime loan

origination market has experienced a peak growth rate of approximately 30.1% in the third quarter of 2003, has not declined at all during that period and experienced the lowest increase of approximately 1.6% in the first quarter of 2003. In addition, the subprime market has shown an ability to grow during volatile interest rate environments, as indicated by the subprime market s growth by over 7.4% and 3.5%, respectively, in each of the two most recent quarters ending March 31, 2004, in contrast to the prime market s decline by approximately 51.9% and 7.0% over these same periods.

Our REIT Status

New Century REIT is a Maryland corporation formed by New Century Financial on April 12, 2004 to succeed to and continue the business of New Century Financial upon completion of the merger of NC Merger Sub with and into New Century Financial. To date, New Century REIT and NC Merger Sub have not conducted any activities other than those incident to their respective formations, the execution of the merger agreement and the preparation of this proxy statement/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 immediately following the proposed merger and the completion of the public offering. These restructuring transactions are designed to enable New Century REIT to become eligible to elect REIT status and to improve New Century REIT s tax efficiency.

After the REIT conversion and the related public offering, 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 initially 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.

Following the REIT conversion, we intend to continue to sell loans through our taxable REIT subsidiaries and generate gain on sale income, origination fees and servicing income through those subsidiaries. Subject to the limitations imposed by applicable REIT tax rules, we expect to retain some or all of the after-tax earnings of our taxable REIT subsidiaries in such subsidiaries, enabling us to increase our capital and provide for future growth.

Distribution Policy

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

In order to qualify as a REIT, we must distribute to our stockholders at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gain) each year. After-tax earnings generated by our taxable REIT subsidiaries and not distributed to us are not subject to these distribution requirements and may be retained by such subsidiaries to provide for future growth, subject to the limitations imposed by the 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 an immaterial one-time special distribution of the current and accumulated earnings and profits of New Century Credit and/or NCMSI 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 New Century REIT Capital Stock Transfer Restrictions.

Structure of the Merger

In order to help you better understand the merger and how it will affect New Century Financial, New Century REIT and NC Merger Sub, the charts below illustrate, in simplified form, the following:

Before: the organizational structure of New Century Financial, New Century REIT and NC Merger Sub (excluding New Century Financial s current operating subsidiaries), immediately before the merger;

Merger: the steps involved in, and the effects of, the merger of NC Merger Sub and New Century Financial and the exchange of shares of New Century Financial common stock for shares of New Century REIT common stock; and

After: the organizational structure of New Century REIT and New Century Financial (excluding its operating subsidiaries) immediately after the completion of the transactions.

Table of Contents

Transaction Steps

NC Merger Sub merges with and into New Century Financial, with New Century Financial surviving the merger and becoming a wholly-owned taxable REIT subsidiary of New Century REIT.

New Century Financial stockholders receive one share of New Century REIT common stock for each share of New Century Financial common stock they own.

Comparative Stockholder Rights

Your rights as a New Century Financial stockholder are currently governed by the DGCL and New Century Financial s amended and restated certificate of incorporation and amended and restated bylaws. If the merger

Table of Contents

agreement is approved and adopted by New Century Financial s stockholders and the merger is completed, you will become a stockholder of New Century REIT and your rights as a stockholder of New Century REIT will be governed by the MGCL and New Century REIT s charter and bylaws. Some important differences exist between your rights as a New Century Financial stockholder and your rights as a New Century REIT stockholder.

The primary difference between New Century Financial s amended and restated certificate of incorporation and New Century REIT s charter is that, in order to assist us in maintaining our qualification as a REIT under the Internal Revenue Code, New Century REIT s charter contains restrictions on the number of shares of its capital stock that a person may own. Under New Century REIT s charter, 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 New Century REIT s 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.

The forms of New Century REIT s charter and bylaws are attached as *Annex B* and *Annex C*, respectively, to this proxy statement/prospectus.

Material U.S. Federal Income Tax Consequences of the Merger

New Century Financial will receive an opinion of counsel to the effect that the merger will qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code and, accordingly:

- no gain or loss will be recognized by New Century Financial, NC Merger Sub or New Century REIT as a result of the merger;
- you will generally not recognize any gain or loss upon the conversion of your shares of New Century Financial common stock into New Century REIT common stock;
- the tax basis of the shares of New Century REIT common stock that you receive pursuant to the merger in the aggregate will be the same as your adjusted tax basis in the shares of New Century Financial common stock being converted in the merger; and
- for tax purposes, the holding period of shares of New Century REIT common stock that you receive pursuant to the merger will include your holding period with respect to the shares of New Century Financial common stock being converted in the merger, assuming that your New Century Financial common stock was held as a capital asset at the effective time of the merger.

Tax matters are complicated and the tax consequences of the merger to you will depend on the facts of your particular circumstances. In addition, you may be subject to state, local or foreign tax laws that are not discussed in this proxy statement/prospectus. Accordingly, we strongly urge you to consult with your own tax advisor for a full understanding of the tax consequences to you of the merger.

Opinion of Financial Advisor

Our board retained Morgan Stanley & Co. Incorporated, or Morgan Stanley, to provide its opinion to our board of directors that as of April 21, 2004, and subject to and based on the considerations set forth in its opinion, the REIT conversion (assuming an equity offering of $750 million), if consummated, was fair from a financial point of view to the holders of New Century Financial common stock. The full text of the opinion, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Morgan Stanley in connection with its opinion, is attached to this proxy statement/prospectus as *Annex F*. We

Table of Contents

encourage you to read this opinion in its entirety. The opinion of Morgan Stanley is not a recommendation to any stockholder on how to vote on the approval and adoption of the merger agreement which will effect the REIT conversion.

Recommendation of our Board of Directors

Our board of directors has unanimously approved the REIT conversion, including the merger agreement and the other transactions contemplated by the merger agreement, and has determined that these actions are advisable and in the best interests of New Century Financial and our stockholders. Our board of directors unanimously recommends that you vote FOR the approval and adoption of the merger agreement, which will effect the REIT conversion and the other transactions contemplated by the merger agreement. In addition, our board of directors unanimously recommends that you vote FOR the re-election of the three director nominees, FOR the approval of the 2004 Plan and FOR ratification of the appointment of our Independent Registered Public Accounting Firm.

Interests of Certain Persons in the Merger

In considering the recommendation of our board of directors to vote for the approval and adoption of the merger agreement, which will effect the REIT conversion, you should be aware that some of our directors and officers have interests in the merger that are different from, and in addition to, the interests of other New Century Financial stockholders:

Benefit Plans and Employment Agreements. New Century REIT will assume all obligations to deliver securities under New Century Financial s existing benefit plans that are not exercised upon or before the completion of the REIT conversion. Moreover, New Century REIT will assume all obligations under New Century Financial s existing employment arrangements with management.

Indemnification. New Century REIT will enter into new indemnification agreements with its directors and officers.

As a result of these interests, certain of our directors and officers may be more likely to approve the merger agreement than stockholders generally.

Conditions to the Merger

New Century Financial, New Century REIT and NC Merger Sub will complete the merger only if the conditions specified in the merger agreement are either satisfied or, where permitted, waived. These conditions include the following:

approval and adoption of the merger agreement (a) by the requisite vote of the stockholders of New Century Financial, (b) by New Century Financial, in its capacity as the sole stockholder of New Century REIT, and (c) by New Century REIT, in its capacity as the sole stockholder of NC Merger Sub;

determination by our board of directors that the transactions constituting the REIT conversion which impact New Century REIT s status as a REIT for U.S. federal income tax purposes, including the pricing of, and entering into an underwriting agreement for, a public offering for net proceeds that we believe to be sufficient to support our operating plan and to satisfy the REIT asset and income tests, and on other terms acceptable to us, have occurred or are reasonably likely to occur;

receipt by New Century Financial from O Melveny & Myers LLP of an opinion to the effect that the merger qualifies as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

receipt by New Century Financial from O Melveny & Myers LLP of an opinion to the effect that, commencing with New Century REIT s taxable year ending December 31, 2004, New Century REIT s organization and proposed method of operations will enable it to meet the requirements for qualification and taxation as a REIT under the Internal Revenue Code;

the amendment and restatement of the charter and bylaws of New Century REIT to the extent set forth in the forms set forth in the merger agreement and as attached as *Annex B* and *Annex C*, respectively, to this proxy statement/prospectus;

the directors and officers of New Century Financial immediately before the merger will be the directors and officers, respectively, of New Century REIT after the merger;

approval for listing on the NYSE or quotation on the Nasdaq National Market of New Century REIT common stock, subject to official notice of issuance;

the effectiveness of New Century REIT s registration statement on Form S-4 registering the shares of its common stock to be issued in the merger, of which this proxy statement/prospectus is a part, without the issuance of a stop order or initiation of any proceeding seeking a stop order by the Securities and Exchange Commission;

the effectiveness of New Century REIT s registration statement on Form S-3 registering its shares of common stock for sale to the public, without the issuance of a stop order or initiation of any proceeding seeking a stop order by the Securities and Exchange Commission, and the determination by New Century Financial s board of directors that the sale of such stock will be successfully completed promptly after the completion of the merger;

the execution and delivery by New Century Financial and New Century REIT of a supplemental indenture to the indenture for the convertible senior notes, pursuant to which New Century REIT will assume the obligations to issue common stock under such indenture and New Century Financial will assume all other obligations;

the determination by New Century Financial, in its sole discretion, that no legislation or proposed legislation with a reasonable possibility of being enacted would have the effect of substantially (a) impairing the ability of New Century REIT to qualify as a REIT, (b) increasing the U.S. federal tax liabilities of New Century REIT resulting from the REIT conversion, or (c) reducing the expected benefits to New Century REIT resulting from the REIT conversion; and

receipt of all governmental and third party consents to the merger, except for consents which, if not obtained, would not reasonably be expected to have a material adverse effect on the business, financial condition or results of operations of New Century REIT, NC Merger Sub and their subsidiaries taken as a whole.

However, we reserve the right to delay the merger or the REIT conversion or cancel the merger and REIT conversion altogether even if our stockholders vote to approve and adopt the merger agreement and we satisfy the other conditions to the completion of the merger, if our board of directors determines that, due to general economic conditions or other factors, the merger, the REIT conversion or the related public offering are no longer in the best interests of New Century Financial and our stockholders.

Regulatory Approvals

We are not aware of any federal, state or local regulatory requirements that must be complied with or approvals that must be obtained prior to completion of the merger pursuant to the merger agreement, other than:

compliance with applicable federal and state securities laws;

the filing of a certificate of merger as required under the DGCL; and

possible notice filings with various state and local governments relating to our lending authorizations.

Table of Contents

Summary Historical Financial Data of New Century Financial

You should read the following summary of historical 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 proxy statement/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 New Century REIT s 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 Registered Public Accounting Firm, whose report with respect thereto is included elsewhere or incorporated by reference in this proxy statement/prospectus. The financial data for the six months ended June 30, 2004 and 2003 were derived from our unaudited consolidated financial statements and include, in the opinion of management, all normal and recurring adjustments necessary to present the data fairly for such periods. Such selected financial data should be read in conjunction with those financial statements and the notes thereto and with Management s Discussion and Analysis of Financial Condition and Results of Operations also included elsewhere herein.

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

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

Table of Contents

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

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

Balance sheet data:	As of June 30, 2004	As of June 30, 2003	As of December 31, 2003	2002	2001
	(dollars in thousands)				
Cash and equivalents	$ 68,891	$ 169,085	$ 269,540	$ 176,669	$ 100,263
Restricted cash	322,369	22,732	116,883	6,255	6,416
Mortgage loans held for sale, net	4,784,222	2,138,347	3,422,211	1,920,396	1,011,122
Mortgage loans held for investment, net	9,146,472	1.187,617	4,745,937		
Residual interests in securitizations	190,827	211,469	179,498	246,964	306,908
Other assets	220,929	66,611	200,811	52,644	26,609
Total assets	14,733,710	3,795,861	8,934,880	2,402,928	1,451,318
Credit facilities	4,439,518	2,049,572	3,311,837	1,885,498	987,568
Financing on mortgage loans held for investment, net	9,086,932	1,161,299	4,686,323		
Convertible notes, net	205,349		204,858		
Residual financing					79,941
Subordinated debt					40,000
Other liabilities	258,574	115,153	189,851	130,880	96,048
Total liabilities	13,990,373	3,326,024	8,392,869	2,016,378	1,203,557
Total stockholders equity	743,337	469,837	542,011	386,550	247,761

Table of Contents

RISK FACTORS

You should carefully consider the following risk factors relating to the proposed REIT conversion in determining whether or not to vote for approval and adoption of the merger agreement and the other transactions contemplated by the merger agreement. Our results of operations, financial condition and business prospects could be harmed by any of these risks. The market price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. This proxy statement/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 described below and elsewhere in this proxy statement/prospectus and in New Century Financial s annual, quarterly and current reports incorporated by reference, including those identified in New Century Financial s annual report on Form 10-K for the year ended December 31, 2003, as amended. See the section entitled Where You Can Find Additional Information. The trading price of New Century Financial s common stock and/or New Century REIT s common stock could decline due to any of these risks, and you may lose all or part of your investment.

Risks and Effects of the REIT Conversion

The REIT conversion may not be completed, which may harm the market price of New Century Financial common stock.

Although New Century Financial s board of directors has approved the REIT conversion and has approved and adopted the merger agreement, which effects the REIT conversion, the completion of the merger and the REIT conversion is subject to a number of conditions, and there is no assurance that all of the conditions to closing will be met and that the merger or the REIT conversion will be completed. In addition, we reserve the right to cancel or defer the merger or the REIT conversion even if stockholders of New Century Financial vote to approve and adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived, if our board of directors determines that the merger or the REIT conversion is no longer in the best interests of New Century Financial and our stockholders. You will not have any right to vote or have any input on our board of director s decision to delay or cancel the merger or the REIT conversion.

While New Century Financial will continue its operations if the REIT conversion is not completed for any reason, it may be harmed in a number of ways, including the following:

- the market price of New Century Financial common stock may decline to the extent that the current market price of such stock reflects a market assumption that the REIT conversion will be completed;
- an adverse reaction from investors and potential investors of New Century Financial may reduce future financing opportunities;
- the pending REIT conversion may cause New Century Financial to defer or potentially lose business opportunities; and
- New Century Financial s costs related to the merger, including legal and accounting fees and certain fees payable to its financial advisors, must be paid even if the REIT conversion is not completed.

The REIT conversion may be delayed or deferred for a significant period of time after the annual meeting and, as a result, the market price of shares of New Century REIT common stock that you receive upon completion of the merger may be less than the market price of your shares of New Century Financial common stock prior to and as of the date of the merger, including on the date of the annual meeting.

Upon completion of the REIT conversion, each outstanding share of New Century Financial common stock will be exchanged for one share of New Century REIT common stock. We intend to complete the REIT conversion, including the merger, as soon as practicable following the annual meeting, assuming the merger agreement is approved and adopted by New Century Financial s stockholders at the meeting. However, if other conditions to completing the merger are not satisfied or waived at that time, there may be a significant amount of time between the date of the annual meeting and the date when the REIT conversion is completed. In addition, we reserve the right to cancel or delay the REIT conversion or any part of the REIT conversion, including the public offering, even if stockholders of New Century Financial vote to approve and adopt the merger agreement, and the other conditions to the consummation of the merger are satisfied or waived, if our board of directors determines that the REIT conversion is no longer in the best interests of New Century Financial and our stockholders. You will not have any right to vote or have any input on our board of director s decision to delay or cancel the REIT conversion. As a result, at the time that you vote on the REIT conversion proposal, you will not know the exact value of the New Century REIT common stock that will be issued in connection with the merger. The relative or absolute market prices of shares of New Century Financial common stock may vary significantly between the dates of the merger agreement, this proxy statement/prospectus, the annual meeting and the completion of the REIT conversion. These variations may be caused by, among other factors, changes in the results of operations, financial condition and business prospects of New Century Financial, market expectations of the likelihood and timing of completion of the transactions, the prospects for New Century REIT s post-merger operations, the effect of the change in New Century Financial s organization from a taxable corporation to a REIT, the effect of any conditions or restrictions imposed on or proposed with respect to New Century Financial or New Century REIT by regulators, general market and economic conditions and market perception of REIT stocks.

Also, we cannot accurately predict the market price of New Century REIT common stock to be received by New Century Financial stockholders after the completion of the REIT conversion. The historical trading prices of New Century Financial s common stock are not necessarily indicative of the future market prices of New Century REIT common stock for a number of reasons. For example, the current market price of New Century Financial common stock reflects the current market valuation of New Century Financial s business and assets and does not necessarily take into account the changes that may occur in connection with the REIT conversion. In addition, the investment community may have a perception that the offering will be dilutive to our earnings per share as a result of the greater number of shares outstanding after the offering. Accordingly, the market price of New Century Financial common stock prior to the merger, including on the date of the annual meeting, may not be indicative of the market price of New Century REIT common stock after the REIT conversion is completed.

Further, if the merger and the other restructuring transactions contemplated by the merger agreement are delayed, we may not be qualified to elect REIT status commencing with New Century REIT s taxable year ending December 31, 2004 and may not realize the anticipated tax benefits from the REIT conversion for 2004 as a result. See Because the timing of the REIT conversion is not certain, we may not realize the anticipated tax benefits from the REIT conversion commencing with New Century REIT s taxable year ending December 31, 2004.

Because the timing of the REIT conversion is not certain, we may not realize the anticipated tax benefits from the REIT conversion commencing with New Century REIT s taxable year ending December 31, 2004.

We will complete the merger of NC Merger Sub with and into New Century Financial after the annual meeting and the satisfaction or waiver of the other conditions to the merger, including the pricing of the public offering. In addition, the timing of the merger will depend on our ability to conform the operations of New Century Financial to the requirements for qualification as a REIT, which in our case includes obtaining commitments from financial institutions to provide us additional financing to obtain mortgage loans and other REIT qualifying assets. In addition, we reserve the right to delay the REIT conversion or cancel the REIT conversion altogether even if our stockholders vote to approve and adopt the merger agreement and we satisfy the other conditions to the completion of the merger. A delay or cancelation may occur if our board of directors determines that, due to general economic conditions, the price of our common stock or other factors, the REIT conversion or the related public offering are no longer in the best interests of New Century Financial and our stockholders. If the merger and the other restructuring transactions contemplated by the merger agreement are delayed, we may not be qualified to elect REIT status commencing with New Century REIT s taxable year ending December 31, 2004 and may not realize the anticipated tax benefits from the REIT conversion for 2004 as a result. In that case, New Century REIT would not elect REIT status for such year. Consequently, the federal

Table of Contents

income tax benefits attributable to our status as a REIT, including our ability to reduce our corporate-level U.S. federal income tax, would not commence with New Century REIT s taxable year ending December 31, 2004, which would result in us paying substantial corporate-level income taxes in 2004.

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 operations, financial condition and business prospects.

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

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

- we may not have enough capital, including net proceeds from the public offering and borrowings under our credit facilities, to acquire REIT qualifying assets;

- the value of our taxable REIT subsidiaries may be greater than our current expectations; or

- there may be insufficient REIT qualifying assets available for purchase on reasonable terms.

If the Internal Revenue Service determines that the value of our investment in New Century Financial and other taxable REIT subsidiaries 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 Relating to REIT Qualification 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.

Risks Related to New Century REIT

Future results of New Century REIT may materially differ from the pro forma financial information presented in this proxy statement/prospectus.

Future results of New Century REIT 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 113. New Century REIT may incur certain restructuring charges and adjustments. These charges may be higher than New Century REIT has estimated, depending on how costly or difficult it is to restructure our operations in order to qualify as a REIT. Furthermore, these charges may decrease the capital of New Century REIT that could be used for profitable, income-earning investments in the future.

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, New Century REIT generally is required each year to distribute to its stockholders at least 90% of its REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gains). After-tax earnings generated by New Century REIT s taxable REIT subsidiaries and not distributed to New Century REIT 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 the REIT conversion, 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 June 30, 2004, we had nine short-term warehouse and aggregation credit facilities and our asset-backed commercial paper facility providing us with approximately $8.6 billion of committed and $2.0 billion of uncommitted borrowing capacity to fund loan originations and purchases pending the pooling and sale of such loans. If we cannot maintain or replace these facilities on comparable terms and conditions, we may incur substantially higher interest expense that would reduce our profitability.

During volatile times in the capital and secondary markets, access to warehouse, aggregation and residual financing as well as access to the securitization and secondary markets for the sale of our loans has been severely constricted. Subject to the limitations imposed by REIT tax rules, our taxable REIT subsidiaries are permitted to retain the after-tax income they generate. We may, at some point in the future, borrow funds from one or more of our corporate subsidiaries upon terms that are similar to those that would be required by a third-party lender, or actually obtain a third-party loan for some portion of the required financing amount and then replicate the third-party loan terms in the intercompany borrowing. However, if we are unable to maintain adequate financing or other sources of capital are not available, we would be forced to suspend or curtail our operations, which would harm our results of operations, financial condition and business prospects.

In addition, the completion of the merger and the REIT conversion 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.

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

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

Table of Contents

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 refinancings of existing loans, including cash-out refinancings and interest rate-driven refinancings, would be less attractive and qualifying for a purchase loan may be more difficult. Lower origination volume may harm our earnings by reducing origination income, net interest income and gain on sale of loans.

- 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.

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

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

Table of Contents

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

Subprime mortgage loans generally have higher delinquency and default rates than prime mortgage loans. Delinquency interrupts the flow of projected interest income from a mortgage loan, and default can ultimately lead to a loss if the net realizable value of the real property securing the mortgage loan is insufficient to cover the principal and interest due on the loan. Also, our cost of financing and servicing a delinquent or defaulted loan is generally higher than for a performing loan. We bear the risk of delinquency and default on loans beginning when we originate them. In whole loan sales, our risk of delinquency typically only extends to the first payment, but when we securitize any of our loans, we continue to be exposed to delinquencies and losses through our residual interests and the loans underlying our on-balance sheet securitization transactions. We are required to establish reserves based on our anticipated delinquencies and losses. We also re-acquire the risks of delinquency and default for loans that we are obligated to repurchase. We attempt to manage these risks with risk-based loan pricing and appropriate underwriting policies and loan collection methods. However, we cannot assure you that such management policies will be successful and, if such policies and methods are insufficient to control our delinquency and default risks and do not result in appropriate loan pricing and appropriate loss reserves, our business, financial condition, liquidity and results of operations could be harmed. As of June 30, 2004, the delinquency rate on mortgage loans that were 60 days or more past due and that we previously securitized in either on- or off-balance sheet transactions was 3.27%. The expected cumulative loss rate on these loans as of June 30, 2004 is approximately 4.0%, determined as the historical cumulative loss rates of more aged loans plus the expected cumulative loss rates on newer loans, which have experienced immaterial losses through June 30, 2004. See Proposal 1 Approval and Adoption of the Merger Agreement Pursuant to Which the REIT Conversion Will Be Effected 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 associates with that area. For example, in the six months ended June 30, 2004, approximately 41.3% of the aggregate principal amount of our mortgage loans were secured by property located in California. Certain parts of California have experienced an economic downturn in the past and have suffered the effects of certain natural hazards. Declines in the residential real estate markets in which we are concentrated may reduce the values of the properties collateralizing our mortgages, increase the risk of delinquency, foreclosure, bankruptcy, or losses and could harm our results of operations, financial condition and business prospects.

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

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

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

Certain provisions of Maryland law and New Century REIT s charter and bylaws could have the effect of discouraging, delaying or preventing transactions that involve an actual or threatened change in control of New

Century REIT, and may have the effect of entrenching our management and members of our board of directors, regardless of performance. These provisions include the following:

Classified Board of Directors. New Century REIT s board of directors will be divided into three classes with staggered terms of office of three years each. The classification and staggered terms of office of New Century REIT s directors will make it more difficult for a third party to gain control of New Century REIT s board of directors. At least two annual meetings of stockholders, instead of one, generally would be required to effect a change in a majority of New Century REIT s board of directors. New Century Financial also currently has a classified board of directors.

Removal of Directors. Under New Century REIT s charter, subject to the rights of one or more classes or series of preferred stock to elect one or more directors, a director may be removed only for cause and only by the affirmative vote of at least two-thirds of all votes entitled to be cast by its stockholders generally in the election of directors.

Number of Directors, Board Vacancies, Term of Office. Under New Century REIT s bylaws, New Century REIT has elected to be subject to certain provisions of Maryland law which vest in the board of directors the exclusive right to determine the number of directors and the exclusive right, by the affirmative vote of a majority of the remaining directors, to fill vacancies on the board even if the remaining directors do not constitute a quorum. These provisions of Maryland law, which are applicable even if other provisions of Maryland law or the charter or bylaws provide to the contrary, also provide that any director elected to fill a vacancy shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred, rather than the next annual meeting of stockholder as would otherwise by the case, and until his or her successor is elected and qualified.

Limitation on Stockholder Requested Special Meetings. New Century REIT s bylaws provide that New Century REIT stockholders have the right to call a special meeting only upon the written request of the stockholders entitled to cast not less than a majority of all the votes entitled to be cast by the stockholders at such meeting.

Advance Notice Provisions for Stockholder Nominations and Proposals. New Century REIT s bylaws require advance written notice for stockholders to nominate persons for election as directors at, or to bring other business before, any meeting of stockholders. This bylaw provision limits the ability of stockholders to make nominations of persons for election as directors or to introduce other proposals unless New Century REIT is notified in a timely manner prior to the meeting.

Exclusive Authority of New Century REIT s Board to Amend New Century REIT s Bylaws. New Century REIT s bylaws provide that its board of directors has the exclusive power to adopt, alter or repeal any provision of the bylaws or to make new bylaws. Thus, New Century REIT s stockholders may not effect any changes to New Century REIT s bylaws.

Preferred Stock. Under New Century REIT s charter, New Century REIT s board of directors has authority to issue preferred stock from time to time in one or more series and to establish the terms, preferences and rights of any such series of preferred stock, all without approval of its stockholders.

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

greater scrutiny than is applied to any other act of a director. Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law.

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

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

Maryland Control Share Acquisition Act. Maryland law provides that control shares of a corporation acquired in a control share acquisition shall have no voting rights except to the extent approved by a vote of two-thirds of the votes eligible to be cast on the matter under the Maryland Control Share Acquisition Act. Control shares means shares of stock that, if aggregated with all other shares of stock previously acquired by the acquiror, would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of the voting power: one tenth or more but less than one third, one third or more but less than a majority or a majority or more of all voting power. A control share acquisition means the acquisition of control shares, subject to certain exceptions. If voting rights or control shares acquired in a control share acquisition are not approved at a stockholders meeting, then subject to certain conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may exercise appraisal rights. New Century REIT s bylaws contain a provision exempting acquisitions of its shares from the Maryland Control Share Acquisition Act. However, New Century REIT s board of directors may amend its bylaws in the future to repeal or modify this exemption, in which case any control shares of New Century REIT acquired in a control share acquisition will be subject to the Maryland Control Share Acquisition Act.

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

Table of Contents

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

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

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

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 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.

Table of Contents

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

From time to time, we may purchase mortgage-backed securities or government securities from third parties in order to comply with the income and asset tests necessary to maintain our REIT status. The value of, and return on, the mortgage-backed securities and government securities we hold will be affected by changes in the marketplace for such securities, as well as prepayment speeds in the case of mortgage-backed securities, and may be volatile and significantly different than projected. The securities that we hold may produce large losses instead of the income incorporated into our projections. The impact of changes in the marketplace for these securities on our results may be magnified because these holdings could be highly leveraged. Additionally, much of the financing we will use to hold these securities may be cancelable by our lenders on short notice. If our lenders ceased providing financing to us on favorable terms, we would be forced to liquidate some or all of these securities, possibly at a substantial loss, which could harm our financial condition, results of operations and business prospects.

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

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

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

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

Table of Contents

to regulate mortgage lending practices by national banks. Passage of such state and local laws could increase compliance costs, reduce fee income and lower origination volume, all of which would harm our results of operations, financial condition and business prospects.

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

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

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

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

Because we are authorized to originate mortgage loans in all 50 U.S. states, we must comply with the laws and regulations, as well as judicial and administrative decisions, for all of these jurisdictions, as well as an extensive body of federal law and regulations. The volume of new or modified laws and regulations has increased in recent years, and individual cities and counties have begun to enact laws that restrict subprime loan origination activities in those cities and counties. The laws and regulations of each of these jurisdictions are different, complex and, in some cases, in direct conflict with each other. As our operations continue to grow, it may be more difficult to comprehensively identify, to accurately interpret and to properly program our technology systems and effectively train our personnel with respect to all of these laws and regulations, thereby potentially increasing our exposure to the risks of noncompliance with these laws and regulations.

Our failure to comply with these laws can lead to:

- civil and criminal liability;

loss of licensure;

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

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

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

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

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

In March 2004, an Illinois Court of Appeals found that the Illinois Interest Act, which caps fees at 3% for loans with an interest rate in excess of 8%, is not preempted by federal law. This ruling contradicts the view of the Federal Circuit Courts of Appeal, most state courts, the OTS and the Illinois Office of the Attorney General. If this ruling is not overturned, we may reduce operations in Illinois since it will reduce the return we and our investors can expect on higher risk loans. Moreover, as a result of this ruling, plaintiffs are filing actions against lenders, including us, seeking various forms of relief as a result of any fees received in the past which exceeded the applicable thresholds. Any such actions, if decided against us, could harm our results of operations, financial condition and business prospects.

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

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

Table of Contents

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

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

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

Table of Contents

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

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

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

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

We cannot assure you, 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 designed strategies or improperly executed transactions could actually increase our risk and losses. In addition, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses, and such losses could harm our results of operations, financial condition and business prospects. See Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk.

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

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

Table of Contents

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 June 30, 2004, loans serviced on our platform totaled $20.9 billion. Ocwen is expected to continue to service the mortgage loans underlying our residual interests. Poor servicing and collections by third-party servicers could harm the value of our residual interests and our ability to sell or securitize loans, which could harm our results of operations, financial condition and business prospects. Likewise, poor servicing by our own servicing operation could harm the cash flows from our on-balance sheet securitizations, could 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 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

Table of Contents

of mortgage brokers, increasingly federal and state agencies have sought to impose such liability on parties that take assignments of such loans. Recently, for example, the United States Federal Trade Commission, or FTC, entered into a settlement agreement with a mortgage lender where the FTC characterized a broker that had placed all of its loan production with a single lender as the agent of the lender; the FTC imposed a fine on the lender in part because, as principal, the lender was legally responsible for the mortgage broker s unfair and deceptive acts and practices. The United States Justice Department in the past has sought to hold a subprime mortgage lender responsible for the pricing practices of its mortgage brokers, alleging that the mortgage lender was directly responsible for the total fees and charges paid by the borrower under the Fair Housing Act even if the lender neither dictated what the mortgage broker could charge nor kept the money for its own account. Accordingly, we may be subject to fines or other penalties based upon the conduct of our independent mortgage brokers.

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

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

If many of our borrowers become subject to the 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 the borrower s mortgage loan generally may not be charged interest above an annual rate of 6% during the period of the borrower s active duty status. The Act also applies to a borrower who was on reserve status and is called to active duty after origination of the mortgage loan. A prolonged, significant military mobilization as part of the war on terrorism or the war in Iraq could increase the number of the borrowers in our securitized pools who are subject to the Act and thereby reduce the interest payments collected from those borrowers. To the extent the number of borrowers who are subject to the Act is significant, the cash flows we receive from loans underlying our on-balance sheet securitizations and from our residual interests would be reduced, which could cause us to reduce the carrying value of our residual interests and would decrease our earnings. In addition, the Act imposes limitations that would impair the ability of the servicer to foreclose on an affected mortgage loan during the borrower s period of active duty status, and, under certain circumstances, during an additional three month period thereafter. Any such reduction in our cash flows or impairment in our performance could harm our results of operations, financial condition and business prospects.

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

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

Table of Contents

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

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

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

Our mortgage loan origination business is currently dependent upon our ability to effectively interface with our brokers, borrowers and other third parties and to efficiently process loan applications and closings. The origination process is becoming more dependent upon technological advancement, such as the ability to process applications over the Internet, accept electronic signatures and provide process status updates instantly and other customer-expected conveniences that are cost-efficient to our process. In addition, we are in the process of implementing a new loan origination system. Implementing and becoming proficient with the new loan origination system and other new technology will require significant financial and personnel resources. There is no guarantee that the implementation of our new loan origination system or other new technology will be successful. To the extent that we become reliant on any particular technology or technological solution, we may be harmed to the extent that such technology or technological solution (i) becomes non-compliant with existing industry standards, (ii) fails to meet or exceed the capabilities of our competitors equivalent technologies or technological solutions, (iii) becomes increasingly expensive to service, retain and update, or (iv) becomes subject to third-party claims of copyright or patent infringement. Any failure to acquire technologies or technological solutions when necessary could limit our ability to remain competitive in our industry and could also limit our ability to increase the cost-efficiencies of our operating model, which would harm our results of operations, financial condition and business prospects.

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

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

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

In the course of our business, we may foreclose and take title to residential properties and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to

Table of Contents

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

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

In recent years, we have experienced rapid growth that has placed, and will continue to place, certain pressures on our management, administrative, operational and financial infrastructure. As of December 31, 2000, we had approximately 1,511 employees and by June 30, 2004, we had approximately 4,600 employees. Many of these employees have a limited understanding of our systems and controls. The increase in the size of our operations may make it more difficult for us to ensure that we originate quality loans and that we service them effectively. We will need to attract and hire additional sales and management personnel in an intensely competitive hiring environment in order to preserve and increase our market share. At the same time, we will need to continue to upgrade and expand our financial, operational and managerial systems and controls.

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

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

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

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

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

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

Table of Contents

Tax Risks Relating to REIT Qualification

Your investment has various federal income tax risks.

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

A REIT s net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property but including any mortgage loans held in inventory primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to sell a loan or securitize the loans in a manner that was treated as a sale of such inventory for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans other than through our taxable REIT subsidiaries and may limit the structures we utilize for our securitization transactions even though such sales or structures might otherwise be beneficial for us. In addition, this prohibition may limit our ability to restructure our portfolio of mortgage loans from time to time even if we believe it would be in our best interest to do so. However, the sales of loans we expect to make from New Century Financial and its subsidiaries following the REIT conversion will not be subject to this prohibited transaction tax since New Century Financial and its subsidiaries will be taxable REIT subsidiaries.

42

Table of Contents

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

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

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

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

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

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

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

Generally, dividends paid by REITs are not eligible for the 15% U.S. federal income tax rate on certain corporate dividends, with certain exceptions discussed under the caption Material U.S. Federal Income Tax Consequences Taxation of U.S. Holders of New Century REIT s Common Stock. The more favorable treatment of regular corporate dividends could cause domestic non-corporate investors to consider stocks of other corporations that pay dividends as more attractive relative to stocks of REITs. It is not possible to predict whether the reduced 15% tax rate on certain corporate dividends will affect the market price of our common stock following the REIT conversion or what the effect will be.

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

Table of Contents

SPECIAL NOTE ABOUT FORWARD LOOKING STATEMENTS

This proxy statement/prospectus and the documents incorporated by reference herein include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Exchange Act. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words believe, expect, will, anticipate, intend, estimate, project, plan, ass other similar expressions, although not all forward-looking statements contain these identifying words. Statements regarding the following subjects contained or incorporated by reference in this proxy statement/prospectus are forward-looking by their nature:

- our business strategy;
- our understanding of our competition;
- market trends;
- projected sources and uses of funds from operations;
- potential liability with respect to legal proceedings; and
- potential effects of proposed legislation and regulatory action.

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

- those identified under Risk Factors from pages 22 through 43;
- those identified from time to time in New Century Financial s public filings with the Securities and Exchange Commission;
- the negative impact of economic slowdowns or recessions;
- the effect of changes in interest rates;
- our limited experience managing a REIT;

the condition of the secondary markets for our products;

our access to funding sources and our ability to renew, replace or add to our existing repurchase arrangements and existing credit facilities on terms comparable to the current terms;

the assumptions underlying our residual values and repurchase allowances;

the impact of new state or federal legislation or court decisions on our operations;

the impact of new state or federal legislation or court decisions restricting the activities of lenders or suppliers of credit in our market;

an increase in the prepayment speed or default rate of our borrowers;

the effect of competition from finance and mortgage banking companies and from Internet-based lending companies;

our ability to adequately hedge our residual values;

Table of Contents

- the initiation of a margin call under our credit facilities;
- the ability of our servicing operations to maintain high performance standards;
- our ability to expand origination volume while maintaining low overhead;
- our ability to attract and retain qualified employees, including, in particular, our senior executives;
- our ability to adapt to and implement technological changes;
- the stability of residential property values;
- our ability to close our forward sale commitments;
- management s ability to manage our growth and planned expansion; and
- the outcome of litigation or regulatory actions pending against us.

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

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

Table of Contents

ANNUAL MEETING

This proxy statement/prospectus is being furnished to you in connection with the solicitation of proxies by New Century Financial s board of directors for use at the annual meeting for the purposes described in this proxy statement/prospectus and in the accompanying notice of annual meeting of stockholders of New Century Financial.

Date, Time and Place of the Annual Meeting

The annual meeting will be held on September 15, 2004 at 9:00 a.m., local time, at our headquarters located at 18400 Von Karman, Suite 1000, Irvine, California.

Purpose of the Annual Meeting

At the annual meeting, holders of New Century Financial common stock of record as of the record date will be eligible to vote upon the following proposals:

- to approve and adopt the merger agreement, which will implement the restructuring of New Century Financial to allow New Century Financial to qualify as a REIT for U.S. federal income tax purposes;
- to re-elect Fredric J. Forster, Edward F. Gotschall and Richard A. Zona as Class I directors for three-year terms ending in 2007;
- to approve the 2004 Plan;
- to ratify KPMG LLP s appointment as our Independent Registered Public Accounting Firm for 2004; and
- to transact any other business that is properly brought before the annual meeting or at any adjournments or postponements of the annual meeting.

Recommendation of the Board of Directors

Our board of directors has unanimously approved the REIT conversion, including the merger agreement and the other transactions contemplated by the merger agreement, and has determined that these actions are advisable and in the best interests of New Century Financial and its stockholders. Our board of directors unanimously recommends that you vote FOR the approval and adoption of the merger agreement, which will effect the REIT conversion and the other transactions contemplated by the merger agreement. Also, our board of directors unanimously recommends that you vote FOR the re-election of the three director nominees, FOR the approval of the 2004 Plan and FOR ratification of the appointment of our Independent Registered Public Accounting Firm.

Record Date; Shares Entitled to Vote; Quorum

Only holders of record of New Century Financial common stock at the close of business on July 30, 2004, the record date for the annual meeting, are entitled to receive notice of, and to vote at, the annual meeting. On the record date, 34,045,201 shares of New Century Financial common stock were issued and outstanding and held by 65 holders of record. A quorum will be present at the annual meeting if a majority of the votes entitled to be cast are present, in person or by proxy. Because there were 34,045,201 shares entitled to vote as of the record date, we will need at least 17,022,601 shares present, in person or represented by proxy, at the annual meeting to establish a quorum. If a quorum is not present at the annual meeting, we expect that the meeting will be adjourned to solicit additional proxies. Holders of record of New Century Financial common stock on the record date are entitled to one vote per share on any matter properly brought before the annual meeting or at any adjournments or postponements thereof.

Abstentions

When an eligible voter attends the meeting but does not vote (either in person or by proxy) on a proposal, his or her decision not to vote is called an abstention as to that proposal. Properly executed proxy cards that are marked abstain on any proposal will be treated as abstentions for that proposal.

Table of Contents

Vote Required

The approval and adoption of the merger agreement requires the affirmative vote of the holders of a majority of the shares of New Century Financial common stock entitled to vote at the annual meeting. A vote for the approval and adoption of the merger agreement has the effect of approving the REIT conversion and the related transactions contemplated by the merger agreement. We have attached a copy of the merger agreement as *Annex A* to this proxy statement/prospectus. An abstention or failure to vote will have the same effect as a vote against approval and adoption of the merger agreement. We reserve the right to cancel or defer the merger or the REIT conversion even if our stockholders vote to approve and adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived if our board of directors determines that the merger or the REIT conversion is no longer in the best interests of New Century Financial and our stockholders.

The three nominees who receive the greatest number of FOR votes of the shares present in person or represented by proxy at the annual meeting and entitled to vote will be elected as the Class I directors of New Century Financial.

The approval of the 2004 Plan and the ratification of our Independent Registered Public Accounting Firm for 2004 each require the affirmative vote of a majority of shares of New Century common stock present in person or by proxy at the annual meeting. An abstention on either proposal will have the effect of a vote cast against such proposal.

Many New Century Financial investors do not hold their shares directly, but instead hold their shares in street name through their brokers. U.S. brokers holding shares for their clients generally do not have authority to vote those shares on extraordinary proposals such as the approval and adoption of the merger agreement, unless the client provides specific voting instructions to the broker. When no instructions are received, the broker may be required to return the proxy card (or a substitute) marked with an indication that the broker lacks voting power over that particular extraordinary proposal. This type of response is known as a broker non-vote.

For purposes of determining whether a quorum exists, abstentions will count as shares present at the meeting (and thus will count towards the existence of a quorum). Broker non-votes will also count as shares present at the meeting (and thus will count towards the existence of a quorum), so long as the broker s proxy card grants some voting power to the person designated as the proxy. Broker non-votes on the proposal to approve and adopt the merger agreement will have the effect of a vote cast against such proposal. If any broker non-votes are received as to the other three proposals, they will be treated as shares present, but not voting (and not entitled to vote) as to each such proposal. Accordingly, if a quorum is present, a broker non-vote will count neither for nor against any particular director nominee and will have no effect on the election of the three director nominees. Similarly, a broker non-vote will count neither for nor against, and will thus have no effect on the passage of, the 2004 Plan or the ratification of our Independent Registered Public Accounting Firm.

Under the DGCL, you will not be entitled to dissenters rights of appraisal as a result of the merger and REIT conversion. See Proposal 1 Approval and Adoption of the Merger Agreement Pursuant to Which the REIT Conversion Will Be Effected The REIT Conversion Absence of Dissenters Rights.

Shares Owned by New Century Financial s Directors and Officers

As of July 30, 2004, New Century Financial s directors and executive officers directly or indirectly beneficially owned 4,841,213 shares of New Century Financial common stock, or 14.2% of the shares outstanding on that date entitled to vote on the proposals. These directors and executive officers will own a similar percentage of New Century REIT common stock after the merger, although that percentage is expected to be reduced upon completion of the public offering. We currently expect each director and executive officer of New Century Financial who owns shares of New Century Financial common stock to vote his or her shares of New Century Financial common stock FOR each proposal. If such persons vote all of the shares that they own as of July 30, 2004 in favor of the approval and adoption of the merger agreement as expected, the vote of at least 12,215,432 additional shares of New Century Financial common stock (or 35.9% of the shares of New Century Financial common stock outstanding as of that date and entitled to vote) will be required to approve and adopt the merger agreement.

Table of Contents

Voting Procedures

If you sign and return the proxy card at or before the annual meeting, your shares will be voted as you specify on the proxy card. You may also vote by telephone by following the instructions set forth on the proxy card. If you sign and return the proxy card but do not specify a vote, your shares will be voted FOR the merger proposal.

We will appoint an inspector of elections to count the votes cast in person or by proxy at the meeting. If you mark your proxy to abstain from voting on any matter, your shares will be counted for purposes of determining whether there is a quorum but will not be voted on that matter. Similarly, if a broker or nominee indicates on its proxy that it does not have discretionary authority to vote on a particular matter as to certain shares and has not received voting instructions from the beneficial owner, those shares will be counted for purposes of determining whether there is a quorum but will not be voted on that matter.

Under the rules of the Nasdaq National Market, if you hold your shares through a bank or broker, your bank or broker is not permitted to vote your shares on the approval and adoption of the merger agreement without your instructions. **If your shares are held in the name of a bank or broker, please follow the instructions on your proxy card to ensure that your shares are properly voted at the annual meeting.**

You may revoke your proxy at any time after you have sent in your proxy card and before your proxy is voted at the annual meeting by:

- giving written notice to our corporate secretary at 18400 Von Karman, Suite 1000, Irvine, California 92612 that you revoke your proxy;
- filing another proxy with a later date; or
- by attending the annual meeting and voting in person, although attendance at the annual meeting will not by itself revoke a proxy.

If you have instructed a bank or broker to vote your shares, you must follow the directions you receive from your bank or broker to change your vote. You may request to receive and view future proxy mailings and other stockholder communications online. For more information, please see the insert included with your proxy materials.

We are not aware of any proposal that will be brought before the annual meeting other than those described in this proxy statement/prospectus. If any other matter is properly brought before the annual meeting, the persons named as your proxies will be authorized by the proxy card to vote the shares represented by that proxy card in accordance with their best judgment.

Solicitation of Proxies and Expenses

We will bear the cost of this proxy solicitation. Brokers and nominees should forward soliciting materials to the beneficial owners of the shares that they hold of record. We will reimburse brokers and nominees for their reasonable forwarding expenses. Our directors, officers and regular employees may also solicit proxies in person or by telephone or other means. These individuals will not receive additional compensation for these efforts, but may be paid for reasonable out-of-pocket expenses in connection with the solicitation.

We have retained Georgeson Shareholder Communications, Inc. to assist in the solicitation of proxies from banks, brokerage firms, nominees, institutional holders, and individual investors for a fee of approximately $8,500, plus expenses relating to the solicitation.

You should not send any stock certificates with your proxy cards. A letter of transmittal containing instructions for the surrender of stock certificates will be mailed to former stockholders of New Century Financial as soon as reasonably practicable after the completion of the merger.

Table of Contents

PROPOSAL 1

APPROVAL AND ADOPTION OF THE MERGER AGREEMENT

PURSUANT TO WHICH THE REIT CONVERSION WILL BE EFFECTED

THE REIT CONVERSION

General

Our board of directors has approved a plan, pending the approval of our stockholders and the pricing of the public offering, to restructure our business operations so that New Century REIT, as the parent of New Century Financial and successor to substantially all of New Century Financial s assets and business operations following the merger, will qualify as a REIT for U.S. federal income tax purposes. New Century REIT will seek to raise additional capital in the form of equity, debt or some combination of the two. Subject to market conditions and the price of our common stock, we currently anticipate raising approximately $750 million in a public offering of shares of New Century REIT common stock. The REIT conversion and the related public offering are designed to enable New Century REIT, as the business successor of New Century Financial, to reorganize its assets and business operations in a manner eligible to elect to be treated as a REIT for U.S. federal income tax purposes. If New Century REIT qualifies as a REIT, subject to certain exceptions as further discussed in Other Restructuring Transactions; Election of the Taxable REIT Subsidiaries on page 77, New Century REIT generally will not be subject to U.S. federal corporate income taxes on that portion of its ordinary income or capital gain that is distributed to its stockholders.

As part of the REIT conversion, NC Merger Sub will merge with and into New Century Financial with the result that, among other things:

- each outstanding share of common stock of New Century Financial will be converted into one share of common stock of New Century REIT;
- New Century REIT will be renamed New Century Financial Corporation and will become the publicly-traded, NYSE-listed parent company that 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 then-current board of directors and the committees of the board of New Century Financial and the management of New Century Financial will become the board of directors, committees of the board and management, respectively, of New Century REIT;
- New Century REIT will assume all of New Century Financial s stock incentive plans, including the 2004 Plan, if approved at the annual meeting, 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 New Century REIT common stock pursuant to the terms of the stock incentive plans; and

the rights of the stockholders of New Century REIT will be governed by the MGCL and New Century REIT s charter and bylaws.

As a result of the merger, New Century REIT and its subsidiaries, including any taxable REIT subsidiaries, will, directly or indirectly, own substantially all of the assets of New Century Financial, and New Century REIT will own all of the capital stock of New Century Financial. Thus, after the merger, the current holders of New Century Financial common stock will continue to own shares in a publicly-traded company holding the same assets, and conducting the same business activities, as those currently held and conducted by New Century Financial. Additionally, consistent with New Century REIT s election to be treated as a REIT for U.S. federal income tax purposes and following completion of the public offering, New Century REIT and its qualified REIT subsidiaries will acquire and hold a portfolio of mortgage loans originated primarily by its taxable REIT subsidiaries and qualified REIT subsidiaries or their respective affiliates and, to a lesser extent, mortgage-related assets originated by and purchased from third parties.

Table of Contents

Background

Introduction

Our board of directors and management periodically consider our long-term plans and strategic alternatives. In January 2003, we adopted a strategy of retaining a portion of our loan production on our balance sheet in order to produce a more stable and diversified earnings and cash flow stream, particularly in an environment in which loan origination volume decreases. As this strategy proved to be effective in diversifying our revenue sources, we began to explore ways to optimize it. In September 2003, two investment banks, Friedman, Billings, Ramsey & Co., Inc., or Friedman Billings, and UBS Securities LLC, or UBS, suggested that our board of directors may wish to consider a conversion to a REIT to potentially allow New Century Financial to pursue this strategy in a more tax-efficient manner. Consequently, in September 2003, to better inform itself with respect to this option, our management requested that these investment banks provide additional information regarding the potential advantages and disadvantages of REIT conversion.

Our board of directors decided to consult with UBS based on its experience, expertise and reputation in the financial services sector, including the mortgage REIT sector. UBS is an internationally recognized investment banking firm that regularly engages in the valuation of securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. UBS and its predecessors and affiliates have provided investment banking and other financial services to us and received customary compensation for the rendering of such services. We have a $2.0 billion line of credit with UBS Real Estate Securities, an affiliate of UBS, and New Century REIT will assume the obligations under this line of credit upon completion of the merger and REIT conversion, subject to lender approval. During the past two years, we paid UBS and its affiliates approximately $25.6 million in interest payments under our line of credit with UBS Real Estate Securities, based on an average outstanding balance of approximately $555.3 million over the same period. We also paid UBS and its affiliates approximately $4.26 million in commitment fees under our line of credit over the same period, which fees ranged from 12.5 basis points to 25 basis points depending on the size of the commitment. We plan to enter into an underwriting agreement with UBS in connection with the public offering, for which UBS will receive customary compensation and indemnification. UBS is expected to serve, along with Friedman Billings, as a joint-book running lead manager, and representative of the other underwriters, in the public offering. In the ordinary course of its business, UBS and its successors and affiliates may trade or have traded securities of New Century Financial for their own accounts and the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

Friedman Billings is a nationally recognized specialist in the financial services industry in general, and in mortgage REITs, mortgage banking and specialty lenders in particular. Our board of directors decided to consult Friedman Billings in relation to certain matters relating to a potential conversion to REIT status based upon Friedman Billings qualifications, expertise and reputation in such capacities. Friedman Billings is regularly engaged in evaluations of businesses similar to our business and in advising institutions with regard to mergers and acquisitions, as well as raising debt and equity capital for such institutions. Friedman Billings was paid $250,000 for services it rendered to us relating to the evaluation of a possible REIT conversion. Friedman Billings has provided other financial advisory services for us in the past (but not relating to the REIT conversion), for which Friedman Billings received customary fees. During the past two years, we paid Friedman Billings approximately $319,000 in investment banking fees and approximately $108,000 in fees in connection with a June 2002 private investment in public equity, or PIPE, transaction. We plan to enter into an underwriting agreement with Friedman Billings in connection with the public offering, for which Friedman Billings will receive customary compensation and indemnification. Friedman Billings is expected to serve, along with UBS, as a joint-book running lead manager and representative of the other underwriters, in connection with the public offering. In the ordinary course of its business, Friedman Billings and affiliates may trade or have traded securities of New Century Financial for their own accounts and the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

Board of Directors Meeting on October 22, 2003

Our board of directors held a telephonic meeting on October 22, 2003, at which all of our directors were present. In addition, certain other members of our management were present, including Patrick Flanagan, one of our executive vice presidents and the president of New Century Mortgage, Patrick Rank, one of our executive vice presidents, Stergios Theologides, our executive vice president-corporate affairs, general counsel and secretary, Patti Dodge, one of our executive vice presidents and our controller and the chief financial officer of New Century Mortgage and, since July 2004, our chief financial officer, and Jennifer Jewett, our vice president-corporate counsel and one of our assistant secretaries. Representatives of KPMG LLP were also present.

Management had previously distributed to our board of directors a presentation prepared by UBS which contained an overview of key potential benefits of converting New Century Financial to a REIT. The UBS presentation indicated that we could potentially increase stockholder value by diversifying our income base through a REIT conversion. The UBS presentation also outlined investor perceptions of New Century Financial as a C corporation, conversion implications that could result from a REIT conversion, potential advantages and disadvantages of the REIT structure, structural alternatives for implementing a REIT conversion, case studies of comparable companies that had completed REIT conversions, and the valuations of comparable publicly traded mortgage REITs.

Management had also previously distributed to our board of directors a presentation that management had prepared based both on its own research and on input provided by O Melveny & Myers LLP, or O Melveny, our corporate counsel, and KPMG LLP. The presentation outlined management s views regarding investor perception of various features of our current operations and structure, the requirements that we would need to meet to qualify as a REIT, and the potential advantages of a REIT conversion, including the prospect of creating diverse revenue streams, more stable earnings, more substantial dividends, tax advantages, valuation expansion and a new base of yield-oriented investors. The presentation also summarized management s concerns with a REIT conversion, including the potential for capital markets dependency and the complexity of the requirements necessary to convert to and maintain REIT status, outlined alternative REIT structures and contained financial projections for New Century Financial structured as both a C corporation and as a REIT, which projections contemplated a capital raise under each structure.

During the meeting, management described the potential REIT structure, reviewed several comparable transactions, discussed the necessity of raising additional capital in connection with the REIT conversion, and explained how such a conversion might affect New Century Financial s earnings per share. Our board of directors requested that management continue to work with O Melveny, Friedman Billings and KPMG LLP to assist our board of directors and management in evaluating whether electing REIT status would be the best business structure from a tax and operating perspective to achieve New Century Financial s goal of maximizing stockholder value.

Board of Directors Meeting on October 29, 2003

The next meeting of our board of directors was on October 29, 2003. All of our directors were present at the meeting. In addition, certain other members of our management were present, including Messrs. Flanagan, Rank and Theologides, Ms. Dodge and Ms. Jewett. The initial discussion of our board of directors was based upon the presentation that management had distributed prior to the meeting on October 22, 2003. Our board of directors discussed the potential risks of a REIT conversion, including potential dilution to stockholders and the possible need for a sizeable capital raise to meet various REIT requirements. Management also discussed with our board of directors licensing and other operational issues that could arise as a result of a REIT conversion. Our board of directors determined that additional research was needed to identify other operational issues that could result from a REIT conversion.

Management had previously distributed to our board of directors materials prepared by Friedman Billings, which presented a general overview of the types of mortgage REITs, summarized the REIT asset and income

Table of Contents

tests and presented valuation statistics for comparable REITs with sizeable taxable REIT subsidiaries that are able to retain their earnings. According to the Friedman Billings materials, the potential benefits of converting a mortgage company into a REIT included: tax efficiency; reduced earnings volatility as a result of a diversification of New Century Financial s revenue stream; a reduced exposure to interest rate fluctuations as a result of a reduced reliance on origination volume, which tends to fluctuate significantly with the general level of interest rates; attractive dividend yield to stockholders; the opportunity for stock price appreciation based on the higher market multiples investors typically apply to companies which retain their loans as opposed to selling them; maintain operating flexibility; and current investor receptiveness to REITs. Potential disadvantages outlined in the materials included: an increased exposure to credit losses from the retained portfolio; stock market dislocation as the investor perception of New Century Financial could change from a growth origination corporation to an income-producing mortgage REIT; the necessity for a substantial initial capital raise; the need for ongoing capital raises in the future; and limitations on New Century Financial s ability to pursue large acquisitions in the near term because they may jeopardize REIT compliance. The materials also included several sets of summary financial data each assuming a different capital raise size.

Representatives of Friedman Billings then joined the meeting and discussed with our board of directors the possible advantages and disadvantages of a potential REIT conversion, including tax efficiency, the potential impact on our stock price and flexibility in the capital markets. Our board of directors asked Friedman Billings various questions regarding the timing constraints surrounding the decision to convert to a REIT, the timing of capital raises that would be necessary to satisfy the REIT asset tests and other structures. Our board of directors also discussed with Friedman Billings the possibility of conducting loan origination activities at the REIT level and related licensure issues. In concluding, Friedman Billings recommended that New Century Financial explore the possibility of pursuing a REIT conversion.

Board of Directors Meeting on December 10, 2003

Our board of directors held a two-day meeting on December 10 and December 11, 2003. All of our directors were present at the meeting. In addition, certain other members of our management were present, including Messrs. Flanagan, Rank and Theologides, Ms. Dodge, Kevin Cloyd, one of our executive vice presidents and the president of NC Capital, Rodney Colombi, our senior vice president-corporate development, Yury Pyatigorsky, our vice president-corporate development, Paul Tuan, our vice president-financial planning, and Ms. Jewett. A representative from O Melveny was also present.

Prior to the meeting, management, with input from O Melveny, KPMG LLP and Friedman Billings, had distributed to our board of directors a presentation containing an overview of the organizational requirements for REITs, including the REIT asset and income tests, distribution requirements, record-keeping requirements and the consequences that could result from a failure to qualify as a REIT in any taxable year. The presentation also summarized certain of the benefits and limitations that would arise from a REIT conversion, structural alternatives and the potential financial performance of New Century Financial as a C corporation and as a REIT under various different structures utilizing financial performance measures prepared by management, including internal rates of return and net present value. Management s presentation also addressed certain risks identified by UBS in its earlier presentation, including risks regarding investor perception, capital dependency and balance sheet risk. Management s analysis indicated that converting New Century Financial to a REIT would likely improve its performance (as compared with maintaining its status as a C corporation) despite the added dilution from future capital raises, due to tax savings, changes to a dividend yield valuation from a traditional valuation resulting in a higher price-earnings multiple, and the likely acceleration of cash flows to investors through dividends.

Our board of directors discussed the potential advantages of the REIT conversion, including anticipated tax savings, and the disadvantages, including restrictions on the amount of earnings that may be retained by a REIT and the required distributions of REIT taxable income. Our board of directors also discussed issues regarding intercompany loans between the REIT and its taxable REIT subsidiaries, and the potential impact of the REIT

Table of Contents

conversion on its dividends, stock price, earnings per share and convertible senior notes. Our board of directors requested that management undertake further analysis, including the preparation of additional financial models.

Representatives of UBS and KPMG LLP then joined the meeting. UBS began with a presentation regarding its expertise and capabilities in comparable REIT conversion transactions. UBS also highlighted the potential tax and other benefits of REITs that might be worthy of our exploration. Our board of directors then asked various questions related to the size of capital-raising activities of recently converted mortgage REITs and the impact that the conversion would have on New Century Financial s dividends and stock price. Our board of directors also discussed with UBS various issues relating to the structure of the REIT, loan origination activities and other details regarding the asset and income tests applicable to any REIT.

A representative of O Melveny then joined the meeting and discussed with our board of directors its fiduciary duty of care in connection with the consideration of the potential REIT conversion. Our board of directors then delegated to management and the executive committee of our board of directors the authority to continue evaluating the risks and benefits of a REIT conversion with the input of O Melveny, Friedman Billings and KPMG.

Board of Directors Meeting on January 15, 2004

The next meeting of our board was a telephonic meeting held on January 15, 2004. All of our directors were present at the meeting. In addition, certain other members of our management were present, including Messrs. Flanagan, Rank, Theologides and Cloyd, Ms. Dodge, Messrs. Colombi, Pyatigorsky and Tuan, and Ms. Jewett.

Management reported to our board of directors that the analysis that management had performed to date with the assistance of its outside advisors revealed that operating New Century Financial as a REIT, even with a relatively modest capital raise, could create more value to stockholders than maintaining the company s current C corporation structure. Prior to the meeting, Friedman Billings had discussed with management and the executive committee of our board of directors that although it generally favored the REIT model for New Century Financial, it believed that a REIT conversion with a relatively modest capital raise could result in a mortgage REIT that might be perceived by the market as neither a growth nor an income stock and might limit New Century Financial s ability to meet the REIT requirements. Management reported to our board of directors that Stern Stewart & Co., or Stern Stewart, had been engaged as an independent financial advisor to test management s financial modeling and had arrived at economic results and returns generally consistent with management s analysis.

Our board of directors discussed how a REIT conversion would affect the call option purchased and related warrant sold in connection with our convertible senior notes transaction, loan origination activities following the restructuring, other licensing issues and the potential dividend yield on our common stock. After further discussion, our board of directors determined that continued evaluation of possible restructuring alternatives was advisable and in the best interests of New Century Financial and its stockholders and, therefore, authorized management to continue its assessment of alternatives and to conduct additional diligence on the prospect of a REIT conversion. Our board of directors also authorized management to engage a financial advisor and other consultants to assist in the evaluation of a REIT conversion.

In early February, we engaged Friedman Billings as a financial advisor to assist us in evaluating a potential REIT conversion. Friedman Billings concluded their advisory assignment with a presentation to the board of directors on March 5, 2004.

Board of Directors Meeting on February 26, 2004

Our board of directors held a telephonic meeting on February 26, 2004. All of our directors, except Mr. Sachs, were present at the meeting. In addition, certain other members of our management were present, including Mr. Theologides, Ms. Dodge, Messrs. Colombi, Pyatigorsky and Tuan, and Ms. Jewett. Management, based on its own analysis and the input of O Melveny, KPMG LLP and Friedman Billings, concluded that an initial modest capital raise would most likely not be sufficient to maintain REIT status for technical and operating reasons. Management also advised our board of directors that, based on the analysis of our outside advisors, we would need to issue any intercompany debt at market rates to obtain its classification as debt rather than equity. Classification of significant intercompany transfers as equity could impair REIT status.

Our board of directors discussed issues pertaining to a REIT conversion, including the availability of debt financing; the treatment of the call option and warrant related to our convertible senior notes; the potential for a credit rating downgrade; the necessity of future capital raises; and the appropriate capital level. Our board of directors explored the potential concern that the REIT structure would be operationally complex. Our board of directors requested that management perform further analysis regarding various structural and operational issues.

Representatives from Stern Stewart then joined the meeting and presented to our board of directors an overview of past industry trends and valuations under various leverage scenarios. Stern Stewart s valuations, based on management s input and a secondary market strategy of selling 80% of its originated loans and retaining 20% thereof, or the 80/20 secondary marketing strategy, supported the conclusion that raising capital could be accretive to our stockholders to the extent New Century REIT improved its capital ratios and credit profile. However, Stern Stewart expressed a belief that diminished returns would occur from striving to achieve a credit rating higher than a BBB or equivalent credit rating.

Our board of directors asked Stern Stewart to evaluate (i) the impact on New Century Financial of capital- raising activities both as a C corporation and as a REIT, and (ii) whether the 80/20 secondary marketing strategy should change if we converted to a REIT.

Our board of directors and management then discussed the fact that Friedman Billings had discussed the REIT structure with many of our competitors and that some of them had announced an intention to convert to a REIT. The Board explored whether a proliferation of specialty mortgage REITs would make it difficult for the Company to distinguish itself to investors. Our board of directors also addressed certain issues that would arise if we chose to remain a C corporation.

Board of Directors Meetings on March 4, 2004 and March 5, 2004

Our board of directors held a two-day meeting on March 4 and March 5, 2004. All of our directors, except Mr. Sachs, were present at the meeting. In addition, certain other members of our management were present, including Messrs. Flanagan, Rank and Theologides, Ms. Dodge and Ms. Jewett. Messrs. Colombi, Pyatigorsky and Tuan, Jim Bischoff, our senior vice president-corporate communications, and Carrie Marrelli, our vice president-investor relations, were present for a portion of the meeting. Representatives of Friedman Billings and Bear Stearns & Co., Inc., or Bear Stearns, were present. Management had invited (i) Friedman Billings to make a presentation to our board of directors regarding why it believed our board of directors should consider pursuing a REIT conversion, and (ii) Bear Stearns to make a presentation to our board of directors regarding its qualifications and its views of the potential disadvantages of a REIT conversion given the assumptions we provided them. No fee was paid to Bear Stearns and Bear Stearns was not retained by us for this presentation.

Bear Stearns is an internationally recognized investment banking firm that regularly engages in the valuation of securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. Prior to this engagement, Bear Stearns and its affiliates have provided investment banking and other financial services to us and received customary compensation for the rendering of such services. We have a line of credit with an affiliate of Bear Stearns. In the ordinary course of its business, Bear Stearns and its successors and affiliates may trade or have traded securities of New Century Financial for their own accounts and the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

Friedman Billings and Bear Stearns presented their views regarding the proposed REIT conversion strategy based on substantially similar stress scenarios provided to them by New Century Financial and differing assumptions made by the investment bankers regarding market conditions and investors perceptions. With respect to the secondary marketing strategy discussed above, the investment banks considered a stress scenario involving assumptions relating to the following: loan origination volume (e.g. a 30% decrease in 2005 compared to 2004, assuming $36 billion in loan origination volume in 2004, then growing by 15% thereafter); cost of origination (e.g. 3.25% in 2005, 2.75% in 2006, and 2.50% thereafter); gain on sale of loans (e.g. decrease to 101.5% in 2005, increase to 103.5% in 2006 and level thereafter); and spread on portfolio (e.g. 2.0% in 2004 and 2.5% in 2006 and thereafter). Based on the differing views of the respective investment banks regarding the capital markets generally, the anticipated market perception of New Century Financial as a REIT versus a C corporation, and investors desirable ranges of leverage under various stress scenarios, Bear Stearns indicated that it would not recommend that New Century Financial convert to a REIT unless New Century Financial s secondary marketing strategy generated more qualified REIT income and New Century Financial raised enough capital to maintain its credit rating. On the other hand, Friedman Billings advised our board of directors that it believed the current economic environment was favorable for the REIT conversion and for a capital raise that would alleviate capital and leverage concerns.

Bear Stearns expressed concerns about a REIT conversion at this time for the following primary reasons: the current 80/20 secondary marketing strategy would provide relatively little qualified REIT income for New Century Financial and stockholder returns would be only slightly higher than the C corporation structure; moving to a 50/50 secondary marketing strategy would require a significant amount of capital, necessitating either a larger initial capital raise or frequent returns to the capital markets to achieve its objectives; liquidity crises would be more likely in the event of distressed markets due to the REIT distribution requirements; as a mortgage REIT with an 80/20 secondary marketing strategy, it is unclear how the public markets would value New Century Financial post-conversion; the potential for New Century Financial to be acquired by a C corporation could be more limited as a REIT and warehouse costs could increase following the conversion. Bear Stearns indicated that while it supported our strategy of retaining a portion of our loan production on our balance sheet to increase stockholder value, it believed that we could pursue this strategy effectively with a capital raise as a C corporation. Neither Bear Stearns nor our board of directors can provide you with any assurance as to our future stock price, our future earnings per share or our ability to distribute to you any dividends in the future.

Friedman Billings presented in favor of REIT conversion for the following primary reasons: the value of each individual loan and the origination platform would be enhanced due to the more tax-efficient REIT structure; New Century Financial s income stream could be capitalized at a higher earnings multiple as a REIT; by raising capital on favorable terms, New Century Financial could be in a position to grow its business consistently and provide stockholders with substantial returns; New Century Financial s stock price may have increased in part because the market anticipated that New Century Financial would convert to a REIT; and under certain circumstances, Friedman Billings believed intercompany loans could be treated as debt instead of equity.

The Friedman Billings presentation also included a discussion of pro forma financial models that addressed Friedman Billings estimation of New Century Financial s possible future dividend results (*e.g.*, in excess of $8 per share in the first year after the REIT conversion), yield (the stock was estimated to trade to a 12% yield in the first year after the REIT conversion, based on the lower range of comparable public companies), and potential stock prices (*e.g.*, in excess of $100 per share 12 months after the REIT conversion assuming a $50 stock price upon the REIT conversion), and market capitalization (e.g., in excess of $3 billion in the first year after the REIT conversion) (the FBR Pro Forma Data). The FBR Pro Forma Data was based on alternative capital raising scenarios, including a $750 million equity raise, and in addition, was based primarily on available market information obtained from generally available public sources and general assumptions that were primarily based on New Century Financial s and other public companies publicly available market data (including stock price and yield). Many of the assumptions used were based on market conditions which have changed since their preparation in February 2004, including rising interest rates and lower production volume. The Friedman Billings presentation (including, without limitation, the FBR Pro Forma Data) was not prepared with the view that it would be relied on as a projection of actual future results of New Century Financial s performance or that such

Table of Contents

report, or the substance thereof, was intended for New Century Financial s stockholders. We make no assurances of any kind or nature regarding the FBR Pro Forma Data and expressly disclaim any belief or expectation that the FBR Pro Forma Data will be predictive of actual results, which could be substantially less favorable than the FBR Pro Forma Data. Our board of directors considered the presentation, in conjunction with a considerable amount of other information, some of which is described in this Background section, as one item in its evaluation of whether or not to pursue a proposed REIT conversion.

The FBR Pro Forma Data is based on a number of assumptions, including assumptions relating to the following, among other factors: the size and price per share of the initial capital raise; the size of the taxable REIT subsidiaries initial loan portfolio; the size of New Century REIT s loan portfolio at the end of the first quarter following the REIT conversion; the average gross coupon rate of interest; borrowing costs; loan originations costs; the annual loan loss rate; servicing costs; the annual portfolio run-off rate; amounts paid by New Century REIT to the taxable REIT subsidiaries for loans; the percentage of loans held for investment; loan origination volume; and servicing income.

Neither Friedman Billings nor our board of directors can provide you with any assurance as to our future stock price, our future earnings per share or our ability to distribute to you any dividends in the future. Friedman Billings has not opined to our board of directors or any other person or entity as to the fairness of any consideration to be paid to our stockholders as a result of the merger and REIT conversion, nor did it make any recommendation to our board of directors as to what consideration should be paid to our stockholders as result of the REIT conversion. Accordingly, you are strongly cautioned not to rely upon this summary or any other information contained in the Friedman Billings materials as being indicative of (i) any potential increase in our earnings per share or share price (each of which may be higher or lower than they are today either before or after the REIT conversion), (ii) our ability to pay any future dividends (which will depend on our future earnings, which we cannot predict) or any other factor in deciding whether or not to vote in favor of the merger and REIT conversion. You should carefully review the Risk Factors section and other sections of this prospectus/proxy statement in determining how to vote on the merger and REIT conversion.

Management then advised our board of directors that, whether or not it chooses to approve the REIT conversion or maintain the company s current C corporation structure, it should determine New Century Financial s foundational strategy. Management and our board of directors discussed the following six alternative scenarios for New Century:

- building up New Century Financial s capital ratio;
- managing growth;
- maintaining a capital ratio of 8%;
- building financial strength through a strong balance sheet producing earnings per share;
- increasing the contribution of New Century Financial s loan portfolio to revenues and maintaining a capital ratio of 6%; and
- increasing the contribution of New Century Financial s loan portfolio to 50% of revenues and maintaining a capital ratio of 8%.

Our board of directors expressed the view that, due to New Century Financial s growth rate, it could be advisable to raise capital under either the C corporation or REIT strategy.

Following the presentations, our board of directors concluded that while the REIT structure could provide higher returns in a non-stress scenario, the REIT structure could also be riskier than the current C corporation structure in an environment where we could not access the capital markets and our businesses were not producing sufficient revenues and we had to preserve capital, which we refer to as a stress scenario. Our board of directors asked management to conduct additional financial modeling. Our board of directors agreed that it should work

Table of Contents

with management to re-evaluate New Century Financial s secondary marketing strategy and consider increasing the percentage of its loans that are held for investment. Our board of directors agreed to meet twice in March to further consider converting New Century Financial into a REIT.

Board of Directors Meeting on March 25, 2004

Our board of directors held a telephonic meeting on March 25, 2004. All of our directors were present at the meeting. In addition, certain other members of our management were present, including Messrs. Flanagan and Cloyd, Ms. Dodge, Messrs. Colombi, Bischoff, Pyatigorsky and Tuan, Ms. Marrelli, Ms. Jewett and Erin Freeman, our vice president-corporate communications.

Prior to the meeting, management distributed to our board of directors a presentation prepared by management with the assistance of its outside advisors. The presentation outlined the primary considerations in the decision to convert New Century Financial to a REIT, including capital markets dependency, projected returns to stockholders and investor perception. The presentation contained various base case and stress scenario financial models and management reported in the presentation that, based on its financial models, both the REIT and C corporation strategies would likely provide comparable returns to stockholders. The presentation also reported management s belief that, because of the tax benefits and the acceleration of dividends, the REIT returns would be comparable to C corporation returns despite the additional dilution to stockholders, and that both structures could provide a cushion to withstand the stress scenario.

Management s presentation also addressed various issues related to the REIT conversion decision including: the dependency of REITs on the capital markets; projected returns to stockholders under both structures; the history of periodic closure of capital market fund-raising opportunities to REITs; market perception; future acquisition issues; stockholder dilution from REIT conversion; licensure issues; structural alternatives; the effect of the REIT conversion on our convertible senior notes; and the potential benefits of obtaining a higher credit rating.

Management reported, based upon its own research and the analyses provided by its outside advisors, that New Century Financial should raise capital under either the REIT or the C corporation strategy. Management recommended that if our board of directors elected to convert New Century Financial to a REIT, it should consider raising a significant amount of capital, which could allow New Century Financial to build its REIT portfolio of $15 to $20 billion in loans without the need for additional capital in the near term. Management estimated that, by the end of 2005, approximately 50% of earnings per share will come from its mortgage loans held for investment, together with its residual interests. Management recommended that, upon conversion, New Century Financial operate as a taxable REIT subsidiary and continue to grow the loan origination platform. The proposed benefits to this strategy were: the dividends would be taxed at the individual level only and deducted at corporate level; investors would realize benefits earlier through regular and substantial dividends; a larger initial capital raise would provide additional liquidity to help New Century Financial withstand less favorable market environments; and substantial funds could potentially be raised given then-current conditions in the capital markets. The disadvantages included the need to fund growth through new capital or cash from the taxable REIT subsidiaries.

If our board of directors elected to retain the current C corporation structure, management recommended, based on the analyses of Stern Stewart and Bear Stearns, that New Century Financial raise $300 to $400 million in the capital markets. This structure was believed to produce a comparable internal rate of return while being less complex and potentially presenting less risk. The C corporation structure was believed to reduce the reliance on capital markets and the higher capital ratio would allow for an improved credit rating. Under this alternative, it was believed that approximately 50% of New Century Financial s earnings per share would come from its balance sheet by the end of 2005. The primary benefits of this structure were believed to include: supporting growth through retained earnings; implementing a more flexible portfolio strategy; maintaining a better position to withstand diminished capital market opportunities; and requiring less capital to achieve a similar risk profile.

Table of Contents

The disadvantages of this structure were believed to include higher corporate taxes and a less favorable reception by the investor community.

At the request of our board of directors, representatives of Stern Stewart joined the meeting. Stern Stewart presented its analysis of the economic value added under alternative capital raising scenarios as a C corporation. Stern Stewart confirmed that its results were generally consistent with the internal rate of return calculations prepared by management. Stern Stewart explained the advisability of combining a potential REIT conversion with improving New Century Financial s capital ratio and credit profile. For a discussion of the Stern Stewart presentation, see the section entitled Stern Stewart Presentation below.

Our board of directors then discussed its concerns regarding the uncertainty of the future of interest rates and the capital markets and the complexity of the REIT structure. Management agreed to perform additional analysis with its outside advisors regarding the dividend requirements, the cost of capital and various structural and operational issues.

Board of Directors Meeting on March 29, 2004

A telephonic meeting of our board of directors was held on March 29, 2004. All of our directors were present at the meeting. In addition, certain other members of our management were present, including Messrs. Flanagan and Cloyd, Ms. Dodge, Messrs. Colombi, Pyatigorsky and Tuan, and Ms. Jewett.

Prior to the meeting, management distributed to our board of directors the presentation materials prepared by Bear Stearns. Bear Stearns cautioned our board of directors regarding the potential risks and disadvantages of the REIT conversion. According to Bear Stearns, the primary potential disadvantages included: low levels of qualified REIT income that would be created by New Century Financial s 80/20 secondary marketing strategy; higher risks for REITs, particularly with respect to capitalization requirements; strategic limitations of the REIT structure; dilution to stockholders; and negative impacts on New Century Financial s potential to be an acquisition target. Bear Stearns believed that even if New Century Financial were able to raise $1 billion in an initial equity offering in the REIT conversion scenario, and assuming an 11% minimum capital requirement, it would require four additional follow-on offerings averaging $700 million over the next five years. Bear Stearns also expressed concern about whether the equity capital markets could absorb a $1 billion offering, which according to Bear Stearns, would represent the largest REIT offering by dollar amount compared to all prior offerings by mortgage REITs. Additionally, Bear Stearns reported that in its view stockholder returns would be nearly identical under either structure.

Management reported that it had also distributed to our board of directors prior to the meeting materials prepared by management, which addressed various questions raised by our board of directors at prior meetings, including: transfer pricing for loans that the REIT acquires from its taxable REIT subsidiaries; licenses that the REIT will eventually need to obtain; time frames under which dividend payments could be delayed under economic stress scenarios; the mechanics that would enable the REIT to downstream cash to its taxable REIT subsidiaries under economic stress scenarios; the ability to revalue taxable REIT subsidiaries in a stress scenario; the ability for the REIT to purchase mortgage-related assets from third parties; UBS s projections for an initial capital raise; the benefits of obtaining an investment grade rating; potential return forecasts to stockholders for base and stress case scenarios; and the impact of a REIT conversion on our convertible senior notes and related call option and warrant. Management s materials reported that both Friedman Billings and UBS generally agreed with the results presented in management s analysis.

Management reported that it would continue to work through various structural and operational issues with input from O Melveny, Friedman Billings and KPMG LLP. Our board of directors then discussed the long-term returns under both scenarios and the resulting size of the balance sheet. Our board of directors noted the long-term advantages of building the balance sheet and the potential to unlock stockholder value as a

REIT. Our board of directors then reviewed various issues surrounding a potential REIT conversion, including the difficulties of

58

Table of Contents

valuing mortgage REITs with sizeable taxable REIT subsidiaries that are able to retain their earnings, New Century Financial s secondary marketing strategy, uncertainty over future movements of interest rates and the ability to raise funds in the capital markets, its concerns over a sizeable potential capital raise, the importance of maintaining good credit quality, the third investment bank s analysis of capital requirements, constraints on operational flexibility, and other details.

Our board of directors requested that management meet with its advisors, analyze the alternatives and present a recommendation at a board meeting scheduled for April 5, 2004. The outside directors indicated that, based on the models and analysis presented, they considered both the REIT and C corporation models presented to them as viable and attractive alternatives. Several directors expressed that, all things being equal, they would favor the C corporation alternative unless the REIT model presented the prospect of superior returns.

Board of Directors Meeting on April 5, 2004

The next meeting of our board of directors was on April 5, 2004. All of our directors were present at the meeting. In addition, certain other members of our management were present, including Messrs. Flanagan, Rank and Theologides, Ms. Dodge and Ms. Jewett. Representatives from O Melveny were also present.

Management reported to our board of directors that following the board meeting held on March 29, 2004, management and its advisors performed additional analysis to evaluate whether the REIT conversion would be in the best interests of New Century Financial and its stockholders. In the materials distributed to our board of directors prior to the meeting on April 5, management reported that for the past six months it had been using conservative assumptions in evaluating the REIT and found that (1) it could manage through various stress scenarios if it raised an appropriate amount of initial capital, and (2) returns to stockholders would be comparable to C corporation returns. Management s decision to use less conservative assumptions was based on its view that a balanced presentation to our board of directors requires a consideration of scenarios that management believed were reasonable, including the following:

- that the REIT will begin originating loans for its portfolio in the third quarter of 2005, or one year after the REIT conversion. Self-origination of these loans by the REIT would enable it to acquire the loans at a lower cost - *i.e.*, at or near the cost of origination. This structure would also reduce the added income tax expense resulting from the REIT s arm s length purchases of loans from the taxable REIT subsidiaries of the REIT; and

- that the REIT would be able to raise more capital in the future. This would enable the REIT to acquire a larger portfolio, generate higher gross income and allow a greater distribution of earnings from the taxable REIT subsidiary. These distributions, combined with taxable income generated by the REIT, would result in a larger distribution to the REIT stockholders and, therefore, a higher rate of return.

Management then provided models to support its view that returns to stockholders using these less conservative assumptions for the REIT would be significantly higher than C corporation returns.

Management believed that it had addressed the concerns inherent in a REIT structure, given the assumptions it had provided the investment banks and that the investment banks made about capital markets generally, the anticipated market perception of New Century Financial as a REIT versus a C corporation and investors tolerance for leverage under stress scenarios, as follows:

Low levels of qualified REIT income would be created by our current 80/20 secondary marketing strategy. Management s analysis indicated that the REIT structure was the most tax-efficient way to implement our strategy of maintaining and growing a portfolio of mortgage assets. Management expected that, over time, we would 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 our mortgage loan portfolio. Management believed that approximately 50% of our earnings per share would come from our balance sheet by the end of 2005.

Table of Contents

REITs are more risky, particularly with respect to capitalization requirements. Management s analysis indicated that the initial capital raise in the public offering should allow the REIT to maintain sufficient cash and liquidity, as well as a ratio of equity to managed assets that management considered to be prudent.

REITs are dependent on the capital markets. Management believed that the initial capital raise in the public offering would mitigate against this risk. In addition, during periods of unfavorable market conditions, management believed that we could lower the amount of the distributions made by our taxable REIT subsidiaries to New Century REIT and accumulate capital in our taxable REIT subsidiaries to support our growth. Also, management expected that we would explore raising different types of debt capital during times that market conditions become less favorable for equity offerings.

The REIT structure imposes strategic limitations. Management expected that the public offering would provide sufficient cash and capital so that our taxable REIT subsidiaries could operate in a manner similar to our existing C corporation and support our growth plans. In addition, management believed that the after-tax earnings generated by our taxable REIT subsidiaries would not be subject to the distribution requirements imposed by the REIT tax rules. Accordingly, as noted above, management believed that during times of market disruption we could choose to retain some, if not all, of the after-tax earnings of our taxable REIT subsidiaries in such subsidiaries, when we determined the retention of capital was necessary to provide for future growth. Management believed that after the REIT conversion we would conduct a substantial amount of our business through our taxable REIT subsidiaries.

The capital raise will cause dilution to stockholders. Following the REIT conversion, management believed that we would be able to make distributions to our stockholders in a tax-efficient manner, as permitted by the REIT tax rules. Management expected that the cash flows to our stockholders through these distributions would create an enhanced internal rate of return for investors which would offset the dilution resulting from the public offering.

The REIT conversion will negatively impact our potential to be an acquisition target. The analysis of management and its outside advisors indicated that while the REIT conversion could negatively impact our potential to be an acquisition target, we could also be more likely to be acquired by another REIT.

The REIT conversion may increase our credit facility costs. Management expected that our credit facility costs would likely decrease following the REIT conversion because the guarantor of or borrower under the credit facility would be better capitalized.

Stockholder returns are nearly identical under either structure. Management reported that its analysis showed that the REIT structure would likely provide better returns than the C corporation structure under the operating environments that it and its financial advisors considered most likely going forward. Management also reported that even in stress scenarios, the REIT generally performed as well as or better than the C corporation model.

On the basis of the foregoing, and other factors, management recommended to our board of directors that it approve the REIT conversion with a significant public offering.

Additional reasons underlying management s recommendation to pursue the REIT conversion included the following: long-term stockholders would likely realize higher returns from their investment in New Century Financial as a REIT; Stern Stewart s analysis indicated that the economic value added by the REIT structure exceeded the economic value added by the C corporation structure; the significant tax savings and the slightly lower cost of capital of the contemplated capital raise; and the likelihood that the taxable REIT subsidiaries would be able to retain sufficient cash to continue operating in a manner similar to that of New Century Financial in its current C corporation structure. The analysis of management and its outside advisors indicated that significant benefits could accrue to New Century Financial as a REIT if certain factors occurred, including the valuation of New Century Financial using dividend yield methodology. One of these potential benefits was that New Century Financial would be able to raise initial capital at a higher price as a REIT than as a C corporation

Table of Contents

because mortgage REITs typically trade within a stock price range based on the ratio of their annualized dividend to their stock price, or dividend yield. In other words, if investors know the expected dividend paid by a mortgage REIT, they are likely to be willing to pay a certain price for the stock in order to obtain an expected and desired dividend yield. Using this dividend yield methodology would produce a higher valuation of New Century Financial and, correspondingly, a higher stock price. In addition, management distributed materials to our board of directors from Bear Stearns in which Bear Stearns concurred that a larger initial capital raise in the form of debt or equity addressed the concerns that it had raised at the March 5, 2004 and March 29, 2004 meetings relating to capital requirements and capital market dependency.

Following receipt of management s recommendation, our board of directors discussed the short-term price differential, the percentage of earnings per share that could come from the balance sheet following conversion, the possibility of using various financing structures such as convertible debt in connection with a REIT conversion, Stern Stewart s advised capital levels, the operational strategies of other mortgage REITs, capital market conditions for REITs, New Century Financial s securitization strategy and the capital raise that would be necessary to convert and maintain REIT status.

Based on the recommendation of management and the periodic input of its various advisors, our board considered the merits of both a REIT restructuring and maintaining its current corporate structure. Based on several factors, including management s recommendation, the potential for increased stockholder return, tax efficiency and ability to achieve growth objectives, our board of directors voted in favor of converting New Century Financial to a REIT, subject to final board approval of relevant legal, accounting and financial matters and stockholder approval.

Board of Directors Meeting on April 19, 2004

The next meeting of our board was on April 19, 2004. All of our directors were present at the meeting. In addition, certain other members of our management were present, including Messrs. Flanagan and Theologides, Ms. Dodge and Ms. Jewett. Representatives from O Melveny were also present.

Prior to the April 19, 2004 meeting, our board of directors was provided with draft materials relating to the proposed REIT conversion, including drafts of this proxy statement/prospectus and the registration statement relating to the offering. At the meeting, representatives of O Melveny reviewed with our board of directors certain legal issues with respect to the proposed REIT conversion, including proposed resolutions to be considered and approved by our board of directors in connection with the REIT conversion. Management summarized the adjustments to the REIT structure that had emerged in the process of preparing the documents relating to the REIT conversion. They summarized the merger structure, the charter and bylaw differences between New Century Financial and New Century REIT, the proposed role of New Century Credit as a qualified REIT subsidiary, and the proposal to sell a portion of our on-balance sheet securitizations to the REIT. Our board of directors also provided comments to the draft of this proxy statements/prospectus and the registration statement relating to the public offering.

Our board of directors voted to approve the terms of the Morgan Stanley engagement letter to deliver its fairness opinion. The engagement letter was negotiated between our management and representatives of Morgan Stanley.

Our board of directors then considered the approval of the REIT conversion, including the merger agreement and the other transactions contemplated by the merger agreement. Following a discussion, our board of directors unanimously took the following actions, subject to its receipt of a fairness opinion: determined that the merger and the merger agreement, which will effect a portion of the REIT conversion, and the related restructuring transactions, are advisable and in the best interests of New Century Financial and its stockholders; approved and adopted the merger agreement and approved the REIT conversion and the related restructuring transactions; directed that the merger agreement, which will effect the REIT conversion and the other transactions contemplated by the merger

Table of Contents

agreement, be submitted to a vote at the annual meeting; and recommended that the New Century Financial stockholders approve and adopt the merger agreement, which will effect the REIT conversion and the other transactions contemplated by the merger agreement.

Board of Directors Meeting on April 21, 2004

The next meeting of our board was on April 21, 2004. All of our directors, except Mr. Zona, were present at the meeting. In addition, certain other members of our management were present, including Mr. Theologides, Ms. Dodge, Mr. Colombi and Ms. Jewett. A representative from O Melveny and representatives from Morgan Stanley were also present.

At the meeting, representatives of Morgan Stanley made a financial presentation to our board of directors and delivered Morgan Stanley s opinion that, as of that date, from a financial point of view, and based upon and subject to the considerations in its opinion and based upon such other matters as Morgan Stanley considered relevant, the REIT conversion was fair to holders of New Century Financial common stock.

Our board then directed management to finalize and file this draft proxy statement/prospectus and the registration statement relating to the public offering and to proceed as authorized at the April 19th meeting.

Reasons for the REIT Conversion

The following discussion of the material information and factors considered by our board of directors is not intended to be exhaustive.

In reaching its determination to approve and adopt the merger agreement and approve the merger, which will effect the REIT conversion, and the related restructuring transactions, our board of directors consulted with a number of investment banks, including Friedman Billings, UBS and Morgan Stanley, with respect to the financial aspects and, in the case of Morgan Stanley, fairness of the merger and the REIT conversion, as well as with management and its legal, accounting and financial advisors, including Stern Stewart. Our board of directors considered, among others, the following potentially positive factors:

- the expectation that the REIT conversion and the related public offering will support our efforts to diversify our revenues in a more tax-efficient manner, thereby providing the prospect of a higher total return to our stockholders than if we remain a C corporation;

- the ability to make distributions to our stockholders in the tax-efficient manner permitted by the rules and regulations governing taxation of REITs, while retaining the flexibility to increase our capital by retaining some or all of the after-tax earnings in our taxable REIT subsidiaries;

- the expectation that the additional liquidity afforded by a larger initial capital raise may protect us against potential market disruptions;

the potential expansion of our stockholder base to include investors attracted by yield, which may improve the liquidity of our common stock and provide a more diversified stockholder base;

the expectation that our increased market capitalization following completion of the public offering will attract increased research coverage and greater investor interest;

the analysis and presentation by Morgan Stanley and the opinion of Morgan Stanley that, as of April 21, 2004, and based upon and subject to the factors and assumptions set forth in the opinion, the REIT conversion, if consummated, is fair from a financial point of view to holders of New Century Financial common stock;

the expectation, based on input from Friedman Billings and UBS, that the REIT structure would likely allow for capital to be raised at a higher stock price than as a C corporation; and

the expectation that investors will be receptive to the REIT conversion at this time.

Table of Contents

Our board of directors also considered, among others, the following potentially negative factors:

- an increased dependence on the capital markets to fund our liquidity requirements under the REIT tax rules;
- the limitations imposed on our activities under the REIT structure;
- the need to comply with the complicated REIT qualification provisions;
- the requirement to pay dividends in order to comply with the REIT tax rules;
- the increased credit risk as a result of a larger portfolio of mortgage loans held for investment;
- the dilution to investors purchasing shares of New Century REIT common stock in the public offering; and
- concerns regarding investor perception and the potential of significant changes to our stockholder base.

In addition, our board of directors considered the potential risks discussed in Risk Factors Risks and Effects of the REIT Conversion beginning on page 22.

The foregoing discussion does not include all of the information and factors considered by our board of directors. Our board of directors did not quantify or otherwise assign relative weights to the particular factors considered, but conducted an overall analysis of the information presented to and considered by it in reaching its determination.

Recommendation of the New Century Financial Board of Directors

Subject to receipt of a fairness opinion satisfactory to our board of directors, on April 19, 2004, our board of directors:

- determined that the merger and the merger agreement, which will effect a portion of the REIT conversion, and the related restructuring transactions are advisable and in the best interests of New Century Financial and its stockholders;
- approved and adopted the merger agreement and approved the REIT conversion and the related restructuring transactions;
- directed that the merger agreement, which will effect the REIT conversion and the other transactions contemplated by the merger agreement, be submitted to a vote at the annual meeting; and

recommended that the New Century Financial stockholders approve and adopt the merger agreement, which will effect the REIT conversion and the other transactions contemplated by the merger agreement.

On April 21, 2004, Morgan Stanley rendered its fairness opinion.

Our board of directors unanimously recommends that holders of our common stock vote FOR the approval and adoption of the merger agreement, which will effect the REIT conversion and the other transactions contemplated by the merger agreement.

Table of Contents

Stern Stewart Presentation

Pursuant to an engagement letter dated January 22, 2004, New Century Financial retained Stern Stewart to evaluate New Century Financial s capital structure and portfolio strategy and present its analysis to our board of directors.

Stern Stewart is a global consulting firm that advises clients on performance measurement, incentive compensation and financial management, and provides independent valuation, analysis and opinions. New Century Financial selected Stern Stewart to perform an evaluation of New Century Financial s capital structure and portfolio strategy based upon Stern Stewart s qualifications, expertise and reputation. Stern Stewart was asked by our board of directors to evaluate the impact on New Century Financial of capital-raising actions both as a C corporation and as a REIT. At the meeting of our board of directors on March 25, 2004, Stern Stewart presented its evaluation with a slide presentation, subsequently revised on April 15, 2004, which is referred to in this proxy statement/prospectus as the Stern Stewart presentation.

The Stern Stewart presentation was based on data obtained directly from New Century Financial and from sources of publicly available information. Stern Stewart did not assume any responsibility for independently verifying, and did not independently verify, any of the financial or other information furnished to it by New Century Financial or obtained from the sources of publicly available information.

The full text of the Stern Stewart presentation sets forth the assumptions made and matters considered by Stern Stewart. The Stern Stewart presentation was intended only for New Century Financial and does not constitute an opinion to any person as to the fairness from a financial point of view of the REIT conversion nor does it constitute a recommendation to any person as to how to vote with respect to the merger which will effect the REIT conversion and should not be relied upon by any stockholder as such. A copy of the Stern Stewart presentation will be made available for inspection and copying at New Century Financial s principal executive office during its regular business hours by an interested New Century Financial stockholder or representative who has been so designated in writing.

Implied Stock Price Analysis. In connection with the Stern Stewart presentation, Stern Stewart performed an implied stock price analysis of New Century Financial under four different capital scenarios in which New Century Financial would remain a C corporation and under one scenario in which New Century Financial would convert into a REIT.

The scenarios consisted of the following:

Scenario	Entity Type	Scenario Features
1	C Corporation	Ratio of equity to managed assets of 6% Stock repurchase and payment of dividends in the third quarter of 2004 and the first quarter of each of 2006, 2007 and 2008
2	C Corporation	Ratio of equity to managed assets of 7%
3	C Corporation	Ratio of equity to managed assets of 8%

		Capital raise of $319 million in the third quarter of 2004 through an equity offering
4	C Corporation	Ratio of equity to managed assets of 9-10%
		Capital raises of $400 million in the third quarter of 2004, $400 million in the first quarter of 2005, and $200 million in 2006
REIT	REIT	Initial capital raise of $1.0 billion
		Conversion to a REIT

In performing its implied stock price analysis, Stern Stewart first calculated the implied market value of New Century Financial based on the different capital ratios using its proprietary economic value added (EVA) methodology. EVA is a technique developed by Stern Stewart that measures the net economic profit generated by a business. EVA is equal to a firm s net operating profit after tax (defined as after-tax operating earnings adjusted to eliminate distortions from certain accounting anomalies, including the amortization of goodwill and charging profits for bad debt reserves instead of actual bad debt writeoffs), less a capital charge, defined as a firm s weighted average cost of capital multiplied by the amount of capital invested. Based on this methodology, Stern Stewart determined that the total implied value of New Century Financial was approximately $2.2 billion under Scenario 1, $2.5 billion under Scenario 2, $2.8 billion under Scenario 3, $2.9 billion under Scenario 4, and $4.0 billion under the REIT scenario. In order to calculate the implied stock price of New Century Financial under each scenario, Stern Stewart subtracted the market value of New Century Financial s convertible senior notes (valued at 150% of book value) from the implied total market value of New Century Financial and divided the difference by the total number of shares of outstanding New Century Financial common stock. Also, Stern Stewart assumed that the equity offerings contemplated under Scenarios 3 and 4 and the REIT scenario would be priced at $50 per share, and added these additional equity issuances to the total number of outstanding shares of New Century Financial common stock in calculating the implied stock price under such scenarios. In order to equalize the effects of capital raising activities under certain of the scenarios, Stern Stewart disregarded margin improvements that might arise by virtue of a better capitalized company.

Based on the above methodologies and assumptions, the analysis showed that the REIT scenario provided the highest implied stock price. The REIT scenario provided an implied stock price of $66.64 per share. In comparison, under the C corporation scenarios, the implied stock prices ranged between $54.23 and $61.71 per share, with Scenario 1 and Scenario 2 at the low and top end of that range, respectively.

Stern Stewart also considered the impact of two alternate equity offering scenarios on the results of the implied stock analysis discussed above.

In the first alternate scenario, Stern Stewart assumed that the price of the common stock to be issued in the contemplated equity offerings would be priced at $60 per share instead of $50 per share. In this alternate scenario, there was less dilution to the equity holders because of the lower number of shares that would be required to be issued in the equity offerings, resulting in a higher implied stock price under Scenarios 3 and 4 compared to the original scenarios. The implied stock prices of New Century Financial in Scenario 3 and Scenario 4 under this alternative scenario was $61.45 and $61.54 per share, respectively, compared to $59.87 and $59.64 per share under the corresponding original scenarios. The REIT scenario, with an implied stock price of $66.64 per share, still provided the highest implied stock price.

In the second alternate scenario, Stern Stewart assumed that the New Century Financial convertible senior notes had been converted into shares of New Century Financial common stock only in the C corporation scenarios. Instead of subtracting the market value of the convertible senior notes from the total market value, this alternate treatment of the convertible notes resulted in more dilution and slightly lower implied stock prices under each of the C corporation scenarios. The REIT scenario still provided the highest implied stock price under this alternate scenario.

Implied Market Value and Stock Price Analysis for REIT Scenario. Stern Stewart also evaluated the implied stock price for New Century Financial under the REIT scenario assuming different market values for the convertible senior notes. Assuming a valuation of the convertible senior notes at 150%, 175%, and 200% of book value, the analysis indicated that the implied stock prices under each of these variations to the REIT scenario still exceeded in each case the implied stock prices under the C corporation scenarios.

Stern Stewart also considered the implied stock price of New Century Financial under the REIT scenario assuming different share price issuances in the contemplated equity offerings. In comparing the same $1.0 billion equity raise at price issuances of $40, $45 and $50 per share, Stern Stewart found that a higher issuance price,

Table of Contents

which requires less shares to be issued in the equity offerings, resulted in a higher implied stock price. Under price issuances of $40, $45 and $50 per share, the implied stock prices were determined to be $61.09, $64.05, and $66.64 per share, respectively. The analysis indicated that as long as the stock price in the $1 billion capital raise under the REIT scenario equals or exceeds $41 per share, the implied stock price under the REIT scenario would be higher than all of the C corporation scenarios.

The Stern Stewart presentation indicates that the REIT scenario, even with the large initial equity raise, generally provides a higher EVA/total implied market value and implied stock price for stockholders than the C corporation scenarios and thus would appear to be a preferable strategy. Stern Stewart expressed the view that the large initial equity offering may improve New Century Financial s credit rating to investment grade and would provide liquidity under stress scenarios. With investment grade credit and the tax efficiencies of a REIT status, Stern Stewart noted that New Century Financial would become a more efficient holder of sub-prime mortgage paper.

New Century Financial paid Stern Stewart a fee of $73,000 and an additional fee of $75,000 in order to obtain their consent to be named in the registration statement of which this proxy statement/prospectus is a part, and agreed to reimburse Stern Stewart for its reasonable business expenses incurred in connection with its engagement. No portion of Stern Stewart s fee for its analysis is contingent upon approval or completion of the merger or the other transactions discussed in this proxy statement/prospectus. Stern Stewart has had no other material relationship with New Century Financial or any of its affiliates during the past two years and has received no compensation other than the payment of the fee related to the evaluation.

Opinion of Financial Advisor

Our board of directors retained Morgan Stanley to provide a financial fairness opinion to it in connection with the REIT conversion. Our board of directors selected Morgan Stanley to act as our financial advisor based on Morgan Stanley s qualifications, expertise, reputation and its knowledge of the business of New Century Financial. At the meeting of our board of directors on April 21, 2004, Morgan Stanley rendered its oral opinion, subsequently confirmed in writing, that as of April 21, 2004, and subject to and based on the considerations in its opinion the REIT Conversion (as defined in Morgan Stanley s opinion), if consummated, was fair from a financial point of view to holders of New Century Financial s common stock.

The full text of Morgan Stanley s opinion, dated April 21, 2004, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations of the reviews undertaken in rendering its opinion is attached as *Annex F* to this proxy statement/prospectus. The summary of Morgan Stanley s fairness opinion set forth in this document is qualified in its entirety by reference to the full text of the opinion. Stockholders should read this opinion carefully and in its entirety. Morgan Stanley s opinion is directed to our board of directors, addresses only the fairness from a financial point of view of the REIT Conversion, if consummated, and does not address any other aspect of the REIT Conversion nor does it constitute a recommendation to any person as to how to vote with respect to the merger which will effect the REIT Conversion and should not be relied upon by any stockholder as such. Nor does Morgan Stanley s opinion address the actual prices at which the common stock of New Century REIT may trade upon effectiveness of the REIT Conversion, nor does Morgan Stanley express any opinion in regards to the public offering.

In connection with rendering its opinion, Morgan Stanley, among other things:

i) reviewed certain publicly available financial statements and other business and financial information of New Century Financial and certain of its subsidiaries;

ii) reviewed certain internal financial statements and other financial and operating data concerning New Century Financial and New Century REIT prepared by our management;

iii) reviewed certain financial forecasts of New Century Financial and New Century REIT, including certain sensitivity cases, prepared by our management;

iv) reviewed information relating to certain strategic and financial benefits anticipated from the REIT Conversion;

v) discussed the past and current operations and financial condition and the prospects of New Century Financial and New Century REIT and certain of their respective subsidiaries, including information relating to certain strategic and financial benefits anticipated from the REIT Conversion, with our management;

vi) reviewed the pro forma impact of conversion to REIT status on our earnings, cash flow, consolidated capitalization and financial ratios;

vii) reviewed the reported prices and trading activity for New Century Financial s common stock;

viii) discussed with our management the rationale for and anticipated benefits of the REIT Conversion;

ix) compared the financial performance of New Century Financial and the historical market prices and trading activity of New Century Financial s common stock with that of certain other publicly-traded companies that Morgan Stanley deemed relevant or comparable with New Century Financial, both currently and pro forma (after giving effect to the REIT Conversion), and their securities;

x) reviewed the impact of conversion to REIT status on the historical market prices and trading activity of certain other publicly-traded companies that Morgan Stanley deemed relevant;

xi) discussed the proposed transaction structure with our management and our legal and tax advisors;

xii) reviewed and discussed with our management the proposed earnings and profits distribution and the proposed distribution policy of New Century REIT;

xiii) reviewed information provided by our management concerning certain tax attributes and tax matters relating to the REIT Conversion;

xiv) reviewed the board presentation dated April 21, 2004 prepared by our management, prior board presentations prepared by our management regarding REIT Conversion dated March 25, 2004, March 29, 2004 and April 5, 2004, the draft proxy statement/prospectus, the draft merger agreement, the draft of the registration statement on Form S-3 relating to the public offering dated April 20, 2004, and certain related documents;

xv) reviewed such other corporate, industry and financial market information as Morgan Stanley deemed appropriate; and

xvi) considered such other factors and performed such other analyses as Morgan Stanley deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information supplied or otherwise made available to it by New Century Financial for the purposes of the opinion. With respect to the board presentation dated April 21, 2004 prepared by our management and the internal financial forecasts, including information relating to certain strategic and financial benefits anticipated from the REIT Conversion and New Century REIT s ability to access the capital markets in connection with the public offering and from time to time thereafter, Morgan Stanley assumed that they have been reasonably prepared reflecting the best currently available estimates and judgments of these matters. In addition, Morgan Stanley assumed that the REIT Conversion will be implemented as described by our management, and as contemplated in the board presentation dated April 21, 2004 prepared by our management, the draft merger agreement and draft proxy statement/prospectus reviewed by Morgan Stanley, under the circumstances and with the effects described to it, including the consummation of the public offering, and that all conditions precedent will be satisfied or waived. Morgan Stanley assumed that the REIT Conversion will take place in a manner that will permit New Century REIT to qualify as a REIT for U.S. federal income tax purposes and that New Century REIT, after the REIT Conversion, will operate in accordance with the applicable provisions of the Internal Revenue Code in order to qualify as a REIT for U.S. federal income tax purposes.

Morgan Stanley expresses no opinion as to any transaction other than the transactions described as the REIT Conversion and specifically exclude any opinion regarding the public offering. Morgan Stanley also assumed that all material federal, state, local and other approvals and consents required in connection with the REIT Conversion will be obtained and that in connection with obtaining any necessary federal, state, local and other approvals and consents, or any amendments, modifications or waivers to any agreements, instruments or orders to which New Century Financial is a party or is subject or by which it is bound, no limitations, restrictions or conditions will be imposed or amendments, modifications or waivers made that would have a material adverse effect on New Century REIT. Furthermore, Morgan Stanley is not an expert in accounting, legal or tax matters and makes no representations nor does it opine upon the advice to be rendered by New Century Financial s accountants, legal counsel or tax advisors with respect to the REIT Conversion.

The following is a summary of material financial analyses performed by Morgan Stanley in connection with its oral opinion and the preparation of its written opinion dated April 21, 2004. Some of these summaries of financial analyses include information presented in tabular format. In order to fully understand the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses.

In connection with rendering its opinion, Morgan Stanley employed a variety of approaches to analyze the value of New Century Financial under its current corporate structure relative to the potential pro forma result of the proposed REIT Conversion. Additionally, Morgan Stanley estimated the incremental tax savings that would result from the proposed REIT structure and reviewed the information provided in various board presentations prepared by our management regarding the potential disadvantages of the proposed REIT conversion. Furthermore, Morgan Stanley reviewed certain publicly available financial statements, including, among others, those for the periods ended December 31, 2003 and March 31, 2004, and Morgan Stanley reviewed certain internal financial projections available as of April 21, 2004.

New Century Financial Management Financial Models. Morgan Stanley was provided with two financial models prepared by our management presented to the board of directors on April 21, 2004, the Base Case financial model and the Stress Case financial model. The Base Case financial model assumed that New Century Financial and New Century REIT experience growth in total origination volumes, have access to the secondary whole loan market, have access to the equity capital markets from time to time on an ongoing basis. The Stress Case financial model assumed that New Century Financial s and New Century REIT s total loan origination volumes decline relative to the Base Case financial model, periods of dislocation in the secondary whole loan market would require New Century Financial and New Century REIT to sell loans at a loss, the equity capital markets would be closed to New Century REIT after the public offering, and New Century REIT reduces the level of securitizations that are maintained on its balance sheet in order to preserve capital.

Morgan Stanley s financial valuation analyses relied upon the assumptions set forth in the Base Case financial model. Morgan Stanley also reviewed and analyzed the Stress Case financial model and the impact of the assumptions contained therein on New Century Financial and New Century REIT s capital ratios, the gross asset test as defined in the Internal Revenue Code, as well as other financial metrics. Morgan Stanley noted that in the Stress Case financial model, New Century REIT does not violate the REIT provisions of the Internal Revenue Code.

Table of Contents

Historical Share Price Performance. Morgan Stanley reviewed the historical trading prices for the common stock of New Century Financial, including the twelve months ended April 20, 2004 and the period from January 20, 2004 (the date that New Century Financial publicly announced that its board of directors intended to evaluate the impact of converting into a REIT structure) through April 5, 2004 (the date that New Century Financial announced that its board of directors voted in favor of converting to a REIT structure). The table below presents share prices during these periods.

Metric	Period or Date	New Century Common Stock Price
Price on January 20, 2004	1/20/2004	$ 44.55
Price on April 5, 2004	4/5/2004	45.40
Price on April 20, 2004	4/20/2004	43.90
Last Twelve Month High	4/20/2003 4/20/2004	52.28
Last Twelve Month Low	4/20/2003 4/20/2004	21.54

Comparable Company Analysis. Morgan Stanley reviewed and analyzed certain public market trading multiples for public companies similar to New Century Financial from a size and business mix perspective. The multiples analyzed for these comparable companies included common stock price (using closing prices as of April 20, 2004) divided by estimated 2005 earnings per share ratios and common stock price divided by book value per share ratios as of December 31, 2003. The estimates for 2005 earnings per share for the comparable companies were based on Institutional Brokers Estimate System median earnings per share estimates and the 2003 book values were based on publicly available information. For purposes of its analysis, Morgan Stanley reviewed the multiples of the following six publicly traded corporations in the mortgage related finance industry:

Accredited Home Lenders Holding Co.;

Countrywide Financial Corporation;

Doral Financial Corporation;

Downey Financial Corp.;

IndyMac Bancorp, Inc.; and

Washington Mutual, Inc.

A summary of the reference range of market trading multiples that Morgan Stanley used are set forth below:

	Reference Range of Multiples
Price / 2005E EPS	**6.0x 7.5x**
Price / 2003 Book Value Per Share	**2.0x 3.0x**

Using these reference ranges of multiples, Morgan Stanley calculated an implied valuation range for New Century Financial by applying the reference ranges of multiples to the applicable New Century Financial operating statistics based on information provided by management and other publicly available data. Based on such analysis, Morgan Stanley calculated an implied valuation range for New Century Financial common stock of $38.97 to $75.53 per share.

Morgan Stanley also reviewed and analyzed certain public market trading multiples for public mortgage REITs similar to New Century REIT, assuming the REIT Conversion and including the effects of the completion of the public offering, from a size and business mix perspective. The multiples analyzed for these comparable mortgage REITs included estimated 2005 dividends per share divided by common stock price and common stock price divided by estimated 2005 earnings per share ratios. The estimates of 2005 dividends per share for the comparable mortgage REITs were based on publicly available Wall Street equity research reports. The estimates

Table of Contents

for 2005 earnings per share for the comparable companies were based on Institutional Brokers Estimate System median earnings per share estimates. For purposes of its analysis, Morgan Stanley reviewed the multiples of the following six publicly traded mortgage REITs:

American Home Mortgage Investment Corp.;

Impac Mortgage Holdings, Inc.;

Novastar Financial, Inc.;

Redwood Trust, Inc.;

Saxon Capital, Inc.; and

Thornburg Mortgage, Inc.

A summary of the reference range of market trading multiples that Morgan Stanley used are set forth below:

	Reference Range of Multiples	
2005E Dividend Yield	**10.0%**	**12.0%**
Price / 2005E EPS	**7.0x**	**8.0x**

Using these reference ranges of multiples, which excludes Saxon Capital, Inc. because it was not a publicly-traded mortgage REIT at the time of Morgan Stanley s analysis, Morgan Stanley calculated an implied valuation range for New Century REIT by applying the reference ranges of multiples to the applicable New Century REIT operating statistics based on information provided by management. Based on such analysis, Morgan Stanley calculated an implied valuation range for New Century REIT common stock of $64.82 to $79.29 per share.

Although the foregoing mortgage related finance companies and mortgage REITs were compared to New Century Financial and New Century REIT for purposes of this analysis, Morgan Stanley noted that no company or mortgage REIT utilized in this analysis is identical to New Century Financial or New Century REIT because of differences between the business mix, operations and other characteristics of New Century Financial, New Century REIT and the comparable companies. In evaluating comparable companies, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of New Century Financial and New Century REIT, such as the impact of competition on the business of New Century Financial, New Century REIT and the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of New Century Financial, New Century REIT or the industry or in the markets in general. Mathematical analysis (such as determining the average or median) is not in itself a meaningful method of using comparable company data.

Table of Contents

Discounted Analyst Price Targets. Morgan Stanley reviewed published estimates by Wall Street equity research analysts for the following periods: (i) prior to January 20, 2004; and (ii) from January 20, 2004 through April 5, 2004. Price targets in these equity research reports ranged from $50.00 to $59.00 per share. Morgan Stanley discounted the Wall Street analyst price targets for one year at New Century Financial s estimated cost of equity capital of approximately 12%, based on the capital asset pricing model, a theoretical financial model that estimates the cost of equity capital of a particular company based on such company s Beta. A company s Beta is a metric designed to represent the systemic business risk and financial risk of such company versus the overall market. The following table summarizes the target prices for New Century Financial s common stock from each of those reports, where available:

Firm	Date of Report	Price Target
Prior to January 20, 2004		
Roth Capital	November 19, 2003	$ 50.00
Jefferies	December 4, 2003	N/A
January 20, 2004 April 5, 2004		
Roth Capital	March 8, 2004	59.00
Jefferies	March 31, 2004	52.00

Based on the aforementioned projections and assumptions, the discounted analyst price targets analysis yielded an implied valuation of New Century Financial common stock of $46.30 to $52.54 per share.

Morgan Stanley also reviewed the most recently published estimates by Wall Street equity research analysts as of April 21, 2004, which reflect New Century Financial s announcement of April 5, 2004 of our intention to effect a REIT conversion. Price targets in these equity research reports ranged from $58.00 to $70.00 per share. Morgan Stanley discounted the Wall Street analyst price targets for one year at New Century REIT s estimated cost of equity capital. The following table summarizes the target prices for New Century Financial s common stock from each of those reports, where available:

Firm	Date of Report	Price Target
After April 5, 2004		
Roth Capital	April 6, 2004	$ 70.00
Jefferies	April 6, 2004	58.00

Based on the aforementioned projections and assumptions, the discounted analyst price targets analysis yielded an implied valuation of New Century REIT common stock of $51.65 to $62.33 per share.

Dividend Discount Model. Morgan Stanley performed a discounted cash flow analysis, calculated as of June 30, 2004, of the after-tax cash flows derived from New Century Financial s loan origination platform based on financial forecasts and estimates provided by New Century Financial management, including, but not limited to, total loan origination volumes, whole loan sale premiums and loan acquisition costs. The amount of after-tax dividends payable were restricted by a required level of equity capital retained in the business. New Century Financial s book value of equity was used as an estimate of the current value of New Century Financial s portfolio of residual equity mortgage holdings retained in loans held for investment, servicing platform as well as our other retained assets. Morgan Stanley then employed discount rates reflecting an equity cost of capital ranging from 15.0% to 20.0% and a perpetual growth rate of 1.0% to determine the present value of New Century Financial s loan origination platform. To determine an implied value range for New Century Financial, Morgan Stanley then added New Century Financial s book value of equity to the present value of the origination platform, resulting in an implied value range per New Century Financial common stock of $76.57 to $97.27 per share.

Table of Contents

After giving effect to the proposed REIT Conversion and including the effect of the proposed public offering, Morgan Stanley performed a discounted cash flow analysis, calculated as of June 30, 2004, of the cash flows that would be received by holders of New Century REIT, including estimated annual cash dividends paid on New Century REIT common stock and the future terminal equity value of the New Century REIT in five years calculated based on financial forecasts and estimates (including estimated annual cash dividends) provided by our management. The total shares outstanding numbers reflected our management s assumption that New Century REIT would continue to access the capital markets to raise additional equity capital. The prices at which New Century REIT common stock would be sold was estimated by applying a constant twelve months forward dividend yield of 10.0% to 12.0% based on certain public market trading multiples for public mortgage REITs similar to New Century REIT as of the date of this opinion. A terminal value was calculated based on an assumed year six dividend per share amount, assuming 5.0% growth over the estimated year five dividend per share amount and capitalized based on a forward dividend yield of 10.0% to 12.0%. Morgan Stanley then employed discount rates reflecting an equity cost of capital ranging from 15.0% to 20.0% to determine a present value per share of New Century REIT common stock. Based on the aforementioned projections and assumptions, the dividend discount model analysis yielded an implied valuation range for New Century REIT common stock of $85.10 to $130.59 per share.

Premiums Observed in Precedent REIT Conversions Analysis. Morgan Stanley used publicly available information from several precedent REIT conversion transactions deemed comparable to us and analyzed the trading impacts (relative to a related market index) observed at both the announcement and conclusion of these transactions. Morgan Stanley selected the following eight REIT conversion transactions:

- Capital Trust, Inc.;
- Getty Realty Corp.;
- Host Marriott Corporation;
- Rouse Company;
- Station Casinos, Inc.;
- Lexford Residential Trust;
- Vornado Realty Trust; and
- Catellus Development Corporation.

For the selected transactions, Morgan Stanley analyzed the current price (closing stock price immediately before the announcement of the transaction) relative to the selected market index both on the announcement date and through the date of REIT Conversion. Based upon New Century Financial s common stock closing price on April 5, 2004 of $45.40 per share and a weighted average trading price over the period January 21, 2004 and April 5, 2004, and a selected premium range of 15.0% to 30.0%, the implied valuation range of New Century REIT common stock was $52.21 to $65.12 per share.

Incremental Value of Corporate Tax Savings

Based on estimates provided by our management of pre-tax earnings from year one to year five both under the existing corporate structure as well as under the proposed REIT structure (including estimates for the taxable REIT subsidiaries), Morgan Stanley estimated the cash corporate income taxes that would be due over the same period under both structures. The estimates were based on projections of pre-tax income for year one to year five provided by our management, including pre-tax income at both the REIT and the taxable REIT subsidiary. A corporate income tax rate of 42.0% was assumed based on financial forecasts and estimates provided by our management. A terminal value of taxes payable after year five was determined by assuming that future taxes would grow at 3% annually. After applying a range of discount rates (between 15.0% and 20.0%) to the estimated corporate taxes, the net sum of the present value of total corporate taxes was determined. The total shares outstanding numbers reflected our management s assumption that New Century REIT would continue to access the capital markets to raise additional equity capital, including the proposed public offering. The prices at which New Century REIT common stock would be sold was estimated by applying a constant twelve months forward dividend yield of 10% to 12% based on certain public market trading multiples for public mortgage REITs similar to New Century REIT. The positive difference in the net results under the proposed REIT structure versus the current corporate structure were quantified as follows:

Corporate Income Tax Savings Per New Century REIT Share

	Discount Rate		
	15.0%	**17.5%**	**20.0%**
	$21.68	$17.28	$14.22

In connection with review of the proposed transactions by our board of directors, Morgan Stanley performed a variety of financial and comparable analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not susceptible to partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered. Furthermore, Morgan Stanley believes that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of the analyses, without considering all of them, would create an incomplete view of the process underlying Morgan Stanley s analyses and opinion. As a result, the ranges of valuations resulting from any particular analysis or combination of analyses described above should not be taken to be the view of Morgan Stanley with respect to the actual value of New Century Financial common stock or New Century REIT common stock.

In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Morgan Stanley or New Century Financial. Any estimates contained in the analyses of Morgan Stanley are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates. The analyses performed were prepared solely as part of the analyses of Morgan Stanley as to whether the REIT Conversion, if consummated, was fair from a financial point of view to holders of shares of New Century Financial s common stock, and were prepared in connection with the delivery by Morgan Stanley of its opinion, dated April 21, 2004, to our board of directors. These analyses do not purport to be appraisals or to reflect the prices at which shares of common stock of New Century Financial or New Century REIT might actually trade. Furthermore, Morgan Stanley s opinion does not address the relative merits of the underlying decision by New Century Financial to implement the REIT Conversion compared to other business strategies being considered by or available to New Century Financial s board of directors, nor does it address our board of directors decision to proceed with an adoption of the REIT Conversion or our ability to effect the public offering or any subsequent offering that New Century REIT may pursue from time to time or thereafter. Morgan Stanley did not recommend the amount or form of consideration to be paid in the REIT conversion or advise that any given consideration was the only appropriate consideration for the REIT conversion.

The opinion of Morgan Stanley was one of many factors taken into consideration by our board of directors in making our determination to approve the proposed transactions. The foregoing summary does not purport to be a complete description of all of the analyses performed by Morgan Stanley.

Our board of directors selected Morgan Stanley as our financial advisor because of Morgan Stanley s reputation as an internationally recognized investment banking and advisory firm with substantial experience in transactions similar to this proposed transaction and because Morgan Stanley is familiar with New Century Financial and our business. As part of its investment banking and financial advisory business, Morgan Stanley is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

Table of Contents

In the past, Morgan Stanley and its affiliates have provided financial advisory and financing services for us and have received fees for the rendering of these services. Morgan Stanley currently provides a $1.5 billion warehouse line of credit to New Century Financial and has received customary compensation in connection therewith. Morgan Stanley may act as an underwriter on New Century REIT s proposed equity offering to be effected concurrent with the REIT Conversion. In the ordinary course of its business, Morgan Stanley and its affiliates have traded and may from time to time trade in the debt and equity securities or senior loans of New Century Financial or New Century REIT or have purchased or may from time to time bid on loan pools originated by New Century Financial or New Century REIT and its affiliates.

Pursuant to an engagement letter dated April 21, 2004, we have agreed to pay Morgan Stanley a $2,000,000 opinion fee which is to be paid as follows: (i) $500,000 of which was due and payable at the time the written opinion was delivered, and (ii) $1,500,000 of which will be due and payable upon the consummation of the REIT Conversion. We have also agreed to reimburse Morgan Stanley for its fees and expenses incurred in performing its services up to a maximum amount of $15,000. In addition, we have agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Morgan Stanley s engagement and any related transactions.

Interests of Directors and Executive Officers of New Century Financial in REIT Conversion

In considering the recommendation of our board of directors to vote for the approval and adoption of the merger agreement, which will effect the REIT conversion, you should be aware that some of our directors and officers have interests in the merger that are different from, and in addition to, the interests of other New Century Financial stockholders.

Benefit Plans and Employment Agreements. New Century REIT will assume all obligations to deliver securities under New Century Financial s existing benefit plans that are not exercised upon or before the completion of the REIT conversion. Moreover, New Century REIT will assume all obligations under New Century Financial s existing employment arrangements with management.

Indemnification. New Century REIT will assume New Century Financial s indemnification obligations to its officers, directors and employees.

As a result of these interests, certain of our officers and directors may be more likely to approve the merger agreement than stockholders generally.

Listing of New Century Financial Capital Stock

It is a condition to the completion of the merger that New Century REIT common stock issuable to New Century Financial stockholders pursuant to the merger agreement be approved for listing on the NYSE or quotation on the Nasdaq National Market. We have applied to have the new shares of New Century REIT common stock listed on the NYSE.

Transfer Agent and Registrar

As of the date of this proxy statement/prospectus, U.S. Stock Transfer Corporation is the transfer agent and registrar for New Century Financial common stock. New Century Financial has received proposals from third parties to act as the transfer agent and registrar for New Century REIT common stock.

Material U.S. Federal Income Tax Consequences of the Merger

The following general discussion summarizes the anticipated material U.S. federal income tax consequences of the transactions to holders of shares of New Century Financial common stock that exchange their shares for shares of New Century REIT common stock in the merger. This discussion addresses only those New Century Financial

Table of Contents

stockholders that beneficially own their shares as a capital asset, and does not address all of the U.S. federal income tax consequences that may be relevant to particular New Century Financial stockholders in light of their individual circumstances or to New Century Financial stockholders that are subject to special rules, such as:

- financial institutions or insurance companies;
- mutual funds;
- tax-exempt organizations;
- insurance companies;
- dealers or brokers in securities or foreign currencies;
- traders in securities that elect to apply a mark to market method of accounting;
- foreign holders;
- persons that hold their shares as part of a hedge against currency risk, appreciated financial position, straddle, constructive sale or conversion transaction;
- holders that acquired their shares upon the exercise of stock options or otherwise as compensation; or
- entities treated as partnerships for U.S. federal income tax purposes.

The following discussion is not binding on the Internal Revenue Service. It is based upon the Internal Revenue Code, laws, regulations, rulings and decisions in effect as of the date of this proxy statement/prospectus, all of which are subject to change, possibly with retroactive effect. Tax consequences under state, local and foreign laws, and U.S. federal laws other than U.S. federal income tax laws, are not addressed.

Holders of New Century Financial common stock are strongly urged to consult their tax advisors as to the specific tax consequences to them of the merger, including the applicability and effect of U.S. federal, state and local and foreign income and other tax laws in their particular circumstances.

The parties have structured the merger so that it is anticipated that the merger will qualify as a tax-free reorganization for U.S. federal income tax purposes. It is a condition to the completion of the merger that New Century Financial receive an opinion from O Melveny & Myers LLP, dated as of the closing of the merger, to the effect that the merger of NC Merger Sub with and into New Century Financial will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. The opinion will be based on customary assumptions and customary representations made by, among others, New Century Financial, NC Merger Sub and New Century REIT. An opinion of counsel represents counsel s best legal judgment and is not binding on the Internal Revenue Service or any court. No ruling has been, or will be, sought from the Internal Revenue Service as to the U.S. federal income tax consequences of the merger. If any of the factual assumptions or representations relied upon in the opinions of counsel are inaccurate, the opinions may not accurately describe the tax treatment of the merger, and this discussion may not accurately describe the tax consequences of the merger. In addition, in connection with the filing of the registration statement, O Melveny & Myers LLP will deliver to New Century REIT its opinion, dated as of the date of this proxy statement/prospectus, that the merger of NC Merger Sub with and into New Century Financial will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

Holders of shares of New Century Financial common stock that exchange their shares for shares of New Century REIT common stock in the merger generally will not recognize gain or loss for U.S. federal income tax purposes as a result of the merger being structured as tax-free reorganization for U.S. federal income tax purposes. Each holder s aggregate tax basis in New Century REIT common stock received in the merger will be the same as that holder s aggregate tax basis in New Century Financial common stock surrendered in the merger in exchange therefor. The holding period of the New Century REIT common stock received in the merger by a holder of New Century Financial common stock will include the holding period of New Century Financial common stock that the holder surrendered in the merger in exchange therefor. No gain or loss will be recognized by New Century Financial, NC Merger Sub or New Century REIT as a result of the merger.

This discussion of material U.S. federal income tax consequences is intended to provide only a general summary, and is not a complete analysis or description of all potential U.S. federal income tax consequences of the transactions. This discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. In addition, it does not address any non-income tax or any foreign, state or local consequences of the transactions. Accordingly, we strongly urge you to consult your own tax advisor to determine the particular U.S. federal, state or local or foreign income or other tax consequences to you of these transactions.

For a discussion of the material U.S. federal income tax consequences of an investment in New Century REIT s common stock, see Material U.S. Federal Income Tax Consequences beginning on page 154.

Accounting Treatment

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

Regulatory Matters

We are not aware of any federal, state or local regulatory requirements that must be complied with or approvals that must be obtained prior to completion of the merger pursuant to the merger agreement, other than:

- compliance with applicable federal and state securities laws;
- the filing of a certificate of merger as required under the DGCL; and
- possible notice filings with various state and local governments relating to our lending authorizations.

We are currently reviewing whether filings or approvals may be required or advisable in order to permit New Century REIT or one of its qualified REIT subsidiaries to conduct loan origination and servicing activities in some jurisdictions and have made or will make regulatory filings in those jurisdictions. We intend to use all reasonable efforts to obtain these consents and approvals. However, such approvals are not required to be obtained prior to completion of the merger.

Absence of Dissenters Rights

Pursuant to Section 262(b)(1) of the DGCL, the stockholders of New Century Financial will not be entitled to dissenters rights of appraisal as a result of the merger and the REIT conversion.

Restrictions on Sale of New Century REIT Common Stock Issued Pursuant to the Merger

All shares of New Century REIT common stock that current New Century Financial stockholders will receive pursuant to the merger will be freely transferable, except for the restrictions on ownership contained in New Century REIT s charter. See Description of New Century REIT Capital Stock Transfer Restrictions. In addition, shares received in connection with the merger by persons deemed to be affiliates of New Century Financial or New Century REIT under the Securities Act may not be sold, transferred or otherwise disposed of unless such sale, transfer or other disposition is:

- made in conformity with the requirements of Rule 145(d) under the Securities Act;
- made pursuant to an effective registration statement under the Securities Act; or
- otherwise exempt from registration under the Securities Act.

Persons who may be deemed affiliates for this purpose generally include individuals or entities that control, are controlled by, or are under common control with, either New Century Financial or New Century REIT and may include some of each company s respective officers and directors, as well as some of each company s respective principal stockholders. The registration statement of which this proxy statement/prospectus forms a part does not cover the resale of shares of New Century REIT common stock to be received by affiliates in the merger.

Other Restructuring Transactions; Election of the Taxable REIT Subsidiaries

We will effect certain structural changes prior to, or substantially concurrent with, the proposed merger. These restructuring transactions are designed to enable, following completion of the merger, New Century REIT to be eligible to elect REIT status and to improve New Century REIT s tax efficiency. These restructuring transactions include, among other things, obtaining commitments from financial institutions to provide us up to $3 billion in short-term borrowings under repurchase agreements. We have commenced the pre-merger restructuring transactions, and will continue to pursue these transactions unless the merger agreement, which will effect the REIT conversion, is not approved and adopted by New Century Financial s stockholders at the annual meeting.

The Internal Revenue Code imposes certain restrictions on the activities of REITs. Income derived from New Century Financial s existing mortgage origination activities would be subject to a 100% tax, if such activities were conducted by a REIT. However, a recently enacted tax law change permits a taxable REIT subsidiary owned by a REIT to conduct such restricted activities without incurring the 100% tax or causing the REIT to lose its qualification as a REIT. Income and gains of a taxable REIT subsidiary are subject to full corporate-level taxes. We currently intend to continue to conduct mortgage origination and servicing activities although we will focus on our investments in mortgage-related assets. As a result, some of our subsidiaries will elect to be treated as a taxable REIT subsidiary following the REIT conversion.

In addition, the timing of the REIT conversion will depend on when we have conformed our operations. We anticipate that the merger will be completed by the end of 2004, although we cannot assure you that the merger will not be delayed. If the merger and the other restructuring transactions contemplated by the merger agreement were significantly delayed, we may not be qualified to elect REIT status commencing with New Century REIT s taxable year ending December 31, 2004. In that case, New Century REIT would not elect REIT status at such time. Consequently, the U.S. federal income tax benefits attributable to our status as a REIT, including our ability to reduce our U.S. federal corporate-level income tax, would not commence with New Century REIT s taxable year ending December 31, 2004, which would result in us paying substantial additional corporate-level income taxes in 2004.

New Century REIT Public Offering

In connection with the REIT conversion, New Century REIT will undertake an offering which we currently expect to be approximately $750 million of its common stock to be issued and sold to the public in addition to the shares being registered on this proxy statement/prospectus that are to be issued to New Century Financial stockholders as consideration in the merger. New Century REIT intends to use the net proceeds from the public offering to purchase a portfolio of mortgage-related assets, including mortgage loans originated primarily by its taxable REIT subsidiaries and qualified REIT subsidiaries or their respective affiliates and, to a lesser extent, REIT qualified assets, including mortgage-backed securities and government securities, originated by and purchased from third parties, to purchase all of the capital stock of two of its indirect wholly-owned subsidiaries, New Century Credit and NCMSI, and for working capital purposes. The purchases of mortgage-related assets from New Century REIT s taxable REIT subsidiaries is expected to result in taxable gain to such subsidiaries.

Table of Contents

THE MERGER AGREEMENT

The following is a summary of the material terms of the merger agreement. For a complete description of all of the terms of the merger, you should refer to the copy of the merger agreement that is attached to this proxy statement/prospectus as Annex A and incorporated herein by reference. You should read carefully the merger agreement in its entirety as it is the legal document that governs the merger.

Structure and Completion of the Merger

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

The boards of directors of New Century Financial, New Century REIT and NC Merger Sub have each approved and adopted the merger agreement, subject to approval and adoption by the stockholders of New Century Financial. The merger will become effective at the time the certificate of merger is accepted for filing by the Secretary of State of Delaware in accordance with the DGCL, or later if so specified in the certificate of merger, but in any event before the closing of the public offering. We expect to complete the merger on a schedule that will allow New Century REIT to elect REIT status commencing with its taxable year ending December 31, 2004, following the approval of our stockholders to approve and adopt the merger agreement at the annual meeting and the satisfaction or waiver of the other conditions to the merger as described below under Conditions to Completion of the Merger. However, we reserve the right to cancel or defer the merger or the REIT conversion even if our stockholders vote to approve and adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived if our board of directors determines that the merger or the REIT conversion is no longer in the best interests of New Century Financial and our stockholders.

Exchange of Stock Certificates

Surrender of Shares. U.S. Stock Transfer will act as exchange agent for the merger. As soon as reasonably practicable after the completion of the merger, U.S. Stock Transfer will mail to each registered holder of a certificate of New Century Financial common stock a letter of transmittal containing instructions for surrendering their certificates. Holders who properly surrender their certificates will receive certificates representing their shares of New Century REIT common stock. The surrendered certificates will be cancelled. Upon the effectiveness of the merger, each certificate representing shares of common stock of New Century Financial will be deemed for all purposes to evidence the same number of shares of common stock of New Century REIT until such certificate is exchanged for a certificate representing shares of common stock of New Century REIT.

Lost Certificates. If any New Century Financial certificate is lost, stolen or destroyed, the owner of the certificate must provide an appropriate affidavit of that fact and, if required by New Century REIT, post a reasonable bond as indemnity against any claim that may be made against New Century REIT with respect to such certificate.

Stock Transfer Books. At the completion of the merger, New Century Financial will close its stock transfer books, and no subsequent transfers of New Century Financial common stock will be recorded on its books.

Table of Contents

Other Effects of the Merger

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

Stockholder Rights. The rights of the stockholders of New Century REIT will be governed by the MGCL and New Century REIT s charter and bylaws. The forms of New Century REIT s charter and bylaws are set forth as *Annex B* and *Annex C*, respectively, to this proxy statement/prospectus. See also Description of New Century REIT Capital Stock.

Directors and Officers. The board of directors, including the three directors to be elected at the annual meeting, committees of the board of directors and management of New Century Financial immediately prior to the merger will become the board of directors, committees of the board of directors and management of New Century REIT.

Benefit Plans and Employment Agreement. New Century REIT will assume all of New Century Financial s stock incentive plans, including the 2004 Plan, if approved at the annual meeting, 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 New Century REIT common stock pursuant to the terms of the stock incentive plans and the other related documents, if any. Moreover, New Century REIT will assume all obligations under New Century Financial s existing employment arrangements with management.

Convertible Senior Notes. New Century REIT will execute a supplemental indenture covering New Century Financial s 3.50% convertible senior notes due 2008. As a party to the indenture, New Century REIT will be obligated to issue shares of its common stock upon conversion of any convertible senior notes not otherwise converted prior to the REIT conversion.

Distributions. New Century REIT will assume all of New Century Financial s obligations with respect to any distributions to its stockholders that have been declared by New Century Financial but not paid prior to the completion of the merger. In addition, New Century REIT may, if required, declare the special E&P distribution in December 2004 and make this one-time distribution in January 2005 to its stockholders on the record date for such distribution.

NYSE Listing of New Century REIT Common Stock. We anticipate that the New Century REIT common stock will be listed on the NYSE under the symbol NEW following the completion of the merger.

Conditions to Completion of the Merger

The respective obligations of New Century Financial, New Century REIT and NC Merger Sub to complete the merger require the satisfaction or, where permitted, waiver, of the following conditions:

approval and adoption of the merger agreement (a) by the requisite vote of the stockholders of New Century Financial, (b) by New Century Financial, in its capacity as the sole stockholder of New Century REIT, and (c) by New Century REIT, in its capacity as the sole stockholder of NC Merger Sub;

determination by our board of directors that the transactions constituting the REIT conversion that impact New Century REIT s status as a REIT for U.S. federal income tax purposes, including the pricing of, and entering into an underwriting agreement for, a public offering for net proceeds that we believe to be sufficient to support our operating plan and to satisfy the REIT asset and gross income tests, and on other terms acceptable to us, have occurred or are reasonably likely to occur;

receipt by New Century Financial from O Melveny & Myers LLP of an opinion to the effect that the merger qualifies as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

receipt by New Century Financial from O Melveny & Myers LLP of an opinion to the effect that, commencing with New Century REIT s taxable year ending December 31, 2004, New Century REIT s organization and proposed method of operations will enable it to meet the requirements for qualification and taxation as a REIT under the Internal Revenue Code;

Table of Contents

the amendment and restatement of the charter and bylaws of New Century REIT to the extent set forth in the forms set forth in the merger agreement and as attached as *Annex B* and *Annex C*, respectively, to this proxy statement/prospectus;

the directors and officers of New Century Financial immediately before the merger will be the directors and officers, respectively, of New Century REIT after the merger;

approval for listing on the NYSE or quotation on the Nasdaq National Market of New Century REIT common stock, subject to official notice of issuance;

the effectiveness of New Century REIT s registration statement on Form S-4 registering the shares of its common stock to be issued in the merger, of which this proxy statement/prospectus is a part, without the issuance of a stop order or initiation of any proceeding seeking a stop order by the Securities and Exchange Commission;

the effectiveness of New Century REIT s registration statement on Form S-3 registering its shares of common stock for sale to the public, without the issuance of a stop order or initiation of any proceeding seeking a stop order by the Securities and Exchange Commission, and the determination by New Century Financial s board of directors that the sale of such stock will be successfully completed promptly after the completion of the merger;

the execution and delivery by New Century Financial and New Century REIT of a supplemental indenture to the indenture for the convertible senior notes, pursuant to which New Century REIT will assume the obligations to issue common stock under such indenture and New Century Financial will assume all other obligations;

the determination by New Century Financial, in its sole discretion, that no legislation or proposed legislation with a reasonable possibility of being enacted would have the effect of substantially (a) impairing the ability of New Century REIT to qualify as a REIT, (b) increasing the U.S. federal tax liabilities of New Century REIT resulting from the REIT conversion, or (c) reducing the expected benefits to New Century REIT resulting from the REIT conversion; and

receipt of all governmental and third party consents to the merger, except for consents which, if not obtained, would not reasonably be expected to have a material adverse effect on the business, financial condition or results of operations of New Century REIT, NC Merger Sub and their subsidiaries taken as a whole.

Treatment of Convertible Senior Notes and Related Call Option and Warrant

Treatment of Convertible Senior Notes

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

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

Treatment of Call Option and Warrant

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

After completion of the REIT conversion, we may explore transactions to repurchase the notes or induce the noteholder to convert the notes into shares of our common stock. We may also explore the possibility of exercising our call option, inducing exercise or cancellation of the warrant or otherwise settling the transactions with our counterparty.

Termination of the Merger Agreement

The merger agreement provides that it may be terminated and the merger abandoned at any time prior to its completion, before or after approval of the merger agreement by the stockholders of New Century Financial, by either:

- the mutual written consent of the board of directors of New Century Financial and the board of directors of New Century REIT, on behalf of New Century REIT and NC Merger Sub; or

- the board of directors of New Century Financial in its sole discretion.

We have no current intention of abandoning the merger subsequent to the annual meeting if stockholder approval is obtained and the other conditions to the merger are satisfied or waived. However, we reserve the right to cancel or defer the merger or the REIT conversion even if our stockholders vote to approve and adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived if the board of directors determines that the merger or the REIT conversion is no longer in the best interests of our company and our stockholders.

Table of Contents

MARKET PRICES OF NEW CENTURY FINANCIAL COMMON STOCK

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

	Common Stock Price	
	High	Low
Year ended December 31, 2002		
First Quarter	$ 15.93	$ 7.87
Second Quarter	23.32	14.16
Third Quarter	23.19	13.50
Fourth Quarter	18.74	10.89
Year ended December 31, 2003		
First Quarter	$ 21.75	$ 16.34
Second Quarter	34.06	20.68
Third Quarter	31.45	21.51
Fourth Quarter	41.04	28.27
Year ending December 31, 2004		
First Quarter	$ 51.80	$ 37.91
Second Quarter	$ 50.76	$ 38.50
Third Quarter (through August 13, 2004)	$ 49.14	$ 43.27

On April 5, 2004, the last full trading day prior to the public announcement of our plan to convert to a REIT, the closing sale price of our common stock, as reported on the Nasdaq National Market, was $45.40 per share. On August 13, 2004, the latest practicable date before the printing of this proxy statement/prospectus, the closing sale price of our common stock, as reported on the Nasdaq National Market was $46.84 per share. Such stock prices and the stock prices set forth above give effect to our three-for-two stock split effected by a stock dividend paid in July 2003. As of July 30, 2004, the number of holders of record of our common stock was 65 and the number of outstanding shares of our common stock was 34,045,201.

It is expected that, upon completion of the merger, the New Century REIT common stock will be listed on the NYSE. The historical trading prices of New Century Financial s common stock are not necessarily indicative of the future trading prices of New Century REIT common stock because, among other things, the current stock price of New Century Financial reflects the current market valuation of New Century Financial s current business and assets and does not necessarily take into account the changes in New Century Financial s business and operations that may occur in connection with the REIT conversion. See Risk Factors Risks and Effects of the REIT Conversion The REIT conversion may be delayed or deferred for a significant period of time after the annual meeting and, as a result, the market price of shares of New Century REIT common stock that you receive upon completion of the merger may be less than the market price of your shares of New Century Financial common stock prior to and as of the date of the merger, including on the date of the annual meeting on page 22.

Table of Contents

DISTRIBUTION POLICY OF NEW CENTURY REIT; THE SPECIAL E&P DISTRIBUTION

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

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

Table of Contents

BUSINESS

New Century REIT

We formed New Century REIT as a Maryland corporation on April 12, 2004. 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 proxy statement/prospectus. Upon completion of the merger and the REIT conversion, New Century Financial will be a wholly-owned subsidiary of New Century REIT. New Century REIT will be renamed New Century Financial Corporation and will continue the business of New Century Financial. We anticipate that New Century REIT will elect to be taxed as a REIT for U.S. federal income tax purposes commencing with its taxable year ending December 31, 2004. At the time of the merger and the REIT conversion, the then-current directors and officers of New Century Financial, including the three directors elected at the annual meeting of stockholders, will become the directors and officers of New Century REIT.

Our Business

The information in this section assumes that the merger has been completed, and that New Century REIT has succeeded to and is continuing the business of New Century Financial.

We are the nation s second largest subprime mortgage finance company in terms of loan volume. We originate, purchase, retain, sell and service primarily first mortgage products to borrowers nationwide. We focus on lending to individuals whose borrowing needs are generally not fulfilled by traditional financial institutions because they do not satisfy the 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 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 LTV. We have been originating and purchasing subprime loans since 1996 and believe we have developed a comprehensive and sophisticated process of credit evaluation and risk-based pricing that allows us to effectively manage the potentially higher risks associated with this segment of the mortgage industry. In 2003, we retained approximately 20% of our loan production for investment through on-balance sheet securitizations. If the merger agreement is approved and adopted by our stockholders, we expect that following the REIT conversion and the related public offering we will increase the percentage of our net income generated from our mortgage loan portfolio in a tax-efficient manner and have the ability to produce a more diverse base of earnings across a variety of interest rate environments.

Changes in Our Business as a Result of the REIT Conversion

We expect to make some changes to our business operations as a result of the REIT conversion, which are described below:

> *Loan origination, acquisition and servicing.* We will continue to originate, underwrite, process, fund and service a majority of loans through one or more of our taxable REIT subsidiaries, including New Century Mortgage, in accordance with our existing policies, procedures and underwriting guidelines. In addition, we expect to be able to originate mortgage loans in a majority of states through New Century REIT or one or more of our qualified REIT subsidiaries, including New Century Credit. Over time, we expect that New Century REIT and/or one or more of our qualified REIT subsidiaries will become authorized to originate mortgage loans in the remaining states in which they are not currently authorized.

Loan sales. Currently, we sell most of our loans through whole loan sales or securitizations through NC Capital. Following the REIT conversion, we intend to conduct non-REMIC CMO securitization activities in New Century REIT or one of its qualified REIT subsidiaries, including NCMSI. Non-REMIC CMO s are treated as debt for both generally accepted accounting principles and tax purposes, thereby resulting in no gain-on-sale, or GOS, being recognized for either generally accepted accounting principles or income tax purposes. The non-GOS treatment for both generally accepted accounting principles and tax purposes creates portfolio generally accepted accounting principles earnings with matching tax treatment. In connection with the REIT conversion and following completion of the public offering, New Century REIT will purchase loans from New Century Financial or one or more of its taxable REIT subsidiaries in arm s-length transactions at fair market value in order to enable New Century REIT to meet the asset and income tests applicable to REITs. We will determine fair market value based on prevailing market prices for similar whole loan sale and securitization transactions executed with unaffiliated third parties.

Short-term financing. In connection with the REIT conversion, New Century REIT and its qualified REIT subsidiaries intend to obtain short-term financing commitments in order to originate loans. To the extent retained by New Century REIT, these loans will be financed through longer-term securitizations. We have reached agreement with three of our lenders to increase the amount of financing under our current lines of credit by $1.5 billion of committed financing and we are negotiating with two new lenders to provide additional financing. We expect to make these financings, and additional financings, available to New Century REIT in connection with the REIT conversion.

Long-term financing. We expect to continue financing our loan portfolio for the long-term through securitizations. If New Century REIT or one of its qualified REIT subsidiaries were to securitize mortgage assets on a regular basis (other than through the issuance of non-REMIC CMOs), there is a substantial risk that the securities could be dealer property and that all of the profits from such sales would be subject to tax at the rate of 100% as income from prohibited transactions. We expect to securitize such mortgage assets through the issuance of non-REMIC CMOs, whereby we retain the equity interests in the mortgage-backed assets used as collateral in the securitization transaction.

Hedging. We currently use various derivative financial instruments to attempt to mitigate interest rate risks. When interest rates change, we expect the gain or loss on derivatives to be offset by a related but inverse change in the value of the loans that we hold. Following the REIT conversion, we expect to continue this hedging strategy; however, REIT qualification tests will limit the amount of income we can receive from financial derivatives in New Century REIT. As a result, we may be required to conduct some hedging activities through one or more of our taxable REIT subsidiaries, which will subject the related hedging income to corporate income tax and, in some circumstances, may impair our ability to mitigate interest rate risk.

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:

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, our Web-based underwriting engine. 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.

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 increase net interest income 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.

Strengthening Our Balance Sheet. We will seek to actively strengthen our balance sheet by increasing our liquidity and capital position with the net proceeds from the public offering and future offerings and

Table of Contents

by increasing available capacity under our lines of credit. We believe these efforts will better protect our franchise and provide the ability to respond to disruptions in the market or other adverse conditions and to meet the distribution and other REIT qualification requirements. We have reached agreements with two of our lenders to increase the amount of financing under our lines of credit and we are negotiating with two new lenders to provide additional financing. We also will seek to enhance our cash position by retaining some or all of our earnings in our taxable REIT subsidiaries and seeking to access the capital markets through the public offering and future offerings. 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.

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.

Expanding Our Servicing Platform. We intend to grow our servicing portfolio, given our recent RPS3, or average, rating from Fitch and average rating from S&P. 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.

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:

Leading Market Presence. We are the nation s second largest subprime 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 a wholesale network of approximately 31,200 approved independent mortgage brokers and our retail network of 74 branch offices in 29 states.

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.

Long-standing Institutional Relationships. We have developed long-standing relationships with a variety of institutional loan buyers, including Bear Stearns, Credit Suisse First Boston, Deutsche Bank, Goldman Sachs, Morgan Stanley and UBS Real Estate Securities. These loan buyers regularly bid on and purchase large loan pools from us and we frequently enter into committed forward loan sale agreements with them. In addition, we have developed relationships with a variety of institutional lenders, including Bank of America, Bear Stearns, CDC Mortgage Capital, Citigroup Global Markets (formerly Salomon Brothers), Morgan Stanley and UBS Real Estate Securities, all of whom have existing lending relationships with us.

Lower-Cost Portfolio Accumulation Strategy. Unlike mortgage REITs without origination capabilities, we believe our ability to originate loans through our qualified REIT subsidiaries and purchasing loans originated by our taxable REIT subsidiaries will allow us to accumulate mortgage loans at a lower cost and with greater reliability than would be available through secondary market purchases.

86

Table of Contents

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.

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.

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 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 subprime mortgage segment of the non-conforming market, which consists of loans that generally do not satisfy the credit characteristics of the conforming market.

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

In addition to faster growth, the subprime mortgage market has historically focused on home purchases and cash-out refinancings, rather than interest rate driven refinancings, which have caused this market segment to be less interest rate sensitive, and therefore less volatile, than the prime mortgage market. For example, for the nine quarters ended March 31, 2004, the prime loan origination market experienced substantial volatility with a peak quarterly growth rate of approximately 52% in the second quarter of 2003, and a peak quarterly decline of approximately 51% in the fourth quarter of 2003. In contrast, during the same period the subprime loan origination market has experienced a peak growth rate of approximately 30.1% in the third quarter of 2003, has not declined at all during that period and experienced the lowest increase of 1.6% in the first quarter of 2003. In addition, the subprime market has shown an ability to grow during volatile interest rate environments, as indicated by the subprime market s growth by over 7.4% and 3.5%, respectively, in each of the two most recent quarters ending March 31, 2004, in contrast to the prime market s decline by approximately 52% and 7.0% over these same periods.

Secondary Marketing Strategies

Following the REIT conversion, we intend to continue to structure the securitization of the loans that we retain in our loan portfolio as financings rather than sales for tax and financial reporting purposes through the use of collateralized mortgage obligations, or CMOs. Accordingly, the loans will remain on our consolidated balance sheet as an asset and the underlying bonds will be reported as a liability on our balance sheet. Thus, we will record interest income generated by the mortgage loans and recognize interest expense on the bonds over the life of the mortgage loan pool, rather than generate a gain or loss at the time of the securitization.

Table of Contents

A substantial portion of the net interest income generated by our securitized loans will be based upon the difference between the weighted average interest earned on the mortgage loans and the interest payable to holders of the bonds collateralized by our loans. The income we receive from the securitizations structured as financings are based primarily on 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. In addition, the net interest income we receive from securitizations will be reduced if there are a significant amount of loan defaults or a large amount of loan prepayments, especially defaults on, or repayments of, loans with interest rates that are high relative to the rest of the asset pool. We anticipate that we will attempt to mitigate at least a portion of this net interest margin variability by purchasing Euro Dollar Futures contracts or interest rate caps.

We will record interest income on the mortgage loans and interest expense on the securities issued in the securitization over the life of the securitization, and will not recognize a gain or loss upon completion of the securitization for financial reporting purposes. This accounting treatment will more closely match the recognition of income with our actual receipt of cash payments, which we believe will provide us with more stable results of operations compared to companies that structure their securitizations as sales.

Investment and Operational Policies of New Century REIT

Our investment strategy for New Century REIT is subject to change if and when our board of directors determines that a change in investment strategy is in the best interest of New Century REIT s stockholders.

Mortgage Loans

In general, our expected strategy is to hold a portfolio of mortgage loans primarily originated by one of our taxable REIT subsidiaries and by New Century REIT or one of its qualified REIT subsidiaries. Our mortgage loans are generally underwritten in accordance with the categories and criteria described in our underwriting guidelines. See Underwriting Standards, Credit History, Collateral Review, Income Documentati and Underwriting Requirements.

Mortgage-Backed Securities

From time to time, we may acquire and hold mortgage-backed securities collateralized by mortgage loans originated by and purchased from third parties in order to satisfy certain asset and income tests applicable to REITs. The mortgage-backed securities are expected to be backed primarily by first mortgages on one- to four-family dwellings and are expected to be either obligations of Fannie Mae, Freddie Mac or Ginnie Mae or have an S&P or Moody s rating of AAA. We have not previously acquired or held any third-party mortgage-backed securities in our investment portfolio.

If we change our investment strategy, the new strategy may entail more risk of loss than our currently anticipated investment strategy. Alternative strategies that our board of directors may elect to put in place include:

purposefully exposing the value of our holdings to changes in interest rates or changes in the difference between short and long-term rates;

holding more securities that have a lower credit rating than AAA;

holding securities backed by assets other than one- to four-family dwellings;

or some combination of the above, or other strategies that may entail a higher degree of risk. We need not seek stockholder approval nor notify stockholders prior to changing our investment strategy.

We will seek to be an opportunistic investor and will not have specific guidelines or policies dictating specific investment or operating restrictions. It is possible that we will make investments that have a high risk profile relative to the anticipated returns, which could result in losses that would harm our results of operations, financial condition and business prospects. See Risk Factors Risks Related to New Century REIT The loans we originate and hold are subprime, rather than prime, and generally have delinquency and default rates higher than prime loans, which could result in higher loan losses. We may take the following actions without the consent of our stockholders: (i) borrow money; (ii) make loans to other companies; (iii) invest in securities of other issuers for the purpose of exercising control; (iv) sell existing investments and make additional investments; and (v) repurchase or otherwise reacquire our shares. We also may issue preferred stock that has liquidation and dividend preferences over the outstanding common stock or offer securities in exchange for property. We plan to distribute an annual report, including our audited financial statements, to stockholders as required under the securities laws. We currently have no plan to underwrite the securities of other issuers.

Leverage Policy

We employ a leverage strategy to increase our mortgage loan origination activities by securitizing existing mortgages in transactions that we believe will be treated as borrowings for accounting and tax purposes. We generally expect to borrow in excess of 10 times the amount of our consolidated equity capital, although our actual debt to equity ratio may vary from time to time depending on market conditions and other factors deemed relevant by our management and board of directors. In general, our credit facilities limit our debt-to-equity ratio to a level of 10 to 1. However, each of the lenders under our credit facilities disregards non-recourse financing including the bonds underlying our on-balance sheet securitizations in computing the leverage ratio. The leverage ratio under our credit facilities was 9.1 to 1 as of June 30, 2004.

We expect that our mortgage loan portfolio will be financed by borrowings on our credit facilities, the issuance of asset-backed securities, and, to a lesser extent, our equity capital. We intend to structure the securitizations of the loans in our portfolio as financings for tax and accounting purposes, rather than as sales and, therefore, do not expect to recognize a gain or loss on securitizations.

Hedging Policy

In order to seek to mitigate the adverse effects resulting from interest rate increases on our residual interests, certain mortgage loans held for sale and certain mortgage loans held for investment, we utilize derivative financial instruments such as Euro Dollar Futures contracts and interest rate caps. It is not our policy to use derivatives to speculate on interest rates. These derivative instruments have an active secondary market and are intended to provide income and cash flow to offset potential reduced interest income and cash flow under certain interest rate environments. Certain of our interest rate management activities qualify for hedge accounting in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted. We report the derivative financial instruments and any related margin accounts on our consolidated balance sheets at their fair value. See Risk Factors Risks Related to New Century REIT Complying with REIT requirements may limit our ability to hedge interest rate risk effectively.

We intend to use several tools and risk management strategies to monitor and address interest rate risk. We believe that these tools will allow us to monitor and evaluate our exposure to interest rates and to manage the risk profile of our mortgage loan portfolio in response to changes in market conditions. As part of our interest rate risk management process, we may use derivative financial instruments such as Euro Dollar Futures, interest rate cap agreements, interest rate swap agreements, Treasury futures, and options on interest rates. We may also use other hedging instruments including mortgage derivative securities, as necessary. Hedging strategies also involve transaction and other costs. Because we intend to use derivative financial instruments to a greater extent than we have in the past, the aggregate costs to us of entering into contracts for these instruments are likely to be significantly higher than in the past.

We will actively monitor, and may have to limit, our asset/liability management program to assure that we do not realize hedging income, or hold hedges having a value, in excess of the amounts permitted by the REIT gross income and asset tests. In the case of excess hedging income, we would be required to pay a penalty tax for failure to satisfy one or both of the REIT income tests under the Internal Revenue Code if the excess is due to reasonable cause and not willful neglect. If our violation of the REIT income tests is due to willful neglect or if the value of our hedging positions causes us to violate one or more of the REIT asset tests, the penalty could be disqualification as a REIT. Attempting to comply with the REIT income and asset tests could leave us exposed to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, our management may elect to have us bear a level of risk that could otherwise be mitigated through hedging when our management believes, based on all relevant facts, that bearing such risk is advisable. We will engage in hedging for the sole purpose of protecting against interest rate risk and not for the purpose of speculating on changes in interest rates.

Financing Policy

If our board of directors determines that additional funding is required, we may raise the additional funds through additional equity offerings, debt financings, retention of cash flow (subject to provisions in the Internal Revenue Code concerning distribution requirements and taxability of undistributed REIT taxable income) or a combination of these methods. In the event that our board of directors determines to raise additional equity capital, it has the authority, without stockholder approval, subject to applicable law and NYSE regulations, to issue additional common stock or preferred stock in any manner and on terms and for consideration it deems appropriate up to the amount of authorized stock set forth in our charter.

Borrowings may be in the form of bank borrowings, secured or unsecured, and publicly or privately placed debt instruments, purchase money obligations to the sellers of assets, long-term, tax-exempt bonds or other publicly or privately placed debt instruments, financing from banks, institutional investors or other lenders, and securitizations, including collateralized debt obligations, any of which indebtedness may be unsecured or may be secured by mortgages or other interests in the assets. Such indebtedness may entail recourse to all or any part of our assets or may be limited to the particular assets to which the indebtedness relates.

We will enter into collateralized borrowings only with institutions we believe are financially sound and that are rated investment grade by at least one nationally recognized statistical rating organization.

We have authority to offer our common stock or other equity or debt securities in exchange for property and to repurchase or otherwise reacquire our securities or any other securities and may engage in any of these activities in the future.

Loan Production Channels

Following the REIT conversion, we intend to continue to originate and purchase mortgage loans through two channels our Wholesale Division and our Retail Division. Our Wholesale Division originates and purchases loans through a network of independent mortgage brokers and correspondent lenders solicited by our account executives. Our account executives provide on-site customer service to the broker to facilitate the loan s funding. In addition, the Wholesale Division originates mortgage loans through its FastQual® Web site at *www.newcentury.com*, where a broker can upload a loan request and receive a response generally within 12 seconds. Our Retail Division originates loans directly to the consumer through 74 retail branch offices located in 29 states and a central retail telemarketing unit that originates loans nationwide through one central office. Leads are generated through radio, direct mail, telemarketing and the Internet.

Our Wholesale Division

During 2003, our wholesale loan originations and purchases totaled $25.2 billion, or 92.0% of our total loan production. This production consisted of $15.8 billion, or 62.7%, of cash-out refinancings, $6.8 billion, or 27.0%, of home purchase financing, and $2.6 billion, or 10.3%, of rate and term refinancings. Further, these loans consisted of $17.7 billion, or 70.4%, of adjustable rate loans, and $7.5 billion, or 29.6%, of fixed rate loans.

During the first half of 2004, our wholesale loan originations and purchases totaled $18.8 billion, or 90.8% of our total loan production. This production consisted of $11.3 billion, or 60.1%, of cash-out refinancings, $6.6 billion, or 35.3%, of home purchase financing, and $874.3 million, or 4.6%, of rate and term refinancings. Further, these loans consisted of $13.1 billion, or 69.7%, of adjustable rate loans, and $5.7 billion, or 30.3%, of fixed rate loans.

As of June 30, 2004, our Wholesale Division operated through 26 regional operating centers located in 15 states and employed 685 account executives. As of June 30, 2004, we had approved approximately 31,200 mortgage brokers to submit loan applications to us. Of the total approved mortgage brokers, we originated loans through approximately 15,000 brokers during the first six months of 2004. During this period, our 10 largest producing brokers originated 5.8% of our wholesale production.

We have designed and implemented a detailed procedure for qualifying, approving and monitoring our network of approved mortgage brokers. We require all brokers to complete an application that requests general business information and to provide copies of all required licenses. Upon receipt of the application and supporting documentation, our Broker Services Department examines the materials for completeness and accuracy. Our Broker Services Department then independently verifies the information contained in the application through (i) a public records website to verify the validity and status of licenses, and (ii) the Mortgage Asset Research Institute, or MARI, which provides background information from both the public and private sectors.

To be approved, a broker must enter into our standard broker agreement with New Century Mortgage pursuant to which the broker agrees to abide by the provisions of our Policy on Fair Lending and our Brokers Code of Conduct. Each broker also agrees to comply with applicable state and federal lending laws and agrees to submit true and accurate disclosures with regard to loan applications and loans. In addition, we employ a risk management team that regularly reviews and monitors the loans submitted by our brokers.

In wholesale loan originations, the broker s role is to identify the applicant, assist in completing the loan application form, gather necessary information and documents and serve as our liaison with the borrower through our lending process. We review and underwrite the application submitted by the broker, approve or deny the application, set the interest rate and other terms of the loan and, upon acceptance by the borrower and satisfaction of all conditions imposed by us, fund the loan. Because brokers conduct their own marketing and employ their own personnel to complete loan applications and maintain contact with borrowers, originating loans through our Wholesale Division allows us to increase loan volume without incurring the higher marketing, labor and other overhead costs associated with increased retail originations.

Mortgage brokers can submit loan applications through an account executive in one of our sales offices or through FastQual®, our Web-based loan underwriting engine, at *www.newcentury.com*.

In either case, the mortgage broker will forward the original loan package to the closest regional operating center where the loan is logged in for regulatory compliance purposes, underwritten and, in most cases, approved or denied within 24 hours of receipt. If approved, we issue a conditional approval to the broker with a list of specific conditions that have to be met (for example, credit verifications and independent third-party appraisals) and additional documents to be supplied prior to the funding of the loan. An account manager and the account executive work directly with the submitting mortgage broker who originated the loan to collect the requested information and to meet the underwriting conditions and other requirements. In most cases, we fund loans within 30 days from the date of our approval of an application.

FastQual® generally provides the broker with a response in less than 12 seconds. Loan information from the brokers own loan operating systems can be automatically uploaded to FastQual®. The system provides all loan products for which the borrower qualifies, enabling brokers to offer their customers many options. Our FastQual® website enables mortgage brokers to evaluate loan scenarios for borrowers, submit loan applications, order credit reports, automatically credit grade the loan, obtain pricing and track the progress of the loan through funding.

Table of Contents

Our Wholesale Division also purchases funded loans on an individual or flow basis from independent mortgage bankers and financial institutions known as correspondent lenders. We review an application for approval from each lender that seeks to sell us a funded loan. We analyze the mortgage banker s underwriting guidelines to ensure conformance with our guidelines. We also review their financial condition and licenses. We require each mortgage banker to enter into a purchase and sale agreement with customary representations and warranties regarding the loans the mortgage banker will sell to us. These representations and warranties are comparable to those given by us to the purchasers of our loans. Once the correspondent lender is approved, we re-underwrite each loan submitted by them.

The following table sets forth selected information relating to loan originations and purchases through our Wholesale Division during the periods shown:

	For the Quarters Ended			
	September 30, 2003	December 31, 2003	March 31, 2004	June 30, 2004
Principal balance (in millions)	$ 8,014.9	$ 7,611.4	$ 7,695.0	$ 11,086.2
Average mortgage loan amount (in thousands)	$ 181.7	$ 172.7	$ 171.6	$ 179.3
Combined weighted average initial loan-to-value ratio	81.8%	83.9%	84.9%	84.9%
Percent of first mortgage loans	98.5%	97.9%	96.8%	95.8%
Property securing mortgage loans:				
Owner occupied	94.8%	94.4%	94.4%	94.5%
Nonowner occupied	5.2%	5.6%	5.6%	5.5%
Weighted average interest rate:				
Fixed-rate	6.78%	7.46%	7.30%	6.97%
ARMs initial rate	7.15%	7.18%	6.86%	6.79%
ARMs margin over index	5.65%	5.70%	5.48%	5.47%

Our Retail Division

During 2003, our Retail Division originated $2.2 billion in loans, or 8.0% of our total loan production. This production consisted of $1.8 billion, or 82.0%, of cash-out refinancings, $58.5 million, or 2.7%, of home purchase financing, and $336.7 million, or 15.3%, of rate and term refinancings. Further, these loans consisted of $1.5 billion, or 66.3%, of adjustable rate loans, and $740.0 million, or 33.7%, of fixed rate loans. During the first six months of 2004, our Retail Division originated $1.9 billion in loans, or 9.2% of our total loan production. This production consisted of $1.6 billion, or 81.9%, of cash out refinancings, $80.7 million, or 4.2%, of home purchase financing, and $264.4 million, or 13.9%, of rate and term refinancings. Further, these loans consisted of $950.8 million, or 49.8%, of adjustable rate loans, and $960.2 million, or 50.2%, of fixed rate loans. As of June 30, 2004, our Retail Division, including the central retail telemarketing unit, employed 767 retail loan officers located in three regional processing centers and 74 sales offices in 29 states.

By creating a direct relationship with the borrower, retail lending provides greater potential for repeat business and greater control over the lending process. Loan origination fees contribute to profitability and cash flow and partially offsets the higher costs of retail lending.

Table of Contents

The following table sets forth selected information relating to loan originations through our Retail Division during the periods shown:

	For the Quarters Ended			
	September 30, 2003	December 31, 2003	March 31, 2004	June 30, 2004
Principal balance (in millions)	$ 623.9	$ 640.1	$ 741.3	$ 1,169.6
Average mortgage loan amount (in thousands)	$ 122.5	$ 122.4	$ 136.9	$ 145.3
Combined weighted average initial loan-to-value ratio	80.4%	79.8%	80.1%	78.8%
Percent of first mortgage loans	99.4%	99.3%	99.2%	99.2%
Property securing mortgage loans:				
Owner occupied	96.9%	96.5%	96.8%	97.0%
Nonowner occupied	3.1%	3.5%	3.2%	3.0%
Weighted average interest rate:				
Fixed-rate	7.66%	7.55%	6.70%	6.48%
ARMs initial rate	7.81%	7.72%	6.85%	6.71%
ARMs margin over index	6.22%	6.22%	5.68%	5.62%

In January 2004, we merged the loan processing functions of both our Wholesale and Retail Divisions into 20 regional processing centers located in 14 states. The combination of our processing centers is expected to improve consistency and reduce our costs.

Marketing

Wholesale Marketing

After the REIT conversion, our Wholesale Division s marketing strategy will continue to focus on the sales efforts of its account executives and on providing prompt, consistent service to mortgage brokers and other customers. Our Wholesale Division supplements its strategy with direct mail and fax programs to brokers, advertisements in trade publications, in-house production of collateral sales material, seminar sponsorships, tradeshow attendance, periodic sales contests and its e-commerce website, *www.newcentury.com.*

Another marketing strategy created by our Wholesale Division is CloseMore University (CMU), an exclusive, one-day interactive workshop. CMU travels to major cities in the United States and invites mortgage brokers in those cities to participate in the workshop. The workshop includes industry specific speakers presenting on topics ranging from how to market to customers to how to process loans more efficiently. We introduce the brokers who attend the seminar to our Wholesale Division s FastQual® system and provide them with training on our website. This additional marketing strategy fueled the growth of FastQual® during 2003. The CMU website address is at *www.closemoreu.com*.

Retail Marketing

After the REIT conversion, our Retail Division s branch operations units will continue to rely primarily on targeted direct mail and outbound telemarketing to attract borrowers. Our direct mail programs are managed by a centralized staff who create a targeted mailing list for each branch market and oversee the completion of mailings by a third party mailing vendor. All calls or written inquiries from potential borrowers that result from the mailings are tracked centrally and then forwarded to a branch location and handled by branch loan officers.

The direct mail program uses the Retail Division s website, *www.newcenturymortgage.com*, to provide information to prospective borrowers and to allow them to complete an application online. Under the Central Telemarketing Program, the telemarketing staff solicits prospective borrowers, makes a preliminary evaluation of the applicant s credit and the value of the mortgaged property and refers qualified leads to loan officers in the retail branch closest to the customer.

Table of Contents

Our Retail Division s central retail telemarketing unit solicits prospective borrowers through a variety of direct response advertising methods, such as purchased leads from aggregators, radio advertising, direct mail, search engine placement, banner ads, e-mail campaigns and links to related websites. The central retail telemarketing unit also markets to our current customer base through direct mail and outbound telemarketing, although such solicitations are not made within the first 12 months after loan origination. In addition, this unit maintains a comprehensive database of all customers with whom it has had contact and markets to these potential customers as well.

We may engage in broader retail marketing efforts in the future. Such efforts may include the development of a retail brand supported by mass media advertising.

Underwriting Standards

The loans we originate or purchase generally do not satisfy conventional underwriting standards, such as those of Fannie Mae or Freddie Mac. Therefore, our loans are likely to have higher delinquency and foreclosure rates than portfolios of mortgage loans underwritten to conventional Fannie Mae and Freddie Mac standards.

Our underwriting guidelines take into account the applicant s credit history and capacity to repay the proposed loan as well as the secured property s value and adequacy as collateral for the loan. Each applicant completes an application that includes personal information on the applicant s liabilities, income, credit history and employment history. Based on our review of the loan application and other data from the applicant against our underwriting guidelines, we determine the loan terms, including the interest rate and maximum LTV.

Credit History

Our underwriting guidelines require a credit report on each applicant from a credit reporting company. In evaluating an applicant s credit history, we utilize credit bureau risk scores, generally known as a FICO score, which is a statistical ranking of likely future credit performance developed by Fair, Isaac & Company and the three national credit data repositories Equifax, TransUnion and Experian.

Collateral Review

A qualified independent appraiser inspects and appraises each mortgage property and verifies that it is in acceptable condition. Following each appraisal, the appraiser prepares a report that includes a market value analysis based on recent sales of comparable homes in the area and, when appropriate, replacement cost analysis based on the current cost of constructing a similar home. All appraisals must conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Foundation s Appraisal Standards Board and are generally on forms acceptable to Fannie Mae and Freddie Mac. Our underwriting guidelines require a review of the appraisal by one of our qualified employees or by a qualified review appraiser that we have retained. Our underwriting guidelines then require our underwriters to be satisfied that the value of the property being financed, as indicated by the appraisal, currently supports the outstanding loan balance.

Income Documentation

Our underwriting guidelines include three levels of income documentation requirements, referred to as the full documentation, limited documentation and stated income documentation programs. Under the full documentation program, we generally require applicants to submit two written forms of verification of stable income for at least 12 months. Under the limited documentation program, we generally require applicants to submit 12 consecutive monthly bank statements on their individual bank accounts. Under the stated income documentation program, an applicant may be qualified based upon monthly income as stated on the mortgage loan application if the applicant meets certain criteria. All of these documentation programs require that, with respect to any salaried employee, the applicant s employment be verified by telephone. In the case of a purchase money loan, we require verification of the source of funds, if any, to be deposited by the applicant into escrow. Under each of these programs, we review the applicant s source of income, calculate the amount of income from sources indicated on the loan application or similar documentation, review the applicant s credit history, and calculate the debt service-to-income ratio to determine the applicant s ability to repay the loan. We also review the type, use and condition of the property being financed. We use a qualifying interest rate that is equal to the initial interest rate on the loan to determine the applicant s ability to repay an adjustable-rate loan. For our interest-only product, we use a qualifying rate that is 3% higher than the initial interest rate for determining the repayment ability of applicants.

For the year ended December 31, 2003, full documentation loans as a percentage of total originations totaled $15.8 billion, or 57.6%, limited documentation loans totaled $1.3 billion, or 4.8%, and stated documentation loans totaled $10.3 billion, or 37.6%. The weighted average FICO score of our borrowers for the year ended December 31, 2003 was 612.

For the six months ended June 30, 2004, full documentation loans as a percentage of total originations totaled $10.9 billion, or 52.9%, limited documentation loans totaled $978.2 million, or 4.7%, and stated documentation loans totaled $8.8 billion, or 42.4%. The weighted average FICO score of our borrowers for the six months ended June 30, 2004 was 628.

Underwriting Requirements

In general, the maximum loan amount for our mortgage loans is $500,000. Our underwriting guidelines permit loans on owner-occupied, one-to-four-family residential properties to have:

- an LTV at origination of up to 95% with respect to non-conforming first liens; and

- a combined LTV at origination of up to 100% with respect to conforming and non-conforming second liens.

However, the applicability of these ratios to a particular borrower depends on the purpose of the mortgage loan, the borrower s credit history, our assessment of the borrower s repayment ability and debt service-to-income ratio, and the type and use of the property. The LTV of a mortgage loan secured by mortgaged property acquired by a borrower under a lease option purchase is determined in one of two ways. If the lease option price was set less than 12 months prior to origination, the LTV of the related mortgage loan is based on the lower of the appraised value at the time of origination of the mortgage loan and the sale price of the related mortgaged property. If the lease option price was set at least 12 months or more prior to origination, the LTV of the related mortgage loan is based on the appraised value of the related mortgaged property at the time of origination.

Table of Contents

Our underwriting guidelines for first lien mortgage loans have the following categories and criteria for grading the potential likelihood that an applicant will satisfy the repayment obligations of a mortgage loan:

Summary of Principal Underwriting Guidelines(1)

	AA Risk	A+ Risk	A- Risk	B Risk	C Risk	C- Risk
Existing and prior mortgage history	No 30-day late payments within last 12 months; must have an LTV of 95% or less; no evidence of default in 3 years.	Maximum one 30-day late payment and no 60-day late payments within last 12 months; must have an LTV of 95% or less; no evidence of default in 3 years.	Maximum three 30-day late payments and no 60-day late payments within last 12 months; must have an LTV of 90% or less; no evidence of default in 3 years.	Maximum one 60-day late payment within last 12 months; must have an LTV of 85% or less; no evidence of default in 2 years.	Maximum one 90-day late payment within last 12 months; must have an LTV of 80% or less; no evidence of default in 1 year.	Maximum of two 90-day late payments and one 120-day late payment within last 12 months; must have an LTV of 70% or less; no current default.
Consumer credit	Minimum credit score of 500; LTVs over 80% have higher credit score minimums.	Minimum credit score of 500; LTVs over 80% have higher credit score minimums.	Minimum credit score of 500; LTVs over 80% have higher credit score minimums.	Minimum credit score of 500; LTVs over 80% have higher credit score minimums.	Minimum credit score of 500; LTVs over 75% have higher credit score minimums.	Minimum credit score of 500.
Bankruptcy filings	Generally, no Chapter 7 or 13 Bankruptcy discharged in last 2 years.	Generally, no Chapter 7 or 13 Bankruptcy discharged in last 2 years.	Generally, no Chapter 7 Bankruptcy discharged in the last 2 years or any Chapter 13 Bankruptcy filed in the last 2 years.	Generally, no Chapter 7 Bankruptcy discharged in last 18 months or Chapter 13 Bankruptcy filed in the last 18 months.	Generally, no Chapter 7 Bankruptcy discharged in the last year or any Chapter 13 Bankruptcy filed in the last year.	Chapter 7 discharged and Chapter 13 discharged or discharged at funding.
Total debt service-to-income ratio	50% to 55%	50% to 55%	50% to 55%	50% to 55%	55%	55%
Maximum loan-to-value ratio (LTV)(2):						
Owner occupied	95%	95%	90%	85%	80%	70%
Single family; detached PUD, or 2-unit:						
Owner occupied	90%	90%	85%	80%	75%	65%
Condo/three-to-four unit:						
Nonowner occupied	85%	85%	80%	75%	70%	60%

(1) The letter grades applied to each risk classification reflect our internal standards and do not necessarily correspond to the classifications used by other mortgage lenders.

(2) The maximum LTV set forth in the table is for borrowers providing full documentation. The LTV is reduced 5% for stated income applications, if applicable.

Table of Contents

Interest Only ARM Program

For our Interest Only ARM Program, which is designed for a higher credit quality borrower, we assess the borrower s mortgage repayment history, any incidents of bankruptcy, mortgage default or major derogatory credit, and we require a minimum credit score of 660, which is substantially higher than our traditional product requirements. This program is restricted to owner-occupied properties and second homes, single units, two units, condominiums or detached PUDs, with no rural or unique properties allowed. We have limitations on loan amount, LTV, income documentation type, and the amount of cash out allowed on refinances. We assign a unique 4-level grade classification based on the credit score range for the primary borrower. The borrower s debt ratio is calculated at 3% higher than the initial interest rate and the program requires verified liquid reserves. The loan term is 25 years with an option for interest only payments during the first 10 years, converting to a 15-year fully amortized ARM in years 11 through 25.

Niche or Special Programs

We have several programs that we have designated as niche or special programs. These programs are the Special Jumbo Product, the 80/20 Combo Product and the 100% High LTV Product. In general, all of these programs require the borrower to have an excellent mortgage history over the last 12 months. In addition to credit score minimums, these programs require a more in-depth analysis of consumer credit, and both the Special Jumbo Product and the 100% High LTV have requirements for verification of liquid reserves. Overall the minimum credit score for these products is 600, although the 80/20 Combo Product allows a minimum credit score of 580 with other restrictions and limitations. Maximum loan amounts or combined loan amounts on these products range from $600,000 to $1,000,000. Higher loan amounts have higher credit score minimums and are subject to other restrictions and limitations.

Home Saver Program

We had established a sub-category of our C- credit grade, which was eliminated from our program offerings in mid-2003, for borrowers subject to at least one of the following credit scenarios: (i) the borrower had an existing mortgage that was currently in foreclosure; (ii) the borrower was subject to a notice of default filing; or (iii) the borrower had a serious mortgage delinquency for more than one 120-day period in the prior 12 months or was more than 90 days late at the time of funding. This sub-category was known as our Home Saver Program. The Home Saver Program was available only to Full Documentation borrowers and permitted a maximum LTV of 65% and a maximum debt service-to-income ratio of 55%. The maximum loan amount was $300,000 and all derogatory credit report items must have been brought current or paid with the loan proceeds. A maximum of 3% of the loan proceeds was allowed to the borrower in cash. If the borrower was in an open Chapter 13 bankruptcy, the bankruptcy must have been discharged with the proceeds of the loan. For the year ended December 31, 2003, Home Saver loans accounted for less than 1% of total loan originations and purchases. We no longer originate loans under this program.

Exceptions

The categories and criteria described in our underwriting guideline table above are guidelines only. On a case-by-case basis, we may determine that an applicant warrants an LTV exception, a debt service-to-income ratio exception, or another exception to our underwriting criteria. We may allow such an exception if the application reflects certain compensating factors such as low LTV, a maximum of one 30-day late payment on all mortgage loans during the last 12 months, and stable employment or ownership of the current residence. We may also allow an exception if the applicant places in escrow a down payment of at least 20% of the purchase price of the mortgage property or if the new loan reduces the applicant s monthly aggregate mortgage payment. Our automated credit grading system aids in identifying and managing underwriting exceptions. Certain of our loan programs and risk grade classifications limit the approval of exceptions to higher loan approval authority-levels.

For 2003, our overall underwriting exception rate was 14.9% on total production of $27.4 billion. For 2002, our overall underwriting exception rate was 18.5% on total production of $14.2 billion.

Table of Contents

We periodically evaluate and modify our underwriting guidelines. We also maintain separate underwriting guidelines appropriate to our non-conforming second lien mortgage loans and adopt new underwriting guidelines appropriate to new loan products we may offer.

Loan Production by Borrower Risk Classification

The following table sets forth information concerning the characteristics of our fixed-rate and adjustable-rate loan production by borrower risk classification for the periods shown:

	For the Quarters Ended			
	September 30, 2003	December 31, 2003	March 31, 2004	June 30, 2004
AA Risk Grade:				
Percent of total purchases and originations (1)	73.8%	70.3%	72.5%	78.0%
Combined weighted average initial loan-to-value ratio	83.4	86.4	87.2	86.4
Weighted average interest rate:				
Fixed-rate	6.7	7.4	7.2	6.9
ARMs initial rate	7.0	7.0	6.7	6.6
ARMs margin over index	5.5	5.6	5.4	5.4
A+ Risk Grade:				
Percent of total purchases and originations (1)	11.6%	12.0%	11.6%	9.4%
Combined weighted average initial loan-to-value ratio	79.5	80.0	81.1	80.4
Weighted average interest rate:				
Fixed-rate	7.2	7.5	7.1	6.8
ARMs initial rate	7.3	7.3	7.0	7.0
ARMs margin over index	5.9	5.9	5.6	5.6
A- Risk Grade:				
Percent of total purchases and originations	7.3%	8.2%	7.9%	6.2%
Combined weighted average initial loan-to-value ratio	76.7	76.9	76.0	76.9
Weighted average interest rate:				
Fixed-rate	7.5	7.8	7.3	7.0
ARMs initial rate	7.6	7.6	7.3	7.3
ARMs margin over index	6.0	6.0	5.7	5.7
B Risk Grade:				
Percent of total purchases and originations	4.6%	6.0%	4.4%	3.7%
Combined weighted average initial loan-to-value ratio	74.6	74.8	74.6	73.9
Weighted average interest rate:				
Fixed-rate	8.1	8.1	7.8	7.3
ARMs initial rate	8.1	8.0	7.8	7.6
ARMs margin over index	6.3	6.2	6.0	6.0
C/C- Risk Grade:				
Percent of total purchases and originations	2.7%	3.5%	3.6%	2.7%
Combined weighted average initial loan-to-value ratio	68.8	68.3	68.8	68.6
Weighted average interest rate:				
Fixed-rate	9.0	8.9	8.6	7.9
ARMs initial rate	9.0	8.7	8.2	8.1
ARMs margin over index	6.6	6.6	6.5	6.5

(1)

The increase in AA production and decrease in A+ production from the first quarter to the second quarter resulted from a change in our credit risk grading. During the second quarter of 2003, we modified our underwriting criteria to expand to six credit grades, including the addition of our highest sub-prime credit grade of AA. We also modified the FICO credit score limits for each credit grade. These changes resulted in an increase in the percentage of loans in the upper most credit grades.

Table of Contents

Geographic Distribution

The following table sets forth by state the aggregate dollar amounts (in thousands) and the percentage of all loans we originated or purchased for the periods shown:

	For the Quarters Ended							
	September 30, 2003		December 31, 2003		March 31, 2004		June 30, 2004	
California	$ 3,702,465	42.9%	$ 3,335,617	40.4%	$ 3,339,117	39.6%	$ 5,208,325	42.5%
Florida	507,009	5.9	481,261	5.8	517,468	6.1	762,768	6.2
New York	563,711	6.5	534,131	6.5	605,626	7.2	798,199	6.5
Illinois	370,026	4.3	330,935	4.0	281,687	3.3	364,339	3.0
Texas	345,883	4.0	331,002	4.0	345,135	4.1	444,571	3.6
Massachusetts	288,079	3.3	298,494	3.6	260,318	3.1	370,581	3.0
New Jersey	298,598	3.5	221,745	2.7	209,950	2.5	386,754	3.2
Michigan	233,875	2.7	224,593	2.7	213,470	2.5	261,679	2.1
Washington	188,254	2.2	234,458	2.8	263,981	3.1	332,488	2.7
Colorado	151,651	1.8	130,393	1.6	162,079	1.9	200,429	1.6
Other	1,989,257	22.9	2,128,933	25.9	2,237,525	26.6	3,125,735	25.6
Total	$ 8,638,808	100.0%	$ 8,251,562	100.0%	$ 8,436,356	100.0%	$ 12,255,868	100.0%

Financing Loan Originations

We require access to credit facilities in order to originate and purchase mortgage loans and to hold them pending their sale or securitization.

As of June 30, 2004, we used our credit facilities totaling $8.6 billion provided by Bank of America, Bear Stearns, CDC Mortgage Capital, Citigroup Global Markets Realty, Greenwich Capital, Morgan Stanley, and UBS Real Estate Securities to finance the actual funding of our loan originations and purchases. We also fund loans through our $2.0 billion asset-backed commercial paper note facility established in September 2003. We then sell the loans through whole loan sales or securitizations within two to three months and pay down the financing facilities with the proceeds.

Loan Sales and Securitizations

We conduct our secondary marketing operations through one of our subsidiaries, NC Capital. NC Capital buys loans from New Century Mortgage, generally within a week or two after origination, paying a price that approximates the loans secondary market value. NC Capital then sells the loans through whole loan sales or securitizations. NC Capital is responsible for determining when and through which channel to sell the loans, and bears the risks of market fluctuations in the period between purchase and sale. We expect that after the merger, New Century REIT and its qualified REIT subsidiaries may engage in non-REMIC CMO securitizations.

Whole Loan Sales

As of December 31, 2003, whole loan sales accounted for $20.8 billion, or 80.8% of our total secondary market transactions. The weighted average premiums received on whole loan sales during 2003 was equal to 4.18% of the original principal balance of the loans sold, including premiums received for servicing rights.

We seek to maximize our premiums on whole loan sales by closely monitoring requirements of institutional purchasers and focusing on originating or purchasing the types of loans that meet those requirements and for which institutional purchasers tend to pay higher premiums. During the year ended December 31, 2003, we sold $11.3 billion of loans to Morgan Stanley and $4.4 billion of loans to Credit Suisse First Boston, which represented 54.2% and 21.1%, respectively, of total loans sold. While over three-fourths of our loans were sold to these two investors, our loans are sold through a competitive bid process which generally includes many more potential buyers.

Table of Contents

We sell whole loans on a non-recourse basis pursuant to a purchase agreement in which we give customary representations and warranties regarding the loan characteristics and the origination process. Therefore, we may be required to repurchase or substitute loans in the event of a breach of these representations and warranties. In addition, we generally commit to repurchase or substitute a loan if a payment default occurs within the first month or two following the date the loan is funded, unless we make other arrangements with the purchaser. After the merger, our whole loan sales will be made through our taxable REIT subsidiaries.

Securitizations

Off-Balance Sheet Securitizations

In an off-balance sheet securitization, we sell a pool of loans to a trust for a cash purchase price and a certificate evidencing our residual interest ownership in the trust and the transaction is accounted for as a sale under generally accepted accounting principles. The trust raises the cash portion of the purchase price by selling senior certificates representing senior interests in the loans in the trust. Following the securitization, purchasers of senior certificates receive the principal collected, including prepayments, on the loans in the trust. In addition, they receive a portion of the interest on the loans in the trust equal to the specified investor pass-through interest rate on the principal balance. We receive the cash flows from the residual interests after payment of servicing fees, guarantor fees and other trust expenses if the specified over-collateralization requirements are met. Over-collateralization requirements are generally based on a percentage of the original or current unpaid principal balance of the loans and may be increased during the life of the transaction depending upon actual delinquency or loss experience. A net interest margin, or NIM, transaction, through which certificates are sold that represent a portion of the spread between the coupon rate on the loans and the investor pass-through rate, may also occur concurrently with or shortly after a securitization. A NIM transaction allows us to receive a substantial portion of the gain in cash at the closing of the NIM transaction, rather than over the actual life of the loans.

During 2002, we completed one off-balance sheet securitization totaling $845.5 million of mortgage loans. We did not complete any off-balance sheet securitizations during 2003. During the six months ended June 30, 2004, we completed one off-balance sheet transaction totaling $337.1 million, related to our investment in Carrington Mortgage Credit Fund I, LP.

On-Balance Sheet Securitizations

During the six months ended June 30, 2004, we completed two securitizations totaling $3.5 billion, which were structured as on-balance sheet securitizations for accounting purposes under SFAS No. 140. On August 4, 2004, we completed a $1.7 billion securitization structured as an on-balance sheet securitization, which is included in the balance of mortgage loans held for investment at June 30, 2004. During 2003, we completed five securitizations totaling $4.9 billion, all of which were structured as on-balance sheet securitizations for financial reporting purposes under generally accepted accounting principles. This portfolio-based accounting treatment is designed to more closely match the recognition of income with the receipt of cash payments. Also, on-balance sheet securitizations are consistent with our strategy to generate primarily cash-based earnings rather than non-cash gain on sale revenue. Because we do not record gain on sale revenue in the period in which the on-balance sheet securitization occurs, the use of such portfolio-based accounting structures will result in lower income in the period in which the securitization occurs than would a traditional off-balance sheet securitization. However, the recognition of income as interest payments are received on the underlying mortgage loans is expected to result in higher income recognition in future periods than would an off-balance sheet securitization.

Loan Servicing and Delinquencies

Servicing

Loan servicing includes activities which seek to ensure that each loan in a mortgage servicing portfolio is repaid in accordance with its terms. Such activities are generally performed pursuant to servicing contracts we enter into with investors or their agents in connection with whole loan sales or securitizations. The servicing functions performed typically include: collecting and remitting loan payments, making required advances, accounting for principal and interest, holding escrow or impound funds for payment of taxes and insurance and, if applicable, contacting delinquent borrowers and supervising foreclosures and property dispositions in the event of un-remedied defaults. For performing these functions we generally receive a servicing fee of 0.50% annually of the outstanding principal balance of each loan in the mortgage servicing portfolio. The servicing fees are collected from the monthly payments made by the mortgagors. In addition, we generally receive other remuneration consisting of float benefits derived from collecting and remitting mortgage payments, as well as mortgagor-contracted fees such as late fees, reconveyance charges and, in some cases, prepayment penalties.

We conducted servicing operations from July 1998 through mid-2001 on our in-house servicing platform. In March 2001, we sold our portfolio of mortgage loan servicing rights to Ocwen Federal Bank. From March 2001 to September 2002, we contracted with Ocwen to perform sub-servicing functions for our mortgage loans held for sale. During that period, we either sold loans on a servicing-released basis or we sold the servicing rights to third parties.

In October 2002, we re-established mortgage servicing operations. As of June 30, 2004, the balance of our loan servicing portfolio was $20.9 billion, consisting of $9.1 billion in mortgage loans held for investment, $4.8 billion in mortgage loans held for sale, $6.4 billion in interim servicing, and $0.6 billion in servicing rights owned.

Servicing rights owned are loans sold to whole loan investors for which we retained the servicing rights. Interim servicing represents loans sold to whole loan investors that we have agreed to service temporarily pending their transfer.

Servicing Operations

Once we originate or purchase a mortgage loan we begin the process of servicing the loan. We originated $27.4 billion in mortgage loans during 2003, all of which were serviced by us on an interim servicing basis prior to sale or were included in one of our on-balance sheet securitizations. During 2003, we boarded an average of approximately 14,000 new loans per month to our servicing platform and transferred an average of 10,000 loans per month to other servicers as a result of whole loan sales. We generally intend to retain servicing rights on the mortgage loans we hold in our portfolio in the future.

During 2003, we completed several key servicing platform initiatives. Technology initiatives completed in 2003 include the deployment of a proprietary database to enhance the management of the disposition of real estate properties acquired through foreclosure, the deployment of a risk scoring model to assist in predicting and preventing delinquencies, an upgrade to our comprehensive call management and borrower contact software and the implementation of a data warehouse within the servicing division that provides loan-level data to management.

We establish early relationships with our borrowers from a servicing perspective. An introductory welcome phone call is made to each borrower following funding in order to introduce New Century Financial to the borrower and verify critical loan and contact information. During the welcome call, our customer service agents verify with the customer the amount of the loan, first payment due date, the interest rate, the payment amount and customer receipt of their first billing statement. Additionally, information is provided to the borrower on how to contact New Century Financial in the event they have additional questions or concerns regarding their loan.

While the vast majority of our customers make their payments in a timely manner, in the event a borrower becomes delinquent, our loan counselors and default personnel assist the borrower in finding a resolution and bringing the loan current. As a matter of course, by the 35th day of delinquency, depending on state specific timelines, but no earlier than the 32nd day of delinquency, a breach of contract notice is issued. Such notices allow the borrower the opportunity to cure the delinquency within the next 30 days in order to avoid referral to foreclosure.

Table of Contents

Accounts that are referred to our Foreclosure Department are simultaneously referred to our Loss Mitigation Department. Various loss mitigation opportunities are explored with the borrower, including the possibility of forbearance agreements, listing the property for sale, deeds in lieu of foreclosure and full reinstatement of the loan. Loss mitigation strategies are designed to minimize the loss to both the borrower and investor and are structured, where possible, to insure that the loan performs in a manner that supports the avoidance of foreclosure, while at the same time minimizing fees and costs.

In the event that foreclosure is the only resolution available, we engage local attorneys to assist with managing the legal processes mandated by various state and local statutes. Foreclosure timelines are state and locality specific and have been programmed in our primary timeline management software and our loan servicing system. Properties for which the foreclosure sale has been completed and have exceeded their redemption periods (which are state specific) are transferred to our Real Estate Owned Department where our in-house asset managers manage the ultimate disposition of the properties. Once the properties have been vacated and are available for sale, they are listed and marketed for sale. We closely monitor the resulting sales price and overall recovery in order to minimize the loss incurred.

We intend to continue to retain servicing rights on a substantial percentage of the loans we sell in future periods. We recently obtained a rating of RPS3, or average, from Fitch, and an average rating from S&P for our servicing platform, which we believe will allow us to grow our servicing platform more rapidly.

Delinquency Reporting

The following table sets forth loan performance data of the loans on our mortgage loan servicing platform at June 30, 2004 (dollars in thousands):

				Delinquency			
Pool Type	**Balance**	**Weighted Average Coupon**	**FICO**	**<90 days**	**90+**	**REO**	**Total**
Mortgage loans held for investment	$ 9,146,472	6.92%	628	0.70%	0.82%	0.04%	1.57%
Mortgage loans held for sale	4,784,222	6.75	649	0.09	0.18	0.01	0.28
Interim servicing	6,391,425	6.98	618	0.33	0.17	0.00	0.50
Servicing rights owned	574,356	7.48	606	1.59	2.31	0.39	4.29
Total	$ 20,896,475	6.92%	629	0.47%	0.52%	0.03%	1.02%

Competition

We continue to face intense competition in the business of originating, purchasing and selling mortgage loans. Our competitors include other consumer finance companies, mortgage banking companies, commercial banks, credit unions, thrift institutions, credit card issuers and insurance finance companies. Other large financial institutions have gradually expanded their subprime lending capabilities. Many of these companies have greater access to capital at a cost lower than our cost of capital under our warehouse, aggregation, and asset-backed commercial paper facilities. Federally chartered banks and thrifts have a competitive advantage over us because the federal laws applicable to their operations can preempt some of the state and local lending laws applicable to our operations. In addition, many of these competitors have considerably greater technical and marketing resources than we have.

Competition among industry participants can take many forms, including convenience in obtaining a loan, customer service, marketing and distribution channels, amount and term of the loan, loan origination fees and interest rates. Additional competition may lower the rates we can charge borrowers, thereby potentially lowering gain on future loan sales and securitizations. In 2003, the most significant form of competition was pricing pressure among wholesale mortgage originators. Some of our competitors lowered rates and fees to preserve or expand their market share.

Table of Contents

In addition, we may be forced to expand our operations at a pace that does not allow us to attract a sufficient number of employees with the capabilities 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 result in harm to our results of operations, financial condition and business prospects.

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

Our results of operations, financial condition and business prospects could be harmed if competition intensifies or if any of our competitors significantly expands its activities in our markets. Fluctuations in interest rates and general economic conditions may also affect our competitive position. During periods of rising rates, competitors that have locked in low borrowing costs may have a competitive advantage. During periods of declining rates, competitors may solicit our customers to refinance their loans.

Regulation

Our business is regulated by federal, state, and local government authorities and is subject to extensive federal, state and local laws, rules and regulations. We are also subject to judicial and administrative decisions that impose requirements and restrictions on our business. At the federal-level, these laws and regulations include the:

- Equal Credit Opportunity Act;
- Federal Truth and Lending Act and Regulation Z;
- Home Ownership and Equity Protection Act;
- Real Estate Settlement Procedures Act;
- Fair Credit Reporting Act;
- Fair Debt Collection Practices Act;
- Home Mortgage Disclosure Act;
- Fair Housing Act;
- Telephone Consumer Protection Act;

- Gramm-Leach-Bliley Act;
- Fair and Accurate Credit Transactions Act;
- CAN-SPAM Act;
- Sarbanes-Oxley Act; and
- USA PATRIOT Act.

These laws, rules and regulations, among other things:

- impose licensing obligations and financial requirements on us;
- limit the interest rates, finance charges, and other fees that we may charge;
- prohibit discrimination;
- impose underwriting requirements;

- mandate disclosures and notices to consumers;
- mandate the collection and reporting of statistical data regarding our customers;
- regulate our marketing techniques and practices;
- require us to safeguard non-public information about our customers;
- regulate our collection practices;
- require us to prevent money-laundering or doing business with suspected terrorists; and
- impose corporate governance, internal control and financial reporting obligations and standards.

Our failure to comply with these laws can lead to:

- civil and criminal liability;
- loss of approved status;
- demands for indemnification or loan repurchases from buyers of our loans;
- class action lawsuits; and
- administrative enforcement actions.

Compliance, Quality Control and Quality Assurance

We regularly monitor the laws, rules and regulations that apply to our business and analyze any changes to them. We integrate many legal and regulatory requirements into our automated loan origination system to reduce the prospect of inadvertent non-compliance due to human error. We also maintain policies and procedures, summaries and checklists to help our origination personnel comply with these laws.

Our training programs are designed to teach our personnel about the significant laws, rules and regulations that affect their job responsibilities. We also maintain a variety of pre-funding quality control procedures designed to detect compliance errors prior to funding.

In addition, we also subject a statistically valid sampling of our loans to post-funding quality assurance reviews and analysis. We track the results of the quality assurance reviews and report them back to the responsible origination units. To the extent refunds or other corrective actions are appropriate, we deduct those amounts from the internal profit and loss calculation for that origination unit. Many of our managers have their compensation tied partly to the quality assurance results of their units.

Our loans and practices are also reviewed regularly in connection with the due diligence that our loan buyers and lenders perform. Our state regulators also review our practices and loan files regularly and report the results back to us. Since our inception, we have undergone over 85 state examinations. To date, the state examinations have never resulted in findings of material violations or imposition of penalties.

Licensing

As of December 31, 2003, we were licensed or exempt from licensing requirements by the relevant state banking or consumer credit agencies to originate first mortgages in all 50 states and the District of Columbia and second mortgages in 48 states and the District of Columbia. As of June 30, 2004, New Century Credit was authorized to originate mortgage loans in 4 states and, after the REIT conversion, we will seek to authorize New Century Credit in the states in which it is not currently authorized to originate mortgage loans under that name; as of July 31, 2004, New Century Credit was also authorized to conduct business in 29 other states under the name of its predecessor, Worth Funding Incorporated.

Table of Contents

Regulatory Developments

During 2003, federal and state legislators and regulators adopted a variety of new or expanded regulations, particularly in the areas of privacy and consumer protection. We summarize these regulations below.

Privacy

The federal Gramm-Leach-Bliley financial reform legislation imposes additional obligations on us to safeguard the information we maintain on our borrowers. Regulations have been proposed by several agencies that may affect our obligations to safeguard information. In addition, regulations that could affect the content of our notices are being considered by several federal agencies. Also, several states are considering even more stringent privacy legislation. California has passed legislation known as the California Financial Information Privacy Act and the California On-Line Privacy Protection Act. Both pieces of legislation are effective July 1, 2004, and will impose additional notification obligations on us that are not pre-empted by existing federal law. If other states choose to follow California and adopt a variety of inconsistent state privacy legislation, our compliance costs could substantially increase.

Fair Credit Reporting Act

The Fair Credit Reporting Act provides federal preemption for lenders to share information with affiliates and certain third parties and to provide pre-approved offers of credit to consumers. Congress acted in late 2003 to make this preemption permanent, otherwise it would have expired at the end of the year and states could have imposed more stringent and inconsistent regulations regarding the use of pre-approved offers of credit and other information sharing. Congress also amended the Fair Credit Reporting Act to place further restrictions on the use of information shared between affiliates, to provide new disclosures to consumers when risk based pricing is used in the credit decision, and to help protect consumers from identity theft. All of these new provisions impose additional regulatory and compliance costs on us and reduce the effectiveness of our marketing programs.

Home Mortgage Disclosure Act

In 2002, the Federal Reserve Board adopted changes to Regulation C promulgated under the Home Mortgage Disclosure Act. Among other things, the new regulations require lenders to report pricing data on loans with annual percentage rates that exceed the yield on treasury bills with comparable maturities by 3%. The expanded reporting takes effect in 2004 for reports filed in 2005. We anticipate that a majority of our loans would be subject to the expanded reporting requirements.

The expanded reporting does not provide for additional loan information such as credit risk, debt-to-income ratio, LTV, documentation-level or other salient loan features. As a result, lenders like us are concerned that the reported information may lead to increased litigation as the information could be misinterpreted by third parties.

Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003

The CAN-SPAM Act of 2003 applies to businesses, such as ours, that use electronic mail for advertising and solicitation. This law, generally administered by the Federal Trade Commission, preempts state laws to the contrary, and establishes, among other things, a national uniform standard that gives consumers the right to stop unwanted emails. New requirements are imposed for the header caption in emails, as well as return email addresses, and consumers are granted the right to opt out from receiving further emails from the sender. These new provisions impose additional regulatory and compliance costs on us and reduce the effectiveness of our marketing programs.

The Alternative Mortgage Transaction Parity Act

This law was enacted to enable state chartered housing creditors, like New Century Financial, to make, purchase and enforce alternative mortgage transactions (*i.e.*, loans that are not fixed rate, fully amortized) without regard to any state law on the subject, so long as these creditors complied with the same regulatory guidelines as federally chartered housing lenders. The Office of Thrift Supervision, under whose guidelines we operate, amended its regulations, effective July 1, 2003, to eliminate from the preemptive effect of the Act the regulation of prepayment and late charges on alternative mortgage loans. States can now regulate prepayment penalty and late charge provisions on alternative mortgage loans, and so on July 1, 2003, in less than a dozen states, we became subject to more restrictive state laws as to these issues.

Telephone Consumer Protection Act and Telemarketing Consumer Fraud and Abuse Prevention Act

These laws, enacted in 1991 and 1994, respectively, are designed to restrict unsolicited advertising using the telephone and facsimile machine. Since they were enacted, however, telemarketing practices have changed significantly due to new technologies that make it easier to target potential customers while at the same time making it more cost effective to do so. The Federal Communications Commission and the Federal Trade Commission have responsibility for regulating various aspects of these laws, such as regulating unwanted telephone solicitations and the use of automated telephone dialing systems, prerecorded or artificial voice messages, and telephone facsimile machines. In 2003, both agencies adopted do-not-call registry requirements, which, in part, mandate that companies such as us maintain and regularly update lists of consumers who have chosen not to be called. These requirements also mandate that we do not call consumers who have chosen to be on the list. During this same time, over 25 states have also adopted similar laws, with which we also comply. As with other regulatory requirements, these provisions impose additional regulatory and compliance costs on us and reduce the effectiveness of our marketing programs.

Predatory Lending Legislation

The Home Ownership and Equity Protection Act of 1994, or HOEPA, identifies a category of mortgage loans and subjects them to more stringent restrictions and disclosure requirements. In addition, liability for violations of applicable law for loans covered by HOEPA extends not only to the originator, but also to the purchaser of the loans. HOEPA generally covers loans with either (i) total points and fees upon origination in excess of the greater of eight percent of the loan amount or $499 (an annually adjusted dollar amount), or (ii) an annual percentage rate, or APR, of more than eight percentage points higher than United States Treasury securities of comparable maturity on first mortgage loans, and 10 percentage points above Treasuries of comparable maturity for junior mortgage loans.

We do not originate loans covered by HOEPA because of the higher legal risks as well as the potential negative perception of originating loans that are considered to be high cost under federal law.

Several federal, state and local laws and regulations have been adopted or are under consideration that are intended to eliminate so-called predatory lending practices. Many of these laws and regulations go beyond targeting abusive practices by imposing broad restrictions on certain commonly accepted lending practices, including some of our practices. In addition, some of these laws impose liability on assignees of mortgage loans such as loan buyers, lenders and securitization trusts. Such provisions deter loan buyers from purchasing loans covered by the applicable law. For example, the Georgia Fair Lending Act that took effect in October 2002 resulted in our withdrawal from the Georgia market, until the law was amended in early 2003, because our lenders and loan buyers refused to finance or purchase loans covered by that law. The recent enactment of similar laws late in 2003 in New Jersey and New Mexico has resulted in significant interruption in the secondary market, with some participants no longer purchasing home loans originated in those states, and some not purchasing just those loans covered by these new laws. We have eliminated making loans that are deemed high cost under these laws, and remain able to finance or sell those loans we do make.

However, there can be no assurance that other similar laws, rules or regulations, will not be adopted in the future. Adoption of these laws and regulations could have a material adverse impact on our business by substantially increasing the costs of compliance with a variety of inconsistent federal, state and local rules, or by

Table of Contents

restricting our ability to charge rates and fees adequate to compensate us for the risk associated with certain loans. Adoption of these laws could also have a material adverse effect on our loan origination volume, especially if our lenders and secondary market buyers elect not to finance or purchase loans covered by the new laws.

Efforts to Avoid Abusive Lending Practices

In an effort to prevent the origination of loans containing unfair terms or involving predatory practices, we have adopted many policies and procedures, including the following:

Product Policies

- We do not fund or purchase high cost loans as defined by HOEPA.
- We do not make or purchase loans containing single premium credit life, disability or accident insurance.
- We do not make or purchase loans containing balloon payments, negative amortization, mandatory arbitration clauses or interest rate increases triggered by borrower default.
- We offer loans with and without prepayment penalties. When a borrower opts for a loan with a prepayment charge, the borrower benefits from a lower interest rate or pays lower upfront fees.
- Our prepayment penalties do not extend beyond three years from the origination date. On fixed rate loans, the maximum prepayment penalty term is three years. Prepayment penalties on adjustable rate loans do not extend beyond the first adjustment date.
- We do not originate loans that pay off zero interest rate mortgages provided by charitable organizations or the government without borrower third-party counseling.

Loan Processing Policies

- We only approve loan applications that evidence a borrower s ability to repay the loan.
- We consider whether the loan terms are in the borrower s best interests and document our belief that the loan represents a tangible benefit to the borrower.
- We do not solicit any borrowers within 12 months of loan origination.
- We price loans commensurate with risk.

We use an electronic credit grading system to help ensure consistency of grading.

We do not ask appraisers to report a predetermined value or withhold disclosure of adverse features. Appraisers are paid for their work regardless of whether or not the loans are closed.

We employ electronic and manual systems to protect against adverse practices like property flipping. Loan origination systems are designed to detect red flags such as inflated appraisal values, unusual multiple borrower activity or rapid loan turnover.

Customer Interaction and Education

We market our loans with a view to encouraging a wide range of applicants strongly representative of racial, ethnic and economic diversity of the markets we serve throughout the nation.

We provide a helpful, easy-to-follow brochure to all our loan applicants to educate them on the loan origination process, explain basic loan terms, help them obtain a loan that suits their needs and advise them on how to find a HUD-approved loan counselor.

Table of Contents

We distribute our Fair Lending Policy to all newly hired employees and hold them accountable for treating borrowers fairly and equally.

We provide fair lending training to employees having direct contact with borrowers or loan decision-making authority.

We require brokers to sign an agreement indicating that they are knowledgeable about and will abide by fair lending laws and our Broker Code of Conduct.

We monitor broker performance and strive to hold brokers accountable for fair and equal treatment of borrowers.

Our Retail Division conducts regular customer satisfaction surveys of all newly funded loans.

We also conduct periodic randomly selected satisfaction surveys of customers who receive loans through a mortgage broker.

A network of well-trained consumer relations staff in each division is dedicated to resolving consumer complaints in a timely and fair manner.

Our Loan Servicing Department contacts each borrower prior to the first payment to confirm that the borrower understands the loan terms.

When appropriate, we also offer loss mitigation counseling to borrowers in default and provide opportunities to enter into mutually acceptable reasonable repayment plans.

We report borrower monthly payment performance to major credit repositories.

Evaluation and Compliance

We subject a significant statistical sampling of our loans to a rigorous quality assurance of borrower qualification, validity of information, and verified property value determination.

Our Fair Lending Officer provides an independent means of reporting or discussing fair lending concerns through consumer and employee hotlines.

Our Fair Lending Officer monitors production fair lending performance, including loan file analysis and reporting, and coordinates community outreach programs.

We engage independent firms to review internal controls and operations to help ensure compliance with accepted federal and state lending regulations and practices.

We adhere to high origination standards in order to sell our loan products in the secondary mortgage market.

We treat all customer information as confidential and consider it to be nonpublic information. We maintain systems and procedures to ensure that access to nonpublic consumer information is granted only to legitimate and valid users.

We believe that our commitment to responsible lending is good business.

We strive to promote highly ethical standards throughout our industry.

We plan to continue to review, revise and improve our practices to enhance our fair lending efforts and support the goal of eliminating predatory lending practices in the industry.

Employees

At June 30, 2004, we employed approximately 4,600 employees. None of our employees is subject to a collective bargaining agreement. We believe that our relations with our employees are satisfactory.

Table of Contents

Properties

Our executive, administrative and some of our lending offices are located in Irvine, California and consist of approximately 337,000 square feet. The four leases covering the executive, administrative and lending offices expire from October 2005 to August 2008 and the combined monthly rent is $566,105. We lease space for our regional operating centers in Bellevue, Washington; Foxborough and Woburn, Massachusetts; Bloomington, Minnesota; Greenwood Village, Colorado; Scottsdale, Arizona; Reston, Virginia; Philadelphia, Pennsylvania; Hurst and Plano, Texas; Columbus, Ohio; Honolulu, Hawaii; Itasca and Schaumburg, Illinois; Indianapolis, Indiana; Pearl River and Melville, New York; Campbell, Woodland Hills, Sacramento and San Ramon, California; and Tampa and Miami Lakes, Florida. As of June 30, 2004, these facilities had a monthly aggregate base rental of approximately $424,000. We also lease space for our sales offices, which range in size from 350 to 3,736 square feet with lease terms typically ranging from one to five years. As of June 30, 2004, annual base rents for the sales offices ranged from approximately $20,600 to $101,000. In general, the terms of these leases expire between August 2004 and August 2009. We are currently in negotiations to either relocate or renew 21 office leases expiring between August 2004 and December 2004.

Environmental

In the course of our business, we may acquire properties securing loans that are in default. There is a risk that hazardous or toxic waste could be found on such properties. If this occurs, we could be held responsible under applicable law for the cost of cleaning up or removing the hazardous waste. This cost could exceed the value of the underlying properties.

Legal Proceedings

FTC Inquiry. In August 2000, the Federal Trade Commission informed us that it was conducting an inquiry to determine whether we had violated the Fair Credit Reporting Act, Federal Trade Commission Act or other statutes administered by the Commission. The Commission subsequently focused its inquiry on whether the pre-approved credit solicitations our retail units generated complied with applicable law. We cooperated by providing the requested information to the Commission for its review. We have received no further requests for information since our last submission over two years ago in September 2001.

Grimes. In June 2001, we were served with a class action complaint filed in the U.S. District Court for the Northern District of California by Richard L. Grimes and Rosa L. Grimes against New Century Mortgage. The action seeks rescission, restitution and damages on behalf of the two plaintiffs, others similarly situated and on behalf of the general public for an alleged violation of the Federal Truth in Lending Act, or TILA, and Business & Professions Code §17200. The judge held that New Century Mortgage had not violated the TILA and dismissed the §17200 claim without prejudice. The plaintiffs appealed in February 2002 and in August 2003, the U.S. Court of Appeals ruled that a material issue of fact as to the existence and terms of the contract remained, reversed summary judgment and remanded the case for further proceedings in the District Court. The parties have settled this matter and stipulated to the dismissal of the case. Our insurance carrier agreed to pay the settlement amount and the carrier will also be reimbursing our attorneys fees and costs incurred through settlement.

Barney. In December 2001, Sandra Barney filed a class action complaint against New Century Mortgage in the Circuit Court in Cook County, Illinois. The complaint alleges the unauthorized practice of law and violation of the Illinois Consumer Fraud Act for performing document preparation services for a fee by non-lawyers, and seeks to recover the fees charged for the document preparation, compensatory and punitive damages, attorneys fees and costs. We filed a motion to dismiss in February 2002. The court thereafter consolidated our case with other similar cases filed against other lenders. In August 2002, the court ordered plaintiffs in all the consolidated cases to dismiss their cases with prejudice. Our individual plaintiff filed her notice of appeal in September 2002 and the appeal was then consolidated with 36 similar cases (Jenkins case).

Appellate argument was heard on December 2, 2003. The appellate court affirmed the dismissal of the consolidated cases on December 31, 2003. The plaintiff then timely filed a petition for leave to appeal the appellate court s decision. Our response to the petition was filed in February 2004. The supreme court granted leave to appeal the consolidated cases, thus consolidating the Jenkins case with a similar appellate action also proceeding in Illinois (King case). The plaintiffs/appellants filed their opening brief in April 2004. We filed our consolidated response brief in July 2004. The plaintiffs/appellants were granted an extension until August 13, 2004 to file their reply brief.

Bernstein. In April 2002, Paul Bernstein filed a class action complaint against New Century Mortgage in the Circuit Court of Cook County, Chicago, Illinois seeking damages for receiving unsolicited advertisements to telephone facsimile machines in violation of the Telephone Consumer Protection Act, 47 U.S.C. §227, and the Illinois Consumer Fraud Act. The plaintiffs filed an amended complaint on May 1, 2003 and on September 18, 2003 the judge granted New Century Mortgage s motion to dismiss with respect to the Illinois Consumer Fraud Act and permitted the plaintiff to replead on an individual, not consolidated, basis. On September 30, 2003, the plaintiff filed a motion for class certification and second amended complaint. The court has consolidated similar cases into three groups. We sought and obtained an order permitting us to join other defendants in this consolidated action and file a motion to dismiss the second amended complaint. Oral argument on our consolidated motion was heard on March 30, 2004. The judge dismissed the Illinois Consumer Fraud count. At the class certification hearing on August 10, 2004, the plaintiffs motion for class certification was withdrawn and the parties agreed to a settlement in principle. We do not believe the settlement will have a material impact. Our insurance carriers have agreed to defend us with a reservation of rights.

Overman. In September 2002, Robert E. Overman and Martin Lemp filed a class action complaint in the Superior Court for the Alameda County, California, against New Century Financial, New Century Mortgage, U.S. Bancorp, Loan Management Services, Inc., and certain individuals affiliated with Loan Management Services. The complaint alleges violations of the California Consumers Legal Remedies Act, Unfair, Unlawful and Deceptive Business and Advertising Practices in violation of Business & Professions Code §§17200 and 17500, Fraud-Misrepresentation and Concealment and Constructive Trust/Breach of Fiduciary Duty and damages including restitution, compensatory and punitive damages, and attorneys fees and costs. The plaintiffs filed an amended complaint in July 2003 and in September 2003 the judge granted our demurrer challenging their claims in part. The Consumers Legal Remedies claim was dismissed and the plaintiffs withdrew the Constructive Trust/Breach of Fiduciary Duty claim. We filed our answer to the plaintiffs amended complaint in September 2003. We then filed a §128.7 sanctions motion seeking dismissal of the case. On December 8, 2003, the court granted the motion for sanctions against the plaintiffs for filing a first amended complaint whose allegations against New Century Financial and New Century Mortgage were devoid of evidentiary support and ordered all those claims stricken without prejudice. On January 27, 2004, the court entered a judgment of dismissal without prejudice in favor of us. Plaintiffs filed a notice of appeal on February 20, 2004 from the judgment entered in our favor and the order granting our motion for sanctions. The plaintiffs also filed a motion with the appellate court to consolidate this appeal with three additional appeals they have sought in similar cases against other lenders. On May 28, 2004, the court denied the motion. The plaintiffs/appellants filed their opening brief on July 12, 2004. The parties stipulated to extend the due date for New Century Financial s response brief to October 8, 2004.

England. In April 2003, we were served with a complaint seeking class action status filed by two former, short-term employees, Kimberly A. England and Gregory M. Foshee, against New Century Financial, New Century Mortgage, Worth Funding (now known as New Century Credit Corporation), and The Anyloan Company. The action was removed on May 12, 2003 from the 19th Judicial District Court, Parish of East Baton Rouge, State of Louisiana to the U.S. District Court for the Middle District of Louisiana in response to our Petition for Removal. The complaint alleges failure to pay overtime wages in violation of the federal Fair Labor Standards Act. The plaintiffs filed an additional action in Louisiana state court (19th Judicial District Court, Parish of East Baton Rouge) on September 8, 2003, adding James Gray as a plaintiff and seeking unpaid wages under state law, with no class claims. This second action was removed on October 3, 2003 to the U.S. District Court for the Middle District of Louisiana, and was ordered consolidated with the first action. In April 2004, the U.S. District Court unilaterally de-consolidated the James Gray individual action. In September 2003, the plaintiffs also filed a motion to dismiss their claims in Louisiana to enable them to join in a subsequently filed case in Minnesota entitled *Klas vs. New Century Financial, et al*. We opposed the motion and the court agreed with our position and refused to dismiss the plaintiffs case, as it was filed first. The *Klas* case has now been consolidated with this case and discovery is proceeding. We filed a motion to dismiss Worth Funding Incorporated (now known as New Century Credit Corporation) and The Anyloan Company as defendants. The court granted our motion to dismiss in April 2004.

Klas. In June 2003, New Century Financial and New Century Mortgage were served with a complaint seeking class action status and alleging failure to pay overtime wages in violation of the federal Fair Labor Standards Act. The case was filed in the U.S. District Court, District of Minnesota, by Michael Klas, a former loan officer of New Century Mortgage s retail branch in Minnesota. We filed our answer in July 2003. Discovery thereafter commenced. In September 2003, we filed a motion to dismiss, transfer or stay the case due to the fact that similar claims were raised in the earlier filed *England* case. The court granted our motion on March 11, 2004, transferring the entire case to Louisiana to be consolidated with the *England* case.

Ines & Marquez. In October 2003, New Century Mortgage was served with a complaint filed by Canales Jose Ines and Maria S. Marquez seeking class action status filed in the U.S. District Court, Northern District of Illinois. The complaint also named the broker, title company and related parties as defendants: Tamayo Financial Title, Inc., Presidential Title, Inc., Juan Tamayo Jr., Jose Tamayo and Luis Tamayo. The complaint alleged violations of the TILA related to the fees charged for title insurance and recording fees. We filed our motion to dismiss in December 2003 and the motion was fully briefed in January 2004. On April 5, 2004, the court granted our motion to dismiss and directed the clerk of the court to enter judgment in our favor and terminate the case from the court s docket. On April 13, 2004, the plaintiffs filed a motion for reconsideration and for leave to amend their complaint. The motion was fully briefed in June 2004. On July 20, 2004, the court denied the plaintiffs motion for reconsideration and the plaintiffs motion for leave to amend.

Wade. In October 2003, New Century Mortgage was served with a complaint filed by Denise Wade seeking class action status filed in the U.S. District Court, Northern District of Illinois. The complaint was filed by the same attorney as the *Ines* case and named the broker, title company, and current servicer: Providential Bancorp, Ltd., Jet Title Services, LLC, and Ocwen Federal Bank, FSB. The complaint similarly alleges violations of the TILA related to the fees charged for title insurance and recording fees. We filed our motion to dismiss in November 2003 and the motion was fully briefed in January 2004. The plaintiff filed a motion to amend in May 2004 and it was fully briefed in June 2004. We await a ruling on both motions.

Lum. In December 2003, New Century Mortgage was served with a class action complaint filed by Elaine Lum in the state court in Suffolk County, New York. The complaint alleged that certain payments New Century Mortgage makes to mortgage brokers, sometimes referred to as yield spread premiums, interfered with the contractual relationship between Ms. Lum and her broker. The complaint also sought damages related thereto for fraud, wrongful inducement/breach of fiduciary duty, violation of deceptive acts and practices, unjust enrichment and commercial bribing. The complaint seeks class certification for similarly situated borrowers in the State of New York. We filed a motion to dismiss on January 30, 2004. The judge granted our motion and dismissed all claims on March 23, 2004. On April 12, 2004, the plaintiff filed a notice of appeal, seeking review of the court s order granting our motion to dismiss.

Warburton. In June 2004, New Century Financial and New Century Mortgage were named as defendants and served with a class action complaint filed by Joseph and Emma Warburton, as plaintiffs, in the United States District Court of New Jersey. The complaint alleges violations of the Real Estate Settlement Procedures Act, the TILA and the New Jersey Consumer Fraud Act, and unjust enrichment. The complaint also alleges certain other violations against defendants unrelated to New Century Financial and New Century Mortgage, including Foxtons, Inc., Foxtons North America, Foxtons Realtor, and Foxtons Financial, Inc., which we refer to collectively as Foxtons, and Worldwide Financial Resources, Inc. The plaintiffs allege, among other things, that Foxtons, acting as the plaintiffs broker, charged fees and received a yield spread premium without disclosing the same to the plaintiffs until the time of closing. The class is defined as all persons in the state of New Jersey who have purchased, or sought to purchase, a home listed for sale by Foxtons and who have paid a prequalification

Table of Contents

application fee, or who have received and accepted an offer from Foxtons for a fixed interest rate mortgage loan that Foxtons failed to deliver as promised and who have suffered damages as a result. The complaint seeks to enjoin the wrongful conduct alleged, recovery of actual and statutory damages, and attorneys fees and costs. The complaint does not specify the amount of damages sought. On July 28, 2004, we filed a motion to dismiss the complaint for failure to state a claim.

Randall. In June 2004, New Century Mortgage was named as a defendant and served with a class action complaint filed by Kristi Lyn Randall, as plaintiff, in the Circuit Court of Cook County, Illinois. The complaint alleges that New Century Mortgage violated Section 4.1a of the Illinois Interest Act by charging more than 3 points on loans with an interest rate of 8% per annum or higher. The complaint also alleges that New Century Mortgage and defendant Nations Title Agency of Illinois, Inc. violated state law by improperly charging certain fees and taxes. The class is defined as all persons who are residents of Illinois who obtained loans from New Century Mortgage (which loans are still outstanding or were paid off within two years prior to the filing of this action) at an interest rate of 8% per annum or higher and were charged more than 3 points on such loans. The complaint seeks recovery of statutory, compensatory, punitive and restitutionary damages, and attorneys fees and costs. The complaint does not specify the amount of damages sought. The plaintiff was granted leave to file an amended complaint on July 21, 2004, which adds Robert and Alice Elibasich as plaintiffs. Our response is due on August 18, 2004. On August 4, 2004, the plaintiffs filed a motion for immediate class certification. Discovery is proceeding.

DOL Investigation. On August 2, 2004, the U.S. Department of Labor, Wage & Hour Division, or DOL, informed us that it is conducting an investigation to determine whether we are in compliance with the Fair Labor Standards Act, or FLSA. We are working with the DOL to seek to narrow the scope of its investigation. We believe we are in compliance with the FLSA and that we properly pay overtime wages.

We are also a party to various legal proceedings arising out of the ordinary course of our business. Management believes that any liability with respect to these legal actions, individually or in the aggregate, will not have a material adverse effect on our business, results of operation or financial position.

Table of Contents

UNAUDITED PRO FORMA CONSOLIDATED CONDENSED FINANCIAL INFORMATION

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

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

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

Table of Contents

New Century Financial Corporation

Unaudited Pro Forma Consolidated Condensed Statement of Operations

For the Six Months Ended June 30, 2004

(in thousands, except per share data)

	As Reported for the Six Months Ended June 30, 2004	Pro Forma Adjustments	Pro Forma for the Six Months Ended June 30, 2004
Revenues:			
Gain on sale of loans	$ 417,027	$	$ 417,027
Interest income	334,905		334,905
Residual interest income	9,358		9,358
Servicing and other income	14,478		14,478
Total revenues	775,768		775,768
Expenses:			
Personnel	189,966		189,966
Interest	123,270		123,270
General and administrative	72,976		72,976
Provision for loan losses on mortgage loans held for investment	36,981		36,981
Advertising and promotion	20,656		20,656
Professional services	13,066		13,066
Total expenses	456,915		456,915
Earnings before income taxes	318,853		318,853
Income taxes	129,231		129,231
Net earnings	$ 189,622	$	$ 189,622
Basic earnings per share	$ 5.72	$	$ 3.85
Diluted earnings per share	$ 4.46	$	$ 3.25
Basic weighted average shares outstanding	33,129	16,081	49,210
Diluted weighted average shares outstanding	43,089	16,081	59,170

See accompanying Notes to Unaudited Pro Forma Consolidated Condensed Financial Statements.

Table of Contents

New Century Financial Corporation

Unaudited Pro Forma Consolidated Condensed Statement of Operations

For the Year Ended December 31, 2003

(in thousands, except per share data)

	As Reported for the Year Ended December 31, 2003	Pro Forma Adjustments	Pro Forma for the Year Ended December 31, 2003
Revenues:			
Gain on sale of loans	$ 611,136	$	$ 611,136
Interest income	329,463		329,463
Residual interest income	24,228		24,228
Servicing income	11,139		11,139
Total revenues	975,966		975,966
Expenses:			
Personnel	248,796		248,796
Interest	117,575		117,575
General and administrative	105,301		105,301
Provision for loan losses on mortgage loans held for investment	26,304		26,304
Advertising and promotion	26,118		26,118
Professional services	28,620		28,620
Total expenses	552,714		552,714
Earnings before income taxes	423,252		423,252
Income taxes	177,769		177,769
Net earnings	$ 245,483	$	$ 245,483
Basic earnings per share	$ 7.26	$	$ 4.92
Diluted earnings per share	$ 6.56	$	$ 4.59
Basic weighted average shares outstanding	33,835	16,081	49,916
Diluted weighted average shares outstanding	37,410	16,081	53,491

See accompanying Notes to Unaudited Pro Forma Consolidated Condensed Financial Statements.

115

New Century Financial Corporation

Unaudited Pro Forma Consolidated Condensed Balance Sheet

As of June 30, 2004

(in thousands except share amounts)

	As Reported at June 30, 2004	Pro Forma Adjustments	Pro Forma at June 30, 2004
Assets			
Cash and cash equivalents	$ 68,891	$ 710,625	$ 779,516
Restricted cash	322,369		322,369
Mortgage loans held for sale, net	4,784,222		4,784,222
Mortgage loans held for investment, net	9,146,472		9,146,472
Residual interests in securitizations	190,827		190,827
Mortgage servicing assets	1,373		1,373
Accrued interest receivable	42,880		42,880
Income taxes, net	67,953		67,953
Office property and equipment	38,609		38,609
Prepaid expenses and other assets	70,114		70,114
Total assets	$ 14,733,710	$ 710,625	$ 15,444,335
Liabilities and Stockholders Equity			
Credit facilities	$ 4,439,518	$	$ 4,439,518
Financing on mortgage loans held for investment, net	9,086,932		9,086,932
Convertible notes, net	205,349		205,349
Notes payable	30,485		30,485
Accounts payable and accrued liabilities	228,089	3,500	231,589
Total liabilities	13,990,373	3,500	13,993,873
Stockholders equity:			
Preferred stock, $0.01 par value. Authorized 7,500,000 shares; no shares issued and outstanding at June 30, 2004			
Common stock, $0.01 par value. Authorized 100,000,000 shares; issued and outstanding 33,905,609 (actual) and 49,986,226 (pro forma) at June 30, 2004	340	161	501
Additional paid-in capital held for investment	49,310	706,964	756,274
Accumulated other comprehensive loss held for investment	16,591		16,591
Retained earnings, restricted	686,061		686,061
	752,302	707,125	1,459,427
Treasury stock, 2,500 shares at June 30, 2004, at cost held for investment	(70)		(70)
Deferred compensation costs	(8,895)		(8,895)
Total stockholders equity	743,337	707,125	1,450,462
Total liabilities and stockholders equity	$ 14,733,710	$ 710,625	$ 15,444,335

See accompanying Notes to Unaudited Pro Forma Consolidated Condensed Financial Statements.

Table of Contents

New Century Financial Corporation

Notes to Unaudited Pro Forma Consolidated

Condensed Financial Statements

June 30, 2004 and December 31, 2003

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

(i) the sale of $750.0 million in common stock, at a price of $46.64, net of underwriters discount of 5.25% and estimated offering expenses of $3.5 million.

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

These adjustments do not necessarily reflect the actual changes that would have occurred if the REIT conversion and related offering had occurred in the first six months of 2004 or 2003 and, therefore, the pro forma consolidated condensed financial statements are not indicative of expected future financial position or operating results.

Table of Contents

SELECTED FINANCIAL DATA

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

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

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

	For the Six Months Ended June 30,		For the Years Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(Dollars in thousands, except per share data)						
Statement of operations data:							
Revenues:							
Gain on sales of loans	$ 417,027	$ 272,084	$ 611,136	$ 451,744	$ 182,612	$ 14,952	$ 121,672
Interest income(1)	334,905	105,863	329,463	122,331	62,706	67,351	61,457
Residual interest income	9,358	12,684	24,228	31,723	36,356	49,868	27,385
Servicing income	13,649	5,821	11,139	432	10,616	30,092	23,428
Other income	829			16	1,046	1,653	
Total revenues	775,768	396,452	975,966	606,246	293,336	163,916	233,942
Expenses(1)	456,915	214,261	552,714	299,910	209,852	200,697	167,056
Earnings (loss) before income taxes	318,853	182,191	423,252	306,336	83,484	(36,781)	66,886
Income taxes (benefit)	129,231	75,637	177,769	126,636	35,464	(13,756)	27,377
Net earnings (loss)	$ 189,622	$ 106,554	$ 245,483	$ 179,700	$ 48,020	($ 23,025)	$ 39,509
Basic earnings (loss) per share	$ 5.72	$ 3.11	$ 7.26	$ 5.19	$ 1.83	($ 1.17)	$ 1.73
Diluted earnings (loss) per share	$ 4.46	$ 2.83	$ 6.56	$ 4.62	$ 1.52	($ 1.17)	$ 1.41
Dividend per share	$ 0.36	$ 0.14	$ 0.33	$ 0.13			

(1) Interest income for the six months ended June 30, 2004 and 2003 includes $176.8 million and $15.9 million, respectively, related to interest earned on mortgage loans receivable held for investment. Expenses for the six months ended June 30, 2004 and 2003 include $66.4 million and $4.5 million, respectively, related to interest expense on financing of mortgage loans held for investment and

$37.0 million and $7.7 million, respectively, related to the provision for loan losses on mortgage loans held for investment. Interest income for the year ended December 31, 2003 includes $104.7 million related to interest earned on mortgage loans receivable held for investment. Expenses for that period include $36.7 million related to interest expense on financing of mortgage loans held for investment and $26.3 million related to the provision for loan losses on mortgage loans held for investment.

Table of Contents

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

	For the Six Months Ended June 30,		For the Years Ended December 31,				
	2004	2003(1)	2003(1)	2002	2001	2000	1999
	(Dollars in thousands)						
Operating statistics:							
Loan origination and purchase activities:							
Wholesale originations	$ 18,781,248	$ 9,561,251	$ 25,187,569	$ 12,392,562	$ 5,068,466	$ 3,041,761	$ 2,894,517
Retail originations	1,910,975	931,217	2,195,269	1,808,934	1,176,505	1,110,596	1,185,747
Total loan originations and purchases	$ 20,692,223	$ 10,492,468	$ 27,382,838	$ 14,201,496	$ 6,244,971	$ 4,152,357	$ 4,080,264
Average principal balance per loan	172	159	167	151	138	108	102
Percent of loans secured by first mortgages	96.5%	98.6%	98.6%	99.6%	99.3%	95.3%	96.7%
Weighted average initial combined loan-to-value ratio	84.4%	81.4%	82.1%	79.6%	78.7%	78.6%	78.8%
Originations by product type:							
ARMs	$ 14,032,610	$ 7,875,089	$ 19,185,517	$ 10,492,558	$ 5,101,783	$ 3,052,481	$ 2,610,475

Fixed-rate mortgages	6,659,613	2,617,379	8,197,321	3,708,938	1,143,188	1,099,876	1,469,789
Weighted average interest rates:							
Fixed-rate mortgages	7.0%	7.9%	7.3%	8.2%	9.5%	11.0%	10.2%
ARMs initial rates	6.8%	7.5%	7.3%	8.3%	9.4%	10.4%	9.8%
ARMs margin over index	5.5%	5.8%	5.8%	6.6%	6.6%	6.2%	6.2%
Secondary market transactions:							
Loans sold through whole loan transactions	$ 13,803,821	$ 9,036,341	$ 20,835,105	$ 12,419,687	$ 4,723,350	$ 3,133,205	$ 1,033,006
Securitizations structured as sales	337,148			845,477	898,244	1,029,477	3,017,658
Loans acquired to securitize							(61,312)
Total sales	14,140,969	9,036,341	20,835,105	13,265,164	5,621,594	4,162,682	3,989,352
Securitizations structured as financings	3,457,776	1,206,015	4,946,781				
Total secondary market transactions	$ 17,598,745	$ 10,242,356	$ 25,781,886	$ 13,265,164	$ 5,621,594	$ 4,162,682	$ 3,989,352

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

119

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Because of the impact of taxes, distributions and the change in business focus following the merger and the REIT conversion, our historical results of operations may not be comparable to the results of our operations following the REIT conversion.

The Company

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

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

Overview

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

Loan origination volumes in our industry have historically fluctuated from year to year and are affected by such external factors as home values, the level of consumer debt and the overall condition of the economy. In addition, the premiums we receive from the secondary market for our loans have also fluctuated, are also influenced by the overall condition of the economy and, more importantly, the interest rate environment. As a consequence, the business of originating and selling loans is cyclical.

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

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

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

Gain on Sale of Loans

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

Net Interest Income

We typically hold our mortgage loans held for sale for a period of 30 to 45 days before they are sold in the secondary market. During that time, we earn the coupon rate of interest paid by the borrower and we pay interest to the lenders that provide our financing facilities. During 2003, the difference between these interest rates was typically in excess of 5%. More recently, the margin has decreased to between 4% and 5% as short-term rates have increased greater than our average coupon rates. We manage the timing of our sales to optimize the net interest income we earn on the loans, while preserving the ability to sell the loans at the maximum price.

Loan Origination or Acquisition Costs

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

Loan Originations and Purchases

As of June 30, 2004, our Wholesale and Retail Divisions operated through 26 regional operating centers. The Wholesale Division originated or purchased $18.8 billion in loans during the six months ended June 30,

Table of Contents

2004. As of June 30, 2004, our Retail Division originated loans through 74 sales offices, including our centralized telemarketing unit. Our Retail Division originated or purchased $1.9 billion in loans during the six months ended June 30, 2004.

During the six months ended June 30, 2004, cash-out refinance loans were 62.1% of our loans, or approximately $12.9 billion, home purchase loans were 32.4% of our loans and rate and term refinancing loans were 5.5%, compared to 63.2%, 21.0% and 15.8% in the first six months of 2003, based on total originations and purchases of $10.5 billion for the same period. Our geographic expansion and focus on increasing our home purchase have resulted in the shift in mix of business between home purchase and rate and term refinance. We believe that if we are successful in maintaining this mix of loan originations by type, our exposure to interest rate cyclically will be reduced.

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

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

Loan Sales and Securitizations

One of our primary sources of revenue is the recognition of gain on sale of our loans through whole loan sales and from 1997 to 2002, off-balance sheet securitizations. In a whole loan sale, we recognize and receive a cash gain upon sale. In an off-balance sheet securitization transaction structured as a sale for financial reporting purposes, we typically recognize a gain on sale at the time the loans are sold, and receive cash flows over the actual life of the loans. The use of a net interest margin transaction, or NIM, concurrent with or shortly after an off-balance sheet securitization transaction allows us to receive a substantial portion of the gain in cash at the closing of the NIM transaction, rather than over the actual life of the loans.

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

	Six Months Ended June 30,	
	2004	**2003**

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

Table of Contents

	For the Years Ended December 31,		
	2003	2002	2001
Premium whole loan sales	$ 20,587,888	12,160,303	4,723,350
Securitizations structured as sales		845,477	898,244
Total premium sales	20,587,888	13,005,780	5,621,594
Discounted whole loan sales	247,217	259,384	
Total sales	20,835,105	13,265,164	5,621,594
Securitizations structured as financings	4,946,781		
Total secondary market transactions	$ 25,781,886	13,265,164	5,621,594

On-Balance Sheet Securitizations

During the six months ended June 30, 2004, we completed two securitizations totaling $3.5 billion, which were structured as on-balance sheet securitizations for accounting purposes under SFAS No. 140. On August 4, 2004, we completed a $1.7 billion securitization structured as an on-balance sheet securitization, which is included in the balance of mortgage loans held for investment at June 30, 2004. The portfolio-based accounting treatment for securitizations structured as financings and recorded on-balance sheet is designed to more closely match the recognition of income with the receipt of cash payments. Also, this on-balance sheet securitization structure is consistent with our strategy to generate primarily cash-based earnings rather than non-cash gain on sale revenue. Because we do not record gain on sale revenue in the period in which the on-balance sheet securitization occurs, the use of such portfolio-based accounting structures will result in lower income in the period in which the securitization occurs than would a traditional off-balance sheet securitization. However, the recognition of income as interest payments are received on the underlying mortgage loans is expected to result in higher income recognition in future periods than would an off-balance sheet securitization. During the six months ended June 30, 2003, we completed two on-balance sheet securitizations totaling $1.2 billion. During the year ended December 31, 2003, we completed five securitizations totaling $4.9 billion, all of which were structured as on-balance sheet securitizations for accounting purposes under generally accepted accounting principles.

Off-Balance Sheet Securitizations

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

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

Table of Contents

In May 2004, Carrington executed a securitization transaction structured as a sale rather than a financing, resulting in the addition of a residual interest totaling $35.7 million. Further, as the securitization was a sale to third parties, we recognized a gain of $13.5 million, which represents the premium paid to us by Carrington to acquire the pool of loans to securitize. This premium was based on market rates for similar transactions at the time of execution.

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

On a quarterly basis, we review the underlying assumptions to value each residual interest and adjust the carrying value of the securities based on actual experience and industry trends. To determine the residual asset value, we project cash flow for each security. To project cash flow, we use base assumptions for the constant prepayment rate, or CPR, and losses for each product type based on historical performance. We update each security to reflect actual performance to date and we adjust base assumptions for CPR and losses based on historical experience to project performance of the security from that date forward. We then use the London Interbank Offered Rate, or LIBOR, forward curve to project future interest rates and compute cash flow projections for each security. We then discount the projected cash flows at a rate commensurate with the risk involved. At June 30, 2004, for securitizations executed prior to 2004, we used discount rates of 12% for residual interests and 14% for residual interests through NIM transactions. For the securitization completed during the second quarter of 2004, we utilize a discount rate of 14.5% on the estimated cash flows. There is not a NIM transaction associated with the 2004 transaction. At December 31, 2003, we used discount rates of 12% for residual interests and 14% for residual interests through NIM transactions.

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

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

Discounted Loan Sales

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

	For the Six Months Ended June 30,

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

Table of Contents

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

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

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

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

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

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

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

Critical Accounting Policies

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

Table of Contents

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

Allowance for Losses on Mortgage Loans Held for Investment

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

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

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

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

Residual Interests in Securitizations

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

We generally structure loan securitizations as follows: First, we sell a portfolio of mortgage loans to a special purpose entity, or SPE, that has been established for the limited purpose of buying and reselling mortgage loans. The SPE then transfers the same mortgage loans to a Real Estate Mortgage Investment Conduit or Owner Trust (the REMIC or Trust), which is a qualifying special purpose entity (QSPE) as defined under Statement of Financial Accounting Standards No. 140 (SFAS 140). The Trust, in turn, issues interest-bearing asset-backed securities (the Certificates) generally in an amount equal to the aggregate principal balance of the mortgage loans. The Certificates are typically sold at face value and without recourse except that we provide representations and warranties customary to the mortgage banking industry to the Trust. One or more investors purchase the Certificates for cash. The Trust uses the cash proceeds to pay us the cash portion of the purchase price for the mortgage loans. The Trust also issues a certificate to us representing a residual interest in the payments on the securitized loans. In addition, we may provide a credit enhancement for the benefit of the investors in the form of additional collateral (Over-collateralization Account or OC Account) held by the Trust. The servicing agreements typically require that the OC Account be maintained at certain levels.

Table of Contents

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

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

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

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

We are entitled to the cash flows from the Residuals that represent collections on the mortgage loans in excess of the amounts required to pay the Certificates principal and interest, the servicing fees and certain other fees, such as trustee and custodial fees. At the end of each collection period, the aggregate cash collections from the mortgage loans are allocated first to the base servicing fees and certain other fees, such as trustee and custodial fees, for the period, then to the Certificate holders for interest at the pass-through rate on the Certificates plus principal as defined in the servicing agreements. If the amount of cash required for the above allocations exceeds the amount collected during the collection period, the shortfall is drawn from the OC Account. If the cash collected during the period exceeds the amount necessary for the above allocation, and there is no shortfall in the related OC Account, the excess is released to us. If the OC Account balance is not at the required credit enhancement level, the excess cash collected is retained in the OC Account until the specified level is achieved. We are restricted from using the cash and collateral in the OC Account. Pursuant to certain servicing agreements, we may use cash held in the OC Account to make accelerated principal paydowns on the Certificates to create additional excess collateral in the OC Account. The specified credit enhancement levels are defined in our servicing agreements as the OC Account balance expressed generally as a percentage of the current collateral principal balance. For NIMS transactions, we receive cash flows once the holders of the Bonds and Certificates created in the NIMS transaction are fully paid.

Table of Contents

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

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

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

Allowance for Repurchase Losses

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

Gain on Sale of Loans

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

We account for loan sales and securitizations as sales when we surrender control of the loans, to the extent that we receive consideration other than beneficial interests in the loans transferred in the exchange. Liabilities

Table of Contents

and derivatives incurred or obtained by the transfer of loans are required to be measured at fair value, if practicable. Also, we measure servicing assets and other retained interests in the loans by allocating the previous carrying value between the loans sold and the interest retained, if any, based on their relative fair values at the date of transfer.

Income Taxes

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

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

Derivative Instruments Designated as Hedges

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

Table of Contents

Results of Operations

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

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

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

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

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Originations and Purchases

We originated and purchased $20.7 billion in loans for the six months ended June 30, 2004, compared to $10.5 billion for the six months ended June 30, 2003. For the six months ended June 30, 2004, full documentation loans as a percentage of total originations totaled $10.9 billion, or 52.9%, limited documentation loans totaled $978.2 million, or 4.7%, and stated documentation loans totaled $8.8 billion, or 42.4%. The weighted average FICO score of our borrowers for the six months ended June 30, 2004 was 628. For the six months ended June 30, 2003, full documentation loans as a percentage of total originations totaled $6.1 billion, or 57.8%, limited documentation loans totaled $559.8 million, or 5.3%, and stated documentation loans totaled $3.9 billion, or 36.9%. The weighted average FICO score of our borrowers for the six months ended June 30, 2003 was 598. Wholesale loan originations and purchases were $18.8 billion, representing 90.8% of total originations and purchases for the six months ended June 30, 2004. Retail loan originations and purchases were

Table of Contents

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

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

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

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

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

Loan Sales and Mortgage Loans Held for Investment

Whole loan sales increased to $14.1 billion for the six months ended June 30, 2004, from $9.0 billion for the corresponding period in 2003, an increase of 56.5%. This increase is the result of an increased inventory of mortgage loans available for sale due to higher production volume, as well as favorable conditions in the whole loan sale market. In addition, we added approximately $5.1 billion to our portfolio of mortgage loans held for investment during the first six months of 2004, compared to the addition of $1.2 billion in mortgage loans held

for investment in 2003, which is consistent with our goal of securitizing approximately 20% of our production through sales structured as financings and recorded on-balance sheet.

Revenues

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

Gain on Sale

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

	Six Months Ended June 30,	
	2004	**2003**
Cash gain from loan sale transactions	$ 554,061	$356,034
Gain from securitization of loans (1)	13,452	
Non-cash gain from servicing asset		7,777
Cash gain on sale of servicing rights		24,110
Provision for repurchase losses	(3,184)	(4,413)
Fair value adjustment of residual securities	(6,770)	1,606
Non-refundable loan fees (2)	104,591	61,836
Premiums paid (3)	(131,460)	(84,262)
Origination costs	(114,700)	(83,900)
Hedging gains (losses)	1,037	(6,704)
Gain on sale of loans	$ 417,027	$ 272,084

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

Interest Income

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

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

Table of Contents

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

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

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

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

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

	Six Months Ended June 30, 2004 Versus June 30, 2003 Changes Due To (In thousands)			
	Volume	Rate	Rate/ Volume	Net
Interest income:				
Mortgage loans held for sale	$ 80,285	(6,408)	(5,723)	68,154
Mortgage loans held for investment	182,643	(1,740)	(19,989)	160,914
Cash and investments	203	(52)	(177)	(26)
Change in interest income	263,131	(8,200)	(25,889)	229,042
Interest expense:				
Credit facilities	31,424	(7,100)	(6,912)	17,412
Financing on mortgage loans held for investment	52,744	718	8,500	61,962
Convertible notes			4,250	4,250
Other borrowings	450	1,062	834	2,346
Change in interest expense	84,618	(5,320)	6,672	85,970
Change in net interest income	$ 178,513	$ (2,880)	$ (32,561)	$ 143,072

Residual Interest Income

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

Servicing Income

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

Table of Contents

Expenses

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

Income Taxes

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

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Originations and Purchases

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

Table of Contents

Loan Sales and Securitizations

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

Revenues

Total revenues for the year ended December 31, 2003 increased by 61.0% to $976.0 million, from $606.2 million for the year ended December 31, 2002. This increase resulted primarily from higher gain on sale of loans, interest income and servicing income in 2003, partially offset by lower residual interest income in 2003. Each of these revenue categories is discussed below.

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

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

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

	For the Years Ended December 31,	
	2003	**2002**
	(In thousands)	
Gain from whole loan sale transactions	$ 861,310	562,049
Non-cash premium (discount) from securitization of loans		(12,051)
Cash gain from securitization of loans		57,081
Non-cash gain from servicing asset	7,777	14,882
Cash gain on sale of servicing rights		12,574
Securitization expenses		(2,706)
Accrued interest		(5,226)
Provision for losses	(5,868)	(50,654)
Fair value adjustment of residual interests	(19,363)	12,067

Non-refundable loan fees(1)	142,745	111,601
Premiums paid(2)	(182,765)	(101,816)
Origination costs	(182,100)	(118,050)
Hedging losses	(10,600)	(28,007)
Gain on sales of loans	$ 611,136	451,744

(1) Non-refundable loan fees represent points and fees collected from borrowers.
(2) Premiums paid represent fees paid to brokers for wholesale loan originations and purchases.

Table of Contents

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

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

Servicing Income. Servicing income increased to $11.1 million for the year ended December 31, 2003, from $432,000 for the year ended December 31, 2002. This increase was due to the re-establishment of our loan servicing platform in the fourth quarter of 2002. The total portfolio of loans serviced by us was $11.6 billion on December 31, 2003, consisting of $3.4 billion of loans held for sale, $5.1 billion of loans sold on a servicing retained basis, and $3.1 billion of interim servicing. At December 31, 2002, the portfolio totaled $4.0 billion and consisted of $1.9 billion of loans held for sale, $0.5 billion of loans sold servicing retained, and $1.6 billion of interim servicing. Interim servicing represents loans sold to whole loan investors for which the servicing has not yet been transferred to the new investor.

Expenses

Operating expenses increased 84.3% to $552.7 million for the year ended December 31, 2003, compared to $299.9 million for the comparable period in 2002, due primarily to increases in personnel, interest expense, and professional services.

Personnel expenses increased to $248.8 million for the year ended December 31, 2003, from $149.1 million for the same period in 2002, an increase of 66.9%, as a result of increased staffing to accommodate higher loan origination and purchase volume. Total staffing was 3,752 on December 31, 2003, compared to 2,487 on December 31, 2002, an increase of 50.9%. In addition, personnel expenses increased in 2003 compared to 2002 as a result of higher commission expense in 2003 due to higher production volume.

Interest expense increased to $117.6 million for the year ended December 31, 2003, from $50.6 million for the same period in 2002, primarily due to an increase in average outstanding balances on our warehouse and aggregation lines due to higher production volume, as well as interest expense on the financing on the mortgage loans held for investment and convertible notes, partially offset by a lower average interest rate on our borrowings during 2003.

Professional services expense increased to $28.6 million for the year ended December 31, 2003, from $10.4 million for the same period in 2002, primarily due to increased legal and accounting fees. Legal and accounting fees increased as a result of an overall increase in our size, as well as an increase in litigation expenses due a legal dispute with a former employee, which was resolved in 2003.

Income Taxes

Income taxes increased to $177.8 million for the year ended December 31, 2003 from $126.6 million for the comparable period in 2002. This increase resulted from greater pretax income resulting from our higher production and sales volume, combined with an increase in the effective tax rate to 42.0% for the year ended December 31, 2003, from 41.3% for the comparable period in 2002. The increase in the effective tax rate for 2003 was the result of a recent state tax law change that related to a captive real estate investment trust we established in 2002 as a subsidiary of NC Capital to hold our residual interests.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Originations and Purchases

We originated and purchased $14.2 billion in loans for the year ended December 31, 2002, compared to $6.2 billion for the year ended December 31, 2001, an increase of 129.0%. Wholesale loan originations and purchases were $12.1 billion, or 85.3%, of total originations and purchases for the year ended December 31, 2002. Retail loan originations and purchases were $2.1 billion, or 14.7%, of total originations and purchases for the year ended December 31, 2002. For the same period in 2001, wholesale and retail originations and purchases totaled $5.1 billion, or 81.2%, and $1.2 billion, or 18.8%, respectively, of total originations and purchases. These increases are a result of our geographic expansion efforts, as well as an increase in our market share.

Loan Sales and Securitizations

Whole loan sales increased to $12.4 billion for the year ended December 31, 2002, from $4.7 billion for the corresponding period in 2001, an increase of 163.8%. This increase is the result of higher production volume in 2002 due to our geographic expansion, an increase in market share and a favorable interest rate environment, as well as an increase in the percentage of whole loan sales versus securitizations in 2002. Loans sold through whole loan sales represented 93.6% of total loan sales in the year ended December 31, 2002, compared to 84.0% for the corresponding period in 2001. Securitizations decreased to $845.5 million for the year ended December 31, 2002, from $898.2 million for the comparable period in 2001, a decrease of 5.9%.

Revenues

Total revenues for the year ended December 31, 2002 increased by 106.7% to $606.2 million, from $293.3 million for the year ended December 31, 2001. This increase resulted was higher primarily due to higher gain on sale of loans and interest income in 2002, which resulted from the higher production volume, and was partially offset by a decrease in servicing income.

Gain On Sale. The components of the gain on sale of loans are illustrated in the following table:

	For the Years Ended December 31,	
	2002	**2001**
	(In thousands)	
Gain from whole loan sale transactions	$ 562,049	170,717
Gain from securitizations of loans	(12,051)	15,894
Cash gain from securitizations of loans	57,081	4,938
Non-cash gain from servicing asset	14,882	32,402
Cash gain on sale of servicing rights	12,574	11,273

Securitization expenses	(2,706)	(3,820)
Accrued interest	(5,226)	(4,455)
Provision for losses	(50,654)	(15,106)
Fair value adjustment of residual interests	12,067	
Non-refundable loan fees(1)	111,601	67,645
Premiums paid(2)	(101,816)	(30,242