

NEW CENTURY FINANCIAL CORP
Form S-3
October 14, 2004
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As filed with the Securities and Exchange Commission on October 14, 2004

Registration No. 333-109727

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

POST-EFFECTIVE AMENDMENT NO. 3 TO FORM S-3

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

NEW CENTURY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Maryland
(State of other jurisdiction of

incorporation or organization)

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

NEW CENTURY TRS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of other jurisdiction of

incorporation or organization)

33-0683629
(I.R.S. Employer Identification No.)

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18400 Von Karman Avenue, Suite 1000

Irvine, California 92612

(949) 440-7030

(Address, including zip code, and telephone number, including area code, of registrants principal executive offices)

Brad A. Morrice

Vice Chairman, President and Chief Operating Officer

New Century Financial Corporation

18400 Von Karman, Suite 1000

Irvine, California 92612

(949) 440-7030

Copies to:

Peter T. Healy, Esq.

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San Francisco, California 94111

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

Approximate date of commencement of proposed sale to the public:

From time to time after the effective date of this registration statement.

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

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

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

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

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

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Title of each class of shares to be registered	Amount to be registered	Proposed maximum offering price	Amount of registration fee
3.50% Convertible Senior Notes Due 2008 of New Century TRS Holdings, Inc.	N/A(1)	N/A(1)	N/A(1)
New Century Financial Corporation common stock, par value \$0.01 per share(2)	7,418,754(3)	\$426,207,417(4)	\$54,001(4)

- (1) A registration fee of \$19,092 was paid in connection with the Registration Statement (333-109727) on Form S-3 of New Century TRS Holdings, Inc. (formerly known as New Century Financial Corporation), a Delaware corporation (New Century TRS), as filed with the Securities and Exchange Commission on October 15, 2003.
- (2) In connection with the merger of a wholly-owned subsidiary of New Century Financial Corporation, a Maryland corporation (formerly known as New Century REIT, Inc.) (New Century Financial), with and into New Century TRS, the then-outstanding shares of New Century TRS common stock were cancelled and converted into the right to receive shares of New Century Financial common stock on a one-for-one basis. As a result of the merger, the 3.50% convertible senior notes due 2008 of New Century TRS, which were convertible into shares of New Century TRS common stock prior to the merger, became convertible into shares of New Century Financial common stock. No consideration was received by New Century Financial from holders of the notes in connection with the merger.
- (3) Represents the maximum number of shares of New Century Financial common stock issuable upon conversion of the notes held by the selling securityholders named in the prospectus contained herein and any supplements thereto. Pursuant to Rule 416 under the Securities Act, such number of shares of New Century Financial common stock registered hereby shall include an indeterminate number of shares of New Century Financial common stock that may be issued in connection with a stock split, stock dividend, recapitalization or similar event or other adjustment in the number of shares of New Century Financial common stock issuable or provided in the indenture governing the notes.
- (4) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act, based on the market value of New Century Financial common stock being registered, as established by the average of the high and low prices of New Century Financial common stock as reported on the New York Stock Exchange on October 11, 2004, which was \$57.45.

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

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EXPLANATORY NOTE

This Registration Statement on Form S-3 and Post-Effective Amendment No. 3 to the Original Registration Statement (as defined below) is being filed under the Securities Act of 1933, as amended (the Securities Act), jointly by New Century Financial Corporation, a Maryland corporation (New Century Financial), and New Century TRS Holdings, Inc., a Delaware corporation (New Century TRS), respectively.

On October 15, 2003, New Century TRS initially filed Registration Statement (333-109727) on Form S-3 (the Original Registration Statement) with the Securities and Exchange Commission, registering the \$210,000,000 principal amount of 3.50% convertible senior notes issued by New Century TRS (the notes), and the shares of common stock of New Century TRS (New Century TRS common stock) issuable upon conversion of the notes.

On October 1, 2004, New Century TRS became a wholly-owned subsidiary of New Century Financial through the merger of a wholly-owned subsidiary of New Century Financial with and into New Century TRS, and each then-outstanding share of New Century TRS common stock was converted into one share of common stock of New Century Financial (New Century Financial common stock). As a result of the merger, the notes became convertible into shares of New Century Financial common stock. Also in connection with the merger, New Century Financial, New Century TRS and the trustee under the indenture governing the notes entered into a supplemental indenture whereby New Century Financial agreed to, among other things, issue New Century Financial common stock upon conversion of the notes.

This joint registration statement registers the New Century Financial common stock issuable upon conversion of the notes and the resale of New Century Financial common stock by selling securityholders from time to time. This registration statement also is a post-effective amendment to the Original Registration Statement with respect to the notes which revises the Original Registration Statement to reflect the completion of the merger and the right to receive New Century Financial common stock upon conversion of the notes. In addition, because the notes are no longer convertible into New Century TRS common stock, New Century TRS hereby removes and withdraws from registration all shares of New Century TRS common stock registered pursuant to the Original Registration Statement.

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

SUBJECT TO COMPLETION, DATED OCTOBER 14, 2004

PRELIMINARY PROSPECTUS

NEW CENTURY TRS HOLDINGS, INC.

\$210,000,000

3.50% Convertible Senior Notes Due 2008

NEW CENTURY FINANCIAL CORPORATION

Up to 7,418,754 Shares of

Common Stock Into Which the Notes May Be Converted

In connection with the plan to restructure the operations of New Century Financial Corporation, or New Century Financial, in order to allow it to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes, on October 1, 2004, New Century TRS Holdings, Inc., or New Century TRS, became a wholly-owned subsidiary of New Century Financial through a merger transaction in which each outstanding share of New Century TRS common stock was converted into the right to receive one share of New Century Financial common stock. In connection with the merger, the 3.50% Convertible Senior Notes due July 3, 2008 issued by New Century TRS became convertible into shares of New Century Financial common stock.

This prospectus relates to the New Century TRS notes and the shares of New Century Financial common stock into which the notes may be converted. The notes are convertible at any time prior to maturity into shares of New Century Financial common stock at a conversion price of approximately \$34.80 per share (subject to certain adjustments). This is equivalent to a conversion rate of approximately 28.7366 shares per \$1,000 principal amount of the notes. Upon conversion, New Century TRS will have the right to deliver cash in lieu of shares of New Century Financial common stock or to deliver a combination of cash and shares of New Century Financial common stock. The notes are the general

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unsecured obligations of New Century TRS, ranking on a parity in right of payment with all of New Century TRS's existing and future unsecured senior indebtedness and its other general unsecured obligations, and senior in right of payment to all its future subordinated indebtedness.

The interest rate on the notes is an annual rate of 3.50% of the principal amount. Interest on the notes is payable in cash on January 3 and July 3 of each year until maturity. At maturity, on July 3, 2008, New Century TRS will have the right to redeem the notes at their principal amount.

You may require New Century TRS to repurchase all or a portion of your notes, subject to specified exceptions, upon the occurrence of a fundamental change as described herein under "Description of Notes-Repurchase of Notes at a Holder's Option Upon a Fundamental Change."

The notes are not listed on any national securities exchange or quoted on any over-the-counter market. New Century Financial's common stock is quoted on the New York Stock Exchange, or NYSE, under the symbol "NEW." The last reported bid price of New Century Financial common stock on October 13, 2004 was \$57.35 per share.

Investing in the notes or New Century Financial common stock involves risks.

See "Risk Factors" beginning on page 9.

Neither New Century TRS nor New Century Financial will receive any proceeds from the sale of the notes or the shares of New Century Financial common stock into which the notes may be converted by any selling securityholders. The notes and New Century Financial common stock may be offered in negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices. In addition, the shares of New Century Financial common stock may be offered from time to time through ordinary brokerage transactions on the NYSE. The selling securityholders may be deemed to be "underwriters" as defined in the Securities Act of 1933, as amended, or the Securities Act. If the selling securityholders use any broker-dealers, any commission paid to broker-dealers and, if broker-dealers purchase any notes or shares of New Century Financial common stock as principals, any profits received by such broker-dealers on the resale of the notes or shares of New Century Financial common stock, may be deemed to be underwriting discounts or commissions under the Securities Act.

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

The date of this prospectus is October 13, 2004

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SUMMARY

This summary contains basic information about us and this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read this entire prospectus carefully, including the section titled "Risk Factors" and our financial statements and the notes thereto, which are incorporated into this prospectus by reference, before making an investment in the notes or New Century Financial common stock. As used in this prospectus, except where the context otherwise requires or as otherwise indicated, "New Century Financial," "company," "we," "our," and "us" refer to New Century Financial Corporation and our subsidiaries, including New Century TRS.

New Century Financial Corporation

Our Business

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 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 risks associated with this segment of the mortgage industry.

Recent Developments

The REIT conversion

On April 5, 2004, the board of directors of New Century TRS, formerly known as New Century Financial Corporation, approved a plan to change its capital structure to enable it to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes. The decision to convert to a REIT was based on several factors, including the potential for increased stockholder return, tax efficiency and ability to achieve growth objectives. On April 19, 2004, the board of directors of New Century TRS approved certain legal and financial matters related to the proposed REIT conversion.

On April 12, 2004, New Century TRS formed New Century Financial Corporation, a Maryland corporation formerly known as New Century REIT, Inc. On September 15, 2004, the stockholders of New Century TRS approved and adopted the merger agreement which implemented the restructuring of New Century Financial in order for it to qualify as a REIT.

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Pursuant to the merger agreement, (i) a wholly-owned subsidiary of New Century Financial merged with and into New Century TRS, with New Century TRS as the surviving corporation, (ii) each outstanding share of common stock of New Century TRS was converted into the right to receive one share of New Century Financial common stock, (iii) New Century TRS became a wholly-owned subsidiary of New Century Financial and (iv) New Century REIT, Inc. changed its name to New Century Financial Corporation. The merger was consummated and became effective on October 1, 2004.

As part of the REIT conversion transactions, on October 6, 2004, New Century Financial consummated a public offering of 13,500,000 shares of its common stock at \$58.00 per share, for gross proceeds of approximately \$783.0 million. New Century Financial granted the underwriters an option, exercisable for 30 days, to purchase up to 2,025,000 additional shares of its common stock to cover over-allotments, if any.

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Concurrent with closing of the public offering, New Century Financial sold 636,885 shares of its common stock in a private placement transaction to Friedman, Billings, Ramsey Group, Inc. for gross proceeds of approximately \$35.0 million. New Century Financial agreed to register for resale shares purchased by Friedman, Billings, Ramsey Group, Inc. in the private placement. The registration rights agreement requires that New Century Financial file a registration statement 180 days after the closing of the private placement but no later than 210 days after such date.

We intend to use the net proceeds of the public offering and the concurrent private placement for general working capital purposes, substantially all of which will be used to build a portfolio of self-originated mortgage loans and, if necessary to maintain our REIT status, to purchase mortgage-related assets from third parties.

Effect of the merger and related transactions on the notes

The notes became convertible into shares of common stock of New Century TRS on March 17, 2004 under the terms of the indenture governing the notes. As a result of the merger, the notes became convertible into shares of New Century Financial common stock at the same conversion rate as in effect on the date of the merger, subject to further adjustments upon the occurrence of certain events. On September 30, 2004, New Century Financial, New Century TRS and the trustee under the indenture entered into a supplemental indenture pursuant to which New Century Financial will be obligated to issue its common stock upon conversion of the notes and New Century TRS will remain responsible for all other obligations under the indenture.

Changes in our business as a result of the merger

Now that the merger and the related public offering have been completed, we expect that a significant source of our revenue will be interest income generated from our portfolio of mortgage loans held by New Century Financial's taxable REIT subsidiaries (including New Century TRS) and, over time, a growing portion by New Century Financial and its qualified REIT subsidiaries. We also expect to generate revenue from the sale of loans, servicing income and loan origination fees, all of which we initially expect to be generated by New Century Financial's taxable REIT subsidiaries (including New Century TRS). We expect the primary components of our expenses 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.

We intend to continue to sell loans through New Century Financial's taxable REIT subsidiaries (including New Century TRS) 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 the taxable REIT subsidiaries in such subsidiaries, enabling us to increase our capital and provide for future growth.

As a result of the merger and the related transactions, we expect that we will make certain changes to our business operations, some of 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 New Century TRS's taxable REIT subsidiaries, including New Century Mortgage Corporation, our indirect subsidiary, in accordance with our existing policies, procedures and underwriting guidelines. In addition, we expect to be able to

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originate mortgage loans in a majority of states through us or one or more of our qualified REIT subsidiaries, including New Century Credit Corporation, or New Century Credit. Over time, we expect that we and/or one or more of our qualified REIT subsidiaries will become authorized to originate mortgage loans in the remaining states in which we or they are not currently authorized.

Loan sales. Prior to the merger, New Century TRS sold most of its loans through whole loan sales or securitizations through NC Capital Corporation, our indirect subsidiary. We now intend to conduct

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non-real estate mortgage investment conduit (REMIC) collateralized mortgage obligation (CMO) securitization activities in one of our qualified REIT subsidiaries, such as New Century Mortgage Securities LLC, or NCMS. Non-REMIC CMOs 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 our conversion to a REIT, we will purchase loans from New Century TRS or one or more of its taxable REIT subsidiaries in arm's-length transactions at fair market value in order to enable us 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 our conversion to a REIT, we and our qualified REIT subsidiaries intend to obtain short-term financing commitments to originate loans. To the extent retained by us, these loans will be financed through longer-term securitizations. We expect that New Century TRS will make these financings available to us in connection with the REIT conversion.

Long-term financing. We expect to continue financing our loan portfolio for the long-term through securitizations. If we or one of our qualified REIT subsidiaries were to securitize mortgage assets on a regular basis (other than through the issuance of non-real estate mortgage investment conduit collateralized mortgage obligation securitizations), 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-real estate mortgage investment conduit collateralized mortgage obligation securitizations, 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 assets that we hold or the amount of future interest payments on the related liabilities. 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 Financial. As a result, we may be required to conduct some hedging activities through one or more of New Century Financial's taxable REIT subsidiaries (including New Century TRS), which will subject the related hedging income to corporate income tax and, in some circumstances, may impair our ability to mitigate interest rate risk.

Our Corporate Information

New Century Financial was formed as a Maryland corporation in April 2004. New Century Financial's common stock has been listed on the NYSE under the symbol NEW since October 1, 2004. New Century TRS was formed as a Delaware corporation in 1995. Prior to October 1, 2004, New Century TRS's common stock was quoted on The Nasdaq National Market under the symbol NCEN; those shares are no longer listed on any national securities exchange or quoted on any over-the-counter market. Our principal executive offices are located at 18400 Von Karman Avenue, Suite 1000, Irvine, California 92612, our telephone number at that location is (949) 440-7030 and our Internet website is www.ncen.com. The contents of our website are not part of this prospectus.

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Terms of the Notes

Issuer	New Century TRS Holdings, Inc.
Seller	One or more of the selling securityholders. See Selling Securityholders. Neither we nor New Century TRS are selling any of the securities.
Securities Offered	<p>\$210,000,000 principal amount of 3.50% Convertible Senior Notes due July 3, 2008 issued by New Century TRS.</p> <p>Shares of common stock of New Century Financial into which the notes may be converted.</p>
Issue Price	100% of the principal amount.
Maturity Date	July 3, 2008.
Interest	3.50% per year on the principal amount at maturity, payable semiannually in arrears on January 3 and July 3 of each year, beginning on January 3, 2004, calculated semiannually on the basis of a 360-day year comprised of twelve 30-day months.
Ranking	The notes are general unsecured obligations of New Century TRS, ranking on a parity in right of payment with all of its existing and future unsecured senior indebtedness, and senior in right of payment with all its future subordinated indebtedness. The notes are effectively subordinated to the claims of all creditors of New Century TRS's subsidiaries. See Description of Notes Ranking.
Conversion Rights	<p>Holders may convert the notes prior to stated maturity, in multiples of \$1,000 principal amount, at any time at the option of the holder under the following circumstances:</p> <ul style="list-style-type: none"> (i) if the closing sale price of New Century Financial common stock for at least 20 trading days in the 30 trading day period ending on the last day of the preceding calendar quarter is greater than or equal to 110% of the conversion price per share of common stock, after which the notes will remain convertible until maturity; (ii) during the 5 consecutive trading day period after any 10 consecutive trading day period in which the price of the notes for each day of such period was less than 105% of the conversion value (as described herein) and the conversion value for each day of such period was less than 90% of the principal amount per note, which we refer to as the note price conditions ; (iii) if the notes are rated subsequent to their issuance, during any period in which the credit rating initially assigned to the notes by either Moody's Investors Service, Inc. or Standard & Poor's Rating Services is downgraded by two or

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more rating levels or cease to be rated, provided that we have no obligation to have the notes rated; or

- (iv) upon the occurrence of specified corporate transactions described in this prospectus under Description of Notes Conversion of Notes.

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We refer to the number of shares of New Century Financial common stock into which each note is convertible as the conversion rate. The conversion rate is subject to adjustment under certain circumstances and has been equitably adjusted to account for the effects of New Century TRS three-for-two stock split effected through a stock dividend paid on July 11, 2003.

Upon a conversion of a note following satisfaction of the conditions in paragraph (ii) above, New Century TRS will deliver, at its election, a number of shares of New Century Financial common stock equal to the lesser of (a) the conversion rate of the note, or (b) the quotient obtained by dividing the principal amount of such note by the closing price of New Century Financial common stock on the trading day immediately before the date of conversion, subject to New Century TRS right to pay cash in lieu of issuing shares of New Century Financial common stock or to deliver a combination of New Century Financial common stock and cash.

Upon a conversion of a note following satisfaction of the conditions in paragraphs (i), (iii) or (iv) above, New Century TRS will deliver, at its election, either a number of shares of New Century Financial common stock equal to the conversion rate of the note, cash in lieu of issuing shares or a combination of New Century Financial common stock and cash in an amount equal to the conversion rate of the note.

The notes became convertible into shares of New Century TRS common stock on March 17, 2004 pursuant to paragraph (i) above. As a result of the merger, the notes became convertible into shares of New Century Financial common stock and will remain convertible until maturity. The notes are currently convertible prior to maturity at a rate of 28.7366 shares of New Century Financial common stock per \$1,000 principal amount of the notes (equivalent to a conversion price of approximately \$34.80 per share), subject to New Century TRS right to pay cash in lieu of issuing shares of New Century Financial common stock or to deliver a combination of cash and shares of New Century Financial common stock.

Sinking Fund

None.

Optional Redemption

The notes are not subject to redemption at New Century TRS option prior to maturity.

Repurchase of Notes at Your Option Upon a Fundamental Change

Upon the occurrence of a fundamental change, as described in this prospectus, holders of the notes will have the right to require New Century TRS to repurchase for cash all or a portion of the notes at a price equal to 100% of their principal amount plus accrued and unpaid interest (including additional amounts). See Description of Notes Repurchase of Notes at a Holder's Option Upon a Fundamental Change.

Use of Proceeds

Neither New Century Financial nor New Century TRS will receive any proceeds from the sale of the notes or the shares of New Century Financial common stock offered by this prospectus.

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Trading

The notes issued in the initial private offering are eligible for trading on Nasdaq's screen-based automated trading system known as PORTAL, Private Offerings, Resale and Trading through Automated Linkages. However, notes sold under this prospectus will not be eligible for trading in the PORTAL market. The notes are not currently listed and neither we nor New Century TRS intend to list the notes on any national securities exchange or have them quoted on any over-the-counter market. We can give no assurance as to the liquidity of or trading market for the notes. The common stock of New Century Financial is traded on the NYSE under the symbol NEW.

Risk Factors

Investment in the New Century TRS notes or New Century Financial common stock involves significant risks. You should carefully consider the information under Risk Factors and all other information included in this prospectus or incorporated herein by reference before investing in the New Century TRS notes or New Century Financial common stock.

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

our business strategy;

our understanding of our competition;

market trends;

projected sources and uses of funds from operations;

potential liability with respect to legal proceedings; and

potential effects of proposed legislation and regulatory action.

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

those identified under Risk Factors ;

those identified from time to time in our or New Century TRS 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;

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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;

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

our ability to adequately hedge our residual values;

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 prospectus after the date of this prospectus, even if subsequent events cause us to become aware of new risks or cause our expectations to change regarding the forward-looking matters discussed in this prospectus. We have identified some of the important factors that could cause future events to differ from our current expectations and they are described in this prospectus under the caption "Risk Factors" as well as in our or New Century TRS's most recent Annual Report on Form 10-K, as amended, all of which you should review carefully. Please consider our forward-looking statements in light of those risks as you read this prospectus.

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

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RISK FACTORS

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

Risks Related to the New Century TRS Notes

The notes are subordinated to all of New Century TRS's secured indebtedness and effectively subordinated to indebtedness of New Century TRS's subsidiaries.

The notes are unsecured senior obligations of New Century TRS (and not New Century Financial) and will not be guaranteed by New Century Financial or any of New Century TRS's subsidiaries. Accordingly, the notes will be junior to all of New Century TRS's current and future secured indebtedness. As of June 30, 2004, New Century TRS had nine short-term warehouse and aggregation credit facilities and our asset-backed commercial paper facility providing it with approximately \$8.6 billion of committed and \$2.0 billion of uncommitted borrowing capacity that is senior to the notes.

New Century TRS's right to receive any distribution of assets of any subsidiary upon that subsidiary's liquidation, reorganization or otherwise, is subject to the prior claims of creditors of that subsidiary, except to the extent New Century TRS is also recognized as a creditor of that subsidiary. Further, several of New Century TRS's warehouse and repurchase facilities are structured such that the obligation is of New Century TRS's Delaware business trust subsidiaries, which would protect the lender's interest in the collateral in the event of a liquidation or reorganization of the issuer. As a result, the notes are effectively subordinated to the claims of such creditors.

There are no restrictive covenants in the indenture relating to New Century TRS's ability to incur future indebtedness.

Although New Century TRS is subject to restrictive covenants under instruments governing certain of its other existing indebtedness, the indenture governing the notes does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness, transactions with affiliates, incurrence of liens or the issuance or repurchase of securities by us or any of our subsidiaries, including New Century TRS. New Century TRS may therefore incur additional debt, including secured indebtedness senior to the notes, or indebtedness at the subsidiary level to which the notes would be structurally subordinated.

A higher level of indebtedness increases the risk that New Century TRS may default on its debt obligations. New Century TRS cannot assure you that it will be able to generate sufficient cash flow to pay the interest on its debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt. The indenture contains no covenants or other provisions to afford protection to holders of the notes in the event of a fundamental change except to the extent described under "Description of Notes—Repurchase of Notes at a Holder's Option Upon a Fundamental Change."

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Upon conversion of the notes, New Century TRS will have the right to pay cash in lieu of issuing shares of New Century Financial common stock.

New Century TRS has the right to elect to satisfy its conversion obligation to holders by issuing either New Century Financial common stock into which the notes are convertible, the cash value of the New Century Financial common stock into which the notes are convertible, or a combination thereof. Accordingly, upon conversion of a note, the holder might not receive any shares of New Century Financial common stock, or the holder might receive fewer shares of New Century Financial common stock relative to the conversion value of the note. Further, New Century TRS's liquidity may be reduced to the extent it chooses to deliver cash rather than shares of New Century Financial common stock upon conversion of notes.

New Century TRS is a holding company, and it may not have access to the cash flow and other assets of its subsidiaries that may be needed to make payment on the notes.

Although all of New Century TRS's business is conducted through its subsidiaries, none of its subsidiaries is obligated to make funds available to New Century TRS for payment on its indebtedness, including the notes. Accordingly, New Century TRS's ability to make payments on the notes is dependent on the earnings and the distribution of funds from its subsidiaries. New Century TRS's subsidiaries are permitted under the terms of New Century TRS's indebtedness to incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by New Century TRS's subsidiaries to New Century TRS. We cannot assure you that the agreements governing the current and future indebtedness of New Century TRS's subsidiaries will permit its subsidiaries to provide New Century TRS with sufficient dividends, distributions or loans to fund payments on the notes when due.

New Century TRS may not have the funds necessary to purchase the notes upon a fundamental change or other purchase date, as required by the indenture governing the notes.

Holders may require New Century TRS to purchase their notes upon a fundamental change as described under "Description of Notes—Repurchase of Notes at a Holder's Option Upon a Fundamental Change." If New Century TRS does not have access to sufficient funds to repurchase the notes, then it would not be able to repurchase the notes. We expect that New Century TRS would require third-party financing to repay the notes in the event holders require New Century TRS to purchase their notes upon a fundamental change, but New Century TRS may not be able to obtain that financing on favorable terms or at all.

If an active trading market does not develop for the notes, holders may not be able to resell them.

We cannot assure you that an active trading market will develop or be sustained for the notes or that you will be able to sell your notes. Neither we nor New Century TRS intend to list the notes on any national securities exchange or to seek the admission of the notes for trading on the NYSE or any other national or regional securities exchange or over-the-counter market. In addition, while the notes issued in the initial private offering have been designated for trading in the PORTAL market, notes sold using this prospectus will no longer be eligible for trading in the PORTAL market.

In addition, under the registration rights agreement New Century TRS entered into in connection with its sale of the notes, New Century TRS is permitted to suspend the use of the registration statement containing this prospectus for specific periods of time for certain reasons.

Further, even if a public market for the notes develops, the notes could trade at prices that may be lower than the price at which you purchased your notes depending on many factors, including prevailing interest rates and the market for similar securities, general economic conditions and our financial condition, performance and prospects. The liquidity of, and the trading market for, the notes may be harmed by general declines or disruptions in the market for non-investment grade debt.

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The conversion rate of the notes may not be adjusted for all dilutive events.

The conversion rate of the notes is subject to adjustments for certain events, including but not limited to the issuance of stock dividends on New Century Financial common stock, the issuance of rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness or assets, extraordinary cash dividends and issuer tender or exchange offers as described under Description of Notes Conversion of Notes. The conversion rate will not be adjusted for other events, such as third party tender or exchange offers, that may harm the trading price of the notes or the New Century Financial common stock into which such notes may be convertible. The conversion rate of the notes has been equitably adjusted to account for the effects of New Century TRS's three-for-two stock split effected by a stock dividend paid on July 11, 2003. After giving effect to the stock split, the conversion rate is 28.7366 shares of common stock per \$1,000 principal amount of the notes (equivalent to a conversion price of approximately \$34.80 per share).

Hedging transactions and other transactions may harm the value of the notes.

New Century TRS used a portion of the net proceeds from the sale of the notes to purchase a call option on New Century TRS common stock from an affiliate of Bear, Stearns & Co. Inc., which is expected to reduce potential dilution from conversion of the notes. The cost of this call option was partially offset by the sale to an affiliate of Bear, Stearns & Co. Inc. of a warrant to acquire shares of New Century TRS common stock. As a consequence of the merger, the warrant and related call option are exercisable into shares of New Century Financial common stock instead of New Century TRS common stock. In connection with these hedging arrangements, Bear, Stearns & Co. Inc. and its affiliates may take positions in New Century Financial common stock in secondary market transactions and/or will enter into various derivative transactions. Such hedging arrangements could affect the price of New Century Financial common stock. Bear, Stearns & Co. Inc. and its affiliates, or any transferee of any of its positions, may modify its hedge positions from time to time prior to conversion or maturity of the notes by purchasing and selling shares of New Century Financial common stock, our other securities or other instruments they may wish to use in connection with such hedging. Such activity may adversely affect the market price of New Century Financial common stock. In addition, the existence of the notes may encourage short selling in New Century Financial common stock by market participants because the conversion of the notes could depress the price of New Century Financial common stock.

The notes may not be rated by one or more rating agencies or may receive a lower rating than anticipated.

One or more rating agencies may rate the notes. If one or more rating agencies assign the notes a rating lower than expected by investors, or do not rate the notes, the market price of the notes and New Century Financial common stock would be harmed.

Risks Related to Our Business

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

To qualify as a REIT under the Internal Revenue Code, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gains). After-tax earnings generated by our taxable REIT subsidiaries and not distributed to us are not subject to these distribution requirements and may be retained by such subsidiaries to provide for future growth, subject to the limitations imposed by REIT tax rules. Immediately after this offering, a substantial

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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.

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

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

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

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

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

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

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

we may not have enough capital, including net proceeds from the public offering and the concurrent private placement 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.

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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 cease providing financing to us on favorable terms, we would be forced to liquidate some or all of these securities, possibly at a substantial loss, which could harm our financial condition, results of operations and business prospects.

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

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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.

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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 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

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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.

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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.

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

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

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

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

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

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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.

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

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mortgage-related assets with favorable yields over our borrowing costs, which could harm our results of operations, financial condition and business prospects.

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

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

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

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

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.

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

In March 2001, we sold to Ocwen Federal Bank FSB the servicing rights on \$4.8 billion of our servicing portfolio, which consisted of 25 separate asset-backed securities. In August 2001, Ocwen began servicing all of

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

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

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

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

When we originate mortgage loans, we rely heavily upon information supplied by third parties, including the information contained in the loan application, property appraisal, title information and employment and income documentation. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, the mortgage broker, another third party or one of our employees, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsaleable or subject to repurchase if it is sold prior to detection of the misrepresentation, and the persons and entities involved are often difficult to locate and it is often difficult to collect any monetary losses that we have suffered from them.

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

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

The mortgage brokers from which we obtain loans have parallel and separate legal obligations to which they are subject. While these laws may not explicitly hold the originating lenders responsible for the legal violations of mortgage brokers, increasingly federal and state agencies have sought to impose such liability on parties that take assignments of such loans. Recently, for example, the United States Federal Trade

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Commission, or FTC, entered into a settlement agreement with a mortgage lender where the FTC characterized a broker that had placed

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all of its loan production with a single lender as the agent of the lender. The FTC imposed a fine on the lender in part because, as principal, the lender was legally responsible for the mortgage broker's unfair and deceptive acts and practices. The United States Justice Department in the past has sought to hold a subprime mortgage lender responsible for the pricing practices of its mortgage brokers, alleging that the mortgage lender was directly responsible for the total fees and charges paid by the borrower under the Fair Housing Act even if the lender neither dictated what the mortgage broker could charge nor kept the money for its own account. Accordingly, we may be subject to fines or other penalties based upon the conduct of our independent mortgage brokers.

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

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

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

Under the Servicemembers Civil Relief Act, which in 2003 re-enacted the Soldiers and Sailors Civil Relief Act of 1940, a borrower who enters military service after the origination of the borrower's mortgage loan generally may not be charged interest above an annual rate of 6% during the period of the borrower's active duty status. The Act also applies to a borrower who was on reserve status and is called to active duty after origination of the mortgage loan. A prolonged, significant military mobilization as part of the war on terrorism or the war in Iraq could increase the number of the borrowers in our securitized pools who are subject to the Act and thereby reduce the interest payments collected from those borrowers. To the extent the number of borrowers who are subject to the Act is significant, the cash flows we receive from loans underlying our on-balance sheet securitizations and from our residual interests would be reduced, which could cause us to reduce the carrying value of our residual interests and would decrease our earnings. In addition, the Act imposes limitations that would impair the ability of the servicer to foreclose on an affected mortgage loan during the borrower's period of active duty status, and, under certain circumstances, during an additional three month period thereafter. Any such reduction in our cash flows or impairment in our performance could harm our results of operations, financial condition and business prospects.

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

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

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

We rely heavily upon communications and information systems to conduct our business. Any failure or interruption or breach in security of our information systems or the third-party information systems on which we

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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 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

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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 New Century Financial common stock to become volatile, which could harm our ability to access the capital markets in the future.

The market price of New Century Financial common stock may experience fluctuations that are unrelated to our operating performance. In particular, the market price of New Century Financial 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 New Century Financial common stock, regardless of our financial performance, and such difficulty may preclude us from being able to take advantage of certain business opportunities or meet our obligations, which could, in turn, harm our results of operations, financial condition and business prospects.

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

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

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

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

Risks Related to New Century Financial Common Stock

The stock price of New Century Financial common stock and trading volume may be volatile, which could result in substantial losses for stockholders.

The market price of New Century Financial common stock into which the notes will be convertible may be highly volatile and be subject to wide fluctuations. In addition, the trading volume in New Century Financial

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common stock may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of New Century Financial common stock include:

general market and economic conditions;

actual or anticipated changes in our future financial performance;

changes in market interest rates;

competitive developments, including announcements by us or our competitors of new products or services or significant contracts, acquisitions, strategic partnerships or capital commitments;

the operations and stock performance of our competitors;

developments in the mortgage lending industry or the financial services sector generally;

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

fluctuations in our quarterly operating results;

changes in financial estimates by securities analysts;

additions or departures of senior management and key personnel; and

actions by institutional stockholders.

We cannot assure you that the market price of New Century Financial common stock will not fluctuate or decline significantly in the future. In addition, the stock market in general can experience considerable price and volume fluctuations.

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

We intend to make quarterly distributions to New Century Financial stockholders beginning in the fourth quarter of 2004 and to distribute to New Century Financial stockholders all or substantially all of our REIT taxable income, without regard to the dividends paid deduction and excluding net capital gains, in each year. We have not established a minimum distribution level and we may not be able to make distributions. In addition, some of our distributions may include a return of capital. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and other factors as our board of directors may deem relevant from time to time. We cannot predict our ability to make distributions to you in the future.

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

Any sales of a substantial number of shares of New Century Financial common stock, or the perception that those sales might occur, may cause the market price of New Century Financial common stock to decline. Our directors and some of our officers have agreed with the underwriters not to sell the common stock they hold earlier than 90 days after September 30, 2004; provided, however, that Messrs. Cole, Morrice and Gotschall are each permitted to sell or transfer up to 200,000 shares of our common stock consistent with past practices for tax planning purposes. We are unable to predict whether significant numbers of shares will be sold in the open market in anticipation of or following a sale by insiders.

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

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

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

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classify or reclassify any unissued common stock or preferred stock and to set the preferences, rights and other terms of the classified or reclassified shares, including the issuance of shares of preferred stock that have preference rights over the common stock with respect to dividends, liquidation, voting and other matters or shares of common stock that have preference rights over your common stock with respect to voting.

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

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

The stock ownership limit imposed by New Century Financial's charter may inhibit market activity in New Century Financial stock and may restrict our business combination opportunities.

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

will consider the transfer to be null and void;

will not reflect the transaction on our books;

may institute legal action to enjoin the transaction;

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will not pay dividends or other distributions with respect to those shares;

will not recognize any voting rights for those shares; and

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

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

- (1) the price paid by the transferee;
- (2) if the transferee did not purchase the excess shares, the closing price for the shares on the national securities exchange on which New Century Financial's common stock is listed or quoted on the day of the event causing the shares to be held in trust; or
- (3) the price received by the trustee from the sale of the shares.

This ownership limit could delay or prevent a transaction or a change in our control that might involve a premium price for New Century Financial common stock or otherwise be in your best interest and may result in the entrenchment of our board of directors and management regardless of performance.

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

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

Classified board of directors. New Century Financial'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 Financial's directors will make it more difficult for a third party to gain control of New Century Financial'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 Financial's board of directors.

Removal of directors. Under New Century Financial'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 Financial's bylaws, New Century Financial 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

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office for the remainder of the full term of the class of directors in which the vacancy occurred, rather than the next annual meeting of stockholder as would otherwise be the case, and until his or her successor is elected and qualified.

Limitation on stockholder requested special meetings. New Century Financial's bylaws provide that stockholders New Century Financial 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 Financial's bylaws require advance written notice for stockholders to nominate persons for election as directors at,

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

Exclusive authority of our board to amend our bylaws. New Century Financial's bylaws provide that the 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 Financial's stockholders may not effect any changes to New Century Financial's bylaws.

Preferred stock. Under New Century Financial's charter, the 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 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 its status as a REIT under the Internal Revenue Code, New Century Financial's charter generally prohibits any single stockholder, or any group of affiliated stockholders, from beneficially owning more than 9.8% in value or number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of any class or series of our common stock unless the 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 Financial's board of directors has adopted a resolution exempting it from this statute. However, New Century Financial'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 Financial 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

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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 Financial's bylaws contain a provision exempting acquisitions of its shares from the Maryland Control Share Acquisition Act. However, New Century Financial's board of directors may amend its bylaws in the future to repeal or modify this exemption, in which case any control shares acquired in a control share acquisition will be subject to the Maryland Control Share Acquisition Act.

Tax Risks Related to Our Status as a REIT

Your investment has various federal income tax risks.

Although the provisions of the Internal Revenue Code relevant to your investment are generally described in "Material U.S. Federal Income Tax Consequences," we strongly urge you to consult with your own tax advisor concerning the effects of federal, state and local income tax law on an investment in New Century Financial 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 TRS and its subsidiaries, cannot exceed 20% of our total assets. In addition, at the end of each calendar quarter, at least 75% of our assets must be qualifying real estate assets, government securities and cash and cash items. The need to comply with these asset ownership requirements may cause us to acquire other assets that are qualifying real estate assets for purposes of the REIT requirements (for example, interests in other mortgage loan portfolios or mortgage-related assets) but are not part of our overall business strategy and might not otherwise be the best investment alternative for us. Moreover, we may be unable to acquire sufficient qualifying REIT assets, due to our inability to obtain adequate financing or otherwise, in which case we may fail to qualify as a REIT.

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

If we fail to qualify or remain qualified as a REIT, our distributions will not be deductible by us, and we will be subject to federal income tax on our taxable income. This would substantially reduce our earnings, our cash

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

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

To qualify as a REIT, not more than 20% of the value of our total assets may be represented by the securities of one or more taxable REIT subsidiaries at the close of any calendar quarter, subject to a 30-day cure period following the close of the quarter. See Material U.S. Federal Income Tax Consequences Asset Tests. Our taxable REIT subsidiaries, including New Century TRS and its subsidiaries, conduct a substantial portion of our business activities, including a majority of our loan origination and servicing activities. Under our current business plan, we expect to accumulate a significant amount of earnings in our taxable REIT subsidiaries. We will monitor the value of our investment in New Century TRS 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 TRS and other taxable REIT subsidiaries was more than 20% of the value of our total assets at the close of any calendar quarter, we could lose our REIT status.

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

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

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

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

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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

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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 New Century Financial 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.

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

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

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

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

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

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

though such sales or structures might otherwise be

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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 TRS and its subsidiaries following the merger will not be subject to this prohibited transaction tax since New Century TRS and its subsidiaries will be taxable REIT subsidiaries.

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

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

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

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

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

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

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

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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 Financial common stock. The more favorable treatment of regular corporate dividends could cause domestic non-corporate investors to consider stocks of other

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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 New Century Financial common stock or what the effect will be.

In addition, legislation was recently introduced in the U.S. House of Representatives and the U.S. Senate that would amend certain rules relating to REITs. Among other changes, the proposed legislation would provide the Internal Revenue Service with the ability to impose monetary penalties, rather than a loss of REIT status, for reasonable cause violations of certain tests relating to REIT qualification, and would change the formula for calculating the tax imposed for certain violations of the income tests discussed at Material U.S. Federal Income Tax Consequences Income Tests. In general, the changes would apply to taxable years beginning after the date the legislation is enacted. At the date hereof, it is not possible to predict with any certainty whether the proposed legislation will be enacted in its current form.

Table of Contents**USE OF PROCEEDS**

Neither New Century Financial nor New Century TRS will receive any proceeds from the sale of the notes or the shares of New Century Financial common stock offered by this prospectus. The proceeds from the sale of the notes and New Century Financial common stock offered pursuant to this prospectus are solely for the account of the selling securityholders.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the consolidated ratios of earnings to fixed charges of New Century TRS for the periods shown:

	Six Months Ended June 30, 2004	Year Ended December 31,				
		2003	2002	2001	2000	1999
Ratio of Earnings to Fixed Charges	3.51	4.43	6.50	2.39	0.54	2.14

The ratios of earnings to fixed charges were computed by dividing earnings of New Century TRS by fixed charges of New Century TRS. For this purpose, earnings consist of (a) pre-tax income (loss) from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees plus (b) fixed charges. Fixed charges consist of interest expense and that portion of rental expense considered to be a reasonable estimate of the interest factor.

Table of Contents**MARKET PRICES OF COMMON STOCK**

New Century Financial's common stock has been listed on the NYSE under the symbol NEW since the effective date of the merger on October 1, 2004. From its initial public offering in June 1997 through September 30, 2004, New Century TRS's common stock was listed on the Nasdaq National Market under the symbol NCEN. As a result of the merger, New Century TRS's common stock is no longer listed on any national securities exchange or over-the-counter market. The following table shows, for the periods indicated, the high and low prices for New Century TRS common stock and, as of October 1, 2004, New Century Financial common stock:

	Common Stock Price	
	High	Low
New Century TRS		
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	63.30	43.27
New Century Financial		
Year ending December 31, 2004		
Fourth Quarter (through October 13, 2004)	\$ 62.40	\$ 57.00

On October 13, 2004, the latest practicable date before the printing of this prospectus, the closing sale price of New Century Financial's common stock, as reported on the NYSE was \$57.35 per share. Such stock prices and the stock prices set forth above give effect to the three-for-two stock split effected by a stock dividend paid on New Century TRS common stock in July 2003. As of October 6, 2004, the number of holders of record of New Century Financial's common stock was 63 and the number of outstanding shares of New Century Financial's common stock was 48,251,636.

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DISTRIBUTION POLICY; THE SPECIAL E&P DISTRIBUTION

New Century Financial expects to make regular quarterly distributions to New Century Financial 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 Financial's board of directors and will depend on New Century Financial's financial condition, earnings, and other factors, many of which are beyond its control. In order to maintain New Century Financial's qualification as a REIT under the Internal Revenue Code, New Century Financial 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 Financial's taxable REIT subsidiaries (including New Century TRS) and not distributed to New Century Financial 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 Financial does not distribute 100% of its REIT taxable income, New Century Financial will be taxed on any undistributed amounts. In addition, we cannot assure you that we will have access to funds to meet the distribution and other REIT qualification requirements. We anticipate paying quarterly distributions during January, April, July and October of each year for the preceding quarter. We anticipate that distributions generally will be paid from cash available for distribution (generally equal to cash from operations and investing activities less capital expenditures and principal amortization on indebtedness); however, to the extent that cash available for distribution is insufficient to make such distributions, we intend to borrow funds from one of our subsidiaries or a third party in order to make distributions consistent with this policy. We cannot assure you as to the amount, if any, of future distributions.

In addition, in connection with our plan to qualify as a REIT, we may, if necessary, make an immaterial one-time special E&P distribution to our stockholders. Under the Internal Revenue Code, neither a REIT nor any of its qualified REIT subsidiaries is permitted to retain earnings and profits accumulated during years when the company or its predecessor was taxed as a C corporation. Therefore, in order to qualify as a REIT, we may be required to distribute the current and accumulated earnings and profits of New Century Credit that we succeed to, if any, by paying a one-time special distribution to our stockholders in cash. A national accounting firm is preparing, and will provide prior to the date of the merger, a computation of New Century Credit's earnings and profits for this purpose. Based on this computation, we will make the corresponding special one-time cash distribution, if required, in an amount that is intended to equal or exceed the earnings and profits, if any, that we will inherit from New Century Credit. Any such special E&P distribution will be declared in December 2004 and payable in January 2005 to New Century Financial stockholders on the record date for such distribution. At the present time, we do not anticipate that we will be required to make any special E&P distribution to our stockholders.

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The following table sets forth New Century Financial's capitalization as of June 30, 2004, as adjusted to give effect to the completion of the merger, the public offering and the concurrent private placement, each as described under the heading Summary.

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

	As of
	June 30, 2004
	(in thousands, except share amounts)
Financing on mortgage loans held for investment(1)	\$ 9,086,932
Convertible notes	205,349
Notes payable	30,485
	<hr/>
Total long-term debt	9,322,766
	<hr/>
Stockholders' equity:	
Preferred stock, par value \$0.01: 10,000,000 shares authorized and no shares issued and outstanding as adjusted	
Common stock, par value \$0.01: 300,000,000 shares authorized and 48,042,494 shares issued and outstanding, as adjusted	\$ 480
Additional paid in capital	822,563
Accumulated other comprehensive income	16,591
Retained earnings, restricted	686,061
Treasury stock, at cost	(70)
Deferred compensation costs	(8,895)
	<hr/>
Total stockholders' equity	\$ 1,516,730
	<hr/>
Long-term debt and total stockholders' equity	\$ 10,839,496

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

The table above excludes the following shares:

a total of 5,345,113 shares of New Century Financial common stock issuable upon exercise of options outstanding on October 6, 2004 with a weighted-average exercise price of \$18.26 per share;

a total of 1,436,180 shares of New Century Financial common stock available for awards under our stock incentive plans as of October 6, 2004;

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up to 6,034,686 shares of New Century Financial common stock issuable as of October 6, 2004 upon the conversion of the 3.50% convertible senior notes due 2008 (subject to adjustments under the terms of the convertible notes);

up to 6,034,668 shares of New Century Financial common stock issuable as of October 6, 2004 upon the exercise of a warrant issued in connection with the issuance of the convertible notes; and

up to 2,025,000 shares of New Century Financial common stock granted to the underwriters in the public offering solely to cover over-allotments, if any.

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DESCRIPTION OF NOTES

New Century TRS issued the notes to the initial purchasers on July 8, 2003 and July 14, 2003 under an indenture dated July 8, 2003 (the indenture) between New Century TRS and Wells Fargo Bank, N.A., as trustee (the trustee). The terms of the notes include those stated in the indenture and those made a part of the indenture by reference to the Trust Indenture Act of 1939, as amended. In connection with the merger, New Century Financial, New Century TRS and the trustee entered into a first supplemental indenture dated as of September 30, 2004, pursuant to which New Century Financial agreed to issue shares of its common stock upon conversion of the New Century TRS notes under the indenture and New Century TRS will continue to be responsible for all other obligations under such indenture not assumed by New Century Financial.

The following section summarizes some, but not all, provisions of the indenture, as amended and supplemented by the first supplemental indenture, and the registration rights agreement. We urge prospective investors to read the indenture, the first supplemental indenture and the registration rights agreement in their entirety because they, and not this description, define the rights of holders of the notes. We will provide copies of the forms of indenture, the first supplemental indenture and registration rights agreement to prospective investors upon request.

Brief Description of the Notes

The notes:

are limited to \$210.0 million in aggregate principal amount;

were sold to the initial purchasers at an issue price of 100% of the principal amount of the notes, which is \$1,000 per note, plus accrued interest, if any, from the date of issuance;

pay cash interest at an annual rate of 3.50% of the principal amount, payable semiannually in arrears on July 3 and January 3 of each year, commencing on January 3, 2004;

are New Century TRS's general unsecured obligations, ranking equally with all of its other existing and future unsecured senior indebtedness and senior in right of payment with all of New Century TRS's future subordinated indebtedness;

are not subject to redemption at New Century TRS's option prior to maturity;

are subject at a holder's option to repurchase by New Century TRS upon a fundamental change, as described in this prospectus, at a repurchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest (including additional amounts), if any, to, but not including, the repurchase date;

may be converted by the holder into the common stock of New Century Financial at a conversion rate of 28.7366 per \$1,000 principal amount, which represents an initial conversion price of approximately \$34.80 per share, provided that New Century TRS has the right to pay cash in lieu of issuing shares of New Century Financial common stock or to deliver a combination of cash and shares of New Century Financial common stock upon conversion of a note:

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if the closing sale price of New Century Financial's common stock for at least 20 trading days in the 30 trading day period ending on the last day of the preceding calendar quarter is greater than or equal to 110% of the conversion price per share of common stock (the principal amount of a note divided by the then current conversion rate) on the last trading day of any calendar quarter, after which the notes will be convertible until maturity;

during any period in which the notes are rated by either Moody's Investors Service, Inc. or Standard & Poor's Rating Group and the credit rating initially assigned to the notes by either rating agency is

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downgraded by two levels or more or the notes cease to be rated, provided that New Century TRS has no obligation to have the notes rated; or

upon the occurrence of specified corporate transactions described under Conversion of Notes;

may be converted, at New Century TRS's election, into a number of shares equal to the lesser of (a) the conversion rate of 28.7366 per \$1,000 principal amount of the notes or (b) the quotient obtained by dividing the principal amount of such note by the closing price of New Century Financial's common stock on the trading day immediately before the date of conversion, provided that New Century TRS has the right to pay cash in lieu of issuing shares of New Century Financial common stock or to deliver a combination of cash and shares of New Century Financial common stock upon conversion of a note, if:

during the five consecutive trading day period after any 10 consecutive trading day period in which the note price was less than 105% of the conversion value and the conversion value for each day of such 10 trading day period was less than 90% of the principal amount per note on such day; and

are due on July 3, 2008, payable in cash at maturity in an amount equal to the principal amount per note, plus accrued and unpaid interest (including additional amounts), if any, unless earlier converted or repurchased by New Century TRS at the holder's option.

On May 21, 2003, New Century TRS declared a three-for-two stock split structured as a dividend that was paid on July 11, 2003. The conversion rate of the notes as described herein has been equitably adjusted to account for the effects of the stock split. The notes became convertible into shares of New Century TRS common stock on March 17, 2004 because the closing price of New Century TRS common stock exceeded \$38.28 for more than 20 of the last 30 trading days during the three months ended March 31, 2004. As a result of the merger, the notes become convertible into shares of New Century Financial common stock and will remain convertible into such shares until maturity.

The indenture does not contain any financial covenants and does not restrict New Century TRS or New Century Financial from paying dividends, incurring additional indebtedness or issuing or repurchasing any other of their respective securities. In addition, New Century TRS's subsidiaries are not restricted under the indenture from incurring additional indebtedness. The indenture also does not protect a holder of notes in the event of a highly leveraged transaction or a fundamental change of New Century TRS, except to the extent described under Repurchase of Notes at the Holder's Option Upon a Fundamental Change below.

The notes were issued in book-entry form in denominations of \$1,000 principal amount and whole multiples thereof. Beneficial interests in the notes are shown on, and transfers of beneficial interests in the notes are effected only through, records maintained by DTC or its nominee, and any such interests may not be exchanged for certificated securities except in limited circumstances.

A holder of notes may not sell or otherwise transfer the notes or the shares of New Century Financial common stock issuable upon conversion of the notes except in compliance with the provisions set forth below under Restrictions on Transfer; Legends and Registration Rights.

Payments on the Notes

Principal of and interest (including additional amounts, if any) on the notes is payable, and the notes are exchangeable and transferable, at New Century TRS's office or agency maintained for such purposes (which initially will be the office of the trustee); provided, however, that payment

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of interest may be made at New Century TRS's option by check mailed to the person entitled to such interest as shown on the security register. No service charge will be made for any registration of transfer, exchange or redemption of notes, except in certain circumstances for any tax or other governmental charge that may be imposed.

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Interest

The notes bear cash interest at an annual rate of 3.50% of the principal amount at maturity of the notes from the issue date, or from the most recent date to which interest has been paid or provided for. The first such cash interest payment date was January 3, 2004. Cash interest is payable semi-annually in arrears on July 3 and January 3 of each year to holders of record at the close of business on June 17 or December 18 immediately preceding such interest payment date. Each payment of cash interest due on the notes will include interest accrued through the day before the applicable interest payment date (or purchase or, in certain circumstances, conversion date, as the case may be). Cash interest is calculated on a semi-annual basis of a 360-day year comprised of twelve 30-day months.

New Century TRS will repay the notes at their principal amount, plus accrued and unpaid interest (including additional amounts), if any, on July 3, 2008, unless earlier converted or repurchased by New Century TRS at the holder's option.

Under the indenture, New Century TRS has agreed, and by purchasing or holding a beneficial interest in the notes each beneficial owner of the notes will be deemed to have agreed, among other things, for United States federal income tax purposes, to treat the notes as indebtedness. See Material U.S. Federal Income Tax Consequences.

New Century TRS will also pay additional amounts on the notes under the circumstances described below under Registration Rights and Conversion of Notes.

Cash interest otherwise payable will cease to accrue on a note upon its maturity, conversion or repurchase by New Century TRS at the option of a holder. Additional amounts may continue to accrue even after conversion if New Century TRS fails to comply with certain obligations as set forth below under Registration Rights.

If a payment date is not a business day, payment will be made on the next succeeding business day, and no additional interest will accrue thereon.

Conversion of Notes

General

Holder s have the right, at their option, to convert their notes, or a portion of their notes, into shares of New Century Financial common stock, at any time prior to maturity under the circumstances described below, unless previously repurchased or converted, at a conversion rate of 28.7366 shares per \$1,000 principal amount of notes (equivalent to an initial conversion price of approximately \$34.80 per share) subject to the adjustments described under the caption Conversion Rate Adjustments and New Century TRS's right to pay cash in lieu of delivering shares of New Century Financial common stock or to deliver a combination of cash and shares of New Century Financial common stock, as described below in Settlement Upon Conversion. The conversion rate of the notes as described herein has been equitably adjusted to account for the effects of New Century TRS's three-for-two stock split effected by a stock dividend paid on July 11, 2003.

As required under the indenture, New Century TRS amended its certificate of incorporation to increase its authorized capital. Until New Century TRS completed that amendment to its certificate of incorporation to increase its authorized capital, New Century TRS would have been required to deliver upon conversion of each note (other than a conversion upon satisfaction of the note price conditions, as described below under

Conversion Upon Satisfaction of Note Price Conditions): (i) an amount of cash equal to the lesser of (a) the principal amount of such note, and (b) the conversion value of such note; and (ii) a number of shares of New Century TRS common stock, not to exceed 14.9600 shares (after the 2003 stock split, 22.4400 shares) of common stock per note, equal to the quotient of (x) the excess (if any) of the conversion value of the note over its principal amount divided by (y) the arithmetic average of the volume weighted average prices (defined below) of New Century TRS common stock during the cash settlement averaging period (defined below). The limit on the

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number of shares of New Century TRS common stock that would have been issued upon conversion under such circumstances would have precluded holders from participating in appreciation of the price of New Century TRS common stock above approximately \$158.82 per share, giving effect to New Century TRS's three-for-two stock split effected on July 11, 2003, until New Century TRS was able to increase its authorized capital. If New Century TRS had not increased its authorized capital by the date that is 120 days after the original issuance of the notes, the notes would have borne additional interest at a rate of 0.25% of the principal amount per annum. The additional interest would have increased to a rate of 0.75% of the principal amount per annum if New Century TRS had not increased its authorized capital by the date that is 210 days after the original issuance of the notes. New Century TRS agreed to use reasonable best efforts to amend our certificate of incorporation to increase the number of shares that it is authorized to issue, which amendment required the approval of its stockholders. Stockholder approval of the amendment was obtained at New Century TRS's special meeting of stockholders held on September 10, 2003. As a result, such additional interest will not be payable and, upon conversion of each note, and as a result of the merger, New Century TRS will have the right to deliver shares of New Century Financial common stock, cash or a combination of cash and New Century Financial common stock, as described herein.

Furthermore, even though New Century TRS's stockholders approved the amendment to its certificate of incorporation and New Century TRS increased its authorized capital, New Century TRS may satisfy its conversion obligation to holders by issuing either New Century Financial common stock into which the notes are convertible, the cash value of the New Century Financial common stock into which the notes are convertible, or a combination thereof. Accordingly, upon conversion of a note, a holder might not receive any shares of New Century Financial common stock, or it might receive fewer shares of New Century Financial common stock relative to the conversion value of the note.

Except as described herein, New Century TRS will not make any payment in cash or New Century Financial common stock or other adjustment for accrued and unpaid interest (including additional amounts relating to any failure to obtain stockholder approval to increase New Century TRS's authorized capital) on the notes or dividends on any New Century Financial common stock issued upon conversion of the notes. If holders submit their notes for conversion between a record date for an interest payment and the opening of business on the next interest payment date, they will receive the semiannual cash interest payable on such notes on the corresponding interest payment date notwithstanding the conversion, and they must pay funds equal to the semi-annual cash interest payable on the principal amount to be converted.

On conversion of a note, except as described above, a holder will not receive any cash payment or additional shares in respect thereof representing additional amounts. The delivery to the holder of the full number of shares of New Century Financial common stock into which the note is convertible, or in lieu of New Century Financial common stock, the cash value of such New Century Financial common stock or a combination of New Century Financial common stock and the cash value of such New Century Financial common stock into which the note is convertible, together with any cash payment for such holder's fractional shares, will be deemed to satisfy New Century TRS's obligation to pay the principal amount of the note and to satisfy its obligation to pay any accrued and unpaid cash interest (including any additional amounts). As a result, accrued cash interest, and additional amounts are deemed paid in full rather than cancelled, extinguished or forfeited. Notwithstanding the foregoing, accrued cash interest (including additional amounts), if any, will be payable upon any conversion of notes at the option of the holder made concurrently with or after acceleration of the notes following an event of default under the notes.

Settlement Upon Conversion

New Century Financial will not issue fractional shares of its common stock upon conversion of notes. Instead, for each fractional share New Century TRS will pay a cash amount based upon the closing price of the New Century Financial common stock on the third trading day prior to the date on which the shares are given to the holder upon conversion. If at the time of receipt of the holder's notice of conversion, New Century Financial

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has sufficient authorized capital stock to issue shares of New Century Financial common stock upon conversion of all the notes and New Century TRS receives a holder's notice of conversion on or prior to the day that is 30 trading days prior to maturity (the final notice date) the following procedures will apply:

If New Century TRS chooses to satisfy all or any portion of its obligation (the conversion obligation) in cash, it will notify holders through the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of the conversion obligation or as a fixed dollar amount) at any time on or before the date that is five trading days following receipt of the holder's notice of conversion (the cash settlement notice period).

If New Century TRS timely elects to pay cash for any portion of the shares otherwise issuable to the holders, the holders may retract the conversion notice at any time during the two trading day period beginning on the day after the final day of the cash settlement notice period (the conversion retraction period); no such retraction may be made (and a conversion notice shall be irrevocable) if New Century TRS does not elect to deliver cash in lieu of shares (other than cash in lieu of fractional shares).

If the conversion notice has not been retracted, then settlement (in cash and/or shares) will occur on the third trading day following the final day of the 20 trading day period beginning on the third trading day following the final day of the conversion retraction period (the cash settlement averaging period). Settlement amount will be computed as follows, except as to conversions upon satisfaction of the note price conditions, as described below:

If New Century TRS elects to satisfy the entire conversion obligation in shares, New Century TRS will deliver to the holders a number of shares of New Century Financial common stock equal to (i) the aggregate principal amount of notes to be converted divided by 1,000 and multiplied by (ii) the conversion rate.

If New Century TRS elects to satisfy the entire conversion obligation in cash, New Century TRS will deliver to the holders cash in an amount equal to the product of:

a number equal to (i) the aggregate principal amount of the notes to be converted divided by 1,000 and multiplied by (ii) the conversion rate, and

the arithmetic average of the volume weighted average prices of New Century Financial common stock during the cash settlement averaging period.

If New Century TRS elects to satisfy a portion of the conversion obligation in cash (other than 100%), New Century TRS will deliver to the holder such cash amount (cash amount) and the number of shares of New Century Financial common stock equal to the greater of (i) zero and (ii) the excess, if any, of:

the number of shares equal to (i) the aggregate principal amount of notes to be converted divided by 1,000 and multiplied by (ii) the conversion rate, minus

the number of shares that are equal to the quotient of the cash amount divided by the arithmetic average of the volume weighted average prices of New Century Financial common stock during the cash settlement averaging period.

Volume weighted average price per share on any trading day will be the volume weighted average price as displayed on Bloomberg on the NYSE or any other national or regional securities exchange, the Nasdaq National Market or other over-the-counter market or such other market on which New Century Financial common stock is then listed or quoted, from 9:30 AM to 4:00 PM (New York City time) on that trading day

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(or if such volume weighted average price is not available, the market value of one share on such trading day as we determine in good faith using a volume weighted method).

In addition, New Century TRS will pay cash for all fractional shares of New Century Financial common stock.

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If at the time of receipt of the holder's notice of conversion, New Century Financial has sufficient authorized capital stock to issue shares of New Century Financial common stock upon conversion of all the notes and New Century TRS receives a holder's notice of conversion after the final notice date, the following procedures will apply:

If New Century TRS chooses to satisfy all or any portion of the conversion obligation in cash, New Century TRS will have notified holders through the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of the conversion obligation or as a fixed dollar amount) at any time on or before the final notice date.

Settlement amount will be computed and settlement dates will be determined in the same manner as set forth above except that the cash settlement averaging period shall be the 20 trading day period that begins on the date that is the 23rd trading day prior to the maturity date.

Settlement in cash will occur on the third trading day following the final day of such cash settlement averaging period and settlement in shares will occur at maturity.

A holder cannot retract such holder's conversion notice if the holder delivers the notice after the day that is 30 trading days prior to the maturity date of the notes (and the conversion notice therefore will be irrevocable).

A trading day means a day on which the primary exchange on which New Century Financial stock is traded and applicable options exchanges are scheduled to be open.

Undisrupted trading day means a trading day on which New Century Financial common stock does not experience the following during the entire regular trading day:

any suspension of or limitation imposed on trading of New Century Financial common stock on any national or regional securities exchange or association or over-the-counter market;

any event (other than an event listed in the third bullet below) that disrupts or impairs the ability of market participants in general (i) to effect transactions in or obtain market values for New Century Financial common stock on any relevant national or regional securities exchange or association or over-the-counter market, or (ii) effect transactions in or obtain market values for, futures or options contracts relating to New Century Financial common stock on any relevant national or regional securities exchange or association or over-the-counter market; or

any relevant national or regional securities exchange or association or over-the-counter market on which New Century Financial common stock trades closes on any exchange business day prior to its scheduled closing time unless such earlier closing time is announced by the exchange at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such exchange and (ii) the submission deadline for orders to be entered into the exchange for execution on such business day.

Notwithstanding the above, if any trading day during a cash settlement averaging period is not a undisrupted trading day, then determination of the price for that day will be delayed until the next undisrupted trading day on which no price observation is occurring in relation to that cash settlement averaging period (whether because that day is a trading day during the cash settlement averaging period or because another delayed price observation is being made on that day). If this would result in a price being observed later than the eighth trading day after the last of the original 20 trading days in the cash settlement averaging period, then New Century TRS will determine all prices for all delayed and undetermined prices on that eighth trading day based on New Century TRS's good faith estimate of New Century Financial common stock's value

on that date.

If any trading day during a cash settlement averaging period is not a undisrupted trading day settlement (in cash and/or shares) will occur on the third trading day following the final day on which a price is observed in relation to such cash settlement averaging period.

Furthermore, a holder cannot retract such holder's notice of conversion (and the conversion notice will be irrevocable).

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Conversion Procedure

To convert a note, a holder must (1) complete and manually sign a conversion notice and deliver the conversion notice to the conversion agent, (2) surrender the note to the conversion agent, (3) if required by the conversion agent, furnish appropriate endorsements and transfer documents and (4) if required, pay all transfer or similar taxes. The conversion rate will not be adjusted for any accrued and unpaid cash interest. A certificate for the number of full shares of New Century Financial common stock into which any note is converted (or, in lieu of common stock and at New Century TRS's option, the full amount of the cash value of such stock or a combination of New Century Financial common stock and the cash value of such stock into which the note is convertible) together with any cash payment for fractional shares, will be delivered through the conversion agent as soon as practicable following the conversion date.

While New Century Financial has agreed to issue shares of its common stock upon conversion of the notes, the conversion obligation represents New Century TRS's sole obligation and liability. Accordingly, New Century Financial has agreed to sell, and New Century TRS has agreed to purchase, for cash, that number of shares of New Century Financial common stock as is necessary for New Century TRS to satisfy its conversion obligation. All such sales and purchases shall be effected in an arm's length manner, for the then-fair market value of such shares of New Century Financial common stock. Upon receipt of payment by New Century TRS, New Century Financial shall deliver shares of New Century Financial common stock to New Century TRS in order for New Century TRS to satisfy its conversion obligation, provided, however, that New Century TRS may direct that some or all of such shares of New Century Financial common stock be delivered directly to the holders upon conversion of a note.

If the notes are subject to repurchase following a fundamental change, a holder's conversion rights on the notes so subject to repurchase will expire at the close of business on the second business day before the repurchase date, as the case may be, unless New Century TRS defaults in the payment of the repurchase price. If a holder has submitted a note for repurchase upon a fundamental change, a note may only be converted if a holder withdraws the election in accordance with the indenture. If a holder elects to convert, New Century TRS will have the right to deliver, in lieu of New Century Financial common stock and at New Century TRS's option, cash or a combination of cash or New Century Financial common stock.

Conversion Upon Satisfaction of Common Stock Price Conditions

Holders may surrender any of their notes for conversion if the closing price of New Century Financial common stock for at least 20 trading days in the 30 trading day period ending on the last day of the preceding calendar quarter is greater than or equal to 110% of the conversion price per share of New Century Financial common stock. The conversion price per share as of any day will equal the principal amount of a note divided by the then current conversion rate. Upon the satisfaction of this condition and after the merger, the notes became convertible into shares of New Century Financial common stock and will remain convertible until maturity. This condition was triggered on March 17, 2004 because the closing price of New Century TRS common stock exceeded \$38.28 for more than 20 of the last 30 trading days during the three months ended March 31, 2004.

The initial conversion trigger price per share of New Century Financial common stock is \$38.28, giving effect to our three-for-two stock split effected on July 11, 2003. This conversion trigger price reflects the initial conversion price per share of New Century Financial common stock multiplied by 110%.

Conversion Upon Satisfaction of Note Price Conditions

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Holders may surrender any of their notes for conversion into New Century Financial common stock during the 5 consecutive trading day period after any 10 consecutive trading day period in which:

the price of the notes for each day of such period was less than 105% of the conversion value, and

the conversion value for each day of such period was less than 90% of the principal amount per note.

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We refer to these conditions as the note price conditions.

Upon a conversion of a note following satisfaction of the note price conditions, New Century TRS will deliver, at its election, a number of shares of New Century Financial common stock equal to the lesser of (a) the conversion rate of such note, or (b) the quotient obtained by dividing the principal amount of such note by the closing price of New Century Financial common stock on the trading day immediately before the date of conversion.

If New Century TRS elects to satisfy its entire conversion obligation in cash, New Century TRS will deliver to holders the lesser of:

the aggregate principal amount of notes to be converted, or

the product of (a) a number equal to the aggregate principal amount of notes to be converted divided by 1,000 and multiplied by the conversion rate, and (b) the arithmetic average of the volume weighted average price of a share of New Century Financial common stock during the cash settlement averaging period.

If New Century TRS elects to satisfy a portion (other than 100%) of our conversion obligation in cash, New Century TRS will deliver such cash amount and the number of shares of New Century Financial common stock equal to the lesser of:

(a) the aggregate principal amount of notes to be converted divided by 1,000 and multiplied by the conversion rate, minus (b) the quotient of the cash amount divided by the arithmetic average of the volume weighted average price of a share of New Century Financial common stock during the cash settlement averaging period, or

(x) the aggregate principal amount of notes to be converted divided by the closing price of the New Century Financial common stock on the last trading day preceding the conversion date, minus (y) the quotient of the cash amount divided by the arithmetic average of the volume weighted average price of a share of New Century Financial common stock during the cash settlement averaging period.

Conversion rate is the number of shares of New Century Financial common stock into which each note is then convertible (assuming that the note was convertible as of such date).

Conversion value is equal to the product of the sale price for New Century Financial common stock on a given day multiplied by the then current conversion rate.

The note price on any date of determination means the average of the secondary market bid quotations per note obtained by New Century TRS or the bid solicitation agent for \$5,000,000 principal amount at maturity of the notes at approximately 4:00 p.m., New York City time, on such determination date from three independent nationally recognized securities dealers New Century TRS selects, provided that if at least three such bids cannot reasonably be obtained by New Century TRS, but two such bids are obtained, then the average of the two bids shall be used, and if only one such bid can reasonably be obtained by New Century TRS, this one bid shall be used. If New Century TRS cannot reasonably obtain at least one bid for \$5,000,000 principal amount at maturity of the notes from a nationally recognized securities dealer or if, in New Century TRS's reasonable judgment, the bid quotations are not indicative of the secondary market value of the notes, then the note price will equal (a) the then-applicable conversion rate of the notes multiplied by (b) the sale price of New Century Financial common stock on such determination date.

New Century TRS will appoint a bid solicitation agent in accordance with the indenture. We may change the bid solicitation agent, but the bid solicitation agent will not be New Century TRS's affiliate. The bid solicitation agent will solicit bids from securities dealers that are believed by New Century TRS to be willing to bid for the notes.

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Conversion Upon a Credit Rating Event

Holder s will have the right, at their option, to convert their notes at any time during any period in which the notes are rated by either Moody s Investors Service, Inc., or Moody s, or Standard & Poor s Ratings Services, or S&P, and the credit rating initially assigned to the notes by either rating agency is downgraded by two levels or more or the notes cease to be rated, provided that New Century TRS is under no obligation to have the notes rated.

Conversion Upon Specified Corporate Transactions

Holder s will have the right, at their option, to convert their notes in the event:

New Century Financial distributes to all holders of its common stock rights entitling them to purchase, for a period expiring within 60 days, New Century Financial common stock at less than the sale price of the New Century Financial common stock at the time of announcement of such distribution;

New Century Financial elects to distribute to all holders of its common stock, cash or other assets, debt securities or rights to purchase its securities which distribution (together with all other distributions covered by this clause not triggering a conversion right during the preceding 12 months) has a per share value exceeding 5% of the sale price of the New Century Financial common stock on the day preceding the declaration date for the distribution; or

a fundamental change (as defined below under Repurchase of Notes at a Holder s Option Upon a Fundamental Change) occurs.

In any such event, holders may convert their notes at any time after New Century TRS notifies them of such event (1) until the earlier of the close of business on the business day immediately prior to the ex-dividend date or the date of our announcement that the distribution will not take place, in the case of a distribution, or (2) until 40 days thereafter, in the case of a fundamental change. New Century TRS will notify holders at least 20 days prior to the ex-dividend date for a distribution or within 20 business days of the occurrence of a fundamental change, as the case may be, of the occurrence of any such event. In the case of a distribution, holders may not convert their note if they will otherwise participate in the distribution without conversion as a result of holding the notes.

In addition, if New Century TRS and/or New Century Financial is party to a consolidation, merger or binding share exchange pursuant to which shares of New Century Financial common stock would be converted into cash, securities or other property, holders may convert their notes at any time from and after the date which is 15 days prior to the anticipated effective date of the transaction until 15 days after the actual date of the transaction. In the event holders do not convert their note during this time period, they will be entitled to receive, upon conversion, the kind and amount of cash, securities or other property that they would have received if they had converted the note immediately prior to such consolidation, merger or binding share exchange. If the transaction also constitutes a fundamental change, the holder can require us to repurchase all or a portion of its notes as described under Repurchase of Notes at a Holder s Option Upon a Fundamental Change.

Conversion Rate Adjustments

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The conversion rate will be adjusted upon the occurrence of:

the issuance of shares of New Century Financial common stock as a dividend or distribution on New Century Financial common stock;

the subdivision or combination of outstanding New Century Financial common stock;

the issuance to all or substantially all holders of New Century Financial common stock of rights or warrants entitling them for a period of not more than 60 days to subscribe for or purchase New Century

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Financial common stock, or securities convertible into such common stock, at a price per share or a conversion price per share less than the then current sale price per share, provided that the conversion rate will be readjusted to the extent that such rights or warrants are not exercised prior to the expiration;

the distribution to all or substantially all holders of New Century Financial common stock of shares of New Century Financial capital stock, evidences of indebtedness or other non-cash assets or rights or warrants, excluding:

dividends, distributions and rights or warrants referred to in the first and third bullets above; and

dividends or distributions exclusively in cash referred to in the fifth bullet below;

the distribution to all or substantially all holders of New Century Financial common stock of distributions solely in cash, excluding:

- (i) any dividend or distribution in connection with our liquidation, dissolution or winding up; or
- (ii) any quarterly cash dividend on New Century Financial common stock that equals or exceeds the quarterly minimum dividend amount and, on an aggregate per-share basis, does not exceed the greater of:

the amount per share of New Century Financial common stock of the preceding quarterly cash dividend on New Century Financial common stock to the extent that such quarterly dividend did not require an adjustment of the conversion rate pursuant to this clause (ii), as adjusted to reflect subdivisions or combinations of New Century Financial common stock; and

0.4375% of the average of the closing sale price of New Century Financial common stock during the 10 days immediately prior to the declaration date of the dividend.

The quarterly minimum dividend amount will be adjusted in accordance with all conversion ratio adjustments that are not based on cash distributions.

If any quarterly dividend results in an adjustment because it exceeds both of the amounts set forth in this clause (ii), the adjustment would cause an increase in the conversion rate based upon the amount by which the dividend exceeds the greater of the two amounts set forth above in this clause (ii). If an adjustment is required to be made under this clause as a result of a distribution that is not a quarterly dividend, the adjustment would be based upon the full amount of the distribution; or

- (iii) any quarterly cash dividend on New Century Financial common stock that is less than the quarterly minimum dividend amount and, on an aggregate per-share basis, is not less than the lower of:

the amount per share of New Century Financial common stock of the preceding quarterly cash dividend on New Century Financial common stock to the extent that such quarterly dividend did not require an adjustment of the conversion rate pursuant to this clause (iii), as adjusted to reflect subdivisions or combinations of New Century Financial common stock; and

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0.25% of the average of the closing sale price of New Century Financial common stock during the 10 days immediately prior to the declaration of the dividend.

If any quarterly dividend results in an adjustment because it is less than both of the amounts set forth in this clause (iii), the adjustment would cause a reduction in the conversion rate based upon the amount by which the dividend is less than such amount;

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the purchase of New Century Financial common stock pursuant to a tender offer made by New Century Financial or any of its subsidiaries to the extent that the same involves aggregate consideration the value of which together with:

any cash and the fair market value of any other consideration payable in respect of any tender offer by New Century Financial or any of its subsidiaries for New Century Financial common stock consummated within the preceding 12 months not triggering a conversion rate adjustment; and

all-cash distributions to all or substantially all holders of New Century Financial common stock made within the preceding 12 months not triggering a conversion price adjustment, exceeds an amount equal to 5% of our market capitalization on the expiration date of such tender offer.

Notwithstanding the foregoing, adjustments to the conversion rate resulting from quarterly cash dividends may not cause the conversion rate to exceed the quotient obtained by dividing the principal amount of a note by the closing price of New Century TRS common stock on the trading day immediately prior to the date on which New Century TRS issued the notes. The maximum conversion rate described in the preceding sentence will be subject to adjustment in the same manner as the conversion rate adjusted described above, except no adjustment will be made to the maximum conversion rate as a result of cash distributions.

In the event of:

any reclassification of New Century Financial common stock, or

a consolidation, merger or combination involving New Century Financial, or

a sale or conveyance to another person of the property and assets of New Century Financial as an entirety or substantially as an entirety, in which holders of outstanding New Century Financial common stock would be entitled to receive stock, other securities, other property, assets or cash for their New Century Financial common stock,

holders of notes will generally be entitled to convert their notes into the same type of consideration received by holders of New Century Financial common stock immediately prior to one of these types of events.

New Century TRS is permitted to increase the conversion rate of the notes by any amount for a period of at least 20 days if its board of directors determines that such an increase wo