

NEW CENTURY REIT INC  
Form S-3/A  
June 30, 2004  
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As filed with the Securities and Exchange Commission on June 30, 2004

Registration No. 333-114707

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

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

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**NEW CENTURY REIT, INC.**

(Exact name of registrant as specified in its charter)

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**Maryland**  
(State of other jurisdiction of  
incorporation or organization)

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

**18400 Von Karman Avenue, Suite 1000**  
**Irvine, California 92612**

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(949) 440-7030

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

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**Brad A. Morrice**

**President and Chief Operating Officer**

**New Century REIT, Inc.**

**18400 Von Karman, Suite 1000**

**Irvine, California 92612**

**(949) 440-7030**

*Copies to:*

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**100 Maiden Lane**

**New York, New York 10038**

**(212) 504-6000**

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Approximate date of commencement of proposed sale to the public:

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

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

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

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

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

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

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

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**EXPLANATORY NOTE**

This Amendment No. 3 to the Registration Statement on Form S-3 is being filed by New Century REIT, Inc. (the Registrant ) solely to correct the alignment of the names of the underwriters on the cover page of the prospectus contained herein, and is not being filed to amend, alter or modify any of the other portions of Amendment No. 2 to the Registration Statement on Form S-3 filed by the Registrant with the Securities and Exchange Commission on June 29, 2004.

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

PRELIMINARY PROSPECTUS

Subject to completion

, 2004

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## Shares

### Common Stock

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

We are offering \_\_\_\_\_ shares of our common stock. No public market currently exists for our common stock. The common stock of New Century Financial, our predecessor, is listed on the Nasdaq National Market under the symbol NCEN. On June 25, 2004, the last reported sale price of New Century Financial's common stock was \$49.28.

We will apply to list the shares of New Century REIT common stock on the New York Stock Exchange, or NYSE, under the symbol NEW.

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

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

Ø

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

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

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

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

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

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

### *Joint Book-Running Managers*

**UBS Investment Bank  
Merrill Lynch & Co.**

**Friedman Billings Ramsey  
Morgan Stanley**

The date of this prospectus is \_\_\_\_\_, 2004.

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

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

Unless otherwise indicated, the statements in this prospectus assume that we have completed the merger and related transactions which are described in "The merger and related transactions" beginning on page 46.

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## Prospectus summary

*This is only a summary and does not contain all of the information that you should consider before investing in our common stock. You should also read the entire prospectus, including Risk factors and our financial statements and related notes appearing elsewhere in this prospectus, before deciding to invest in our common stock. In this prospectus, unless the context suggests otherwise, the terms our company, we, our and us refer to New Century REIT, Inc. and our predecessor, New Century Financial, which will be a subsidiary of New Century REIT after completion of the merger (as described below). New Century Financial refers to New Century TRS Holding, Inc., our wholly-owned taxable REIT subsidiary and successor to New Century Financial, and its subsidiaries.*

### OVERVIEW

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

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

According to Inside B&C Lending, an industry trade publication, we were the second largest originator of subprime loans in 2003. During that year, we originated over \$27 billion of mortgage loans, \$8.3 billion of which were originated in the fourth quarter of 2003. We experienced a compounded annual growth rate in our origination volume of 87.6% from 2000 to 2003, and had a market share of 8.3% for the year ended December 31, 2003 compared to 3.0% for the year ended



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December 31, 2000. In the first quarter of 2004, we originated \$8.4 billion of mortgage loans. Approximately 65% of our first quarter mortgage production consisted of cash-out refinancings, where the borrowers refinanced their existing mortgages and received cash representing a portion of the equity in their homes. For the same period, approximately 30% of our mortgage production was represented by home purchase finance loans. The remainder of our mortgage production was represented by transactions in which borrowers refinance their existing mortgages to obtain a better interest rate or loan maturity, or rate and term refinance transactions.

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

As of March 31, 2004 and December 31, 2003, the delinquency rates on outstanding mortgage loans that were 60 days or more past due and that we previously securitized in either on-balance sheet or off-balance sheet transactions were 5.53% and 6.18%, respectively. As the loans to which these delinquency rates relate continue to age, we expect that the delinquency rate will approach our historical average range of approximately 10% to 20%. Ultimately, we expect that approximately two-thirds of these loans will result in losses with a severity of approximately 40%. Loss severity represents the percentage shortfall of the expected collections on a mortgage loan versus the amount we actually recovered. As a result, we expect the cumulative pool loss rate on the loans we have securitized in on- or off-balance sheet securitizations to range from approximately 3% to 5%. Cumulative pool loss rates are defined as the total losses over the life of a securitization pool divided by the aggregate original principal balance of the mortgage loans in the pool.

We had 3,995 full-time employees and 21 part-time employees as of March 31, 2004. New Century Financial common stock has been quoted on the Nasdaq National Market under the symbol NCEN since its initial public offering in June 1997. Our principal executive offices are located at 18400 Von Karman Avenue, Suite 1000, Irvine, California 92612, our telephone number at that location is (949) 440-7030 and our website is [www.ncen.com](http://www.ncen.com). Information contained on our website does not constitute a part of this prospectus.

## **BUSINESS STRATEGY**

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

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



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

## **COMPETITIVE ADVANTAGES**

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

- Ø we are the nation's second largest subprime mortgage finance company when measured by loan production volume, with a wholesale network of 21,600 approved independent mortgage brokers and a retail network of 70 branch offices in 27 states;
- Ø our structure and business strategy provide us with the flexibility to both securitize a portion of our loan originations for our portfolio and sell the balance for cash, which we believe allows us to provide a broader product offering, better manage our cash flows and respond to the secondary market environment, thus enhancing the return on our stockholders' equity;
- Ø we have developed long-standing relationships with a variety of institutional loan buyers, including Bear Stearns, Credit Suisse First Boston, Deutsche Bank, Goldman Sachs, Morgan Stanley and UBS Residential Funding. These loan buyers regularly bid on and purchase large loan pools from us and we frequently enter into committed forward loan sale agreements with them. We also have lending relationships with a variety of institutional lenders, including Bank of America, Bear Stearns, CDC Mortgage Capital, Citigroup Global Markets (formerly Salomon Brothers), Morgan Stanley and UBS Residential Funding;
- Ø unlike mortgage REITs without origination capabilities, we believe our ability to originate loans through our qualified REIT subsidiaries and purchase loans originated by our taxable REIT subsidiaries will allow us to accumulate mortgage loans at a lower cost and with greater reliability than would be available through secondary market purchases;
- Ø we have created a proprietary automated credit grading and pricing methodology that we believe, as evidenced by our historical loan performance, gives us the ability to more effectively evaluate credit risk and more efficiently price our products and which we believe enables us to generate attractive risk-adjusted returns as a result;
- Ø we believe our origination process is easier for our borrowers and brokers to use because of our ability to provide prompt responses and consistent and clear procedures, with an emphasis on ease of use through technology, including our FastQual® system, a Web-based underwriting engine; and
- Ø the members of our senior management team have, on average, over 20 years of experience in the mortgage finance sector, with substantial experience addressing the challenges posed by a variety of interest rate environments, including growing an origination franchise, managing credit risk and developing strong capital market relationships.

## **THE RESIDENTIAL MORTGAGE MARKET**

The residential mortgage market is the largest consumer finance market in the United States. According to the Mortgage Bankers Association of America, or the MBA, lenders in the United States originated over \$3.8 trillion of single-family mortgage loans in 2003 and the MBA is predicting originations of \$2.5

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trillion in 2004. The residential mortgage market can generally be bifurcated into conforming and non-conforming mortgage loans. Non-conforming mortgage loans are those mortgage loans generally not eligible for sale to Fannie Mae or Freddie Mac due to size and/or credit characteristics. Our loan production focuses on the subprime mortgage segment of the non-conforming market, which consists of loans that generally do not satisfy the credit characteristics of the conforming market.

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

In addition to faster growth, the subprime mortgage market has historically focused on home purchases and cash-out refinancings, rather than interest rate driven refinancings, which have caused this market segment to be less interest rate sensitive, and therefore less volatile, than the prime mortgage market. For example, for the past nine quarters, the prime loan origination market has experienced substantial volatility with a peak quarterly growth rate of approximately 52% in the second quarter of 2003, and a peak quarterly decline of approximately 51% in the fourth quarter of 2003. In contrast, during the same period the subprime loan origination market has experienced a peak growth rate of approximately 30.1% in the third quarter of 2003, has not declined at all during that period and experienced the lowest increase of approximately 1.6% in the first quarter of 2003. In addition, the subprime market has shown an ability to grow during volatile interest rate environments, as indicated by the subprime market's growth by over 7.4% and 3.5%, respectively, in each of the two most recent quarters ending March 31, 2004, in contrast to the prime market's decline by approximately 51.9% and 7.0% over these same periods.

## **OUR REIT STATUS**

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

## **THE MERGER AND RELATED TRANSACTIONS**

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

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become our board of directors, committees of the board of directors and management. We will also assume all of New Century Financial's stock incentive plans and all rights to acquire shares of New Century Financial common stock under any New Century Financial stock incentive plan will be converted into rights to acquire shares of our common stock pursuant to the terms of the stock incentive plans and the other related documents, if any.

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

## **SUMMARY RISK FACTORS**

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

- ∅ the current price of New Century Financial common stock may not be indicative of the price of our common stock following this offering;
- ∅ we have no operating history as a REIT, and we cannot assure you that our management's past experience will be sufficient to manage our business as a REIT;
- ∅ the loans we originate and hold are subprime, rather than prime, and generally have higher delinquency and default rates than prime loans, which could result in losses on our loans;
- ∅ the geographic concentration of our mortgage loan originations increases our exposure to risks in those areas, especially California, where approximately 40% of the aggregate principal amount of our mortgage loans were secured by property located in that state;
- ∅ adverse economic conditions or declining real estate values could harm our operations;
- ∅ interest rate fluctuations resulting in our interest expense exceeding our interest income would result in operating losses for us and may limit or eliminate our ability to make distributions to you; and
- ∅ we may not be successful in qualifying as a REIT or maintaining our qualification as a REIT for U.S. federal income tax purposes, in which case we would be subject to U.S. federal income tax on our taxable income at regular corporate rates, thereby reducing the amount of funds available for making distributions to you.

## **DISTRIBUTION POLICY**

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

In order to qualify as a REIT, we must distribute to our stockholders at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gain) each year. After-tax earnings generated by our taxable REIT subsidiaries and not distributed to us are not subject to these distribution requirements and may be retained by such subsidiaries to provide for future growth, subject to the limitations imposed by REIT tax rules. To the extent that we distribute at least 90%, but less than 100% of our REIT taxable income in a taxable year, we will be subject to U.S.

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federal corporate income tax on our undistributed income. In addition, if we fail to distribute an amount during each year equal to the sum of 85% of our REIT ordinary income and 95% of our capital gain net income for that year and any undistributed income from prior periods, we will be subject to a 4% nondeductible excise tax on the excess of the required distribution over the amount we actually distributed. See Material U.S. federal income tax consequences.

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

## **RESTRICTIONS ON OWNERSHIP OF OUR COMMON STOCK**

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



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**The offering**

Common stock offered by us	shares <sup>(1)</sup>
Common stock to be outstanding after this offering	shares <sup>(1)(2)</sup>
Use of proceeds	We intend to use the net proceeds of this offering, which are estimated to be approximately \$ , based on the last reported sale price of New Century Financial common stock of \$ per share on , 2004, and after deducting the underwriting discount and estimated offering expenses of approximately \$1.0 million payable by us, primarily for general working capital purposes, including to build a portfolio of self-originated mortgage loans and, if necessary to maintain our REIT status, to purchase mortgage-related assets from third parties.
Risk factors	See Risk factors and other information included in this prospectus for a discussion of some of the factors you should carefully consider before deciding whether to purchase our common stock.
Trading symbol	We will apply to have our common stock listed on the NYSE under the symbol NEW.

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- (1) Assumes that the underwriters' over-allotment option to purchase up to an additional shares will not be exercised.
- (2) The common stock to be outstanding after this offering is based on 33,882,164 shares of New Century Financial issuable in connection with the merger as of May 31, 2004 and excludes:
- Ø a total of 5,123,861 shares of our common stock issuable upon the exercise of stock options outstanding on May 31, 2004 with a weighted-average exercise price of \$15.85 per share;
  - Ø a total of 986,924 shares of our common stock available for awards under our stock incentive plans as of May 31, 2004;
  - Ø up to 6,034,686 shares of common stock issuable as of May 31, 2004 upon the conversion of our 3.50% convertible senior notes due 2008 (subject to adjustments under the terms of the notes); and
  - Ø up to 6,034,668 shares of common stock issuable as of May 31, 2004 upon the exercise of a warrant issued in connection with the issuance of the notes.

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## Summary historical financial data of New Century Financial

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

The historical financial data set forth below reflects our business strategy before the merger and the other restructuring activities necessary for us to qualify as a REIT. Accordingly, our historical financial results will not be indicative of our future performance (in part due to our expected strategy of increasing our portfolio of mortgage loans originated by one or more of our taxable REIT subsidiaries, which will proportionately reduce the number of loans we sell to third-party investors and which may cause our total gains on sale under generally accepted accounting principles to be lower than we have historically recognized). We have not presented historical financial information for New Century REIT because we were formed on April 12, 2004 and, consequently, had no operations through the period ended December 31, 2003.

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

Statement of operations data:	For the Three Months Ended March 31,		For the Years Ended December 31,		
	2004	2003	2003 (dollars in thousands, except per share data)	2002	2001
Revenues:					
Gain on sales of loans	\$ 201,976	\$ 125,802	\$ 611,136	\$ 451,744	\$ 182,612
Interest income(1)	148,348	46,148	329,463	122,331	62,706
Residual interest income	4,780	6,565	24,228	31,723	36,356
Servicing income	5,896	2,473	11,139	432	10,616
Other income				16	1,046
Total revenues	361,000	180,988	975,966	606,246	293,336
Expenses(1)	204,533	102,931	552,714	299,910	209,852
Earnings before income taxes	156,467	78,057	423,252	306,336	83,484
Income taxes	69,222	32,318	177,769	126,636	35,464
Net earnings	\$ 87,245	\$ 45,739	\$ 245,483	\$ 179,700	\$ 48,020
Basic earnings per share	\$ 2.64	\$ 1.34	\$ 7.26	\$ 5.19	\$ 1.83
Diluted earnings per share	\$ 2.06	\$ 1.23	\$ 6.56	\$ 4.62	\$ 1.52

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Interest income for the quarters ended March 31, 2004 and 2003 includes \$79.3 million and \$6.3 million, respectively, related to interest earned on mortgage loans receivable held for investment. Expenses for the quarters ended March 31, 2004 and 2003 include \$33.0 million and \$1.7 million, respectively, related to interest expense on financing of mortgage loans held for investment and \$19.9 million and \$3.2 million, respectively, related to the provision for loan losses

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

Other data:	For the Three Months Ended March 31,		For the Years Ended December 31,		
	2004	2003 (dollars in thousands, unless otherwise stated)	2003	2002	2001
Purchases	\$2,484,374	\$865,321	\$ 6,815,682	\$ 2,535,023	\$ 1,070,716
Refinances:					
Cash out refinances	5,481,811	3,010,788	17,622,898	9,397,259	4,144,835
Rate/term refinances	470,171	813,362	2,944,258	2,269,214	1,029,420
Total originations	8,436,356	4,689,471	27,382,838	14,201,496	6,244,971
Fixed-rate mortgages	2,325,645	1,242,633	8,197,321	3,708,938	1,143,188
Adjustable-rate mortgages	6,110,711	3,446,838	19,185,517	10,492,558	5,101,783
Total originations	8,436,356	4,689,471	27,382,838	14,201,496	6,244,971
Wholesale	7,695,006	4,237,188	25,127,613	12,392,562	5,068,466
Retail	741,350	452,283	2,255,225	1,808,934	1,176,505
Total originations	8,436,356	4,689,471	27,382,838	14,201,496	6,244,971
Weighted average FICO score of loans originated	619	598	612	597	587
Average principal balance of loans originated	\$ 168	\$ 158	\$ 167	\$ 151	\$ 138
Weighted average interest rates:					
Fixed-rate mortgages	7.2%	7.9%	7.3%	8.2%	9.5%
Adjustable-rate mortgages initial rate	6.9%	7.6%	7.3%	8.3%	9.4%
Adjustable-rate mortgages margin over index	5.5%	6.1%	5.8%	6.6%	6.6%
Percentage of loans originated in top two credit grades	84.1%	71.2%	81.1%	58.7%	48.4%
Percentage of loans originated in bottom two credit grades	3.5%	3.6%	3.3%	4.8%	8.1%
Number of retail branch offices at period end	70	66	72	66	65
Number of regional operating centers at period end	20	19	20	19	5
Number of employees at period end	4,016	2,703	3,752	2,487	1,531
Total whole loan sales	\$ 7,349,675	\$ 4,155,224	\$ 20,835,105	\$ 12,419,687	\$ 4,723,350
Total securitizations structured as sales				845,477	898,244
Total securitizations structured as financings		493,605	4,946,781		
Total secondary market transactions	7,349,675	4,648,829	25,781,886	13,265,164	5,621,594
Weighted average premium on whole loan sales	3.82%	4.08%	4.18%	4.37%	4.40%

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Balance sheet data:	As of March 31,		As of December 31,		
	2004	2003	2003 (dollars in thousands)	2002	2001
Cash and equivalents	\$ 353,414	\$ 48,107	\$ 269,540	\$ 176,669	\$ 100,263
Restricted cash	208,323	9,609	116,883	6,255	6,416
Mortgage loans held for sale, net	2,956,936	1,943,236	3,422,211	1,920,396	1,011,122
Mortgage loans held for investment, net	5,999,277	491,174	4,745,937		
Residual interests in securitizations	170,925	223,180	179,498	246,964	306,908
Other assets	116,309	62,283	200,811	52,644	26,609
<b>Total assets</b>	<b>9,805,184</b>	<b>2,777,589</b>	<b>8,934,880</b>	<b>2,402,928</b>	<b>1,451,318</b>
Credit facilities	2,798,080	1,748,538	3,311,837	1,885,498	987,568
Financing on mortgage loans held for investment, net	5,991,753	475,867	4,686,323		
Convertible notes, net	205,061		204,858		
<b>Residual financing</b>					<b>79,941</b>
Subordinated debt					40,000
Other liabilities	192,532	137,042	189,851	130,880	96,048
<b>Total liabilities</b>	<b>9,187,426</b>	<b>2,361,447</b>	<b>8,392,869</b>	<b>2,016,378</b>	<b>1,203,557</b>
Total stockholders' equity	\$ 617,758	\$ 416,142	\$ 542,011	\$ 386,550	\$ 247,761

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## Risk factors

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

### **RISKS RELATED TO OUR BUSINESS**

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

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

In addition, we require substantial cash to support our operating activities and growth plans in our taxable REIT subsidiaries. Our primary sources of cash for our loan origination activities are our warehouse and aggregation credit facilities, our asset-backed commercial paper facility and the proceeds from the sales and securitizations of our loans. From time to time, we finance our residual interests in securitization transactions using net interest margin, or NIM, structures; however, we have not recently relied on NIM financing as much as we have in prior years. As of May 31, 2004, we had nine short-term warehouse and aggregation credit facilities and our asset-backed commercial paper facility providing us with approximately \$7.2 billion of committed and \$1.6 billion of uncommitted borrowing capacity to fund loan originations and purchases pending the pooling and sale of such loans. If we cannot maintain or replace these facilities on comparable terms and conditions, we may incur substantially higher interest expense that would reduce our profitability.

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



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

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

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

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

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

To qualify as a REIT, not more than 20% of the value of our total assets may be represented by the securities of one or more taxable REIT subsidiaries at the close of any calendar quarter. As of March 31, 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:

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

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



exceeds 20% of the value of our total assets at the close of any calendar quarter.

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

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

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

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

- Ø An interest rate increase may harm our earnings by reducing the spread between the interest we receive on our mortgage loans and our funding costs.
- Ø A substantial and sustained increase in interest rates could harm our loan origination volume because refinancings of existing loans, including cash-out refinancings (which comprised approximately 65% of our mortgage production for the first quarter of 2004) and interest rate-driven refinancings, would be less attractive and qualifying for a purchase loan may be more difficult. Lower origination volume may harm our earnings by reducing origination income, net interest income and gain on sale of loans.
- Ø During periods of rising interest rates, the value and profitability of our loans may be harmed between the date of origination or purchase until the date we sell or securitize the loans.
- Ø When we securitize loans, the value of the residual interests we retain and the income we receive from the securitizations structured as financings are based primarily on the London Inter-Bank Offered Rate, or LIBOR. This is because the interest on the underlying mortgage loans is based on fixed rates payable on the underlying loans for the first two or three years from origination while the holders of the applicable securities are generally paid based on an adjustable LIBOR-based yield. Therefore, an increase in LIBOR reduces the net income we receive from, and the value of, these mortgage loans and residual interests.
- Ø Our adjustable-rate mortgage loans have periodic and lifetime interest rate caps above which the interest rate on the loans may not rise. In the event of general interest rate increases, the rate of interest on these mortgage loans could be limited, while the rate payable on the senior certificates representing interests in a securitization trust into which these loans are sold may be uncapped. This would reduce the amount of cash we receive over the life of the loans in securitizations structured as financings and our residual interests, and could require us to reduce the carrying value of our residual interests.

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

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**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 March 31, 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 5.53%. The expected cumulative loss rate on these loans as of March 31, 2004 is approximately 4%, 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 March 31, 2004. See Our business Investment and operational policies of New Century REIT.

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

Over-concentration of our loan originations in any one geographic area increases our exposure to the economic and natural hazard risks associated with that area. For example, in the three months ended December 31, 2003, approximately 40% of the aggregate principal amount of our mortgage loans were secured by property located in California. Certain parts of California have experienced an economic downturn in the past and have suffered the effects of certain natural hazards. Declines in the residential real estate markets in which we are concentrated may reduce the values of the properties collateralizing our mortgages, increase the risk of delinquency, foreclosure, bankruptcy, or losses and could harm our results of operations, financial condition and business prospects.

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

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



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

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

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

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

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

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

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

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As of March 31, 2004, the value on our balance sheet of our residual interests from securitization transactions was \$170.9 million. The value of these residuals is a function of the delinquency, loss,

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prepayment speed and discount rate assumptions we use. It is extremely difficult to validate the assumptions we use in valuing our residual interests. In the future, if our actual experience differs materially from these assumptions, our cash flow, financial condition, results of operations and business prospects could be harmed.

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

Our future results may be materially different from those shown in the pro forma financial statements presented in Unaudited pro forma consolidated condensed financial information beginning on page 49. We may incur certain restructuring charges and adjustments. These charges may be higher or lower than we have estimated, depending on how costly or difficult it is to restructure our operations in order to qualify as a REIT. Furthermore, these charges may decrease our capital that could be used for profitable, income-earning investments in the future.

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

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



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

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

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

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

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

Our failure to comply with these laws can lead to:

Ø civil and criminal liability;

Ø loss of licensure;

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

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

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

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

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

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

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

Loans we make to lower credit grade borrowers, including credit-impaired borrowers, entail a higher risk of delinquency and higher losses than loans we make to borrowers with better credit. Virtually all of our loans are made to borrowers who do not qualify for loans from conventional mortgage lenders. No assurance can be given that our underwriting criteria or methods will afford adequate protection against the higher risks associated with loans made to lower credit grade borrowers. We continue to be subject

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to risks of default and foreclosure following the sale of loans through securitization. To the extent such losses are greater than expected, the cash flows we receive through residual interests and from our securitizations structured as financings would be reduced. Increased delinquencies or losses may also reduce our ability to sell or securitize loans in the future. Any such reduction in our cash flows or impairment in our performance could harm our results of operations, financial condition and business prospects.

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

New Century Financial is not currently regulated as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act, and we intend to operate so as to not become regulated as an investment company under the Investment Company Act. For example, we intend to qualify for an exemption under the Investment Company Act that is available to companies that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. Specifically, we intend to invest at least 55% of our assets in mortgage loans or mortgage-related assets securities that represent the entire ownership in a pool of mortgage loans and at least an additional 25% of our assets in mortgages, mortgage-related assets securities, securities of REITs and other real estate-related assets. As of March 31, 2004, 63% of our assets consisted of mortgage loans or mortgage-related assets that represent the entire ownership in a pool of mortgage loans and another 30% 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 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



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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 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





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Internet, we may be required to make significant changes to our current wholesale and retail structures and information systems to compete effectively. Our inability to continue enhancing our current Internet capabilities, or to adapt to other technological changes in the industry, could harm our results of operations, financial condition and business prospects.

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

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

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

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

The existing REIT provisions of the Internal Revenue Code substantially limit our ability to hedge mortgage-backed securities and government securities and related borrowings. Under these provisions, our aggregate gross income from qualified hedges (which generally include certain financial instruments used to hedge indebtedness incurred or to be incurred to acquire or carry real estate assets), together with any other income from certain non-qualifying sources, is limited to not more than 25% of our gross income. In addition, we must limit our aggregate gross income from non-qualified hedges, fees, and certain other non-qualifying sources to not more than 5% of our annual gross income. As a result, we might in the future have to limit our use of advantageous hedging techniques or implement those hedges through a taxable REIT subsidiary. This could increase the cost of our hedging activities or leave us exposed to greater risks associated with changes in interest rates than we would otherwise want to bear, which could harm our results of operations, financial condition and business prospects.

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

In March 2001, we sold to Ocwen Federal Bank FSB the servicing rights on \$4.8 billion of our servicing portfolio, which was comprised of 25 separate asset-backed securities. In August 2001, Ocwen began servicing all of our newly originated loans pending their sale or securitization. However, in February 2002, we announced the intent to re-establish our in-house loan servicing platform. By October 1, 2002, we began servicing loans on our in-house servicing platform and at March 31, 2004, loans serviced on our platform totaled \$12.9 billion. Ocwen is expected to continue to service the mortgage loans underlying our residual interests. Poor servicing and collections by third-party servicers could harm the value of our residual interests and our ability to sell or securitize loans, which could harm our results of operations, financial condition and business prospects. Likewise, poor servicing by our own servicing operation could harm the cash flows from our on-balance sheet securitizations, could also hamper our ability to sell or securitize loans and could harm our results of operations, financial condition and business prospects.

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

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

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

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



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

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

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

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

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

**If many of our borrowers become subject to the Soldiers and Sailors Civil Relief Act of 1940, as amended, our cash flows from our residual securities and our securitizations structured as financings may be harmed.**

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



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

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

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

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

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

Our mortgage loan origination business is currently dependent upon our ability to effectively interface with our brokers, borrowers and other third parties and to efficiently process loan applications and closings. The origination process is becoming more dependent upon technological advancement, such as the ability to process applications over the Internet, accept electronic signatures and provide process status updates instantly and other customer-expected conveniences that are cost-efficient to our process. In addition, we are in the process of implementing a new loan origination system. Implementing and becoming proficient with the new loan origination system and other new technology will require significant financial and personnel resources. There is no guarantee that the implementation of our new 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.

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

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

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

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

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

In recent years, we have experienced rapid growth that has placed, and will continue to place, certain pressures on our management, administrative, operational and financial infrastructure. As of December 31, 2000, we had approximately 1,511 employees and by March 31, 2004, we had approximately 4,016 employees. Many of these employees have a limited understanding of our systems and controls. The increase in the size of our operations may make it more difficult for us to ensure that we originate quality loans and that we service them effectively. We will need to attract and hire additional sales and management personnel in an intensely competitive hiring environment in order to preserve and increase our market share. At the same time, we will need to continue to upgrade and expand our financial, operational and managerial systems and controls.

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

The market price of our common stock may experience fluctuations that are unrelated to our operating performance. In particular, the market price of our common stock may be affected by general market price movements as well as developments specifically related to the consumer

finance industry and the

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

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

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

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

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

### **RISKS RELATED TO OUR COMMON STOCK**

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

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

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

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We intend to apply for listing of our common stock on the NYSE in connection with this offering, but even if our common stock is approved for listing, there can be no assurance that an established and liquid trading market for our common stock will develop or that it will continue if it does develop. The representatives of the underwriters have advised us that they intend to make a market in our common stock. However, neither the representatives of the underwriters nor any other market maker is obligated to make a market in such shares, and any such market making may be discontinued at any time in the sole discretion of the party making such market.

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

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

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

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

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

We intend to make quarterly distributions following the end of the first full fiscal quarter after completion of this offering and to make distributions to our stockholders of all or substantially all of our REIT taxable income, excluding net capital gains, in each year. We have not established a minimum distribution level and we may not be able to make distributions. In addition, some of our distributions may include a return of capital. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and other factors as our board of directors may deem relevant from time to time. We cannot predict our ability to make distributions to you in the future.

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

Any sales of a substantial number of shares of our common stock, or the perception that those sales might occur, may cause the market price of our common stock to decline. Our directors and executive

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officers have agreed with the underwriters not to sell the common stock they hold earlier than 90 days after the date of this prospectus. We are unable to predict whether significant numbers of shares will be sold in the open market in anticipation of or following a sale by insiders.

Based on the number of shares of New Century Financial common stock outstanding on May 31, 2004, upon completion of this offering, we will have approximately \_\_\_\_\_ shares of common stock outstanding, and approximately \_\_\_\_\_ shares outstanding if we issue shares of our common stock upon exercise of the underwriters' option to purchase additional shares. Beginning 91 days following the completion of this offering, approximately 4,845,278 shares of our common stock outstanding on May 31, 2004 will be freely tradable without restriction or further registration under the federal securities laws or will be tradable subject to the provisions of Rule 144. In addition, as of May 31, 2004, there were outstanding options to purchase 5,123,861 shares of New Century Financial's common stock. New Century Financial's 3.50% convertible senior notes due 2008 are convertible into 6,034,686 shares of our common stock as of May 31, 2004, subject to adjustments under the terms of the notes. In addition, New Century Financial has a warrant outstanding that is exercisable for up to 6,034,668 shares of our common stock as of May 31, 2004, subject to anti-dilution and other customary adjustments. This warrant may be settled in cash, in shares or in a combination of cash or shares, at our option, and is exercisable upon maturity of the notes described above. We have granted registration rights with respect to approximately \_\_\_\_\_ shares of our common stock. In the future, we may grant additional options or grant additional registration rights with respect to our common stock.

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

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

- Ø authorize the issuance of additional common or preferred stock in connection with future equity offerings, acquisitions of securities or other assets of companies; and
- Ø 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 our common stock could be substantially dilutive to your shares and may depress the price of our common stock.

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

In the future, we will seek to access the capital markets from time to time by making additional offerings of debt 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

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our charter documents from issuing additional indebtedness. Accordingly, we could become more highly leveraged, resulting in an increase in debt service that could harm our ability to make expected distributions to stockholders and in an increased risk of default on our obligations. If we were to liquidate, holders of our debt and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our

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available assets before the holders of our common stock. Additional equity offerings by us may dilute your interest in us or reduce the market price of your shares of our common stock, or both. Our preferred stock, if issued, could have a preference on distribution payments that could limit our ability to make a distribution to you. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future. Thus, you will bear the risk of our future offerings reducing the market price of your shares of our common stock and diluting your interest in us.

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

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

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

**TAX RISKS RELATED TO OUR STATUS AS A REIT**

**Your investment has various federal income tax risks.**

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

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

We intend to qualify as a REIT under the Internal Revenue Code, which will afford us significant tax advantages. The requirements for this qualification, however, are highly technical and complex and our management has limited experience in operating a REIT. Even a technical or inadvertent mistake could jeopardize our REIT status. The determination that we qualify as a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 75% of our gross income must come from real estate sources and 95% of our gross income must come from real estate sources and certain other sources that are itemized in the REIT tax laws, mainly interest and dividends. We are subject to various limitations on our ownership of securities, including a limitation that the

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value of our investment in taxable REIT subsidiaries, including New Century Financial and its subsidiaries, cannot exceed 20% of our total assets. In addition, at the end of each calendar quarter, at least 75% of our assets must be qualifying real estate assets, government securities and cash and cash items. The need to comply with these asset ownership requirements may cause us to acquire other assets that are qualifying real estate assets for purposes of the REIT requirements (for example, interests in other mortgage loan portfolios or mortgage-related assets) but are not part of our overall business strategy and might not otherwise be the best investment alternative for

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us. Moreover, we may be unable to acquire sufficient qualifying REIT assets, due to our inability to obtain adequate financing or otherwise, in which case we may fail to qualify as a REIT.

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

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

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

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

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

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

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

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

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

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

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

In the event that any transactions between us and New Century Financial and its subsidiaries are not conducted on an arm s-length basis, we could be subject to a 100% excise tax on certain amounts from such transactions. We believe that all such transactions will be conducted on an

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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.

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

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

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

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

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

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

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

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

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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

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formation transactions, we expect to acquire all of the capital stock of New Century Credit and NCMSI, both of which are currently indirect wholly-owned subsidiaries of New Century Financial. After the acquisition, New Century Credit and NCMSI will become qualified REIT subsidiaries and we may succeed to any of New Century Credit's and/or NCMSI's C corporation E&P. If we succeed to that C corporation E&P, we will be required to distribute any such C corporation E&P as of the close of our first taxable year as a REIT. You generally would be subject to tax on the distribution of New Century Credit's and/or NCMSI's C corporation E&P at ordinary income tax rates. It appears that stockholders who are taxed as U.S. individuals would generally be taxed at a maximum rate of 35% on that distribution, rather than the 15% rate applicable to certain corporate dividends, even though that distribution would be attributable to non-REIT C corporation E&P. Legislation introduced in Congress would treat 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 and NCMSI's respective C corporation E&P, which we will use to determine the amount of the special E&P distribution that we must make to purge New Century Credit's and/or NCMSI's respective C corporation E&P, if any. However, the determination of C corporation E&P is extremely complex and the computations by our national accounting firm are not binding on the Internal Revenue Service. If the Internal Revenue Service were to successfully assert that we failed to distribute an amount at least equal to the inherited C corporation E&P of New Century Credit and NCMSI as of the close of our first taxable year as a REIT, we could fail to qualify as a REIT.

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

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

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

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

**RISKS RELATED TO THIS OFFERING**

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

In order for us to maintain our qualification as a REIT under the Internal Revenue Code, not more than 50% in value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time during the last half of each taxable year after our first REIT taxable year. Our charter, with certain

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exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and provide that, unless exempted by our board of directors, no person may own more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of any class or series of our capital stock. Our directors also have authority under our charter to impose a similar ownership limitation as to any separate class or series of preferred stock we may issue in the future. Our board of directors may grant an exemption from that ownership limit in its sole discretion, subject to such conditions, representations and undertakings as it may determine that are consistent with ensuring compliance with the REIT provisions of the Internal Revenue Code. Our charter also prohibits anyone from buying shares if the purchase would result in us losing our REIT status. If you or anyone else acquires shares in excess of the ownership limit or in violation of the ownership requirements of the Internal Revenue Code for REITs, we:

- ∅ will consider the transfer to be null and void;
  
- ∅ will not reflect the transaction on our books;
  
- ∅ may institute legal action to enjoin the transaction;
  
- ∅ will not pay dividends or other distributions with respect to those shares;
  
- ∅ will not recognize any voting rights for those shares; and
  
- ∅ will consider the shares held in trust for the benefit of a charitable beneficiary as designated by us.

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

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

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

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



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

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

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

- Ø **Classified board of directors.** Our board of directors will be divided into three classes with staggered terms of office of three years each. The classification and staggered terms of office of our directors will make it more difficult for a third party to gain control of our board of directors. At least two annual meetings of stockholders, instead of one, generally would be required to effect a change in a majority of our board of directors.
- Ø **Removal of directors.** Under our charter, subject to the rights of one or more classes or series of preferred stock to elect one or more directors, a director may be removed only for cause and only by the affirmative vote of at least two-thirds of all votes entitled to be cast by its stockholders generally in the election of directors.
- Ø **Number of directors, board vacancies, term of office.** Under our bylaws, we have elected to be subject to certain provisions of Maryland law which vest in the board of directors the exclusive right to determine the number of directors and the exclusive right, by the affirmative vote of a majority of the remaining directors, to fill vacancies on the board even if the remaining directors do not constitute a quorum. These provisions of Maryland law, which are applicable even if other provisions of Maryland law or the charter or bylaws provide to the contrary, also provide that any director elected to fill a vacancy shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred, rather than the next annual meeting of stockholder as would otherwise be the case, and until his or her successor is elected and qualified.
- Ø **Limitation on stockholder requested special meetings.** Our bylaws provide that our stockholders have the right to call a special meeting only upon the written request of the stockholders entitled to cast not less than a majority of all the votes entitled to be cast by the stockholders at such meeting.
- Ø **Advance notice provisions for stockholder nominations and proposals.** Our bylaws require advance written notice for stockholders to nominate persons for election as directors at, or to bring other business before, any meeting of our stockholders. This bylaw provision limits the ability of our stockholders to make nominations of persons for election as directors or to introduce other proposals unless we are notified in a timely manner prior to the meeting.
- Ø **Exclusive authority of our board to amend our bylaws.** Our bylaws provide that our board of directors has the exclusive power to adopt, alter or repeal any provision of the bylaws or to make new bylaws. Thus, our stockholders may not effect any changes to our bylaws.
- Ø **Preferred stock.** Under our charter, our board of directors has authority to issue preferred stock from time to time in one or more series and to establish the terms, preferences and rights of any such series of preferred stock, all without approval of our stockholders.
- Ø **Duties of directors with respect to unsolicited takeovers.** Maryland law provides protection for Maryland corporations against unsolicited takeovers by limiting, among other things, the duties of the directors in unsolicited takeover situations. The duties of directors of Maryland corporations do not require them to (1) accept, recommend or respond to any proposal by a person seeking to acquire control of the

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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

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solely because of the effect of the act or failure to act may have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the stockholders in an acquisition. Moreover, under Maryland law the act of the directors of a Maryland corporation relating to or affecting an acquisition or potential acquisition of control is not subject to any higher duty or greater scrutiny than is applied to any other act of a director. Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law.

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

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

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

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## Special note about forward-looking statements

This prospectus and the documents incorporated by reference herein include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or 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, seek to 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:

- Ø our business strategy;
  
- Ø our understanding of our competition;
  
- Ø market trends;
  
- Ø projected sources and uses of funds from operations;
  
- Ø potential liability with respect to legal proceedings; and
  
- Ø 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:

- Ø those identified under Risk factors from pages 13 through 38;
  
- Ø those identified from time to time in New Century Financial's public filings with the Securities and Exchange Commission;
  
- Ø the negative impact of economic slowdowns or recessions;
  
- Ø the effect of changes in interest rates;

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

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

Ø the effect of competition from finance and mortgage banking companies and from Internet-based l