NEW CENTURY REIT INC
Form S-4/A
June 28, 2004
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As filed with the Securities and Exchange Commission on June 28, 2004

Registration No. 333-114709

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

NEW CENTURY REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland	**6162**	**56-2451736**
(State of other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

18400 Von Karman Avenue, Suite 1000

Irvine, California 92612

(949) 440-7030

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

Brad A. Morrice

President and Chief Operating Officer

New Century REIT, Inc.

18400 Von Karman Avenue, Suite 1000

Irvine, California 92612

(949) 440-7030

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

Copies to:

Peter T. Healy, Esq.

O Melveny & Myers LLP

275 Battery Street, 26th Floor

San Francisco, California 94111

(415) 984-8700

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement is declared effective and all conditions to the proposed transaction have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, 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, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) 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: ¨

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, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The Exhibit Index begins on page II-14

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

Subject To Completion, dated , 2004

18400 Von Karman, Suite 1000

Irvine, California 92612

Dear New Century Financial Stockholder:

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

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

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

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

This proxy statement/prospectus is a prospectus of New Century REIT as well as a proxy statement for New Century Financial and provides you with detailed information about the REIT conversion and the other proposals being voted on at the annual meeting. We encourage you to carefully read this entire proxy statement/prospectus, including all of its annexes, and we especially encourage you to read the section on Risk Factors beginning on page 23.

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

Sincerely,

Robert K. Cole
Chairman and Chief Executive Officer

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

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

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REFERENCES TO ADDITIONAL INFORMATION

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

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

See Where You Can Find Additional Information beginning on page 212.

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18400 Von Karman, Suite 1000

Irvine, California 92612

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

, 2004

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

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

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

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

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

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

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

If you were a stockholder of record at the close of business on June 2, 2004, you are entitled to notice of, and to vote at, the annual meeting. As of that date, there were 33,882,389 shares of New Century Financial common stock outstanding. Each share of New Century Financial common stock is entitled to one vote on each matter properly brought before the annual meeting. For at least 10 days before the annual meeting, we will make a list of our stockholders available at our offices at 18400 Von Karman, Suite 1000, Irvine, California.

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

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

By Order of the Board of Directors,

Stergios Theologides
Secretary

Irvine, California

, 2004

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QUESTIONS AND ANSWERS ABOUT THE REIT CONVERSION

Q: What transactions are proposed?

A: Our board of directors has approved a plan to change our capital structure to enable New Century Financial Corporation, a Delaware corporation, or New Century Financial, to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes. We describe these changes in greater detail in Summary Structure of the Merger on page 16. This plan consists of the following key components:

- reorganizing New Century Financial and New Century REIT, Inc., a Maryland corporation, or New Century REIT, through the merger of NC Merger Sub, Inc., a wholly-owned subsidiary of New Century REIT, or NC Merger Sub, with and into New Century Financial, resulting in New Century REIT becoming the parent company of New Century Financial;
- subject to market conditions and the price of our common stock, raising $750 million through the sale by New Century REIT of shares of its common stock to the public;
- having New Century REIT use substantially all of the net proceeds of the public offering to purchase from New Century Financial and its subsidiaries and third parties assets that will enable New Century REIT to satisfy the asset and income tests necessary to maintain its REIT status;
- having New Century REIT acquire all of the capital stock of New Century Credit Corporation (formerly known as Worth Funding Incorporated), or New Century Credit, and New Century Mortgage Securities, Inc., or NCMSI, both of which are currently indirect wholly-owned subsidiaries of New Century Financial, which will become qualified REIT subsidiaries following the REIT conversion; and
- having New Century REIT elect to be taxed as a REIT for U.S. federal income tax purposes, which we currently expect to occur commencing with its taxable year ending December 31, 2004.

Q: What is a REIT?

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

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

- *Taxable REIT subsidiary*. A taxable REIT subsidiary is a corporation in which a REIT has an interest and that has elected to be a taxable REIT subsidiary. Taxable REIT subsidiaries pay corporate tax at regular rates on their taxable income. Through these taxable REIT subsidiaries, we will be able to continue certain business operations that would otherwise jeopardize our REIT qualification or, in the case of income from the sale of properties held for sale to third parties, would be subject to penalty taxes if conducted outside a taxable REIT subsidiary.
- *Qualified REIT subsidiary*. A qualified REIT subsidiary, on the other hand, is a corporation in which a REIT owns all of the stock and for which the REIT does not make a taxable REIT subsidiary election. As such, the qualified REIT subsidiary s separate existence will be disregarded for U.S. federal income tax purposes, and its assets, liabilities and items of income, deduction and credit will be

treated as the REIT s assets, liabilities and items of income, deduction and credit. Although a qualified REIT subsidiary will not be subject to U.S. federal corporate income taxation, it may be subject to state and local taxation in certain jurisdictions.

Q: What happens in the merger?

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

currently a wholly-owned subsidiary of New Century Financial, will succeed to and continue the business of New Century Financial.

In connection with the merger:

- each outstanding share of common stock of New Century Financial will be converted into one share of common stock of New Century REIT;

- New Century REIT will be renamed New Century Financial Corporation, will become the parent company of New Century Financial and will succeed to and continue to operate, directly or indirectly, substantially all of the existing businesses of New Century Financial;

- New Century REIT will apply to have its shares listed on the New York Stock Exchange, or NYSE, under the symbol NEW ;

- New Century Financial will be renamed New Century TRS Holdings, Inc. and will become a wholly-owned taxable REIT subsidiary of New Century REIT;

- the board of directors, committees of the board of directors and management of New Century Financial immediately prior to the merger will become the board of directors, committees of the board of directors and management, respectively, of New Century REIT;

- New Century REIT will assume all of New Century Financial s stock incentive plans, including the 2004 Plan, if approved at the annual meeting, and all rights to acquire shares of New Century Financial common stock under any New Century Financial stock incentive plan will be converted into rights to acquire shares of New Century REIT common stock pursuant to the terms of the stock incentive plans and the other related documents, if any; and

- the rights of the stockholders of New Century REIT will be governed by the Maryland General Corporation Law, or the MGCL, the amended and restated charter of New Century REIT, or New Century REIT s charter, and the amended and restated bylaws of New Century REIT, or New Century REIT s bylaws.

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

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

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

Q: Why are we proposing the REIT conversion?

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

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

- the ability to make distributions to our stockholders in the tax-efficient manner permitted by the rules and regulations

governing taxation of REITs, while retaining the flexibility to increase our capital by retaining some or all of the after-tax earnings in our taxable REIT subsidiaries;

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

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

Our board of directors considered the advantages against the potential risks of the REIT conversion, including the risks discussed below. To review the background of and reasons for the REIT conversion in greater detail, see Proposal 1 Approval and Adoption of the Merger Agreement Pursuant to Which the REIT Conversion Will Be Effected The REIT Conversion beginning on page 50.

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

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

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

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

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

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

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

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

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

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

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

After-tax earnings generated by New Century REIT s taxable REIT subsidiaries and not distributed to New Century REIT are not subject to these distribution requirements and may be retained by such subsidiaries to provide for future growth, subject to the limitations imposed by REIT tax rules.

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

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

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

A: *Shares of New Century REIT common stock*

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

Special E&P Distribution

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

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

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

Q: Am I entitled to dissenters rights?

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

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

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

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

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

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

Although no assurance can be given as to the amount of capital that we will raise in the public offering, our future results or our ability to make distributions, we expect New Century REIT and its taxable REIT subsidiaries will generate enough taxable income so that we will be able to make a distribution of at least $1.50 per share in the first quarter of 2005. This estimate assumes that New Century REIT will complete the public offering for proceeds of $750 million and, that over time, New Century REIT acquires a portfolio of mortgage assets held by New Century Financial.

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The following table illustrates our projected cash available for distribution to our stockholders during the 12 months following completion of the REIT conversion and the public offering on the terms described above:

(dollars in millions other than per share amounts)		
Capital raised	$	750.0
Capital allocated to purchase initial portfolio	$	550.0
Capital required to purchase portfolio		5.00%
Portfolio acquired(1)	$	11,000.0
Average life of loans		3 years
Average balance of portfolio in year 1	$	9,166.7
Weighted average interest rate on loans(2)		7.00%
Weighted average interest rate on borrowings(2)		(2.00)%
Expenses(3)		(1.00)%
Net interest margin		4.00%
Projected annual net interest income available for distribution	$	366.7
Projected shares outstanding (millions)		60
Projected annual net interest income per share available for distribution	$	6.11
Projected quarterly net interest income per share		1.53

(1) We expect that at June 30, 2004, New Century Financial will have $8.0 billion of mortgage loans on its balance sheet and that, in connection with the REIT conversion, New Century REIT will purchase these loans.

(2) These weighted average interest rates approximate the actual weighted average interest rates on New Century Financial s previous securitizations.

(3) Expenses include servicing fees of 30 basis points paid to New Century Financial and the amortization of previously capitalized origination costs of 70 basis points. There are no tax basis losses expected on the portfolio during the 12 months following the completion of the REIT conversion and the public offering.

The projections were not prepared with a view to compliance with published guidelines of the Securities and Exchange Commission, nor the guidelines established by the American Institute of Certified Public Accountants regarding projections or forecasts. The projections do not purport to present operations in accordance with generally accepted accounting principles, and our Independent Registered Public Accounting Firm have not examined, compiled or performed any procedures with respect to the projections presented herein, nor have they expressed any opinion or any other form of assurance of such information or its achievability, and accordingly assume no responsibility for them.

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

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

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

Q: When will the REIT conversion be completed?

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

- entering into an underwriting agreement for the public offering; and
- pricing the public offering on satisfactory terms, including raising enough capital to support our operating plan and to satisfy the REIT tests.

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

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

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

A: It depends. We have filed a registration statement with the Securities and Exchange Commission for $750 million of New Century REIT common stock. We believe we could qualify for REIT status with a smaller public offering. However, our intent in arriving at the $750 million offering size was to raise sufficient capital so that we would have some flexibility as to when we would attempt to obtain additional capital in the future.

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

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

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

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

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

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

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

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

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

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

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

Q: What is the purpose of the 2004 Plan?

A: The 2004 Plan is designed to allow us to retain, motivate and reward those individuals upon whose efforts we will rely for the continued success and growth of our business by providing the individuals adequate future incentives. If our stockholders approve the 2004 Plan, we will not

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grant any additional awards under the New Century Financial Corporation 1995 Stock Option Plan after the annual meeting. We have attached a copy of the 2004 Plan as *Annex D* to this proxy statement/prospectus.

Q: What votes are required?

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

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

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

The Ratification of Our Independent Registered Public Accounting Firm. The affirmative vote of a majority of shares present, either in person or represented by proxy, at the annual meeting and entitled to vote is required to ratify the appointment of our Independent Registered Public Accounting Firm for 2004.

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

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

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

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

FOR the approval and adoption of the merger agreement;

FOR the re-election of the three director nominees;

FOR the approval of the 2004 Plan; and

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

We currently expect each of our directors and executive officers who owns shares of New Century Financial common stock to vote his or her shares FOR each proposal. As of June 2, 2004, our directors and executive officers owned approximately 14.3% of the outstanding shares of common stock of New Century Financial. If such persons vote all of the shares that they own as of June 2, 2004 in favor of the approval and adoption of the merger agreement as expected, the vote of approximately 12,095,917 additional shares of New Century Financial common stock (or 35.7% of the shares of New Century Financial common stock outstanding as of that date and entitled to vote) will be required to approve and adopt the merger agreement.

Q: When and where is the annual meeting?

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

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

A: Yes. All stockholders of record on June 2, 2004 are invited to attend and can vote in person at the annual meeting. If your shares are held by a broker, bank or other nominee, then you are not the stockholder of record and you must bring to the annual meeting appropriate documentation from your broker, bank or other nominee confirming your beneficial ownership of the shares in order to vote at the annual meeting.

Q: What do I need to do now?

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

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

Q: What happens if I abstain?

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

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

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

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

A: Yes. You may change your vote at any time before your proxy is voted at the annual meeting. You can do this by giving written notice to our corporate secretary, by filing another proxy with a later date, or by attending the annual meeting and voting in person. See Annual Meeting Voting Procedures on page 49.

Q: Should I send in my stock certificates now?

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

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

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

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

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

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

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

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

Nomination of Director Candidates. The policy of our governance and nominating committee is to consider candidates properly recommended by our stockholders. In evaluating any such candidates, our governance and nominating committee will consider the criteria set forth under Proposal 2 Election of Directors Corporate Governance Director Nominations Qualification of Candidates on page 191 of this proxy statement/prospectus. Any such recommendations should include the nominee s name and qualifications for membership on our board of directors and should be directed to our corporate secretary, New Century Financial Corporation, 18400 Von Karman, Suite 1000, Irvine, California 92612. In addition, our bylaws permit stockholders to nominate directors for election at stockholder meetings. To nominate a director, stockholders must give timely notice to our corporate secretary in accordance with our bylaws, which require that the notice be received by our corporate secretary within the time periods described above in this answer under Stockholder proposals for inclusion in our proxy materials.

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

Q: Whom should I call with questions?

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

New Century Financial Corporation

18400 Von Karman, Suite 1000

Irvine, California, 92612

Attention: Vice President of Investor Relations

(949) 440-7030

email: cmarrell@ncen.com

SUMMARY

This summary highlights material information contained elsewhere in this proxy statement/prospectus. You should carefully read this entire proxy statement/prospectus and the other documents to which this proxy statement/prospectus refers in order to better understand the REIT conversion and the transactions related to the REIT conversion, including the merger and the public offering. In particular, you should read the annexes attached to this proxy statement/prospectus, including the merger agreement, which is attached as Annex A. You should also read the forms of New Century REIT s charter and bylaws which are attached as Annex B and Annex C, respectively, because they will be the charter and bylaws governing your rights as a stockholder of New Century REIT following the completion of the merger. See the section entitled Where You Can Find Additional Information beginning on page 212. For a discussion of the risk factors that you should carefully consider, see the section entitled Risk Factors beginning on page 23.

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

Overview

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

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

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According to Inside B&C Lending, an industry trade publication, we were the second largest originator of subprime loans in 2003. During that year, we originated over $27 billion of mortgage loans, $8.3 billion of which were originated in the fourth quarter of 2003. We experienced a compounded annual growth rate in our origination volume of 87.6% from 2000 to 2003, and had a market share of 8.3% for the year ended December 31, 2003 compared to 3.0% for the year ended December 31, 2000. In the first 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 continue to age, we expect that the delinquency rate will approach our historical average range of approximately 10% to 20%. Ultimately, we expect that approximately two-thirds of these loans will result in losses with a severity of approximately 40%. Loss severity represents the percentage shortfall of expected collections on a mortgage loan versus the amount we actually recovered. As a result, we expect the cumulative pool loss rate on the loans we have securitized in on- or off-balance sheet securitizations to range from approximately 3% to 5%. Cumulative pool loss rates are defined as the total losses over the life of a securitization pool divided by the aggregate original principal balance of the mortgage loans in the pool.

We had 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. The principal executive offices of each of New Century Financial, New Century REIT and NC Merger Sub are located at 18400 Von Karman Avenue, Suite 1000, Irvine, California 92612, their telephone number at that location is (949) 440-7030 and New Century Financial s website is *www.ncen.com*. Information contained on New Century Financial s website does not constitute a part of this proxy statement/prospectus.

General

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

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

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

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

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

Business Strategy

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

- strengthening our production franchise by expanding our total loan production and increasing market share and volume on the East Coast and in other metropolitan areas outside of California;

- growing our portfolio of mortgage-related assets by retaining self-originated loans through on-balance sheet securitizations, which we believe will increase net interest income and reduce our reliance on our origination franchise to grow earnings;

- strengthening our balance sheet by increasing our liquidity and capital position with the net proceeds from the public offering and future offerings and by increasing available capacity under our lines of credit. We believe these efforts will better protect our franchise and provide the ability to respond to disruptions in the market or other adverse conditions and allow us to meet the distribution and other REIT qualification requirements;

- actively managing the interest rate and credit risks relating to our portfolio of mortgage-related assets in an effort to generate an attractive risk-adjusted return on our stockholders equity;

- expanding our servicing platform by taking advantage of our technical capabilities, capitalization and economies of scale; and

- diversifying our revenues by evaluating and executing strategic acquisitions and new business opportunities.

Competitive Advantages

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

- we are the nation s second largest subprime mortgage finance company when measured by loan production volume, with a wholesale network of 21,600 approved independent mortgage brokers and a retail network of 70 branch offices in 27 states;

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

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

we have developed long-standing relationships with a variety of institutional loan buyers, including Bear Stearns, Credit Suisse First Boston, Deutsche Bank, Goldman Sachs, Morgan Stanley and UBS 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;

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

we have created a proprietary automated credit grading and pricing methodology that we believe, as evidenced by our historical loan performance, gives us the ability to more effectively evaluate credit risk and more efficiently price our products and which we believe enables us to generate attractive risk-adjusted returns as a result;

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

the members of our senior management team have, on average, over 20 years of experience in the mortgage finance sector, with substantial experience addressing the challenges posed by a variety of interest rate environments, including growing an origination franchise, managing credit risk and developing strong capital market relationships.

The Residential Mortgage Market

The residential mortgage market is the largest consumer finance market in the United States. According to the Mortgage Bankers Association of America, or the MBA, lenders in the United States originated over $3.8 trillion of single-family mortgage loans in 2003 and the MBA is predicting originations of $2.5 trillion in 2004. The residential mortgage market can generally be bifurcated into conforming and non-conforming mortgage loans. Non-conforming mortgage loans are those mortgage loans generally not eligible for sale to Fannie Mae or Freddie Mac due to size and/or credit characteristics. Our loan production focuses on the subprime mortgage segment of the non-conforming market, which consists of loans that generally do not satisfy the credit characteristics of the conforming market.

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

In addition to faster growth, the subprime mortgage market has historically focused on home purchases and cash-out refinancings, rather than interest rate driven refinancings, which have caused this market segment to be less interest rate sensitive, and therefore less volatile, than the prime mortgage market. For example, for the 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

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

Our REIT Status

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

The REIT Conversion

We will effect certain structural changes immediately following the proposed merger and the completion of the public offering. These restructuring transactions are designed to enable New Century REIT to become eligible to elect REIT status and to improve New Century REIT s tax efficiency.

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

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

Distribution Policy

We intend to distribute each year all, or substantially all, of the REIT taxable income generated by us in order to qualify for the tax benefits accorded to REITs under the Internal Revenue Code. From time to time, we may also distribute some or all of the after-tax earnings retained in our taxable REIT subsidiaries to our stockholders, depending on, among other factors, then-current market conditions and our reinvestment opportunities. We expect to declare regular quarterly distributions to our stockholders beginning in the 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 the REIT tax rules. To the extent that we distribute at least 90%, but less than 100% of

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

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

Restrictions on Ownership of Our Common Stock

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

Structure of the Merger

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

- **Before**: the organizational structure of New Century Financial, New Century REIT and NC Merger Sub (excluding New Century Financial s current operating subsidiaries), immediately before the merger;
- **Merger**: the steps involved in, and the effects of, the merger of NC Merger Sub and New Century Financial and the exchange of shares of New Century Financial common stock for shares of New Century REIT common stock; and
- **After**: the organizational structure of New Century REIT and New Century Financial (excluding its operating subsidiaries) immediately after the completion of the transactions.

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Transaction Steps

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

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

Comparative Stockholder Rights

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

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

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

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

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

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

- no gain or loss will be recognized by New Century Financial, NC Merger Sub or New Century REIT as a result of the merger;

- you will generally not recognize any gain or loss upon the conversion of your shares of New Century Financial common stock into New Century REIT common stock;

- the tax basis of the shares of New Century REIT common stock that you receive pursuant to the merger in the aggregate will be the same as your adjusted tax basis in the shares of New Century Financial common stock being converted in the merger; and

- for tax purposes, the holding period of shares of New Century REIT common stock that you receive pursuant to the merger will include your holding period with respect to the shares of New Century Financial common stock being converted in the merger, assuming that your New Century Financial common stock was held as a capital asset at the effective time of the merger.

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

Opinion of Financial Advisor

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

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

Recommendation of our Board of Directors

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

Interests of Certain Persons in the Merger

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

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

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

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

Conditions to the Merger

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Regulatory Approvals

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

compliance with applicable federal and state securities laws;

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

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

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Summary Historical Financial Data of New Century Financial

You should read the following summary of historical data in conjunction with New Century Financial s historical consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere or incorporated by reference in this proxy statement/prospectus.

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

The summary historical balance sheet and statement of operations data for the years ended December 31, 2003, 2002 and 2001 of New Century Financial have been derived from the historical financial statements of New Century Financial audited by KPMG LLP, our Independent Registered Public Accounting Firm, whose report with respect thereto is included elsewhere or incorporated by reference in this proxy statement/prospectus. The financial data for the 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.

	For the Three Months Ended March 31,		For the Years Ended December 31,		
Statement of operations data:	2004	2003	2003	2002	2001
	(dollars in thousands, except per share data)				
Revenues:					
Gain on sales of loans	$ 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

(1) 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 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.

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Other data:	For the Three Months Ended March 31,		For the Years Ended December 31,		
	2004	2003	2003	2002	2001
	(dollars in thousands, unless otherwise stated)				
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%

Balance sheet data:	As of March 31,		As of December 31,		
	2004	2003	2003	2002	2001
	(dollars in thousands)				
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
Total assets	9,805,184	2,777,589	8,934,880	2,402,928	1,451,318
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		
Residual financing					79,941
Subordinated debt					40,000
Other liabilities	192,532	137,042	189,851	130,880	96,048
Total liabilities	9,187,426	2,361,447	8,392,869	2,016,378	1,203,557

Total stockholders equity	$ 617,758	$ 416,142	542,011	386,550	247,761

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RISK FACTORS

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

Risks and Effects of the REIT Conversion

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

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

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

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

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

Upon completion of the REIT conversion, each outstanding share of New Century Financial common stock will be exchanged for one share of New Century REIT common stock. We intend to complete the REIT conversion, including the merger, as soon as practicable following the annual meeting, assuming the merger agreement is approved and adopted by New Century Financial s stockholders at the meeting. However, if other

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to New Century REIT

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

Future results of New Century REIT may be materially different from those shown in the pro forma financial statements presented in Unaudited Pro Forma Consolidated Condensed Financial Information beginning on page 107. New Century REIT may incur certain restructuring charges and adjustments. These charges may be higher than New Century REIT has estimated, depending on how costly or difficult it is to restructure our operations in order to qualify as a REIT. Furthermore, these charges may decrease the capital of New Century REIT that could be used for profitable, income-earning investments in the future.

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

To qualify as a REIT under the Internal Revenue Code, New Century REIT generally is required each year to distribute to its stockholders at least 90% of its REIT taxable income (determined without regard to the

dividends paid deduction and by excluding net capital gains). After-tax earnings generated by New Century REIT s taxable REIT subsidiaries and not distributed to New Century REIT are not subject to these distribution requirements and may be retained by such subsidiaries to provide for future growth, subject to the limitations imposed by REIT tax rules. Immediately after the REIT conversion, a substantial amount of our business will be conducted through our taxable REIT subsidiaries. We cannot assure you that we will have access to funds to meet the distribution and other REIT qualification requirements. We may be required to borrow funds from one of our corporate subsidiaries or a third party on a short-term basis or liquidate investments to meet the distribution requirements that are necessary to qualify as a REIT, even if management believes that it is not in our best interests to do so. If we do not have access to the necessary funds, we may have to raise capital at inopportune times or borrow funds on unfavorable terms.

In addition, we require substantial cash to support our operating activities and growth plans in our taxable REIT subsidiaries. Our primary sources of cash for our loan origination activities are our warehouse and aggregation credit facilities, our asset-backed commercial paper facility and the proceeds from the sales and securitizations of our loans. From time to time, we finance our residual interests in securitization transactions using net interest margin, or NIM, structures; however, we have not recently relied on NIM financing as much as we have in prior years. As of 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 borrowing. However, if we are unable to maintain adequate financing or other sources of capital are not available, we would be forced to suspend or curtail our operations, which would harm our results of operations, financial condition and business prospects.

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

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

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

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

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

An interest rate increase may harm our earnings by reducing the spread between the interest we receive on our mortgage loans and our funding costs.

A substantial and sustained increase in interest rates could harm our loan origination volume because refinancings of existing loans, including cash-out refinancings (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.

During periods of rising interest rates, the value and profitability of our loans may be harmed between the date of origination or purchase until the date we sell or securitize the loans.

When we securitize loans, the value of the residual interests we retain and the income we receive from the securitizations structured as financings are based primarily on the London Inter-Bank Offered Rate, or LIBOR. This is because the interest on the underlying mortgage loans is based on fixed rates payable on the underlying loans for the first two or three years from origination while the holders of the applicable securities are generally paid based on an adjustable LIBOR-based yield. Therefore, an increase in LIBOR reduces the net income we receive from, and the value of, these mortgage loans and residual interests.

Our adjustable-rate mortgage loans have periodic and lifetime interest rate caps above which the interest rate on the loans may not rise. In the event of general interest rate increases, the rate of interest on these mortgage loans could be limited, while the rate payable on the senior certificates representing interests in a securitization trust into which these loans are sold may be uncapped. This would reduce the amount of cash we receive over the life of the loans in securitizations structured as financings and our residual interests, and could require us to reduce the carrying value of our residual interests.

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

The 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 Proposal 1 Approval and Adoption of the Merger Agreement Pursuant to Which the REIT Conversion Will Be Effected Business Investment and Operational Policies of New Century REIT.

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

Over-concentration of our loan originations in any one geographic area increases our exposure to the economic and natural hazard risks associates with that area. For example, in the 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.

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

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

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

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

Number of Directors, Board Vacancies, Term of Office. Under New Century REIT s bylaws, New Century REIT has elected to be subject to certain provisions of Maryland law which vest in the board of directors the exclusive right to determine the number of directors and the exclusive right, by the affirmative vote of a majority of the remaining directors, to fill vacancies on the board even if the remaining directors do not constitute a quorum. These provisions of Maryland law, which are applicable

even if other provisions of Maryland law or the charter or bylaws provide to the contrary, also provide that any director elected to fill a vacancy shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred, rather than the next annual meeting of stockholder as would otherwise by the case, and until his or her successor is elected and qualified.

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

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

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

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

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

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

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

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

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

New Century Financial is not currently regulated as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act, and we intend to operate New Century REIT so as to not become regulated as an investment company under the Investment Company Act. For example, we intend to qualify for an exemption under the Investment Company Act that is available to companies that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. Specifically, we intend to invest at least 55% of our assets in mortgage loans or mortgage-related assets that represent the entire ownership in a pool of mortgage loans and at least an additional 25% of our assets in mortgages, mortgage-related assets, securities of REITs and other real estate-related assets. As of 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 New Century REIT fails to qualify for that exemption, we may be required to restructure our activities. For example, if the market value of New Century REIT s investments in equity securities were to increase by an amount that caused less than 55% of our assets to be invested in mortgage loans or mortgage-related assets that represent the entire ownership in a pool of mortgage loans, we might have to sell equity securities in order to qualify for an exemption under the Investment Company Act. In the event we must restructure New Century REIT s activities, our results of operations, financial condition and business prospectus could be harmed.

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

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

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

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

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

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

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.

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

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

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

Several states and cities are considering or have passed laws, regulations or ordinances aimed at curbing predatory lending practices. The federal government is also considering legislative and regulatory proposals in this regard. In general, these proposals involve lowering the existing federal Homeownership and Equity Protection Act thresholds for defining a high-cost loan, and establishing enhanced protections and remedies for borrowers who receive such loans. However, many of these laws and rules extend beyond curbing predatory lending practices to restrict commonly accepted lending activities, including some of our activities. For example, some of these laws and rules prohibit any form of prepayment charge or severely restrict a borrower s ability to finance the points and fees charged in connection with the borrower s loan. In addition, some of these laws and regulations provide for extensive assignee liability for warehouse lenders, whole loan buyers and securitization trusts. Because of enhanced risk and for reputational reasons, many whole loan buyers elect not to purchase any loan labeled as a high cost loan under any local, state or federal law or regulation. Accordingly, these laws and rules could severely constrict the secondary market for a significant portion of our loan production. This would effectively preclude us from continuing to originate loans that fit within the newly defined thresholds. For example, after the October 1, 2002 effective date of the Georgia Fair Lending Act, our lenders and secondary market buyers refused to finance or purchase our Georgia loans. As a result, we were forced to cease providing mortgages in Georgia until the law s amendment a few months later. Similar laws have gone into effect in New Jersey, such as the New Jersey Home Ownership Act of 2002, effective as of November 27, 2003, and in New Mexico, such as the New Mexico Home Loan Protection Act, effective as of January 1, 2004, that have impacted our ability to originate loans in those states. The potential long-term impact could be as much as a 40% reduction in loans in New Jersey and 60% in New Mexico from previous loan origination volumes. Moreover, some of our competitors who are national banks or federally chartered thrifts may not be subject to these laws and may, therefore, be able to capture market share from us and other lenders. For example, the Office of the Comptroller of the Currency recently issued regulations effective January 7, 2004 that preempt state and local laws that seek to regulate mortgage lending practices by national banks. Passage of such state and local laws could increase compliance costs, reduce fee income and lower origination volume, all of which would harm our results of operations, financial condition and business prospects.

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

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

Certain state laws restrict or prohibit prepayment penalties on mortgage loans, and until July 2003, we relied on the federal Alternative Mortgage Transactions Parity Act, or the Parity Act, and related rules issued in the past

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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 be able to rely on the Parity Act to preempt state restrictions on prepayment penalties. The effective date of the new rule, originally January 1, 2003, was subsequently extended by the OTS until July 1, 2003 in response to concerns from interested parties about the burdens associated with compliance. The elimination of this federal preemption has required us to comply with state restrictions on prepayment penalties. These restrictions prohibit us from charging any prepayment penalty in eight states and limit the amount or other terms and conditions of our prepayment penalties in several other states. This may place us at a competitive disadvantage relative to financial institutions that will continue to enjoy federal preemption of such state restrictions. Such institutions are able to charge prepayment penalties without regard to state restrictions and, as a result, may be able to offer loans with interest rate and loan fee structures that are more attractive than the interest rate and loan fee structures that we are able to offer. This competitive disadvantage could harm our results of operations, financial condition and business prospects.

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

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

Our failure to comply with these laws can lead to:

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

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

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

In June 2003, a California jury found a warehouse lender and securitization underwriter liable in part for fraud on consumers committed by a lender to whom it provided financing and underwriting services. The jury found that the investment bank was aware of the fraud and substantially assisted the lender in perpetrating the fraud by providing financing and underwriting services that allowed the lender to continue to operate, and held

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the bank liable for 10% of the plaintiff s damages. This is the first case we know of in which an investment bank was held partly responsible for violations committed by the bank s mortgage lender customer. If other courts or regulators adopt this theory, investment banks may face increased litigation as they are named as defendants in lawsuits and regulatory actions against the mortgage companies with which they do business. Some investment banks may exit the business, charge more for warehouse lending or reduce the prices they pay for whole loans in order to build in the costs of this potential litigation. This could, in turn, harm our results of operations, financial condition and business prospects.

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

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

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

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

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

The net cash proceeds received from loan sales consist of the premiums we receive on sales of loans in excess of the outstanding principal balance, plus the cash proceeds we receive from securitizations structured as sales, minus the discounts on loans that we have to sell for less than the outstanding principal balance. If we are unable to originate loans at a cost lower than the cash proceeds realized from loan sales, our results of operations, financial condition and business prospects could be harmed.

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

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

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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 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.

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.

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.

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

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

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

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

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

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

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.

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

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

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

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

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

In the course of our business, we may foreclose and take title to residential properties and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to 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,

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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 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.

Tax Risks Relating to REIT Qualification

Your investment has various federal income tax risks.

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

investment in our common stock and on your individual tax situation.

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

We intend to qualify as a REIT under the Internal Revenue Code, which will afford us significant tax advantages. The requirements for this qualification, however, are highly technical and complex and our management has limited experience in operating a REIT. Even a technical or inadvertent mistake could jeopardize our REIT status. The determination that we qualify as a REIT requires an analysis of various factual

matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 75% of our gross income must come from real estate sources and 95% of our gross income must come from real estate sources and certain other sources that are itemized in the REIT tax laws, mainly interest and dividends. We are subject to various limitations on our ownership of securities, including a limitation that the value of our investment in taxable REIT subsidiaries, including New Century Financial and its subsidiaries, cannot exceed 20% of our total assets. In addition, at the end of each calendar quarter, at least 75% of our assets must be qualifying real estate assets, government securities and cash and cash items. The need to comply with these asset ownership requirements may cause us to acquire other assets that are qualifying real estate assets for purposes of the REIT requirements (for example, interests in other mortgage loan portfolios or mortgage-related assets) but are not part of our overall business strategy and might not otherwise be the best investment alternative for us. Moreover, we may be unable to acquire sufficient qualifying REIT assets, due to our inability to obtain adequate financing or otherwise, in which case we may fail to qualify as a REIT.

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

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

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

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

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Internal Revenue Service determines that the value of our investment in New Century Financial and other taxable REIT subsidiaries was more than 20% of the value of our total assets at the close of any calendar quarter, we could lose our REIT status.

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

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

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

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

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

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

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

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

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transactions or that we will otherwise be able to avoid application of the 100% excise tax. Any such tax could affect our overall profitability and the amounts of distributions to our stockholders.

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

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

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

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

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

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

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

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

To qualify as a REIT, we cannot have as of the end of any taxable year any undistributed earnings and profits that are attributable to a non-REIT C corporation, or C corporation E&P. As part of the formation transactions, New Century REIT expects to acquire all of the capital stock of New Century Credit and NCMSI, both of which are currently indirect wholly-owned subsidiaries of New Century Financial. After the acquisition,

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New Century Credit and NCMSI will become qualified REIT subsidiaries and we may succeed to any of New Century Credit s and/or NCMSI s C corporation E&P. If we succeed to that C corporation E&P, we will be required to distribute any such C corporation E&P as of the close of our first taxable year as a REIT. You generally would be subject to tax on the distribution of New Century Credit s and/or NCMSI s C corporation E&P at ordinary income tax rates. It appears that stockholders who are taxed as U.S. individuals would generally be taxed at a maximum rate of 35% on that distribution, rather than the 15% rate applicable to certain corporate dividends, even though that distribution would be attributable to non-REIT C corporation E&P. Legislation introduced in Congress would treat New Century REIT s distribution of C corporation E&P as eligible for the 15% rate applicable to certain corporate dividends. We can provide no assurance that such legislation will be enacted into law.

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

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

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

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

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

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SPECIAL NOTE ABOUT FORWARD LOOKING STATEMENTS

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

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

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

- those identified under Risk Factors from pages 23 through 44;
- those identified from time to time in New Century Financial s public filings with the Securities and Exchange Commission;
- the negative impact of economic slowdowns or recessions;
- the effect of changes in interest rates;
- our limited experience managing a REIT;

the condition of the secondary markets for our products;

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

the assumptions underlying our residual values and repurchase allowances;

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

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

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

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

our ability to adequately hedge our residual values;

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the initiation of a margin call under our credit facilities;