## <PAGE>

```
---------------------------------------------------------------------------------------
---
-----------------------------------------------------------------------------------
---
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549
------------
FORM 10-K
(MARK ONE)
/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999
OR
/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR \(15(\mathrm{~d})\) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM
``` \(\qquad\)
``` TO
``` \(\qquad\)
```

COMMISSION FILE NUMBER 000-22633
NEW CENTURY FINANCIAL CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

```
\begin{tabular}{cc} 
DELAWARE & \(33-0683629\) \\
(STATE OR OTHER JURISDICTION & (I. R. S. EMPLOYER \\
INCORPORATION OR ORGANIZATION) & IDENTIFICATION NUMBER)
\end{tabular}

18400 VON KARMAN, SUITE 1000, IRVINE, CALIFORNIA
92612 (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (949) 440-7030
SECURITIES REGISTERED PURSUANT TO SECTION 12 (b) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: COMMON STOCK, \$0.01 PAR VALUE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or \(15(d)\) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation \(S-K\) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form \(10-\mathrm{K}\) or any amendment to this Form \(10-\mathrm{K}\).

The aggregate market value of Common Stock held by non-affiliates of the Registrant on March 24, 2000 was approximately \(\$ 36.8\) million based on the
closing sales price for the Common Stock on such date of \(\$ 9.25\) as reported on the Nasdaq National Market.

As of March 24, 2000, the Registrant had 14,737,894 shares of Common Stock outstanding.

PART III INCORPORATES INFORMATION BY REFERENCE FROM THE REGISTRANT'S DEFINITIVE PROXY STATEMENT FOR ITS 2000 ANNUAL MEETING OF STOCKHOLDERS TO BE FILED WITH THE COMMISSION WITHIN 120 DAYS OF DECEMBER 31, 1999.
```

---

```

---
<PAGE>
PART I
ITEM 1. BUSINESS
GENERAL
New Century Financial Corporation ("New Century" or the "Company") is a specialty finance company that originates, purchases, sells and services sub-prime mortgage loans secured primarily by first mortgages on single family residences. The Company was incorporated in Delaware in November 1995 and commenced lending operations in February 1996.

ORIGINATIONS AND PURCHASES. The Company originates and purchases loans through both wholesale and retail channels. Wholesale originations and purchases are through independent mortgage brokers, and represented 70.9\% of the Company's total originations and purchases in 1999. Retail originations are made through the Company's network of retail offices, through its Primewest subsidiary and through the Internet, and represented \(29.1 \%\) of the Company's total originations and purchases in 1999.

THE TYPICAL BORROWER. The Company's borrowers generally have substantial equity in the property securing their loan, but have impaired or limited credit profiles or higher debt-to-income ratios than traditional mortgage lenders allow. The Company's borrowers also include individuals who, due to self-employment or other circumstances, have difficulty verifying their income through conventional methods, and who prefer the prompt and personalized service provided by the Company. These types of borrowers are generally willing to pay higher loan origination fees and interest rates than those charged by conventional lending sources.

UNDERWRITING. Although the Company's underwriting guidelines include five levels of credit risk classification, approximately 68.5\% of the principal balance of the loans originated and purchased by the Company in 1999 were to borrowers within the Company's two highest credit grades. Approximately, \(93.6 \%\) of its loans originated or purchased during 1999 were secured by borrowers' primary residences. The average loan-to-value ratio on loans originated and purchased by the Company in 1999 was approximately \(78.8 \%\). Approximately \(96.7 \%\) of the loans originated and purchased by the Company during 1999 were secured by first mortgages, and the remainder of the loans the Company originated and purchased for such period was secured by second mortgages. Approximately \(81.4 \%\) of the loans originated and purchased
by the Company in 1999 were refinances of existing loans, while the remaining 18.6\% represented loans for a borrower's purchase of a residential property.

LOAN SALES AND SECURITIZATIONS. The Company sells virtually all of its loan production through a combination of securitizations and bulk sales of whole loans to institutional purchasers. In 1999, whole loan sales accounted for \(25.5 \%\) of total loan sales, and securitizations accounted for the balance.

SERVICING. The Company also receives revenue from servicing its loans on behalf of the loan purchasers. At the end of 1999, the Company's servicing portfolio, including loans held for sale, totaled \(\$ 5.9\) billion. Servicing income also includes interest earned on the Company's residual interests in securitizations, which grew to \(\$ 364.7\) million as of December 31, 1999. In 1999, servicing revenues totaled \(\$ 50.8\) million, and accounted for \(21.7 \%\) of the Company's total revenues.

NET INTEREST INCOME. In 1999 the Company earned \(\$ 8.3\) million in net interest income, which represented approximately \(12.4 \%\) of the Company's pre-tax earnings. Net interest income is earned on loans held in inventory for sale.
<PAGE>

\section*{GROWTH AND OPERATING STRATEGIES}
"FOCUS 2000" BUSINESS PLAN. In February 2000, the Company announced its "Focus 2000" initiative that articulated the Company's principal operating strategies for the coming year. The "Focus 2000" Plan emphasizes greater efficiencies and improved operating disciplines. Among the most significant goals are the following:
```

- Decreasing all-in acquisition costs to 2.50% by year-end
- Improving cash flow by selling a greater percentage of whole loans
and
securitizing a smaller percentage of total originations
- Concentrating on originating loans with characteristics for which
whole
loan buyers will pay a higher premium
- Transitioning from a monoline, sub-prime mortgage company to a
company
which can offer customers a broader menu of financing products and
services
- Transitioning from utilizing solely "traditional" delivery channels
to
a company that is a leading provider of financial products and
services
over the Internet
REDUCING ALL-IN ACQUISITION COSTS PER LOAN. The Company defines the
"all-in acquisition cost" per loan as the fees paid to wholesale brokers and
correspondents, direct loan origination costs (including commissions and

```
corporate overhead costs), less the sum of points and fees received from retail borrowers, divided by total production volume. Comparing 1998 to 1999, the Company's all-in acquisition costs decreased from \(3.62 \%\) to \(2.99 \%\) of the average original principal balance of the Company's loans. During 2000, the Company intends to emphasize reducing all-in acquisition costs to \(2.50 \%\) by year-end and to \(2.25 \%\) in 2001 . The principal strategies to achieve this goal are (i) improving the fee structure (ii) decreasing corporate overhead and commission expenses (iii) increasing staff efficiency, and (iv) reducing marketing costs--all while preserving loan production volume. This strategy will require the implementation of both improved processes and enhanced technology, including the Company's automated underwriting system which is in the final testing stage. During the first quarter of 2000 , the Company has restructured its wholesale and retail commission programs, and has reduced the total number of employees by approximately 12\% from its fourth quarter 1999 high of 1,770 employees. The staff reductions have to date been accomplished by closing unprofitable branches and by streamlining corporate operations.

IMPROVING CASH FLOW. During 2000, the Company intends to improve its cash flow, so as to achieve and then maintain cash neutral operations. The principal strategy for improving cash flow will be to sell a higher percentage of loans in whole loan sales, and to securitize a smaller portion of loan production. In addition, the Company will focus on further improving cash flow by (i) reducing the all-in-acquisition cost of the Company's loans, (ii) increasing the cash generated by the Company's servicing operations, and (iii) improving the ratio of loans funded over total loans submitted.

INCREASE VALUE OF LOAN PRODUCTION. The Company has strengthened its efforts to develop a system of communicating secondary market conditions to its retail and wholesale production units so that loan officers and account executives will have the incentive to produce loans with a strong secondary market value and a disincentive to produce loans that are less profitable. Because the demands in the secondary market evolve continually, New Century believes it will have a competitive advantage if it can effectively communicate the changing secondary market conditions to its production units. The Company also continues to focus on ways to reduce the number of loans that must be sold at a loss because of documentation errors, borrower fraud and other reasons.

PRODUCT DIVERSIFICATION. During 2000, the Company intends to continue the process of developing a broader range of loan and other financial product offerings. The Company has been approved as a seller/servicer by Freddie Mac, and intends to begin offering conforming loan products by the end of the second quarter of 2000. Likewise, the Company's anyloan.com web-site currently offers customers links through which they can apply for auto loans, credit cards, student loans and other non-mortgage financial products. The licensing effort is currently in process to allow the Company to offer more of those products directly. Finally, the Company is establishing an insurance agency through which it will be able to offer customers various insurance products tailored to their needs.
<PAGE>

INTERNET INITIATIVES. Another key element of the Focus 2000 Plan is continued expansion of the Company's Internet operations. Development of a revamped wholesale web-site, which the Company believes is one of the most
advanced business-to-business mortgage web-sites in the industry, was completed during the fourth quarter and is currently in pilot testing with a limited number of brokers. The Company's anyloan.com division also unveiled its second generation web-site which offers consumers a wide variety of loan products including auto financing and credit cards with on-line applications and response capabilities. The Company's focus for 2000 is to attract business through various marketing efforts together with providing the best financial services to its customers.

IMPROVING PROFITABILITY OF LOAN PRODUCTION WHILE PRESERVING VOLUME. In 2000, the Company's production units will focus on improving the overall profitability of loan production by concentrating on originating higher-value loans and reducing low-margin production. The Retail and Wholesale Divisions intend to close unprofitable branches and be increasingly selective about new branch openings. The Company will also evaluate adding profitable loan production through targeted acquisitions of smaller originators.

MAINTAINING MULTIPLE FINANCING SOURCES AND SECURITIZATION CHANNELS. During 1999, the Company established aggregation and residual financing facilities totaling over \(\$ 600\) million with Greenwich Capital and PaineWebber. In addition, the Company renewed its financing arrangements with Salomon Smith Barney, Inc. As a result, the Company effected five of its eight securitizations through Salomon Smith Barney, Inc., with the remaining three being underwritten by Greenwich and PaineWebber. The Company also established its own \(\$ 2\) billion shelf registration statement with the Securities and Exchange Commission to allow it greater flexibility in selecting the underwriter for future securitizations. During 2000, the Company intends to continue to maintain at least two active investment-banking relationships for securitizations and residual financing.
U.S. BANCORP STRATEGIC ALLIANCE. A key element of the Company's strategy for the Year 2000 is to expand its strategic alliance with U.S. Bank.
To this end, in February 2000 the Company received an additional \(\$ 10\) million in subordinated debt financing from U.S. Bank. In March 2000, the Company also
received a commitment from U.S. Bank to (i) provide an additional \$10 million in financing to help fund the Company's Year 2000 capital plan, and (ii) extend the maturity of the subordinated debt to June 2002.

ACQUISITIONS AND STRATEGIC ALLIANCES. In 2000, the Company will continue to evaluate potential acquisitions and strategic alliances with mortgage originators. In March 2000, the Company acquired a small Southern California-based wholesale loan originator called Worth Funding Incorporated.

MARKETING
RETAIL MARKETING. The Company's Retail Division relies primarily on targeted direct mail and outbound telemarketing to attract borrowers. The Company's direct mail programs are managed by a centralized staff who create a targeted mailing list for each branch market and oversee the completion of mailings by a third party mailing vendor. All calls or written inquiries from potential borrowers which result from the mailings are tracked centrally and then forwarded to each branch location and handled by branch loan officers. Under the Central Telemarketing Program, the telemarketing staff solicits prospective borrowers, makes a preliminary evaluation of the borrower's credit and the value of the collateral property and refers qualified leads to
loan officers in the retail branch closest to the customer. The Direct Origination Center sends direct mail to areas not serviced by retail branches, which generates calls and inquiries to a centralized staff of loan officers. In addition, the telemarketing staff refers qualified leads to those central loan officers who work with the borrower using telephone, fax and mail and who utilize document and signing services to close the loan.

The Company's Primewest and anyloan.com operations also rely on internet-based advertising such as banner ads, search engines and links to related web-sites in order to direct potential borrowers to the Company's web-sites.

In 1999 the Company also completed initial testing of broader marketing efforts designed to build recognition of the New Century brand. The Company tested radio and television advertisements in selected markets in the third and fourth quarters of 1999. In 2000, the Company does not intend to continue to pursue the television channel for the "New Century" brand. However, the Company is considering a variety of strategies, including television and radio, to improve familiarity with its "anyloan.com" brand.

4
<PAGE>

WHOLESALE MARKETING. The Company's wholesale marketing strategy is focused on the sales efforts of its account executives, supported by the Company's commitment to providing prompt, consistent service to brokers and their customers. These efforts are supplemented with direct mail to brokers, advertisements in trade publications and periodic sales contests.

LOAN ORIGINATIONS AND PURCHASES
The Company originates and purchases loans through its Wholesale and Retail Divisions, through its Primewest subsidiary and through its anyloan.com division. The Wholesale Division originates and purchases loans through a network of independent mortgage brokers and correspondents. The Retail Division, Primewest and anyloan.com solicit loans directly from prospective borrowers. All of the Company's loans are secured by first or second mortgages on one-to-four family residences.

WHOLESALE DIVISION. The Wholesale Division funded \(\$ 2.9\) billion in loans, or \(70.9 \%\) of the Company's total loan production, during 1999. As of December 31, 1999, the Wholesale Division was operating through five regional operating centers located in Southern California, Northern California, Chicago, Atlanta, and Tampa and through 41 additional sales offices located in Arizona, Arkansas, California (2), Colorado, Florida (3), Idaho, Indiana, Louisiana, Massachusetts, Michigan, Minnesota, Missouri (2), Nevada, New Mexico, North Carolina (3), Ohio (2), Oregon (3), Pennsylvania, South Carolina (3), Tennessee, Texas (4), Utah, Virginia, Washington (2), and Wisconsin (2), employing a total of 176 account executives. As of December 31, 1999, the Company had relationships with approximately 9,000 approved mortgage brokers and during 1999 originated loans through approximately 4,580 brokers. During 1999, New Century's ten largest producing brokers originated approximately \(6.3 \%\) of the Company's loans, with the largest broker, Qualified Financial Services, accounting for approximately \(1.6 \%\) of the Division's production.

In wholesale originations, the broker's role is to identify the
applicant, assist in completing the loan application form, gather necessary information and documents and serve as the Company's liaison with the borrower through the lending process. The Company reviews and underwrites the application submitted by the broker, approves or denies the application, sets the interest rate and other terms of the loan and, upon acceptance by the borrower and satisfaction of all conditions imposed by the Company, funds the loan. Because brokers conduct their own marketing and employ their own personnel to complete loan applications and maintain contact with borrowers, originating loans through the Wholesale Division allows the Company to increase its loan volume without incurring the higher marketing, labor and other overhead costs associated with increased retail originations.

Loan applications generally are submitted by mortgage brokers to an account executive in one of the Company's sales offices. The application is then forwarded to the closest regional operating center where the loan is logged-in for RESPA and other regulatory compliance purposes, underwritten and, in most cases, conditionally approved or denied within 24 hours of receipt. Because mortgage brokers generally submit individual loan files to several prospective lenders simultaneously, the Company attempts to respond to each application as quickly as possible. If approved, the Company issues a "conditional approval" to the broker with a list of specific conditions to be met (for example, credit verifications and independent third-party
appraisals) and additional documents to be supplied prior to the funding of the loan. An account manager and the originating New Century account executive will work directly with the submitting mortgage broker to collect the requested information and to meet the underwriting conditions and other requirements. In most cases, the Company funds loans within 30 days after approval of the loan application.

The Wholesale Division also purchases closed loans on an individual or "flow" basis from independent mortgage brokers and financial institutions. The Company reviews an application for approval from each lender seeking to sell the Company a closed loan. The Company analyzes the mortgage broker's underwriting guidelines and financial condition, including its licenses and financial statements. The Company requires each mortgage broker to enter into a purchase and sale agreement with customary representations and warranties regarding the loans such mortgage broker will sell to the Company, thereby providing the Company with representations and warranties that are comparable to those given by the Company to its loan purchasers.
<PAGE>

The following table sets forth selected information relating to wholesale loan originations during the periods shown:
<TABLE>
<CAPTION>
For the Quarters
Ended
\begin{tabular}{lccc} 
& March 31, & Mune 30, \\
September 30, & December 31, & 1999 & 1999
\end{tabular}
\begin{tabular}{|c|c|c|c|c|c|}
\hline <S> & \multirow[t]{2}{*}{<C>} & & \multirow[t]{2}{*}{<C>} & & \multirow[t]{2}{*}{<C>} \\
\hline \multicolumn{3}{|l|}{<C>} & & & \\
\hline \multicolumn{6}{|l|}{Principal balance (in} \\
\hline thousands) & \$ & 646,137 & \$ & 668,560 & \$ \\
\hline 823,551 \$ 756,269 & & & & & \\
\hline \multicolumn{6}{|l|}{Average principal balance per} \\
\hline loan (in thousands) & \$ & 103 & \$ & 111 & \$ \\
\hline 109 \$ 109 & & & & & \\
\hline \multicolumn{6}{|l|}{Combined weighted average} \\
\hline initial loan-to-value ratio. & & 79.2\% & & 79.1\% & \\
\hline 78.8\% 78.3\% & & & & & \\
\hline Percent of first mortgage loans & & 96.4 & & 95.8 & \\
\hline 95.193 .8 & & & & & \\
\hline \multicolumn{6}{|l|}{Property securing loans:} \\
\hline Owner occupied. & & 86.4 & & 87.5 & \\
\hline 88.7 90.0 & & & & & \\
\hline Non-owner occupied. & & 13.6 & & 12.5 & \\
\hline \multicolumn{6}{|l|}{11.310 .0} \\
\hline \multicolumn{6}{|l|}{Weighted average interest rate:} \\
\hline Fixed-rate & & 10.4 & & 10.2 & \\
\hline \multicolumn{6}{|l|}{10.0 10.5} \\
\hline ARMs & & 9.8 & & 9.8 & \\
\hline \multicolumn{6}{|l|}{9.810 .1} \\
\hline Margin--ARMs. & & 6.1 & & 6.1 & \\
\hline 6.16 .1 & & & & & \\
\hline </TABLE> & & & & & \\
\hline
\end{tabular}

RETAIL DIVISION, PRIMEWEST AND ANYLOAN.COM. During 1999, the Company originated \(\$ 1.2\) billion in loans, or \(29.1 \%\) of the Company's total loan production through its Retail Operations, including \(\$ 163.1\) million, or \(4.0 \%\), originated through its Primewest subsidiary and \(\$ 21.7\) million, or . \(05 \%\), originated through anyloan.com, which commenced operations in August, 1999. As of December 31, 1999, the Retail Division employed 298 retail loan officers, located in 83 sales offices in Arizona (4), California (21), Colorado (2), Delaware, Florida (6), Georgia, Hawaii (2), Illinois (3), Indiana, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota (3), Missouri (2), Montana, Nevada (2), New Jersey, New Mexico, North Carolina (2), Ohio (4), Oklahoma, Oregon, Pennsylvania (2), Tennessee (2), Texas (8), Utah, Virginia (2), and Washington (4). As of December 31, 1999, Primewest employed 44 loan officers and anyloan.com employed 10 loan officers at their headquarters in Irvine, California.

By creating a direct relationship with the borrower, retail lending provides a more sustainable loan origination franchise and greater control over the lending process while generating loan origination fees to offset the higher costs of retail lending, which may contribute to profitability and cash flow.

For the year ended December 31, 1999, the retail loan originations and purchases included \(\$ 39\) million in loans funded through the Company's Service Provider Program. Under that program, the Company establishes relationships with banks and other financial institutions across the country. The goal is to encourage participating financial institutions to identify potential borrowers who do not qualify for a loan from the respective financial institution but do meet the Company's target borrower profile.

Participating financial institutions are compensated by the Company based on the level of services performed by the institution. As of December 31, 1999, the Company had service provider relationships with 172 banks and other financial institutions, 98 of which were producing loan volume for the Company.
```

<PAGE>

```

The following table sets forth selected information relating to retail loan originations, including Primewest and anyloan.com, during the periods shown:
<TABLE>
<CAPTION>
For the Quarters
Ended

originations and purchases. The Company also relies on three aggregation and residual financing facilities totaling \(\$ 1.4\) billion with Salomon Brothers Realty Corp., Greenwich Capital and PaineWebber to finance the loans pending their sale or securitization. See "--Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

\section*{PRODUCT TYPES}

The Company offers both fixed-rate and adjustable-rate loans ("ARMs"), as well as loans with an interest rate that is initially fixed for a period of time and subsequently converts to an adjustable rate. Most of the ARMs originated by the Company are offered at a low initial interest rate, sometimes referred to as a "start rate." At each interest rate adjustment date, the Company adjusts the rate, subject to certain limitations on the amount of any single adjustment, until the rate charged equals the fully indexed rate. There can be no assurance, however, that the interest rate on these loans will reach the fully indexed rate if the loans are pre-paid or in cases of foreclosure.

The Company's borrowers fall into five sub-prime risk classifications. The Company's products are available at different interest rates and with different origination and application points and fees depending on the particular borrower's risk classification (see "Business--Underwriting Standards"). Borrowers may choose to increase or decrease their interest rate through the payment of different levels of origination fees and many of the Company's fixed-rate borrowers, in particular, choose to "buy down" their interest rate through the payment of additional origination fees. The Company's maximum loan amounts are generally \(\$ 600,000\) with a loan-to-value ratio of up to \(90 \%\). The Company does, however, offer larger loans with lower loan-to-value ratios on a case-by-case basis, and also offers products that permit a loan-to-value ratio of up to 95\% for selected borrowers with a Company risk classification of "AAA", "A+" or "A-."
<PAGE>
Loans originated or purchased by the Company in 1999 had an average loan amount of approximately \(\$ 102,000\) and an average loan-to-value ratio of approximately 78.8\%. Unless prohibited by state law or otherwise waived by the Company, the Company's loans generally impose a prepayment charge on the borrower for certain full or partial prepayments early in the loan's term. Approximately \(75.0 \%\) of the loans the Company originated or purchased during 1999 provided for the payment by the borrower of a prepayment charge under some circumstances.

\section*{UNDERWRITING STANDARDS}

New Century originates or purchases its mortgage loans in accordance with the underwriting criteria (the "Underwriting Guidelines") described below. The loans the Company originates or purchases generally do not satisfy conventional underwriting standards, such as those utilized by the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"); therefore, the Company's loans are likely to result in rates of delinquencies and foreclosures that are higher, and may be substantially higher, than those rates experienced by portfolios of mortgage loans underwritten in a more traditional manner.

The Underwriting Guidelines are intended to evaluate the credit history of the potential borrower, the capacity of the borrower to repay the proposed loan, the value of the security property and the adequacy of such property as collateral for the proposed loan. Based upon the underwriter's review of the loan application and related data and application of the Underwriting Guidelines, the loan terms, including interest rate and maximum loan-to-value, are determined.

Each loan applicant completes an application that includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information. The Underwriting Guidelines require a credit report on each applicant from a credit reporting company. The report typically contains information relating to such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcies, repossessions or judgments. All mortgaged properties are appraised by qualified independent appraisers prior to funding of the loan. Such appraisers inspect and appraise the subject property and verify that such property is in acceptable condition. Following each appraisal, the appraiser prepares a report which includes a market value analysis based on recent sales of comparable homes in the area and, when deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home. All appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and are generally on forms acceptable to FNMA and FHLMC. The Underwriting Guidelines require a review of the appraisal by a qualified employee of the Company or by a qualified appraiser retained by the Company.

The Underwriting Guidelines currently include two levels of applicant documentation requirements, referred to as the "Full Documentation", and "Stated Income Documentation" programs. Under each of the programs, the Company reviews the applicant's source of income, calculates the amount of income from sources indicated on the loan application or similar documentation, reviews the credit history of the applicant, calculates the debt service-to-income ratio to determine the applicant's ability to repay the loan, reviews the type and use of the property being financed, and reviews the property. In determining the ability of the applicant to repay the loan, the Company's underwriters use a qualifying rate that is equal to the initial interest rate on such loan (in the case of other LIBOR-based loans). The Underwriting Guidelines require that mortgage loans be underwritten in a standardized procedure which complies with applicable federal and state laws and regulations and requires the Company's underwriters to be satisfied that the value of the property being financed, as indicated by an appraisal and a review of the appraisal, currently supports the outstanding loan balance. In general, the maximum loan amount for mortgage loans originated under the programs is \(\$ 600,000\). The Underwriting Guidelines permit loans on one-to-four-family residential properties to have (i) a loan-to-value ratio at origination of up to 95\%, with respect to non-conforming first liens, (ii) a combined loan-to-value ratio at origination of up to \(90 \%\) with respect to non-conforming second liens and (iii) a combined loan-to-value ratio at origination of up to 100\% with respect to conforming second liens, in each case depending on, among other things, the purpose of the mortgage loan, a borrower's credit history, repayment ability and debt service-to-income ratio, as well as the type and use of the property. With respect to mortgage loans secured by mortgaged properties acquired by a borrower under a "lease option purchase," the
loan-to-value of the related mortgage loan is based on the lower of the appraised value at the time of origination of such mortgage loan or the sale price of the related mortgaged property if the "lease option purchase price" was set less than twelve months prior to origination and is based on the appraised value at the time of origination if the "lease option purchase price" was set twelve months or more prior to origination.
<PAGE>

The Underwriting Guidelines require that the income of each applicant be verified. The specific income documentation required for the Company's various programs is as follows: under the Full Documentation program, applicants generally are required to submit two written forms of verification of stable income for at least twelve months; under the Stated Income Documentation program, an applicant may be qualified based upon monthly income as stated on the mortgage loan application if the applicant meets certain criteria. All the foregoing programs require that, with respect to salaried employees, there be a telephone verification of the applicant's employment. Verification of the source of funds (if any) required to be deposited by the applicant into escrow in the case of a purchase money loan is required when the loan-to-value ratio is greater than \(70 \%\).

In evaluating the credit quality of borrowers, the Company utilizes credit bureau risk scores (a "FICO score"), a statistical ranking of likely future credit performance developed by Fair, Isaac \& Company and the three national credit data repositories--Equifax, TransUnion and Experian.
<PAGE>

The Company's Underwriting Guidelines for first lien mortgage loans have the following categories and criteria for grading the potential likelihood that an applicant will satisfy the repayment obligations of a mortgage loan:

> Summary of Principal
> Underwriting Guidelines (1)
```

<TABLE>
<CAPTION>
```


    A+ Risk A- Risk
Risk C Risk C- Risk

```
collection
accounts or
charge-offs open
    after
funding.
```

```
Debt service to income
Ratio............... 45% to 55% 45% to 55% 55% to
59% 55% to 59% 50% to 59%
Maximum loan-to-value
ratio ("LTV"):(2)
    Owner occupied:
    single family....... 90% 90%
75%
70%
    Owner occupied:
    condo/three-to-four
    unit.............. 85% 85% 75%
70% 65%
    Non-owner occupied... 85% 80% 75%
70% 65%
</TABLE>
```
(1) The letter grades applied to each risk classification reflect the Company's internal standards and do not necessarily correspond to
the
classifications used by other mortgage lenders. "LTV" means loan-to-value ratio.
(2) The maximum LTV set forth in the table is for borrowers providing full
documentation. The LTV is reduced 5\% for stated income applications,
applicable. Additionally, if the borrower's FICO score meets or
exceeds
the risk category and debt ratio guidelines, consumer credit may be disregarded.
<PAGE>
MORTGAGE CREDIT ONLY PROGRAM. In addition to the five risk grade categories described above, the Company also has a Mortgage Credit Only program. The Mortgage Credit Only program allows no more than three 30-day late payments and no 60-day late payments within the last 12 months on an existing mortgage loan and must be current at funding. An existing mortgage loan is not required to be current at the time the application is submitted. Derogatory credit report items are allowed as to non-mortgage credit. Mortgage Credit Only loans are not available under the Stated Income Documentation program. No bankruptcy or notice of default filings may have occurred during the preceding two years; provided, however, that if the borrower's bankruptcy has been discharged during the past two years and the borrower has re-established a credit history otherwise complying with the credit parameters set forth in this paragraph, the borrower may then qualify under the Mortgage Credit Only program. The mortgaged property must be in at least average condition. A maximum loan-to-value of \(75 \%\) is permitted for a mortgage loan on a single-family owner-occupied property. A maximum loan-to-value of \(70 \%\) is permitted for a mortgage loan on a non-owner occupied property, second home, owner-occupied condominium, or two-to four-family residential property. The debt service-to-income ratio is generally limited to a maximum of \(55 \%\).

HOME SAVER PROGRAM. The Company has established a sub-category of its C- credit grade (the "Home Saver Program") for borrowers faced with at least one of the following credit scenarios: (i) the borrower has an existing mortgage currently in foreclosure, (ii) the borrower is subject to a notice of default filing, (iii) the borrower has had a serious mortgage delinquency for more than one 120 day period in the last 12 months or is more than 90 days late at the time of funding, or (iv) the borrower is in an open Chapter 13 or Chapter 11 bankruptcy. The Home Saver Program is available only to Full Documentation borrowers and permits a maximum loan-to-value of \(65 \%\) and a maximum debt service-to-income ratio of \(59 \%\). The maximum loan is \(\$ 300,000\) and all derogatory credit report items must either be brought current or paid through the loan proceeds. A maximum of \(3 \%\) of the loan proceeds may be paid to the borrower in cash. If the borrower is in an open Chapter 13 or Chapter 11 bankruptcy, the bankruptcy must be discharged through the proceeds of the loan.

EXCEPTIONS. The categories and criteria described in the above table are guidelines only. On a case-by-case basis, the Company may determine that an applicant warrants a loan-to-value exception, a debt service-to-income ratio exception, or another exception to the Underwriting Guidelines. The Company may allow such an exception if the application reflects certain compensating factors such as low LTV, pride of ownership, a maximum of one 30 -day late payment on all mortgage loans during the last 12 months, and stable employment or ownership of current residence for five or more years. The Company may also allow an exception if the applicant places a down payment through escrow of at least \(20 \%\) of the purchase price of the mortgage
property or if the new loan reduces the applicant's monthly aggregate mortgage payment by \(25 \%\) or more.

The Company evaluates its Underwriting Guidelines on an ongoing basis and periodically modifies the Underwriting Guidelines to reflect the Company's current assessment of various issues related to an underwriting analysis. The Company also maintains separate underwriting guidelines appropriate to its conforming and non-conforming second lien mortgage loans, and adopts new underwriting guidelines appropriate to new loan products offered by the Company.
<PAGE>

LOAN PRODUCTION BY BORROWER RISK CLASSIFICATION

The following table sets forth information concerning the Company's principal balance of fixed rate and adjustable rate loan production by borrower risk classification for the periods shown:
<TABLE>
<CAPTION>


A- RISK GRADE:

```

    Weighted average interest rate:
    Fixed-rate................... 12.1 11.8
    11.5 11.5
ARMs........................ 11.5 11.6
11.6 11.4
Margin--ARMs................. 6.7 6.7
6.6 6.4
-------------------------------------
----------------------------------
</TABLE>

```
<PAGE>

GEOGRAPHIC DISTRIBUTION
The following table sets forth aggregate dollar amounts (in thousands) and the percentage of all loans originated or purchased by the Company by state for the periods shown:
<TABLE>
<CAPTION>
For the Quarters Ended

\begin{tabular}{|c|c|c|c|c|c|c|c|}
\hline Michigan. & & 25,969 & 2.9\% & & 22,167 & 2.3\% & 31,543 \\
\hline 2.7\% & 33,710 & 3.1\% & & & & & \\
\hline Other. & & 288,209 & 32.2\% & & 279,512 & 29.2\% & 339,838 \\
\hline 29.4\% & 295,827 & 27.8\% & & & & & \\
\hline Total.. & . . \$ & 891,917 & 100.0\% & \$ & 958,986 & 100.0\% & \$1,157,503 \\
\hline 100.0\% & \$1,071,858 & \(100.0 \%\) & & & & & \\
\hline
\end{tabular}

\section*{LOAN SALES AND SECURITIZATIONS}

The secondary marketing functions of the Company are performed by a separate subsidiary, NC Capital Corporation, which buys loans from the Wholesale and Retail Divisions of New Century Mortgage Corporation and Primewest within a week or two after origination. The purchase price paid for the loans approximates the secondary market value of the loans based on current market conditions. NC Capital then sells the loans through both securitizations and bulk sales to institutional purchasers of whole loans. NC Capital is responsible for determining when and through what channel to sell the loans, and bears the risks of market fluctuations in the period between purchase and sale.

WHOLE LOAN SALES. In a whole loan sale, the Company sells loans in bulk to a purchaser for a cash price that represents a premium over the principal balance of the loans sold. The sale may include releasing to the purchaser the servicing rights to the loans (a "servicing-released" sale) or the Company may retain the servicing rights (a "servicing-retained" sale). Until February 1997, the Company sold all loans through servicing-released whole loan sales. In February 1997, the Company began to sell loans through securitization and retain the servicing rights, while it continued to sell loans through whole loan sales on a servicing-released basis. In December 1997, the Company began selling loans through whole loan sales on a servicing-retained basis.

In 1999, whole loan sales accounted for \(\$ 1.0\) billion, or \(25.5 \%\) of the Company's total loan sales. Of this amount, \(28.6 \%\) were sold servicing-retained and \(71.4 \%\) were sold servicing-released. In the servicing-retained sales, the purchaser retained the Company to service the loans for a fee of \(0.50 \%\) per year of the outstanding principal balance of the loans. The weighted average sales price of the Company's 1999 whole loan sales was equal to \(103.2 \%\) of the original principal balance of the loans sold.

The Company seeks to maximize its premium on whole loan sale revenue by closely monitoring institutional purchasers' requirements and focusing on originating or purchasing the types of loans that meet those requirements and for which institutional purchasers tend to pay higher premiums. During 1999, the Company sold loans to many institutional purchasers. No whole loan buyer accounted for more than \(10 \%\) of the Company's total loan sales and securitizations in 1999.
<PAGE>

Whole loan sales are made on a non-recourse basis pursuant to a purchase agreement containing customary representations and warranties by the Company regarding the underwriting criteria applied by the company and the origination process. The Company, therefore, may be required to repurchase or substitute loans in the event of a breach of its representations and warranties. In addition, the Company sometimes commits to repurchase or substitute a loan if a payment default occurs within the initial months following the date the loan is funded, unless other arrangements are made between the Company and the purchaser. The Company is also required in some cases to repurchase or substitute a loan if the loan documentation is alleged to contain fraudulent misrepresentations made by the borrower.

SECURITIZATIONS. During 1999, the Company completed the sale of loans through eight securitization transactions, five securitizations through Salomon Smith Barney, Inc., two co-underwritten by Greenwich Capital and PaineWebber Inc., and one underwritten solely by Greenwich Capital.

In a securitization, the Company sells a pool of loans to a trust for the following: (i) a cash purchase price and (ii) a certificate evidencing its "residual interest" ownership in the trust. The trust raises the cash portion of the purchase price by selling senior certificates representing senior interests in the loans in the trust. Following the securitization, purchasers of senior certificates receive the principal collected, including prepayments, on the loans in the trust. In addition, they receive a portion of the interest on the loans in the trust equal to the specified "investor pass-through interest rate" on the principal balance. The Company receives the cash flows from the residual interests, after payment of servicing fees, guarantor fees and other trust expenses, and provided the specified over-collateralization requirements are met.

The Company recognizes gain on sale of the loans, which represents the excess of the estimated fair value of the residual interests, less closing and underwriting costs, over the carrying value of the loans sold, in the fiscal quarter in which such loans are sold. At the same time as the Company recognizes the gain on sale, the Company records the residual interests as assets on its balance sheet. The recorded values of these residual interests are amortized as distributions are received from the trust holding the respective loan pool.

Three of the 1999 securitizations were credit enhanced by an insurance policy provided through a monoline insurance company. The other five securitizations were credit enhanced through the use of subordinated certificates instead of an insurance policy. The Company used credit enhancements in each of its securitizations to allow the senior certificates in the related trusts to receive ratings of "AAA" from Standard \& Poor's Rating Services and "Aaa" from Moody's Investors Service, Inc. and Duff and Phelps rating agency. The Company also provides credit enhancement in the form of an over-collateralization account.

There is no assurance that actual performance of any of the Company's securitized loan portfolios will be consistent with the company's estimates and assumptions. To the extent that actual prepayment speeds, losses or market discount rates materially differ from the Company's estimates, the estimated value of its residuals may increase or decrease, which may have a material impact on the Company's results of operations, financial condition and liquidity.

During 1999, the Company repurchased \(\$ 15\) million in loans out of its 1997 securitizations. Such repurchases are permitted only when the loan defaults and are undertaken by the Company in order to avoid disruption of cash flow from certain securitization trusts and to provide the Company with maximum flexibility in resolving problem loans. In addition, the Company recorded a total of \(\$ 28.5\) million in write-downs to the carrying value of its residual securities issued prior to 1999. These adjustments were the result of a) a continuing increase in prepayment speeds which occurred despite the increase in interest rates in the latter part of the year, and b) an increase in overall static pool loss assumption in the fourth quarter to \(2.50 \%\). The Company increased its prepayment speed assumptions to be consistent with its valuation methodology. See "--Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations."
<PAGE>
NIM-EXCESS CASH FLOW PRIVATE PLACEMENTS. In February 1999, the Company completed its third "net interest margin" or "excess cash flow" private placement ("NIM" transaction) with respect to its residual interests in ten of its prior securitizations. In a NIM transaction the Company contributes and/or sells one or more residual interests from prior securitizations to a special purpose subsidiary. The subsidiary in turn sells the residual interests to a trust. The trust pays for the residual interest partly in cash and partly with an Owner Trust Certificate representing an ownership interest in the trust. The trust raises the cash by selling bonds that represent senior interests in the residual securities that were deposited into the trust.

While the Company is holding residual interests from securitizations, it is able to pledge those interests to a lender in order to borrow against them. The Company is able to pay down those borrowings with the proceeds of a NIM transaction, thereby reducing its leverage ratios. The Company believes these transactions to be an important part of its overall loan sales strategy, and expects to continue to pursue them with its future residual interests if market conditions permit, in order to improve liquidity and decrease borrowings.

LOAN SERVICING AND DELINQUENCIES
SERVICING. Servicing of loans includes collecting and remitting loan payments, making required advances, accounting for principal and interest, holding escrow or impound funds for payment of taxes and insurance and, if applicable, contacting delinquent borrowers and supervising foreclosures and property dispositions in the event of unremedied defaults.

The Company retains the servicing rights on all loans it sells through securitizations and a portion of the loans its sells in whole loan sales. In addition, some purchasers of "servicing-released" whole loans request the Company to continue to act as servicer for an interim period following the sale. Finally, the Company services all of the loans its originates and purchases during the 30 to 90 -day period pending their sale or securitization.

Prior to September 1997, the Company outsourced substantially all of its servicing operations to Advanta Mortgage Corp. USA ("Advanta"), an approved third party sub-servicer. The loans in the Company's first five
securitizations were subserviced by Advanta. In September 1997, the Company began boarding loans on a joint servicing platform with Comerica in which each party was responsible for part of the servicing process. In July 1998, the Company terminated the Comerica agreement, and began performing all servicing functions relating to the loans previously serviced on the joint platform. Finally, during 1999, the Company assumed responsibility for servicing all of the loans from the Company's first five securitizations that had continued to be sub-serviced by Advanta.

As of December 31, 1999, the Company's servicing portfolio consisted of 60,703 loans with an aggregate principal balance of approximately \(\$ 5.9\) billion, of which 4,543 loans with an aggregate principal balance of \(\$ 442.7\) million were held for sale and serviced on an interim basis, 56,104 loans with an aggregate principal balance of \(\$ 5.5\) billion were serviced for securitizations, and 56 loans with an aggregate principal balance of \(\$ 5.4\) million were serviced on behalf of the whole loan purchasers thereof.

DELINQUENCIES AND FORECLOSURES. Loans originated or purchased by the Company are secured by mortgages, deeds of trust, security deeds or deeds to secure debt, depending upon the prevailing practice in the state in which the property securing the loan is located. Depending on local law, foreclosure is effected by judicial action or non-judicial sale, and is subject to various notice and filing requirements. In general, the borrower, or any person having a junior encumbrance on the real estate, may cure a monetary default by paying the entire amount in arrears plus other designated costs and expenses incurred in enforcing the obligation during a statutorily prescribed reinstatement period. Generally, state law controls the amount of foreclosure expenses and costs, including attorney's fees, which may be recovered by a lender. After the reinstatement period has expired without the default having been cured, the borrower or junior lien-holder no longer has the right to reinstate the loan and may be required to pay the loan in full to prevent the scheduled foreclosure sale. Where a loan has not yet been sold or securitized, the Company will generally allow a borrower to reinstate the loan up to the date of foreclosure sale.
<PAGE>
Although foreclosure sales are typically public sales, third-party purchasers rarely bid in excess of the lender's lien because of the difficulty of determining the exact status of title to the property, the possible deterioration of the property during the foreclosure proceedings and a requirement that the purchaser pay for the property in cash or by cashier's check. Thus, the foreclosing lender often purchases the property from the trustee or referee for an amount equal to the sum of the principal amount outstanding under the loan, accrued and unpaid interest and the expenses of foreclosure. Depending on market conditions, the ultimate proceeds of the sale may not equal the lender's investment in the property.

New Century commenced receiving applications for mortgage loans under its regular lending program in February 1996 and during 1996 sold all of its loans on a whole loan, servicing-released basis. The Company began selling loans through securitizations in 1997 and in connection with these securitizations has established reporting systems to track historical delinquency, bankruptcy, foreclosure and default experience for the loans included in its securitizations as well as the Company's total portfolio of loans. Because most of the Company's securitized loans have been outstanding
for a short period of time, current delinquency and loss information is not necessarily representative of future delinquencies and losses.

The following tables set forth certain delinquency statistics as of December 31, 1999 for the Company's 1997, 1998 and 1999 securitized loans (DOLLARS IN THOUSANDS):

SECURITIES ISSUED IN 1997
```

<TABLE>
<CAPTION>

```

BALANCE BY RISK GRADE)

\begin{tabular}{|c|c|c|c|c|c|c|c|}
\hline A+ & \$1,004,736 & & 78.04\% & \$ & 696,084 & \(0.40 \%\) & 1.20\% \\
\hline 4.24\% & 5.84\% & \$ & ---- & & 0.00\% & & \\
\hline A- & 895,272 & & 77.09 & & 641,581 & 0.41 & 1.35 \\
\hline 6.00 & 7.76 & & ---- & & 0.00 & & \\
\hline B & 441,736 & & 74.29 & & 314,846 & 0.80 & 3.37 \\
\hline 6.89 & 11.06 & & ---- & & 0.00 & & \\
\hline C & 282,537 & & 70.24 & & 192,305 & 1.18 & 4.19 \\
\hline 12.28 & 17.64 & & ---- & & 0.00 & & \\
\hline C- & 197,469 & & 64.88 & & 121,789 & 0.71 & 5.59 \\
\hline 11.86 & 18.16 & & ---- & & 0.00 & & \\
\hline & \$2,821,750 & & 75.72\% & & 966,605 & \(0.56 \%\) & \(2.16 \%\) \\
\hline 6.49\% & 9.22\% & \$ & ---- & & 0.00\% & & \\
\hline
\end{tabular}

SECURITIES ISSUED IN 1999
<TABLE>
<CAPTION>
BALANCE BY RISK GRADE)


DELINQUENCY (\% OF CURRENT


\(0.19 \% \quad 0.34 \%\)
0.31
0.40
\(0.79 \quad 0.54\)
\(0.97 \quad 1.27\)
\(1.18 \quad 2.09\)
\(0.46 \% \quad 0.57 \%\)
<TABLE>
<CAPTION>
DELINQUENCY (\% OF CURRENT
BALANCE BY RISK GRADE)
\begin{tabular}{|c|c|c|c|c|c|}
\hline & & & \multirow[t]{3}{*}{CURRENT} & \multirow[t]{3}{*}{60-89} & \multirow[t]{3}{*}{\(90+\)} \\
\hline \multirow[t]{2}{*}{\begin{tabular}{l}
RISK \\
FORECL./
\end{tabular}} & \multirow[t]{2}{*}{ORIGINAL} & & & & \\
\hline & & & & & \\
\hline GRADE & BALANCE*** & WALTV* & BALANCE & \multirow[t]{2}{*}{DAYS} & \multirow[t]{2}{*}{DAYS} \\
\hline REO & TOTAL & REPURCHASE & \%** & & \\
\hline --- & ----- & & & & \\
\hline <S> & <C> & <C> & <C> & <C> & \multirow[t]{2}{*}{<C>} \\
\hline <C> & <C> & <C> & <c> & & \\
\hline A+ & \$2,498,437 & 77.73\% & \$1,931,944 & 0.27\% & 0.74\% \\
\hline 2.38\% & 3.39\% & \$ 3,159 & 0.16\% & & \\
\hline A- & 2,333,740 & 77.22 & 1,794,022 & 0.34 & 0.93 \\
\hline 3.57 & 4.84 & 6,692 & 0.37 & & \\
\hline B & 1,224,704 & 74.23 & 931,671 & 0.77 & 1.65 \\
\hline 4.46 & 6.89 & 5,508 & 0.59 & & \\
\hline C & 701,507 & 70.00 & 518,387 & 1.03 & 2.53 \\
\hline 8.26 & 11.82 & 3,750 & 0.72 & & \\
\hline C- & 496,393 & 66.53 & 329,719 & 0.98 & 3.77 \\
\hline 9.18 & 13.93 & 5,517 & 1.67 & & \\
\hline & \$7,254,781 & 75.46\% & \$5,505,743 & 0.49\% & 1.31\% \\
\hline 4.08\% & 5.88\% & \$ 24,627 & 0.34\% & & \\
\hline
\end{tabular}
*Weighted Average Loan-to-Value Ratio at origination
**Repurchases as a \% of Current Balance
***Includes loans sold in whole loan sale transactions that were securitized by the purchasers.

The foregoing tables indicate that, as anticipated, the Company is experiencing higher rates of delinquency on lower credit grade loans. In addition, as indicated, the Company has repurchased loans from its first three 1997 securitizations. The agreements governing the securitizations permit such repurchases, but only to the extent the loans being repurchased are more than 90 days delinquent. The Company elected to make the repurchases in order to avoid disruption of cash flow from the \(1997 \mathrm{NC}-1, \mathrm{NC}-2\) and \(\mathrm{NC}-3\) trusts and to provide the Company with maximum flexibility in resolving problem loans. The Company may make additional repurchases from those or other securitizations in the future for the same or other reasons.

In order to provide the Company additional flexibility in trying to maximize recovery on its delinquent loans and loans in foreclosure, the Company amended its aggregation facility with Salomon Smith Barney to include financing of a limited number of such loans at a reduced financing rate based on the value of the underlying property. In addition, the Company entered into a \(\$ 3\) million facility with a Salomon affiliate to finance real property
owned ("REO") by the Company upon foreclosure on delinquent loans. This facility allows the Company additional flexibility in disposing of those properties for the highest possible price. The Company is currently in the process of renewing and restructuring the problem loan and REO financing arrangements with Salomon.

\section*{U.S. BANCORP INVESTMENT AND STRATEGIC ALLIANCE}

In November 1998 U.S. Bancorp, a bank holding company with total assets in 1999 of approximately \(\$ 82\) billion, purchased 20,000 shares of the Company's Series 1998A Convertible Preferred Stock for an aggregate purchase price of \(\$ 20\) million. In December 1998 and April 1999, U.S. Bancorp purchased an aggregate of 565,000 shares of the Company's Common Stock through third party private transactions, increasing their equity position in New Century from \(16 \%\) to \(18.75 \%\). In July 1999, U.S. Bancorp purchased 20,000 shares of the Company's Series 1999A Convertible Preferred Stock for an aggregate purchase price of \(\$ 20\) million. Each share of U.S. Bancorp's Series 1998A Preferred Stock is convertible into 136.24 shares of the Company's Common Stock and each share of U.S. Bancorp's Series 1999A Preferred Stock is convertible into 46.795 shares of the Company's Common Stock that, upon conversion, will represent approximately \(23 \%\) of the Company's total outstanding Common Stock. The Preferred Stock is also entitled to a liquidation preference as well as a dividend payable quarterly at a rate of \(7.5 \%\) per year for Series 1998A and 7.0\% per year for Series 1999A Preferred Stock. In addition, as part of the transactions, U.S. Bancorp has two designees appointed to the Company's Board of Directors, which is roughly in proportion to its ownership interest in the Company.

In October 1999 U.S. Bancorp invested an additional \(\$ 20\) million in the Company and in February 2000 invested an additional \(\$ 10\) million. Each transaction was structured as subordinated debt provided by U.S. Bancorp's subsidiary, U.S. Bank National Association. The subordinated debt bears interest at a rate of \(12.0 \%\) per year and matures in June 2000 .
<PAGE>

In late March 2000, U.S. Bancorp committed (i) to provide an additional \(\$ 10\) million in subordinated debt over the course of 2000 provided that the Company achieves certain specified milestones, and (ii) to extend the term of the subordinated debt to June 2002. In exchange for the additional capital and subordinated debt extension, the Company will amend the conversion ratio of the Company's Series 1999A Convertible Preferred Stock from 46.8 to 69.98 , and also provide U.S. Bank with warrants exercisable for up to 725,000 shares of the Company's Common Stock at an exercise price equal to the market value on the grant date. Approximately 70\% of the warrants vest immediately. Of the remainder, a portion vest in quarterly increments if the Company has not prepaid the subordinated debt and a portion are granted concurrently with funding of the additional \(\$ 10\) million in subordinated debt. If all of the proposed warrants are ultimately granted, U.S. Bank would own approximately \(27.5 \%\) of the Company, assuming conversion of all preferred stock and exercise of all warrants. The Company expects to enter into definitive agreements documenting this investment by April 30, 2000 .

In addition to these investments, the Company and U.S. Bancorp have established a strategic alliance pursuant to which (i) the Company will
assist U.S. Bank in originating loans to bank customers who would not qualify for the loans under U.S. Bank's traditional credit guidelines, (ii) the Company will provide some servicing functions with respect to sub-prime mortgage loans originated by U.S. Bank, (iii) the Company will receive referrals from U.S. Bank of its customers who were turned down for mortgage loans, but who qualify for a loan under New Century's underwriting guidelines, and (iv) U.S. Bank may bid on the Company's whole loan sales.

\section*{INTEREST RATE RISK MANAGEMENT}

The Company's profits depend, in part, on the difference, or "spread," between the effective rate of interest received by the Company on the loans it originates or purchases and the interest rates payable by the Company under its warehouse and aggregation financing facilities. The spread can be adversely affected because of interest rate increases during the period from the date the loans are originated or purchased until the closing of the sale or securitization of such loans.

The Company from time to time may use various hedging strategies to provide a level of protection against interest rate risks on its fixed-rate mortgage loans. These strategies may include forward sales of mortgage loans or mortgage-backed securities, interest rate caps and floors and buying and selling of futures and options on futures. The Company's management determines the nature and quantity of hedging transactions based on various factors, including market conditions and the expected volume of mortgage loan originations and purchases.

As of December 31, 1999, the Company did not have any open hedge positions. While the Company believes hedging strategies are cost-effective and provide some protection against interest rate risk, no hedging strategy can completely protect the Company from such risks.

\section*{COMPETITION}

Although a number of the Company's competitors have either merged, been acquired or gone out of business altogether, the company continues to face intense competition in the business of originating, purchasing and selling mortgage loans. The Company's competitors include other consumer finance companies, mortgage banking companies, commercial banks, credit unions, thrift institutions, credit card issuers and insurance finance companies. Most notably, in recent quarters, some large, diversified financial corporations have purchased several of the Company's competitors. As a result, some of these competitors may have access to capital at a cost lower than the Company's cost of capital under its warehouse, aggregation and residual financing facilities. In addition, many of these competitors have considerably greater technical and marketing resources than the company.

Competition among industry participants can take many forms, including convenience in obtaining a loan, customer service, marketing and distribution channels, amount and term of the loan, loan origination fees and interest rates. Additional competition may lower the rates the Company can charge borrowers, thereby potentially lowering gain on future loan sales and securitizations. To the extent any of the Company's competitors significantly expand their activities in the Company's markets, the Company could be materially adversely affected. Fluctuations in interest rates and general economic conditions may also affect the Company's competitive position. During periods of rising rates, competitors that have locked in low borrowing
costs may have a competitive advantage. During periods of declining rates, competitors may solicit the Company's customers to refinance their loans.
<PAGE>
The Company believes that one of its key competitive strengths is its employees, with their strong commitment to customer service and their team-oriented approach. In addition to the strength of the Company's work force, the Company believes that its competitive strengths include: (i) providing a high level of service to brokers and their customers; (ii) offering competitive loan programs for borrowers whose needs are not met by conventional mortgage lenders; (iii) the Company's high-volume targeted direct mail marketing program and database screening methodology; and (iv) its performance-based compensation structure which allows the Company to attract, retain and motivate qualified personnel.

\section*{REGULATION}

The mortgage lending industry is a highly regulated industry. The Company's business is subject to extensive and complex rules and regulations of, and examinations by, various state and federal government authorities. These regulations impose obligations and restrictions on the Company's loan origination, loan purchase and servicing activities. In addition, these regulations may limit the interest rates, finance charges and other fees the Company may assess, mandate extensive disclosure to the Company's customers, prohibit discrimination and impose multiple qualification and licensing obligations on the Company. Failure to comply with these requirements may result in, among other things, loss of approved licensing status, demands for indemnification or mortgage loan repurchases, certain rights of rescission for mortgage loans, class action lawsuits, administrative enforcement actions and civil and criminal liability. Management of the Company believes that the Company is in compliance with these rules and regulations in all material respects.

The Company's loan origination and loan purchase activities are subject to the laws and regulations in each of the states in which those activities are conducted. For example, state usury laws limit the interest rates the Company can charge on its loans. As of December 31, 1999, the Company was licensed or exempt from licensing requirements by the relevant state banking or consumer credit agencies to originate first mortgages in 50 states and the District of Columbia and second mortgages in 48 states and the District of Columbia. The Company's lending activities are also subject to various federal laws, including the Truth in Lending Act, Homeownership and Equity Protection Act of 1994, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Real Estate Settlement Procedures Act and the Home Mortgage Disclosure Act, and their implementing regulations.

The Company is subject to certain disclosure requirements under the Truth in Lending Act ("TILA") and Regulation \(Z\) promulgated under TILA. TILA is designed to provide consumers with uniform, understandable information with respect to the terms and conditions of loan and credit transactions. TILA gives consumers, among other things, a three business day right to rescind certain refinance loan transactions originated by the Company.

The Company is also subject to the Homeownership and Equity Protection Act of 1994 (the "High Cost Mortgage Act"), which amends TILA. The

High Cost Mortgage Act generally applies to consumer credit transactions secured by the consumer's principal residence, other than residential mortgage transactions, reverse mortgage transactions or transactions under an open end credit plan, in which the loan has either (i) total points and fees upon origination in excess of the greater of eight percent of the loan amount or \(\$ 441\), or (ii) an annual percentage rate of more than ten percentage points higher than United States Treasury securities of comparable maturity ("Covered Loans"). The High Cost Mortgage Act imposes additional disclosure requirements on lenders originating Covered Loans. In addition, it prohibits lenders from, among other things, originating Covered Loans that are underwritten solely on the basis of the borrower's home equity without regard to the borrower's ability to repay the loan and including prepayment fee clauses in Covered Loans to borrowers with a debt-to-income ratio in excess of \(50 \%\) or Covered Loans used to refinance existing loans originated by the same lender. The High Cost Mortgage Act also restricts, among other things, certain balloon payments and negative amortization features. The Company did not originate or purchase Covered Loans in 1996, but the Company commenced originating and purchasing Covered Loans during 1997. In 1999, Covered Loans accounted for approximately \(6.8 \%\) of the Company's total loan originations and purchases.

\section*{19}
<PAGE>
The Company is also required to comply with the Equal Credit Opportunity Act of 1974, as amended ("ECOA") and Regulation B promulgated thereunder, the Fair Credit Reporting Act, as amended, the Real Estate Settlement Procedures Act of 1974, as amended, and Regulation X promulgated thereunder and the Home Mortgage Disclosure Act of 1975, as amended. ECOA prohibits creditors from discriminating against applicants on the basis of race, color, sex, age, religion, national origin or marital status, because all or part of the applicant's income is derived from a publicly assisted program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. Regulation B restricts creditors from requesting certain types of information from loan applicants. The Fair Credit Reporting Act, as amended, requires lenders, among other things, to supply an applicant with certain information if the lender denied the applicant credit. The Real Estate Settlement Procedures Act mandates certain disclosures concerning settlement fees and charges and mortgage servicing transfer practices. It also prohibits the payment or receipt of kickbacks or referral fees in connection with the performance of settlement services. In addition, beginning with loans originated in 1997, the Company must file an annual report with the Department of Housing and Urban Development pursuant to the Home Mortgage Disclosure Act, which requires the collection and reporting of statistical data concerning mortgage loan transactions.

In the course of its business, the Company may acquire properties securing loans that are in default. There is a risk that hazardous or toxic waste could be found on such properties. In such event, the Company could be held responsible for the cost of cleaning up or removing such waste, and such cost could exceed the value of the underlying properties.

REGULATORY DEVELOPMENTS. In the past year, there have been a number of significant federal and state legislative and regulatory developments that could affect the Company. The federal Gramm-Leach-Bliley financial reform legislation will impose additional privacy obligations on the Company with respect to its applicants. At the state level, a number of states are
```

considering legislation targeting so-called "predatory" lending practices.
While well-meaning, these proposed laws impose overly broad restrictions on
legitimate lending activities including some of the Company's activities.
There can be no assurance that these proposed laws, rules and regulations, or
other such laws, rules or regulations, will not be adopted in the future
which could make compliance much more difficult or expensive, restrict the
Company's ability to originate, broker, purchase or sell loans, further limit
or restrict the amount of commissions, interest and other charges earned on
loans originated, brokered, purchased or sold by the Company, or otherwise
adversely affect the business or prospects of the Company.

```

EMPLOYEES

At December 31, 1999, the Company employed 1,740 full-time employees and 30 part-time employees. None of the Company's employees is subject to a collective bargaining agreement. The Company believes that its relations with its employees are satisfactory.
<PAGE>

\section*{EXECUTIVE OFFICERS OF THE REGISTRANT}

The following table sets forth the name, age and position with the Company of each person who is an executive officer or key employee of the Company.
```

<TABLE>

```
<CAPTION>
\begin{tabular}{|c|c|c|}
\hline NAME & AGE & \\
\hline \multicolumn{3}{|l|}{POSITION} \\
\hline <S> & <C> & <C> \\
\hline \multicolumn{3}{|l|}{EXECUTIVE OFFICERS:} \\
\hline Robert K. Cole. & 53 & Chairman of the \\
\hline \multicolumn{3}{|l|}{Board, Chief Executive Officer, Director} \\
\hline Brad A. Morrice. & 43 & Vice Chairman, \\
\hline \multicolumn{3}{|l|}{President, Director} \\
\hline Edward F. Gotschall. & 45 & Vice Chairman, \\
\hline \multicolumn{3}{|l|}{Chief Financial Officer, Director} \\
\hline Steve Holder. & 42 & Vice Chairman, \\
\hline \multicolumn{3}{|l|}{Chief Operating Officer, Director} \\
\hline \multicolumn{3}{|l|}{KEY EMPLOYEES:} \\
\hline Patrick J. Flanagan. & 35 & Executive Vice \\
\hline \multicolumn{3}{|l|}{President of the Company; Director,} \\
\hline & & Executive Vice \\
\hline
\end{tabular}
\begin{tabular}{|c|c|c|}
\hline George And & 61 & Director, \\
\hline President Retail Operations, New Century & & Mortgage (1) \\
\hline Shabi S. Asghar. & 37 & Director, \\
\hline President Wholesale Operations, New & & \\
\hline & & Century Mort \\
\hline
\end{tabular}

Paul L. Rigdon......................................... 39 Executive Vice
President Retail Operations, New Century
and Executive Vice President, anyloan.com </TABLE>
-------------
(1) New Century Mortgage Corporation ("New Century Mortgage") is a wholly-owned subsidiary of the Company.
(2) NC Capital Corporation ("NC Capital") is a wholly-owned subsidiary of New Century Mortgage.

ROBERT K. COLE has been the Chairman of the Board and Chief Executive Officer of the Company since December 1995 and a director of the Company since November 1995. Mr. Cole also serves as a director on the Board of Directors of New Century Mortgage. From February 1994 to March 1995, he was the President and Chief Operating Officer-Finance of Plaza Home Mortgage Corporation ("Plaza Home Mortgage"), a publicly-traded savings and loan holding company specializing in the origination and servicing of residential mortgage loans. In addition, Mr. Cole served as a director of Option One Mortgage Corporation ("Option One"), a subsidiary of Plaza Home Mortgage specializing in the origination, sale and servicing of sub-prime mortgage loans. From June 1990 to January 1994, Mr. Cole was the President of Triple Five, Inc., an international real estate development company. Previously, Mr. Cole was the President of operating subsidiaries of NBD Bancorp and Public Storage, Inc. Mr. Cole received a Masters of Business Administration degree from Wayne State University.
\[
21
\]
<PAGE>
BRAD A. MORRICE has been Vice Chairman of the Company since December 1996, President, and a director of the Company since November 1995. Mr. Morrice also served as the Company's General Counsel from December 1995 to December 1997 and the Company's Secretary from December 1995 to May 1999. In addition, Mr. Morrice serves as Co-Chairman of the Board and Chief Executive Officer of New Century Mortgage. From February 1994 to March 1995, he was the President and Chief Operating Officer-Administration of Plaza Home Mortgage, after serving as its Executive Vice President, Chief Administrative Officer since February 1993. In addition, Mr. Morrice served as General Counsel and a director of Option One. From August 1990 to January 1993, Mr. Morrice was a partner in the law firm of King, Purtich \& Morrice, where he specialized in the legal representation of mortgage banking companies. Mr. Morrice previously practiced law at the firms of Fried, King, Holmes \& August and Manatt, Phelps \& Phillips. He received his law degree from the University of

California, Berkeley (Boalt Hall) and a Masters of Business Administration degree from Stanford University.

EDWARD F. GOTSCHALL has been Vice Chairman of the Company since December 1996, Chief Financial Officer since August 1998, Chief Operating Officer Finance/Administration of the Company from December 1995 to August 1998 and a director of the Company since November 1995. Mr. Gotschall also serves as Chief Financial Officer and a director of New Century Mortgage. From April 1994 to July 1995, he was the Executive Vice President/Chief Financial Officer of Plaza Home Mortgage and a director of Option One. In December 1992, Mr. Gotschall was one of the co-founders and principal architect of the initial business plan for Option One and served as its Executive Vice President/Chief Financial Officer until April 1994. From January 1991 to July 1992, he was the Executive Vice President and Chief Financial Officer of The Mortgage Network, Inc., a retail mortgage banking company. Mr. Gotschall received his Bachelors of Science Degree in Business Administration from Arizona State University and received his CPA designation during his employment term with Touche Ross (now Deloitte \& Touche) in Phoenix, Arizona.

STEVE HOLDER has been Vice Chairman of the Company since December 1996, Chief Operating Officer Loan Production/Operations of the Company since December 1995 and a director of the Company since November 1995. Mr. Holder also serves as Co-Chairman of the Board and Chief Executive Officer of New Century Mortgage. From February 1993 to August 1995, he was the Executive Vice President of Long Beach Mortgage Company ("Long Beach Mortgage"). From July 1991 to February 1993, Mr. Holder was the Vice President for Business Development of Transamerica Financial Services. From 1985 to 1990, he was a Regional Vice President for Nova Financial Services, a startup consumer finance subsidiary of First Interstate Bank. Mr. Holder has over 22 years experience in the consumer finance and mortgage business.

PATRICK J. FLANAGAN has been Executive Vice President of the Company since August 1998. He has been President of \(N C\) Capital Corporation since December 1998 and a director of New Century Mortgage since May 1997. From January 1997 to August 1998, Mr. Flanagan was Executive Vice President and Chief Operating Officer of New Century Mortgage. Mr. Flanagan initially joined New Century Mortgage in May 1996 as Regional Vice President of Midwest Wholesale and Retail Operations. From August 1994 to April 1996, Mr. Flanagan was a Regional Manager with Long Beach Mortgage. From July 1992 to July 1994, he was an Assistant Vice President for First Chicago Bank, from February 1989 to February 1991, he was Assistant Vice President for Banc One in Chicago and from February 1991 to July 1992, he was a Business Development Manager for Transamerica Financial Services. Mr. Flanagan received his Bachelor of Arts degree from Monmouth College.

GEORGE ANDERSON has been President-Retail Lending of New Century Mortgage since August 1998. From 1994 to July 1998, Mr. Anderson was the President and CEO of Advanta Finance Corporation. From 1990 to 1994, Mr. Anderson served as Executive Vice President for Transamerica Financial Services and from 1984 to 1990 , Mr. Anderson served as President and CEO of Nova Financial Services where he was responsible for the full spectrum of start-up activities associated with building a multi-state consumer finance company. In 1990, Nova was acquired by Transamerica Financial Services. From 1959 to 1984, Mr. Anderson served as Area Vice President for Transamerica Financial Services and was responsible for the mid-west and east coast operations of the company. Mr. Anderson has over 36 years experience in the
consumer finance and mortgage business.
<PAGE>

SHABI S. ASGHAR has been President-Wholesale Lending of New Century Mortgage since August 1998. He previously served as Senior Vice President-Wholesale Lending from January 1996 to August 1998 and a director of New Century Mortgage since May 1997. Mr. Asghar initially joined New Century Mortgage as Vice President, Mortgage Banking Operations and served in this position from December 1995 to January 1996. From June 1995 to November 1995, Mr. Asghar was the Southern California District Manager for Ford Consumer Finance. From September 1992 to March 1995, he was an Area Sales Manager for Long Beach Mortgage and from June 1988 to September 1992, he was a Business Development Manager for Transamerica Financial Services. Mr. Asghar received his Bachelor of Science degree from California State University at Northridge.

PAUL L. RIGDON has been Executive Vice President of anyloan.com since April 1999 and Executive President-Retail Lending of New Century Mortgage since August 1998. Mr. Rigdon served previously as Senior Vice President-Retail Lending from February 1997 to August 1998 and a director of New Century Mortgage from May 1997 to November 1999. Mr. Rigdon initially joined New Century Mortgage as the Regional Manager in charge of expansion in the Northwest Retail Region and served in this position from September 1996 to February 1997. From May 1995 to September 1996, he was a District Manager for Advanta Finance. From March 1990 to May 1995, he was an Area Manager for Long Beach Mortgage. Mr. Rigdon received his Bachelor of Science degree in Business Administration and Finance from San Jose State University.
<PAGE>

\section*{RISK FACTORS}

STOCKHOLDERS AND PROSPECTIVE PURCHASERS OF THE COMPANY'S COMMON STOCK SHOULD CONSIDER CAREFULLY THE FOLLOWING FACTORS, AS WELL AS THE OTHER INFORMATION APPEARING ELSEWHERE IN THIS FORM 10-K, IN EVALUATING AN INVESTMENT IN THE COMPANY. THIS FORM 10-K MAY CONTAIN FORWARD-LOOKING STATEMENTS WHICH INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING THOSE SET FORTH IN THE FOLLOWING RISK FACTORS AND ELSEWHERE IN THIS FORM 10-K.

\section*{LIQUIDITY; ACCESS TO FUNDING SOURCES}

The Company's business requires substantial cash to support its operating activities and growth plans. At present, the Company's operating uses of cash continue to exceed its operating sources of cash.

The Company requires access to short-term warehouse and aggregation
credit facilities in order to fund loan originations and purchases pending the pooling and sale of such loans. The Company also has residual financing agreements with Salomon, Greenwich Capital and PaineWebber, pursuant to which each will provide the Company with financing upon the Company's retention of residual interests in securitizations and NIM transactions on which each is the lead underwriter or placement agent. The amount of financing provided to the Company under its aggregation credit facilities and its residual financing agreements depends in large part on each company's valuation of the mortgage loans, based on current market conditions, and residual interests, respectively, securing the financings. Each company has the right to reevaluate the collateral securing the Company's outstanding borrowings at any time and, in the event the underwriting company determines that the value of the collateral has decreased, it has the right to initiate a margin call. A margin call would require the Company to provide the underwriting company with additional collateral or to repay a portion of all of the outstanding borrowings. Any such margin call could have a material adverse effect on the Company's results of operations, financial condition and business prospects.

In addition to the financing secured by the Company's loans and residual securities, the Company also has borrowed from U.S. Bank \(\$ 30\) million in subordinated debt ( \(\$ 10\) million subsequent to December 31, 1999) secured by subordinate liens on the loans pledged under the U.S. Bank warehouse agreement as well as certain rights to the Company's residuals. Unlike the warehouse, aggregation and residual financing borrowings, which the Company believes are secured by assets that would cover the borrowings in the event of a default, the Company does not currently have a source of funds to repay the subordinated debt in the event of a default, or upon its maturity. In late March 2000, the Company received a commitment from U.S. Bank to (i) provide an additional \(\$ 10\) million of subordinated debt during 2000 upon the Company's achievement of certain milestones, and (ii) extend the maturity of the subordinated debt to June 2002. The Company's inability to consummate the transactions contemplated by the U.S. Bank commitment or its inability to obtain capital or financing to repay the subordinated debt upon its maturity, would have a material adverse impact on the Company's results of operations, financial condition and business prospects.

Moreover, to the extent that the Company is unable to renew or expand its access to credit facilities, the Company may have to undertake larger and/or more frequent capital markets financings than anticipated. Capital markets financings may result in greater than anticipated interest expense and shares outstanding, which may have a dilutive impact on operating earnings or have a negative effect on the Company's financial condition.

As a result of concerns about the ability of sub-prime mortgage lenders to sell their loans in the secondary market on favorable terms or at all, as well as concerns about the value of the residual interests retained in securitizations, a number of institutions have curtailed their lending to the sub-prime mortgage industry. Consequently, there can be no assurance that the Company will be able to renew, replace or add to its existing credit facilities, or that it will be able to undertake capital markets financings on favorable terms, if at all. To the extent that the Company is unable to access adequate capital to fund its loan production or to the extent that the Company is unable to access adequate capital to complete the desired level of securitizations, the Company may have to curtail its loan origination, purchase and securitization activities, which would have a material adverse impact on the Company's results of operations, financial condition and business prospects.
<PAGE>

\section*{DEPENDENCE ON SECURITIZATIONS FOR FUTURE EARNINGS}

The Company plans to continue pooling and selling through securitizations a significant percentage of the loans it originates or purchases, although the Company expects that the gain on sale from such securitizations will represent a smaller portion of the Company's future revenues and net earnings. The Company's ability to complete securitizations of its loans will depend on a number of factors, including conditions in the securities markets generally, conditions in the asset-backed securities market specifically, the performance of the Company's portfolio of securitized loans and the Company's ability to obtain credit enhancement from monoline insurance companies. In the third and fourth quarter of 1999 interest rates and interest spreads required by bond investors continued to increase. In addition, overall demand for sub-prime mortgage loans decreased as investors elected to follow a more conservative investment strategy during the \(Y 2 \mathrm{~K}\) transition period. To maximize the overall value of these loans, the Company elected to securitize a significant portion of its production during both these periods. Although the Company has continued to sell its loans through securitizations, there can be no assurance that it will continue to be able to do so. If the Company were unable to securitize profitably a sufficient number of its loans in a particular quarter, then the Company's revenues for such quarter would decline, which could result in lower earnings or a loss reported for such quarter.

\section*{DEPENDENCE ON WHOLE LOAN SALES FOR FUTURE EARNINGS AND CASH}

The Company's current strategy is to rely more heavily on whole loan sales for future earnings and cash flow. In 1999, the Company sold \(25.5 \%\) of its loan originations and purchases through whole loan sales to various institutional purchasers. The weighted average price of the whole loan sales was \(103.2 \%\) of the outstanding principal balance of the loans. During the same period, the Company's all-in cost of originating loans was 102.99\%. In order to generate sufficient earnings and cash from whole loan sales, the Company will need to achieve one or a combination of (i) reducing its all-in acquisition cost for loans, or (ii) increasing the price purchasers are willing to pay for the Company's loans. There can be no assurance that the Company will be able to achieve either of these objectives. To the extent the Company is unable to originate loans at a price lower than what whole loan purchasers will pay for them, the Company's results of operations, financial condition and business prospects could be materially and adversely affected.

\section*{RESIDUAL INTERESTS IN SECURITIZATIONS}

During 1999 a substantial portion of the Company's revenues and earnings were derived by recognizing gain on sale of loans through securitizations. In view of the Company's limited loan performance data, it is extremely difficult to validate the Company's loss or prepayment assumptions used to calculate its gain on sale in connection with its securitizations. If the Company's actual experience differs materially from the assumptions used in the determination of the present value of the residual interests it retains in the securitizations, future cash flows and earnings could be negatively impacted. The Company could also be required to reduce the fair value of its residual interests on its balance sheet, which could decrease the residual
financing available to the Company under the Salomon, Greenwich and PaineWebber residual financing facilities.

\section*{RISKS RELATED TO LOWER CREDIT GRADE BORROWERS}

Loans made to lower credit grade borrowers, including credit-impaired borrowers, may entail a higher risk of delinquency and higher losses than loans made to borrowers with better credit. Virtually all of the Company's loans are made to borrowers who do not qualify for loans from conventional mortgage lenders. Approximately \(68.5 \%\) of the loans originated or purchased by the Company during 1999 were made to borrowers in the Company's two highest credit grade classifications. No assurance can be given that the Company's underwriting criteria or methods will afford adequate protection against the higher risks associated with loans made to lower credit grade borrowers. The Company continues to be subject to the risks of default and foreclosure following the sale of loans through securitization to the extent such losses reduce the residual interest distributions. Any such reduction in the Company's cash flows could have a material adverse effect on the Company's results of operations, financial condition and business prospects.
<PAGE>

CHANGES IN INTEREST RATES

The Company's profitability may be directly affected by changes in interest rates, which affect the Company's ability to earn a spread between the interest received on its loans and its funding costs. The revenues of the Company may be adversely affected during any period of unexpected or rapid change in interest rates. For example, a substantial and sustained increase in interest rates could adversely affect borrower demand for the Company's products. During periods of rising interest rates, the value and profitability of the Company's loans may also be negatively impacted from the date of origination or purchase until the date the Company sells or securitizes such loans. In addition, the Company's adjustable rate mortgage loans have a life rate cap above which the interest rate on the loan 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 such loans are sold may be uncapped, which would reduce the amount of cash the Company receives over the life of its residual interests, thereby requiring the Company to reduce the fair value of such residual interests. Furthermore, a significant decrease in interest rates could increase the rate at which loans are prepaid, which would also reduce the amount of cash the Company receives over the life of its residual interests. Either of these events could require the Company to reduce the fair value of its residual interests, which would have a material adverse effect on the Company's results of operations, financial condition and business prospects.

\section*{ECONOMIC SLOWDOWN OR RECESSION}

The risks associated with the Company's 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 by negatively affecting loan-to-value ratios of the home equity collateral. In addition, because the Company makes
a substantial number of loans to credit-impaired borrowers, the actual rates of delinquencies, foreclosures and losses on such loans could be higher during economic slowdowns. Any sustained period of increased delinquencies, foreclosures or losses could adversely affect the Company's ability to sell loans or the prices the Company receives for its loans, as well as the value of its residual interests in securitizations.

\section*{COMPETITION}

The Company faces intense competition in the business of originating, purchasing and selling mortgage loans. Many of the Company's competitors are substantially larger and have considerably greater financial, technical and marketing resources than the company. In the future, the Company may also face competition from government-sponsored entities, such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which may target potential customers in the Company's highest credit grades, who constitute a significant portion of the Company's customer base.

Certain large finance companies and conforming mortgage originators have begun to originate non-conforming mortgage loans, and some of these large mortgage companies, thrifts and commercial banks have begun offering non-conforming loan products to customers similar to the borrowers targeted by the Company. Competitors with lower costs of capital have a competitive advantage over the Company. In addition, establishing a broker-sourced loan business requires a substantially smaller commitment of capital and human resources than a direct-sourced loan business. This relatively low barrier to entry permits new competitors to enter this market quickly and compete with the Company's wholesale lending business.
<PAGE>

\section*{DEPENDENCE ON WHOLESALE BROKERS}

The Company depends primarily on independent mortgage brokers and, to a lesser extent, on correspondent lenders, for the origination and purchase of its wholesale mortgage loans, which constitute a significant portion of the Company's loan production. These independent mortgage brokers deal with multiple lenders for each prospective borrower and are not obligated by contract or otherwise to do business with the Company. The Company competes with these lenders for the independent brokers' business on pricing, service, loan fees, costs and other factors. The Company's future results of operations and financial condition may be vulnerable to changes in the volume and cost of its wholesale loans resulting from, among other things, competition from other lenders and purchasers of such loans.

\section*{RISKS ASSOCIATED WITH SERVICING}

In 1998, the Company established in-house servicing operations to service the loans it originates and purchases, the loans in its securitizations, and loans sold on a servicing-retained basis. There can be no assurance that the Company will anticipate and respond effectively to all of the demands that servicing its loans will have on the Company's management, infrastructure and personnel. The failure of the Company to meet the challenges of servicing its loans could have a material adverse effect on the Company's results of operations, financial condition and business prospects. For example, many of the Company's borrowers require notices and
reminders to keep their loans current and to prevent delinquencies and foreclosures. Any failure of the Company to adequately service its loans could cause a substantial increase in the Company's delinquency or foreclosure rate, which could adversely impact the value of the residual interests held by the Company and affect the Company's ability to access equity or debt capital resources.

\section*{CONTINGENT RISKS}

In connection with its securitizations, the Company is required to repurchase or substitute loans in the event of a breach of a representation or warranty made by the Company. Likewise, in connection with its whole loan sales, the Company enters agreements which generally require the Company to repurchase or substitute loans in the event of a breach of a representation or warranty made by the Company to the loan purchaser, any misrepresentation during the mortgage loan origination process or, in some cases, upon any fraud or early default on such mortgage loans. The remedies available to a purchaser of mortgage loans from the Company are generally broader than those available to the Company against the sellers of such loans, and if a purchaser enforces its remedies against the Company, the Company may not be able to enforce whatever remedies the Company may have against such sellers.

\section*{RISKS RELATING TO NEW LEGISLATION}

Several states, as well as the federal government, are considering proposed legislation to curb predatory lending practices. As drafted, however, many of these laws extend far beyond curbing predatory practices to restrict legitimate lending activities including some of the Company's activities. For example, some of these laws prohibit any form of prepayment charge. Passage of these laws in their current form could reduce the Company's loan origination volume, which would have a material adverse impact on the Company's results of operation, financial condition and business prospects.
<PAGE>

ANTI-TAKEOVER PROVISIONS
The Company's Certificate of Incorporation (the "Certificate of Incorporation") and its Bylaws (the "Bylaws") include provisions that could delay, defer or prevent a takeover attempt that may be in the best interest of stockholders. These provisions include the ability of the Board of Directors to issue up to 7,500,000 shares of preferred stock (the "Preferred Stock") without any further stockholder approval, a classified Board of Directors and requirements that (i) stockholders give advance notice with respect to certain proposals they may wish to present for a stockholder vote, (ii) stockholders act only at annual or special meetings and (iii) two-thirds of all directors approve a change in the number of directors of the Company. Issuance of Preferred Stock could also discourage bids for the Common Stock at a premium as well as create a depressive effect on the market price of the Common Stock. In addition, under certain conditions, Section 203 of the Delaware General Corporation Law (the "DGCL") would prohibit the Company from engaging in a "business combination" with an "interested stockholder" (in
general, a stockholder owning 15\% or more of the Company's outstanding voting stock) for a period of three years unless the business combination is approved in a prescribed manner. Finally, certain provisions in the Company's transaction with U.S. Bancorp in 1998, including the stockholder agreements entered into by the four founding managers, may discourage takeover attempts by third parties.

POSSIBLE VOLATILITY OF STOCK PRICE; EFFECT OF FUTURE OFFERINGS ON MARKET PRICE OF COMMON STOCK

The market price of the Common Stock may experience fluctuations that are unrelated to the operating performance of the Company. In particular, the price of the 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 such as, among other things, interest rate movements, quarterly variations or changes in financial estimates by securities analysts and a significant reduction in the price of the stock of another participant in the consumer finance industry. This volatility may make it difficult for the Company to access the capital markets through a secondary offering of Common Stock, regardless of the Company's financial performance.

ITEM 2. PROPERTIES

The Company's executive, administrative and anyloan.com offices are located in Irvine, California and consist of approximately 211,000 square feet. The three leases covering the executive, administrative and anyloan.com offices expire in June 2002, December 2002 and January 2005, and the combined monthly rent is \(\$ 331,201\).

The Company leases space for its regional operating centers in Chicago, Illinois, Atlanta, Georgia, Rancho Bernardo, California, and San Ramon, California. As of December 31, 1999, these facilities had an annual aggregate base rental of approximately \(\$ 46,308\). The Company also leases space for its sales offices, which range in size from 100 to 3,552 square feet with lease terms typically ranging from one to five years. As of December 31, 1999, annual base rents for the sales offices ranged from approximately \(\$ 3,000\) to \(\$ 104,244\). In general, the terms of these leases vary as to duration and rent escalation provisions, expire between February 2000 and January 2005 and provide for rent escalations dependent upon either increases in the lessors' operating expenses or fluctuations in the consumer price index in the relevant geographical area.

ITEM 3. LEGAL PROCEEDINGS

The Company occasionally becomes involved in litigation arising in the normal course of business. Management believes that any liability with respect to such legal actions, individually or in the aggregate, will not have a material adverse effect on the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
No matters were submitted to a vote of the Company's stockholders during the fourth quarter of 1999.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock trades on the Nasdaq National Market under the symbol "NCEN". The high and low bid prices of the Company's Common Stock during each quarter since the Company's Common Stock began trading on June 26, 1997 were as follows:
```

<TABLE>
```
<CAPTION>

FISCAL 1999
FISCAL 1997


N/A N/A
</TABLE>
- 

(1) 1997 Second Quarter information represents trading from June 26, 1997 to June 30, 1997

As of March 24, 2000 the closing sales price of the Company's Common Stock, as reported on the Nasdaq National Market, was \$9.25.

The Company has never declared or paid any cash dividends on its Common Stock. The Company currently intends to retain any earnings for use in its business and does not anticipate paying any cash dividends on its Common Stock in the foreseeable future. In addition, the Company is prohibited from paying dividends under certain of its credit facilities without the prior approval of the lenders.

As of March 24, 2000 the number of holders of record of the Company's Common Stock was approximately 47, and as of March 24, 2000 there were approximately 1,330 beneficial owners of the Company's Common Stock.

RECENT SALES OF UNREGISTERED STOCK
On March 10, 1999, the Company issued 5,923 shares of Common Stock to Kirk Redding and 3,949 shares of Common Stock to Paul Akers representing a portion of the earnout payments for the acquisition of PWF Corporation. The sale and issuance of the shares were exempt from the registration
requirements of the Securities Act by virtue of Section 4(2) of the Securities Act and Regulation D thereunder.

ITEM 6. SELECTED FINANCIAL DATA
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
The following selected consolidated statements of operations and balance sheet data for the years ending December 31, 1999, 1998, 1997 have been derived from the Company's financial statements audited by KPMG LLP, independent auditors, whose report with respect thereto appears elsewhere herein. 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.

## <PAGE>

<TABLE>
<CAPTION>
FOR THE YEAR ENDED
FOR THE YEAR ENDED FOR THE YEAR ENDED
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

DECEMBER 31, 1998 DECEMBER 31, 1997



<PAGE>
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company and the accompanying Notes included elsewhere herein.

GENERAL

New Century is a specialty finance company engaged in the business of originating, purchasing, selling and servicing sub-prime mortgage loans secured primarily by first mortgages on single family residences. The Company originates and purchases loans through its Wholesale and Retail Divisions and through its Primewest subsidiary. New Century's borrowers generally have substantial equity in the property securing the loan, but have impaired or limited credit profiles or higher debt-to-income ratios than traditional mortgage lenders allow. The Company's borrowers also include individuals who, due to self-employment or other circumstances, have difficulty verifying their income, as well as individuals who prefer the prompt and personalized service provided by the Company.

## LOAN ORIGINATION AND PURCHASES

As of December 31, 1999, the Company's Wholesale Division was operating through five regional operating centers located in Southern California, Northern California, Atlanta, Chicago and Tampa, and through 41 additional sales offices located in 27 states. The Wholesale Division funded $\$ 2.9$ billion in loans, or $70.9 \%$ of the Company's total loan production during the year ended December 31, 1999. As of December 31, 1999, the Retail Division was operating through 21 retail sales offices in California, and 62 retail sales offices in 29 other states. The Retail Division, including anyloan.com, funded $\$ 1.0$ billion in loans, or $25.1 \%$, of total loan production during the year ended December 31, 1999. The Company also funded \$163.1 million in loans, or $4.0 \%$ of the Company's total loan production through its Primewest subsidiary during the year ended December 31, 1999.
<PAGE>
The following table summarizes the Company's loan originations and purchases for the periods shown.
<TABLE>
<CAPTION>
FOR THE YEAR ENDED DECEMBER 31, 1999
FOR THE YEAR ENDED DECEMBER 31, 1998


(1) The weighted average initial loan-to-value ratio of a loan secured by a first mortgage is determined by dividing the amount of the loan by the appraised value of the mortgage property at origination. The weighted average initial loan-to-value ratio of a loan secured by a second mortgage
is determined by taking the sum of the first and second mortgages and dividing by the appraised value of the mortgaged property at origination.

The Company continued to increase its loan origination volume on a quarterly basis during 1999 as a result of the maturing of offices opened in 1997 and 1998. The following table sets forth the quarterly loan production results, the number of office locations and the number of sales professionals at the end of each quarter by division:
<TABLE>
<CAPTION>
AS OF OR FOR THE QUARTERS ENDED

| 1999 | SEPTEMBER 30, 1999 | $\begin{aligned} & \text { MARCH 31, } 1999 \\ & \text { DECEMBER 31, } 1999 \end{aligned}$ | JUNE 30, |
| :---: | :---: | :---: | :---: |

(DOLLARS IN THOUSANDS)

| <S> | <c> | <C> |
| :---: | :---: | :---: |
| <C> <C> |  |  |
| WHOLESALE |  |  |
| Volume. | \$646,137 | \$668,560 |
| \$823,551 \$756,269 |  |  |
| Offices (including regional |  | 70 |
| Operating centers). | 70 |  |
| 7146 |  |  |
| Account Executives...... | 155 | 134 |
| 184176 |  |  |
| RETAIL (INCLUDING PRIMEWEST) |  |  |
| Volume. | \$245,780 | \$290,426 |
| \$333,952 \$315,589 |  |  |
| Offices | 79 | 81 |
| 80 83 |  |  |
| Loan Officers. | 309 | 332 |
| 344 342 |  |  |
| TOTAL |  |  |
| Volume. | \$891,917 | \$958,986 |
| \$1,157,503 \$1,071,858 |  |  |
| Offices. | 149 | 151 |
| 151 |  |  |
| </TABLE> |  |  |

<PAGE>
LOAN SALES AND SECURITIZATIONS
The Company's loan sale strategy includes both securitizations and whole loan sales in order to advance the Company's goal of enhancing profits while managing cash flows. Loan sales through securitizations permit the Company to enhance operating profits and to benefit from future cash flows generated by the residual interests retained by the Company. Whole loan sale transactions enable the Company to generate current cash flow, protect against the potential volatility of the securitization market and reduce the risks inherent in retaining residual interests in securitizations.

The Company's primary source of revenue is the recognition of gains from the sale of its loans through whole loan sales and securitizations. In a whole loan sale, the Company recognizes and receives a cash gain upon sale. In a securitization, the Company recognizes a gain on sale at the time the loans are sold, but receives corresponding cash flows, represented by the over-collateralization amount ("OC") and the Net Interest Receivable ("NIR"), over the actual life of the loans. The OC represents the portion of the loans which are held by the trust as over-collateralization for the senior and junior certificate holders, and generally consists of the excess of the principal balance of the mortgage loans sold to the trust, less the principal balance of the certificates sold to investors. The NIR represents the difference between the interest received from the loans sold and (i) interest required to be passed through to the senior and junior certificate holders, (ii) all servicing fees, (iii) estimated losses to be incurred on the portfolio of loans, and (iv) other expenses and revenues, including
anticipated prepayment penalties. At the time of securitization, the Company capitalizes the OC and the NIR, based upon certain prepayment and loan loss assumptions and a discount rate the Company believes is consistent with what market participants would use for similar financial instruments. The capitalized assets are recorded on the Company's balance sheet as interest-only and residual certificates. A gain or loss is recorded on the income statement for the value of the residual certificates created by the securitization in excess of the cost basis of the loans and transaction expenses. As a result of timing differences in receiving cash from whole loan sales versus securitizations, the relative percentage of whole loan sales to securitizations will impact the Company's operating cash flow. For the year ended December 31, 1999, 74.5\% of the Company's total loan sales were in the form of securitizations.

The Company has, to date, elected to fund the required OC at the closing of each securitization for its floating rate securitizations and funded a portion of the required OC at the closing of its fixed rate securitizations. An OC is created within each securitization trust, as required by the rating agencies or the bond insurance companies. The over-collateralization requirement ranges from two to five percent of the initial securitization bond debt principal balance or four to nine percent of the remaining principal balance after thirty to thirty-six months of principal amortization. When funding all of the OC up front, the Company begins to receive cash flow from the NIR immediately, and in those cases where a portion of the OC is funded up front, the Company will begin to receive cash flow from the NIR more quickly than in cases where no initial funding is undertaken, in both cases subject to certain delinquency or credit loss tests, as defined by the rating agencies or the bond insurance companies. Over time, the Company will also receive the OC, subject to the performance of the mortgage loans in each securitization.

In connection with the origination and purchase of loans, the Company may either receive or pay origination fees. These fees, referred to as "points" or "premiums" in the mortgage industry, are dependent on the source of loan production and typically correspond to the amount of further processing required for a loan to be funded and are determined as a percentage of the loan amount. The points received from the origination of loans and the premiums paid to originate and acquire loans are included in the gain recognized from the sale of loans in the income statement.
<PAGE>

The following table sets forth loan sales and securitizations for the periods indicated:
<TABLE>
<CAPTION>

| Ended | For the Year Ended |  | For the Year |
| :--- | :--- | :--- | :--- |
| (DOLLARS IN THOUSANDS) |  | December 31, 1999 | December 31, |
| 1998 | December 31, 1997 |  |  |

## ----------------------------------------------------------------

```
<S> <C> <C>
<C>
```


(1) Loans acquired to securitize represent loans acquired by the Company from whole loan investors, for the purpose of securitizing those loans. These loan acquisitions are effected at current market prices for such loans.

As part of its overall securitization strategy in 1999, the Company also completed one NIM excess cash flow private placement with respect to its residual interests in its securitizations issued prior to 1999. If market conditions permit, the Company expects that NIM transactions will continue to be part of the Company's overall securitization strategy.

RECENT DEVELOPMENTS IN SECONDARY MARKET. During 1999, whole loan prices remained at levels significantly lower than those experienced by the Company in 1996, 1997 and first half of 1998. In addition, more buyers in the whole loan market are confining their purchases to loans having very specific characteristics. Unlike earlier periods, the Company has found it to be more difficult to identify buyers willing to purchase a pool of loans representing a cross section of the Company's entire loan production. The Company expects that in order to achieve higher prices in whole loan sales, it will need to begin tailoring its production to the desired characteristics of the active whole loan buyers.

A significant part of the Company's Focus 2000 cash management strategy involves selling a greater portion of its production through whole loan sales. If the Company cannot adequately tailor its production to yield higher premiums in whole loan sales, and cannot find sources of funding to finance continued securitization, it could have a material adverse effect on the Company's results of operations, financial condition and business prospects.

## RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998
The Company originated and purchased $\$ 4.1$ billion in loans for the year ended December 31, 1999, compared to $\$ 3.3$ billion for the year ended December 31, 1998. Loans originated and purchased through the Company's Wholesale Division were $\$ 2.9$ billion, or $70.9 \%$ of total originations and purchases for the year ended December 31, 1999. Loans originated through the Company's Retail Division, including anyloan.com, were \$1.0 billion, or
25.1\%, of total originations and purchases for the year ended December 31, 1999. Loans originated through the Company's Primewest subsidiary were \$163.1 million, or $4.0 \%$, of total originations and purchases for the year ended December 31, 1999. For the same period in 1998, Wholesale, Retail and Primewest originations and purchases totaled \$2.4 billion, or 71.7\%, \$842.8 million, or $25.3 \%$ and $\$ 99.3$ million, or $3.0 \%$, respectively, of total originations and purchases for such period.

Total revenues for the year ended December 31, 1999 increased to $\$ 233.9$ million, or $32.6 \%$ from $\$ 176.4$ million for the year ended December 31, 1998, due primarily to the increase in loan originations, purchases and sales as well as the growth in the servicing portfolio in 1999. Gain on sale of loans increased to $\$ 121.7$ million, or $15.8 \%$, for the year ended December 31, 999, from $\$ 105.1$ million for the year ended December 31,1998 due to the increase in loan sales in 1999.

The Company sold $\$ 4.0$ billion in loans for the year ended December 31, 1999, of which $\$ 1.0$ billion were sold through whole loan sale transactions and $\$ 3.0$ billion were sold through securitizations. Loans sold through securitization included $\$ 61.3$ million in loans that were acquired by the Company from a whole loan investor in the third quarter of 1999 for the purpose of securitizing the loans.
<PAGE>

The components of the gain on sale of loans are illustrated in the following table:

<TABLE>
<CAPTION>
For the Year Ended
For the Year Ended
(DOLLARS IN THOUSANDS) December 31, 1999
December 31, 1998
\begin{tabular}{|c|c|}
\hline <S> & <C> \\
\hline <C> & \\
\hline Gain from whole loan sale transactions & \$ 30,749 \\
\hline \$ 58,001 & \\
\hline Non-cash gain from securitizations (NIR gains) & 169,908 \\
\hline 168,065 & \\
\hline Non-cash gain from servicing asset & 16,368 \\
\hline 8,791 & \\
\hline Cash gain (loss) from securitizations/ NIMs transactions & \((4,670)\) \\
\hline \((4,664)\) & \\
\hline (13, 664) Securitization expenses & \((17,161)\) \\
\hline Accrued interest & \((14,807)\) \\
\hline \((11,818)\) & \\
\hline Write-down of NIR & \((23,000)\) \\
\hline \((5,900)\) & \\
\hline General valuation allowance for NIR & ---- \\
\hline
\end{tabular}
\((7,500)\)
```
    Provision for losses (2,549)
(6,400)
    Non-refundable fees 54,598
47,933
    Premiums, net
    (22,355)
(58,816)
    Origination costs
    (63,300)
(62,783)
    Hedging losses
    (2,181)
(6,185)
----------
    Gain on sales of loans
$105,060
    $121,672
===========
==========
</TABLE>
```

Whole loan sales for the year ended December 31, 1999, decreased to \(\$ 1.0\) billion, or \(30.1 \%\) from \(\$ 1.5\) billion for the corresponding period in 1998. This decrease is the result of the Company electing to sell a greater percentage of its loan originations and purchases through securitization due to whole loan prices remaining at historically low levels.

Interest income for the year ended December 31, 1999 increased to \(\$ 61.5\) million, or \(29.0 \%\) from \(\$ 47.7\) million for the same period in 1998. Interest income is earned on loans held in inventory for sale. Such interest income accrues during periods when loans are accumulated for future sales, and increases as loan originations and purchases increase. The increase in interest income for the year ended December 31, 1999 is the result of a higher average inventory of loans held for sale compared to the corresponding period in 1998. The average inventory held for sale for the year ended December 1999, based on quarter-end balances, was \(\$ 387.7\) million, compared to \(\$ 302.6\) million for the corresponding period in 1998.

Servicing income for the year ended December 31, 1999, increased to \(\$ 50.8\) million, or \(114.5 \%\) from \(\$ 23.7\) million for the year ended December 31, 1998, as a result of the increase in the servicing portfolio and the Company's residual interests in securitizations. Servicing income includes servicing fees received on loans sold through servicing-retained whole loan sales or securitizations, as well as income recognized on residual cash flows from securitizations. Residual interests in securitizations increased from \(\$ 205.4\) million at December 31, 1998 to \(\$ 364.7\) million at December 31, 1999. Another factor contributing to the increase in servicing income was the assumption of all servicing responsibilities for loans previously sub-serviced by Advanta Mortgage Corporation.

\section*{RESIDUAL SECURITIES}

THE CARRYING VALUE OF THE COMPANY'S RESIDUAL SECURITIES AT DECEMBER 31, 1999 AND DECEMBER 31, 1998 IS SUMMARIZED BELOW (DOLLARS IN THOUSDANDS):
```

<TABLE>
<CAPTION>

```
\begin{tabular}{|c|c|c|}
\hline <S> & & <C> \\
\hline <C> & & \\
\hline & Book Value of Securities & \\
\hline \$369,689 & \$215,895 & \\
\hline & Less: General valuation allowance for NIR & \\
\hline 5,000 & 10,500 & \\
\hline -- & -------- & \\
\hline & Net carrying value & \\
\hline \$364,689 & \$205,395 & \\
\hline </TABLE> & & \\
\hline
\end{tabular}
<PAGE>

In establishing the net book value of the residual securities, management reviews on a quarterly basis the underlying assumptions used to value each residual security and adjusts the carrying value of the securities based on actual experience and trends in the industry. During the fourth quarter the Company recorded a \(\$ 10\) million adjustment to its residual securities issued prior to 1999, representing approximately \(2.7 \%\) of the total carrying value of residual securities, and resulting in a 31 cent decrease in fourth quarter diluted net earnings per share. This adjustment was the result of a) a continuing increase in prepayment speeds which occurred despite the increase in interest rates, and b) an increase in overall static pool loss assumption to 2.50\%.

Total expenses for the year ended December 31, 1999, increased to \(\$ 167.1\) million, or \(34.6 \%\) from \(\$ 124.1\) million for the year ended December 31, 1998. Interest expense increased due to the higher level of loan inventory and corresponding warehouse and aggregation borrowings. All other expense components increased from 1998 to 1999 due primarily to (i) higher loan origination volume in the year ended December 31, 1999 compared to the same period in 1998; (ii) an increase in staffing from 1,417 employees at December 31, 1998 to 1,770 employees at December 31, 1999; (iii) the costs incurred in market research and media testing, including radio and television; (iv) the costs incurred to develop new technology, which includes the Company's automated underwriting system, and (v) the costs incurred in the development of the Company's internet division, anyloan.com.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997
The Company originated and purchased \(\$ 3.3\) billion in loans for the year ended December 31, 1998, compared to \(\$ 2.0\) billion for the year ended December 31, 1997. Loans originated and purchased through the Company's Wholesale Division were \(\$ 2.4\) billion, or \(71.7 \%\) of total originations and purchases for the year ended December 31, 1998. Loans originated through the Company's Retail Division were \(\$ 842.8\) million, or \(25.3 \%\) of total originations and purchases for the year ended December 31, 1998. Loans originated through the Company's Primewest subsidiary were \(\$ 99.3\) million, or \(3.0 \%\), of total originations and purchases for the year ended December 31, 1998. For the same period in 1997, Wholesale and Retail originations and purchases totaled \(\$ 1.3\) billion, or \(64.4 \%\), and \(\$ 578.7\) million, or \(29.5 \%\), respectively, of total originations and purchases for such period. The Company also acquired loans through bulk acquisitions totaling \$120.8
million, or \(6.1 \%\), of total originations and purchases for the ended December 31, 1997.

Total revenues for the year ended December 31, 1998 increased to \(\$ 176.4\) million, or \(78.9 \%\) from \(\$ 98.6\) million for the year ended December 31, 1997, due primarily to the increase in loan originations and purchases and sales in 1998. Gain on sale of loans increased to \(\$ 105.1\) million, or \(54.8 \%\), for the year ended December 31, 1998, from \(\$ 67.9\) million for the year ended December 31, 1997 due to the increase in loan sales in 1998.

The Company sold \(\$ 3.7\) billion in loans for the year ended December 31, 1998, of which, \$1.5 billion were sold through whole loan sale transactions and \(\$ 2.2\) billion were sold through securitizations. Loans sold through securitization include \(\$ 544.7\) million in loans that were acquired by the Company from a whole loan investor in the fourth quarter of 1998 for the purpose of securitizing the loans.
<PAGE>

The components of the gain on sale of loans are illustrated in the following table:
<TABLE>
<CAPTION>
For the Year Ended
For the Year Ended
(DOLLARS IN THOUSANDS) December 31, 1998
December 31, 1997
\(\begin{array}{ll}\text {-----=------------------ } \\ \text { <S> } & \text { <C> }\end{array}\)
<C>
Gain from whole loan sale transactions \$ 58,001
\$27,707
Non-cash gain from securitizations
168,065
89,770
Non-cash gain from servicing asset
8,791
----
Cash gain (loss) from securitizations/ NIMs transactions
\((4,664)\)
6,105
\((5,624)\)
Securitization expenses
\((13,664)\)
Accrued interest
\((11,818)\)
\((7,188)\)
Write-down of NIR
\((5,900)\)
\((5,175)\)
General valuation provision for NIR (7,500)
\((3,000)\)
Provision for losses
\((6,400)\)
\((3,986)\)
Non-refundable loan fees
47,933
24,514
Premiums, net
\((58,816)\)
\((24,739)\)


Whole loan sales for the year ended December 31, 1998, increased to \(\$ 1.5\) billion, or \(117.0 \%\) from \(\$ 680.9\) million for the corresponding period in 1997. This increase is the result of the increase in loan originations and purchases.

Interest income for the year ended December 31, 1998 increased to \(\$ 47.7\) million, or \(90.1 \%\), from \(\$ 25.1\) million for the same period in 1997. Interest income is earned on loans held in inventory for sale. Such interest income accrues during periods when loans are accumulated for future sales, and increases as loan originations and purchases increase. The increase in interest income for the year ended December 31, 1998 is the result of a higher average inventory of loans held for sale compared to the corresponding period in 1997. The average inventory held for sale for the year ended December 1998, based on quarter-end balances, was \(\$ 302.6\) million, compared to \(\$ 189.7\) million for the corresponding period in 1997.

Servicing income for the year ended December 31, 1998, increased to \(\$ 23.7\) million, or \(321.3 \%\) from \(\$ 5.6\) million for the year ended December 31, 1997, as a result of the increase in the servicing portfolio. Servicing income reflects servicing fees received on loans sold through servicing-retained whole loans sales or securitizations, as well as income recognized on residual cash flows from securitizations. The increase in servicing income for the year ended December 31,1998 is also attributable to the increase in residual interests in securitizations, which increased from \(\$ 97.3\) million at December 31, 1997 to \(\$ 205.4\) million at December 31, 1998.

RESIDUAL SECURITIES

The carrying value of the Company's residual securities at December 31, 1998 and December 31, 1997 is summarized below (000's):
<TABLE>
<CAPTION>
\begin{tabular}{|c|c|c|}
\hline & 1998 & 1997 \\
\hline <S> & <C> & <C> \\
\hline Book value of securities & \$215,895 & \$100,260 \\
\hline Less: General valuation allowance for NIR & 10,500 & 3,000 \\
\hline Net carrying value & \$205,395 & \$ 97,260 \\
\hline
\end{tabular}
</TABLE>
<PAGE>

In establishing the net book value of the residual securities, management reviews on a quarterly basis the underlying assumptions used to value each residual security. The specific values set forth above were established and tested by a) changing prepayment speed assumptions and loss assumptions for each security to reflect actual experience and future expectations, and b) performing sensitivity analyses on the assumptions to assess the potential impact of a higher prepayment and lower loss scenario, and the potential impact of a lower prepayment and higher loss scenario.

To date, the Company's overall cash flows on its residual interests are higher than the Company had projected. However, three of the early 1997 securitizations (1997 NC-1, NC-2 and NC-3) have experienced high prepayment speeds resulting in a remaining principal balance substantially lower than projected. In addition, in 1998 the Company repurchased certain loans from those three securitizations due to delinquencies or defaults, which further increased the prepayment speeds of these three securitizations. Because the Company believes the future cash flows from these securitizations will be less than modeled cash flows, the Company recorded a \(\$ 5.9\) million reduction in the value of the residual securities from these three transactions in the fourth quarter of 1998.

Total expenses for the year ended December 31, 1998, increased to \(\$ 124.1\) million, or \(82.4 \%\), from \(\$ 68.0\) million for the year ended December 31, 1997. Interest expense increased due to the higher level of loan inventory and corresponding warehouse and aggregation borrowings. All other expense components increased from 1997 to 1998 due primarily to (i) higher loan origination volume in the year ended December 31, 1998 compared to the same period in 1997; (ii) an increase in staffing from 1,151 employees at December 31, 1997 to 1,417 employees at December 31, 1998; and (iii) the addition of 34 wholesale sales offices and four retail sales offices from December 31, 1997 to December 31, 1998.

\section*{LIQUIDITY AND CAPITAL RESOURCES}

PRINCIPAL FINANCING FACILITIES. The Company requires access to short-term warehouse and aggregation credit facilities in order to fund loan originations and purchases pending the securitization and sale of such loans. As of December 31, 1999, the Company had a \(\$ 290.0\) million warehouse line of credit led by U.S. Bank National Association which expires in May 2000 and bears interest at a rate equal to the one month LIBOR plus 1.25\%. At December 31, 1999, the balance outstanding under the warehouse line of credit was \(\$ 234.8\) million.

Borrowings under the warehouse line are generally secured by first mortgages funded through the facility. Within seven business days of funding, the Company is required to deposit the mortgage note and file with U.S. Bank to be held as collateral. If the file is incomplete, U.S. Bank ceases to count the loan in calculating the Company's available borrowing capacity. As a consequence, the Company is essentially forced to use its own cash to carry the loan until the file defect can be cured and the loan can be resubmitted under the warehouse line. As of December 31, 1999, the Company's "zero-collateral" balance was not material, and did not affect the Company's liquidity.

In October 1999 U.S. Bank provided the Company \(\$ 20\) million in subordinated debt under the warehouse agreement, and in February 2000 added
\(\$ 10\) million to this debt. The subordinated debt bears interest at a rate of \(12 \%\) per annum and matures in June 2000. The facility is secured by a subordinate lien on the collateral under the warehouse agreement as well as a pledge of the Company's rights under its residual financing repurchase agreements with an affiliate of Salomon Smith Barney, Inc. ("Salomon"). In late March 2000, U.S. Bank committed to (i) provide an additional \(\$ 10\) million in subordinated debt during 2000 subject to the Company's achievement of certain milestones and (ii) extend the maturity of the subordinated debt to June 2002. The Company expects the definitive agreements documenting these arrangements will be executed by April 30, 2000.

As of December 31, 1999, the Company also had a \(\$ 600\) million aggregation facility with Salomon, which is subject to renewal by Salomon on a monthly basis and bears interest at a rate generally equal to the one month LIBOR plus 1.25\%. In November 1998, the Company established a \(\$ 3.0\) million credit facility with an affiliate of Salomon secured by a newly-formed special purpose subsidiary of the Company that will hold residential properties owned by the Company from time to time pending their liquidation. This facility bears interest based on the one month LIBOR, and expires on April 1, 2000. The Company and Salomon are currently in the process of negotiating the renewal of the facility. As of December 31, 1999, the balance outstanding under these facilities was \(\$ 164.3\) million.
<PAGE>

As of December 31, 1999, the Company also had an additional \(\$ 300\) million aggregation facility with Greenwich Capital ("Greenwich") and a \(\$ 300\) million aggregation facility, which includes a residual financing facility, with PaineWebber Inc. ("PaineWebber"), which are subject to renewal in June and August 2000, respectively, and bear interest rates generally equal to the one month LIBOR plus 1.25\%. At December 31, 1999, the balance outstanding under each aggregation facility was \(\$ 17.7\) million and \(\$ 11.9\) million, respectively.

The Company utilizes the U.S. Bank warehouse line to finance the actual funding of its loan originations and purchases. After loans are funded by the Company using the warehouse line and all loan documentation is complete, the loans are generally transferred to an aggregation facility. The aggregation facility is paid down with the proceeds of loan sales and securitizations.

The Company also has residual financing arrangements with Salomon, Greenwich and PaineWebber, whereby each provides financing of the Company's residual interests in securitizations as well as its residual interest from NIM transactions. The amount of residual financing provided upon each securitization is determined pursuant to formulas set forth in the respective agreements and is generally subject to repayment as a result of changes in the market value of the residual interest or the formula used by the lead underwriter to determine the market value (which the underwriter may adjust in its discretion). The facilities bear interest at a rate based on the one month LIBOR. At December 31, 1999, the balance outstanding under these facilities was \(\$ 177.5\) million.

The Company's business requires substantial cash to support its operating activities and growth plans. As a result, the Company is dependent on the U.S. Bank warehouse facility, the Salomon, Greenwich and PaineWebber
aggregation lines and the residual financing facilities in order to finance its continued operations. If any of Salomon, Greenwich, PaineWebber or U.S. Bank decided not to renew their respective credit facilities with the Company, the loss of borrowing capacity would have a material adverse impact on the Company's results of operations unless the Company found a suitable alternative source.

INDUSTRY LIQUIDITY ENVIRONMENT. Although the Company was able to renew its warehouse credit agreement and establish new aggregation credit facilities in the second and third quarters, the financing environment for sub-prime mortgage lenders in general remains unfavorable by historical standards. In recent quarters, several of the Company's competitors have had warehouse or aggregation facilities withdrawn or substantially curtailed. In addition, as whole loan prices have fallen, lenders have gradually reduced the levels at which they will lend against mortgage loans and residual interests. This reduction in advance rates has had a negative effect on the Company's cash flow. If the lower advance rates persist, the Company believes it may affect the Company's secondary marketing strategy, and may have a material adverse effect on the Company's results of operations, business and financial condition.

CASH FLOW. The Company's negative cash flow position is primarily a function of its securitization strategy and rapid growth. The company records a residual interest in securitization and recognizes a gain on sale when it effects a securitization, but only receives the cash representing such gain over the life of the loans securitized. In order to support its loan origination, purchase and securitization programs, the Company is required to make significant cash investments that include the funding of: (i) fees paid to brokers and correspondents in connection with generating loans through wholesale and correspondent lending activities; (ii) fees and expenses incurred in connection with the securitization and sale of loans including over-collateralization requirements for securitization; (iii) commissions paid to sales employees to originate loans; (iv) any difference between the amount funded per loan and the amount advanced under its current warehouse facility; and (v) income tax payments arising from the recognition of gain on sale of loans. The Company also requires cash to fund ongoing operating and administrative expenses, including capital expenditures and debt service. The Company's sources of operating cash flow include: (i) the premium advance component of the aggregation facilities; (ii) premiums obtained in whole loan sales; (iii) mortgage origination income and fees; (iv) interest income on loans held for sale; (v) excess cash flow from securitization trusts; and (vi) servicing income. For the year ended December 31, 1999, the Company's operations used approximately \(\$ 117.0\) million in cash, which is primarily attributable to cash invested in the OC Accounts.
<PAGE>

OTHER BORROWINGS. The Company has a discretionary, non-revolving \(\$ 5.0\) million line of credit with an affiliate of U.S. Bank secured by the Company's furniture and equipment. Advances under this facility are made periodically at the discretion of the lender, and bear interest at a fixed rate established at the time of each advance for a term of three years. As of December 31, 1999, the balance outstanding under this facility was \(\$ 3.1\) million, and the weighted-average interest rate was \(9.2 \%\).

The new terms of the U.S. Bank warehouse line allow borrowings
secured by the Company's servicing-related advances, as well as additional borrowing capacity on the Company's inventory of loans receivable held for sale. These new terms effectively replaced a previous working capital line of credit component in the warehouse agreement.

The Company had various non-revolving operating lease agreements totaling \(\$ 19.1\) million at December 31, 1999, for purposes of financing office property and equipment. Advances under these facilities are made periodically and a financing rate is established at the time of each advance. As of December 31, 1999, the Company had fully utilized the financing available under these facilities.

In November 1998, in connection with the sale of 20,000 shares of Series 1998A Convertible Preferred Stock, the Company received \(\$ 20.0\) million in cash from U.S. Bancorp, the proceeds of which were used to pay down outstanding borrowings under the warehouse line of credit. The proceeds provided the Company greater flexibility in its secondary marketing strategy in the first and second quarters of 1999 by allowing the Company to securitize a greater portion of its production.

In July 1999, the Company raised \(\$ 20\) million through the sale of 20,000 shares of Series 1999A Convertible Preferred Stock to U.S. Bancorp. In October 1999, the Company raised an additional \(\$ 20\) million from U.S. Bancorp in the form of subordinated debt. In February 2000 , the Company raised an additional \(\$ 10\) million from U.S. Bancorp also in the form of subordinated debt. Finally, in March 2000, the Company received a commitment from U.S. Bank to (i) provide an additional \(\$ 10\) million in subordinated debt during 2000 subject to the Company's achievement of certain milestones and (ii) extend the maturity of the subordinated debt to June 2002. The cash from these investments and borrowings provided the Company greater flexibility in the third and fourth quarters of 1999 and the first quarter of 2000 to continue to securitize a portion of the Company's loan production. The additional \(\$ 10\) million of subordinated debt is intended to facilitate the Company's implementation of its Year 2000 business strategy.

LIQUIDITY STRATEGY FOR 2000. In 2000, the Company intends to concentrate on improving cash flow and reducing the dependence on outside capital by increasing the proportion of loans the Company sells on a whole loan basis and reducing the percent of production that is securitized. At the same time, the Company is emphasizing greater efficiencies and improved operating discipline so as to reduce the all-in acquisition costs to \(2.50 \%\) by year-end. In order to ease the transition to this new strategy, and to allow the Company to continue to securitize a portion of its production, the Company will need additional borrowings or capital in the second and third quarters of 2000. To this end, the Company has received a commitment from U.S. Bank to provide an additional \(\$ 10\) million in subordinated debt during the second, third and fourth quarters subject to the Company's achievement of certain milestones.

There can be no assurance that the Company will be able to successfully implement its cost cutting and whole loan strategies. Furthermore, there can be no assurance that the Company will be able to raise additional capital or borrow additional sums after consummation of the transactions contemplated by the additional U.S. Bank commitment. The failure to successfully implement the Company's cost-cutting and whole loan strategies in 2000 could have a material adverse effect on the Company's results of operations, business and financial condition.

Subject to the various uncertainties described above, and assuming that (i) the Company can successfully cut its all-in acquisition costs to 2.50\% by year-end, (ii) the Company is able to adjust its production mix in order to receive higher premiums on whole loan sales, and (iii) the Company receives the additional subordinated debt committed by U.S. Bank, the Company anticipates that its liquidity, credit facilities and capital resources will be sufficient to fund its operations for the foreseeable future.
<PAGE>

\section*{INCOME TAXES}

The Company accounts for income taxes by using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

\section*{ACCOUNTING CONSIDERATIONS}

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Securities and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (i) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (ii) a hedge of the exposure to variable cash flows of a forecasted transaction, or (iii) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available for sale security, or a foreign currency-denominated forecasted transaction.

Under SFAS No. 133, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to manage risk. Management has determined that application of this statement will not have a material impact on the Company.
<PAGE>

YEAR 2000
The Company undertook a variety of steps in order to ensure that the Year 2000 issue would not disrupt its operations. A detailed designation of the Company's "Y2K Plan" is set forth in the Company's report on Form 10-Q for the quarter ended September 30, 1999.

As of March 29, 2000, the Company has not experienced any material consequences relating to the Year 2000 issue. The Company's total Year 2000 costs were less than \(\$ 700,000\).

The Company will continue to monitor its systems for Year 2000 compliance.
<PAGE>
SAFE HARBOR STATEMENT
The preceding "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), and the Company intends that such forward-looking statements be subject to the safe harbors created thereby. These forward-looking statements generally include the plans and objectives of management for future operations, including plans and objectives relating to the Company's future economic performance. The forward-looking statements and associated risks may include or relate to: (i) the Company's ability to improve cash flow by selling a greater percentage of whole loans and securitizing a smaller percentage of total originations, (ii) the Company's ability to originate loans with characteristics for which loan buyers will pay a higher premium, (iii) the ability of the Company to transition from a monoline, sub-prime mortgage company to a company which can offer customers a broader menu of financing products and services, (iv) the ability of the Company to become a leading provider of financial products and services over the Internet, (v) the ability of the Company's production units to improve the overall profitability of loan production by concentrating on higher-value loans and reducing low-margin production, (vi) the Company's plans to close unprofitable branches and the ability to be more selective in new branch openings, (vii) the Company's ability to maintain at least two active investment-banking relationships for securitizations and residual financing, (viii) the Company's ability to execute definitive agreements documenting U.S. Bancorp's additional capital commitment, and to satisfy the conditions to receiving the additional \(\$ 10\) million in subordinated debt, (ix) the Company's intention to focus on improving profitability by controlling costs, (x) the Company's ability to increase consumer marketing, expand Internet loan origination efforts and initiate a broader national marketing
program to increase brand recognition, (xi) the Company's ability to continue to reduce the "all-in acquisition cost" per loan, (xii) the Company's intention to diversify its financing sources, (xiii) the Company's plan to diversify whole loan sale and securitization channels, (xiv) the Company's objective of reaching a cash-neutral operations, (xv) the Company's plan to improve communication of secondary marketing conditions to its production units, (xvi) the Company's ability to successfully implement and expand the various aspects of the U.S. Bancorp strategic alliance, (xvii) the company's intention to continue to evaluate potential acquisitions and strategic alliances with mortgage originators, (xviii) the Company's ability to periodically modify its Underwriting Guidelines to reflect market conditions, (xix) the adequacy of the write-down in the value of the residual securities from 1997-NC-1, NC-2 and NC-3, (xx) the intention that the Company will continue to execute NIM private placement transactions as part of its overall securitization strategy, (xxi) the intention that the Company may repurchase additional loans from its securitizations if necessary to avoid disruption of cash flow to the Company, (xxii) the Company's intention to mitigate interest rate risk through hedging, (xxiii) the belief that the Company's practices comply with applicable rules and regulations in all material respects, (xxiv) the belief that the Company's relations with its employees are satisfactory, (xxv) the belief that the Company's litigation, individually or in the aggregate, will not have a material adverse effect on the Company's financial position or results of operations, (xxvi) the accuracy of the Company's assumptions underlying valuation of its residual securities and their affect on the anticipated returns and future cash flow to the Company from its residual securities, (xxvii) the Company's ability to maintain adequate financing to fund its operations, (xxviii) the expectation that the Company will be able to implement its automated underwriting system on schedule, and (xxix) the expectation that the Company's future Year 2000 expenditures will not be material to its business, results of operations or financial condition.

The forward-looking statements are further qualified by important factors that could cause actual results to differ materially from these in the forward-looking statements, including, without limitation, the following: (i) the Company's access to funding sources and its ability to renew, replace or add to its existing credit facilities on terms comparable to the current terms; (ii) the condition of the secondary market for whole loans, (iii) the condition of the markets for mortgage-backed securities and the senior bonds issued in NIM transactions, (iii) an increase in the prepayment speed or default rate of the Company's borrowers; (iv) management's ability to manage the Company's past growth and planned expansion; (v) the effect of changes in interest rates; (vi) the effect of the competitive pressures from other sub-prime lenders or suppliers of credit in the Company's market; (vii) the negative impact of economic slowdowns or recessions; (ix) the ability of the Company to attract, retain and motivate qualified personnel, (x) the impact of new state or federal legislation restricting the activities of sub-prime lenders; and (xi) the ability of the Company's servicing operations to absorb the growing volume of loans being serviced by the Company. Results actually achieved may differ materially from expected results in these statements. Several of these risks are discussed in greater detail in the "Risk Factors" section of the preceding "Business" section. Any of the factors described alone or in the "Risk Factors" section could cause the Company's financial results, including its net income or growth in net income, to differ materially from prior results.
<PAGE>

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

GENERAL
The Company carries interest-sensitive assets on its balance sheet that are financed by interest-sensitive liabilities. Since the interval for re-pricing of the assets and liabilities is not matched, the Company is subject to interest-rate risk. A sudden, sustained increase or decrease in interest rates would impact the Company's net interest income, as well as the fair value of its residual interests in securitizations. The Company employs hedging strategies from time to time to manage the interest-rate risk inherent in its assets and liabilities. These strategies are designed to create gains when movements in interest rates would cause the value of the Company's assets to decline, and result in losses when movements in interest rates cause the value of the Company's assets to increase.

The following table illustrates the timing of the re-pricing of the Company's interest-sensitive assets and liabilities as of December 31, 1999. Management has made certain assumptions in determining the timing of re-pricing of such assets and liabilities. One of the more significant assumptions is that all of the Company's loans receivable held for sale will be sold in the first six months of 2000. In addition, the timing of re-pricing or maturity of the Company's residual interests in securitizations is based on certain prepayment and loss assumptions (See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations" for further details).
<TABLE>
<CAPTION>


<PAGE>

PART III
ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT
The names and ages of the executive officers of the Company and the positions each of them has held for the past five years are included in Part I of this Form 10-K as permitted by the General Instruction G(3). The information required by this item regarding the Company's directors will be included in the Company's Proxy Statement with respect to its 2000 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 1999, under the caption "Board of Directors and Committees of the Board" and is incorporated herein by this reference as if set forth in full herein.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included in the Company's Proxy Statement with respect to its 2000 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 1999 under the captions "Executive Compensation," "Board of Directors and Committees of the Board," "Report of Compensation Committee," "Performance Graph," and "Compensation Committee Interlocks and Insider Participation" and is incorporated herein by this reference as if set forth in full herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
The information required by this item will be included in the Company's Proxy Statement with respect to its 2000 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 1999 under the caption "Security Ownership of Principal Stockholders and Management", and is incorporated herein by this reference as if set forth in full herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will be included in the Company's Proxy Statement with respect to its 2000 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 1999 under the caption "Certain Relationships and Related Transactions", and is incorporated herein by this reference as if set forth in full herein.
<PAGE>

\section*{PART IV}

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K
(a) The following documents are filed as part of this report:
1. Consolidated Financial Statements - See "Index to Consolidated Financial Statements"
2. Consolidated Financial Statement Schedule - See "Index to Consolidated Financial Statements"
3. Exhibits - See "Exhibit Index"
(b) The Company did not file any reports on form 8-K during the fourth quarter of 1999.
<PAGE>

Pursuant to the requirements of Section 13 or \(15(\mathrm{~d})\) of the Securities Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEW CENTURY FINANCIAL CORPORATION

BY: /s/BRAD A. MORRICE
-----------------------------------
Brad A. Morrice
Vice Chairman and President
Each person whose signature appears below hereby authorizes Brad A. Morrice and Edward F. Gotschall or either of them, as attorneys-in-fact to sign on his behalf, individually, and in each capacity stated below and to file all amendments and/or supplements to the Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.
```

<TABLE>
<CAPTION>
```

\section*{Signature Title}

Date

-------------------------- ------------------------------
<S> <C>
<C>
/s/ BRAD A. MORRICE Vice Chairman, President and Director March 30, 2000
```
---------------------------------
```
        Brad A. Morrice
    /s/ EDWARD F. GOTSCHALL Vice Chairman, Chief Financial Officer March 30, 2000
```
and Director
```

Edward F. Gotschall
/s/ ROBERT K. COLE Chairman of the Board and Chief Executive Officer and Director March 30, 2000
\(\qquad\)
Robert K. Cole
/s/ STEVEN G. HOLDER Vice Chairman, Chief Operating Officer and Director March 30, 2000
-----------------------------------
Steven G. Holder
/s/ JOHN C. BENTLEY Director
March 30, 2000
John C. Bentley
/s/ FREDRIC J. FORSTER Director
March 30, 2000

Fredric J. Forster
/s/ FRANCIS J. PARTEL, JR. Director March 30, 2000

Frank J. Partel, Jr.
/s/ MICHAEL M. SACHS Director
March 30, 2000

Michael M. Sachs
/s/ TERRENCE P. SANDVIK Director
March 30, 2000
---------------------------------
Terrence P. Sandvik
</TABLE>
47
<PAGE>
EXHIBIT INDEX

<TABLE>
<CAPTION>
EXHIBIT
NUMBER
-------
<S>
3.1 First Amended and Restated Certificate of Incorporation of the Company (1)
3.2 Certificate of Designation for Series 1998A Convertible Preferred Stock (2)
3.3 Certificate of Designation for Series 1999A Convertible Preferred Stock (3)
3.4 First Amended and Restated Bylaws of the Company (1)
4.1 Specimen Stock Certificate (1)
4.2 Specimen Series 1998A Convertible Preferred Stock Certificate (4)
4.3 Specimen Series 1999A Convertible Preferred Stock Certificate (3)
10.1 Form of Indemnity Agreement between the Company and each of its

```
    10.15 First Amendment to Merger Agreement, dated January 12, 1998, by
and
    among New Century, NC Acquisition Corp., PWF, Kirk Redding and
Paul
        Akers (6)
    10.16 Master Lease Agreement by and between New Century Mortgage
        Corporation and General Electric Capital Corporation, dated as of
        October 24, 1997 (5)
        4 8
<PAGE>
<CAPTION>
    EXHIBIT
        NUMBER
        DESCRIPTION
    -------
        -----------
<S> <C>
        10.17 First Amendment to Founding Managers' Incentive Compensation Plan
            (7)
    10.18 Letter Agreement dated March 31, 1998 among Salomon Brothers
Realty
        Corp., Salomon Brothers Inc. and New Century Mortgage Corporation
        (7)
    10.19 Fourth Amendment to Second Amended and Restated Credit Agreement
        between the Company and U.S. Bank National Association dated May
1,
        1998 (8)
    10.20 Third Amended and Restated Credit Agreement between the Company
and
    U.S. Bank National Association dated May 29, 1998 (8)
    10.21 First Amendment to Third Amended and Restated Credit Agreement
        between the Company and U.S. Bank National Association dated
        July 27, 1998 (9)
    10.22 Second Amendment to Third Amended and Restated Credit Agreement
        between the Company and U.S. Bank National Association dated
        June 30, 1998 (9)
    10.23 Third Amendment to Third Amended and Restated Credit Agreement
        between the Company and U.S. Bank National Association dated
        November 23, 1998 (4)
    10.24 Fourth Amendment to Third Amended and Restated Credit Agreement
        between the Company and U.S. Bank National Association dated
        December 11, 1998 (4)
    10.25 Deferred Compensation Plan (incorporated by reference from the
        Company's Form S-8 Registration Statement (No. 333-68467) as
filed
        with the Securities and Exchange Commission on December 7, 1998
```
```
    10.26 Preferred Stock Purchase Agreement, dated as of October 18, 1998,
    between the Company and U.S. Bancorp (2)
    10.27 Registration Rights Agreement, dated as of November 24, 1998,
    between the Company and U.S. Bancorp (2)
    10.28 Flow Purchase Agreement, dated as of November 24, 1998, between
        New Century Mortgage Corporation and U.S. Bank National
        Association, ND (2)
    10.29 Service Provider Agreement, dated as of November 24, 1998,
between
Association,
        ND (2)
    10.30 Form of Founding Managers' Shareholder Agreement, dated November
24,
    10.31 Form of Founding Managers' Employment Agreement, dated January 1,
        1999 (4)
    10.32 Letter Agreement by and between NC Capital Corporation, New
Century
    Mortgage Corporation and Salomon Brothers Realty Corp., dated
        December 11, 1998 (4)
<PAGE>
                    EXHIBIT INDEX - (CONTINUED)
<CAPTION>
    EXHIBIT
        NUMBER
                                    DESCRIPTION
    -------
<S>
        <C>
            10.33 Non-qualified Stock Option Agreement dated May 17, 1999 between
the
    10.34 Non-qualified Stock Option Agreement dated May 17, 1999 between
the
    10.35 Fourth Amended and Restated Credit Agreement between the Company
and
    U.S. Bank National Association dated May 26, 1999 (3)
    10.36 Master Loan and Security Agreement by and between NC Capital
        Corporation and Greenwich Capital Financial Products, Inc., dated
        June 23, 1999 (3)
    10.37 Residual Financial Facility Agreement by and between NC Capital
        Corporation and Greenwich Capital Financial Products, Inc., dated
```

June 23, 1999 (3)
10.38 Master Loan and Security Agreement by and among New Century Mortgage

Corporation, NC Capital Corporation and Paine Webber Real Estate Securities, Inc., dated as of July 20, 1999 (3)
10.39 Preferred Stock Purchase Agreement, dated as of July 26, 1999, between the Company and U.S. Bancorp (3)
10.40 Amended and Restated Registration Rights Agreement, dated as of July

26, 1999, between the Company and U.S. Bancorp (3)
10.41 First Amendment to Fourth Amended and Restated Credit Agreement between the Company and U.S. Bank National Association, dated
August
31, 1999 (10)
10.42 Letter Agreement by and between NC Capital Corporation, New Century

Mortgage Corporation and Salomon Brothers Realty Corp., dated September 1, 1999 (10)
10.43 Amendment to Master Loan and Security Agreement dated as of July 20, as
10.44 Industrial Lease, dated October 11, 1999, between the Company and the Irvine Company (10)
10.45 Second Amendment to Fourth Amended and Restated Credit Agreement between the Company and U.S. Bank National Association, dated October 15, 1999 (10)
10.46 Amendment Number One to Master Loan and Security Agreement dated as

Greenwich
10.47 Third Amendment to Pledge and Security Agreement dated February 17,

National 2000 between New Century Mortgage Corporation and U.S. Bank
 Association
10.48 Amendment to Letter Agreement dated as of September 1, 1999 by and
and between NC Capital Corporation, New Century Mortgage Corporation Salomon Brothers Realty Corp., dated March 7, 2000
```
    21.1 List of Subsidiaries
    23.1 Consent of KPMG LLP
    27.1 Financial Data Schedule
</TABLE>
<PAGE>
(1) Incorporated by reference from the Company's Form S-1 Registration Statement (No. 333-25483) as filed with the Securities and Exchange Commission on June 23, 1997.
(2) Incorporated by reference from the Company's Form 8-K as filed with the Securities and Exchange Commission on December 8, 1998.
(3) Incorporated by reference from the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on August 16, 1999.
(4) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 on file with the Securities and Exchange Commission.
(5) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 on file with the Securities and Exchange Commission.
(6) Incorporated by reference from the Company's Form 8-K as filed with the Securities and Exchange Commission on January 26, 1998
(7) Incorporated by reference from the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 15, 1998
(8) Incorporated by reference from the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on August 14, 1998
(9) Incorporated by reference from the Company's Quarterly Report on Form as filed with the Securities and Exchange Commission on November 13, 1998 Incorporated by reference from the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 15, 1999

```
```

<TABLE>
<CAPTION>
PAGE
REFERENCE
---------
<S>
<C>
Independent Auditors'
Report.
                F-2
            Consolidated Balance Sheets as of December 31, 1999 and
1998............................................ . . F-3
            Consolidated Statements of Earnings for the years ended December 31,
1999, 1998
            and
1997.
                                    F-4
                            Consolidated Statements of Changes in Stockholders' Equity for the
years ended
            December 31, 1999, 1998 and
1997
F-5
    Consolidated Statements of Cash Flows for the years ended December
31,
            1999, 1998 and
1997
...... F-6
    Notes to Consolidated Financial Statements for the years ended
December 31, 1999 and
1998
.................... F-7
</TABLE>
                                F-1
    <PAGE>

```
    INDEPENDENT AUDITORS' REPORT
The Board of Directors
New Century Financial Corporation:
We have audited the accompanying consolidated balance sheets of New Century
Financial Corporation and subsidiaries as of December 31, 1999 and 1998 and
the related consolidated statements of earnings, changes in stockholders'
equity and cash flows for each of the years in the three-year period ended
December 31, 1999. These consolidated financial statements are the
responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Century Financial Corporation and subsidiaries as of December 31, 1999 and 1998 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999 in conformity with generally accepted accounting principles.

KPMG LLP
Orange County, California
February 2, 2000, except as to Notes 8
and 22 to the consolidated financial
statements, which are as of March 28, 2000.

F-2
<PAGE>

> NEW CENTURY FINANCIAL CORPORATION
> AND SUBSIDIARIES
> Consolidated Balance Sheets
> December 31, 1999 and 1998
> (Dollars in thousands, except per share amounts)
<TABLE>
<CAPTION>
19991998 ASSETS
```

----------------
--------------
<S>
<C> <C>
Cash and cash equivalents
\$ 4,496 30,875
Loans receivable held for sale, net (notes 2 and 7)
442,653 356,975
Residual interests in securitizations (notes 3 and 7)
364,689 205,395
Mortgage servicing asset (note 4)
22,145 8,665
Accrued interest receivable
1,538 1,536

```
```

Office property and equipment (notes 6 and 9)
3,780 3,644
Income taxes receivable (note 12)
548 --
Prepaid expenses and other assets (notes 5 and 10)
23,860 17,637
M----------------------------------709
LIABILITIES AND STOCKHOLDERS' EQUITY
Warehouse and aggregation lines of credit (note 7)
\$ 428,726 345,843
Residual financing payable (note 7)
177,493 122,298
Subordinated debt (note 8)
20,000
Notes payable (note 9)
3,051 3,985
Income taxes payable (note 12)
-- 1,690
Accounts payable and accrued liabilities (notes 11 and 14)
26,484 16,056
Deferred income taxes (note 12)
34,992 20,242
----------------
--------------
690,746 510,114
---------------- --------------
Stockholders' equity (notes 14 and 15):
Preferred stock, \$.01 par value. Authorized 7,500,000 shares:
Series 1998 A convertible preferred stock - issued and
outstanding 20,000 shares at December 31, 1999 and 1998
--
Series 1999 A convertible preferred stock - 20,000 and zero
shares issued and outstanding at December 31, 1999 and
1998, respectively
Common stock, \$.01 par value. Authorized 45,000,000 shares;
issued 14,694,984 and 14,517,242 shares and outstanding
14,694,984 and 14,473,566 shares at December 31, 1999
and 1998, respectively
147
145
Additional paid-in capital
85,625 65,241
Retained earnings, restricted
87,351 49,953
Deferred compensation costs
(160)
(726)

```

\begin{tabular}{|c|c|c|}
\hline \begin{tabular}{cc} 
& Total expenses \\
68,041
\end{tabular} & & 167,056 \\
\hline Earnings before income taxes & & 66,886 \\
\hline 52,308 30,592 & & \\
\hline Income taxes (note 12) & & 27,377 \\
\hline 21,193 12,849 & & \\
\hline Net earnings & \$ & 39,509 \\
\hline 31,115 17,743 & & \\
\hline Basic earnings per share (note 19) & \$ & 2.59 \\
\hline 2.19 2.18 & & \\
\hline Diluted earnings per share (note 19) & \$ & 2.11 \\
\hline 2.031 .40 & & \\
\hline
\end{tabular}

See accompanying notes to consolidated financial statements.
\begin{tabular}{|c|c|c|c|c|c|c|}
\hline \multicolumn{7}{|c|}{F-4} \\
\hline \multicolumn{7}{|l|}{<PAGE>} \\
\hline \multicolumn{7}{|c|}{```
            NEW CENTURY FINANCIAL CORPORATION
                AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
    Years ended December 31, 1999, 1998 and 1997
        (in thousands)
```} \\
\hline \multicolumn{7}{|l|}{\begin{tabular}{l}
<TABLE> \\
<CAPTION>
\end{tabular}} \\
\hline & & & \multicolumn{4}{|c|}{SERIES A} \\
\hline \multicolumn{7}{|l|}{SERIES B} \\
\hline & & & PREFERRED & \multicolumn{3}{|l|}{PREFERRED} \\
\hline \multirow[t]{2}{*}{PREFERRED} & \multirow[t]{2}{*}{COMMON} & \multirow[t]{2}{*}{COMMON} & & \multicolumn{2}{|r|}{\multirow[b]{2}{*}{STOCK}} & \\
\hline & & & SHARES & & & \\
\hline \multirow[t]{2}{*}{STOCK} & \multirow[t]{2}{*}{SHARES} & \multirow[t]{2}{*}{STOCK} & & & & \\
\hline & & & OUTSTANDING & \multicolumn{2}{|r|}{AMOUNT} & \\
\hline AMOUNT & OUTSTANDING & AMOUNT & & & & \\
\hline <S> & \multicolumn{2}{|l|}{\multirow[b]{2}{*}{<C>}} & <C> & \multirow[t]{2}{*}{<C>} & & \multirow[t]{2}{*}{<C>} \\
\hline <C> & & & & & & \\
\hline Balance,
\[
529
\] & \[
\begin{aligned}
& \text { December } 31 \text {, } \\
& \$ 6
\end{aligned}
\] & 996 & 5,820 & \$ & 54 & \\
\hline
\end{tabular}





Net cash provided by financing activities

```

Cash and cash equivalents at beginning of year
30,875 12,701 3,041

```
```

-----------------------------
Cash and cash equivalents at end of year
12,701
============= =============== ==============
Supplemental cash flow disclosure:
Interest paid
40,467 19,135
Income taxes
14,865 9,087 3,990
=============== ================ ===============
Supplemental non-cash financing activities:
Restricted stock issued to founding managers
174 2,775
Stock issued in connection with acquisition
2,000
--
Warrants issued to Comerica
1,500
Conversion of preferred stock
-- 58
Accrued dividends convertible preferred stock
158
--
Cancellation of warrants
-- 825
-_
=============
============
== = == = = = ======
</TABLE>
See accompanying notes to consolidated financial statements.
F-6
<PAGE>

```
                    NEW CENTURY FINANCIAL CORPORATION
                        AND SUBSIDIARIES
                Notes to Consolidated Financial Statements
                        December 31, 1999 and 1998
(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(a) ORGANIZATION

New Century Financial Corporation (the Company), a Delaware corporation, was incorporated on November 17, 1995. New Century


Such gains and losses may be increased or decreased by the

adequate by management based upon the Company's evaluation of
the
(h) OFFICE PROPERTY AND EQUIPMENT

Office property and equipment are stated at cost. The straight-line method of depreciation is followed for financial reporting purposes. Depreciation and amortization are provided
```

in

```
over
net
    potential exposure related to the loan sale agreements over the
    life of the associated loans sold.
    amounts sufficient to relate the cost of assets to operations
    their estimated service lives or the lives of the respective
    leases, whichever is shorter. The estimated service lives for
    furniture and office equipment, computer hardware/software and
    leasehold improvements are five years, three years and five
years,
    respectively.

GOODWILL
Goodwill, recorded in connection with the January 1998
of Primewest, is being amortized over a seven-year period using the straight-line method. Goodwill is reviewed for possible impairment when events or changed circumstances may affect the underlying basis of the asset. Impairment is measured by discounting the operating income at an appropriate discount

Accumulated amortization was \(\$ 1.1\) million and \(\$ 503,000\) at December 31, 1999 and 1998, respectively.
\[
\mathrm{F}-8
\]
(j)

> NEW CENTURY FINANCIAL CORPORATION
> AND SUBSIDIARIES
> Notes to Consolidated Financial Statements
> December 31,1999 and 1998

FINANCIAL STATEMENT PRESENTATION
The Company prepares its financial statements using an unclassified balance sheet presentation as is customary in the mortgage banking industry. A classified balance sheet
would have aggregated current assets, current liabilities and working capital as of December 31, 1999 as follows (dollars in thousands):
<TABLE>
\begin{tabular}{llll} 
& & \(<\mathrm{S}\rangle\) & Current assets \\
Current liabilities & \(\$\) & 518,860 \\
& Curen & 654,496
\end{tabular}

Current assets include the portion of the residual interests in securitizations expected to be collected within one year, while current liabilities include the entire balance of residual financing.
(k) ERRORS AND OMISSIONS POLICY

In connection with the Company's lending activities, the
and
tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities
and
taxable
in
(m) RESIDUAL INTERESTS IN SECURITIZATIONS
as
sale

Mortgage
the
their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to
income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized

Residual interests in securitizations (Residuals) are recorded a result of the sale of loans through securitizations and the of residual interests in securitizations through what are sometimes referred to as net interest margin securities (NIMS).

The loan securitizations are generally structured as follows: First, the Company sells a portfolio of mortgage loans to a special purpose entity (SPE) which has been established for the special purpose entity (SPE) which has been established for the
limited purpose of buying and reselling mortgage loans. The SPE then transfers the same mortgage loans to a Real Estate

Investment Conduit or Owners Trust (the REMIC or Trust), and
\(\qquad\)
income in the period that includes the enactment date.

INCOME TAXES

The Company files consolidated Federal and combined state tax returns. The Company accounts for income taxes using the asset
liability method. Under the asset and liability method,
has Fidelity Bond and Errors and Omissions insurance coverage \(\$ 4.5\) million each at December 31, 1999.

Trust in turn issues interest-bearing asset-backed securities
(the
Certificates) generally in an amount equal to the aggregate principal balance of the mortgage loans. The Certificates are typically sold at face value and without recourse except that representations and warranties customary to the mortgage
industry are provided by the Company to the Trust. One or more investors purchase these Certificates for cash. The Trust uses
cash proceeds to pay the Company the cash portion of the
F-9

\section*{NEW CENTURY FINANCIAL CORPORATION \\ AND SUBSIDIARIES \\ Notes to Consolidated Financial Statements December 31, 1999 and 1998}
purchase price for the mortgage loans. The Trust also issues a certificate representing a residual interest in the payments on the securitized loans. In addition, the Company may provide a credit enhancement for the benefit of the investors in the form of additional collateral (over-collateralization account or OC Account) held by the Trust. The OC Account is required by the servicing agreement to be maintained at certain levels.

At the closing of each securitization, the Company removes from its consolidated balance sheet the mortgage loans held for sale and adds to its consolidated balance sheet (i) the cash
received,
(ii) the estimated fair value of the interest in the mortgage loans retained from the securitizations (Residuals), which
consist

NIR
by
the
of (a) the OC Account and (b) the net interest receivable (NIR) and (iii) the estimated fair value of the servicing asset. The

NR represents the discounted estimated cash flows to be received the Company in the future. The excess of the cash received and
of
assets retained by the Company over the carrying value of the loans sold, less transaction costs, equals the net gain on sale
mortgage loans recorded by the Company.
The NIMS are generally structured as follows: First, the
Company
sells or contributes the Residuals to an SPE which has been established for the limited purpose of receiving and selling asset-backed residual interests in securitization certificates. Next, the SPE transfers the Residuals to an Owner Trust (the Trust) and the Trust in turn issues interest-bearing asset-
backed
\begin{tabular}{|c|c|}
\hline \multicolumn{2}{|l|}{these} \\
\hline & Residuals without recourse except that normal representations \\
\hline \multicolumn{2}{|l|}{and} \\
\hline & warranties are provided by the Company to the Trust. One or \\
\hline \multicolumn{2}{|l|}{more} \\
\hline & investors purchase the bonds and certificates and the proceeds from the sale of the bonds and certificates, along with a \\
\hline \multicolumn{2}{|l|}{residual} \\
\hline & interest certificate that is subordinate to the bonds and certificates, represent the consideration to the Company for \\
\hline \multicolumn{2}{|l|}{the} \\
\hline & sale of the \\
\hline \multicolumn{2}{|l|}{consolidated} \\
\hline & balance sheet the carrying value of the Residuals sold and adds \\
\hline \multicolumn{2}{|l|}{to} \\
\hline & its consolidated balance sheet (i) the cash received, and (ii) \\
\hline \multicolumn{2}{|l|}{the} \\
\hline & estimated fair value of the portion of the Residuals retained, which consists of a net interest receivable (NIR). The excess \\
\hline \multicolumn{2}{|l|}{of} \\
\hline & the cash received and assets retained over the carrying value \\
\hline \multicolumn{2}{|l|}{of} \\
\hline & the Residuals sold, less transaction costs, equals the net gain \\
\hline \multicolumn{2}{|l|}{or} \\
\hline & loss on the sale of Residuals recorded by the Company. \\
\hline \multicolumn{2}{|l|}{residual} \\
\hline residual & interests between the portion of the mortgage loans and \\
\hline \multicolumn{2}{|l|}{residual} \\
\hline \multirow[t]{2}{*}{retained} & interests sold through the Certificates and the portion \\
\hline & (the Residuals and servicing assets) based on the relative fair values of those portions on the date of sale. The Company may recognize gains or losses attributable to the changes in the \\
\hline \multicolumn{2}{|l|}{fair} \\
\hline \multicolumn{2}{|l|}{\multirow[t]{2}{*}{value and accounted for as "held-for-trading" securities. The Company}} \\
\hline & \\
\hline \multicolumn{2}{|l|}{is} \\
\hline & not aware of an active market for the purchase or sale of Residuals and, accordingly, the Company determines the \\
\hline \multicolumn{2}{|l|}{estimated} \\
\hline \multicolumn{2}{|l|}{flows} \\
\hline & released from the OC Account (the cash out method) using a discount rate commensurate with the risks involved. The Company has utilized an effective discount rate of approximately 12\% on the estimated cash flows released from the OC Account to value \\
\hline \multicolumn{2}{|l|}{the} \\
\hline & Residuals through securitization and approximately \(14.0 \%\) on the estimated cash flows released from the Trust to value Residuals through NIMS. \\
\hline
\end{tabular}

\title{
NEW CENTURY FINANCIAL CORPORATION \\ AND SUBSIDIARIES \\ Notes to Consolidated Financial Statements \\ December 31, 1999 and 1998
}

The Company receives periodic servicing fees for the servicing
and
collection of the mortgage loans as master servicer of the securitized loans. In addition, the Company is entitled to the cash flows from the Residuals that represent collections on the mortgage loans in excess of the amounts required to pay the Certificate principal and interest, the servicing fees and
certain
each
and
in
the

If
necessary
related
level,
the
certain
to
create
servicing
collection period, the aggregate cash collections from the mortgage loans are allocated first to the base servicing fees
certain other fees such as trustee and custodial fees for the period, then to the Certificateholders for interest at the pass-through rate on the Certificates plus principal as defined the servicing agreements. If the amount of cash required for
above allocations exceeds the amount collected during the collection period, the shortfall is drawn from the OC Account.
the cash collected during the period exceeds the amount
for the above allocation, and there is no shortfall in the
OC Account, the excess is released to the Company. If the OC Account balance is not at the required credit enhancement
the excess cash collected is retained in the OC Account until
specified level is achieved. The cash and collateral in the OC Account is restricted from use by the Company. Pursuant to
servicing agreements, cash held in the OC Account may be used
make accelerated principal paydowns on the Certificates to
additional excess collateral in the OC Account which is held by the Trusts on behalf of the Company as the Residual holder. The specified credit enhancement levels are defined in the
servicing
agreements as the OC Account balance expressed generally as a percentage of the current collateral principal balance.

For NIMS transactions, the Company will receive cash flows once the holders of the senior bonds and certificates created in the NIMS transaction are fully repaid.
\(\left.\begin{array}{ll} & \begin{array}{l}\text { The Annual Percentage Rate (APR) on the mortgage loans is } \\
\text { relatively high in comparison to the pass-through rate on the } \\
\text { Certificates. Accordingly, the Residuals described above are a }\end{array} \\
\text { significant asset of the Company. In determining the value of }\end{array}\right]\)\begin{tabular}{l} 
Residuals, the Company must estimate the future rates of \\
prepayments, prepayment penalties to be received by the
\end{tabular}
\begin{tabular}{ll} 
& Due to the uncertainty associated with estimating future cash \\
& flows caused by the lack of historical performance data on the \\
& mortgage loans and the absence of an active market for the \\
purchase and sale of Residuals, the Company has historically
\end{tabular}
\begin{tabular}{|c|c|}
\hline \multirow[t]{2}{*}{(0)} & STOCK OPTION PLAN \\
\hline & Prior to January 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued \\
\hline \multicolumn{2}{|l|}{to} \\
\hline & Employees" (APB 25), and related interpretations. As such, compensation expense would be recorded on the date of grant \\
\hline \multicolumn{2}{|l|}{only} \\
\hline & if the current market price of the underlying stock exceeded \\
\hline \multicolumn{2}{|l|}{the} \\
\hline & exercise price. On January 1, 1996, the Company adopted \\
\hline \multicolumn{2}{|l|}{Statement} \\
\hline & of Financial Accounting Standards No. 123, "Accounting for \\
\hline & Stock-Based Compensation" (SFAS 123), which permits entities to recognize as expense over the vesting period the fair value of \\
\hline \multicolumn{2}{|l|}{\multirow[t]{2}{*}{all stock-based awards on the date of grant. Alternatively, SFAS}} \\
\hline & \\
\hline \multicolumn{2}{|l|}{123 ( 12} \\
\hline & also allows entities to continue to apply the provisions of APB \\
\hline \multicolumn{2}{|l|}{25 (} \\
\hline & and provide pro forma net earnings and pro forma net earnings \\
\hline \multicolumn{2}{|l|}{\multirow[t]{2}{*}{per share disclosures for employee}} \\
\hline & \\
\hline \multicolumn{2}{|l|}{\multirow[t]{2}{*}{(Continued) F-12}} \\
\hline & \\
\hline \multicolumn{2}{|l|}{<PAGE>} \\
\hline \multicolumn{2}{|r|}{\multirow[t]{4}{*}{```
    NEW CENTURY FINANCIAL CORPORATION
    AND SUBSIDIARIES
Notes to Consolidated Financial Statements
    December 31, 1999 and 1998
```}} \\
\hline & \\
\hline & \\
\hline & \\
\hline & stock options grants made in 1995 and future years as if the \\
\hline & fair-value-based method defined in SFAS 123 had been applied. \\
\hline \multicolumn{2}{|l|}{The} \\
\hline & Company has elected to continue to apply the provisions of APB \\
\hline \multicolumn{2}{|l|}{25 ( 25} \\
\hline & and provide the pro forma disclosure provisions of SFAS 123. \\
\hline \multirow[t]{2}{*}{(p)} & EARNINGS PER SHARE \\
\hline & Basic earnings per share (EPS) excludes dilution and is \\
\hline \multicolumn{2}{|l|}{computed} \\
\hline & by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock \\
\hline \multicolumn{2}{|l|}{were} \\
\hline & exercised or converted into common stock or resulted from \\
\hline \multicolumn{2}{|l|}{\multirow[t]{2}{*}{issuance of common stock that then shared in earnings.}} \\
\hline & \\
\hline (q) & USE OF ESTIMATES \\
\hline
\end{tabular}
\begin{tabular}{|c|c|}
\hline & Management of the Company has made certain estimates and assumptions relating to the reporting of assets, liabilities, results of operations and the disclosure of contingent assets \\
\hline \multirow[t]{2}{*}{and} & \\
\hline & liabilities to prepare these financial statements in accordance with generally accepted accounting principles. Actual results could differ from these estimates. \\
\hline \multirow[t]{2}{*}{(r)} & ADVERTISING \\
\hline & The Company accounts for its advertising costs as nondirect response advertising. Accordingly, advertising costs are \\
\hline \multicolumn{2}{|l|}{expensed} \\
\hline & as incurred. \\
\hline \multirow[t]{2}{*}{(s)} & RECLASSIFICATION \\
\hline & Certain amounts for prior periods have been reclassified to conform to the current year's presentation. \\
\hline \multirow[t]{2}{*}{(t)} & SEGMENT REPORTING \\
\hline & The Company, through the branch network of its subsidiary, New Century Mortgage Corporation, provides a broad range of \\
\hline \multicolumn{2}{|l|}{mortgage} \\
\hline & products. While the Company's chief decision makers monitor the revenue streams through wholesale and retail loan originations, operations are managed and financial performance is evaluated \\
\hline \multirow[t]{2}{*}{on a} & \\
\hline & Companywide basis. Accordingly, all of the Company's operations are considered by management to be aggregated in one reportable operating segment. \\
\hline \multirow[t]{2}{*}{(u)} & RECENT ACCOUNTING DEVELOPMENTS \\
\hline & In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Securities and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. \\
\hline \multicolumn{2}{|l|}{If certain conditions are met, a derivative may be specifically} \\
\hline & certain conditions are met, a derivative may be specifically designated as (i) a hedge of the exposure to changes in the \\
\hline \multicolumn{2}{|l|}{fair} \\
\hline & value of a recognized asset or liability or an unrecognized \\
\hline \multirow[t]{2}{*}{firm} & commitment, (ii) a hedge of the \\
\hline & F-13 \\
\hline \begin{tabular}{l}
(Continued) \\
<PAGE>
\end{tabular} & \\
\hline
\end{tabular}

AND SUBSIDIARIES
Notes to Consolidated Financial Statements December 31, 1999 and 1998
exposure to variable cash flows of a forecasted transaction, or (iii) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available for sale security, or a foreign currency-denominated forecasted transaction.

Under SFAS No. 133, an entity that elects to apply hedge accounting is required to establish at the inception of the
hedge
the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk. This statement is effective for the Company on January 1, 2001. Management has determined that application of this statement is not expected to have a material impact on the Company's
financial
condition or results of operations.
(2) LOANS RECEIVABLE HELD FOR SALE

A summary of loans receivable held for sale, at the lower of cost or market at December 31, 1999 and 1998 follows (dollars in thousands):
<TABLE>
<CAPTION>
1999
1998


At December 31, 1999 and 1998, the Company had loans receivable held
for
sale of approximately \(\$ 26.7\) million and \(\$ 16.8\) million, respectively, on
which the accrual of interest had been discontinued. If these loans receivable had been current throughout their terms, interest income would have increased by approximately \(\$ 501,000\) and \(\$ 721,000\) in the years ended

December 31, 1999 and 1998, respectively.
(a) INTEREST INCOME

The following table presents the components of interest income
for the years ended December 31 (dollars in thousands):
<TABLE> <CAPTION>

(Continued)
<PAGE>
NEW CENTURY FINANCIAL CORPORATION
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(b) December 31,1999 and 1998
<TABLE>
<CAPTION>



```

Notes to Consolidated Financial Statements
December 31, 1999 and 1998

```

The following table summarizes activity in the general valuation allowance at December 31 (dollars in thousands):
```

<TABLE>

```
<CAPTION>



```

6,676
(4,418)
(3,032)
--------- ---------------------
F-18
(Continued)
<PAGE>
NEW CENTURY FINANCIAL CORPORATION
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 1999 and 1998
(7)
SHORT-TERM FINANCING
Warehouse and aggregation lines of credit consist of the following at
December 31 (dollars in thousands):

<TABLE>
<CAPTION>
1999
---------------------
<S>
<C> <C>
            A $290 million line of credit expiring in May 2000 secured by loans
                receivable held for sale, bearing interest based on one month LIBOR
                (5.82% at December 31, 1999)
$ 234,778 191,931
    A $603 million master repurchase agreement bearing interest based on
one
        month LIBOR (5.82% at December 31, 1999). The agreement may be
        terminated by the lender after giving 28 days written notice
164,326
                    153,912
A \(\$ 300\) million loan and security agreement bearing interest based on
one
        month LIBOR (5.82% at December 31, 1999), secured by loans
receivable
    held for sale, expiring in June 2000
17,682
```

A \(\$ 293\) million loan and security agreement bearing interest based on one month LIBOR (5.82\% at December 31, 1999), secured by loans receivable held for sale. This facility renews automatically for successive 12-month periods starting in August 2000, but is uncommitted
11,940 --
```
            NEW CENTURY FINANCIAL CORPORATION
                    AND SUBSIDIARIES
            Notes to Consolidated Financial Statements
                        December 31, 1999 and 1998
The weighted-average interest rate on the warehouse and aggregation lines of credit payable was \(7.10 \%\) and \(6.33 \%\) at December 31, 1999 and 1998, respectively. The weighted-average interest rate on residual financing payable was 7.44\% and 6.46\% at December 31, 1999 and 1998,
respectively.
The warehouse line of credit agreements contain certain restrictive financial and other covenants which require the Company to, among
other
requirements, restrict dividends, maintain certain levels of net
worth,
liquidity and available borrowing capacity of at least \(\$ 10.0\) million, debt to net worth ratios and maintenance of compliance with regulatory and investor requirements. At December 31, 1999, the Company was in compliance with these financial and other covenants.
Advances under the residual financing lines are made at the sole discretion of the lender and are based on a percentage of the amount
of
loans securitized. These advances are repayable on demand by the
and are subject to renewal on a monthly basis.
(8) SUBORDINATED DEBT
In October 1999, the Company entered into an agreement with US Bancorp to
amend the warehouse line of credit agreement to include a subordinated debt component. The Company borrowed \(\$ 20.0\) million in subordinated
debt
in October 1999. Such debt bears interest at a rate of \(12.0 \%\) per annum and matures in June 2000. Subsequent to year-end, the Company entered into a commitment to extend the maturity date of the subordinated debt to June 2002.
NOTES PAYABLE
Notes payable consists of a revolving, uncommitted financing line of credit of \(\$ 5.0\) million, collateralized by office property and equipment
and bears interest at revolving, uncommitted rates varying from 7.99\% to
10.59\%. The borrowings are payable in blended monthly payments of principal and interest and mature commencing from March 2000 to
September
2002.
The maturities of notes payable at December 31 for the years ended are as follows (dollars in thousands):
```
```
<TABLE>
<S>
    Due in 2000
        Due in 2001 1,026
        Due in 2002
        <C>
        $ 1,793
        1,026
        232
        $ 3,051
</TABLE>
(10)
    LOAN SERVICING
    The Company's portfolio of mortgage loans serviced for others was
    comprised of approximately $5.5 billion and $3.4 billion at December
31,
    1999 and 1998, respectively, the majority of which represents loans
        securitized by the Company. The Company commenced full servicing
        operations on its in-house platform in July 1998 and performs all
        servicing functions for its entire portfolio.
        At December 31, }1999\mathrm{ and 1998, 33.2% and 33.6%, respectively, of the
        servicing portfolio was collateralized by real estate properties
located
        in California.
                        F-20
```
(Continued)
<PAGE>
    NEW CENTURY FINANCIAL CORPORATION
                    AND SUBSIDIARIES
                Notes to Consolidated Financial Statements
                    December 31, 1999 and 1998
        Fiduciary bank accounts are maintained on behalf of investors and for
        impounded collections. These bank accounts are not assets of the
Company
            and are not reflected in the accompanying financial statements. These
            amounts are as follows at December 31, 1999 (dollars in thousands):
<TABLE>
<S> <C>
    Impounded collections, taxes and
            insurance
        Principal and interest collections
        \(\$ \quad 9,398\)
                            92,617
                                    \$
                                    102,015
\(================1\)
</TABLE>
As master servicer, the Company is required to make advances for
delinquent payments and other servicing-related costs. At December 31,

1999 and 1998, such advances totaled \(\$ 12.2\) million and \(\$ 1.6\) million, respectively, and are included in prepaid expenses and other assets.
Such advances are recovered from borrower payments and are senior to any distribution to investors. These advances are reviewed periodically
for recoverability. Amounts deemed to be unrecoverable are written off and the expense is included in general and administrative expenses. COMMITMENTS AND CONTINGENCIES
(a) RELATED PARTY

The Company has entered into employment agreements with the executive officers (the Founding Managers). The original term each agreement continued in effect until December 31, 1998. In November 1998, the agreements were amended to extend until December 31, 2002. Then, in January 1999, the agreements were superseded by new employment agreements, also extending until December 31, 20002. Thereafter, the term of each agreement is extended automatically for successive one-year periods unless terminated. For 1997, the Founding Managers initially received
a
plus a
to
Effective
auto
salary of \(\$ 180,000\). On May 30, 1997, the Board of Directors revised the Founding Managers' salary to \(\$ 256,000\) for 1997,
\(\$ 500\) per month automobile allowance. Effective January 1, 1998, the Board of Directors increased the Founding Managers' salary
\(\$ 281,600\) for 1998 , plus a \(\$ 500\) per month auto allowance.
January 1, 1999, the Board of Directors increased the Founding Managers' salary to \(\$ 333,000\) for 1999 , plus a \(\$ 500\) per month
allowance.
In December 1996, the Company adopted the Founding Managers' Incentive Compensation Plan (the FMIC Plan) and the Company has amended the terms thereof effective for 1997 and subsequent
plan
of
years. The Compensation Committee (the Committee) of the Board
Directors administered the FMIC Plan. The Committee had full discretion to construe and interpret the terms and provisions
of
Committee
Plan,
and to prescribe, amend and rescind rules relating to its administration.

Under the FMIC Plan, each of the Founding Managers was entitled
to one quarter of amounts payable. Subject to the limitations

\begin{tabular}{|c|c|}
\hline and & Incentive Compensation Plan (the Incentive Compensation Plan), \\
\hline & simultaneously terminated the FMIC Plan. The Board designed the Incentive Compensation Plan so that the Founding Managers' \\
\hline \multicolumn{2}{|l|}{bonuses} \\
\hline & would qualify as performance-based compensation under Section \\
\hline & \(162(\mathrm{~m})\) of the Internal Revenue Code. The Company's stockholders approved the Incentive Compensation Plan in May 1999. \\
\hline & The Founding Managers' January 1999 employment agreements provide for two awards for 1999 under the Incentive \\
\hline & Compensation Plan: one for the Company's performance during the \\
\hline & first six months of the year, and the second for the Company's performance for the entire year. The awards base the potential \\
\hline & incentive compensation on the Ratio of the Company's Earnings to its Total Stockholders' Equity, using definitions virtually \\
\hline & identical to those used in the FMIC Plan. For the January 1, \\
\hline & 1999 to June 30, 1999 performance period, if the Ratio is at \\
\hline & least 10\% but less than 20\%, each Founding Manager is entitled to \(1.25 \%\) of Earnings in excess of \(10 \%\) of Total Stockholders' \\
\hline & Equity. If the Ratio is at least 20\%, each Founding Manager will receive incentive payments equal to the sum of (i) 1.25\% \\
\hline & of Earnings in excess of \(10 \%\) of Total Stockholders' Equity, plus (ii) \(0.50 \%\) of Earnings in excess of \(20 \%\) of Total \\
\hline & Stockholders' Equity. For the January 1, 1999 to December 31, \\
\hline & 1999 performance period, if the Ratio is at least 20\% but less than 40\%, each Founding Manager is entitled to \(1.25 \%\) of the \\
\hline & Earnings in excess of \(20 \%\) of Total Stockholders' Equity. If the \\
\hline & Ratio is at least 40\%, each Founding Manager will receive \\
\hline & incentive payments equal to the sum of (i) 1.25\% of Earnings in excess of \(20 \%\) of Total Stockholders' Equity, plus (ii) \(0.50 \%\) of \\
\hline & Earnings in excess of \(40 \%\) of Total Stockholders' Equity. The \\
\hline & amount of any incentive award paid for the 12-month performance \\
\hline & period will be reduced by any amounts paid for the six-month \\
\hline & performance period. Award amounts up to 200\% of the Founding \\
\hline & Manager's current annual salary are paid in cash. Any amounts exceeding \(200 \%\) of the base salary are paid in restricted stock, unless the Committee and Founding Manager agree otherwise. \\
\hline & Included in personnel expense for the years ended December 31, \\
\hline & 1999, 1998 and 1997, respectively, are \(\$ 1.7\) million related to the Incentive Compensation Plan and \(\$ 2.4\) million and \(\$ 1.0\) \\
\hline \multicolumn{2}{|l|}{million} \\
\hline & related to the FMIC Plan. \\
\hline & F-22 \\
\hline \multicolumn{2}{|l|}{\multirow[t]{2}{*}{(Continued)
<PAGE>}} \\
\hline & \\
\hline & NEW CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES \\
\hline & Notes to Consolidated Financial Statements \\
\hline & December 31, 1999 and 1998 \\
\hline (b) & OPERATING LEASES \\
\hline
\end{tabular}
\begin{tabular}{|c|c|}
\hline & The Company and its subsidiaries lease certain facilities under noncancelable operating leases, which expire at various dates through 2004. Total rental expenditures under these leases were approximately \(\$ 7.0\) million, \(\$ 6.1\) million and \(\$ 2.6\) million for \\
\hline the & \\
\hline & years ended December 31, 1999, 1998 and 1997, respectively. The Company and its subsidiaries lease office property and \\
\hline equipment & \\
\hline & from various equipment leasing companies under operating lease agreements. Total lease commitments available under these facilities are \(\$ 19.1\) million, all of which was utilized as of December 31, 1999. These operating leases expire from April \\
\hline 2000 & \\
\hline & to October 2002. Total rental expenditures under these office property and equipment leases were approximately \(\$ 5.9\) million, \(\$ 2.4\) million and \(\$ 1.1\) million for the years ended December 31, 1999, 1998 and 1997, respectively. \\
\hline & F-23 \\
\hline \begin{tabular}{l}
(Continued) \\
<PAGE>
\end{tabular} & \\
\hline & \begin{tabular}{l}
NEW CENTURY FINANCIAL CORPORATION \\
AND SUBSIDIARIES
\end{tabular} \\
\hline & Notes to Consolidated Financial Statements \\
\hline & December 31, 1999 and 1998 \\
\hline & Minimum rental commitments for these leases are as follows (dollars in thousands): \\
\hline <TABLE> & \\
\hline <S> & <C> \\
\hline & Years ending December 31: 2000 \\
\hline 11,130 & \\
\hline & 2001 \\
\hline 8,895 & \\
\hline & 2002 \\
\hline 5,285 & \\
\hline & 2003 \\
\hline 1,252 & \\
\hline & 2004 \\
\hline 204 & \\
\hline
\end{tabular}
\$
```
</TABLE>
    (c) LOAN COMMITMENTS
    Commitments to fund loans are agreements to lend to a customer
    as
the
the
cash
which
interest
of
1 9 9 9
an
investment banking firm with a first right of refusal to
underwrite loans sold through securitization by the Company in
an
of

```
investors
and
Violations to
aggregate amount of \(\$ 750.0\) million, \(\$ 611.7\) million of which was fulfilled at December 31, 1999. The investment banking firm is obligated to provide an aggregation facility for the duration
this commitment.
CONTINGENCIES
The Company has entered into loan sale agreements with
in the normal course of business which include representations
warranties customary to the mortgage banking industry.
of these representations and warranties may require the Company
repurchase loans previously sold or to reimburse investors for losses incurred. In the opinion of management, the potential exposure related to the Company's loan sale agreements is adequately provided for in the allowance for losses.
\[
\mathrm{F}-24
\]
```

(Continued)

```
<PAGE>

NEW CENTURY FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 1999 and 1998
The Company sold \(\$ 221.2\) million in loans in December 1997 and \(\$ 96.2\) million in loans in December 1996 under agreements to repurchase those loans which were delinquent at specific dates

\section*{in}

March 1998 and January 1997, respectively. In accordance with these loan sale agreements, the Company repurchased loans with
an
outstanding principal balance of approximately \(\$ 20.8\) million
and
1998
\$3.5 million, respectively, for the years ended December 31, and 1997.

At December 31, 1999 and 1998, included in accounts payable and accrued liabilities are approximately \(\$ 3.7\) million and \(\$ 2.4\) million, respectively, in allowances for losses related to possible off-balance sheet recourse and repurchase agreement provisions. The activity in the allowance related to possible off-balance sheet recourse and repurchase agreement provisions
for
in the years ended December 31 is summarized as follows (dollars thousands):
```

<TABLE>
<CAPTION>

```





\title{
NEW CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES
}

\section*{Notes to Consolidated Financial Statements}

December 31, 1999 and 1998
(3) future taxable income generated by future operations and (4) tax planning strategies that, if necessary, would be implemented to accelerate taxable income into years in which net operating losses might otherwise expire.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that
the Company will realize deferred tax assets existing at December 31, 1999 and 1998.

EMPLOYEE BENEFIT PLANS
On July 1, 1996, the Company established the New Century Financial Corporation \(401(k)\) Profit Sharing Plan (the Plan) for the benefit of eligible employees and their beneficiaries. The Plan is a defined contribution \(401(k)\) plan which allows eligible employees to save for retirement through pretax contributions. Under the Plan, employees of
the
Company may contribute up to the statutory limit. The Company will
match
\(25 \%\) of the first 6\% of compensation contributed by the employee. An additional Company contribution may be made at the discretion of the Company. Contributions to the Plan by the Company for the years ended December 31, 1999, 1998 and 1997 were \$538,000, \$407,000 and \$194,000, respectively.

In October 1997, the Company established the New Century Financial Corporation Employee Stock Purchase Plan (the Plan) for the benefit of eligible employees. This plan is a compensatory plan as defined in accordance with APB 25. The plan allows employees to contribute, through
payroll deductions, to the Plan. Plan periods are six months, with the exception of the first plan period, which was October 13, 1997 to December 31, 1997. At the end of each plan period, the employees purchase
stock at a price equal to \(90 \%\) of the lesser of the market price at the beginning and end of the plan period. Since its inception, the Company has issued 88,524 shares of common stock under this plan.

In December 1998, the Company established the New Century Financial Corporation Deferred Compensation Plan for the benefit of eligible employees. The plan allows eligible employees to defer payment of a portion of their salary to future years. The Company does not
contribute to the plan.
\begin{tabular}{|c|c|}
\hline \multirow[t]{2}{*}{(a)} & CONVERTIBLE PREFERRED STOCK \\
\hline & On November 22, 1995, the Company issued \(5,000,000\) shares of Series A preferred stock. In December 1995, the Company issued \\
\hline \multicolumn{2}{|l|}{an} \\
\hline & additional 500,000 shares of Series A preferred stock. The \\
\hline \multicolumn{2}{|l|}{Company} \\
\hline & received \(\$ 2.75\) million from the issuances. The holders of the \\
\hline & Series A preferred stock were entitled to convert each share of \\
\hline & Series A preferred stock into one share of common stock. Upon \\
\hline & liquidation, the Series A preferred stock was entitled to \\
\hline \multicolumn{2}{|l|}{receive,} \\
\hline & in preference to any payment on Series B preferred stock and common stock, an amount equal to \(\$ 0.50\) per share and a \(12 \%\) \\
\hline \multicolumn{2}{|l|}{annual} \\
\hline & return. \\
\hline & F-27 \\
\hline (Continued) & \\
\hline <PAGE> & \\
\hline
\end{tabular}

NEW CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 1999 and 1998
On November 22, 1995, the Company issued 320,000 shares of
Series
issue.
B preferred stock. The Company received \(\$ 160,000\) from this
of
The holders of the Series B preferred stock were entitled to convert each share of Series B preferred stock into one share common stock. Upon liquidation, after the payments to Series A preferred stock as described above, Series B preferred stock
was
stock,
entitled to receive, in preference to any payment on common
an amount equal to \(\$ 0.50\) per share and a \(6 \%\) annual return.
In May 1997, all shares of Series A and B preferred stock were converted to common stock.

In June 1997, after the Company completed its Initial Public Offering, the Company increased its authorized preferred stock
to

> 7,500,000 shares.

In November 1998, the Company issued 20,000 shares of Series 1998 A Convertible Preferred stock to US Bancorp. The Company received \(\$ 20.0\) million from this issue. The holders of Series 1998 A preferred stock are entitled to convert each share of

Series 1998 A preferred stock into 136.24 shares of common stock.

The Series 1998 A preferred stock earns a dividend at a rate of 7.5\% per annum, payable quarterly. In July 1999, the Company issued 20,000 shares of Series 1999 A convertible preferred
stock issue.
a
(b) COMMON STOCK

On November 22, 1995, the Company issued 528,618 shares of common
exercises
of warrants at exercise prices of \(\$ 1.00\) to \(\$ 3.50\) per share.
In May 1997, the Company issued to Comerica Incorporated (Comerica) 545,000 shares of common stock for \(\$ 4,087,500\).

In May 1997, pursuant to certain Restricted Stock Award Agreements, the Company issued 92,500 shares of restricted stock \$2. 8
stock,
related
(Continued)
<PAGE>
The holders of Series 1999 A preferred stock are entitled to convert each share of Series 1999 A preferred stock into 46.795 shares of common stock. The Series 1999 A preferred stock earns
dividend at a rate of \(7.0 \%\) per annum, payable quarterly. At December 31, 1999 and 1998, accrued dividends of \(\$ 483,000\) and \(\$ 158,000\), respectively, are included in accounts payable and accrued liabilities. Upon liquidation, the holders of Series 1998 A and 1999 A preferred stock are entitled to receive, in preference to any payment on common stock, an amount equal to \(\$ 1,000\) per share and any accumulated unpaid dividends.
stock. The Company received \(\$ 240,000\) from this issue.
In May 1997, the Company issued 304,501 shares of common stock upon the exercise by such stockholders of certain warrants to purchase common stock of the Company. The Company received approximately \(\$ 1.1\) million from this issue. The Company also issued \(3,424,255\) shares of common stock under cashless to each of the four Founding Managers. The Company recorded
million in deferred compensation expense and additional paid in capital at the grant date. The deferred compensation expense is being amortized over the vesting period of the restricted
which is in equal installments in May 1998, 1999 and 2000. Included in personnel expenses for the year ended December 31, 1999 and 1998 are \(\$ 566,000\) and \(\$ 1,286,000\), respectively,
to the amortization of deferred compensation.
\[
\mathrm{F}-28
\]

\section*{Notes to Consolidated Financial Statements}

December 31, 1999 and 1998
In June 1997, the Company completed its Initial Public

Offering, expenses
withholding 1997
value
\(\$ 422,000\).
1998
in
withholding 1997

Company
stock
issuing 3,132,500 new shares of common stock, and raising approximately \(\$ 31.0\) million in proceeds, net of offering
of approximately \(\$ 1\) million. The Company also increased its authorized shares of common stock to \(45,000,000\) shares.

In January 1998, the Company issued 188,150 shares of common in connection with the acquisition of Primewest.

In April 1998, the Company issued 16,204 shares of restricted stock to two of its Founding Managers in partial payment of its 1997 bonus obligation under the Founding Managers' Incentive Compensation Plan.

In May 1998, the Company received 43,676 shares of common stock from its Founding Managers as payment of the Company's
obligations upon vesting of the first installment of the May Founding Managers' Restricted Stock Awards. The fair market of the stock at the time it was paid to the Company was These shares were held as Treasury stock as of December 31, and the Treasury shares were cancelled in August 1999. In March 1999, the Company issued 9,872 shares of common stock connection with its obligations under the Primewest acquisition agreement.

In May 1999, the Company received 59,756 shares of common stock from its Founding Managers as payment of the Company's
obligations upon vesting of the second installment of the May
Founding Managers' Restricted Stock Awards and the first installment of the April 1998 Restricted Stock Award. The fair market value of the stock at the time it was paid to the was \(\$ 860,000\). These shares were cancelled in August 1999. In August 1999, the Company issued 42,377 shares of common upon the exercise of 100,000 warrants held by Comerica.

employees. The Plan authorizes grants of options to purchase up to 3.0 million shares of authorized but unissued common stock. Stock options granted under the Plan have terms of ten years and vest over a range
from
December 1996 to September 2004. The Company has also issued the following grants of nonqualified stock options outside the Plan: (i) 120,000 granted to certain executive officers of the Company in
December
1996, vesting over a three-year period and expiring ten years from the grant date, (ii) 7,500 granted to a former director of the Company in
May 1997, vesting over five years and expiring ten years from the grant date,
(iii) 10,000 granted to a nonemployee director of the Company in September 1998, vesting over five years and expiring ten years from
the grant date, and (iv) 30,000 granted to two non-employee directors of
the Company in May 1999, vesting over five years and expiring ten years
from the grant date. All stock options are granted with an exercise price not less than the stock's fair market value at the date of grant. At December 31, 1999, there were 565,705 shares available for grant under the Plan. Of the options outstanding at December 31, 1999 and 1998, 1,166,500 and 919,344, respectively, were exercisable with weighted-average exercise prices of \(\$ 8.23\) and \(\$ 7.52\), respectively. The per share weighted-average fair value of stock options granted during
the
year ended December 31, 1999 and 1998 was \(\$ 7.68\) and \(\$ 5.07\),
respectively,
at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:
<TABLE>
<CAPTION>
1999
1998

\[
\mathrm{F}-30
\]
(Continued)

<CAPTION>

```

Notes to Consolidated Financial Statements
December 31, 1999 and 1998

```

At December 31, 1999, the range of exercise prices, the number outstanding, weighted-average remaining term and weighted-average exercise price of options outstanding and the number exercisable and weighted-average price of options currently exercisable are as follows:
<TABLE>
<CAPTION>
RANGE OF
WEIGHTED-AVERAGE

(16) GENERAL AND ADMINISTRATIVE EXPENSES

A summary of general and administrative expenses for the year ended December 31, 1999 and 1998 and 1997 follows (dollars in thousands):


```

            Cash and cash equivalents $
    30,875
30,875
Loans receivable held for sale, net
356,975
367,836
Residual interests in securitizations
205,395
205,395
Interest only securities
5,027
5,027
Financial liabilities:
Warehouse and aggregation lines of
credit
345,843 345,843
Residual financing payable
122,298
Notes payable
3,985
3,985
Off-balance sheet items:
Commitment to purchase residual
interests
</TABLE>
====================
F-33
(Continued)
<PAGE>

```
                    NEW CENTURY FINANCIAL CORPORATION
                        AND SUBSIDIARIES
                        Notes to Consolidated Financial Statements
                        December 31, 1999 and 1998
        The following methods and assumptions were used in estimating the
        Company's fair value disclosures for financial instruments.
        Cash and cash equivalents: The fair value of cash and cash equivalents
        approximates the carrying value reported in the balance sheet.
        Loans receivable held for sale: The fair value of loans receivable
held
        for sale is determined in the aggregate based on outstanding whole
loan
    commitments from investors or current investor yield requirements.
    Residual interests in securitizations: The fair value of residual
    interests in securitizations is determined by calculating the net
present
    value of estimated future cash flows using a discount rate
commensurate
    with the risks involved.
    Warehouse lines of credit and residual financing payable: The carrying
    value reported in the balance sheet approximates fair value as the
    warehouse lines of credit and residual financing payable are due upon
```

            demand and bear interest at a rate that approximates current market
            interest rates for similar type lines of credit.
            Subordinated debt: The fair value of subordinated debt is estimated to
            approximate carrying value as the subordinated debt is short-term and
            bears interest at a rate that approximates current market rate for
            similar borrowings.
            Notes payable: The fair value of notes payable is determined by
                                    discounting expected cash payments at the current market interest rate
                                    over the term of the notes payable.
                                    Interest only securities: The fair value of interest only securities
    is
determined by calculating the net present value of estimated future
cash
flows using a discount note commensurate with the risks involved.
F-34
(Continued)
<PAGE>
New CENTURY FINANCIAL CORPORATION
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 1999 and 1998
(18) CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY
The following is condensed information as to the financial condition, results of operations and cash flows of New Century Financial Corporation:

> Condensed Balance Sheets
> (Dollars in thousands)
<TABLE>
<CAPTION>
DECEMBER 31

```





        Selected quarterly financial data are presented below by quarter for
the
        years ended December 31, 1999 and 1998 (dollars in thousands, except
per
        share amounts):
<TABLE>
<CAPTION>
\begin{tabular}{|c|c|c|c|c|c|c|c|}
\hline 30, JUNE 30, & \multirow[t]{2}{*}{JUNE 30,} & \multicolumn{5}{|c|}{DECEMBER 31,} & SEPTEMBER \\
\hline & & \multicolumn{5}{|c|}{1999} & 1999 \\
\hline 1999 & 1999 & & & & & & \\
\hline <S> & & <C> & & & & <C> & \\
\hline <C> & <C> & & & & & & \\
\hline Gain on sale of loans & & \$ & & & 26,782 & & \\
\hline 35,275 & 30,187 & & & 29,428 & & & \\
\hline Interest income & & & & & 16,469 & & \\
\hline 16,014 & 13,656 & & & 15,318 & & & \\
\hline Servicing income & & & & & 17,486 & & \\
\hline 11,747 & 12,115 & & & 9,465 & & & \\
\hline
\end{tabular}




\author{
NEW CENTURY FINANCIAL CORPORATION \\ AND SUBSIDIARIES \\ Notes to Consolidated Financial Statements \\ December 31, 1999 and 1998
}

LIQUIDITY
The Company's business requires substantial cash to support its operating
activities and growth plans. As a result, the Company is dependent on its
warehouse and aggregation lines of credit and its residual financing facility in order to finance its continued operations. If the Company's
principal lenders decided to terminate or not to renew any of these
credit facilities with the Company, the loss of borrowing capacity
would
have a material adverse impact on the Company's results of operations unless the Company found a suitable alternative source. The Company's
strategies for mitigating the effects of a loss of financing would
most
likely include (i) reducing production levels, (ii) shifting its secondary marketing strategy to rely more heavily on whole loan sales, (iii) accelerating the disposal of its loan inventory and (iv) attempting to find interim financing from alternative sources.
(22) SUBSEQUENT EVENT

On March 28, 2000 the Company and U.S. Bank entered into a commitment letter in which U.S. Bank agreed to (i) extend the maturity date of its subordinated debt to June 1, 2002, and (ii) provide an additional \$10 million in subordinated debt financing during 2000. In exchange,
the
Company agreed to (i) amend the conversion rate of the Series 1999A Convertible Preferred Stock from 46.80 to 69.98 and (ii) grant U.S. Bank up to 725,000 warrants at an exercise price equal to the market value of the Company's Common Stock on the grant date. Approximately \(70 \%\) of the warrants vest immediately. Of the remainder, a portion vest in quarterly increments if the Company has not prepaid the subordinated debt and a portion are granted concurrently with funding of the additional \(\$ 10\) million in subordinated debt.
U.S. Bank's commitment to fund the additional subordinated debt is subject the Company achieving certain operating milestones. In addition, the entire transaction is subject to execution of definitive agreements satisfactory to U.S. Bank, as well as the receipt of
```

    consents from the other lenders party to the Company's warehouse
    credit
agreement.

```
F-39```

