

NEW CENTURY REIT INC
Form S-4
April 22, 2004
Table of Contents

As filed with the Securities and Exchange Commission on April 22, 2004

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

NEW CENTURY REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State of other jurisdiction of
incorporation or organization)

6162
(Primary Standard Industrial
Classification Code Number)
18400 Von Karman Avenue, Suite 1000

56-2451736
(I.R.S. Employer
Identification Number)

Irvine, California 92612

(949) 440-7030

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

Brad A. Morrice

President and Chief Operating Officer

New Century REIT, Inc.

18400 Von Karman Avenue, Suite 1000

Irvine, California 92612

(949) 440-7030

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

Copies to:

Peter T. Healy, Esq.

O Melveny & Myers LLP

275 Battery Street, 26th Floor

San Francisco, California 94111

(415) 984-8700

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

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: "

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

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per unit (2)	Proposed maximum aggregate offering price (2)	Amount of registration fee
Common Stock, par value \$0.01 per share	33,881,673	\$ 44.35	\$ 1,502,652,198	\$ 190,386.03

- (1) Includes the maximum number of shares of common stock, par value \$0.01 per share, of New Century REIT, Inc., a Maryland corporation, or New Century REIT, that may be issued pursuant to the merger of NC Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of New Century REIT, with and into New Century Financial Corporation, a Delaware corporation, or New Century Financial, pursuant to the merger agreement described in the proxy statement/prospectus that forms a part of this registration statement, based upon the number of shares of common stock, par value \$0.01 per share, of New Century Financial outstanding at the close of business on April 19, 2004. Pursuant to the merger, each outstanding share of New Century Financial common stock, par value \$0.01 per share, will be converted into the right to receive one share of New Century REIT common stock.
- (2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(f) promulgated under the Securities Act of 1933, as amended.

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

The Exhibit Index begins on page II-5.

Table of Contents

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

Subject To Completion, dated _____, 2004

18400 Von Karman, Suite 1000

Irvine, California 92612

Dear New Century Financial Stockholder:

You are cordially invited to attend the 2004 annual meeting of stockholders of New Century Financial Corporation, a Delaware corporation, or New Century Financial, which will be held at our headquarters located at 18400 Von Karman, Suite 1000, Irvine, California, on _____, 2004 at 9:00 a.m., local time.

I am pleased to report that our board of directors has unanimously approved a plan to restructure our business operations to allow New Century Financial to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes. We refer to this restructuring plan as the REIT conversion.

The REIT conversion will include, among other things, (1) the merger of NC Merger Sub, Inc., a Delaware corporation, or NC Merger Sub, with and into New Century Financial, and (2) the issuance and sale of shares of common stock of New Century REIT, Inc., a Maryland corporation, or New Century REIT, in a public offering in an amount which we currently expect to be approximately \$750 million. For the purposes of effecting the REIT conversion, we recently formed NC Merger Sub, currently a wholly-owned subsidiary of New Century REIT, and New Century REIT, currently a wholly-owned subsidiary of New Century Financial. Following the merger, New Century REIT will be the parent company of New Century Financial, will be renamed New Century Financial Corporation, will hold the assets currently held by New Century Financial and will conduct substantially all of the existing businesses of New Century Financial through one or more of its taxable REIT subsidiaries and qualified REIT subsidiaries. In connection with the merger, you will receive one share of New Century REIT common stock for each share of New Century Financial common stock you own. We estimate that New Century REIT will issue approximately _____ shares of its common stock in connection with the merger. We anticipate that the shares of New Century REIT common stock will trade on the New York Stock Exchange, or NYSE, under the symbol _____ or the Nasdaq National Market under our current symbol NCEN.

At the annual meeting, you will be asked to: (a) approve and adopt the agreement and plan of merger dated as of _____, 2004, which we refer to as the merger agreement; (b) elect three Class I directors; (c) approve a new performance incentive plan, which we refer to as the 2004 Plan; (d) ratify KPMG LLP's appointment as our independent auditors for 2004; and (e) consider such other matters as may properly come before the meeting.

Edgar Filing: NEW CENTURY REIT INC - Form S-4

We believe that the REIT conversion will, among other things, support our efforts to diversify our revenues in a more tax-efficient manner. We cannot complete the REIT conversion unless the holders of a majority of the outstanding shares of New Century Financial common stock vote in favor of the approval and adoption of the merger agreement. After careful consideration, our board of directors has unanimously approved the REIT conversion, which contemplates the merger and the other restructuring transactions, and recommends that all stockholders vote **FOR** the approval and adoption of the merger agreement, **FOR** the election of the three Class I director nominees, **FOR** approval of the 2004 Plan and **FOR** the ratification of KPMG LLP's appointment as our independent auditors for 2004.

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

Sincerely,

Robert K. Cole
Chairman and Chief Executive Officer

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

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

Table of Contents

REFERENCES TO ADDITIONAL INFORMATION

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

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

See **Where You Can Find Additional Information** beginning on page 194.

Table of Contents

18400 Von Karman, Suite 1000

Irvine, California 92612

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

, 2004

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

1. to consider and vote upon a proposal to approve and adopt the agreement and plan of merger dated as of April 21, 2004, by and among New Century Financial, New Century REIT, Inc., a newly formed wholly-owned subsidiary of New Century Financial, and NC Merger Sub, Inc., a wholly-owned subsidiary of New Century REIT, Inc., which will implement the restructuring of New Century Financial to allow New Century Financial to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes;
2. to re-elect Fredric J. Forster, Edward F. Gotschall and Richard A. Zona as Class I directors for three-year terms ending in 2007;
3. to vote upon a proposal to approve the New Century Financial Corporation 2004 Performance Incentive Plan;
4. to ratify KPMG LLP's appointment as our independent auditors for 2004; and
5. to transact any other business that is properly brought before the annual meeting or at any adjournments or postponements of the annual meeting.

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

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

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

By Order of the Board of Directors,

Stergios Theologides
Secretary

Irvine, California

, 2004

Table of Contents**TABLE OF CONTENTS**

	Page
<u>QUESTIONS AND ANSWERS ABOUT THE REIT CONVERSION</u>	1
<u>SUMMARY</u>	9
<u>General</u>	10
<u>Business Strategy</u>	10
<u>Competitive Advantages</u>	11
<u>The Residential Mortgage Market</u>	12
<u>Our REIT Status</u>	12
<u>The REIT Conversion</u>	13
<u>Distribution Policy</u>	14
<u>Restriction on Ownership of Our Common Stock</u>	14
<u>Structure of the Merger</u>	15
<u>Comparative Stockholder Rights</u>	16
<u>Material U.S. Federal Income Tax Consequences of the Merger</u>	16
<u>Opinion of Financial Advisor</u>	17
<u>Recommendation of our Board of Directors</u>	17
<u>Interests of Certain Persons in the Merger</u>	17
<u>Shares Owned by New Century Financial's Directors and Officers</u>	17
<u>Conditions to the Merger</u>	18
<u>Regulatory Approvals</u>	19
<u>Summary Historical Financial Data of New Century Financial</u>	19
<u>RISK FACTORS</u>	22
<u>Risks and Effects of the REIT Conversion</u>	22
<u>Risks Related to New Century REIT</u>	24
<u>Tax Risks Relating to REIT Qualification</u>	38
<u>SPECIAL NOTE ABOUT FORWARD LOOKING STATEMENTS</u>	43
<u>ANNUAL MEETING</u>	45
<u>Date, Time and Place of the Annual Meeting</u>	45
<u>Purpose of the Annual Meeting</u>	45
<u>Recommendation of the Board of Directors</u>	45
<u>Record Date; Shares Entitled to Vote; Quorum</u>	45
<u>Abstentions</u>	45
<u>Vote Required</u>	46
<u>Shares Owned by New Century Financial's Directors and Officers</u>	46
<u>Voting Procedures</u>	47
<u>Solicitation of Proxies and Expenses</u>	47
<u>PROPOSAL 1 APPROVAL AND ADOPTION OF THE MERGER AGREEMENT PURSUANT TO WHICH THE REIT</u>	
<u>CONVERSION WILL BE EFFECTED</u>	48
<u>THE REIT CONVERSION</u>	48
<u>General</u>	48
<u>Background</u>	49
<u>Reasons for the REIT Conversion</u>	56
<u>Recommendation of the New Century Financial Board of Directors</u>	57
<u>Opinion of Financial Advisor</u>	58
<u>Incremental Value of Corporate Tax Savings</u>	63
<u>Interests of Directors and Executive Officers of New Century Financial in REIT Conversion</u>	65
<u>Listing of New Century Financial Capital Stock</u>	65
<u>Transfer Agent and Registrar</u>	65
<u>Material U.S. Federal Income Tax Consequences of the Merger</u>	65
<u>Accounting Treatment</u>	67

Table of Contents

	<u>Page</u>
<u>Regulatory Matters</u>	67
<u>Absence of Dissenters' Rights</u>	67
<u>Restrictions on Sale of New Century REIT Common Stock Issued Pursuant to the Merger</u>	67
<u>Other Restructuring Transactions: Election of the Taxable REIT Subsidiaries</u>	68
<u>New Century REIT Public Offering</u>	68
<u>THE MERGER AGREEMENT</u>	69
<u>Structure and Completion of the Merger</u>	69
<u>Exchange of Stock Certificates</u>	69
<u>Other Effects of the Merger</u>	70
<u>Conditions to Completion of the Merger</u>	70
<u>Treatment of Convertible Senior Notes and Related Call Option and Warrant</u>	71
<u>Termination of the Merger Agreement</u>	72
<u>MARKET PRICES OF NEW CENTURY FINANCIAL COMMON STOCK</u>	73
<u>DISTRIBUTION POLICY OF NEW CENTURY REIT; THE SPECIAL E&P DISTRIBUTION</u>	73
<u>BUSINESS</u>	75
<u>New Century REIT</u>	75
<u>Our Business</u>	75
<u>Changes in Our Business as a Result of the REIT Conversion</u>	75
<u>Business Strategy</u>	76
<u>Competitive Advantages</u>	77
<u>The Residential Mortgage Market</u>	78
<u>Secondary Marketing Strategies</u>	78
<u>Investment and Operational Policies of New Century REIT</u>	78
<u>Loan Production Channels</u>	81
<u>Marketing</u>	83
<u>Underwriting Standards</u>	84
<u>Loan Production by Borrower Risk Classification</u>	88
<u>Geographic Distribution</u>	89
<u>Financing Loan Originations</u>	89
<u>Loan Sales and Securitizations</u>	89
<u>Loan Servicing and Delinquencies</u>	90
<u>Competition</u>	92
<u>Regulation</u>	93
<u>Compliance, Quality Control and Quality Assurance</u>	94
<u>Regulatory Developments</u>	95
<u>Employees</u>	98
<u>Properties</u>	99
<u>Environmental</u>	99
<u>Legal Proceedings</u>	99
<u>UNAUDITED PRO FORMA CONSOLIDATED CONDENSED FINANCIAL INFORMATION</u>	102
<u>SELECTED FINANCIAL DATA</u>	106
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	108
<u>The Company</u>	108
<u>Overview</u>	108
<u>Results of Operations</u>	112
<u>Year Ended December 31, 2003 Compared to Year Ended December 31, 2002</u>	112
<u>Year Ended December 31, 2002 Compared to Year Ended December 31, 2001</u>	114
<u>Critical Accounting Policies</u>	117
<u>Liquidity and Capital Resources</u>	119
<u>INDEPENDENT AUDITORS' REPORT</u>	125

Table of Contents

	<u>Page</u>
<u>NEW CENTURY REIT, INC. CONSOLIDATED BALANCE SHEET</u>	126
<u>NEW CENTURY REIT, INC. NOTE TO THE CONSOLIDATED BALANCE SHEET</u>	127
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES</u>	128
<u>Introduction</u>	128
<u>Taxation as a REIT</u>	129
<u>Income Tests</u>	135
<u>Asset Tests</u>	139
<u>Annual Distribution Requirements Applicable to REITs</u>	141
<u>Record Keeping Requirements</u>	142
<u>Failure to Qualify</u>	142
<u>Taxation of U.S. Holders of New Century REIT's Common Stock</u>	143
<u>Taxation of Non-U.S. Holders of New Century REIT's Common Stock</u>	145
<u>Taxation of Tax-Exempt Holders</u>	147
<u>Backup Withholding Tax and Information Reporting</u>	148
<u>Sunset of Reduced Tax Rate Provisions</u>	149
<u>State and Local Taxes</u>	149
<u>DESCRIPTION OF NEW CENTURY REIT CAPITAL STOCK</u>	150
<u>General</u>	150
<u>Common Stock</u>	150
<u>Preferred Stock</u>	151
<u>Power to Issue Additional Shares of New Century REIT Common Stock and Preferred Stock</u>	151
<u>Transfer Restrictions</u>	151
<u>Transfer Agent and Registrar</u>	153
<u>COMPARISON OF RIGHTS OF STOCKHOLDERS OF NEW CENTURY FINANCIAL AND NEW CENTURY REIT</u>	154
<u>General</u>	154
<u>Comparison of Certain Charter and Bylaw Provisions and Provisions of Delaware and Maryland Law</u>	154
<u>PROPOSAL 2 ELECTION OF DIRECTORS</u>	165
<u>Nominees for Class I Director</u>	165
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND DIRECTORS AND EXECUTIVE OFFICERS</u>	167
<u>Convertible Notes and Warrants</u>	168
<u>PERFORMANCE GRAPH</u>	169
<u>CORPORATE GOVERNANCE</u>	170
<u>Committees of our Board of Directors</u>	171
<u>Attendance at Board, Committee and Stockholder Meetings</u>	174
<u>Compensation of Directors</u>	174
<u>Director Nominations</u>	175
<u>Compensation Committee Interlocks and Insider Participation</u>	176
<u>Our Codes of Conduct and Ethics</u>	176
<u>Communications with our Board of Directors</u>	176
<u>AUDIT COMMITTEE REPORT</u>	177
<u>REPORT OF COMPENSATION COMMITTEE</u>	178
<u>Overall Compensation Policies</u>	178
<u>2003 Executive Compensation</u>	178
<u>Tax Deductibility Under Section 162(m)</u>	179
<u>EXECUTIVE COMPENSATION</u>	180
<u>Employment Agreements and Change-in-Control Arrangements</u>	180
<u>Summary Compensation Table</u>	182
<u>Option Grants in 2003</u>	183

Table of Contents

	<u>Page</u>
<u>Aggregated Option Exercises in 2003 and Fiscal Year-End Option Values</u>	184
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	184
<u>PROPOSAL 3 APPROVAL OF THE NEW CENTURY FINANCIAL CORPORATION 2004 PERFORMANCE INCENTIVE PLAN</u>	185
<u>Summary Description of the 2004 Plan</u>	186
<u>Federal Income Tax Consequences of Awards Under the 2004 Plan</u>	190
<u>Specific Benefits Under the 2004 Plan</u>	190
<u>EQUITY COMPENSATION PLAN INFORMATION</u>	191
<u>Effect of the REIT Conversion on the 2004 Plan</u>	191
<u>Vote Required for Approval of the 2004 Plan</u>	192
<u>PROPOSAL 4 RATIFICATION OF KPMG LLP'S APPOINTMENT AS OUR INDEPENDENT AUDITOR FOR 2004</u>	193
<u>LEGAL MATTERS</u>	194
<u>EXPERTS</u>	194
<u>OTHER MATTERS</u>	194
<u>WHERE YOU CAN FIND ADDITIONAL INFORMATION</u>	194

ANNEXES

ANNEX A	<u>Agreement and Plan of Merger</u>	A-1
ANNEX B	<u>Form of New Century REIT's Charter</u>	B-1
ANNEX C	<u>Form of New Century REIT's Bylaws</u>	C-1
ANNEX D	<u>Form of 2004 Plan</u>	D-1
ANNEX E	<u>Charter of Audit Committee</u>	E-1
ANNEX F	<u>Opinion of Morgan Stanley & Co. Incorporated</u>	F-1

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE REIT CONVERSION

Q: What transactions are proposed?

A: Our board of directors has approved a plan to make changes to our capital structure to enable New Century Financial Corporation, a Delaware corporation, or New Century Financial, to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes. These changes are described in greater detail in Summary Structure of the Merger on page 15. We refer to this plan, including the related restructuring transactions and the raising of additional capital, as the REIT conversion. The REIT conversion consists of the following key components:

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

raising additional capital through the sale by New Century REIT of shares of its common stock to the public, or the public offering, which we currently expect to be approximately \$750 million;

having New Century REIT use a portion of the net proceeds from the public offering and borrowings to purchase from New Century Financial and its subsidiaries and third parties assets that will enable New Century REIT to satisfy the asset and income tests necessary to maintain its REIT status;

having New Century REIT use a portion of the net proceeds from the public offering to acquire all of the capital stock of Worth Funding Incorporated, or Worth Funding, currently an indirect wholly-owned subsidiary of New Century Financial, which will become a qualified REIT subsidiary following the REIT conversion and which is authorized to originate mortgage loans in a majority of states; and

having New Century REIT elect to be taxed as a REIT for U.S. federal income tax purposes, which we currently expect to occur commencing with its taxable year ending December 31, 2004.

Q: What is a REIT?

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

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

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

Qualified REIT subsidiary. A qualified REIT subsidiary, on the other hand, is a corporation in which a REIT owns 100% of the stock and for which the REIT does not make a taxable REIT subsidiary election. As such, the qualified REIT subsidiary's separate existence will be disregarded for U.S. federal income tax purposes, and its assets, liabilities and items of income, deduction and credit will be treated as New Century REIT's assets, liabilities and items of income, deduction and credit. Although a qualified REIT subsidiary will not be subject to U.S. federal corporate income taxation, it may be subject to state and local taxation in certain jurisdictions.

Table of Contents

Q: What happens in the merger?

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

As a consequence of the merger:

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

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

New Century REIT will apply to have its shares listed on the NYSE under the symbol _____ or quoted on the Nasdaq National Market under our current symbol NCEN ;

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

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

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

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

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

Q: How will the REIT conversion affect our business?

A: Immediately following the merger, we expect that we will continue to originate loans for sale and conduct all of our servicing activities through one or more of our taxable REIT subsidiaries. In addition, we expect to be able to originate mortgage loans in a majority of states ourselves or through one or more of our qualified REIT subsidiaries. We expect to use these loan originations, together with mortgage loans that New Century REIT and its qualified REIT subsidiaries purchase at fair market value from our taxable REIT subsidiaries, to build our portfolio of mortgage loans. Over time, we expect that we will gradually increase the percentage of our mortgage loans held

Edgar Filing: NEW CENTURY REIT INC - Form S-4

through on-balance sheet securitizations in order to increase the portion of our net income generated from this mortgage loan portfolio. In addition, we expect that we and/or one or more of our qualified REIT subsidiaries will become authorized to originate mortgage loans in the states in which they are not currently authorized.

Q: Why are we proposing the REIT conversion?

A: We are proposing the REIT conversion and the related restructuring transactions, including the merger and the public offering, primarily for the following reasons:

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

Table of Contents

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

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

the expectation that our increased market capitalization will attract increased research coverage and greater investor interest; and

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

Our board of directors considered the advantages against the potential risks of the REIT conversion, including the risks discussed below. To review the background of and reasons for the REIT conversion in greater detail, see *Proposal 1 Approval and Adoption of the Merger Agreement Pursuant to Which the REIT Conversion Will Be Effected The REIT Conversion* beginning on page 48.

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

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

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

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

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

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

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

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

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

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

paid.

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

After-tax earnings generated by New Century REIT's taxable REIT subsidiaries and not distributed to

Table of Contents

New Century REIT are not subject to these distribution requirements and may be retained by such subsidiaries to provide for future growth, subject to the limitations imposed by REIT tax rules. After the REIT conversion, we expect that a substantial amount of our business will be conducted through our taxable REIT subsidiaries.

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

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

A: *Shares of New Century REIT common stock*

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

Special E&P Distribution

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

If we succeed to Worth Funding's earnings and profits, we expect that the special E&P distribution, if necessary, will be declared in December 2004, after completion of the merger and the public offering, and payable in January 2005 to the stockholders of New Century REIT on the record date for such distribution.

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

Q: Am I entitled to dissenters' rights?

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

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

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

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

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

A: As a REIT, New Century REIT generally will have to distribute annually at least 90% of its REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gain and the income of its taxable REIT subsidiaries to the extent not distributed to New Century REIT). We expect to retain some or all of the after-tax earnings of our taxable REIT subsidiaries in such subsidiaries, enabling us to increase our capital and provide for future growth. If the REIT conversion is completed, New Century REIT expects to begin payment of regular quarterly distributions. However, the actual amount and timing of any distributions will be as determined and declared by New Century REIT's board of directors, will be designed to facilitate its compliance with applicable REIT qualification requirements, and will depend on, among other factors, its financial condition and earnings. Accordingly, we cannot assure you of any distributions in the future.

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

Table of Contents

Q: When will the REIT conversion be completed?

A: We are working towards completing the merger as soon as reasonably practicable. In addition to obtaining stockholder approval, we must satisfy or waive all other closing conditions set forth in the merger agreement, including the pricing of, and entering into an underwriting agreement for, a public offering for net proceeds that we believe to be sufficient to support our operating plan and to satisfy the REIT asset and income tests and on other terms acceptable to us. We expect to complete the REIT conversion on a schedule that will allow New Century REIT to elect REIT status commencing with its taxable year ending December 31, 2004. However, at this time, we cannot predict the exact timing. Furthermore, we reserve the right to cancel or defer the merger or the REIT conversion even if our stockholders vote to approve and adopt the merger agreement and the other conditions to the completion of the merger are satisfied or waived, if our board of directors determines that the merger or the REIT conversion is no longer in the best interests of New Century Financial and our stockholders.

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

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

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

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

ratify KPMG LLP's appointment as our independent auditors for 2004.

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

A: One of New Century Financial's directors, Robert K. Cole, is currently the sole director of New Century REIT. If the merger is completed, each of the nine directors of New Century Financial immediately prior to the merger, including the three directors to be elected at the annual meeting, will become directors of New Century REIT and will serve for identical terms as provided by their applicable class or until their successors are qualified and elected. New Century Financial's executive officers immediately prior to the merger will have identical positions at New Century REIT following the merger.

Q: What is the purpose of the 2004 Plan?

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

Q: What votes are required?

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

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

Table of Contents

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

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

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

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

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

FOR the approval and adoption of the merger agreement;

FOR the re-election of the three director nominees;

FOR the approval of the 2004 Plan; and

FOR ratification of KPMG LLP's appointment as our independent auditors for 2004.

We currently expect each of our directors and executive officers who owns shares of New Century Financial common stock to vote his or her shares FOR each proposal. If such persons vote all of the shares that they own as of April 19, 2004 in favor of the approval and adoption of the merger agreement as expected, the vote of approximately 12,095,559 additional shares of New Century Financial common stock (or 35.8% of the shares of New Century Financial common stock outstanding as of that date and entitled to vote) will be required to approve and adopt the merger agreement.

Q: When and where is the annual meeting?

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

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

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

Q: What do I need to do now?

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

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

Q: What happens if I abstain?

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

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

A: Your broker will provide you with directions on voting your shares, and you should instruct your

Table of Contents

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

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

A: Yes. You may change your vote at any time before your proxy is voted at the annual meeting. You can do this by giving written notice to our corporate secretary, by filing another proxy with a later date, or by attending the annual meeting and voting in person. See Annual Meeting Voting Procedures beginning on page 47.

Q: Should I send in my stock certificates now?

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

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

A: We anticipate that New Century REIT will apply to have the new shares of New Century REIT common stock to be issued in the merger listed on the NYSE or quoted on the Nasdaq National Market. We expect that the New Century REIT stock will trade under the symbol (if NYSE) or under our current symbol NCEN (if Nasdaq).

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

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

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

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

your name and address as they appear on our

Table of Contents

records, the name and address of the beneficial owner, if any, and the class and number of shares that are owned by you and the beneficial owner, if any. If your proposal is submitted according to our bylaws and is a proper matter for consideration, you will be allowed to present it from the floor during the 2005 annual meeting.

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

Nomination of Director Candidates. The policy of our governance and nominating committee is to consider candidates properly recommended by our stockholders. In evaluating any such candidates, our governance and nominating committee will consider the criteria set forth under Proposal 2 Election of Directors Corporate Governance Director Nominations Qualification of Candidates on page 175 of this proxy statement/prospectus. Any such recommendations should include the nominee's name and qualifications for membership on our board of directors and should be directed to our corporate secretary, New Century Financial Corporation, 18400 Von Karman, Suite 1000, Irvine, California 92612. In addition, our bylaws permit stockholders to nominate directors for election at stockholder meetings. To nominate a director, stockholders must give timely notice to our corporate secretary in accordance with our bylaws, which require that the notice be received by our corporate secretary within the time periods described above under Stockholder Proposals.

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

Q: Whom should I call with questions?

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

New Century Financial Corporation

18400 Von Karman, Suite 1000

Irvine, California, 92612

Attention: Vice President of Investor Relations

(949) 440-7030

email: cmarrell@ncen.com

Table of Contents

SUMMARY

This summary highlights material information contained elsewhere in this proxy statement/prospectus. You should carefully read this entire proxy statement/prospectus and the other documents to which this proxy statement/prospectus refers in order to better understand the REIT conversion and the transactions related to the REIT conversion, including the merger and the public offering. In particular, you should read the annexes attached to this proxy statement/prospectus, including the merger agreement, which is attached as Annex A. You should also read the forms of New Century REIT's charter and bylaws which are attached as Annex B and Annex C, respectively, because they will be the charter and bylaws governing your rights as a stockholder of New Century REIT following the completion of the merger. See the section entitled

Where You Can Find Additional Information beginning on page 194. For a discussion of the risk factors that you should carefully consider, see the section entitled Risk Factors beginning on page 22.

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

Overview

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

Historically, we have sold our loans through both whole loan sales and securitizations. More recently, we have begun to retain a portion of our loan production to build a loan portfolio to generate interest income. As we continue to accumulate mortgage assets in our portfolio, we expect that the proportion of our earnings generated by our portfolio will increase relative to earnings generated by our mortgage banking operations. We believe that after the REIT conversion this strategy will provide us with a more diversified earnings stream in a tax-efficient manner while allowing us to continue to operate a growing mortgage origination franchise. In addition, our servicing platform was recently rated RPS3 by Fitch Ratings, Inc., or Fitch, which we believe will allow us to expand our servicing portfolio of loans serviced for third parties. After the REIT conversion, we expect to continue to conduct a majority of our mortgage banking operations through our taxable REIT subsidiaries and pay U.S. federal corporate income taxes on their income. We expect our taxable REIT subsidiaries will be able to retain some or all of the after-tax earnings they generate to provide for our future growth and may, from time to time, distribute a portion of these earnings to New Century REIT and, subsequently, to our stockholders, depending on, among other factors, then-current market conditions and our reinvestment opportunities.

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

Table of Contents

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

General

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

We are distributing this proxy statement/prospectus to you as a holder of New Century Financial common stock in connection with the solicitation of proxies by our board of directors for your approval of a proposal to approve and adopt the merger agreement which will implement the REIT conversion, including the merger and related restructuring transactions described in this proxy statement/prospectus. A copy of the merger agreement is attached as *Annex A*. This proxy statement/prospectus is also the prospectus of New Century REIT relating to the shares of New Century REIT common stock to be issued to you in the merger. A separate registration statement has been filed by New Century REIT to register its shares of common stock to be sold in the public offering.

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

We estimate that one-time transaction costs incurred in connection with the REIT conversion will be approximately \$1.5 million. We will use a portion of the net proceeds raised in the public offering to pay the one-time transaction costs.

Business Strategy

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

Strengthening Our Production Franchise. We plan to pursue expansion into new geographic markets. We intend to continue to expand our total loan production and increase market share and volume on the East Coast and in other metropolitan areas outside of California. We believe our Wholesale Division can expand quickly into new markets with limited additional investment in

Edgar Filing: NEW CENTURY REIT INC - Form S-4

infrastructure by leveraging our proprietary FastQual® system. For retail expansion, we will continue our practice of reviewing demographic information about potential markets and opening branches in markets that we believe can support a retail branch. We also plan to continue to deploy new marketing and technology initiatives and expand our product line and sales personnel in an effort to increase our existing market penetration.

Table of Contents

Growing Our Portfolio of Mortgage-Related Assets. We intend to increase our portfolio by retaining self-originated loans through on-balance sheet securitizations. We believe this portfolio will continue to create an additional stream of net interest income which will diversify our earnings and reduce our reliance on our origination franchise to grow earnings. We expect that our capacity to originate loans will provide us with a significant volume of loans at a lower cost and with greater reliability than if we purchased our loans in the secondary market.

Strengthening Our Balance Sheet. We will seek to actively strengthen our cash position and increase availability under our lines of credit in an effort to protect our franchise and provide the ability to respond to disruptions in the market or other adverse conditions and to meet the distribution and other REIT qualification requirements. We expect to retain some or all of our earnings in our taxable REIT subsidiaries and will seek to access the capital markets to help strengthen our balance sheet. A strong balance sheet allows us to hold loans for a longer period in the event that the secondary market for our loans weakens or becomes unstable due to temporary market disruption.

Actively Managing Our Mortgage Loan Portfolio. We will seek to actively manage the interest rate and credit risks relating to holding a portfolio of mortgage-related assets in an effort to generate an attractive risk-adjusted return on our stockholders' equity. We will continue to use hedge instruments to attempt to reduce the interest rate exposure that results from financing fixed-rate assets with floating-rate liabilities. We will also actively monitor our portfolio to manage our credit exposure through early detection and management of probable delinquencies.

Expanding Our Servicing Platform. We intend to grow our servicing portfolio, given our recent Fitch rating of RPS3. We expect to service loans owned by third parties to take advantage of our technical capabilities, capitalization and economies of scale. We believe our income from servicing will increase in a rising interest rate environment which will help to offset any decline in our origination volume.

Exploring Diversification Strategies. We intend to further diversify our revenues by evaluating and executing strategic acquisitions and new business opportunities.

Competitive Advantages

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

Leading Market Presence. We are the nation's second largest non-prime mortgage finance company by market share. We provide primarily first mortgage products to borrowers nationwide. We are authorized to lend in all 50 states and have a leading market presence through our wholesale network of 21,600 approved independent mortgage brokers and our retail network of 70 branch offices in 27 states.

Operational Flexibility. Our structure and business strategy provide us with the flexibility to both securitize a portion of our loan originations for our portfolio and sell the balance for cash. We believe that this flexibility allows us to provide a broader product offering, better manage our cash flows and respond to the secondary market environment, thus enhancing the return on our stockholders' equity.

Strong Institutional Relationships. We have developed strong relationships with a variety of institutional loan buyers, including Bear Stearns, Credit Suisse First Boston, Deutsche Bank, Goldman Sachs, Morgan Stanley and UBS Residential Funding, all of whom regularly bid on and/or buy large loan pools from us. In addition, we have developed strong relationships with a variety of institutional lenders, including Bank of America, Bear Stearns, CDC Mortgage Capital, Citigroup Global Markets (formerly Salomon Smith

Edgar Filing: NEW CENTURY REIT INC - Form S-4

Barney), Greenwich Capital Financial Products, Morgan Stanley and UBS Residential Funding, all of whom have existing lending relationships with us.

Table of Contents

Lower-Cost Portfolio Accumulation Strategy. Unlike mortgage REITs without origination capabilities, we intend to build our mortgage loan portfolio by relying on a strategy of originating loans through our qualified REIT subsidiaries and purchasing loans originated by our taxable REIT subsidiaries, as opposed to purchasing loans in the secondary mortgage market. We believe this strategy allows us to accumulate mortgage loans at a lower cost and with greater reliability than would be available through secondary market purchases.

Automated Credit Grading Capability. We have created a proprietary automated credit grading and pricing methodology that we believe, as evidenced by our historical loan performance, gives us the ability to more effectively evaluate credit risk and more efficiently price our products. This automated credit grading system helps us construct a more consistent and predictable portfolio, which we believe enables us to generate attractive risk-adjusted returns.

High Quality Customer Service. We strive to make the origination process easy for our borrowers and brokers by providing prompt responses, consistent and clear procedures, and an emphasis on ease of use through technology, including our FastQual® system.

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

The Residential Mortgage Market

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

According to Inside B&C Lending, the non-prime, which they refer to as subprime, mortgage market volume was approximately \$332 billion in 2003, which represented approximately 9% of the overall residential mortgage market. In comparison, the non-prime mortgage market has grown from \$34 billion in 1994 to \$332 billion in 2003, representing a 29% compounded annual growth rate, while the overall single-family residential mortgage market has grown from \$769 billion in 1994 to \$3.8 trillion, implying a lesser compounded annual growth rate of 19%. In addition to faster growth, the non-prime mortgage market has historically focused on home purchases and cash-out refinancings, rather than interest rate driven refinancings, which have caused it to be less interest rate sensitive, and therefore less volatile, than the prime mortgage market.

Our REIT Status

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

Table of Contents

The REIT Conversion

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

New Century REIT and/or one of its qualified REIT subsidiaries will seek to obtain commitments from third-party lenders for additional financing to obtain mortgage loans and other REIT qualified assets;

New Century REIT, directly or through one of its qualified REIT subsidiaries, will seek to acquire at fair market value with a portion of the net proceeds of the public offering and borrowings:

some or all of the portfolio of mortgage loans held for investment and related financing currently held by one or more of its subsidiaries (which acquisition will result in taxable gain to such subsidiaries); and

if necessary, and to the extent available, a sufficient amount of mortgage-backed securities in order to comply with the income and asset tests necessary to qualify for REIT status;

New Century REIT will use a portion of the net proceeds from the public offering to acquire all of the capital stock of Worth Funding, currently an indirect wholly-owned subsidiary of New Century Financial, which will become a qualified REIT subsidiary following the REIT conversion and is authorized to originate loans in a majority of the 50 states;

in order to qualify as a REIT, the board of directors of New Century REIT may, if necessary, declare the special E&P distribution in December 2004 to distribute the current and accumulated earnings and profits of Worth Funding, if any, and make this one-time distribution in January 2005 to New Century REIT's stockholders on the record date for such distribution; and

New Century REIT and/or one of its qualified REIT subsidiaries will apply for licenses or seek to qualify for exemptions from licensure requirements in the states in which it currently does not have the ability to originate loans.

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

We believe that by retaining a portfolio of self-originated mortgage loans, we will be able to create, in a tax-efficient manner, a lower cost portfolio than third-party mortgage loan acquirors. We intend to fund the acquisition of this portfolio through the net proceeds of the public offering and other borrowings. Following the REIT conversion, we expect to be able to originate mortgage loans in a majority of states through New Century REIT and/or one of its qualified REIT subsidiaries. Those originations, together with the mortgage loans we purchase at fair market value from our taxable REIT subsidiaries, will generally comprise our portfolio of mortgage loans. From time to time, our portfolio may also include mortgage-backed securities collateralized by mortgages originated by third parties in order to satisfy the applicable REIT asset and income tests. We intend to access securitization markets to seek longer term financing for our on-balance sheet portfolio, and we will continue to use hedging instruments to seek to mitigate our exposure to interest rate risk. Over time, we expect that New Century REIT and/or one or more

Edgar Filing: NEW CENTURY REIT INC - Form S-4

of its qualified REIT subsidiaries will seek to become authorized to originate mortgage loans in the states in which they are not currently authorized.

Table of Contents

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

Distribution Policy

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

In order to qualify as a REIT, New Century REIT must distribute to its stockholders at least 90% of its REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gain) each year. After-tax earnings generated by New Century REIT's taxable REIT subsidiaries and not distributed to New Century REIT are not subject to these distribution requirements and may be retained by such subsidiaries to provide for future growth, subject to the limitations imposed by REIT tax rules. To the extent that New Century REIT distributes at least 90%, but less than 100%, of its REIT taxable income in a taxable year, it will be subject to U.S. federal corporate income tax on its undistributed income. In addition, if New Century REIT fails to distribute an amount during each year equal to the sum of 85% of its ordinary income and 95% of its capital gain net income for that year and any undistributed income from prior periods, it will be subject to a 4% nondeductible excise tax on the excess of the required distribution over the amount we actually distributed. See Material U.S. Federal Income Tax Consequences.

In addition, in connection with the REIT conversion, New Century REIT may, if necessary, declare the special E&P distribution in December 2004 and, if required, make this one-time distribution in January 2005 to our stockholders on the record date for such distribution.

Restrictions on Ownership of Our Common Stock

In order to assist us in maintaining our qualification as a REIT under the Internal Revenue Code, New Century REIT's charter contains restrictions on the number of shares of its capital stock that a person may own. No person may acquire or hold, directly or indirectly, in excess of 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of any class or series of New Century REIT's capital stock. These ownership limits could delay, defer or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in your best interest. Our board of directors may, in its sole discretion, waive the ownership limit with respect to a particular stockholder if it is presented with evidence satisfactory to it that the ownership of that stockholder will not then or in the future jeopardize our status as a REIT. See Proposal 1 Approval and Adoption of the Merger Agreement Pursuant to Which the REIT Conversion Will Be Effectuated Description of New Century REIT Capital Stock Transfer Restrictions.

Table of Contents

Structure of the Merger

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

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

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

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

Transaction Steps

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

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

Table of Contents

Comparative Stockholder Rights

Your rights as a New Century Financial stockholder are currently governed by the DGCL and New Century Financial's amended and restated certificate of incorporation and amended and restated bylaws. If the merger agreement is approved and adopted by New Century Financial's stockholders and the merger is completed, you will become a stockholder of New Century REIT and your rights as a stockholder of New Century REIT will be governed by the MGCL and New Century REIT's charter and bylaws. Some important differences exist between your rights as a New Century Financial stockholder and your rights as a New Century REIT stockholder. See Proposal 1 Approval and Adoption of the Merger Agreement Pursuant to Which the REIT Conversion Will Be Effected Comparison of Rights of Stockholders of New Century Financial and New Century REIT.

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

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

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

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

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

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

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

Table of Contents

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

Opinion of Financial Advisor

Our board retained Morgan Stanley & Co. Incorporated, or Morgan Stanley, to provide its opinion to our board of directors that as of April 21, 2004, and subject to and based on the considerations set forth in its opinion, the REIT conversion (assuming an equity offering of \$750 million), if consummated, was fair from a financial point of view to the holders of New Century Financial common stock. The full text of the opinion, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Morgan Stanley in connection with its opinion, is attached to this proxy statement/prospectus as *Annex F*. We encourage you to read this opinion in its entirety. The opinion of Morgan Stanley is not a recommendation to any stockholder on how to vote on the approval and adoption of the merger agreement which will effect the REIT conversion.

Recommendation of our Board of Directors

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

Interests of Certain Persons in the Merger

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

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

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

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

Shares Owned by New Century Financial's Directors and Officers

As of April 19, 2004, New Century Financial's directors and executive officers directly or indirectly beneficially owned 4,845,278 shares of New Century Financial common stock, or 14.3% of the shares outstanding on that date entitled to vote on the proposals. These directors and executive officers will own a similar percentage of New Century REIT common stock immediately after the completion of the merger,

Table of Contents

although that percentage is expected to be reduced upon completion of the public offering. We currently expect each director and executive officer of New Century Financial who owns shares of New Century Financial common stock to vote his or her shares FOR each proposal. If such persons vote all of the shares that they own as of April 19, 2004 in favor of the approval and adoption of the merger agreement as expected, the vote of at least 12,095,559 additional shares of New Century Financial common stock (or 35.8% of the shares of New Century Financial common stock outstanding as of that date and entitled to vote) will be required to approve and adopt the merger agreement.

Conditions to the Merger

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

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

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

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

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

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

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

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

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

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

completed promptly after the completion of the merger;

Table of Contents

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

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

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

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

Regulatory Approvals

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

compliance with applicable federal and state securities laws;

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

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

Summary Historical Financial Data of New Century Financial

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

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

Table of Contents

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

	For the Years Ended December 31		
	2003	2002	2001
Statement of operations data:			
	(dollars in thousands, except per share data)		
Revenues:			
Gain on sales of loans	\$ 611,136	\$ 451,744	\$ 182,612
Interest income(1)	329,463	122,331	62,706
Residual interest income	24,228	31,723	36,356
Servicing income	11,139	432	10,616
Other income		16	1,046
Total revenues	975,966	606,246	293,336
Expenses(1)	552,714	299,910	209,852
Earnings before income taxes	423,252	306,336	83,484
Income taxes	177,769	126,636	35,464
Net earnings	\$ 245,483	\$ 179,700	\$ 48,020
Basic earnings (loss) per share	\$ 7.26	\$ 5.19	\$ 1.83
Diluted earnings (loss) per share	\$ 6.56	\$ 4.62	\$ 1.52

- (1) Interest income includes \$104.7 million in 2003 related to interest earned on mortgage loans receivable held for investment. Expenses include \$36.7 million in 2003 related to interest expense on financing of mortgage loans held for investment and \$26.3 million related to the provision for loan losses on mortgage loans held for investment.

Table of Contents

	Years Ended December 31,		
	2003	2002	2001
Other data:			
	(dollars in thousands,		
	unless otherwise stated)		
Purchases	\$ 6,815,682	\$ 2,535,023	\$ 1,070,716
Refinances:			
Cash out refinances	17,622,898	9,397,259	4,144,835
Rate/term refinances	2,944,258	2,269,214	1,029,420
Total originations	27,382,838	14,201,496	6,244,971
Fixed-rate mortgages	8,197,321	3,708,938	1,143,188
Adjustable-rate mortgages	19,185,517	10,492,558	5,101,783
Total originations	27,382,838	14,201,496	6,244,971
Wholesale	25,127,613	12,392,562	5,068,466
Retail	2,255,225	1,808,934	1,176,505
Total originations	27,382,838	14,201,496	6,244,971
Weighted average FICO score of loans originated	612	597	587
Average principal balance of loans originated	\$ 167	\$ 151	\$ 138
Weighted average interest rates:			
Fixed-rate mortgages	7.3%	8.2%	9.5%
Adjustable-rate mortgages initial rate	7.3%	8.3%	9.4%
Adjustable-rate mortgages margin over index	5.8%	6.6%	6.6%
Percentage of loans originated in top two credit grades	81.1%	58.7%	48.4%
Percentage of loans originated in bottom two credit grades	3.3%	4.8%	8.1%
Number of retail branch offices at period end	72	66	65
Number of regional operating centers at period end	20	19	5
Number of employees at period end	3,752	2,487	1,531
Total whole loan sales	\$ 20,835,105	\$ 12,419,687	\$ 4,723,350
Total securitizations structured as sales		845,477	898,244
Total securitizations structured as financings	4,946,781		
Total secondary market transactions	25,781,886	13,265,164	5,621,594
Weighted average premium on whole loan sales	4.18%	4.37%	4.40%

	As of December 31,		
	2003	2002	2001
Balance sheet data:			
	(dollars in thousands)		
Cash and equivalents	\$ 269,540	\$ 176,669	\$ 100,263
Restricted cash	116,883	6,255	6,416
Mortgage loans held for sale, net	3,422,211	1,920,396	1,011,122
Mortgage loans held for investment, net	4,745,937		
Residual interests in securitizations	179,498	246,964	306,908
Other assets	200,811	52,644	26,609

Edgar Filing: NEW CENTURY REIT INC - Form S-4

Total assets	8,934,880	2,402,928	1,451,318
Credit facilities	3,311,837	1,885,498	987,568
Financing on mortgage loans held for investment, net	4,686,323		
Convertible notes, net	204,858		
Residual financing			79,941
Subordinated debt			40,000
Other liabilities	189,851	130,880	96,048
	<hr/>	<hr/>	<hr/>
Total liabilities	8,392,869	2,016,378	1,203,557
Total stockholders equity	542,011	386,550	247,761

Table of Contents

RISK FACTORS

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

Risks and Effects of the REIT Conversion

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

Although New Century Financial's board of directors has approved the REIT conversion and has approved and adopted the merger agreement, which effects the REIT conversion, the completion of the merger and the REIT conversion is subject to a number of conditions, and there is no assurance that all of the conditions to closing will be met and that the merger or the REIT conversion will be completed. In addition, we reserve the right to cancel or defer the merger or the REIT conversion even if stockholders of New Century Financial vote to approve and adopt the merger agreement, which will effect the REIT conversion, and the other conditions to the consummation of the merger are satisfied or waived, if our board of directors determines that the merger or the REIT conversion is no longer in the best interests of New Century Financial and our stockholders.

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

the market price of New Century Financial common stock may decline to the extent that the current market price of such stock reflects a market assumption that the REIT conversion will be completed;

an adverse reaction from investors and potential investors of New Century Financial may reduce future financing opportunities;

the pending REIT conversion may cause New Century Financial to defer or potentially lose business opportunities; and

New Century Financial's costs related to the merger, including legal and accounting fees and certain fees payable to its financial advisors, must be paid even if the REIT conversion is not completed.

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

Upon completion of the REIT conversion, each outstanding share of New Century Financial common stock will be exchanged for one share of New Century REIT common stock. We intend to complete the REIT conversion, including the merger, as soon as practicable following the annual meeting, assuming the merger agreement is approved and adopted by New Century Financial's stockholders at the meeting. However, if other conditions to completing the merger are not satisfied or waived at that time, there may be a significant amount of

Table of Contents

time between the date of the annual meeting and the date when the REIT conversion is completed. As a result of this uncertainty in timing and other reasons, the relative or absolute market prices of shares of New Century Financial common stock may vary significantly between the dates of the merger agreement, this proxy statement/prospectus, the annual meeting and the completion of the REIT conversion. These variations may be caused by, among other factors, changes in the results of operations, financial condition and business prospects of New Century Financial, market expectations of the likelihood and timing of completion of the transactions, the prospects for New Century REIT's post-merger operations, the effect of the change in New Century Financial's organization from a taxable corporation to a REIT, the effect of any conditions or restrictions imposed on or proposed with respect to New Century Financial or New Century REIT by regulators, general market and economic conditions and market perception of REIT stocks.

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

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

We will complete the merger of NC Merger Sub with and into New Century Financial after the annual meeting and the satisfaction or waiver of the other conditions to the merger, including the pricing of the offering. In addition, the timing of the merger will depend on our ability to conform the operations of New Century Financial to the requirements for qualification as a REIT, which in our case includes obtaining commitments from financial institutions to provide us additional financing to obtain mortgage loans and other REIT qualifying assets. Once we have so conformed our operations, we will complete the merger. If the merger and the other restructuring transactions contemplated by the merger agreement were delayed, we may not be qualified to elect REIT status commencing with New Century REIT's taxable year ending December 31, 2004. In that case, New Century REIT would not elect REIT status for such year. Consequently, the federal income tax benefits attributable to our status as a REIT, including our ability to reduce our corporate-level U.S. federal income tax, would not commence with New Century REIT's taxable year ending December 31, 2004, which would result in us paying substantial corporate-level income taxes in 2004.

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

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

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

Table of Contents

we may be unable to accumulate sufficient REIT qualifying assets such that the value of our investment in our taxable REIT subsidiaries is not more than 20% of the value of our total assets at the close of our first taxable quarter following the merger. For example:

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

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

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

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

Risks Related to New Century REIT

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

Future results of New Century REIT may be materially different from those shown in the pro forma financial statements presented in **Unaudited Pro Forma Consolidated Condensed Financial Information** beginning on page 102. New Century REIT may incur certain restructuring charges and adjustments. These charges may be higher than New Century REIT has estimated, depending upon how costly or difficult it is to complete the REIT conversion. Furthermore, these charges may decrease the capital of New Century REIT that could be used for profitable, income-earning investments in the future.

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

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

In addition, we require substantial cash to support our operating activities and growth plans in our taxable REIT subsidiaries. Our primary sources of cash for our loan origination activities are our warehouse and aggregation credit facilities, our asset-backed commercial paper facility and the proceeds from the sales and securitizations of our loans. From time to time, we finance our residual interests in securitization transactions using net interest margin, or NIM, structures; however, we have not recently relied on NIM financing as much as we have in prior years. As of December 31, 2003, we had nine short-term warehouse and aggregation credit facilities and our asset-backed commercial paper facility providing us with approximately \$6.7 billion of committed and \$650 million of uncommitted borrowing capacity to fund loan originations and purchases pending the pooling and sale of such loans. If we cannot maintain or replace these facilities on comparable terms and conditions, we may incur substantially higher interest expense that would reduce our profitability.

Table of Contents

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

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

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

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

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

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

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

A substantial and sustained increase in interest rates could harm our loan origination volume because refinancing an existing loan would be less attractive and qualifying for a purchase loan may be more difficult. Lower origination volume may harm our earnings by reducing origination income, net interest income and gain on sale of loans.

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

When we securitize loans, the value of the residual interests we retain and the income we receive from the securitizations structured as financings are based primarily on the London Inter-Bank Offered Rate, or LIBOR. This is because the interest on the underlying

Edgar Filing: NEW CENTURY REIT INC - Form S-4

mortgage loans is based on fixed rates payable on the underlying loans for the first two or three years from origination while the holders of the applicable securities are generally paid based on an adjustable LIBOR-based yield. Therefore, an increase in LIBOR reduces the net income we receive from, and the value of, these mortgage loans and residual interests.

Our adjustable-rate mortgage loans have periodic and lifetime interest rate caps above which the interest rate on the loans may not rise. In the event of general interest rate increases, the rate of interest on these mortgage loans could be limited, while the rate payable on the senior certificates representing interests

Table of Contents

in a securitization trust into which these loans are sold may be uncapped. This would reduce the amount of cash we receive over the life of the loans in securitizations structured as financings and our residual interests, and could require us to reduce the carrying value of our residual interests.

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

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

Non-prime mortgage loans generally have higher delinquency and default rates than prime mortgage loans. Delinquency interrupts the flow of projected interest income from a mortgage loan, and default can ultimately lead to a loss if the net realizable value of the real property securing the mortgage loan is insufficient to cover the principal and interest due on the loan. Also, our cost of financing and servicing a delinquent or defaulted loan is generally higher than for a performing loan. We bear the risk of delinquency and default on loans beginning when we originate them. In whole loan sales, our risk of delinquency typically only extends to the first payment, but when we securitize any of our loans, we continue to be exposed to delinquencies and losses through our residual interests and the loans underlying our on-balance sheet securitization transactions. We are required to establish reserves based on our anticipated delinquencies and losses. We also re-acquire the risks of delinquency and default for loans that we are obligated to repurchase. We attempt to manage these risks with risk-based loan pricing and appropriate underwriting policies and loan collection methods. However, we cannot assure you that such management policies will be successful and, if such policies and methods are insufficient to control our delinquency and default risks and do not result in appropriate loan pricing and appropriate loss reserves, our business, financial condition, liquidity and results of operations could be harmed. See Proposal 1 Approval and Adoption of the Merger Agreement Pursuant to Which the REIT Conversion Will Be Effected Business Investment and Operational Policies of New Century REIT.

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

Over-concentration of our loan originations in any one geographic area increases our exposure to the economic and natural hazard risks associates with that area. For example, in 2003, approximately 41% of the mortgage loans we originated or purchased were secured by property in California. Certain parts of California have experienced an economic downturn in the past and have suffered the effects of certain natural hazards. Declines in the residential real estate markets in which we are concentrated may reduce the values of the properties collateralizing our mortgages, increase the risk of delinquency, foreclosure, bankruptcy, or losses and could harm our results of operations, financial condition and business prospects.

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

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

business prospects.

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

If New Century REIT fails to qualify for that exemption, we may be required to restructure our activities. For example, if the market value of New Century REIT's investments in equity securities were to increase by an amount that caused less than 55% of our assets to be invested in mortgage loans or mortgage-backed securities

Table of Contents

that represent the entire ownership in a pool of mortgage loans, we might have to sell equity securities in order to qualify for an exemption under the Investment Company Act. In the event we must restructure New Century REIT's activities, our results of operations, financial condition and business prospectus could be harmed.

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

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

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

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

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

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

Our earnings from holding mortgage-backed securities may be harmed by changes in the level of interest rates, changes to the difference between short and longer term interest rates, changes to the difference between interest rates for mortgage-backed securities compared to other

Edgar Filing: NEW CENTURY REIT INC - Form S-4

debt instruments, and an absence of or reduction in the availability, at favorable terms, of repurchase financing and other liquidity sources typically utilized by mortgage REITs.

From time to time, we may purchase mortgage-backed securities from third parties in order to comply with the income and asset tests necessary to maintain our REIT status. The value of, and return on, the mortgage-backed securities we hold will be affected by changes in the marketplace for mortgage-backed securities and debt

Table of Contents

securities in general, as well as prepayment speeds, and may be volatile and significantly different than projected. The mortgage-backed securities that we hold may produce large losses instead of the income incorporated into our projections. The impact of changes in the marketplace for mortgage-backed securities and debt securities on our results may be magnified because our mortgage-backed securities holdings could be highly leveraged. Additionally, much of the financing we will use to hold our mortgage-backed securities may be cancelable by our lenders on short notice. If our lenders ceased providing financing to us on favorable terms, we would be forced to liquidate some or all of our mortgage-backed securities, possibly at a substantial loss, which could harm our financial condition, results of operations and business prospects.

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

As of December 31, 2003, the value on our balance sheet of our residual interests from securitization transactions was \$179.5 million. The value of these residuals is a function of the delinquency, loss, prepayment speed and discount rate assumptions we use. It is extremely difficult to validate the assumptions we use in valuing our residual interests. In the future, if our actual experience differs materially from these assumptions, our cash flow, financial condition, results of operations and business prospects could be harmed.

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

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

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

The value of a mortgage loan depends, in part, upon the expected period of time that the mortgage loan will be outstanding. If a borrower pays off a mortgage loan in advance of this expected period, the holder of the mortgage loan does not realize the full value expected to be received

from the loan. A prepayment penalty

Table of Contents

payable by a borrower who repays a loan earlier than expected helps offset the reduction in value resulting from the early payoff. Consequently, the value of a mortgage loan is enhanced to the extent the loan includes a prepayment penalty, and a mortgage lender can offer a lower interest rate and/or lower loan fees on a loan which has a prepayment penalty. Prepayment penalties are an important feature used to obtain value on the loans we originate.

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

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

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

Our failure to comply with these laws can lead to:

civil and criminal liability;

loss of licensure;

damage to our reputation in the industry;

inability to sell or securitize our loans;

demands for indemnification or loan repurchases from purchasers of our loans;

finances and penalties and litigation, including class action lawsuits; or

administrative enforcement actions.

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

Table of Contents

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

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

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

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

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

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

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

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

of operations, financial condition and business prospects could be harmed.

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

The amount of financing we receive under our credit facilities depends in large part on the lender's valuation of the mortgage loans that secure the financings. Each such facility provides the lender the right, under

Table of Contents

certain circumstances, to reevaluate the loan collateral that secures our outstanding borrowings at any time. In the event the lender determines that the value of the loan collateral has decreased, it has the right to initiate a margin call. A margin call would require us to provide the lender with additional collateral or to repay a portion of the outstanding borrowings. Any such margin call could harm our liquidity, results of operations, financial condition and business prospects.

We face intense competition that could harm our market share and our revenues.

We face intense competition from finance and mortgage banking companies and from Internet-based lending companies. In addition, certain government-sponsored entities, such as Fannie Mae and Freddie Mac, are also expanding their participation in the non-prime mortgage industry. These government-sponsored entities have a size and cost-of-funds advantage that allows them to purchase loans with lower rates or fees than we are willing to offer. While the government-sponsored entities presently do not have the legal authority to originate mortgage loans, including non-prime loans, they do have the authority to buy loans. A material expansion of their involvement in the market to purchase non-prime loans could change the dynamics of the industry by virtue of their sheer size, pricing power and the inherent advantages of a government charter. In addition, if as a result of their purchasing practices, these government-sponsored entities experience significantly higher-than-expected losses, such experience could harm the overall investor perception of the non-prime mortgage industry.

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

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

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

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

Table of Contents

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

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

We cannot assure you, however, that our use of derivatives will offset the risks related to changes in interest rates. There have been periods, and it is likely that there will be periods in the future, during which we will incur losses after accounting for our derivative financial instruments. The derivative financial instruments we select may not have the effect of reducing our interest rate risk. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. In addition, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses, and such losses could harm our results of operations, financial condition and business prospects. See Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2003, as amended, which is incorporated by reference herein.

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

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

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

In March 2001, we sold to Ocwen Federal Bank FSB the servicing rights on \$4.8 billion of our servicing portfolio, which was comprised of 25 separate asset-backed securities. In August 2001, Ocwen began servicing all of our newly originated loans pending their sale or securitization. However, in February 2002, we announced the intent to re-establish our in-house loan servicing platform. By October 1, 2002, we began servicing loans on our in-house servicing platform and at December 31, 2003, loans serviced on our platform totaled \$11.6 billion. Ocwen is expected to continue to service the mortgage loans underlying our residual interests. Poor servicing and collections by third-party servicers could harm the value of our residual interests and our ability to sell or securitize loans, which could harm our results of operations, financial condition and business prospects. Likewise, poor servicing by our own servicing operation could harm the cash flows from our on-balance sheet securitizations, could also hamper our ability to sell or securitize loans and could harm our results of operations, financial condition and business prospects.

Table of Contents

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

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

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

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

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

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

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

Table of Contents

Our business could be harmed if courts rule that the OTS exceeded its statutory authority in adopting regulations in 1996 that allowed lenders like us to rely on the Parity Act to preempt state restrictions on prepayment penalties for adjustable-rate mortgages.

In 2003, a New Jersey state appellate court departed from prior decisions in other jurisdictions to hold that the OTS did not have the authority to adopt regulations in 1996 that allowed state housing creditors like us to rely on the Parity Act to preempt state limitations on prepayment penalties with respect to adjustable-rate mortgages. If that decision is not reversed on appeal, and if courts in other jurisdictions reach similar conclusions, we and other lenders could face litigation challenging the enforceability of prepayment penalties on our outstanding adjustable-rate loans and regarding charges that were imposed on our customers who paid prepayment penalties at the time they refinanced their adjustable-rate loans. We could also face contractual claims from our loan buyers and securitization trusts stemming from representations we made regarding the enforceability of our prepayment penalties. Such litigation and claims could harm our business, financial condition and results of operations.

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

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

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

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

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

We depend on our wholesale account executives and retail loan officers to attract borrowers by, among other things, developing relationships with financial institutions, other mortgage companies and brokers, real estate agents, borrowers and others. We believe that these relationships lead to repeat and referral business. The market for skilled account executives and loan officers is highly competitive and historically has experienced a high rate of turnover. In addition, if a manager is no longer employed by us, there is an increased likelihood that other members of his or her team will leave our employ as well. Competition for qualified account executives and loan officers may lead to increased hiring and

Edgar Filing: NEW CENTURY REIT INC - Form S-4

retention costs. If we are unable to attract or retain a sufficient number of skilled account executives at manageable costs, we will be unable to continue to originate quality mortgage loans that we are able to sell for a profit, which would harm our results of operations, financial condition and business prospects.

Table of Contents

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

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

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

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

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

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

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

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

and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic

Table of Contents

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

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

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

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

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

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

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

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

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

Tax Risks Relating to REIT Qualification

Your investment has various federal income tax risks.

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

Table of Contents

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

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

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

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

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

To qualify as a REIT, not more than 20% of the value of our total assets may be represented by the securities of one or more taxable REIT subsidiaries at the close of any calendar quarter, subject to a 30-day cure period following the close of the quarter (except that no cure period is available during the initial qualification as a REIT). See Material U.S. Federal Income Tax Consequences Asset Tests. Immediately following the REIT conversion, our taxable REIT subsidiaries, including New Century Financial and its subsidiaries, will conduct a substantial portion of our business activities, including a majority of our loan origination and servicing activities. Under our current business plan, we expect to accumulate a significant

Table of Contents

amount of earnings in our taxable REIT subsidiaries. We will monitor the value of our investment in New Century Financial and our other taxable REIT subsidiaries in relation to our other assets to comply with the 20% asset test. There cannot be complete assurance that we will be successful in that effort. In certain cases, we may need to borrow from third parties to acquire additional qualifying REIT assets or increase the amount and frequency of dividends from our taxable REIT subsidiaries in order to comply with the 20% asset test. Moreover, there can be no assurance that the Internal Revenue Service will not disagree with those determinations. If the Internal Revenue Service determines that the value of our investment in New Century Financial and other taxable REIT subsidiaries was more than 20% of the value of our total assets at the close of any calendar quarter, we could lose our REIT status.

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

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

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

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

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

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

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

REIT.

Table of Contents

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

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

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

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

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

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

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

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

To qualify as a REIT, we cannot have as of the end of any taxable year any undistributed earnings and profits that are attributable to a non-REIT C corporation, or C corporation E&P. As part of the formation

Table of Contents

transactions, New Century REIT expects to acquire all of the capital stock of Worth Funding, currently an indirect wholly-owned subsidiary of New Century Financial. After the acquisition, Worth Funding will become a qualified REIT subsidiary and we may succeed to any of Worth Funding's C corporation E&P. If we succeed to that C corporation E&P, we will be required to distribute any such C corporation E&P as of the close of our first taxable year as a REIT. You generally would be subject to tax on the distribution of Worth Funding's C corporation E&P at ordinary income tax rates. It appears that stockholders who are taxed as U.S. individuals would generally be taxed at a maximum rate of 35% on that distribution, rather than the 15% rate applicable to certain corporate dividends, even though that distribution would be attributable to non-REIT C corporation E&P. Legislation introduced in Congress would treat New Century REIT's distribution of C corporation E&P as eligible for the 15% rate applicable to certain corporate dividends. We can provide no assurance that such legislation will be enacted into law.

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

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

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

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

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

Table of Contents

SPECIAL NOTE ABOUT FORWARD LOOKING STATEMENTS

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

our business strategy;

our understanding of our competition;

market trends;

projected sources and uses of funds from operations;

potential liability with respect to legal proceedings; and

potential effects of proposed legislation and regulatory action.

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

those identified under Risk Factors from pages 22 through 42;

those identified from time to time in New Century Financial's public filings with the Securities and Exchange Commission;

the negative impact of economic slowdowns or recessions;

the effect of changes in interest rates;

our limited experience managing a REIT;

Edgar Filing: NEW CENTURY REIT INC - Form S-4

the condition of the secondary markets for our products;

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

the assumptions underlying our residual values and repurchase allowances;

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

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

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

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

our ability to adequately hedge our residual values;

Table of Contents

the initiation of a margin call under our credit facilities;

the ability of our servicing operations to maintain high performance standards;

our ability to expand origination volume while maintaining low overhead;

our ability to attract and retain qualified employees, including, in particular, our senior executives;

our ability to adapt to and implement technological changes;

the stability of residential property values;

our ability to close our forward sale commitments;

management's ability to manage our growth and planned expansion; and

the outcome of litigation or regulatory actions pending against us.

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

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

Table of Contents

ANNUAL MEETING

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

Date, Time and Place of the Annual Meeting

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

Purpose of the Annual Meeting

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

to approve and adopt the merger agreement, which will implement the restructuring of New Century Financial to allow New Century Financial to qualify as a REIT for U.S. federal income tax purposes;

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

to approve the 2004 Plan;

to ratify KPMG LLP's appointment as our independent auditors for 2004; and

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

Recommendation of the Board of Directors

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

Record Date; Shares Entitled to Vote; Quorum

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

Abstentions

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

Table of Contents

Vote Required

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

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

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

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

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

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

Shares Owned by New Century Financial's Directors and Officers

Edgar Filing: NEW CENTURY REIT INC - Form S-4

As of April 19, 2004, New Century Financial's directors and executive officers directly or indirectly beneficially owned 4,845,278 shares of New Century Financial common stock, or 14.3% of the shares outstanding on that date entitled to vote on the proposals. These directors and executive officers will own a similar percentage of New Century REIT common stock after the merger, although that percentage is expected to be reduced upon completion of the public offering. We currently expect each director and executive officer of New Century Financial who owns shares of New Century Financial common stock to vote his or her shares of New Century Financial common stock FOR each proposal. If such persons vote all of the shares that they own as of April 19, 2004 in favor of the approval and adoption of the merger agreement as expected, the vote of at least 12,095,559 additional shares of New Century Financial common stock (or 35.8% of the shares of New Century Financial common stock outstanding as of that date and entitled to vote) will be required to approve and adopt the merger agreement.

Table of Contents

Voting Procedures

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

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

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

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

giving written notice to our corporate secretary at 18400 Von Karman, Suite 1000, Irvine, California 92612 that you revoke your proxy;

filing another proxy with a later date; or

by attending the annual meeting and voting in person, although attendance at the annual meeting will not by itself revoke a proxy.

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

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

Solicitation of Proxies and Expenses

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

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

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

Table of Contents

PROPOSAL 1

APPROVAL AND ADOPTION OF THE MERGER AGREEMENT

PURSUANT TO WHICH THE REIT CONVERSION WILL BE EFFECTED

THE REIT CONVERSION

General

Our board of directors has approved a plan, pending the approval of our stockholders and the pricing of the public offering, to restructure our business operations so that New Century REIT, as the parent of New Century Financial and successor to substantially all of New Century Financial's assets and business operations following the merger, will qualify as a REIT for U.S. federal income tax purposes. New Century REIT will seek to raise approximately \$750 million in a public offering of shares of its common stock. The REIT conversion is designed to enable New Century REIT, as the business successor of New Century Financial, to reorganize its assets and business operations in a manner eligible to elect to be treated as a REIT for U.S. federal income tax purposes. If New Century REIT qualifies as a REIT, subject to certain exceptions as further discussed in "Other Restructuring Transactions; Election of the Taxable REIT Subsidiaries" beginning on page 67, New Century REIT generally will not be subject to U.S. federal corporate income taxes on that portion of its ordinary income or capital gain that is distributed to its stockholders.

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

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

New Century REIT will be renamed New Century Financial Corporation and will become the publicly-traded, NYSE-listed or Nasdaq National Market-quoted parent company that will succeed to and continue to operate, directly or indirectly, substantially all of the existing businesses of New Century Financial;

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

the then-current board of directors and the committees of the board of New Century Financial and the management of New Century Financial will become the board of directors, committees of the board and management, respectively, of New Century REIT;

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

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

Table of Contents

Background

Introduction

Our board of directors and management periodically consider our long-term plans and strategic alternatives. In early 2003, we adopted a strategy of retaining a portion of our loan production on our balance sheet in order to produce a more stable and diversified earnings and cash flow stream, particularly in an environment in which loan origination volume decreases. As this strategy proved to be effective in diversifying our revenue sources, we began to explore ways to optimize it. Late in the third quarter of 2003, our management began considering the conversion of New Century Financial to a REIT in order to pursue this strategy in a more tax-efficient manner.

Board of Directors Meeting on October 22, 2003

Our board of directors held a telephonic meeting on October 22, 2003. Representatives of KPMG LLP, or KPMG, were present.

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

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

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

Board of Directors Meeting on October 29, 2003

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

Table of Contents

Management had previously distributed to our board of directors materials prepared by Friedman Billings, which presented an overview of the types of mortgage REITs, summarized the REIT asset and income tests and presented valuation statistics for comparable REITs with sizeable taxable REIT subsidiaries that are able to retain their earnings. According to the Friedman Billings materials, the potential benefits of a REIT conversion included: tax efficiency; reduced earnings volatility as a result of a diversification of New Century Financial's revenue stream; a reduced reliance on origination volume and a reduced exposure to interest rate fluctuations; attractive dividend yield to stockholders; the opportunity for stock price appreciation; maintain operating flexibility; and current investor receptiveness to REITs. Potential disadvantages outlined in the materials included: an increased exposure to credit losses from the retained portfolio; stock market dislocation as the investor perception of New Century Financial could change from a growth origination corporation to an income-producing mortgage REIT; the necessity for a substantial initial capital raise; the need for ongoing capital raises in the future; and limitations on New Century Financial's ability to pursue large acquisitions in the near term because they may jeopardize REIT compliance. The materials also included several sets of summary financial data each assuming a different capital raise size.

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

Board of Directors Meeting on December 10, 2003

Our board of directors held a two-day meeting on December 10 and December 11, 2003.

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

Our board of directors discussed the potential advantages of the REIT conversion, including anticipated tax savings, and the disadvantages, including restrictions on the amount of earnings that may be retained by a REIT and the required distributions of REIT taxable income. Our board of directors also discussed issues regarding intercompany loans between the REIT and its taxable REIT subsidiaries, and the potential impact of the REIT conversion on its dividends, stock price, earnings per share and convertible senior notes. Our board of directors requested that management undertake further analysis, including the preparation of additional financial models.

Representatives of UBS and KPMG then joined the meeting. UBS began with a presentation regarding its expertise and capabilities in comparable REIT conversion transactions. UBS also highlighted the potential tax and other benefits of REITs that might be worthy of our exploration. Our board of directors then asked various questions related to the size of capital-raising activities of recently converted mortgage REITs and the impact that

Table of Contents

the conversion would have on New Century Financial's dividends and stock price. Our board of directors also discussed with UBS various issues relating to the structure of the REIT, loan origination activities and other details regarding the asset and income tests applicable to a REIT.

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

Board of Directors Meeting on January 15, 2004

The next meeting of our board was a telephonic meeting held on January 15, 2004.

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

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

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

Board of Directors Meeting on February 26, 2004

Our board of directors held a telephonic meeting on February 26, 2004. Management, based on its own analysis and the input of O Melveny, KPMG and Friedman Billings, concluded that an initial modest capital raise would most likely not be sufficient to maintain REIT status for technical and operating reasons. Management also advised our board of directors that, based on the analysis of our outside advisors, we would need to issue any intercompany debt at market rates to obtain its classification as debt rather than equity. Classification of significant intercompany transfers as equity could impair REIT status.

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

Table of Contents

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

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

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

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

Our board of directors held a two-day meeting on March 4 and March 5, 2004. Representatives of Friedman Billings and another investment bank, which we refer to as the other investment bank, were present.

The other investment bank and Friedman Billings presented their views regarding the proposed REIT conversion strategy based on a model providing for a modest initial capital raise. The other investment bank indicated that it was not the appropriate time to convert New Century Financial to a REIT, while Friedman Billings advised our board of directors that the current economic atmosphere was favorable for such a conversion.

The other investment bank expressed concerns about REIT conversion at this time for the following primary reasons: the current 80/20 secondary marketing strategy would provide relatively little qualified REIT income for New Century Financial and stockholder returns would be only slightly higher than the C corporation structure; moving to a 50/50 secondary marketing strategy would require a significant amount of capital, necessitating frequent returns to the capital markets; liquidity crises would be more likely in the event of distressed markets due to the REIT distribution requirements; as a mortgage REIT with an 80/20 secondary marketing strategy, it is unclear how the public markets would value New Century Financial post-conversion; the potential for New Century Financial to be acquired by another company could be more limited as a REIT; warehouse costs could increase following the conversion; and New Century Financial should raise money as a C corporation to grow its portfolio and increase stockholder value.

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

building up New Century Financial's capital ratio;

managing growth;

Table of Contents

maintaining a capital ratio of 8%;

building financial strength through a strong balance sheet producing earnings per share;

increasing the contribution of New Century Financial's loan portfolio to revenues and maintaining a capital ratio of 6%; and

increasing the contribution of New Century Financial's loan portfolio to 50% of revenues and maintaining a capital ratio of 8%.

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

Following the presentations, our board of directors concluded that while the REIT structure could provide higher returns in a non-stress scenario, the REIT structure could also be riskier than the current C corporation structure in an environment where we could not access the capital markets and our businesses were not producing sufficient revenues and we had to preserve capital, which we refer to as a stress scenario. Our board of directors asked management to conduct additional financial modeling. Our board of directors agreed that it should work with management to re-evaluate New Century Financial's secondary marketing strategy and consider increasing the percentage of its loans that are held for investment. Our board of directors agreed to meet twice in March to further consider converting New Century Financial into a REIT.

Board of Directors Meeting on March 25, 2004

Our board of directors held a telephonic meeting on March 25, 2004. Representatives of Stern Stewart were present.

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

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

Management reported, based upon its own research and the analyses provided by its outside advisors, that New Century Financial should raise capital under either the REIT or the C corporation strategy. Management recommended that if our board of directors elected to convert New Century Financial to a REIT, it should consider raising a significant amount of capital, which could allow New Century Financial to build its REIT portfolio of \$15 to \$20 billion in loans without the need for additional capital in the near term. Management estimated that, by the end of 2005, approximately 50% of earnings per share will come from its mortgage loans held for investment, together with its residual interests.

Edgar Filing: NEW CENTURY REIT INC - Form S-4

Management recommended that, upon conversion, New Century Financial operate as a taxable REIT subsidiary and continue to grow the loan origination platform. The proposed benefits to this strategy were: the dividends would be taxed at the individual level only and deducted at

Table of Contents

corporate level; investors would realize benefits earlier through regular and substantial dividends; a larger initial capital raise would provide additional liquidity to help New Century Financial withstand less favorable market environments; and substantial funds could potentially be raised given then-current conditions in the capital markets. The disadvantages included the need to fund growth through new capital or cash from the taxable REIT subsidiaries.

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

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

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

Board of Directors Meeting on March 29, 2004

A telephonic meeting of our board of directors was held on March 29, 2004.

Prior to the meeting, management distributed to our board of directors materials prepared by the other investment bank. The other investment bank cautioned our board of directors regarding the potential risks and disadvantages of the REIT conversion. According to the other investment bank, the primary potential disadvantages included: low levels of qualified REIT income that would be created by New Century Financial's 80/20 secondary marketing strategy; higher risks for REITs, particularly with respect to capitalization requirements; strategic limitations of the REIT structure; dilution to stockholders; and negative impacts on New Century Financial's potential to be an acquisition target. Additionally, the other investment bank reported that stockholder returns are nearly identical under either structure.

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

and related call option and warrant. Management's materials reported that both Friedman Billings and UBS generally agreed with the results presented in management's analysis.

Table of Contents

Management reported that it would continue to work through various structural and operational issues with input from O Melveny, Friedman Billings and KPMG. Our board of directors then discussed the long-term returns under both scenarios and the resulting size of the balance sheet. Our board of directors noted the long-term advantages of building the balance sheet and the potential to unlock stockholder value as a REIT. Our board of directors then reviewed various issues surrounding a potential REIT conversion, including the difficulties of valuing mortgage REITs with sizeable taxable REIT subsidiaries that are able to retain their earnings, New Century Financial's secondary marketing strategy, uncertainty over future movements of interest rates and the ability to raise funds in the capital markets, its concerns over a sizeable potential capital raise, the importance of maintaining good credit quality, the third investment bank's analysis of capital requirements, constraints on operational flexibility, and other details.

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

Board of Directors Meeting on April 5, 2004

The next meeting of our board of directors was on April 5, 2004.

Management reported to our board of directors that following the board meeting held on March 29, 2004, management and its advisors performed additional analysis to evaluate whether the REIT conversion would be in the best interests of New Century Financial and its stockholders. Management reported that its analysis showed that the REIT would likely provide better returns than the C corporation under the operating environments that management and its advisors considered to be most likely going forward. Management also reported that even in stress scenarios the REIT generally performed as well or better than the C corporation model. Further, management reported to our board of directors that a substantial capital raise would protect New Century Financial and preserve its flexibility under adverse economic conditions.

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

Additional reasons underlying management's recommendation to pursue the REIT conversion included the following: long-term stockholders would likely realize higher returns from their investment in New Century Financial as a REIT; Stern Stewart's analysis indicated that the economic value added by the REIT structure exceeded the economic value added by the C corporation structure; the significant tax savings and the slightly lower cost of capital of the contemplated capital raise; and the likelihood that the taxable REIT subsidiaries would be able to retain sufficient cash to continue operating in a manner similar to that of New Century Financial in its current C corporation structure. The analysis of management and its outside advisors indicated that significant benefits could accrue to New Century Financial as a REIT if factors considered likely to occur by Friedman Billings and UBS, including the valuation of New Century Financial using dividend yield methodology, occurred. Management also noted that the outside advisors expected that New Century Financial would be able to raise initial capital at a higher price as a REIT than as a C corporation. In addition, management distributed materials to the board from the other investment bank in which it acknowledged that a larger initial capital raise addressed the primary issues it had noted.

Following receipt of management's recommendation, our board of directors discussed the short-term price differential, the percentage of earnings per share that could come from the balance sheet following conversion, the possibility of using various financing structures such as convertible debt in connection with a REIT conversion, Stern Stewart's advised capital levels, the operational strategies of other mortgage REITs, capital

Edgar Filing: NEW CENTURY REIT INC - Form S-4

market conditions for REITs, New Century Financial's securitization strategy and the capital raise that would be necessary to convert and maintain REIT status.

Table of Contents

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

Board of Directors Meeting on April 19, 2004

The next meeting of our board was on April 19, 2004.

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

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

Board of Directors Meeting on April 21, 2004

The next meeting of our board was on April 21, 2004.

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

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

Reasons for the REIT Conversion

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

In reaching its determination to approve and adopt the merger agreement and approve the merger, which will effect the REIT conversion, and the related restructuring transactions, our board of directors consulted with a

Table of Contents

number of investment banks, including Friedman Billings, UBS and Morgan Stanley, with respect to the financial aspects and fairness of the merger and the REIT conversion, as well as with management and its legal, accounting and financial advisors, including Stern Stewart. The factors considered by our board of directors included, among others, the following:

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

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

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

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

the expectation that our increased market capitalization will attract increased research coverage and greater investor interest;

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

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

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

Our board of directors considered the advantages against the potential risks of the REIT conversion, including that, as a REIT, New Century REIT will be unable to retain earnings as it will be required each year to distribute to its stockholders at least 90% of its REIT taxable income (determined without regard to the dividends paid deduction and by excluding any net capital gain and any after-tax income generated by its taxable REIT subsidiaries not distributed to New Century REIT) and that we will need to comply with the highly complicated REIT qualification provisions. In addition, our board of directors considered the potential risks discussed in Risk Factors Risks and Effects of the REIT Conversion beginning on page 22.

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

Recommendation of the New Century Financial Board of Directors

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

determined that the merger and the merger agreement, which will effect a portion of the REIT conversion, and the related restructuring transactions are advisable and in the best interests of New Century Financial and its stockholders;

approved and adopted the merger agreement and approved the REIT conversion and the related restructuring transactions;

Table of Contents

directed that the merger agreement, which will effect the REIT conversion and the other transactions contemplated by the merger agreement, be submitted to a vote at the annual meeting; and

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

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

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

Opinion of Financial Advisor

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

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

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

- i) reviewed certain publicly available financial statements and other business and financial information of New Century Financial and certain of its subsidiaries;
- ii) reviewed certain internal financial statements and other financial and operating data concerning New Century Financial and New Century REIT prepared by our management;
- iii) reviewed certain financial forecasts of New Century Financial and New Century REIT, including certain sensitivity cases, prepared by our management;

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

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

Table of Contents

- vi) reviewed the pro forma impact of conversion to REIT status on our earnings, cash flow, consolidated capitalization and financial ratios;
- vii) reviewed the reported prices and trading activity for New Century Financial's common stock;
- viii) discussed with our management the rationale for and anticipated benefits of the REIT Conversion;
- ix) compared the financial performance of New Century Financial and the historical market prices and trading activity of New Century Financial's common stock with that of certain other publicly-traded companies that Morgan Stanley deemed relevant or comparable with New Century Financial, both currently and pro forma (after giving effect to the REIT Conversion), and their securities;
- x) reviewed the impact of conversion to REIT status on the historical market prices and trading activity of certain other publicly-traded companies that Morgan Stanley deemed relevant;
- xi) discussed the proposed transaction structure with our management and our legal and tax advisors;
- xii) reviewed and discussed with our management the proposed earnings and profits distribution and the proposed distribution policy of New Century REIT;
- xiii) reviewed information provided by our management concerning certain tax attributes and tax matters relating to the REIT Conversion;
- xiv) reviewed the board presentation dated April 21, 2004 prepared by our management, prior board presentations prepared by our management regarding REIT Conversion dated March 25, 2004, March 29, 2004 and April 5, 2004, the draft proxy statement/prospectus, the draft merger agreement, the draft of the registration statement on Form S-3 relating to the public offering dated April 20, 2004, and certain related documents;
- xv) reviewed such other corporate, industry and financial market information as Morgan Stanley deemed appropriate; and
- xvi) considered such other factors and performed such other analyses as Morgan Stanley deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information supplied or otherwise made available to it by New Century Financial for the purposes of the opinion. With respect to the board presentation dated April 21, 2004 prepared by our management and the internal financial forecasts, including information relating to certain strategic and financial benefits anticipated from the REIT Conversion and New Century REIT's ability to access the capital markets in connection with the public offering and from time to time thereafter, Morgan Stanley assumed that they have been reasonably prepared reflecting the best currently available estimates and judgments of these matters. In addition, Morgan Stanley assumed that the REIT Conversion will be implemented as described by our management, and as contemplated in the board presentation dated April 21, 2004 prepared by our management, the draft merger agreement and draft proxy statement/prospectus reviewed by Morgan Stanley, under the circumstances and with the effects described to it, including the consummation of the public offering, and that all conditions precedent will be satisfied or waived. Morgan Stanley assumed that the REIT Conversion will take place in a manner that will permit New Century REIT to qualify as a REIT for U.S. federal income tax purposes and that New Century REIT, after the REIT Conversion, will operate in accordance with the applicable provisions of the Internal Revenue Code in order to qualify as a REIT for U.S. federal income tax purposes. Morgan Stanley expresses no opinion as to any transaction other than the transactions described as the REIT Conversion and specifically exclude any opinion regarding the public offering. Morgan Stanley also assumed that all material federal, state, local and other approvals and consents required in connection with the REIT Conversion will be obtained and that in connection with obtaining any necessary federal, state, local and other approvals and consents, or any

Edgar Filing: NEW CENTURY REIT INC - Form S-4

amendments, modifications or waivers to any agreements, instruments or orders to which New Century Financial is a party or is subject or by which it is bound, no limitations, restrictions or conditions will be imposed or amendments, modifications or waivers made that would have a material adverse effect on New Century REIT. Furthermore, Morgan Stanley is not an expert in accounting, legal or tax matters and makes no representations nor does it opine upon the advice to be rendered by New Century Financial's accountants, legal counsel or tax advisors with respect to the REIT Conversion.

Table of Contents

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

In connection with rendering its opinion, Morgan Stanley employed a variety of approaches to analyze the value of New Century Financial under its current corporate structure relative to the potential pro forma result of the proposed REIT Conversion. Additionally, Morgan Stanley estimated the incremental tax savings that would result from the proposed REIT structure.

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

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

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

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

Comparable Company Analysis. Morgan Stanley reviewed and analyzed certain public market trading multiples for public companies similar to New Century Financial from a size and business mix perspective. The multiples analyzed for these comparable companies included common stock price (using closing prices as of April 20, 2004) divided by estimated 2005 earnings per share ratios and common stock price divided by book value per share ratios as of December 31, 2003. The estimates for 2005 earnings per share for the comparable companies were based on Institutional Brokers Estimate System median earnings per share estimates and the

Table of Contents

2003 book values were based on publicly available information. For purposes of its analysis, Morgan Stanley reviewed the multiples of the following six publicly traded corporations in the mortgage related finance industry:

Accredited Home Lenders Holding Co.;

Countrywide Financial Corporation;

Doral Financial Corporation;

Downey Financial Corp.;

IndyMac Bancorp, Inc.; and

Washington Mutual, Inc.

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

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

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

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

American Home Mortgage Investment Corp.;

Impac Mortgage Holdings, Inc.;

Edgar Filing: NEW CENTURY REIT INC - Form S-4

Novastar Financial, Inc.;

Redwood Trust, Inc.;

Saxon Capital, Inc.; and

Thornburg Mortgage, Inc.

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

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

Using these reference ranges of multiples, Morgan Stanley calculated an implied valuation range for New Century REIT by applying the reference ranges of multiples to the applicable New Century REIT operating statistics based on information provided by management. Based on such analysis, Morgan Stanley calculated an implied valuation range for New Century REIT common stock of \$64.82 to \$79.29 per share.

Table of Contents

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

Discounted Analyst Price Targets. Morgan Stanley reviewed published estimates by Wall Street equity research analysts for the following periods: (i) prior to January 20, 2004; and (ii) from January 20, 2004 through April 5, 2004. Price targets in these equity research reports ranged from \$50.00 to \$59.00 per share. Morgan Stanley discounted the Wall Street analyst price targets for one year at New Century Financial's estimated cost of equity capital. The following table summarizes the target prices for New Century Financial's common stock from each of those reports, where available:

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

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

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

<u>Firm</u>	<u>Date of Report</u>	<u>Price Target</u>
After April 5, 2004		
Roth Capital	April 6, 2004	\$ 70.00
Jefferies	April 6, 2004	58.00

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

Dividend Discount Model. Morgan Stanley performed a discounted cash flow analysis, calculated as of June 30, 2004, of the after-tax cash flows derived from New Century Financial's loan origination platform based on financial forecasts and estimates provided by New Century Financial management, including, but not limited

Table of Contents

to, total loan origination volumes, whole loan sale premiums and loan acquisition costs. The amount of after-tax dividends payable were restricted by a required level of equity capital retained in the business. New Century Financial's book value of equity was used as an estimate of the current value of New Century Financial's portfolio of residual equity mortgage holdings retained in loans held for investment, servicing platform as well as our other retained assets. Morgan Stanley then employed discount rates reflecting an equity cost of capital ranging from 15.0% to 20.0% and a perpetual growth rate of 1.0% to determine the present value of New Century Financial's loan origination platform. To determine an implied value range for New Century Financial, Morgan Stanley then added New Century Financial's book value of equity to the present value of the origination platform, resulting in an implied value range per New Century Financial common stock of \$76.57 to \$97.27 per share.

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

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

Capital Trust, Inc.;

Getty Realty Corp.;

Host Marriott Corporation;

Rouse Company;

Station Casinos, Inc.;

Lexford Residential Trust;

Vornado Realty Trust; and

Catellus Development Corporation.

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

Incremental Value of Corporate Tax Savings

Based on estimates provided by our management of pre-tax earnings from year one to year five both under the existing corporate structure as well as under the proposed REIT structure (including estimates for the taxable

Table of Contents

REIT subsidiaries), Morgan Stanley estimated the cash corporate income taxes that would be due over the same period under both structures. The estimates were based on projections of pre-tax income for year one to year five provided by our management, including pre-tax income at both the REIT and the taxable REIT subsidiary. A corporate income tax rate of 42.0% was assumed. A terminal value of taxes payable after year five was determined by assuming that future taxes would grow at 3% annually. After applying a range of discount rates (between 15.0% and 20.0%) to the estimated corporate taxes, the net sum of the present value of total corporate taxes was determined. The positive difference in the net results under the proposed REIT structure versus the current corporate structure were quantified as follows:

Corporate Income Tax Savings Per New Century REIT Share

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Listing of New Century Financial Capital Stock

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

Transfer Agent and Registrar

Edgar Filing: NEW CENTURY REIT INC - Form S-4

As of the date of this proxy statement/prospectus, U.S. Stock Transfer Corporation is the transfer agent and registrar for New Century Financial common stock. U.S. Stock Transfer Corporation is expected to be the transfer agent and registrar for New Century REIT common stock.

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

The following general discussion summarizes the anticipated material U.S. federal income tax consequences of the transactions to holders of shares of New Century Financial common stock that exchange their shares for shares of New Century REIT common stock in the merger. This discussion addresses only those New Century Financial stockholders that beneficially own their shares as a capital asset, and does not address all of the U.S. federal income

Table of Contents

tax consequences that may be relevant to particular New Century Financial stockholders in light of their individual circumstances or to New Century Financial stockholders that are subject to special rules, such as:

financial institutions or insurance companies;

mutual funds;

tax-exempt organizations;

insurance companies;

dealers or brokers in securities or foreign currencies;

traders in securities that elect to apply a mark to market method of accounting;

foreign holders;

persons that hold their shares as part of a hedge against currency risk, appreciated financial position, straddle, constructive sale or conversion transaction;

holders that acquired their shares upon the exercise of stock options or otherwise as compensation; or

entities treated as partnerships for U.S. federal income tax purposes.

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

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

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

and this discussion may not accurately describe the tax consequences of the merger. In addition, in connection with the filing of the registration statement, O Melveny & Myers LLP has delivered to New Century REIT its opinion, dated as of the date of this proxy statement/prospectus, that the merger of NC Merger Sub with and into New Century Financial will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

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

Table of Contents

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

For a discussion of the material U.S. federal income tax consequences of an investment in New Century REIT's common stock, see "Material U.S. Federal Income Tax Consequences" beginning on page 128.

Accounting Treatment

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

Regulatory Matters

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

compliance with applicable federal and state securities laws;

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

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

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

Absence of Dissenters' Rights

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

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

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

made in conformity with the requirements of Rule 145(d) under the Securities Act;

made pursuant to an effective registration statement under the Securities Act; or

otherwise exempt from registration under the Securities Act.

Persons who may be deemed affiliates for this purpose generally include individuals or entities that control, are controlled by, or are under common control with, either New Century Financial or New Century REIT and may

Table of Contents

include some of each company's respective officers and directors, as well as some of each company's respective principal stockholders. The registration statement of which this proxy statement/prospectus forms a part does not cover the resale of shares of New Century REIT common stock to be received by affiliates in the merger.

Other Restructuring Transactions; Election of the Taxable REIT Subsidiaries

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

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

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

New Century REIT Public Offering

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

Table of Contents

THE MERGER AGREEMENT

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

Structure and Completion of the Merger

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

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

Exchange of Stock Certificates

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

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

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

Table of Contents

Other Effects of the Merger

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

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

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

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

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

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

Listing or Quotation of New Century REIT Common Stock. We anticipate that the New Century REIT common stock will be listed on the NYSE under the symbol _____ or quoted on the Nasdaq National Market under our current symbol NCEN following the completion of the merger.

Conditions to Completion of the Merger

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

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Treatment of Convertible Senior Notes and Related Call Option and Warrant

Treatment of Convertible Senior Notes

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

merger.

On October 15, 2003, New Century Financial filed a registration statement with the Securities and Exchange Commission, which became effective, to permit the public resale of the notes and New Century Financial

Table of Contents

common stock issuable upon conversion of the notes. In connection with the REIT conversion, New Century REIT will further amend the registration statement to permit the public resale of the notes and the New Century REIT common stock rather than New Century Financial's common stock issuable upon conversion of the notes.

Treatment of Call Option and Warrant

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

Termination of the Merger Agreement

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

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

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

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

Table of Contents**MARKET PRICES OF NEW CENTURY FINANCIAL COMMON STOCK**

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

	<u>Common Stock Price</u>	
	<u>High</u>	<u>Low</u>
Year ended December 31, 2002		
First Quarter	\$ 15.93	\$ 7.87
Second Quarter	23.32	14.16
Third Quarter	23.19	13.50
Fourth Quarter	18.74	10.89
Year ended December 31, 2003		
First Quarter	\$ 21.75	\$ 16.34
Second Quarter	34.06	20.68
Third Quarter	31.45	21.51
Fourth Quarter	41.04	28.27
Year ending December 31, 2004		
First Quarter	\$ 51.80	\$ 37.91
Second Quarter (through April 5, 2004)	\$ 49.48	\$ 43.75

On April 5, 2004, the last full trading day prior to the public announcement of the proposed REIT conversion, the closing sale price of our common stock, as reported on the Nasdaq National Market, was \$45.40 per share. On _____, 2004, the latest practicable date before the printing of this proxy statement/prospectus, the closing sale price of our common stock, as reported on the Nasdaq National Market was \$ _____ per share. Such stock prices and the stock prices set forth above give effect to our three-for-two stock split effected by a stock dividend paid in July 2003. As of April 19, 2004, the number of holders of record of our common stock was 69 and the number of outstanding shares of our common stock was 33,881,673.

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

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

After completion of the REIT conversion, New Century REIT expects to declare regular quarterly distributions to its stockholders. The actual timing and amount of such distributions, however, will be as determined and declared by New Century REIT's board of directors and will depend on its financial condition, earnings, and other factors, many of which are beyond the control of New Century REIT. In order to maintain its qualification as a REIT under the Internal Revenue Code, New Century REIT is required to distribute (within a certain period after the end of each year) at least 90% of its REIT taxable income for such year (determined without regard to the dividends paid deduction and by excluding net capital gain). After-tax earnings generated

Table of Contents

by New Century REIT's taxable REIT subsidiaries and not distributed to New Century REIT are not subject to these distribution requirements and may be retained by such subsidiaries to provide for future growth, subject to the limitations imposed by REIT tax rules. To the extent that New Century REIT does not distribute 100% of its REIT taxable income, it will be taxed on any undistributed amounts. In addition, we cannot assure you that we will have access to funds to meet the distribution and other REIT qualification requirements. New Century REIT anticipates paying quarterly distributions in January, April, July and October of each year for the preceding quarter. New Century REIT anticipates that distributions generally will be paid from cash available for distribution (generally equal to cash from operations and investing activities less capital expenditures and principal amortization on indebtedness); however, to the extent that cash available for distribution is insufficient to make such distributions, New Century REIT intends to borrow funds from one of its subsidiaries or a third party in order to make distributions consistent with this policy. We cannot assure you as to the amount, if any, of future distributions.

In addition, in connection with the REIT conversion, New Century REIT may, if necessary, make a small special E&P distribution to its stockholders. Under the Internal Revenue Code, neither a REIT nor any of its qualified REIT subsidiaries is permitted to retain earnings and profits accumulated during years when the company or its predecessor was taxed as a C corporation. Therefore, in order to qualify as a REIT, New Century REIT may be required to distribute the current and accumulated earnings and profits of Worth Funding that it succeeds to, if any, by paying a one-time special distribution to its stockholders in cash. Any such special E&P distribution will be declared in December 2004 and payable in January 2005 to our stockholders on the record date for such distribution.

Table of Contents

BUSINESS

New Century REIT

We formed New Century REIT as a Maryland corporation on April 12, 2004. To date, New Century REIT has not conducted any activities other than those incident to its formation, the execution of the merger agreement and the preparation of this proxy statement/prospectus. Upon completion of the merger and the REIT conversion, New Century Financial will be a wholly-owned subsidiary of New Century REIT. New Century REIT will be renamed New Century Financial Corporation and will continue the business of New Century Financial. We anticipate that New Century REIT will elect to be taxed as a REIT for U.S. federal income tax purposes commencing with its taxable year ending December 31, 2004. At the time of the merger and the REIT conversion, the then-current directors and officers of New Century Financial, including the three directors elected at the annual meeting of stockholders, will become the directors and officers of New Century REIT.

Our Business

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

We are one of the nation's largest mortgage finance companies that originates, purchases, retains, sells and services primarily first mortgage products to borrowers nationwide. We focus on lending to individuals whose borrowing needs are generally not fulfilled by traditional financial institutions because they do not satisfy the credit, documentation or other underwriting standards prescribed by conventional mortgage lenders and loan buyers, such as Fannie Mae and Freddie Mac. We originate and purchase loans on the basis of the borrower's ability to repay the mortgage loan, the borrower's historical pattern of debt repayment and the amount of equity in the borrower's property, as measured by the borrower's LTV. We have been originating and purchasing non-prime loans since 1996 and believe we have developed a comprehensive and sophisticated process of credit evaluation and risk-based pricing that allows us to effectively manage the potentially higher risks associated with this segment of the mortgage industry. In 2003, we retained approximately 20% of our loan production for investment through on-balance sheet securitizations. If the merger agreement is approved and adopted by our stockholders, we expect that following the REIT conversion we will increase the percentage of our net income generated from our mortgage loan portfolio in a tax-efficient manner and have the ability to produce a more diverse base of earnings across a variety of interest rate environments.

Changes in Our Business as a Result of the REIT Conversion

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

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

Loan sales. Currently, we sell most of our loans through whole loan sales or securitizations through NC Capital. Following the REIT conversion, we intend to conduct non-REMIC CMO securitization activities in New Century REIT or one of its qualified REIT subsidiaries. In connection with the REIT conversion, New Century REIT will purchase loans from New Century Financial or one or more of its taxable REIT subsidiaries in arm's-length transactions at fair market value in order to enable New Century REIT to meet the asset and income tests applicable to REITs.

Table of Contents

Short-term financing. In connection with the REIT conversion, New Century REIT and its qualified REIT subsidiaries intend to obtain short-term financing commitments in order to originate loans. These loans to the extent retained by New Century REIT will be financed through longer-term securitization.

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

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

Business Strategy

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

Strengthening Our Production Franchise. We plan to pursue expansion into new geographic markets. We intend to continue to expand our total loan production and increase market share and volume on the East Coast and in other metropolitan areas outside of California. We believe our Wholesale Division can expand quickly into new markets with limited additional investment in infrastructure by leveraging our proprietary FastQual® system. For retail expansion, we will continue our practice of reviewing demographic information about potential markets and opening branches in markets that we believe can support a retail branch. We also plan to continue to deploy new marketing and technology initiatives and expand our product line and sales personnel in an effort to increase our existing market penetration.

Growing Our Portfolio of Mortgage-Related Assets. We intend to increase our portfolio by retaining self-originated loans through on-balance sheet securitizations. We believe this portfolio will continue to create an additional stream of net interest income which will diversify our earnings and reduce our reliance on our origination franchise to grow earnings. We expect that our capacity to originate loans will provide us with a significant volume of loans at a lower cost and with greater reliability than if we purchased our portfolio from a third party.

Strengthening Our Balance Sheet. We will seek to actively strengthen our cash position and increase availability under our lines of credit in an effort to protect our franchise and provide the ability to respond to disruptions in the market or other adverse conditions and to meet the distribution and other REIT qualification requirements. We expect to retain some or all of our earnings in our taxable REIT subsidiaries and will seek to access the capital markets to help strengthen our balance sheet. A strong balance sheet allows us to hold loans for a longer period in the event that the secondary market for our loans weakens or becomes unstable due to temporary market disruption.

Actively Managing Our Mortgage Loan Portfolio. We will seek to actively manage the interest rate and credit risks relating to holding a portfolio of mortgage-related assets in an effort to generate an attractive risk-adjusted return on our stockholders' equity. We will continue to use hedge instruments to attempt to reduce the interest rate exposure that results from financing fixed-rate assets with

floating-

Table of Contents

rate liabilities. We will also actively monitor our portfolio to manage our credit exposure through early detection and management of probable delinquencies.

Expanding Our Servicing Platform. We intend to grow our servicing portfolio, given our recent Fitch rating of RPS3. We expect to service loans owned by third parties to take advantage of our technical capabilities, capitalization and economies of scale. We believe our income from servicing will increase in a rising interest rate environment which will help to offset any decline in our origination volume.

Exploring Diversification Strategies. We intend to further diversify our revenues by evaluating and executing strategic acquisitions and new business opportunities.

Competitive Advantages

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

Leading Market Presence. We are the nation's second largest non-prime mortgage finance company by market share. We provide primarily first mortgage products to borrowers nationwide. We are authorized to lend in all 50 states and have a leading market presence through our wholesale network of 21,600 approved independent mortgage brokers and our retail network of 70 branch offices in 27 states.

Operational Flexibility. Our structure and business strategy provide us with the flexibility to both securitize a portion of our loan originations for our portfolio and sell the balance for cash. We believe that this flexibility allows us to provide a broader product offering, better manage our cash flows and respond to the secondary market environment, thus enhancing the return on our stockholders' equity.

Strong Institutional Relationships. We have developed strong relationships with a variety of institutional loan buyers, including Bear Stearns, Credit Suisse First Boston, Deutsche Bank, Goldman Sachs, Morgan Stanley and UBS Residential Funding, all of whom regularly bid on and/or buy large loan pools from us. In addition, we have developed strong relationships with a variety of institutional lenders, including Bank of America, Bear Stearns, CDC Mortgage Capital, Citigroup Global Markets (formerly Salomon Smith Barney), Greenwich Capital Financial Products, Morgan Stanley and UBS Residential Funding, all of whom have existing lending relationships with us.

Lower-Cost Portfolio Accumulation Strategy. Unlike mortgage REITs without origination capabilities, we intend to build our mortgage loan portfolio by relying on a strategy of originating loans through our qualified REIT subsidiaries and purchasing loans originated by our taxable REIT subsidiaries as opposed to purchasing such loans in the secondary mortgage market. We believe this strategy allows us to accumulate mortgage loans at a lower cost and with greater reliability than would be available through secondary market purchases.

Automated Credit Grading Capability. We have created a proprietary automated credit grading and pricing methodology that we believe, as evidenced by our historical loan performance, gives us the ability to more effectively evaluate credit risk and more efficiently price our products. This automated credit grading system helps us construct a more consistent and predictable portfolio, which we believe enables us to generate attractive risk-adjusted returns.

Edgar Filing: NEW CENTURY REIT INC - Form S-4

High Quality Customer Service. We strive to make the origination process easy for our borrowers and brokers by providing prompt responses, consistent and clear procedures, and an emphasis on ease of use through technology, including our FastQual® system.

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

Table of Contents

The Residential Mortgage Market

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

According to *Inside B&C Lending*, an industry trade publication, the total size of the subprime, or non-prime, mortgage market volume was approximately \$332 billion in 2003, which represented approximately 9% of the overall residential mortgage market. In comparison, the non-prime mortgage market has grown from \$34 billion in 1994 to \$332 billion in 2003, representing a 29% compounded annual growth rate, while the overall single-family residential mortgage market has grown from \$769 billion in 1994 to \$3.8 trillion, implying a lesser compounded annual growth rate of 19%. In addition to faster growth, the non-prime mortgage market has historically focused on home purchases and cash-out refinancings, rather than interest rate driven refinancings, which have caused it to be less interest rate sensitive, and therefore less volatile, than the prime mortgage market.

Secondary Marketing Strategies

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

A substantial portion of the net interest income generated by our securitized loans will be based upon the difference between the weighted average interest earned on the mortgage loans and the interest payable to holders of the bonds collateralized by our loans. The income we receive from the securitizations structured as financings are based primarily on LIBOR. This is because the interest on the underlying mortgage loans is based on fixed rates payable on the underlying loans for the first two or three years from origination while the holders of the applicable securities are generally paid based on an adjustable LIBOR-based yield. Therefore, an increase in LIBOR reduces the net income we receive from, and the value of, these mortgage loans. In addition, the net interest income we receive from securitizations will be reduced if there are a significant amount of loan defaults or a large amount of loan prepayments, especially defaults on, or repayments of, loans with interest rates that are high relative to the rest of the asset pool. We anticipate that we will attempt to mitigate at least a portion of this net interest margin variability by purchasing Euro Dollar Futures contracts or interest rate caps.

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

Investment and Operational Policies of New Century REIT

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

Table of Contents

Mortgage Loans

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

Mortgage-Backed Securities

From time to time, we may acquire and hold mortgage-backed securities collateralized by mortgage loans originated by and purchased from third parties in order to satisfy certain asset and income tests applicable to REITs. The mortgage-backed securities are expected to be backed primarily by first mortgages on one- to four-family dwellings and are expected to be either obligations of Fannie Mae, Freddie Mac or Ginnie Mae or have an S&P or Moody's rating of AAA.

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

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

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

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

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

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

Leverage Policy

We employ a leverage strategy to increase our mortgage loan origination activities by securitizing existing mortgages in transactions that we believe will be treated as borrowings for accounting and tax purposes. We generally expect to borrow in excess of 10 times the amount of our consolidated equity capital, although our actual debt to equity ratio may vary from time to time depending on market conditions and other factors deemed relevant by our management and board of directors.

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

Table of Contents

Hedging Policy

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

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

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

Financing Policy

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

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

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

Table of Contents

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

Loan Production Channels

Following the REIT conversion, we intend to continue to originate and purchase mortgage loans through two channels—our Wholesale Division and our Retail Division. Our Wholesale Division originates and purchases loans through a network of independent mortgage brokers and correspondent lenders solicited by our account executives. Our account executives provide on-site customer service to the broker to facilitate the loan's funding. In addition, the Wholesale Division originates mortgage loans through its FastQual® Web site at www.newcentury.com, where a broker can upload a loan request and receive a response generally within 12 seconds. Our Retail Division originates loans directly to the consumer through 72 retail branch offices located in 28 states and a central retail telemarketing unit that originates loans nationwide through one central office. Leads are generated through radio, direct mail, telemarketing and the Internet.

Our Wholesale Division

During 2003, our wholesale loan originations and purchases totaled \$25.1 billion, or 91.8% of our total loan production. As of December 31, 2003, our Wholesale Division operated through 20 regional operating centers located in 14 states and employed 486 account executives.

As of December 31, 2003, we had approved over 21,600 mortgage brokers to submit loan applications to us. Of the total approved mortgage brokers, we originated loans through approximately 15,400 brokers during 2003. During this period, our 10 largest producing brokers originated 7.0% of our wholesale production.

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

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

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

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

Table of Contents

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

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

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

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

	For the Quarters Ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Principal balance (in millions)	\$ 4,236.6	\$ 5,319.0	\$ 7,991.1	\$ 7,581.9
Average mortgage loan amount (in thousands)	\$ 162.8	\$ 165.9	\$ 181.6	\$ 172.4
Combined weighted average initial loan-to-value ratio	80.9%	82.3%	81.8%	83.9%
Percent of first mortgage loans	98.8%	98.4%	98.8%	98.3%
Property securing mortgage loans:				
Owner occupied	94.4%	94.6%	95.1%	94.5%
Nonowner occupied	5.6%	5.4%	4.9%	5.5%
Weighted average interest rate:				
Fixed-rate	7.83%	7.86%	6.78%	7.46%
ARMs initial rate	7.58%	7.42%	7.15%	7.18%
ARMs margin over index	6.05%	5.52%	5.65%	5.70%

Our Retail Division

During 2003, our Retail Division originated \$2.3 billion in loans, or 8.2% of our total loan production. As of December 31, 2003, our Retail Division, including the central retail telemarketing unit, employed 678 retail loan officers located in three regional processing centers and 72 sales offices in 28 states.

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

Table of Contents

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

	For the Quarters Ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Principal balance (in millions)	\$ 452.8	\$ 484.0	\$ 648.7	\$ 669.7
Average mortgage loan amount (in thousands)	\$ 123	\$ 118	\$ 124	\$ 126
Combined weighted average initial loan-to-value ratio	78.0%	78.8%	80.4%	79.8%
Percent of first mortgage loans	99.3%	99.0%	97.0%	99.4%
Property securing mortgage loans:				
Owner occupied	96.5%	96.6%	95.6%	93.3%
Nonowner occupied	3.5%	3.4%	4.4%	6.7%
Weighted average interest rate:				
Fixed-rate	8.33%	8.15%	7.66%	7.55%
ARMs initial rate	8.11%	7.92%	7.81%	7.72%
ARMs margin over index	6.61%	6.45%	6.22%	6.23%

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

Marketing**Wholesale Marketing**

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

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

Retail Marketing

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

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

Table of Contents

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

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

Underwriting Standards

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

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

Credit History

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

Collateral Review

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

Income Documentation

Our underwriting guidelines include three levels of income documentation requirements, referred to as the full documentation, limited documentation and stated income documentation programs. Under the full documentation program, we generally require applicants to submit two written forms of verification of stable income for at least 12 months. Under the limited documentation program, we generally require applicants to submit 12 consecutive monthly bank statements on their individual bank accounts. Under the stated income documentation program, an applicant may be qualified based upon monthly income as stated on the mortgage loan application if the applicant meets certain criteria. All of these documentation programs require that, with respect to any salaried employee, the applicant's employment be verified by telephone. In the case of a purchase

Table of Contents

money loan, we require verification of the source of funds, if any, to be deposited by the applicant into escrow. Under each of these programs, we review the applicant's source of income, calculate the amount of income from sources indicated on the loan application or similar documentation, review the applicant's credit history, and calculate the debt service-to-income ratio to determine the applicant's ability to repay the loan. We also review the type, use and condition of the property being financed. We use a qualifying interest rate that is equal to the initial interest rate on the loan to determine the applicant's ability to repay an adjustable-rate loan. For our interest-only product, we use a qualifying rate that is 3% higher than the initial interest rate for determining the repayment ability of applicants.

Underwriting Requirements

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

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

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

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

Table of Contents

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

Summary of Principal Underwriting Guidelines(1)

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

- (1) The letter grades applied to each risk classification reflect our internal standards and do not necessarily correspond to the classifications used by other mortgage lenders.
- (2) The maximum LTV set forth in the table is for borrowers providing full documentation. The LTV is reduced 5% for stated income applications, if applicable.

Table of Contents

Interest Only ARM Program

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

Niche or Special Programs

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

Home Saver Program

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

Exceptions

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

Edgar Filing: NEW CENTURY REIT INC - Form S-4

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

Table of Contents

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

Loan Production by Borrower Risk Classification

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

	For the Quarters Ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
AA Risk Grade:				
Percent of total purchases and originations (1)	27.1%	63.2%	73.8%	70.3%
Combined weighted average initial loan-to-value ratio	83.8	84.5	83.4	86.4
Weighted average interest rate:				
Fixed-rate	7.9	7.8	6.7	7.4
ARMs initial rate	7.2	7.1	7.0	7.0
ARMs margin over index	5.3	5.3	5.5	5.6
A+ Risk Grade:				
Percent of total purchases and originations (1)	44.2%	17.0%	11.6%	12.0%
Combined weighted average initial loan-to-value ratio	82.3	80.5	79.5	80.0
Weighted average interest rate:				
Fixed-rate	7.7	7.8	7.2	7.5
ARMs initial rate	7.4	7.5	7.3	7.3
ARMs margin over index	6.2	5.7	5.9	5.9
A- Risk Grade:				
Percent of total purchases and originations	13.5%	9.7%	7.3%	8.2%
Combined weighted average initial loan-to-value ratio	77.0	77.6	76.7	76.9
Weighted average interest rate:				
Fixed-rate	8.2	8.2	7.5	7.8
ARMs initial rate	7.9	7.8	7.6	7.6
ARMs margin over index	6.5	6.0	6.0	6.0
B Risk Grade:				
Percent of total purchases and originations	11.7%	6.5%	4.6%	6.0%
Combined weighted average initial loan-to-value ratio	74.7	74.8	74.6	74.8
Weighted average interest rate:				
Fixed-rate	8.3	8.8	8.1	8.1
ARMs initial rate	8.3	8.4	8.1	8.0
ARMs margin over index	6.7	6.3	6.3	6.2
C/C- Risk Grade:				
Percent of total purchases and originations	3.5%	3.6%	2.7%	3.5%
Combined weighted average initial loan-to-value ratio	68.8	69.0	68.8	68.3
Weighted average interest rate:				
Fixed-rate	9.8	9.8	9.0	8.9
ARMs initial rate	9.7	9.3	9.0	8.7
ARMs margin over index	7.0	6.5	6.6	6.6

(1)

Edgar Filing: NEW CENTURY REIT INC - Form S-4

The increase in AA production and decrease in A+ production from the first quarter to the second quarter resulted from a change in our credit risk grading.

Table of Contents**Geographic Distribution**

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

	For the Quarters Ended							
	March 31, 2003		June 30, 2003		September 30, 2003		December 31, 2003	
California	\$ 1,841,366	39.3%	\$ 2,348,874	40.5%	\$ 3,702,465	42.9%	\$ 3,335,617	40.4%
Florida	303,342	6.5	361,704	6.2	507,009	5.9	481,261	5.8
New York	248,257	5.3	286,645	4.9	563,711	6.5	534,131	6.5
Illinois	239,004	5.1	290,565	5.0	370,026	4.3	330,935	4.0
Texas	207,589	4.4	250,531	4.3	345,883	4.0	331,002	4.0
Massachusetts	166,491	3.6	190,096	3.3	288,079	3.3	298,494	3.6
New Jersey	160,256	3.4	204,914	3.5	298,598	3.5	221,745	2.7
Michigan	184,005	3.9	220,101	3.8	233,875	2.7	224,593	2.7
Washington	92,767	2.0	111,910	1.9	188,254	2.2	234,458	2.8
Colorado	142,611	3.0	124,605	2.1	151,651	1.8	130,393	1.6
Other	1,103,783	23.5	1,413,052	24.5	1,989,257	22.9	2,128,933	25.9
Total	\$ 4,689,471	100.0%	\$ 5,802,997	100.0%	\$ 8,638,808	100.0%	\$ 8,251,562	100