NEW CENTURY FINANCIAL CORP
Form 10-K
April 02, 2001

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

FORM 10-K

(Mark One)

/x/ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2000

OR

/ / **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______
Commission File Number 000-22633

NEW CENTURY FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**33-0683629**
(State or other jurisdiction incorporation or organization)	**(I. R. S. Employer Identification Number)**
18400 Von Karman, Suite 1000, Irvine, California	**92612**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (949) 440-7030

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.01 par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /x/

No / /

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

The aggregate market value of Common Stock held by non-affiliates of the Registrant on March 23, 2001 was approximately $22.9 million based on the closing sales price for the Common Stock on such date of $10.31 as reported on the Nasdaq National Market.

As of March 23, 2001, the Registrant had 14,893,198 shares of Common Stock outstanding.

PART III incorporates information by reference from the Registrant's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 2000.

PART I

ITEM 1. BUSINESS

GENERAL

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

ORIGINATIONS AND PURCHASES. The Company originates and purchases loans through both wholesale and retail channels. Wholesale originations and purchases are through independent mortgage brokers who provide loans through the Wholesale Division of the Company's New Century Mortgage Corporation subsidiary as well as through its subsidiary, Worth Funding Inc. Wholesale originations represented 73.3% of the Company's total originations and purchases in 2000. Retail originations are made through New Century Mortgage's network of branch offices, through its Central Retail Division and from applicants directed to New Century Mortgage through the Company's subsidiary, The Anyloan Company, including its anyloan.com website. Retail originations represented 26.7% of the Company's total originations and purchases in 2000. All of the Company's loans are secured by first or second mortgages on one-to-four family residences.

THE TYPICAL BORROWER. The Company's borrowers generally have considerable equity in the property securing their loan, but have impaired or limited credit profiles or higher debt-to-income ratios than traditional mortgage lenders allow. The Company's borrowers also include individuals who, due to self-employment or other circumstances, have difficulty verifying their income through conventional methods, and who prefer the prompt and personalized service provided by the Company.

UNDERWRITING. Although the Company's underwriting guidelines include six levels of credit risk classification, approximately 68.3% of the principal balance of the loans originated and purchased by the Company in 2000 were to borrowers within the Company's three highest credit grades. Of the Company's loans originated or purchased during 2000, 94.6% were secured by borrowers' primary residences. The average loan-to-value ratio on loans originated and purchased by the Company in 2000 was approximately 78.6%. Approximately 95.3% of the loans originated and purchased by the Company during 2000 were secured by first mortgages, and the remainder were secured by second mortgages. Approximately 80.6% of the loans originated and purchased by the Company in 2000 were refinances of existing loans, while the remaining 19.4% represented loans for a borrower's purchase of a residential property.

LOAN SALES AND SECURITIZATIONS. NC Capital Corporation ("NC Capital"), a subsidiary of New Century Mortgage, is the Company's secondary marketing channel. NC Capital has sold virtually all of the Company's loan production through a combination of securitizations and bulk sales of whole loans to institutional purchasers. In 2000, whole loan sales accounted for 75.3% of total loan sales, and securitizations accounted for the balance of loan sales.

SERVICING AND RESIDUAL INCOME. The Company also receives revenue from servicing its loans on behalf of the loan purchasers. At the end of 2000, the Company's servicing portfolio, including loans held for sale, totaled $6.1 billion. Servicing and residual income also includes interest earned on the Company's residual interests in securitizations. The Company's residual interests averaged $385.5 million during

2000. In 2000, servicing revenues totaled $80.0 million, and accounted for 48.8% of the Company's total revenues. Of the $80 million, $49.9 million represented interest on residual securities and $30.1 million was from servicing fees and related income.

In March 2001, the Company sold the servicing rights on approximately $4.8 billion of its servicing portfolio to Ocwen Federal Bank FSB for $19.7 million. The transfer of the Company's servicing portfolio to Ocwen's Orlando, Florida servicing platform is scheduled to be completed by August 1, 2001. After the transfer, the Company will no longer recieve servicing fees and related income on this portion of the portfolio, but the Company will still continue to receive the interest on the residual securities.

NET INTEREST INCOME. In 2000 the Company earned $11.3 million in net interest income (excluding interest expense on residual financing, $16.1 million), which represented approximately 6.9% of the Company's total revenues. Net interest income is earned on loans held in inventory for sale.

INSURANCE PREMIUMS. The Company also receives commissions on collateral protection insurance that the Company purchases when its borrowers fail to maintain property and flood insurance themselves. In 2000, the Company received $1.7 million in these commissions.

GROWTH AND OPERATING STRATEGIES

In 2000, the Company recorded a loss of $23.0 million on total revenues of $163.9 million. The loss was largely due to $67.0 million in adjustments to the carrying value of the Company's residual securities. Despite the financial results, the Company's business experienced a number of significant developments during 2000:

MANAGEMENT REORGANIZATION. In the fourth quarter of 2000 and first quarter of 2001, the Company announced several senior management changes. Brad Morrice, Vice Chairman and President of the Company assumed the additional role of Chief Operating Officer and also became the sole Chairman and Chief Executive Officer of New Century Mortgage Corporation. In addition, the Company appointed a new Chief Credit Officer and Chief Administrative Officer, utilizing the management talent already existing within the Company.

CONSOLIDATION OF OPERATIONS. During 2000, the Company merged its Primewest subsidiary into its New Century Mortgage subsidiary. The former Primewest operations have now been consolidated with the Company's other direct retail operations into a Central Retail Division. Likewise, The Anyloan Company's anyloan.com operation has eliminated its duplicative corporate and IT services, and instead receives those services from New Century Mortgage.

REDUCING ALL-IN ACQUISITION COSTS PER LOAN. The Company reduced its "all-in acquisition cost" from 3.46% for the quarter ended December 31, 1999 to 2.72% for the quarter ended December 31, 2000. The Company defines the "all-in acquisition cost" as the fees paid to wholesale brokers and correspondents, direct loan origination costs (including commissions and corporate overhead costs), less the sum of points and fees received from retail borrowers, divided by total production volume. The Company achieved this reduction through a combination of (i) decreasing corporate overhead and commission expense, (ii) reducing marketing costs, (iii) consolidating operations, (iv) adjusting the fee structure, (v) closing unprofitable branches, and (vi) reducing staff from 1,770 at December 31, 1999 to 1,511 at December 31, 2000.

SECONDARY MARKETING TRANSITION. During 2000, the Company transitioned from securitizing the majority of its loans to selling the vast majority of production for cash in whole loan sales. This transition assisted in increasing the Company's cash revenues and reducing the need for additional capital or

borrowings in order to fund its operations. During 2001, the Company plans to continue to focus its secondary marketing on sales strategies that will optimize liquidity.

ADJUSTMENTS TO UNDERWRITING GUIDELINES. During 2000, the Company adjusted its underwriting guidelines to concentrate on originating loans that command a higher secondary market value. The Company's gain on sale from whole loan sales increased from 2.61% for the quarter ended December 31, 1999 to 3.03% for the quarter ended December 31, 2000, partly as a result of these efforts. The Company has also devoted efforts to reducing the number of loans it sells at a discount due to document errors, borrower fraud or other reasons.

ESTABLISHMENT OF INSURANCE AGENCY. During 2000, the Company established an insurance agency in order to be able to earn commissions on certain insurance products offered to the Company's borrowers.

STRATEGIES FOR 2001

The Company's strategies for returning to profitability in 2001 include:

SALE OF SERVICING RIGHTS. In March 2001, the Company sold the servicing rights on approximately $4.8 billion of its servicing portfolio, comprised of 25 separate asset-backed securities, to Ocwen Federal Bank FSB for $19.7 million. The Company will retain approximately $1 billion in mortgage servicing rights on loans that have not been securitized. These servicing rights may be sold to Ocwen in future periods. Ocwen also purchased the Company's outstanding servicing advance receivables and assumed responsibility for all future servicing advance obligations on those 25 asset-backed securities. As part of the transaction, the Company also agreed to sell Ocwen servicing rights with respect to up to $3 billion in mortgage loans between March 2001 and December 31, 2002 at a price to be determined based on the characteristics of those servicing rights. With the cash proceeds from the Ocwen transaction, the Company was able to (i) repay the portion of its warehouse line of credit secured by servicing advances, (ii) repay the outstanding balance on its $22.5 million working capital line of credit with US Bank, (iii) purchase interest rate "hedge" protection for the residual cash flows, and (iv) increase its liquidity.

Ocwen is one of the country's highest-rated specialty servicers and has a strong capital position. The Company believes that it will provide bondholders and loan buyers with greater comfort that the servicer will be able to achieve consistent collateral performance throughout the life of the loans. The transfer of the Company's servicing portfolio to Ocwen's Orlando, Florida servicing platform is scheduled to be completed by August 1, 2001. There can be no assurance that the parties will be able to complete the transfer by that date.

IMPROVE BORROWING TERMS AND REDUCE DEBT. Also in March 2001, the Company restructured approximately $130 million of existing residual financing. The restructuring reduces the Company's exposure to margin calls on the residual financing and provides for an orderly repayment schedule with full repayment by December 31, 2002. In addition, as part of the debt restructuring, US Bank extended the maturity of its $40 million of subordinated debt from June 2002 to December 31, 2003. As a result, the repayment schedule for the residual and subordinated debt more closely tracks the projected cash flows from the Company's residual securities. Based on projected cash flows used to value the Company's residual securities, residual financing will be reduced to below $100 million by year-end 2001.

CONTINUE REDUCING COSTS. The Company continues to focus its efforts on reducing its all-in loan acquisition costs to its 2001 target of 2.50% through additional staff reductions, process consolidation and automation.

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CONTINUE CASH-ORIENTED SECONDARY MARKETING STRATEGY. During 2001, the Company plans to continue to focus its secondary marketing on sales strategies that will optimize liquidity. The Company has adjusted its underwriting guidelines to match those of whole loan buyers, which should help to improve the net execution value. The Company is also executing forward loan sales strategies to expand relationships and manage its net margins. Finally, the Company is exploring securitization strategies that generate immediate cash in excess of origination costs and that do not require residual financing.

REDUCE LOANS SOLD AT DISCOUNT. The Company plans to devote significant efforts to reducing the number of loans the Company sells at a discount to par value and also reduce the severity of the losses on the loans that are sold at less than par. Loans are typically sold at a discount when (i) there are technical deficiencies in the loan documentation, (ii) the loans have characteristics that are outside the guidelines of whole loan buyers, or (iii) the borrower defaults on the first payment. In order to accomplish these objectives, the Company has appointed a corporate level Chief Credit Officer, improved the analytics used in evaluating discount loans and eliminated products resulting in disproportionately high levels of discount loans.

IMPROVE CASH FLOW. The Company's objective is to achieve cash flow positive operations in 2001. The Company's strategies for achieving this goal include: (i) selling a significant portion of the Company's loan production for cash through whole loan sales, (ii) improving the credit quality of the Company's loan production, (iii) continuing to reduce its all-in loan acquisition costs, (iv) concentrating on originating higher-value loans and reducing low-margin production, (v) improving the ratio of loans funded over total loans submitted, and (vi) evaluating securitization alternatives that could yield net cash proceeds to the Company equal to or greater than the proceeds received through whole loan sales, with no additional residual financing required.

LOAN ORIGINATIONS AND PURCHASES

The Company originates and purchases loans through New Century Mortgage's traditional Wholesale Division, through its Worth Funding Inc. subsidiary, its traditional Retail Branch Operations Division and the Central Retail Division. These divisions originate and purchase loans as follows:

The Wholesale Division originates and purchases loans through a network of independent mortgage brokers and correspondents solicited by the Division's account executives. These account executives provide on-site customer service to the broker to facilitate the funding of the loan.

Worth Funding originates and purchases loans by soliciting and servicing brokers through its centralized telemarketing approach, operating from one central office where all decisions can be made promptly.

The Retail Branch Operations Division originates loans direct to the consumer through the Company's 69 retail branch offices located in 26 states.

The Central Retail Division originates, processes and underwrites home mortgage loans nationwide. Loan Officers fulfill customer requests, operating from one central office. Leads are generated through radio, direct mail, telemarketing and the Company's websites.

WHOLESALE AND WORTH FUNDING. During 2000, the Company's wholesale originations and purchases totaled $3.0 billion, or 73.3% of the Company's total loan production, including $123.5 million, or 3.0%, originated through Worth Funding, which was acquired by the Company in March 2000. As of December 31, 2000, the Wholesale Division was operating through five regional operating centers located in Southern California, Northern California, Chicago, Illinois, Englewood, Colorado, and Tampa, Florida and through 21 additional sales offices located in Alabama, California, Idaho, Indiana, Massachusetts, Michigan, Minnesota, Missouri (2), Nevada, New Mexico, Ohio (2), Oregon, Tennessee, Texas (2), Virginia, Washington (2), and Wisconsin, employing a total of 126 account executives. As of December 31,

2000, the Company had relationships with approximately 6,184 approved mortgage brokers and during 2000 originated loans through approximately 4,900 brokers. During 2000, New Century's ten largest producing brokers originated approximately 8.0% of the Company's loans, with the largest broker accounting for approximately 1.3% of the Division's production.

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

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

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

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

	For the Quarters Ended			
	March 31, 2000	**June 30, 2000**	**September 30, 2000**	**December 31, 2000**
Principal balance (in thousands)	$ 709,480	$ 793,172	$ 766,680	$ 772,429
Average principal balance per loan (in thousands)	$ 106	$ 113	$ 118	$ 133
Combined weighted average initial loan-to-value ratio	78.8%	79.4%	78.1%	78.9%
Percent of first mortgage loans	97.0	95.9	95.9	97.9
Property securing loans:				
Owner occupied	93.2	93.9	95.0	93.7
Non-owner occupied	6.8	6.1	5.0	6.3
Weighted average interest rate:				
Fixed-rate	10.9	11.5	11.5	11.3
ARMs	10.3	10.5	10.5	10.5
Margin ARMs	6.1	6.1	6.1	6.3

Note. Worth Funding was acquired at the end of March. The quarter ending March 31, 2000 does include one Worth Funding loan.

RETAIL BRANCH OPERATIONS DIVISION AND CENTRAL RETAIL DIVISION. During 2000, the Retail Branch Operations Division originated $797.5 million in loans, or 19.2% of the Company's total loan production. The Central Retail Division originated $313.0 million, or 7.5% of the Company's total loan production. As of December 31, 2000, the Retail Branch operations Division employed 279 retail loan officers, located in 69 sales offices in Arizona (3), California (19), Colorado, Florida (4), Georgia, Hawaii (2), Illinois (2), Kentucky, Louisiana, Massachusetts, Michigan, Minnesota (3), Missouri (2), Montana, Nevada (2), New Jersey, New Mexico, Ohio (3), Oklahoma, Oregon, Pennsylvania, Tennessee (2), Texas (8), Utah, Virginia (2), and Washington (4). As of December 31, 2000, the Central Retail Division employed 64 loan officers and The Anyloan Company employed 10 loan officers at their offices in Irvine, California.

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

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The following table sets forth selected information relating to loan originations through the Retail Branch Operations Division and Central Retail Division during the periods shown:

	For the Quarters Ended			
	March 31, 2000	**June 30, 2000**	**September 30, 2000**	**December 31, 2000**
Principal balance (in thousands)	$ 246,981	$ 317,204	$ 284,084	$ 262,327
Average principal balance per loan (in thousands)	$ 90	$ 88	$ 87	$ 96
Combined weighted average initial loan-to-value ratio	78.6%	78.6%	77.8%	77.1%
Percent of first mortgage loans	92.7	88.3	91.3	95.3
Property securing loans:				
Owner occupied	94.1	94.8	96.2	96.1
Non-owner occupied	5.9	5.2	3.8	3.9
Weighted average interest rate:				
Fixed-rate	10.6	10.7	11.0	10.8

	For the Quarters Ended			
ARMs	10.0	10.1	10.4	10.5
Margins ARMs	6.1	6.2	6.2	6.4

MARKETING

RETAIL BRANCH MARKETING. New Century Mortgage's Retail Branch Operations Division relies primarily on targeted direct mail and outbound telemarketing to attract borrowers. New Century Mortgage's direct mail programs are managed by a centralized staff who create a targeted mailing list for each branch market and oversee the completion of mailings by a third party mailing vendor. All calls or written inquiries from potential borrowers which result from the mailings are tracked centrally and then forwarded to each branch location and handled by branch loan officers. The Division's website (www.newcenturymortgage.com) is used in the direct mail program 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 collateral property and refers qualified leads to loan officers in the retail branch closest to the customer.

CENTRAL RETAIL MARKETING. New Century Mortgage's Central Retail Division engages in a variety of direct response advertising, such as purchased leads from aggregators, radio advertising, direct mail, search engine placement, banner ads, e-mail campaigns and links to related websites. Central Retail also markets to New Century Mortgage's current customer base through direct mail, "statement stuffers" and outbound telemarketing. In addition, Central Retail maintains a comprehensive database on all customers with whom it has had contact and markets to these potential customers in an effort to convert them to application.

WHOLESALE MARKETING. New Century Mortgage's Wholesale Division's marketing strategy focuses on the sales efforts of its account executives, and on providing prompt, consistent service to brokers and their customers. These efforts are supplemented with the Division's e-commerce website, direct mail and fax programs to brokers, advertisements in trade publications, in-house production of collateral sales material, seminar sponsorships, tradeshow attendance and periodic sales contests.

WORTH FUNDING MARKETING. Worth's Funding marketing strategy relies on direct broker solicitation, fax programs as well as convention and conference attendance.

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FINANCING LOAN ORIGINATIONS AND LOANS HELD FOR SALE

The Company requires access to credit facilities in order to originate and purchase mortgage loans and to hold them pending their sale or securitization. The Company relies on a $265 million short-term warehouse credit facility led by U.S. Bank National Association to fund its originations and purchases. The Company also relies on aggregation financing facilities totaling $900 million with Salomon Brothers Realty Corp. and Morgan Stanley Dean Witter Mortgage Capital Inc. to finance the loans pending their sale or securitization. See " Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

PRODUCT TYPES

The Company offers both fixed-rate and adjustable-rate loans ("ARMs"), as well as loans with an interest rate that is initially fixed for a period of time and subsequently converts to an adjustable rate. Most of the ARMs originated by the Company are offered at a low initial interest rate, sometimes referred to as a "start rate." At each interest rate adjustment date, the Company adjusts the rate, subject to certain limitations on the amount of any single adjustment and a cap on the aggregate of all adjustments.

The Company's borrowers fall into six sub-prime risk classifications. The Company's products are available at different interest rates and with different origination and application points and fees depending on the particular borrower's risk classification (see "Business Underwriting Standards"). Borrowers may choose to increase or decrease their interest rate through the payment of different levels of origination fees and many of the Company's fixed-rate borrowers, in particular, choose to "buy down" their interest rate through the payment of additional origination fees. The Company's maximum loan amounts are generally $500,000 with a loan-to-value ratio of up to 80%. The Company does, however, offer larger loans with lower loan-to-value ratios on a case-by-case basis, and also offers products that permit a loan-to-value ratio of up to 90% for selected borrowers with a Company risk classification of "A+" or "A-."

Loans originated or purchased by the Company in 2000 had an average loan amount of approximately $108,000 and an average loan-to-value ratio of approximately 78.6%. If permitted by applicable law and agreed to by the borrower, the Company's loans may also include a prepayment charge that is triggered by the loan's full or substantial prepayment early in the loan's term. Approximately 84% of the loans originated or purchased by the Company in 2000 included some form of prepayment provision.

UNDERWRITING STANDARDS

The Company originates or purchases its mortgage loans in accordance with the underwriting criteria (the "Underwriting Guidelines") described below. The loans the Company originates or purchases generally do not satisfy conventional underwriting standards, such as those utilized by Fannie Mae and Freddie Mac. Therefore, the Company's loans are likely to have higher delinquency and foreclosure rates than portfolios of mortgage loans underwritten to Fannie Mae and Freddie Mac standards.

The 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 information on the applicant's liabilities, income, credit history, employment history and personal information. Based on review of the loan application and other applicant data against the Underwriting Guidelines, the Company determines the loan terms, including the interest rate and maximum loan-to-value ratio.

CREDIT HISTORY. The Underwriting Guidelines require a credit report on each applicant from a credit reporting company. In evaluating the applicant's credit history, the Company utilizes credit bureau risk

scores (a "FICO score"), a statistical ranking of likely future credit performance developed by Fair, Isaac & Company and the three national credit data repositories Equifax, TransUnion and Experian.

COLLATERAL REVIEW. All mortgaged properties are appraised by qualified independent appraisers prior to the loan's funding. The appraiser inspects and appraises the property and verifies that it is in acceptable condition. Following each appraisal, the appraiser prepares a report which includes a market value analysis based on recent sales of comparable homes in the area and, when deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home. All appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and are generally on forms acceptable to Fannie Mae and Freddie Mac. The Underwriting Guidelines require a review of the appraisal by a qualified employee of the Company or by a qualified review appraiser retained by the Company. The Underwriting Guidelines then require the Company's 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. The Underwriting Guidelines include three levels of applicant documentation requirements, referred to as the "Full Documentation," "Limited Documentation" and "Stated Income Documentation" programs. Under the Full Documentation program, applicants generally are required to submit two written forms of verification of stable income for at least twelve months. Under the Limited Documentation program, applicants are generally required to submit twelve consecutive monthly bank statements on their individual bank account. Under the Stated Income Documentation program, an applicant may be qualified based upon monthly income as stated on the mortgage loan application if the applicant meets certain criteria. All the foregoing programs require that, with respect to salaried employees, the applicant's employment be verified by telephone. Verification of the source of funds (if any) required to be deposited by the applicant into escrow in the case of a purchase money loan is required. Under each of the programs, the Company reviews the applicant's source of income, calculates the amount of income from sources indicated on the loan application or similar documentation, reviews the applicant's credit history, calculates the debt service-to-income ratio to determine the applicant's ability to repay the loan, reviews the type and use of the property being financed, and reviews the property. In determining the applicant's ability to repay the loan, the Company's underwriters use a qualifying rate that is equal to the initial interest rate on such loan (in the case of other LIBOR-based loans).

UNDERWRITING REQUIREMENTS. In general, the maximum loan amount for mortgage loans originated under the programs is $500,000. The Underwriting Guidelines permit loans on one-to-four-family residential properties to have (i) a loan-to-value ratio at origination of up to 90%, with respect to non-conforming first liens, (ii) a combined loan-to-value ratio at origination of up to 100% with respect to non-conforming second liens and (iii) a combined loan-to-value ratio at origination of up to 100% with respect to conforming second liens, in each case depending on, among other things, the purpose of the mortgage loan, a borrower's credit history, repayment ability and debt service-to-income ratio, as well as the type and use of the property. With respect to mortgage loans secured by mortgaged properties acquired by a borrower under a "lease option purchase," the loan-to-value of the related mortgage loan is based on the lower of the appraised value at the time of origination of such mortgage loan or the sale price of the related mortgaged property if the "lease option purchase price" was set less than twelve months prior to origination and is based on the appraised value at the time of origination if the "lease option purchase price" was set twelve months or more prior to origination.

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

SUMMARY OF PRINCIPAL UNDERWRITING GUIDELINES *(1)*

	A+ Risk	*A- Risk*	*B Risk*	*C Risk*	*C- Risk*
Existing mortgage History	Maximum one 30-day late payment and no 60-day late payments w/in last 12 mos.; must have an LTV of 90% or less.	Maximum three 30-day late payments and no 60-day late payments w/in last 12 mos.	Maximum one 60-day late payment within last 12 months; must be less than 90 days late at funding.	Maximum one 90-day late payment within last 12 months; must be less than 120 days late at funding.	Maximum of two 90-day late payments and one 120-day late payment w/in last 12 months; less than 150 days late at funding. No current Notice of Default.
Other credit	4 accts w/30-day late payments or FICO score of 620 or higher; no more than $500 in open collection accounts or charge-offs open after funding.	Past/Present 30-day late payments and 1 acct w/60 day late payment or FICO score of 590 or higher; no more than $1,000 in open collection accounts or charge-offs open after funding.	Past/Present 30-day late payments and 4 accts w/60-day late payments and 2 accts w/90-day late payments or FICO score of 570 or higher; some prior defaults acceptable; no more than $2,500 in open collection accounts or charge-offs open after funding.	Significant prior defaults acceptable; Generally, no more than $5,000 in open collection accounts or charge-offs open after funding; on a case by case basis.	Significant defaults acceptable; collection accounts may remain open after funding.
Bankruptcy filings	Generally, no Chapter 7 or 13 Bankruptcy discharge in last 2 years or Notice of Default filings in last 3 years.	Generally, no Bankruptcy filings in last 2 years or Notice of Default filings in last 3 years.	Generally, no Bankruptcy discharge in last 18 months or Notice of Default filings in last 2 years.	Generally, no Bankruptcy or Notice of Default filings in last 12 months.	Generally, no Chapter 7 Bankruptcy discharge in last 12 mos. or Chapter 13 Bankruptcy filing allowed in last 12 months and no current NOD in last 12 months.
Debt service to income Ratio	45% to 55%	45% to 55%	55% to 59%	55% to 59%	50% to 59%
Maximum loan-to-value ratio ("LTV"):*(2)*					
Owner occupied: single family	90%	90%	80%	75%	70%
Owner occupied: condo/three-to-four unit	85%	85%	75%	70%	65%
Non-owner occupied	85%	80%	75%	70%	65%

(1)

The letter grades applied to each risk classification reflect the Company's internal standards and do not necessarily correspond to the classifications used by other mortgage lenders. "LTV" means loan-to-value ratio.

(2)

The maximum LTV set forth in the table is for borrowers providing full documentation. The LTV is reduced 5% for stated income applications, if applicable. Additionally, if the borrower's FICO score meets or exceeds the risk category and debt ratio guidelines, consumer credit may be disregarded.

MORTGAGE CREDIT ONLY PROGRAM. In addition to the five risk grade categories described above, New Century Mortgage also has a Mortgage Credit Only program. This program uses the applicant's mortgage payment history as the primary factor in qualifying the applicant's ability to repay the loan. The Mortgage Credit Only program allows no more than three 30-day late payments and no 60-day late payments within the last 12 months on an existing mortgage loan and must be current at funding. An existing mortgage loan is not required to be current at the time the application is submitted. Derogatory credit report items are allowed as to non-mortgage credit. Mortgage Credit Only loans are not available under the Stated or Limited Income Documentation program. No bankruptcy or notice of default filings may have occurred during the preceding two years; provided, however, that if the borrower's bankruptcy has been discharged during the past two years and the borrower has re-established a credit history otherwise complying with the credit parameters set forth in this paragraph, the borrower may then qualify under the Mortgage Credit Only program. The mortgaged property must be in at least average condition. A maximum loan-to-value of 85% is permitted for a mortgage loan on a single-family owner-occupied property. A maximum loan-to-value of 80% is permitted for a mortgage loan on a non-owner occupied property, second home, owner-occupied condominium, or two- to four-family residential property. The debt service-to-income ratio is generally limited to a maximum of 55%.

HOME SAVER PROGRAM. The Company has established a sub-category of its C- credit grade (the "Home Saver Program") for borrowers faced with at least one of the following credit scenarios: (i) the borrower has an existing mortgage currently in foreclosure, (ii) the borrower is subject to a notice of default filing, or (iii) the borrower has had a serious mortgage delinquency for more than one 120 day period in the last 12 months or is more than 90 days late at the time of funding. The Home Saver Program is available only to Full Documentation borrowers and permits a maximum loan-to-value of 65% and a maximum debt service-to-income ratio of 55%. The maximum loan is $300,000 and all derogatory credit report items must either be brought current or paid through the loan proceeds. A maximum of 3% of the loan proceeds may be paid to the borrower in cash. If the borrower is in an open Chapter 13 or Chapter 11 bankruptcy, the bankruptcy must be discharged through the proceeds of the loan.

FICO SCORE PROGRAM. The Company has introduced a "FICO Score Program" which uses the credit bureau score of the primary borrower to evaluate their consumer credit profile. The Company uses the credit or FICO score, in conjunction with the applicant's mortgage repayment history and any instance of bankruptcy or mortgage default, to gauge creditworthiness. The risk grade categories are determined by a credit score range that aligns with the Company's letter grade categories for its core products. The FICO score program allows the same income documentation types, full documentation, limited documentation and stated income documentation on loans that are assigned a letter risk grade. Adjustments to loan-to-value, property type, occupancy type, debt-to-income ratios and income documentation type are similar to the Company's basic products. All stated income documentation on non-owner occupied properties is not allowed under this program.

EXCEPTIONS. The categories and criteria described in the above table are guidelines only. On a case-by-case basis, the Company may determine that an applicant warrants a loan-to-value exception, a debt service-to-income ratio exception, or another exception to the Underwriting Guidelines. The Company may allow such an exception if the application reflects certain compensating factors such as low LTV, pride of ownership, a maximum of one 30-day late payment on all mortgage loans during the last 12 months, and stable employment or ownership of current residence. The Company may also allow an exception if the applicant places a down payment through escrow of at least 20% of the purchase price of the mortgage property or if the new loan reduces the applicant's monthly aggregate mortgage payment by 25% or more. The trend in loans containing at least one exception declined during the course of 2000 from 37.33% in the first quarter to 36.61% in the second quarter, 28.79% in the third quarter and 26.26% in the fourth quarter.

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

AUTOMATED CREDIT GRADING. During the third quarter of 2000, the Company implemented an automated credit grading process to eliminate errors in reading and interpreting credit reports and assigning the correct grade to individual loans. This process was completely integrated into the Company's underwriting process during the fourth quarter of 2000 resulting in a marked improvement in the grading accuracy of the Company's loans.

LOAN PRODUCTION BY BORROWER RISK CLASSIFICATION

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

	For the Quarters Ended			
	March 31, 2000	**June 30, 2000**	**September 30, 2000**	**December 31, 2000**
A+ Risk Grade:				
Percent of total purchases and originations	31.8%	32.7%	31.5%	34.8%
Combined weighted average initial loan-to-value ratio	82.5	82.8	81.5	82.5
Weighted average interest rate:				
Fixed-rate	10.4	10.8	10.8	10.7
ARMs	9.8	10.0	10.0	10.2
Margin ARMs	5.8	5.8	5.8	6.0
A- Risk Grade:				
Percent of total purchases and originations	30.9%	27.3%	27.6%	29.0%
Combined weighted average initial loan-to-value ratio	80.5	80.2	79.3	78.5
Weighted average interest rate:				
Fixed-rate	10.4	10.8	11.0	10.9
ARMs	10.0	10.2	10.2	10.3
Margin ARMs	6.2	6.2	6.2	6.4
FICO Score Risk Grade:				
Percent of total purchases and originations	0.9%	6.9%	5.9%	4.5%
Combined weighted average initial loan-to-value ratio	86.3	84.9	83.6	85.2
Weighted average interest rate:				
Fixed-rate	10.7	10.7	10.5	10.6
ARMs	9.3	9.7	9.6	9.4
Margin ARMs	5.3	5.0	4.9	5.0
B Risk Grade:				
Percent of total purchases and originations	22.5%	20.7%	21.9%	20.1%
Combined weighted average initial loan-to-value ratio	76.6	76.5	75.4	75.3
Weighted average interest rate:				
Fixed-rate	10.9	11.3	11.3	11.2
ARMs	10.3	10.5	10.6	10.7
Margin ARMs	6.3	6.4	6.4	6.6
C Risk Grade:				
Percent of total purchases and originations	9.4%	8.1%	7.9%	7.4%
Combined weighted average initial loan-to-value ratio	71.9	71.3	71.8	71.9
Weighted average interest rate:				
Fixed-rate	11.8	12.8	12.5	12.3
ARMs	11.3	11.6	11.7	11.6
Margin ARMs	6.6	6.7	6.7	6.9

	For the Quarters Ended			
C- Risk Grade:				
Percent of total purchases and originations	4.5%	4.3%	5.2%	4.2%
Combined weighted average initial loan-to-value ratio	64.5	64.6	63.8	64.1
Weighted average interest rate:				
Fixed-rate	13.0	13.4	13.4	13.1
ARMs	12.6	13.1	12.9	12.7
Margin ARMs	6.7	6.7	6.7	6.9

GEOGRAPHIC DISTRIBUTION

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

	For the Quarters Ended							
	March 31, 2000		**June 30, 2000**		**September 30, 2000**		**December 31, 2000**	
	$	**%**	**$**	**%**	**$**	**%**	**$**	**%**
California	$ 311,517	32.6%	$ 423,799	38.2%	$ 414,639	39.5%	$ 423,712	40.9%
Texas	59,875	6.3%	66,510	6.0%	75,219	7.2%	69,081	6.7%
Florida	58,249	6.1%	59,433	5.4%	59,305	5.6%	57,895	5.6%
Illinois	71,025	7.4%	56,346	5.1%	55,864	5.3%	49,271	4.8%
Michigan	36,807	3.8%	47,028	4.2%	39,986	3.8%	36,624	3.5%
Massachusetts	40,630	4.2%	40,370	3.6%	30,003	2.8%	44,437	4.3%
Colorado	30,570	3.2%	45,624	4.1%	37,972	3.6%	41,113	4.0%
Minnesota	30,434	3.2%	34,605	3.1%	31,388	3.0%	25,396	2.5%
Washington	34,063	3.6%	39,635	3.6%	27,806	2.6%	22,813	2.2%
Arizona	16,772	1.7%	22,224	2.0%	29,787	2.8%	24,370	2.4%
Other	266,519	27.9%	274,802	24.7%	248,795	23.8%	240,044	23.1%
Total	$ 956,461	100.0%	$ 1,110,376	100.0%	$ 1,050,764	100.0%	$ 1,034,756	100.0%

The Company's loan production in California increased noticeably from the first quarter of 2000 to the fourth quarter of 2000 due primarily to the consolidation of the Company's production units on the east coast, the curtailment of unprofitable products in several other states and an increase in the Company's presence on the west coast.

LOAN SALES AND SECURITIZATIONS

The Company's subsidiary, NC Capital Corporation, performs its secondary marketing functions. First, NC Capital buys loans from New Century Mortgage within a week or two after origination, paying a price that approximates the loans' secondary market value. NC Capital then sells the loans through both securitizations and bulk sales to institutional purchasers of whole loans. NC Capital is responsible for determining when and through which channel to sell the loans, and bears the risks of market fluctuations in the period between purchase and sale.

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

In 2000, whole loan sales accounted for $3.1 billion, or 75.3% of the Company's total loan sales. Of this amount, 32.4% were sold servicing-retained and 67.6% were sold servicing-released. In the servicing-retained sales, the Company agreed to service the loans for a fee of 0.50% per year of the outstanding principal balance of the loans. The weighted average sales price of the Company's 2000 whole loan sales was equal to 3.11% of the original principal balance of the loans sold, including premiums paid by investors for servicing rights.

The Company seeks to maximize its premium on whole loan sale revenue by closely monitoring institutional purchasers' requirements and focusing on originating or purchasing the types of loans that meet those requirements and for which institutional purchasers tend to pay higher premiums. During the year ended December 31, 2000, the Company sold $1.3 billion in loans to CS First Boston and $483.4 million in loans to CIT, which represented 31.9% and 11.6%, respectively, of total loans sold.

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

SECURITIZATIONS. During the first three quarters of 2000, the Company completed three securitization transactions, two through Salomon Smith Barney, Inc. and one through Greenwich Capital Markets, Inc.

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

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

Two of the 2000 securitizations were credit enhanced by an insurance policy provided through a monoline insurance company as well as lender-paid private mortgage insurance. The other securitization was credit enhanced through the use of subordinated certificates instead of an insurance policy. The Company used credit enhancements in each of its securitizations to allow the senior certificates in the related trusts to receive ratings of "AAA" from Standard & Poor's Rating Services and "Aaa" from Moody's Investors Service, Inc. The Company also provides credit enhancement in the form of an over-collateralization account.

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

During 2000, the Company repurchased $16.4 million in loans out of one of its 1998 securitizations. Such repurchases are permitted only when the applicable loan defaults and are undertaken by the Company in order to avoid disruption of cash flow from certain securitization trusts and to provide the Company with maximum flexibility in resolving problem loans. In addition, during the year ended December 31, 2000, the Company recorded a total of $67.0 million in write-downs to the carrying value of its residual securities. These adjustments were the result of (i) continued increases in interest rates during

parts of the year, which decreased the excess spread cash flow in the adjustable rate securities, (ii) an increase in the discount rate by 1%, (iii) the "call" of the bonds on the Company's 1998-NC5 security in the fourth quarter, and (iv) the monitoring of actual vs. expected assumptions. As a result, the Company has increased its prepayment speed and loss assumptions used in its valuation methodology. See

" Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations."

LOAN SERVICING AND DELINQUENCIES

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

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

As of December 31, 2000, the Company's servicing portfolio consisted of 59,323 loans with an aggregate principal balance of approximately $6.1 billion, of which 3,721 loans with an aggregate principal balance of $401.1 million were held for sale and serviced on an interim basis, 53,372 loans with an aggregate principal balance of $5.3 billion were serviced for securitizations, and 2,230 loans with an aggregate principal balance of $306.4 million were serviced on behalf of the whole loan purchasers thereof.

In March 2001, the Company sold the servicing rights on approximately $4.8 billion of its servicing portfolio to Ocwen Federal Bank FSB for $19.7 million. The transfer of the Company's servicing portfolio to Ocwen's Orlando, Florida servicing platform is scheduled to be completed by August 1, 2001. After the transfer date, the Company will no longer receive servicing fees and related income, on this portion of the portfolio but will still continue to receive the interest on the residual securities.

DELINQUENCIES AND FORECLOSURES. Loans originated or purchased by the Company are secured by mortgages, deeds of trust, security deeds or deeds to secure debt, depending upon the prevailing practice in the state in which the property securing the loan is located. Depending on local law, foreclosure is effected by judicial action or non-judicial sale, and is subject to various notice and filing requirements. In general, the borrower, or any person having a junior encumbrance on the real estate, may cure a monetary default by paying the entire amount in arrears plus other designated costs and expenses incurred in enforcing the obligation during a statutorily prescribed reinstatement period. Generally, state law controls the amount of foreclosure expenses and costs, including attorney's fees, which may be recovered by a lender. After the reinstatement period has expired without the default having been cured, the borrower or junior lien-holder no longer has the right to reinstate the loan and may be required to pay the loan in full to prevent the scheduled foreclosure sale. Where a loan has not yet been sold or securitized, the Company will generally allow a borrower to reinstate the loan up to the date of foreclosure sale.

Although foreclosure sales are typically public sales, third-party purchasers rarely bid in excess of the lender's lien because of the difficulty of determining the exact status of title to the property, the possible deterioration of the property during the foreclosure proceedings and a requirement that the purchaser pay for the property in cash or by cashier's check. Thus, the foreclosing lender often purchases the property from the trustee or referee for an amount equal to the sum of the principal amount outstanding under the loan, accrued and unpaid interest and the expenses of foreclosure. Depending on market conditions, the ultimate proceeds of the sale may not equal the lender's investment in the property.

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

The following table provides information as of December 31, 2000 for the Company's 1997, 1998, 1999 and 2000 securitized loans delinquent over 60 days (dollars in thousands):

Risk Grade	Original Balance	Current Balance	Orig. LTV%	Orig. FICO	Vintage 1997	Vintage 1998	Vintage 1999	Vintage 2000	Total
A+	$ 2,669,647	$ 1,607,117	77.95	648	7.09%	8.33%	5.01%	3.45%	5.94%

A-	2,518,496	1,523,248	77.48	595	9.43%	10.78%	6.75%	4.86%	7.86%
B	1,435,016	857,055	74.41	566	14.18%	14.50%	11.38%	8.85%	11.92%
C	880,707	495,328	70.36	552	22.37%	20.42%	15.55%	13.26%	16.85%
C-	392,184	175,726	63.85	549	24.87%	26.82%	28.45%	22.42%	26.55%
FICO	3,185	3,175	82.76	657	0.00%	0.00%	0.00%	0.00%	0.00%
Total	$ 7,899,235	$ 4,661,649	75.61	602	11.59%	12.09%	8.55%	7.60%	9.60%

NOTE: The delinquency percentages presented are based on the current balance of the loans in each of the credit grades listed.

The foregoing table indicates that, as anticipated, the Company is experiencing higher rates of delinquency on lower credit grade loans. In addition, the Company has repurchased loans from its first three 1997 and one of its 1998 securitizations. The agreements governing the securitizations permit such repurchases, but only to the extent the loans being repurchased are more than 90 days delinquent. The Company elected to make the repurchases in order to avoid disruption of cash flow from the 1997-NC1, NC2 and NC3 and 1998-NC5 trusts and to provide the Company with maximum flexibility in resolving problem loans.

In order to provide the Company additional flexibility in trying to maximize recovery on its delinquent loans and loans in foreclosure, the Company's Salomon and Morgan Stanley aggregation financing arrangements permit financing of a limited number of such loans at a reduced financing rate based on the value of the underlying property. In addition, Salomon permits financing of real property owned ("REO") by the Company upon foreclosure on delinquent loans. This facility allows the Company additional flexibility in disposing of those properties for the highest possible price.

SALE OF SERVICING RIGHTS TO OCWEN FEDERAL BANK FSB

In March 2001, the Company sold the servicing rights on approximately $4.8 billion of its servicing portfolio, comprising 25 asset-backed securities, to Ocwen Federal Bank FSB for $19.7 million. The Company will retain approximately $1 billion in mortgage servicing rights on loans that have not been securitized. These servicing rights may be sold to Ocwen in future periods. Ocwen also purchased the Company's outstanding servicing advance receivables and assumed responsibility for all future servicing advance obligations on these 25 asset-backed securities. As part of the transaction, the Company also agreed to sell Ocwen servicing rights with respect to up to $3 billion in mortgage loans between March 2001 and December 31, 2002 at a price to be determined based on the characteristics of those servicing rights. With the cash proceeds from the Ocwen transaction, the Company was able to (i) repay the portion of its warehouse line of credit secured by servicing advances, (ii) repay the outstanding balance

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on its $22.5 million working capital line of credit with US Bank, (iii) purchase interest rate "hedge" protection for the residual cash flows, and (iv) increase its liquidity.

Ocwen is one of the country's highest-rated specialty servicers and has a strong capital position. The Company believes that it will provide bondholders and loan buyers with greater comfort that the servicer will be able to achieve consistent collateral performance throughout the life of the loans. The transfer of the Company's servicing portfolio to Ocwen's Orlando, Florida servicing platform is scheduled to be completed by August 1, 2001. There can be no assurance that the parties will be able to complete the transfer by that date.

After August 1, 2001, the Company does not expect to maintain a separate full-service servicing facility. The Company is exploring the possibility of selling its existing servicing platform to a third party or offering limited servicing-related services. The Company expects it will incur one-time expenses relating to the closure or sale of its servicing operations of approximately $1.5 million.

U.S. BANCORP INVESTMENT AND STRATEGIC ALLIANCE

U.S. Bancorp, a bank holding company with total assets of approximately $160 billion, owns common stock and preferred stock in the Company that, if converted, would together represent approximately 24.8% of the Company's total outstanding common stock. In the fourth quarter of 1999, U.S. Bancorp provided $20 million of subordinated debt to the Company.

During 2000, U.S. Bancorp provided an additional $20 million in subordinated debt, and also extended the maturity of the total subordinated debt to June 2002. The subordinated debt bears interest at a rate of 12% per year. In connection with the provision of additional subordinated debt and the term extension, the Company issued U.S. Bancorp's subsidiary, U.S. Bank National Association, warrants exercisable for up to

725,000 shares of the Company's common stock at an exercise price equal to the fair market value on the grant date. If all stock and warrants were converted by U.S. Bank, their interest in the Company's total outstanding common stock would be approximately 28.5%.

During 2000, U.S. Bank National Association also provided up to an additional $22.5 million in financing to the Company secured by servicing advance receivables not covered by the principal warehouse credit agreement as well as by the Company's loans held for sale that are not already pledged elsewhere. The facility was structured as a weekly rolling repurchase agreement with an interest rate equal to 12.0%.

In January 2001, U.S. Bank forfeited its rights to the 725,000 warrants issued in connection with the April 2000 subordinated debt financing transaction with the Company. The forfeiture decision arose in the course of the Federal Reserve's review of the pending U.S. Bancorp/Firstar Corp. merger. Federal regulators had concluded that U.S. Bancorp's rights under its shareholder agreements with the Company's founding managers would result in the Company being deemed an "affiliate" under the Federal Reserve Act. In order to avoid the complications relating to affiliate status and to facilitate the merger approval process, U.S. Bancorp elected to forfeit the warrants and terminate the shareholder agreements. As a result, U.S. Bancorp's equity interest now stands at 24.8% of the Company.

In March 2001, in connection with the closing of the Ocwen servicing rights purchase, U.S. Bancorp agreed to extend the maturity of its $40 million in subordinated debt until December 31, 2003.

On March 29, 2001, U.S. Bancorp notified the Company that it was terminating its right to representation on the Company's Board of Directors. U.S. Bancorp received this right under its 1998 Preferred Stock Purchase Agreement with the Company. The two U.S. Bancorp-designated directors currently serving on the Board remain directors as of the date hereof, but no longer serve as designees of U.S. Bancorp.

INSURANCE AGENCY

During 2000, the Company established an affiliated insurance agency, NC Insurance Services, Inc., in order to be able to offer certain insurance products to the Company's customers. The agency's revenues during 2000 were $1.7 million. The vast majority of this revenue was from commissions earned on the placement of hazard and flood collateral protection insurance. The agency is also beginning to offer Accidental Death and Dismemberment coverage to the Company's customers, and is evaluating a variety of other insurance products that might be of interest to those customers.

Upon the transfer of the Company's servicing rights to Ocwen, the Company will no longer have the ability to offer insurance products to the mortgagors on the Company's securitized loans. However, the Company plans to continue to offer insurance products from time to time to the borrowers on the Company's loans held for sale. The Company may also begin offering credit insurance products to borrowers at origination, although the Company does not intend to offer any single premium insurance products.

INTEREST RATE RISK MANAGEMENT

The Company's profitability may be directly affected by changes in interest rates. First, such changes may affect the Company's ability to earn a spread between the interest received on its loans and its funding costs. Second, a substantial and sustained increase in interest rates could adversely affect borrower demand for the Company's products. Third, during periods of rising interest rates, the value and profitability of the Company's loans may also be negatively impacted from the date of origination or purchase until the date the Company sells or securitizes such loans. Fourth, the Company's adjustable rate mortgage loans have a life rate cap above which the interest rate on the loan may not rise. In the event of general interest rate increases, the rate of interest on these mortgage loans could be limited, while the rate payable on the senior certificates representing interests in a securitization trust into which such loans are sold may be uncapped, which would reduce the amount of cash the Company receives over the life of its residual interests, thereby requiring the Company to reduce the carrying value of such residual interests. Fifth, a significant decrease in interest rates could increase the rate at which loans are prepaid, which would also reduce the amount of cash the Company receives over the life of its residual interests. Either of the fourth or fifth events could require the Company to reduce the carrying value of its residual interests, which would have a material adverse effect on the Company's results of operations, financial condition and business prospects

COMPETITION

The Company continues to face intense competition in the business of originating, purchasing and selling mortgage loans. The Company's competitors include other consumer finance companies, mortgage banking companies, commercial banks, credit unions, thrift institutions, credit card issuers and insurance finance companies. Most notably, in recent quarters, some large, diversified financial corporations have purchased several of the Company's competitors. In addition, other large financial institutions have gradually been expanding their subprime lending capabilities. Many of these companies have access to capital at a cost lower than the Company's cost of capital under its warehouse, aggregation and residual financing facilities. In addition, many of these competitors have considerably greater technical and marketing resources than the Company.

Competition among industry participants can take many forms, including convenience in obtaining a loan, customer service, marketing and distribution channels, amount and term of the loan, loan origination fees and interest rates. Additional competition may lower the rates the Company can charge borrowers, thereby potentially lowering gain on future loan sales and securitizations. To the extent any of the Company's competitors significantly expands its activities in the Company's markets, the Company

could be materially adversely affected. Fluctuations in interest rates and general economic conditions may also affect the Company's competitive position. During periods of rising rates, competitors that have locked in low borrowing costs may have a competitive advantage. During periods of declining rates, competitors may solicit the Company's customers to refinance their loans.

The Company believes that one of its key competitive strengths is its employees, with their strong commitment to customer service and their team-oriented approach. In addition to the strength of the Company's work force, the Company believes that its competitive strengths include: (i) providing a high level of service to brokers and their customers; (ii) offering competitive loan programs for borrowers whose needs are not met by conventional mortgage lenders; (iii) the Company's high-volume targeted direct mail marketing program, and (iv) its performance-based compensation structure which allows the Company to attract, retain and motivate qualified personnel.

REGULATION

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

The Company's loan origination and loan purchase activities are subject to the laws and regulations in each of the states in which those activities are conducted. For example, state usury laws limit the interest rates the Company can charge on its loans. As of December 31, 2000, the Company was licensed or exempt from licensing requirements by the relevant state banking or consumer credit agencies to originate first mortgages in 50 states and the District of Columbia and second mortgages in 48 states and the District of Columbia. The Company's lending activities are also subject to various federal laws, including the Truth in Lending Act, Homeownership and Equity Protection Act of 1994, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Real Estate Settlement Procedures Act and the Home Mortgage Disclosure Act, and their implementing regulations.

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

The Company is also subject to the Homeownership and Equity Protection Act of 1994 (the "High Cost Mortgage Act"), which amends TILA. The High Cost Mortgage Act generally applies to consumer credit transactions secured by the consumer's principal residence, other than residential mortgage transactions, reverse mortgage transactions or transactions under an open end credit plan, in which the loan has either (i) total points and fees upon origination in excess of the greater of eight percent of the loan amount or $465, or (ii) an annual percentage rate of more than ten percentage points higher than United States Treasury securities of comparable maturity ("Covered Loans"). The High Cost Mortgage Act imposes additional disclosure requirements on lenders originating Covered Loans. In addition, it prohibits lenders from, among other things, originating Covered Loans that are underwritten solely on the basis of the borrower's home equity without regard to the borrower's ability to repay the loan and including prepayment fee clauses in Covered Loans to borrowers with a debt-to-income ratio in excess of 50% or Covered Loans used to refinance existing loans originated by the same lender. The High Cost Mortgage Act also restricts, among other things, certain balloon payments and negative amortization features. The Company commenced originating and purchasing Covered Loans during 1997 and stopped originating and purchasing them in the second quarter of 2000. In 2000, Covered Loans accounted for approximately less than 1% of the Company's total loan originations and purchases.

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

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

REGULATORY DEVELOPMENTS. During 2000 and early 2001 there have been two areas of federal and state legislative and regulatory activity that could have a significant impact on the Company: privacy and predatory lending. The federal Gramm-Leach-Bliley financial reform legislation will impose additional privacy obligations on the Company with respect to its applicants and borrowers. The Company is preparing appropriate controls and procedures in order to comply with the law when it takes effect on July 1, 2001. In addition, several states are also considering even more stringent privacy legislation. If passed, a variety of inconsistent state privacy legislation could substantially increase the Company's compliance costs.

In addition, several federal state and local laws and regulations have been adopted or are under consideration that are intended to eliminate so-called "predatory" lending practices. While well meaning, many of these laws and regulations impose overly broad restrictions on legitimate lending activities, including some of the Company's activities. There can be no assurance that these proposed laws, rules and regulations, or other such laws, rules or regulations, will not be adopted in the future. Such laws and regulations could have a material adverse impact on the Company's business by substantially increasing the costs of compliance with a variety of inconsistent federal, state and local rules, or restricting the Company's ability to charge rates and fees adequate to compensate it for the risk associated with certain loans.

BEST PRACTICES

In an effort to prevent the Company from originating loans containing unfair terms or involving predatory practices, the Company has employed extensive policies and procedures:

- Not offering loans with terms providing for balloon payments, negative amortization or reverse mortgages;
- Not selling single premium insurance products with its loans;
- Maintaining caps on the points and fees that can be charged to borrowers;
- Directing marketing efforts throughout the broader geographic areas in which the Company's branches are located;
- Maintaining a rigorous appraisal review process;

Surveying the Company's customers in order to confirm satisfaction;

Performing regular random and targeted audits to confirm adherence to fair lending laws and principles;

Resolving customer complaints promptly and fairly;

Monitoring the conduct of the Company's brokers; and

Training the Company's employees to adhere to fair lending principles.

More detailed information regarding the Company's Best Practices are available at the Company's website, www.ncen.com.

The Company plans to continue to review, revise and improve its practices in order to enhance its fair lending efforts and support the goal of eliminating predatory lending practicies.

EMPLOYEES

At December 31, 2000, the Company employed 1,485 full-time employees and 26 part-time employees. None of the Company's employees is subject to a collective bargaining agreement. The Company believes that its relations with its employees are satisfactory.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position
Executive Officers:		
Robert K. Cole	54	Chairman of the Board and Chief Executive Officer; Director, New Century Mortgage *(1)*
Brad A. Morrice	44	Vice Chairman, President and Chief Operating Officer of the Company; Chairman and Chief Executive Officer, New Century Mortgage *(1)*; Chairman and Chief Executive Officer, NC Capital *(2)*
Edward F. Gotschall	46	Vice Chairman and Chief Financial Officer of the Company; Chief Financial Officer and Treasurer of New Century Mortgage *(1)*
Key Employees:		

Patrick J. Flanagan	36	Executive Vice President of the Company; Executive Vice President, Chief Operating Officer and Director, New Century Mortgage *(1)*, and President, NC Capital *(2)*
George Anderson	62	President, Retail Branch Operations and Director of New Century Mortgage *(1)*
Shabi S. Asghar	38	President, Wholesale Division and Director of New Century Mortgage *(1)*
Kirk Redding	41	President, Central Retail Division and Director of New Century Mortgage *(1)*
Larry Moretti	43	Senior Vice President and Chief Information Officer of the Company; Senior Vice President, Chief Information Officer, Chief Administrative Officer and Director of New Century Mortgage *(1)*

(1) *New Century Mortgage Corporation ("New Century Mortgage") is a wholly-owned subsidiary of the Company.*

(2) *NC Capital Corporation ("NC Capital") is a wholly-owned subsidiary of New Century Mortgage.*

Robert K. Cole has been the Chairman of the Board and Chief Executive Officer of the Company since December 1995 and a director of the Company since November 1995. Mr. Cole also serves as a director on the Board of Directors of New Century Mortgage. From February 1994 to March 1995, he was the President and Chief Operating Officer-Finance of Plaza Home Mortgage Corporation ("Plaza Home Mortgage"), a publicly-traded savings and loan holding company specializing in the origination and servicing of residential mortgage loans. In addition, Mr. Cole served as a director of Option One Mortgage Corporation ("Option One"), a subsidiary of Plaza Home Mortgage specializing in the origination, sale and servicing of sub-prime mortgage loans. From June 1990 to January 1994, Mr. Cole was the President of Triple Five, Inc., an international real estate development company. Previously, Mr. Cole was the President

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of operating subsidiaries of NBD Bancorp and Public Storage, Inc. Mr. Cole received a Masters of Business Administration degree from Wayne State University.

Brad A. Morrice has been Vice Chairman of the Company since December 1996, President, and a director of the Company since November 1995 and Chief Operating Officer of the Company since January 2001. Mr. Morrice also served as the Company's General Counsel from December 1995 to December 1997 and the Company's Secretary from December 1995 to May 1999. In addition, Mr. Morrice serves as Chairman and Chief Executive Officer of New Century Mortgage and NC Capital. From February 1994 to March 1995, he was the President and Chief Operating Officer-Administration of Plaza Home Mortgage, after serving as its Executive Vice President, Chief Administrative Officer since February 1993. In addition, Mr. Morrice served as General Counsel and a director of Option One. From August 1990 to January 1993, Mr. Morrice was a partner in the law firm of King, Purtich & Morrice, where he specialized in the legal representation of mortgage banking companies. Mr. Morrice previously practiced law at the firms of Fried, King, Holmes & August and Manatt, Phelps & Phillips. He received his law degree from the University of California, Berkeley (Boalt Hall) and a Masters of Business Administration degree from Stanford University.

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

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

George Anderson has been President-Retail Branch Operations of New Century Mortgage since August 1998 and a director of New Century Mortgage since November 1999. From 1994 to July 1998, Mr. Anderson was the President and CEO of Advanta Finance Corporation. From 1990 to 1994, Mr. Anderson served as Executive Vice President for Transamerica Financial Services and from 1984 to 1990, Mr. Anderson served as President and CEO of Nova Financial Services where he was responsible for the full spectrum of start-up activities associated with building a multi-state consumer finance company. In 1990, Nova was acquired by Transamerica Financial Services. From 1959 to 1984, Mr. Anderson served as Area Vice President for Transamerica Financial Services and was responsible for the mid-west and east coast operations of Transamerica. Mr. Anderson has over 37 years experience in the consumer finance and mortgage business.

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

Kirk Redding has been President-Central Retail Division of New Century Mortgage since December 2000 when PWF Corporation ("Primewest") merged with New Century Mortgage Corporation. Mr. Redding also became a director of New Century Mortgage in January 2001. Mr. Redding was previously the Chief Executive Officer of Primewest, a subsidiary of New Century Financial Corporation since January 1998, when it was acquired by the Company as its correspondent subsidiary. Mr. Redding was the owner of Primewest since its inception in 1992. Prior to creating Primewest, Mr. Redding was a Senior Loan Officer with Mission Viejo National Bank from 1989 to 1992. He received his Bachelors of Science Degree in Business/Marketing from Long Beach State University of California.

Larry Moretti has been Senior Vice President and Chief Information Officer of the Company and Chief Information Officer of New Century Mortgage since May 1999. Mr. Moretti became Chief Administrative Officer and a director of New Century Mortgage in January 2001. Prior to joining New Century, Mr. Moretti was Senior Information Systems Account Manager for TRW Space and Electronics Group from 1997 to May 1999. From 1994 to 1999, Mr. Moretti also had his own consulting firm, Telenet Solutions, which provided technology services to the communications industry. Mr. Moretti was previously manager of Information Technology Support Systems for Transamerica Specialty Financial from 1975 to 1994. Mr. Moretti has over 25 years experience in the communications and technology industries.

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RISK FACTORS

Stockholders and prospective purchasers of the Company's Common Stock should consider carefully the following factors, as well as the other information appearing elsewhere in this Form 10-K, in evaluating an investment in the Company. This Form 10-K may contain forward-looking statements which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this Form 10-K.

LIQUIDITY; ACCESS TO FUNDING SOURCES

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

The Company requires access to short-term warehouse and aggregation credit facilities in order to fund loan originations and purchases pending the pooling and sale of such loans. The Company's sole credit facility for funding loan originations is its $265 million U.S. Bank Warehouse Line of Credit, which expires in May 2001. The Company is in preliminary discussions regarding its renewal.

The Company also has residual financing agreements with Salomon Brothers Realty Corp., Greenwich Capital Financial Products, Inc., PaineWebber Real Estate Securities Inc. and Countrywide Warehouse Lending, pursuant to which each provides the Company with financing secured by residual interests that the Company retained in securitizations and NIM transactions on which each was the lead underwriter or placement agent. The amount of financing provided to the Company under its aggregation credit facilities and its residual financing agreements depends in large part on each lender's valuation of the mortgage loans, based on current market conditions, and residual interests, respectively, securing the financings. Except for the Salomon residual financing facility, each credit facility provides the lender the right, under certain circumstances, to reevaluate the collateral securing the Company's outstanding borrowings at any time and, in the event the lender determines that the value of the collateral has decreased, it has the right to initiate a margin call. A margin call would require the Company to provide the lender with additional collateral or to repay a portion of all of the outstanding borrowings. Any such margin call could have a material adverse effect on the Company's results of operations, financial condition and business prospects.

In addition to the financing secured by the Company's loans and residual securities, the Company also has borrowed from U.S. Bank $40 million in subordinated debt secured by subordinate liens on the collateral pledged under the U.S. Bank warehouse agreement as well as certain rights to the Company's residuals. Unlike the warehouse, aggregation and residual financing borrowings, which the Company believes are secured by assets that would cover the borrowings in the event of a default, the Company does not currently have a source of funds to repay the subordinated debt in the event of a default. In addition, the Company intends to use cash flows from the Company's residual securities to repay this debt on or before its December 31, 2003 maturity. To the extent the Company's residual cash flows fall significantly short of projections, it would be more difficult for the Company to repay the subordinated debt when due. The Company's inability to obtain capital or financing to repay the subordinated debt upon its maturity would have a material adverse impact on the Company's results of operations, financial condition and business prospects.

In addition, as of December 31, 2000, the Company had a current and deferred income tax liability of $15.4 million. This liability will be paid in future years as tax timing differences turn around.

Moreover, to the extent that the Company is unable to renew or expand its access to credit facilities, the Company may have to undertake larger and/or more frequent capital markets financings than anticipated. Capital markets financings may result in greater than anticipated interest expense and shares

outstanding, which may have a dilutive impact on operating earnings or have a negative effect on the Company's financial condition.

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

DEPENDENCE ON WHOLE LOAN SALES FOR FUTURE EARNINGS AND CASH

The Company's current strategy is to rely more heavily on whole loan sales for future earnings and cash flow. In 2000, the Company sold 75.3% of its loan originations and purchases through whole loan sales to various institutional purchasers. The weighted average price for loans sold at a premium was 3.11%. However, during 2000 approximately 2.7% of its whole loan sales were loans sold at a discount to the outstanding principal balance. In the second half of 2000, as the Company transitioned to a predominately whole loan sales strategy, this figure increased to 3.9%. The discount sales typically consisted of first payment defaults and other delinquent loans, loans with document deficiencies or loans with other undesirable features. When the discounted loan sales are included in the calculation, the weighted-average price for all whole loan sales was 2.71% (excluding loans repurchased from securities). During the same period, the Company's all-in cost of originating loans was 3.06%, or approximately 35 basis points higher than the net sales price. In order to generate sufficient earnings and cash from whole loan sales, the Company plans to: (i) reduce its all-in acquisition cost for loans, (ii) reduce the percentage of loans sold at a loss and the average loss on the sale of those loans, and (iii) increase the price purchasers are willing to pay for the Company's loans sold at a premium. There can be no assurance that the Company will be able to achieve any of these objectives. To the extent the Company is unable to originate loans at a price lower than the weighted average sales price of loans (including both premium and discount sales), the Company's results of operations, financial condition and business prospects could be materially adversely affected.

RISKS RELATED TO THE CONDITION OF THE SECURITIZATION MARKET

Although the Company reduced its securitization activity during 2000, the Company's business is still heavily influenced by the condition of the securitization market. This is because many of the Company's whole loan buyers intend to securitize the Company's loans. In addition, in 2001 the Company intends to evaluate securitization alternatives that could yield net cash proceeds to the Company equal to or greater than the proceeds received through whole loan sales, with no additional residual financing required. Accordingly, a decline in the securitization market could have a material adverse impact on the Company's results of operations, financial condition and business prospects.

RESIDUAL INTERESTS IN SECURITIZATIONS

As of December 31, 2000 the value of the Company's residual interests from securitization transactions on the Company's balance sheet was $361.6 million. The value of these residuals is a function of the delinquency, loss, prepayment and discount rate assumptions the Company uses to determine their value. During 2000, the Company recorded reductions in the values of the residuals by $67.0 million as a result of changes in those assumptions that the Company believed to be prudent in light of actual pool

performance data, prepayment experience and the interest rate environment. Approximately $26.9 million of this adjustment related to Salomon's December 2000 exercise of the call provision for the Company's 1998-NC5 security. Net proceeds to New Century at the completion of the call, in January 2001, was approximately $5.8 million in excess of the amount of outstanding residual financing and customary deal expenses. The Company does not have interests in any other residual securities that have a call provision similar to 1998-NC5. After the effect of this transaction in January 2001, the carrying value of the residual interests was reduced to approximately $329.5 million and residual financing was reduced to approximately $146.8 million. If the Company's actual experience differs materially from the revised assumptions used to determine the value of the residual interests, future cash flows and earnings could be negatively affected.

RISKS RELATED TO LOWER CREDIT GRADE BORROWERS

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

CHANGES IN INTEREST RATES

The Company's profitability may be directly affected by changes in interest rates. First, such changes may affect the Company's ability to earn a spread between the interest received on its loans and its funding costs. Second, a substantial and sustained increase in interest rates could adversely affect borrower demand for the Company's products. Third, during periods of rising interest rates, the value and profitability of the Company's loans may also be negatively impacted from the date of origination or purchase until the date the Company sells or securitizes such loans. Fourth, the Company's adjustable rate mortgage loans have a life rate cap above which the interest rate on the loan may not rise. In the event of general interest rate increases, the rate of interest on these mortgage loans could be limited, while the rate payable on the senior certificates representing interests in a securitization trust into which such loans are sold may be uncapped, which would reduce the amount of cash the Company receives over the life of its residual interests, thereby requiring the Company to reduce the carrying value of such residual interests. Fifth, a significant decrease in interest rates could increase the rate at which loans are prepaid, which would also reduce the amount of cash the Company receives over the life of its residual interests. Either of the fourth or fifth events could require the Company to reduce the carrying value of its residual interests, which would have a material adverse effect on the Company's results of operations, financial condition and business prospects.

ECONOMIC SLOWDOWN OR RECESSION

The risks associated with the Company's business are more acute during periods of economic slowdown or recession because these periods may be accompanied by decreased demand for consumer credit and declining real estate values. Declining real estate values reduce the ability of borrowers to use home equity to support borrowings by negatively affecting loan-to-value ratios of the home equity collateral. In addition, because the Company makes a substantial number of loans to credit-impaired borrowers, the actual rates of delinquencies, foreclosures and losses on such loans could be higher during economic slowdowns. Any sustained period of increased delinquencies, foreclosures or losses could

adversely affect the Company's ability to sell loans or the prices the Company receives for its loans, as well as the value of its residual interests in securitizations.

COMPETITION

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

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

DEPENDENCE ON WHOLESALE BROKERS

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

RISKS ASSOCIATED WITH TRANSFER OF SERVICING

The Company has sold its servicing rights relating to approximately $4.8 billion in securitized loans comprising 25 asset-backed securities to Ocwen Federal Bank FSB. Those loans continue to be serviced by the Company's existing servicing operations pending the scheduled August 1, 2001 transfer date. There is a risk the servicing unit's performance level will deteriorate in the months preceding the transfer because of higher attrition rates or lower motivation among the units employees due to the unit's impending closure. Poorer servicing performance could increase the Company's delinquency and loss rates, which could adversely affect the value of the Company's residual interests. Moreover, if the servicing platform's value deteriorates materially during the transition period, Ocwen could seek a purchase price adjustment that would reduce the Company's proceeds from the transaction. In addition, there is a risk of disruption relating to the actual transfer of servicing from the Company to Ocwen. If the transfer is not accomplished smoothly, it could result in an increase in delinquency and loss rates that could in turn harm residual values. Finally, there is a risk that Ocwen will not service the loans as effectively as the Company. Poor servicing could adversely effect the value of the Company's residual interests.

CONTINGENT RISKS

In connection with its securitizations, the Company is required to repurchase or substitute loans in the event of a breach of a representation or warranty made by the Company. Likewise, in connection with

its whole loan sales, the Company enters into agreements which generally require the Company to repurchase or substitute loans in the event of a breach of a representation or warranty made by the Company to the loan purchaser, any misrepresentation during the mortgage loan origination process or, in some cases, upon any fraud or early default on such mortgage loans. The remedies available to a purchaser of mortgage loans from the Company are generally broader than those available to the Company against the sellers of such loans, and if a purchaser enforces its remedies against the Company, the Company may not be able to enforce whatever remedies the Company may have against such sellers. 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 negatively affect the Company's cash flow and results of operations.

RISKS RELATING TO NEW LEGISLATION

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

ANTI-TAKEOVER PROVISIONS

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

CONTROL BY CERTAIN STOCKHOLDERS

At December 31, 2000, a small group of stockholders of the Company, comprising the management team and directors, U.S. Bancorp and Brookhaven Capital, beneficially own an aggregate of approximately 92% of the outstanding shares of common stock. Accordingly, such persons, if they were to act in concert, would have majority control of the Company, with the ability to approve certain fundamental corporate transactions (including mergers, consolidations and sale of assets) and to elect all members of the Board of Directors. See "Security Ownership of Certain Beneficial Owners and Management."

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

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

ITEM 2. PROPERTIES

The Company's executive, administrative offices and some of its lending offices are located in Irvine, California and consist of approximately 211,000 square feet. The three leases covering the executive, administrative and lending offices expire in June 2002, December 2002 and January 2005, respectively, and the combined monthly rent is $445,000.

The Company leases space for its regional operating centers in Chicago, Illinois, Rancho Bernardo and San Ramon, California, Tampa, Florida and Englewood, Colorado. As of December 31, 2000, these facilities had an annual aggregate base rental of approximately $44,000. The Company also leases space for its sales offices, which range in size from 100 to 3,552 square feet with lease terms typically ranging from one to five years. As of December 31, 2000, annual base rents for the sales offices ranged from approximately $3,000 to $104,000. In general, the terms of these leases vary as to duration and rent escalation provisions, expire between April 2001 and January 2005 and provide for rent escalations dependent upon either increases in the lessors' operating expenses or fluctuations in the consumer price index in the relevant geographical area.

ITEM 3. LEGAL PROCEEDINGS

In August 2000, the Company was informed by the Federal Trade Commission that it was conducting an inquiry to determine whether the Company had violated the Fair Credit Reporting Act, Federal Trade Commission Act or other statutes administered by the Commission. The Commission subsequently focused its inquiry on whether the pre-approved credit solicitations generated by the Company's retail units comply with applicable law. The Commission is reviewing data and information provided by the Company, which is cooperating with the inquiry.

In October 2000, Hazel Jean Matthews, Ruth D. Morgan and Marie I. Summerall filed an amended class action suit against New Century Mortgage Corporation, Central Mortgage, Inc., Equibanc Mortgage Corporation, Century 21 Home Improvements, and Incredible Exteriors, Inc., on behalf of themselves and other Ohio consumers whose credit transaction was brokered by Equibanc and Central Mortgage. New Century was not named in the original complaint. The suit was filed in the Ohio state court and later removed by New Century Mortgage to the U.S. District Court for the Southern District of Ohio. The complaint alleges breaches of the Federal Fair Housing Act, Equal Credit Opportunity Act, Truth in Lending Act, gender discrimination, fraud, unconscionability, civil conspiracy, RICO, as well as other claims against the other defendants. Plaintiffs are seeking injunctive relief, compensatory and punitive damages, attorneys' fees and costs. The Company filed a motion to dismiss in December 2000. Plaintiffs obtained court authorization to amend their complaint. New Century intends to renew its motion to dismiss and continue to vigorously defend this action.

The Company is also a party to various legal proceedings arising out of the ordinary course of its business. Management believes that any liability with respect to such legal actions, individually or in the aggregate, will not have a material adverse effect on the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's stockholders during the fourth quarter of 2000.

PART II

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

The Company's Common Stock trades on the Nasdaq National Market under the symbol "NCEN". The high and low bid prices of the Company's Common Stock during each quarter for the fiscal years 2000 and 1999 were as follows:

	Fiscal 2000		Fiscal 1999	
Quarter	High	Low	High	Low
Fourth	$ 11.94	$ 10.00	$ 17.56	$ 13.69
Third	$ 14.25	$ 7.88	$ 19.88	$ 15.75
Second	$ 9.50	$ 5.94	$ 20.25	$ 11.56
First	$ 14.81	$ 6.44	$ 15.00	$ 10.69

As of March 23, 2000 the closing sales price of the Company's common stock, as reported on the Nasdaq National Market, was $10.31.

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

As of March 23, 2000 the number of holders of record of the Company's common stock was approximately 57, and as of March 23, 2000 there were approximately 1,031 beneficial owners of the Company's common stock.

RECENT SALES OF UNREGISTERED STOCK

On March 8, 2000, the Company issued 1,639 shares of common stock to Kirk Redding and 1,093 shares of common stock to Paul Akers representing a portion of the earn-out payments for the acquisition of PWF Corporation. The sale and issuance of the shares were exempt from the registration requirements of the Securities Act by virtue of Section 4(2) of the Securities Act and Regulation D thereunder.

On April 1, 2000, the Company issued 13,577 shares of common stock to David R. McGee and Melinda L. McGee, Trustees of the David R. McGee and Melinda L. McGee Living Trust dated May 1, 1998 representing $125,000 of the purchase price for the acquisition of Worth Funding Incorporated. The sale and issuance of the shares were exempt from the registration requirements of the Securities Act by virtue of Section 4(2) of the Securities Act and Regulation D thereunder.

On December 18, 2000, the Company issued 28,704 shares of common stock to Kirk Redding and 19,136 shares of common stock to Paul Akers and an aggregate of 7,250 shares of Common Stock to 12 other employees of PWF Corporation. The sale and issuance of the shares were exempt from the registration requirements of the Securities Act by virtue of Section 4(2) of the Securities Act and Regulation D thereunder.

On January 1, 2001, the Company issued 11,919 shares of common stock to David R. McGee and Melinda L. McGee, Trustees of the David R. McGee and Melinda L. McGee Living Trust dated May 1, 1998 representing $125,000 of the deferred purchase price for the acquisition of Worth Funding Incorporated.

The sale and issuance of the shares were exempt from the registration requirements of the Securities Act by virtue of Section 4(2) of the Securities Act and Regulation D thereunder.

ITEM 6. SELECTED FINANCIAL DATA

(dollars in thousands, except per share data)

The following selected consolidated statements of operations and balance sheet data for the years ending December 31, 2000, 1999, 1998, 1997 and 1996 have been derived from the Company's financial statements audited by KPMG LLP, independent auditors, whose report with respect thereto appears elsewhere herein. Such selected financial data should be read in conjunction with those financial statements and the notes thereto and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" also included elsewhere herein.

	For the Year Ended December 31, 2000	For the Year Ended December 31, 1999	For the Year Ended December 31, 1998	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
	(dollars in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Gain on sales of loans	$ 14,952	$ 121,672	$ 105,060	$ 67,939	$ 11,630
Interest income	67,351	61,457	47,655	25,071	2,846
Servicing income	79,960	50,813	23,692	5,623	29
Other income	1,653				
Total revenues	163,916	233,942	176,407	98,633	14,505
Expenses	200,697	167,056	124,099	68,041	12,200
Earnings (loss) before income taxes	(36,781)	66,886	52,308	30,592	2,305
Income taxes (benefit)	(13,756)	27,377	21,193	12,849	970
Net earnings (loss)	$ (23,025)	$ 39,509	$ 31,115	$ 17,743	$ 1,335
Basic earnings (loss) per share	$ (1.76)	$ 2.59	$ 2.19	$ 2.18	$ 2.53
Diluted earnings (loss) per share	$ (1.76)	$ 2.11	$ 2.03	$ 1.40	$ 0.20

	As of December 31, 2000	As of December 31, 1999	As of December 31, 1998	As of December 31, 1997	As of December 31, 1996
	(dollars in thousands)				
Balance Sheet Data:					
Loans receivable held for sale, net	$ 400,089	$ 442,653	$ 356,975	$ 276,506	$ 57,990
Residual interests in securitizations	361,646	364,689	205,395	97,260	
Total assets	837,161	863,709	624,727	398,128	64,638
Borrowings under warehouse lines of credit	201,705	234,778	191,931	184,426	41,702
Borrowings under aggregation lines of credit	202,741	193,948	153,912	70,937	13,957
Subordinated debt	40,000	20,000			
Residual financing	176,806	177,493	122,298	53,427	
Other liabilities	63,760	64,527	3,985	3,222	1,326
Total stockholders' equity	152,149	172,963	114,613	60,836	4,403

	As of or For the Year Ended December 31, 2000	As of or For the Year Ended December 31, 1999	As of or For the Year Ended December 31, 1998	As of or For the Year Ended December 31, 1997	As of or For the Year Ended December 31, 1996
	(dollars in thousands)				
Operating Statistics:					
Loan origination and purchase activities:					
Wholesale originations	$ 3,041,761	$ 2,894,517	$ 2,382,784	$ 1,265,133	$ 290,452
Retail originations	1,110,596	1,185,747	942,072	578,674	66,487
Bulk acquisitions				120,794	
Total loan originations and purchases	$ 4,152,357	$ 4,080,264	$ 3,324,856	$ 1,964,601	$ 356,939
Average principal balance per loan	$ 108	$ 102	$ 96	$ 102	$ 106
Percent of loans secured by first mortgage	95.3%	96.7%	97.2%	96.9%	97.3%
Weighted average initial loan-to-value ratio	78.6%	78.8%	78.2%	74.0%	71.5%
Originations by product type					
ARMs	$ 3,052,481	$ 2,610,475	$ 1,920,686	$ 1,394,133	$ 264,510
Fixed-rate mortgages	1,099,876	1,469,789	1,404,170	570,468	92,429
Weighted average interest rates:					
Fixed-rate mortgages	11.0%	10.2%	10.0%	9.8%	10.4%
ARMs	10.4%	9.8%	9.7%	9.5%	9.3%
Margin-ARMs	6.2%	6.2%	6.1%	7.0%	7.0%
Loan Sales:					
Loans sold through whole loan transactions	$ 3,133,205	$ 1,033,006	$ 1,477,225	$ 680,900	$ 298,713
Loans sold through securitizations	1,029,477	3,017,658	2,265,700	1,123,618	
Loans acquired to securitize		(61,312)	(544,704)	(63,718)	
Net Loan Sales	$ 4,162,682	$ 3,989,352	$ 3,198,221	$ 1,740,800	$ 298,713

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

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

GENERAL

New Century is a specialty finance company engaged in the business, through its subsidiaries, of originating, purchasing, selling and servicing sub-prime mortgage loans secured primarily by first mortgages on single family residences. The Company originates and purchases loans through its wholesale and retail channels. Wholesale originations and purchases are through independent mortgage brokers who provide loans through the Wholesale Division of the Company's New Century Mortgage Corporation subsidiary as well as its subsidiary, Worth Funding Inc. Retail originations are made through New Century Mortgage Corporation's network of branch offices and through its Central Retail Division.

New Century's borrowers generally have considerable equity in the property securing the loan, but have impaired or limited credit profiles or higher debt-to-income ratios than traditional mortgage lenders allow. The Company's borrowers also include individuals who, due to self-employment or other circumstances, have difficulty verifying their income, as well as individuals who prefer the prompt and personalized service provided by the Company.

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LOAN ORIGINATION AND PURCHASES

As of December 31, 2000, the Company's Wholesale Division was operating through five regional operating centers located in Southern California, Northern California, Englewood, Colorado, Chicago, Illinois and Tampa, Florida and through 21 additional sales offices located in 17 states. During the year ended December 31, 2000, the Wholesale Division funded $3.0 billion in loans, or 73.3%, of the Company's total loan production, including $123.5 million, or 3.0%, originated through Worth Funding, which was acquired by the Company in March 2000. As of December 31, 2000, the Retail Branch Operations Division was operating through 19 retail sales offices in California, and 50 retail sales offices in 25 other states. During the year ended December 31, 2000, the Retail Branch Operations Division funded $797.5 million in loans, or 19.2%, of the Company's total loan production. The Central Retail Division originated $313.0 million, or 7.5% of the Company's total loan production. In December 2000, the Company's subsidiary, Primewest Funding, merged with New Century Mortgage Corporation and became a part of the Central Retail Division.

The following table summarizes the Company's loan originations and purchases for the periods shown.

	For the Year Ended December 31, 2000				*For the Year Ended December 31, 1999*			
	Wholesale	**Branch Operations**	**Central Retail**	**Total**	**Wholesale**	**Branch Operations**	**Central Retail**	**Total**
Principal balance (in thousands)	$ 3,041,761	$ 797,531	$ 313,065	$ 4,152,357	$ 2,894,517	$ 1,022,689	$ 163,058	$ 4,080,264
Number of loans	26,000	9,184	3,146	38,330	26,821	11,427	1,649	39,897
Average principal balance (in thousands)	$ 117	$ 87	$ 99	$ 108	$ 108	$ 89	$ 99	$ 102
Weighted average interest rates:								
Fixed-rate	11.3%	10.9%	10.4%	11.0%	10.2%	10.2%	9.9%	10.2%
ARMs	10.5%	10.4%	10.0%	10.4%	9.9%	9.2%	9.6%	9.8%
Margin-ARMs	6.1%	6.2%	6.2%	6.2%	6.1%	6.2%	6.5%	6.2%
Weighted average initial loan-to-value ratios *(1)*	78.8%	78.5%	76.9%	78.6%	78.8%	79.0%	76.8%	78.8%
Percentage of loans:								
Fixed-rate	83.1%	46.5%	49.6%	73.5%	65.5%	28.3%	30.4%	64.0%
ARMs	16.9%	53.5%	50.4%	26.5%	34.5%	71.7%	69.6%	36.0%
Percentage of loans secured by first and second mortgages:								
Percentage of loans Secured by first mortgage	96.7%	91.2%	93.1%	95.3%	95.2%	83.2%	93.3%	96.7%
Percentage of loans Secured by second mortgage	3.3%	8.8%	6.9%	4.7%	4.8%	16.8%	6.7%	3.3%

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

The following table sets forth the loan production results, the number of office locations and the number of sales professionals at the end of each quarter by division:

	As of or For the Quarters Ended			
	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
	(dollars in thousands)			
Wholesale (including Worth)				
Volume	$ 709,480	$ 793,172	$ 766,680	$ 772,429
Offices (including regional operating centers)	36	36	36	26
Account Executives	144	140	140	151
Retail (including Central & Anyloan)				
Volume	$ 246,981	$ 317,204	$ 284,084	$ 262,327
Offices	76	71	71	69
Loan Officers	369	398	357	363
Total				
Volume	$ 956,461	$ 1,110,376	$ 1,050,764	$ 1,034,756
Offices	112	107	107	95

LOAN SALES AND SECURITIZATIONS

Historically, the Company's loan sale strategy included both securitizations and whole loan sales in order to advance the Company's goal of enhancing profits while managing cash flows. Loan sales through securitizations permit the Company to enhance operating profits and to benefit from future cash flows generated by the residual interests retained by the Company. Whole loan sale transactions enable the Company to generate current cash flow, protect against the potential volatility of the securitization market and reduce the risks inherent in retaining residual interests in securitizations. Due to market circumstances as well as cash flow considerations, the Company's strategy shifted toward greater emphasis on whole loan sales during 2000. The Company expects this strategy shift to continue in 2001.

The following table sets forth loan sales and securitizations for the periods indicated:

	For the Year Ended December 31, 2000	For the Year Ended December 31, 1999	For the Year Ended December 31, 1998
	(dollars in thousands)		
Securitizations	$ 1,029,477	$ 3,017,658	$ 2,265,700
Whole loan sales	3,133,205	1,033,006	1,477,225
Subtotal	$ 4,162,682	$ 4,050,664	$ 3,742,925
Less: Loans acquired to securitize *(1)*	0	(61,312)	(544,704)

Net loan sales	$ 4,162,682	$ 3,989,352	$ 3,198,221

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

During 2000, whole loan prices improved considerably compared to prices in 1999 and the latter half of 1998. At the same time, however, more whole loan buyers have been confining their purchases to loans with very specific attributes rather than merely purchasing a full cross section of a seller's production. Likewise, buyers in recent quarters have tended to perform more rigorous due diligence reviews of loan pools, and have typically elected to exclude a significant percentage of loans from a pool on various bases. Although the Company believes these trends existed throughout the industry, the Company believes that after its June 2000 announcement that it had engaged an investment bank to review strategic alternatives, the Company's whole loan buyers tended to exclude an even greater percentage of loans from the

Company's pools. A number of these buyers indicated that their increased selectivity stemmed, in part, from their concern that the Company would be financially unable to make good on any obligations to repurchase first payment default loans or loans that otherwise breach representations or warranties in the purchase agreements. There can be no assurance that buyers will not continue to exclude a significant percentage of loans from the Company's pools.

In response to these changes, the Company revised its underwriting guidelines during the third quarter of 2000 to originate the types of loans that are more closely aligned to its investors' guidelines. Unless the Company is able to respond to future changes in the requirements of whole loan buyers, volatility in the whole loan market could have an adverse effect on the Company's results of operations, business and financial condition.

In addition, one of the Company's principal challenges transitioning from a balanced secondary marketing strategy to a purely whole loan strategy has been how to deal with loans rejected by whole loan buyers. When the Company is securitizing regularly, the Company has the discretion to include in its securitized pools loans that might have been rejected by a whole loan buyer because they fell outside the buyer's guidelines. If the Company believes that these loans are acceptable, the Company may securitize them and, as a residual holder, ultimately bear the risk if the loans fail to perform or result in a loss.

In a purely whole loan model, absent the capital or financing to hold these loans in portfolio, the Company is forced to sell the loans initially rejected by whole loan investors at below cost and sometimes even below the outstanding principal balance.

During 2000, although the weighted-average gain on sale on the Company's loans sold at a premium was 3.11%, when one includes discounted loan sales in the calculation, the net gain on sale was only 2.71%. This was 35 basis points below the Company's all-in cost of origination of those loans during 2000. The Company's objectives to reduce or eliminate this negative spread include: (i) decreasing its all-in acquisition cost, (ii) decreasing the volume of discounted loan sales, and (iii) increasing the number and amount of premium loan sales. To the extent the Company is unable to achieve these objectives, the Company's results of operations, financial condition and business prospects could be materially adversely affected.

GAIN ON SALE

Historically, the Company's primary revenue source has been gains from the sale of its loans in whole loan sales and securitizations. In a whole loan sale, the Company recognizes and receives a cash gain upon sale. In a securitization, the Company recognizes a gain on sale at the time the loans are sold, but receives corresponding cash flows, represented by the over-collateralization amount ("OC") and the Net Interest Receivable ("NIR"), over the actual life of the loans. The OC represents the portion of the loans which are held by the trust as over-collateralization for the senior and junior certificate holders, and generally consists of the excess of the principal balance of the mortgage loans sold to the trust, less the principal balance of the certificates sold to investors. The NIR represents the difference between the interest received from the loans sold and (i) interest required to be passed through to the senior and junior certificate holders, (ii) all servicing fees, (iii) estimated losses to be incurred on the portfolio of loans, and (iv) other expenses and revenues, including anticipated prepayment penalties. At the time of securitization, the Company capitalizes the OC and the NIR, based upon certain prepayment and loan loss assumptions and a discount rate the Company believes is consistent with what market participants would use for similar financial instruments. The capitalized assets are recorded on the Company's balance sheet as interest-only and residual certificates. A gain or loss is recorded on the income statement for the value of the residual certificates created by the securitization in excess of the cost basis of the loans and transaction expenses. As a result of timing differences in receiving cash from whole loan sales versus securitizations, the relative percentage of whole loan sales to securitizations will impact the Company's operating cash flow. For the year ended December 31, 2000, the Company reduced loans sold through securitization to 24.7% of total

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loan sales, compared to 75.6% for the same period in 1999. During 2000, the Company transitioned from an approximate 50/50 whole loan and securitization strategy in the first half of the year to a 100% whole loan sale strategy in the fourth quarter of 2000. Subject to market conditions, the Company expects to sell the vast majority of its loans in the whole loan market during 2001. However, the Company will also evaluate securitization alternatives that could yield net cash proceeds to the Company equal to or greater than the proceeds received through whole loan sales, with no additional residual financing required.

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

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

At December 31, 2000, approximately $242.6 million in cash, or approximately 67.1% of the net book value of the Company's residual securities was being held by the trustee in the over-collateralization accounts relating to the residual securities. Cash held by the trustee is not affected by some of the factors that impact the remaining net interest receivable (NIR), such as prepayment speeds or interest rates.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

The Company originated and purchased $4.2 billion in loans for the year ended December 31, 2000, compared to $4.1 billion for the year ended December 31, 1999. Loans originated and purchased through the Company's Wholesale Division and Worth Funding were $3.0 billion, or 73.3%, of total originations and purchases for the year ended December 31, 2000. Loans originated through the Company's Retail Branch Operations and Central Retail Division were $1.1 billion, or 26.7%, of total originations and purchases for the year ended December 31, 2000. The Company's subsidiary, Primewest Funding, merged with the Company's subsidiary, New Century Mortgage Corporation during the latter part of 2000 and became a part of Central Retail Operations.

Total revenues for the year ended December 31, 2000 decreased to $163.9 million, or 29.9%, from $233.9 million for the year ended December 31, 1999, due primarily to $67.0 million in adjustments recorded to the Company's residual interests in securitization, including a $26.9 million adjustment to the 1998 NC-5 security. This adjustment reduced the gain on sale of loans, which decreased to $15.0 million, or 87.7%, for the year ended December 31, 2000, from $121.7 million for the year ended December 31, 1999.

The Company sold $4.2 billion in loans for the year ended December 31, 2000, $3.2 billion through whole loan sale transactions and $1.0 billion through securitizations.

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

	For the Year Ended December 31, 2000	For the Year Ended December 31, 1999
	(dollars in thousands)	
Gain from whole loan sale transactions	$ 73,737	$ 30,749
Non-cash gain from securitizations (NIR gains)	54,035	169,980
Non-cash gain from servicing asset	8,009	16,368
Cash gain (loss) from securitizations/NIMs transactions	2,062	(4,670)
Securitization expenses	(4,637)	(17,161)
Accrued interest	(7,201)	(14,807)
Write-down of NIR	(67,006)	(23,000)
Provision for losses	(15,451)	(2,549)
Non-refundable fees	61,085	54,598
Premiums, net	(27,287)	(22,355)
Origination costs	(62,800)	(63,300)
Hedging gains (losses)	406	(2,181)
Gain on sales of loans	$ 14,952	$ 121,672

Whole loan sales for the year ended December 31, 2000, increased to $3.2 billion, or 203.3%, from $1.0 billion for the corresponding period in 1999. This increase is the result of the Company electing to sell a greater percentage of its loan originations and purchases through whole loan sales during 2000.

Interest income for the year ended December 31, 2000 increased to $67.4 million, or 9.6%, from $61.5 million for the same period in 1999. Interest income is earned on loans held in inventory for sale. Such interest income accrues during periods when loans are accumulated for future sales, and increases as loan originations and purchases increase. The increase in interest income for the year ended December 31, 2000 is the result of a higher average inventory of loans held for sale compared to the corresponding period in 1999. The average inventory held for sale for the year ended December 2000, based on quarter-end balances was $452.5 million, compared to $387.7 million for the corresponding period in 1999.

Servicing income for the year ended December 31, 2000, increased to $80.0 million, or 57.4%, from $50.8 million for the year ended December 31, 1999, as a result of the increase in the servicing portfolio and the Company's residual interests in securitizations. Servicing income includes servicing fees received on loans sold through servicing-retained whole loan sales or securitizations, as well as income recognized on residual cash flows from securitizations. The average balance of residual interests in securitizations increased from $261.3 million for 1999 to $385.5 million for 2000. Of the $80 million in servicing and residual income, $49.9 million was interest on residual securities and $30.1 million was from servicing fees and related income. After the transfer of the servicing platform to Ocwen, the Company will continue to receive the interest income on the residual securities but will no longer receive the servicing fees and related income on the portion of the portfolio that was sold.

RESIDUAL SECURITIES

The carrying value of the Company's residual securities at December 31, 2000 and December 31, 1999 is summarized below (dollars in thousands):

	2000	1999
Book Value of Securities	$ 361,646	$ 369,689
Less: General valuation allowance for NIR		(5,000)
Net carrying value	$ 361,646	$ 364,689

In establishing the net book value of the residual securities, management reviews on a quarterly basis the underlying assumptions used to value each residual security and adjusts the carrying value of the securities based on actual experience and trends in the industry. To determine the residual asset value, cash flow is projected for each security. To project cash flow, base assumptions for each product type based on historical performance are used for Constant Prepayment Rates (CPR) and losses. Each security is updated to reflect actual performance to date, and the base assumption for CPR and loss is then used to project performance of the security from that date forward. If the actual performance of the security differs materially from the base assumptions with respect to CPR or loss, adjustments are made. The Forward LIBOR curve is then used to project future interest rates and finalize cash flows projections for each security. The projected cash flows are then discounted at 13% for residual securities and 15% for net interest margin securities to establish the net book value of the residual securities.

During the second quarter of 2000, the Company recorded a $21.2 million write-down to its residual securities issued prior to 2000. This write-down resulted from the Company's decision to increase the discount rates used to value the residual securities. During the fourth quarter of 2000, the Company recorded a total of $45.8 million write-down. Approximately $26.9 million of this adjustment stemmed from Salomon Smith Barney's exercise of the call option for the Company's 1998-NC5 securitization transaction. None of the Company's other securitization transactions contain such a call feature. The remainder of the fourth quarter write-downs resulted from (i) a continuing increase in prepayment speeds which occurred despite the increase in interest rates, and (ii) an increase in overall loss assumptions.

Total expenses for the year ended December 31, 2000, increased to $200.7 million, or 20.1%, from $167.1 million for the year ended December 31, 1999. Interest expense increased due to the higher level of loan inventory and corresponding warehouse and aggregation borrowings. All other expense components increased from 1999 to 2000 due primarily to (i) separation expenses associated with the reduction in staffing from 1,770 employees at December 31, 1999 to 1,511 employees at December 31, 2000; (ii) marketing costs; (iii) the costs incurred to develop new technology, including the Company's automated underwriting system, and (iv) the costs incurred in the development of the The Anyloan Company's anyloan.com website.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

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

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

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

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

	For the Year Ended December 31, 1999	For the Year Ended December 31, 1998
	(dollars in thousands)	
Gain from whole loan sale transactions	$ 30,749	$ 58,001
Non-cash gain from securitizations (NIR gains)	169,908	168,065

Non-cash gain from servicing asset		16,368		8,791
Cash gain (loss) from securitizations/NIMs transactions		(4,670)		(4,664)
Securitization expenses		(17,161)		(13,664)
Accrued interest		(14,807)		(11,818)
Write-down of NIR		(23,000)		(5,900)
General valuation allowance for NIR				(7,500)
Provision for losses		(2,549)		(6,400)
Non-refundable fees		54,598		47,933
Premiums, net		(22,355)		(58,816)
Origination costs		(63,300)		(62,783)
Hedging losses		(2,181)		(6,185)
Gain on sales of loans	$	121,672	$	105,060

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

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

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

RESIDUAL SECURITIES

The carrying value of the Company's residual securities at December 31, 1999 and December 31, 1998 is summarized below (dollars in thousdands):

		1999		1998
Book Value of Securities	$	369,689	$	215,895
Less: General valuation allowance for NIR		5,000		10,500
Net carrying value	$	364,689	$	205,395

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

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

LIQUIDITY AND CAPITAL RESOURCES

THE WAREHOUSE CREDIT AGREEMENT. The Company requires access to short-term warehouse and aggregation credit facilities in order to fund loan originations and purchases pending the securitization and sale of such loans. As of December 31, 2000, the Company had a $265.0 million warehouse line of credit led by U.S. Bank National Association ("U.S. Bank") which expires in May 2001 and bears interest at a rate equal to the one month LIBOR plus 1.25%. At December 31, 2000, the balance outstanding under the warehouse line of credit was $201.7 million.

Borrowings under the warehouse line are generally secured by first mortgages funded through the facility. Within seven business days of funding, the Company is required to deposit the mortgage note and file with U.S. Bank to be held as collateral. If the file is incomplete, U.S. Bank ceases to count the loan in calculating the Company's available borrowing capacity. As a consequence, the Company is essentially forced to use its own cash to carry the loan until the file defect can be cured and the loan can be resubmitted under the warehouse line. As of December 31, 2000, the Company's "zero-collateral" balance was not material and did not effect the Company's liquidity.

The warehouse line is contingent upon having a committed "take-out" generally a committed aggregation facility or a forward sale commitment for the financed loans. The advance rate for a loan on the warehouse line is generally calculated as the lesser of (i) the outstanding principal balance of the loan and (ii) the take-out commitment level minus three percent. In the third and fourth quarter of 2000 and the first quarter of 2001, the Company has had qualifying take-outs in the form of forward sale commitments at prices in excess of 103% of the outstanding principal balance of the financed loans. Accordingly, the Company's advance rate under the warehouse facility has been 100% of the outstanding principal balance of the loans financed. If the Company is unable to maintain forward commitments at a price of 103% or higher, then the Company may be required to rely on its committed aggregation facilities as its qualifying "take-outs" under the warehouse line of credit. This would most likely cause the advance rate on the warehouse line to fall from 100% of the outstanding principal balance to approximately 98% of the outstanding principal balance. The negative cash impact of such an occurrence could have a material adverse impact on the Company's results of operations, business and financial condition.

AGGREGATION AND RESIDUAL FINANCING FACILITIES. As of December 31, 2000, the Company also had a $500 million aggregation facility with Salomon Smith Barney ("Salomon"), which bears interest at a

rate generally equal to the one month LIBOR plus 1.25%. This facility expires in May 2001, but can be terminated by Salomon upon 28 days written notice. The Company also has a $25.0 million Master Loan and Security Agreement with Salomon secured by delinquent or problem loans and REO properties. The facility expires on March 31, 2001 and bears interest at a rate equal to the one month LIBOR plus 2.00%. The outstanding balance of the combined Salomon facilities as of December 31, 2000 was $171.5 million. Additionally, in November 2000, the Company negotiated a $400 million aggregation facility with Morgan Stanley Dean Witter Mortgage Capital Inc., which is subject to renewal in November 2001 and bears interest at a rate generally equal to the one month LIBOR plus 1.05%. As of December 31, 2000, the balance outstanding under this facility was $29.1 million. In February 2001, the Company cancelled its $300 million aggregation facility with Greenwich Capital Markets. In addition, the Company has a $300 million aggregation and residual financing facility with PaineWebber Real Estate Securities, Inc. that the Company does not utilize and expects to negotiate a termination of the facility during 2001 as well.

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

As of December 31, 2000, the Company had residual financing arrangements with Salomon, Greenwich, PaineWebber and Countrywide Warehouse Lending ("Countrywide"), whereby the respective lender provides financing of the Company's residual interests in securitizations as well as its residual interests from NIM transactions. The amount of residual financing provided upon each securitization is determined pursuant to formulas set forth in the respective agreements and is generally subject to repayment as a result of changes in the market value of the residual interests or the formula used by the lead underwriter to determine the market value of the residual interest (which the lead underwriter may adjust in its discretion). The Greenwich residual financing facility has an aggregate limit of $21 million and expires in October, 2001. The PaineWebber facility is uncommitted, and is built into the overall $300 million limit for that facility. The Salomon facility is structured as a repurchase arrangement, and does not have a specified limit. The Countrywide facility is structured as a rolling monthly repurchase agreement. The facilities bear interest at a rate based on the one month LIBOR. At December 31, 2000, the balance outstanding under these facilities was $176.8 million.

In March 2001, in connection with the closing of the Ocwen transaction, Salomon agreed to modify its residual financing facility to provide for fixed minimum monthly and quarterly payment obligations starting in April 2001, with the facility maturing and requiring complete repayment by December 31, 2002. All cash flows from the financed residuals will be directed to pay down the facility. Based on current projections, the Company expects those cash flows to be adequate to cover the minimum monthly and quarterly pay-down obligations. If there is a shortfall, the Company will be required to make up the difference using its general working capital. The facility will no longer be subject to margin calls based on the fluctuation in the value of the underlying residuals.

The Company's business requires substantial cash to support its operating activities and growth plans. As a result, the Company is dependent on the U.S. Bank warehouse facility, the Salomon and Morgan Stanley aggregation lines and the residual financing facilities in order to finance its continued operations. If any of Salomon, Morgan Stanley or U.S. Bank decided not to renew their respective credit facilities with the Company, the loss of borrowing capacity would have a material adverse impact on the Company's results of operations unless the Company found a suitable alternative source. Likewise, these facilities generally include cross-default clauses. Therefore, the Company's breach or default under one facility could trigger defaults under one or more of the Company's other financing facilities. Such defaults, if not waived by the applicable lenders, would have a material adverse impact on the Company's results of operations, business and financial condition.

In addition, the Company's warehouse and aggregation lenders also have substantial authority to determine the characteristics of the loans that will qualify as collateral under their agreements. In the past few quarters, consistent with industry trends, those guidelines have tightened to exclude certain high-cost mortgages, loans to borrowers at the extreme low end of the credit spectrum, smaller loans and other loans perceived to be high risk by the lenders. Consequently, it is now more difficult for the Company to originate those loans. To the extent the Company cannot originate the full spectrum of non-prime mortgage loans for its key brokers, those relationships could be strained and some brokers could elect to curtail their business with the Company. This in turn could have a material adverse effect on the Company's results of operations, financial condition and business prospects.

OTHER BORROWINGS. In the fourth quarter of 1999, U.S. Bank National Association provided the Company with $20 million in subordinated debt. During 2000, U.S. Bank provided an additional $20 million in subordinated debt, and also extended the maturity for all $40 million of subordinated debt until June 2002. The debt bears interest at a rate of 12% per year. In March 2001, in connection with the Ocwen servicing rights sale, U.S. Bank agreed to extend the maturity of the subordinated debt to December 31, 2003.

During 2000, U.S. Bank also provided a $22.5 million financing facility to the Company secured by servicing advance receivables and delinquent mortgage loans not financed elsewhere. The facility was structured as a weekly rolling repurchase agreement, with the repurchase price based on an interest rate of 12%. In March 2001, the Company used some of the proceeds from the Ocwen transaction to pay off the outstanding balance on this facility and terminated it.

The Company has a discretionary, non-revolving $5.0 million line of credit with an affiliate of U.S. Bank secured by the Company's furniture and equipment. Advances under this facility are made periodically at the discretion of the lender, and bear interest at a fixed rate established at the time of each advance for a term of three years. As of December 31, 2000, the balance outstanding under this facility was $1.8 million, and the weighted-average interest rate was 9.5%.

The Company had various non-revolving operating lease agreements totaling $18.3 million at December 31, 2000, for purposes of financing office property and equipment. Advances under these facilities are made periodically and a financing rate is established at the time of each advance. As of December 31, 2000 the Company had fully utilized the financing available under these facilities.

INDUSTRY LIQUIDITY ENVIRONMENT. Although the Company has access to numerous financing sources, the financing environment for non-prime mortgage lenders in general remains unfavorable by historical standards. Some large non-prime lenders have gone out of business while others have reported losses and have drastically decreased their operations. In this environment, lenders who have historically been active in this sector have been much more conservative in their decisions to extend credit to non-prime originators. In addition, as whole loan prices have fallen, lenders have gradually reduced the levels at which they will lend against mortgage loans and residual interests. This reduction in advance rates has had a negative effect on the Company's cash flow. Such lower advance rates appear likely to persist.

CASH FLOW. For the year ended December 31, 2000, the Company's operations used approximately $30.8 million more cash than those operations generated. The principal reasons for the excess were (i) securitization and (ii) the all-in acquisition costs for loans exceeding the gain on sale received for those loans on a whole loan basis. The Company made up the majority of the cash shortfall through (i) borrowing additional subordinated debt from U.S. Bank and (ii) establishing the additional $22.5 million repurchase facility with U.S. Bank. Although the Company transitioned to a whole loan sales secondary marketing strategy in the latter half of 2000, the Company's loan origination and purchase programs still require significant cash investments, including the funding of: (i) fees paid to brokers and

correspondents in connection with generating loans through wholesale lending activities; (ii) commissions paid to sales employees to originate loans; (iii) any difference between the amount funded per loan and the amount advanced under the current warehouse facility; (iv) principal and interest payments on residual financing secured by the NIM residual bonds, for which the Company does not expect to begin receiving cash flows until December 2001; and (v) income tax payments arising from the recognition of gain on sale of loans. The Company also requires cash to fund ongoing operating and administrative expenses, including capital expenditures and debt service. The Company's sources of operating cash flow include: (i) the premium advance component of the aggregation facilities; (ii) premiums obtained in whole loan sales; (iii) mortgage origination income and fees; (iv) interest income on loans held for sale; (v) excess cash flow from securitization trusts; and (vi) servicing income.

After the transfer to Ocwen's Orlando, Florida servicing center on August 1, 2001, the Company will no longer receive servicing fees and related income, but will receive servicing income from the interest on its residual securities.

In the first quarter of 2001, the Company also generated additional cash as a result of two non-recurring transactions. First, the Company received cash in connection with the call of the 1998-NC5 securitization in January 2001. The proceeds to the Company as holder of residual securities in the transaction exceeded the amount of financing on those residuals by approximately $5.8 million. In addition, in March 2001, the Company received approximately $4.0 million in cash from the sale of servicing rights and servicing advance receivables to Ocwen, after pay-down of the financing secured by those assets.

LIQUIDITY STRATEGY FOR 2001. The Company has taken steps early in 2001 designed to improve its liquidity and cash flow. The Ocwen transaction allowed the Company to pay down approximately $32.9 million in debt and also receive approximately $4.0 million in cash. Moreover, as a result of the Ocwen transaction, the Company will no longer be obligated to make servicing advances on its securitized loans. At the same time, however, the sale to Ocwen will reduce servicing cash flows by approximately $3.5 million in future quarters. Upon transfer of servicing to Ocwen in the summer of 2001, the Company expects either to close the facility, sell the servicing platform to a third party or offer limited servicing activities.

In addition, the amendment of the Salomon residual financing arrangement is intended to make the Company substantially less vulnerable to margin calls on its residual financing. Likewise, the extension of the maturity of the U.S. Bank debt is intended to allow the Company to time repayment of that debt to coincide with the anticipated cash flows from the Company's residual securities.

Despite the expected improvements to the Company's cash position and liquidity as a result of the servicing rights sale to Ocwen, the Company's operations continue to use more cash than they generate. Apart from its operating uses of cash, the Company has current and deferred income taxes of approximately $15.4 million, some of which may be payable in 2001.

During 2001, the Company intends to concentrate on improving cash flow in order to achieve cash-flow positive operations sufficient to pay its deferred tax obligation and fund ongoing operations. The Company's principal strategies will be (i) reducing the all-in acquisition cost for loans, with a goal of reducing it to 2.50% by the second quarter and even lower in the second half of the year, (ii) reducing the number of loans that the Company must sell at a discount because of defects, because they are rejected by loan buyers or because the borrower failed to make the first payment, (iii) reducing the size of the average loss on sale for those loans that are sold at a discount, and (iv) improving the gain on sale of loans sold at a premium. There can be no assurance that the Company will be able to achieve these goals and operate on a cash flow neutral or cash flow positive basis.

If the Company cannot generate sufficient cash flow to fund its operations and pay its deferred tax liability, the Company will need to seek additional borrowings or additional equity capital. There can be no

assurance that such debt or equity will be available to the Company. Absent improved cash flow and/or additional capital, at current cash usage rates, there can be no assurance that the Company will meet its required $10 million month-end liquidity covenant under its U.S. Bank Warehouse Credit Agreement. If the Company breaches this covenant, the Company intends to seek appropriate waivers from U.S. Bank and its other lenders. There can be no assurance that such waivers would be obtained. If such waivers were not obtained, the warehouse line of credit and the Company's other credit facilities could be terminated. Unless the Company were to secure suitable replacement facilities, any termination of these facilities would have a material adverse effect on the Company's results of operations, financial condition and business prospects.

Subject to the various uncertainties described above, and assuming that the Company will be able to successfully execute its liquidity strategy, the Company anticipates that its liquidity, credit facilities and capital resources will be sufficient to fund its operations for the foreseeable future.

U.S. BANCORP STRATEGIC ALLIANCE

In January 2001, U.S. Bank forfeited its rights to the 725,000 warrants issued in connection with the April 2000 subordinated debt financing transaction with the Company. The forfeiture decision arose in the course of the Federal Reserve's review of the U.S. Bancorp/Firstar Corp. merger. Federal regulators had concluded that U.S. Bancorp's rights under its shareholder agreements with the Company's founding managers would result in the Company being deemed an "affiliate" under the Federal Reserve Act. In order to avoid the complications relating to affiliate status and to facilitate the merger approval process, U.S. Bancorp elected to forfeit the warrants and terminate the shareholder agreements with the Company. As a result, U.S. Bancorp's equity interest as of February 1, 2001, stands at 24.8% of the Company.

In March 2001, in connection with the closing of the Ocwen servicing rights purchase, U.S. Bancorp agreed to extend the maturity of its $40 million in subordinated debt until December 31, 2003.

On March 29, 2001, U.S. Bancorp notified the Company that it was terminating its right to representation on the Company's Board of Directors. U.S. Bancorp received this right under its 1998 Preferred Stock Purchase Agreement with the Company. The two U.S. Bancorp-designated directors currently serving on the Board remain directors as of the date hereof, but no longer serve as designees of U.S. Bancorp.

INCOME TAXES

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

ACCOUNTING CONSIDERATIONS

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Securities and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138 (collectively, "SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain

conditions are met, a derivative may be specifically designated as (i) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (ii) a hedge of the exposure to variable cash flows of a forecasted transaction, or (iii) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available for sale security, or a foreign currency-denominated forecasted transaction.

Under SFAS No. 133, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk. This statement is effective for the Company on January 1, 2001.

On January 1, 2001, the Company adopted SFAS No. 133. All outstanding derivatives at December 31, 2000 had already been recognized at fair value with the offset through earnings, consequently, the adoption of SFAS No. 133 did not result in any adjustment to the recorded value of the Company's derivative hedging instruments.

In September 2000, FASB issued SFAS No. 140 to replace No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," (SFAS No. 140). SFAS No. 140 provides the accounting and reporting guidance for transfers and servicing of financial assets and extinguishments of liabilities. Statement No. 140 will be the authoritative accounting literature for: (i) securitization transactions involving financial assets; (ii) sales of financial assets; (iii) servicing assets and liabilities; (iv) securities lending transactions;

(v) repurchase agreements; and (vi) extinguishment of liabilities. The accounting provisions are effective beginning after March 31, 2001. The reclassification and disclosure provisions are effective beginning after December 15, 2000. The Company adopted the disclosure provisions required by SFAS No. 140 and has included all appropriate and necessary disclosures required by SFAS No. 140 in its financial statements and footnotes. The adoption of the accounting provisions is not expected to have a material impact on the Company's consolidated balance sheet or results of operations.

In March 2000, the FASB issued Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation an interpretation of APB Opinion No. 25" (FIN 44). This Interpretation clarifies the definition of an employee for purposes of applying Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), the criteria for determining whether a plan qualifies as a noncompensatory plan, the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and the accounting for an exchange of stock compensation awards in a business combination. This Interpretation is effective July 1, 2000, but certain conclusions in this Interpretation cover specific events that occur after either December 15, 1998 or January 12, 2000. The adoption of FIN 44 did not have a material impact on the Company's consolidated financial position, results of operations or liquidity.

SAFE HARBOR STATEMENT

The preceding "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections as well as the "Letter to Stockholders" contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), and the Company intends that such forward-looking statements be subject to the safe harbors created thereby. These forward-looking statements generally include the plans and objectives of management for future operations, including plans and objectives relating to the Company's future economic performance. The forward-looking statements and associated risks may include or relate to: (i) the belief that the Company is better positioned to meet the challenges in its industry, (ii) the belief that the Company is positioned to deliver a higher quality of earnings in future quarters, (iii) the expectation that the amendments to the Company's residual and subordinated financing facilities will allow for orderly repayment of the residual financing by

December 31, 2002, (iv) the expectation that upon repayment of the Company's residual financing, the unencumbered residual assets will generate significant cash flows to support corporate operations, future strategic initiatives, and enhance stockholder value, (v) the belief that the Company's decision to remain independent will allow it to focus on its core businesses with the aim of originating the best loan products and providing the best service to its customers, (vi) the expectation that the Company will be able to execute its 2001 Business Plan and return to profitability in 2001, (vii) the belief that Ocwen's servicing will result in consistent collateral performance throughout the life of the Company's loans and enhance the value of the Company's residuals, (viii) the expectation that the Company will complete the transfer of servicing to Ocwen by August 1, 2001, (ix) the belief that the Company will be able to reduce its all-in loan acquisition costs to its 2.50% target, (x) the Company's plan to execute a secondary marketing strategy that maximizes liquidity, (xi) the Company's plan to reduce the number of loans it sells at a discount and the severity of the losses on those sales, (xii) the Company's plan to originate loans for which buyers will pay higher premiums, (xiii) the plan to achieve cash flow-positive operations in 2001; (xiv) the assumptions used to value the Company's residual assets, (xv) the expectation that the Company will continue to offer insurance products to borrowers on the Company's loans held for sale, (xvi) the belief that the Company will be able to attract, retain and motivate qualified personnel, (xvii) the belief that the Company's relations with its employees are satisfactory, (xviii) the belief that the Company's litigation, individually or in the aggregate, will not have a material adverse effect on the Company's financial position or results of operations, (xix) the expectation that the Company's residual cash flows will be adequate to repay the Salomon residual financing and the U.S. Bank subordinated debt, (xx) the expectation that the Company will continue to receive servicing income in the form of interest on its residual securities after the transfer of servicing rights to Ocwen, (xxi) the expectation that after the transfer of servicing to Ocwen the Company will reduce some corporate overhead that had been supporting the servicing operations, (xxii) the belief that the Company will be able to execute its strategies to improve liquidity, and (xxiii) the expectation that the adoption of SFAS No. 140 and FIN 44 will not have a material impact on the Company's financial position, balance sheet, results of operations or liquidity.

The forward-looking statements are further qualified by important factors that could cause actual results to differ materially from these in the forward-looking statements, including, without limitation, the following: (i) the Company's access to funding sources and its ability to renew, replace or add to its existing credit facilities on terms comparable to the current terms; (ii) the condition of the secondary market for whole loans, (iii) the condition of the markets for mortgage-backed securities and the senior bonds issued in NIM transactions, (iv) an increase in the prepayment speed or default rate of the Company's borrowers; (v) management's ability to manage the Company's past growth and planned expansion; (vi) the effect of changes in interest rates; (vii) the effect of the competitive pressures from other sub-prime lenders or suppliers of credit in the Company's market; (viii) the negative impact of economic slowdowns or recessions; (ix) the ability of the Company to offer its employees competitive compensation packages, (x) the impact of new state or federal legislation restricting the activities of sub-prime lenders; and (xi) the ability of the Company and Ocwen to provide for a smooth transfer of servicing, (xii) the Company's ability to maintain the performance of its servicing platform pending the transfer to Ocwen, (xiii) the Company's ability to improve its origination controls and processes in order to avoid originating loans that must be sold at a discount, and (xiv) the Company's ability to expand origination volume while reducing overhead. Results actually achieved may differ materially from expected results in these statements. Several of these risks are discussed in greater detail in the "Risk Factors" section of the preceding "Business" section. Any of the factors described alone or in the "Risk Factors" section could cause the Company's financial results, including its net income or growth in net income, to differ materially from prior results.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

GENERAL

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

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The following table illustrates the timing of the re-pricing of the Company's interest-sensitive assets and liabilities as of December 31, 2000. Management has made certain assumptions in determining the timing of re-pricing of such assets and liabilities. One of the more significant assumptions is that all of the Company's loans receivable held for sale will be sold in the first six months of 2001. In addition, the timing of re-pricing or maturity of the Company's residual interests in securitizations is based on certain prepayment and loss assumptions (See "Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations" for further details).

Description	Zero to Six Months	Six months to One Year	1-2 Years	3-4 Years	5-6 Years	Thereafter	Total	Fair Value
Interest-sensitive assets:								
Cash and cash equivalents	$ 10,283						10,283	10,283
Loans receivable held for sale, net	400,089						400,089	406,420
Residual interests in securitizations	39,531	13,694	91,815	113,169	27,289	76,148	361,646	361,646
Interest rate cap	881						881	881
Total interest-sensitive assets	**$ 450,784**	**13,694**	**91,815**	**113,169**	**27,289**	**76,148**	**772,899**	**779,230**
Interest-sensitive liabilities:								
Warehouse and aggregation lines of credit	404,446						404,446	404,446
Residual financing payable	176,806						176,806	176,806
Subordinated debt			40,000				40,000	40,000
Note payable	23,201	491	431	217			24,340	24,340

Total interest-sensitive liabilities	**$ 604,453**	**491**	**40,431**	**217**			**645,592**	**645,592**
Excess of interest-sensitive assets over interest-sensitive liabilities	**(153,669)**	**13,203**	**51,384**	**112,952**	**27,289**	**76,148**	**127,307**	**133,638**
Cumulative net interest-sensitivity gap	**$ (153,669)**	**(140,466)**	**(89,082)**	**23,870**	**51,159**	**127,307**		**133,638**

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

Description	**Zero to Six Months**	**Six months to One Year**	**1-2 Years**	**3-4 Years**	**5-6 Years**	**Thereafter**	**Total**	**Fair Value**
Interest-sensitive assets:								
Cash and cash equivalents	$ 4,496						4,496	4,496
Loans receivable held for sale, net	442,653						442,653	444,599
Residual interests in securitizations	7,753	7,817	128,682	106,594	66,640	47,203	364,689	364,689
Total interest-sensitive assets	**$ 454,902**	**7,817**	**128,682**	**106,594**	**66,640**	**47,203**	**811,838**	**813,784**
Interest-sensitive liabilities:								
Warehouse and aggregation lines of credit	428,726						428,726	428,726
Residual financing payable	177,493						177,493	177,493
Subordinated debt	20,000						20,000	20,000
Note payable	958	835	1,026	232			3,051	3,051
Total interest-sensitive liabilities	**$ 627,177**	**835**	**1,026**	**232**			**629,270**	**629,270**

Excess of interest-sensitive assets over interest-sensitive liabilities		**(172,275)**	**6,982**	**127,656**	**106,362**	**66,640**	**47,203**	**182,568**	**184,514**
Cumulative net interest-sensitivity gap	**$**	**(172,275)**	**(165,293)**	**(37,637)**	**68,725**	**135,365**	**182,568**		**184,514**

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to this item is set forth in "Index to Consolidated Financial Statements."

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The names and ages of the executive officers of the Company and the positions each of them has held for the past five years are included in Part I of this Form 10-K as permitted by the General Instruction G(3). The information required by this item regarding the Company's directors will be included in the Company's Proxy Statement with respect to its 2001 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 2000, under the caption "Board of Directors and Committees of the Board" and is incorporated herein by this reference as if set forth in full herein.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included in the Company's Proxy Statement with respect to its 2001 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 2000 under the captions "Executive Compensation," "Board of Directors and Committees of the Board," "Report of Compensation Committee," "Performance Graph," and "Compensation Committee Interlocks and Insider Participation" and is incorporated herein by this reference as if set forth in full herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item will be included in the Company's Proxy Statement with respect to its 2001 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 2000 under the caption "Security Ownership of Principal Stockholders and Management," and is incorporated herein by this reference as if set forth in full herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will be included in the Company's Proxy Statement with respect to its 2001 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 2000 under the caption "Certain Relationships and Related Transactions," and is incorporated herein by this reference as if set forth in full herein.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements See "Index to Consolidated Financial Statements"

2. Consolidated Financial Statement Schedule See "Index to Consolidated Financial Statements"

3. Exhibits See "Exhibit Index"

(b) The Company did not file any reports on form 8-K during the fourth quarter of 2000.

SIGNATURES

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

NEW CENTURY FINANCIAL CORPORATION

By: **/s/ BRAD A. MORRICE**

Brad A. Morrice
Vice Chairman, President and Chief Operating Officer

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

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

Signature	Title	Date
/s/ BRAD A. MORRICE Brad A. Morrice	Vice Chairman, President and Chief Operating Officer	March 29, 2001
/s/ EDWARD F. GOTSCHALL Edward F. Gotschall	Vice Chairman and Chief Financial Officer	March 29, 2001
/s/ ROBERT K. COLE Robert K. Cole	Chairman of the Board and Chief Executive Officer	March 29, 2001
/s/ FREDRIC J. FORSTER Fredric J. Forster	Director	March 29, 2001
/s/ MICHAEL M. SACHS Michael M. Sachs	Director	March 29, 2001
/s/ TERRENCE P. SANDVIK Terrence P. Sandvik	Director	March 29, 2001
/s/ RICHARD A. ZONA Richard A. Zona	Director	March 29, 2001

EXHIBIT INDEX

Exhibit Number	Description
3.1	First Amended and Restated Certificate of Incorporation of the Company *(1)*
3.2	Certificate of Designation for Series 1998A Convertible Preferred Stock *(2)*

3.3	Amended Certificate of Designation for Series 1999A Convertible Preferred Stock *(3)*
3.4	First Amended and Restated Bylaws of the Company *(1)*
4.1	Specimen Stock Certificate *(1)*
4.2	Specimen Series 1998A Convertible Preferred Stock Certificate *(4)*
4.3	Specimen Series 1999A Convertible Preferred Stock Certificate *(5)*
10.1	Form of Indemnity Agreement between the Company and each of its executive officers and directors *(1)**
10.2	1995 Stock Option Plan, as amended (incorporated by reference from the Company's Form S-8 Registration Statement (No. 333-56514) as filed with the Securities and Exchange Commission on March 2, 2001*
10.3	Founding Managers' Incentive Compensation Plan *(1)**
10.4	Office Building Lease by and between Koll Center Irvine Number Two and New Century Financial Corporation dated April 11, 1997 *(1)*
10.5	Registration Rights Agreement, dated May 30, 1997, by and between the Company and certain stockholders of the Company *(1)*
10.6	Form of Equalization Option granted to two executive officers of the Company *(1)**
10.7	New Century Financial Corporation Comerica Warrant to Purchase Common Stock issued to Comerica on May 30, 1997 *(1)*
10.8	Office Building Lease by and between AGBRI Cowan and New Century Financial Corporation dated November 6, 1997 *(6)*
10.9	Employee Stock Purchase Plan, as amended *(7)**
10.10	Merger Agreement, dated as of December, 17, 1997, by and among New Century, NC Acquisition Corp., PWF, Kirk Redding and Paul Akers *(8)*
10.11	First Amendment to Merger Agreement, dated January 12, 1998, by and among New Century, NC Acquisition Corp., PWF, Kirk Redding and Paul Akers *(8)*
10.12	Master Lease Agreement by and between New Century Mortgage Corporation and General Electric Capital Corporation, dated as of October 24, 1997 *(6)*
10.13	First Amendment to Founding Managers' Incentive Compensation Plan *(9)**
10.14	Third Amended and Restated Credit Agreement between the Company and U.S. Bank National Association dated May 29, 1998 *(10)*
10.15	First Amendment to Third Amended and Restated Credit Agreement between the Company and U.S. Bank National Association dated July 27, 1998 *(11)*
10.16	Second Amendment to Third Amended and Restated Credit Agreement between the Company and U.S. Bank National Association dated June 30, 1998 *(11)*
10.17	Third Amendment to Third Amended and Restated Credit Agreement between the Company and U.S. Bank National Association dated November 23, 1998 *(4)*
10.18	Fourth Amendment to Third Amended and Restated Credit Agreement between the Company and U.S. Bank National Association dated December 11, 1998 *(4)*

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10.19	Deferred Compensation Plan (incorporated by reference from the Company's Form S-8 Registration Statement(No. 333-68467) as filed with the Securities and Exchange Commission on December 7, 1998*
10.20	Preferred Stock Purchase Agreement, dated as of October 18, 1998, between the Company and U.S. Bancorp *(2)*
10.21	Registration Rights Agreement, dated as of November 24, 1998, between the Company and U.S. Bancorp *(2)*
10.22	Flow Purchase Agreement, dated as of November 24, 1998, between New Century Mortgage Corporation and U.S. Bank National Association, ND *(2)*
10.23	Service Provider Agreement, dated as of November 24, 1998, between New Century Mortgage Corporation and U.S. Bank National Association, ND *(2)*
10.24	Form of Founding Managers' Shareholder Agreement, dated November 24, 1998 *(4)*
10.25	Form of Founding Managers' Employment Agreement, dated January 1, 1999 *(4)**
10.26	Letter Agreement by and between NC Capital Corporation, New Century Mortgage Corporation and Salomon Brothers Realty Corp., dated December 11, 1998 *(4)*
10.27	Fourth Amended and Restated Credit Agreement between the Company and U.S. Bank National Association dated May 26, 1999 *(5)*
10.28	Master Loan and Security Agreement by and between NC Capital Corporation and Greenwich Capital Financial Products, Inc., dated June 23, 1999 *(5)*
10.29	Residual Financial Facility Agreement by and between NC Capital Corporation and Greenwich Capital Financial Products, Inc., dated June 23, 1999 *(5)*
10.30	Master Loan and Security Agreement by and among New Century Mortgage Corporation, NC Capital Corporation and Paine Webber Real Estate Securities, Inc., dated as of July 20, 1999 *(5)*
10.31	Preferred Stock Purchase Agreement, dated as of July 26, 1999, between the Company and U.S. Bancorp *(5)*
10.32	Amended and Restated Registration Rights Agreement, dated as of July 26, 1999, between the Company and U.S. Bancorp *(5)*
10.33	First Amendment to Fourth Amended and Restated Credit Agreement between the Company and U.S. Bank National Association, dated August 31, 1999 *(12)*
10.34	Letter Agreement by and between NC Capital Corporation, New Century Mortgage Corporation and Salomon Brothers Realty Corp., dated September 1, 1999 *(12)*
10.35	Amendment to Master Loan and Security Agreement dated as of July 20, 1999 by and among New Century Mortgage Corporation, NC Capital Corporation and Paine Webber Real Estate Securities, Inc., dated as of September 30, 1999 *(12)*
10.36	Industrial Lease, dated October 11, 1999, between the Company and the Irvine Company *(12)*
10.37	Second Amendment to Fourth Amended and Restated Credit Agreement between the Company and U.S. Bank National Association, dated October 15, 1999 *(12)*
10.38	Amendment Number One to Master Loan and Security Agreement dated as of June 23, 1999 by and between NC Capital Corporation and Greenwich Capital Financial Products, Inc., dated as of October 23, 1999 *(12)*
10.39	Third Amendment to Pledge and Security Agreement dated February 17, 2000 between New Century Mortgage Corporation and U.S. Bank National Association *(7)*

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10.40	Amendment to Letter Agreement dated as of September 1, 1999 by and between NC Capital Corporation, New Century Mortgage Corporation and Salomon Brothers Realty Corp., dated March 7, 2000 *(7)*
10.41	

	Subordinated Loan Agreement by and among New Century Mortgage Corporation and U.S. Bank National Association, dated April 28, 2000 *(3)*
10.42	Warrant Issuance Agreement by and among New Century Financial Corporation, U.S. Bancorp and U.S. Bank National Association, dated April 28, 2000 *(3)*
10.43	Promissory Note by New Century Mortgage Corporation, dated April 28, 2000 *(3)*
10.44	Amended and Restated Registration Rights Agreement by and among New Century Financial Corporation, U.S. Bancorp and U.S. Bank National Association, dated April 28, 2000 *(3)*
10.45	Amended and Restated Pledge and Security Agreement by and among New Century Mortgage Corporation and U.S. Bank National Association, dated April 30, 2000 *(3)*
10.46	Amended and Restated Security Agreement by and among NC Capital Corporation, NC Residual II Corporation and U.S. Bank National Association, dated April 30, 2000 *(3)*
10.47	Amended and Restated Servicing Security Agreement by and among New Century Mortgage Corporation and U.S. Bank National Association, dated April 30, 2000 *(3)*
10.48	Intercreditor Agreement by and among U.S. Bank National Association, NC Capital Corporation, NC Residual II Corporation and Salomon Smith Barney, Inc.dated April 26, 2000 *(3)*
10.49	Master Loan & Security Agreement, by and among New Century Mortgage Corporation, NC Capital Corporation and Salomon Brothers Realty Corp., dated April 1, 2000 *(3)*
10.50	Letter Agreement, by and among Salomon Brothers Realty Corp., NC Capital Corporation and New Century Mortgage Corporation, dated April 1, 2000 *(3)*
10.51	Third Amendment to Fourth Amended and Restated Credit Agreement dated May 24, 2000 by and among New Century Mortgage Corporation and U.S. Bank National Association *(13)*
10.52	Fourth Amendment to Fourth Amended and Restated Credit Agreement, dated June 29, 2000 by and among NC Capital Corporation and Greenwich Capital Financial Products, Inc. *(13)*
10.53	Amendment Number Two to the Master Loan and Security Agreement, dated June 23, 2000 by and among NC Capital Corporation and Greenwich Capital Financial Products, Inc. *(13)*
10.54	Amendment Number One to the Residual Financing Facility Agreement, dated June 23, 2000 by and among NC Capital Corporation and Greenwich Capital Financial Products, Inc. *(13)*
10.55	Intercreditor Letter Agreement, dated June 30, 2000 by and among NC Capital Corporation and Greenwich Capital Financial Products, Inc. *(13)*
10.56	Purchase Agreement dated July 20, 2000 by and among New Century Mortgage Corporation and U.S. Bank National Association *(13)*
10.57	Restated Purchase Agreement dated July 31, 2000 by and among New Century Mortgage Corporation and U.S. Bank National Association *(13)*
10.58	Global Master Repurchase Agreement dated as of December 11, 1998 between Salomon Smith Barney, Inc. as Agent for Salomon Brothers International Limited and NC Capital Corporation *(14)*

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10.59	Global Master Repurchase Agreement dated as of December 11, 1998 between Salomon Smith Barney, Inc. as Agent for Salomon Brothers International Limited and NC Residual II Corporation *(14)*
10.60	Warrant, dated April 28, 2000, issued to U.S. Bank National Association (650,000 shares) *(14)*
10.61	Warrant, dated April 28, 2000, issued to U.S. Bank National Association (37,500 shares) *(14)*
10.62	Warrant, dated July 18, 2000, issued to U.S. Bank National Association *(14)*
10.63	Warrant, dated October 30, 2000, issued to U.S. Bank National Association *(14)*
10.64	

	Amendment Number Two to Residual Financing Facility Agreement, dated September 28, 2000 by and among NC Capital Corporation and Greenwich Capital Financial Products, Inc. *(14)*
10.65	Amendment Number Three to Residual Financing Facility Agreement, dated October 31, 2000 by and among NC Capital Corporation and Greenwich Capital Financial Products, Inc. *(14)*
10.66	Amendment to Letter Agreement by and between Salomon Brothers Realty Corp., NC Capital Corporation and New Century Mortgage Corporation, dated April 1, 2000 *(14)*
10.67	Irrevocable Proxy, dated November 11, 2000, executed by Brookhaven Capital Management, LLC, Watershed Partners, L. P. and Vincent A. Carrino *(14)*
10.68	First Amendment to Subordinated Loan Agreement by and between New Century Mortgage Corporation and U.S. Bank National Association dated July 20, 2000
10.69	Letter Agreement by and among New Century Mortgage Corporation, NC Capital Corporation and Salomon Brothers Realty Corporation, dated November 30, 2000
10.70	Letter Agreement by and among New Century Mortgage Corporation, NC Capital Corporation and Salomon Brothers Realty Corporation, dated December 27, 2000
10.71	Amendment Number Four to Residual Financing Facility Agreement, dated November 21, 2000 by and among NC Capital Corporation and Greenwich Capital Financial Products, Inc.
10.72	Termination of the Master Loan and Security Agreement by and among NC Capital Corporation and Greenwich Capital Financial Products, Inc. dated February 13, 2001
10.73	Termination Agreement by and among New Century Financial Corporation, PWF Corporation, Paul B. Akers and Kirk Redding, dated December 13, 2000
10.74	Master Loan and Security Agreement by and between NC Capital Corporation and Morgan Stanley Dean Witter Mortgage Capital Inc., dated December 1, 2001
10.75	Separation Agreement and General Release by and between New Century Financial Corporation and Steve Holder, dated as of December 27, 2000
10.76	Consulting Agreement between New Century Financial Corporation and Steve Holder, dated as of December 27, 2000
10.77	Termination Letter regarding U.S. Bank National Association's Warrants, dated January 12, 2001
10.78	Termination Letter regarding U.S. Bank National Association's Shareholder Agreements with Robert Cole, Brad Morrice, Ed Gotschall and Steve Holder dated January 12, 2001
10.79	Servicing Rights Purchase Agreement by and among Ocwen Federal Bank FSB and New Century Mortgage Corporation, dated February 28, 2001

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10.80	Receivables Financing Facility Agreement by and among Ocwen Federal Bank FSB and New Century Mortgage Corporation, dated February 28, 2001
10.81	Residential Flow Interim Servicing and Servicing Rights Purchase Agreement by and between New Century Mortgage Corporation and Ocwen Federal Bank FSB, dated as of March 1, 2001
10.82	First Amendment to Restated Purchase Agreement by and between New Century Mortgage Corporation and U.S. Bank National Association, dated February 28, 2001
10.83	Second Amendment to Subordinated Loan Agreement by and between New Century Mortgage Corporation and U.S. Bank National Association dated as of March 29, 2001
10.84	Third Amended and Restated Subordinated Promissory Note executed by New Century Mortgage Corporation in favor of U.S. Bank National Association, dated as of March 29, 2001
10.85	TBMA/ISMA Global Master Repurchase Agreement by and between Salomon Smith Barney Inc. as Agent for Salomon Brothers International Limited and NC Capital Corporation and Annex I thereto, dated as of March 29, 2001
10.86	TBMA/ISMA Global Master Repurchase Agreement by and between Salomon Smith Barney Inc. as Agent for Salomon Brothers International Limited and NC Residual II Corporation and Annex I thereto, dated as of March 29, 2001
10.87	Letter Agreement dated March 29, 2001 by and among U.S. Bank National Association, NC Capital Corporation, NC Residual II Corporation and Salomon Smith Barney as Agent for Salomon Brothers International Ltd.
10.88	

	Letter dated March 29, 2001 from U.S. Bancorp to the Corporation regarding termination of certain board rights.
21.1	List of Subsidiaries
23.1	Consent of KPMG LLP

*
Management contract or compensatory plan or arrangement.

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(1)
Incorporated by reference from the Company's Form S-1 Registration Statement (No. 333-25483) as filed with the Securities and Exchange Commission on June 23, 1997.

(2)
Incorporated by reference from the Company's Form 8-K as filed with the Securities and Exchange Commission on December 8, 1998.

(3)
Incorporated by reference from the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 15, 2001.

(4)
Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 on file with the Securities and Exchange Commission.

(5)
Incorporated by reference from the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on August 16, 1999.

(6)
Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 on file with the Securities and Exchange Commission.

(7)
Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 on file with the Securities and Exchange Commission.

(8)
Incorporated by reference from the Company's Form 8-K as filed with the Securities and Exchange Commission on January 26, 1998.

(9)
Incorporated by reference from the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 15, 1998.

(10)
Incorporated by reference from the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on August 14, 1998.

(11)
Incorporated by reference from the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 13, 1998.

(12)
Incorporated by reference from the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 15, 1999.

(13)
Incorporated by reference from the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on August 14, 2000.

(14) Incorporated by reference from the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 14, 2000.

NEW CENTURY FINANCIAL CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
New Century Financial Corporation:

We have audited the accompanying consolidated balance sheets of New Century Financial Corporation and subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Century Financial Corporation and subsidiaries as of December 31, 2000 and 1999 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

Orange County, California
February 1, 2001,
except as to note 22
to the consolidated financial statements,
which is as of March 29, 2001.

NEW CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2000	1999
	(Dollars in thousands, except per share amounts)	
ASSETS:		
Cash and cash equivalents	$ 10,283	$ 4,496
Loans receivable held for sale, net *(notes 2 and 7)*	400,089	442,653
Residual interests in securitizations *(notes 3 and 7)*	361,646	364,689
Mortgage servicing assets *(note 4)*	22,945	22,145
Accrued interest receivable	1,588	1,538
Income taxes receivable		548
Office property and equipment *(notes 6 and 9)*	3,171	3,780
Prepaid expenses and other assets *(notes 5 and 10)*	37,439	23,860
TOTAL ASSETS	$ 837,161	$ 863,709
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Warehouse and aggregation lines of credit *(note 7)*	$ 404,446	$ 428,726
Residual financing *(note 7)*	176,806	177,493
Subordinated debt *(note 8)*	40,000	20,000
Notes payable *(note 9)*	24,340	3,051
Income taxes payable *(note 12)*	7,498	
Accounts payable and accrued liabilities *(notes 11 and 14)*	24,040	26,484
Deferred income taxes *(note 12)*	7,882	34,992
Total liabilities	685,012	690,746
Commitments and contingencies *(note 11)*		
Stockholders' equity *(notes 14 and 15)*:		
Preferred stock, $.01 par value. Authorized 7,500,000 shares; 40,000 shares issued and outstanding; liquidation preference $40,000		
Common stock, $.01 par value. Authorized 45,000,000 shares; issued and outstanding 14,852,931 shares at December 31, 2000 and 14,694,984 shares at December 31, 1999	149	147
Additional paid-in capital	90,579	85,625
Retained earnings, restricted	61,426	87,351
	152,154	173,123
Deferred compensation costs	(5)	(160)
Total stockholders' equity	152,149	172,963

	December 31,	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 837,161	$ 863,709

See accompanying notes to consolidated financial statements.

NEW CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2000	**1999**	**1998**
	(In thousands, except per share data)		
Revenues:			
Gain on sale of loans *(note 2)*	$ 14,952	$ 121,672	$ 105,060
Interest income *(note 2)*	67,351	61,457	47,655
Servicing and residual income *(note 3)*	79,960	50,813	23,692
Other income	1,653		
Total revenues	163,916	233,942	176,407
Expenses:			
Personnel *(notes 11 and 13)*	57,418	54,634	41,345
Interest	72,126	53,193	40,328
General and administrative *(note 16)*	52,601	42,732	30,994
Advertising and promotion	12,681	11,767	8,681
Professional services	5,871	4,730	2,751
Total expenses	200,697	167,056	124,099
Earnings (loss) before income taxes (benefit)	(36,781)	66,886	52,308
Income taxes (benefit) *(note 12)*	(13,756)	27,377	21,1