

NEW CENTURY FINANCIAL CORP  
Form 10-Q  
August 09, 2004

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended June 30, 2004**

**OR**

o **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**  
(I.R.S. Employer Identification No.)

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(State or other jurisdiction of  
incorporation or organization)

**18400 VON KARMAN, SUITE 1000,  
IRVINE, CALIFORNIA**  
(Address of principal executive offices)

**92612**  
(Zip code)

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

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check  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 twelve 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  NO

Indicate by check  whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

**As of July 31, 2004, the registrant had 34,045,201 shares of common stock outstanding.**

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NEW CENTURY FINANCIAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED JUNE 30, 2004

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## Edgar Filing: NEW CENTURY FINANCIAL CORP - Form 10-Q

Certain information included in this Form 10-Q may include forward-looking statements under federal securities laws, and we intend that such forward-looking statements be subject to the safe-harbor created thereby. Such statements include, without limitation, (i) the assumptions and estimates underlying our projections of our residual asset value and cash flow, (ii) our projections of our residual asset value and cash flow, (iii) the estimates underlying our allowance for losses on mortgage loans held for investment, (iv) our allowance for repurchase losses, (v) the estimates underlying our allowance for repurchase losses, (vi) our goal of matching the timing of cash flows with the recognition of earnings on our loans, (vii) our goal to continue to add mortgage loans held for investment to our balance sheet to reduce the reliance on the origination and sale of loans for earnings and cash flows, (viii) our expectation that we will continue to grow our balance sheet, (ix) our goal of reducing our loan acquisition costs so that we can maintain a strong operating margin in periods when the secondary market for our loans is not as favorable, (x) our expectation that our loan production volume will stabilize during the second half of 2004, (xi) our expectation that loan acquisition costs will normalize to 2.25% for the remainder of 2004, (xii) our goal to generate primarily cash-based earnings rather than non-cash gain on sale revenue, (xiii) our expectation that the recognition of income as interest payments are received on the mortgage loans held for investment underlying an on-balance sheet securitization will result in higher income recognition in future periods than would an off-balance sheet securitization, (xiv) our beliefs regarding our critical accounting policies, (xv) our belief that our allowance for losses on mortgage loans held for investment is adequate for known and inherent losses in the portfolio of mortgage loans that we hold for investment, (xvi) our estimates regarding tax rates and future taxable income, (xvii) our goal of securitizing approximately 20% of our loan production through sales structured as financings and recorded on-balance sheet, (xviii) our expectation that secondary market prices will be lower than recent levels in the second half of 2004, (xix) our expectation that our net execution will be between 3.50% and 3.75% for all of 2004, (xx) our belief that the receipt of a rating of RPS3, or average, from Fitch Ratings and a rating of average from Standard & Poor's will enable us to grow our servicing portfolio in the future through increased sales of loans on a servicing retained basis, (xxi) our expectation that we will service loans owned by third parties to take advantage of our technical capabilities, capitalization and economies of scale, (xxii) our expectations regarding the renewal or non-renewal of certain of our credit facilities, (xxiii) the expectation that we will continue to concentrate on maintaining our targeted liquidity levels, (xxiv) our plan to effectively manage the percentage of loans sold through whole loan sales versus on-balance sheet securitizations, giving consideration to whole loan prices, the amount of cash required to finance on-balance sheet securitizations and dividend requirements, (xxv) our belief that our liquidity, credit facilities and capital resources will be sufficient to fund our operations for the foreseeable future, (xxvi) our beliefs with respect to our legal proceedings, (xxvii) our expectation that we will qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes, and (xxviii) our expectation that, in connection with our conversion to a REIT, we will raise approximately \$750 million of capital through a public offering of shares of common stock of New Century REIT, Inc., or New Century REIT, our wholly-owned subsidiary.

We caution that these statements are qualified by important factors that could cause our actual results to differ materially from expected results in the forward-looking statements. Such factors include, but are not limited to, (i) the condition of the U.S. economy and financial system, (ii) the interest rate environment, (iii) the condition of the markets for whole loans and mortgage-backed securities, (iv) the stability of residential property values, (v) our ability to continue to maintain low loan acquisition costs, (vi) the potential effect of new state or federal laws and regulations, (vii) the effect of increasing competition in our sector, (viii) our ability to accurately predict target levels of liquidity and capital, (ix) our ability to maintain adequate credit facilities to finance our business, (x) our ability to adequately hedge our residual assets and mortgage loans held for investment, (xi) the accuracy of our assumptions regarding our allowance for losses on mortgage loans held for investment, (xii) the accuracy of our assumptions regarding our allowance for repurchase losses and residual valuations, (xiii) the ability of our servicing platform to maintain high performance standards, (xiv) our ability to continue to designate our derivative financial instruments as accounting hedges under SFAS 133, as amended, (xv) the performance of our mortgage loans underlying our securitization transactions, (xvi) the initiation of a margin call under any of our credit facilities, (xvii) our ability to obtain stockholder approval of the agreement and plan of merger in connection with the REIT conversion, (xviii) the satisfaction or, where permitted, waiver of the conditions specified in the agreement and plan of merger, and (xix) our ability to comply with the requirements applicable to REITs. Additional information on these and other factors is contained in our Annual Report on Form 10-K for the year ended December 31, 2003, as amended, and our other periodic filings with the Securities and Exchange Commission.

In addition, on April 5, 2004, our Board of Directors unanimously voted in favor of converting New Century Financial Corporation, or New Century Financial, to a Real Estate Investment Trust ( REIT ), subject to a number of conditions, including Securities and Exchange Commission review and stockholder approval of the merger component of the REIT conversion. New Century REIT has filed a registration statement on Form S-4, as amended, which includes a proxy statement/prospectus related to the proposed REIT conversion. Please refer to that registration statement for detailed risk factors related to the REIT conversion, as well as other matters, including the anticipated timing of the REIT conversion and our ability to satisfy the various other requirements for completing the REIT conversion. We assume no obligation to update the forward-looking statements contained in this Form 10-Q.



## New Century Financial Corporation and Subsidiaries

## Condensed Consolidated Balance Sheets

(Dollars in thousands, except share amounts)

(Unaudited)

	June 30, 2004	December 31, 2003
<b>ASSETS:</b>		
Cash and cash equivalents (note 1)	\$ 68,891	\$ 269,540
Restricted cash (note 1)	322,369	116,883
Mortgage loans held for sale, net (notes 2 and 7)	4,784,222	3,422,211
Mortgage loans held for investment, net (notes 3 and 8)	9,146,472	4,745,937
Residual interests in securitizations (note 4)	190,827	179,498
Mortgage servicing assets (notes 6 and 11)	1,373	1,900
Accrued interest receivable	42,880	35,824
Income taxes, net	67,953	52,377
Office property and equipment	38,609	32,258
Prepaid expenses and other assets (notes 6 and 11)	70,114	36,901
<b>TOTAL ASSETS</b>	<b>\$ 14,733,710</b>	<b>\$ 8,893,329</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
Credit facilities (note 7)	\$ 4,439,518	\$ 3,311,837
Financing on mortgage loans held for investment, net (note 8)	9,086,932	4,686,323
Convertible notes, net	205,349	204,858
Notes payable	30,485	18,977
Accounts payable and accrued liabilities (note 11)	228,089	129,323
Total liabilities	13,990,373	8,351,318
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 7,500,000 shares; no shares outstanding at June 30, 2004 and December 31, 2003		
Common stock, \$0.01 par value. Authorized 100,000,000 shares; issued and outstanding 33,905,609 shares at June 30, 2004 and 33,759,695 shares at December 31, 2003	340	338
Additional paid-in capital	49,310	52,988
Accumulated other comprehensive income (loss) (note 11)	16,591	(1,742)
Retained earnings, restricted	686,061	509,998
	752,302	561,582
Treasury stock, 2,500 shares at June 30, 2004 and 377,500 shares at December 31, 2003, respectively, at cost	(70)	(14,163)
Deferred compensation costs	(8,895)	(5,408)
Total stockholders' equity	743,337	542,011
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 14,733,710</b>	<b>\$ 8,893,329</b>

See accompanying notes to unaudited condensed consolidated financial statements.

## New Century Financial Corporation and Subsidiaries

## Condensed Consolidated Statements of Earnings

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>Revenues:</b>				
Gain on sale of loans	\$ 215,051	\$ 146,282	\$ 417,027	\$ 272,084
Interest income (note 9)	186,557	59,715	334,905	105,863
Residual interest income (note 4)	4,578	6,119	9,358	12,684
Servicing and other income	8,582	3,348	14,478	5,821
Total revenues	414,768	215,464	775,768	396,452
<b>Expenses:</b>				
Personnel	109,000	50,449	189,966	99,628
Interest (note 10)	67,306	19,748	123,270	37,300
General and administrative	39,477	26,020	72,976	50,102
Provision for loan losses on mortgage loans held for investment (note 3)	17,112	4,504	36,981	7,686
Advertising and promotion	10,758	6,388	20,656	12,575
Professional services	8,729	4,221	13,066	6,970
Total expenses	252,382	111,330	456,915	214,261
Earnings before income taxes	162,386	104,134	318,853	182,191
Income taxes	60,009	43,319	129,231	75,637
Net earnings	\$ 102,377	\$ 60,815		