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2 **UNITED STATES DISTRICT COURT**
3 **CENTRAL DISTRICT OF CALIFORNIA**

4 AVI GOLD, Individually
5 and on Behalf of All Others
6 Similarly
7 Situated,

8 Plaintiff,

9 vs.

10
11 BRAD A. MORRICE, TAJ S.
12 BINDRA, ROBERT K. COLE,
13 PATTI M. DODGE, NEW
CENTURY FINANCIAL CORP.,

14 Defendants.
15
16

CIVIL ACTION

CASE NUMBER 07-00931

CLASS ACTION COMPLAINT
FOR VIOLATION OF FEDERAL
SECURITIES LAWS

JURY TRIAL DEMANDED

17 Plaintiff, by and through his attorneys, alleges the following upon
18 information and belief, except as to those allegations concerning Plaintiff, which
19 are alleged upon personal knowledge. Plaintiff's information and belief are based
20 upon, among other things, his counsel's investigation, which includes without
21 limitation: (a) review and analysis of regulatory filings made by New Century
22 Financial Corporation ("New Century Financial" or the "Company") with the
23 United States Securities and Exchange Commission ("SEC"); (b) review and
24 analysis of securities analysts' reports concerning; (c) review and analysis of press
25 releases and media reports issued by and disseminated by New Century Financial;
26 and (d) review of other publicly available information concerning New Century
27 Financial.
28

1 operating subsidiaries, New Century Mortgage Corporation and Home123
2 Corporation. The company offers a broad range of mortgage products designed to
3 meet the needs of all borrowers

4 8. Brad A. Morrice was at all times relevant President and Chief
5 Executive Officer and Director of New Century Financial.

6 9. Defendant Taj S. Bindra, Executive Vice President and Chief
7 Financial Officer of New Century Financial.

8 10. Defendant Robert K. Cole was at all times relevant Chairman of the
9 Board from December 1995 through December 2006 of New Century Financial.

10 11. Defendant Patti M Dodge was the Company's Chief Financial Officer
11 until August 2006.

12 12. By virtue of their high level positions with the Company, defendants
13 directly participated in the management of the Company, and were directly
14 involved in the day-to-day operations of the Company at the highest levels, and
15 was privy to confidential proprietary information concerning the Company and its
16 business, operations, products, growth, financial statements, and financial
17 condition, as alleged herein. Defendants were involved in drafting, producing,
18 reviewing and/or disseminating the false and misleading statements and
19 information alleged herein, were aware or deliberately disregarded that the false
20 and misleading statements were being issued regarding the Company, and
21 approved or ratified these statements in violation of the federal securities laws.

22 13. As officers and directors and controlling persons of a publicly held
23 company whose common stock was, and is, registered with the SEC pursuant to
24 the Exchange Act, traded on the New York Stock Exchange, and governed by the
25 provisions of the federal securities laws, the Defendants had a duty to disseminate
26 promptly accurate and truthful information with respect to the Company's financial
27 condition and performance, growth, operations, financial statements, business,
28 products, markets, management, earnings, and present and future business

1 prospects, and to correct any previously issued statements that had become
2 materially misleading or untrue, so that the market price of the Company's
3 common stock would be based upon truthful and accurate information.
4 Defendant's misrepresentations and omissions during the Class Period violated
5 these specific requirements and obligations.

6 14. Defendants participated in the drafting, preparation and/or approval of
7 the various public, shareholder and investor reports and other communications
8 complained of herein, and were aware of, or deliberately disregarded, the
9 misstatements contained therein and omissions therefrom, and were aware of their
10 materially false and misleading nature. Defendants had access to the adverse,
11 undisclosed information about the Company's operations, the financial condition
12 and performance of the Company as particularized herein and knew (or
13 deliberately disregarded) that these adverse facts rendered the positive
14 representations made by or about New Century Financial and its business issued or
15 adopted by the Company materially false and misleading.

16 15. Defendants were able to and did control the content of the various
17 SEC filings, press releases and other public statements pertaining to the Company
18 during the Class Period. Defendants were provided with copies of the documents
19 alleged herein to be misleading prior to or shortly after their issuance and/or had
20 the ability and/or opportunity to prevent their issuance or cause them to be
21 corrected. Accordingly, Defendants are responsible for the accuracy of the public
22 reports and releases detailed herein and are therefore primarily liable for the
23 representations contained therein.

24 16. Defendants are liable as a participant in a wrongful scheme and course
25 of business that operated as a fraud or deceit on those who purchased or otherwise
26 acquired New Century Financial common stock during the Class Period by
27 disseminating materially false and misleading statements and/or concealing
28 material adverse facts. The scheme deceived the investing public regarding New

1 Century Financial business, operations, and the intrinsic value of the Company's
2 common stock, and caused plaintiff and other members of the Class to purchase
3 New Century Financial common stock at artificially inflated prices.

4 **CLASS ACTION ALLEGATIONS**

5 17. Plaintiff brings this as a class action pursuant to Federal Rule of Civil
6 Procedure 23(a) and (b)(3) on behalf of all persons who purchased New Century
7 Financial securities during the Class Period. Excluded from the Class are
8 Defendants, officers and directors of the Company, members of the immediate
9 families of the Defendant New Century Financial and their legal representatives,
10 heirs, successors or assigns and any entity in which any he has or has had a
11 controlling interest.

12 18. This action is properly maintainable as a class action because:

13 a. the members of the proposed Class in this action are dispersed
14 throughout the United States and are so numerous that joinder of all Class
15 members is impracticable. While the exact number of Class members is unknown
16 to Plaintiff at this time and can only be ascertained through appropriate discovery,
17 Plaintiff believes that Class members number in the thousands. Millions of New
18 Century Financial shares were traded publicly on the New York Stock Exchange
19 under the symbol "NEW". As of October 31, 2006 had 55,470,607 shares of
20 common stock outstanding.

21 b. Plaintiff's claims are typical of those of all members of the
22 Class because all have been similarly affected by Defendants' actionable conduct
23 in violation of federal securities laws as alleged herein;

24 c. Plaintiff will fairly and adequately protect the interests of the
25 Class and has retained counsel competent and experienced in class action
26 litigation. Plaintiff has no interests antagonistic to, or in conflict with, the Class
27 that Plaintiff seeks to represent;
28

1 d. A class action is superior to other available methods for the fair
2 and efficient adjudication of the claims asserted herein because joinder of all
3 members is impracticable. Furthermore, because the damages suffered by
4 individual members of the Class may be relatively small, the expense and burden
5 of individual litigation make it virtually impossible for Class members to redress
6 the wrongs done to them. The likelihood of individual Class members prosecuting
7 separate claims is remote;

8 e. Plaintiff anticipates no unusual difficulties in the management
9 of this action as a class action; and

10 f. the questions of law and fact common to the members of the
11 Class predominates over any questions affecting individual members of the Class.

12 Among the questions of law and fact common to the Class are:

13 i. whether Defendants' acts and/or omissions as alleged
14 herein violated the federal securities laws;

15 ii. whether the Company's Class Period public statements
16 and filings misrepresented and/or omitted material facts;

17 iii. whether Defendants acted with knowledge or with
18 reckless disregard for the truth in misrepresenting and/or omitting material facts;

19 iv. whether Defendants participated in and pursued the
20 common course of conduct complained of herein;

21 v. whether the market price of New Century Financial
22 securities was inflated artificially as a result of Defendants' material
23 misrepresentations and/or omissions during the Class Period; and

24 vi. to what extent the members of the Class have sustained
25 damages and the proper measure of damages.

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1 **SUBSTANTIVE ALLEGATIONS COMMON TO ALL COUNTS**

2 19. On April 7, 2006 New Century Financial announced total loan
3 production for the first quarter 2006 and provided the date for its first quarter 2006
4 results announcement. The press release stated in part as follows:

5 We are off to a strong start this year with \$13.4 billion in total loan
6 production for the first quarter of 2006. We are particularly pleased to
7 have achieved a 31 percent increase in total loan production over the
8 first quarter of 2005, with approximately 14 percent coming from
9 organic growth in our non- prime division. While the weighted
10 average coupon on our non-prime product decreased modestly to 8.4
11 percent for March 2006 compared with the previous month, we are on
12 track to meet our profit margin target due in part to tighter credit
13 spreads and lower loan acquisition costs," said Robert K. Cole,
14 Chairman of the Board and Chief Executive Officer. "We are pleased
15 to see signs of a more favorable secondary market for our loans, as we
16 have successfully entered into forward-sale commitments through
17 June 2006 with gain-on-sale executions above 102.

18
19 20. On May 4, 2006, New Century Financial reported its financial
20 results for the three months ended March 31, 2006. The May 4, 2006 press
21 release stated in part as follows:

22 First Quarter 2006 Highlights

23 Earnings-per-share (EPS) of \$1.79

24 REIT taxable income(1) of \$1.78 per share fully covered the
25 corresponding dividend of \$1.75 per share

26 After-tax return on equity(2) was 19.5 percent

27 Securitized \$1.7 billion of mortgage loans at the REIT
28

1 Total loan production was \$13.4 billion in the first quarter 2006 and
2 \$4.7 billion in April 2006

3 Maintained non-prime loan acquisition costs (LAC) at 1.66 percent
4

5 Reaffirms 2006 dividend guidance of \$7.30 per share

6 Financial Results

7 "We achieved strong first quarter 2006 results highlighted by 21
8 percent growth in EPS, a 17 percent increase in REIT taxable income,
9 and 31 percent growth in mortgage loan production compared with the
10 same period last year," said Robert K. Cole, Chairman and Chief
11 Executive Officer. "We are also pleased to have maintained low loan
12 acquisition costs, achieved our targeted net operating margin range for
13 the quarter, and added mortgage loans to our REIT portfolio, which
14 will contribute to our ability to pay our projected dividend of \$7.30
15 per share for 2006." The company reported net earnings of \$103.7
16 million, or \$1.79 per share, for the first quarter of 2006, compared
17 with \$84.8 million, or \$1.48 per share, for the same period in 2005.
18 The year-over-year increase in net earnings was primarily attributable
19 to the growth in mortgage loan production volume and greater
20 contributions to net earnings from the company's REIT portfolio.

21 Mortgage Loan Portfolios

22 During the first quarter of 2006, the company completed two
23 securitizations structured as financings totaling \$1.7 billion in
24 mortgage loans at the REIT, including one securitization consisting
25 solely of \$0.3 billion of second lien collateral. Substantially all of the
26 collateral in the \$0.3 billion securitization represents second mortgage
27 loans originated in connection with the company's 80/20-mortgage
28 product. "We believe the securitization of second trust deeds allowed

1 us to capture the full economic value of that particular pool of loans,"
2 said Kevin M. Cloyd, President of NC Capital Corporation, the
3 company's secondary marketing subsidiary. "The remaining \$1.4
4 billion of mortgage loans securitized was representative of our core
5 non-prime mortgage loan production and received favorable credit
6 enhancement from rating agencies as a result of lower loss coverage
7 requirements."

8 At March 31, 2006, the balance of the REIT mortgage loan portfolio
9 was \$14.1 billion and the balance of the taxable REIT subsidiary
10 (TRS) mortgage loan portfolio was \$2.1 billion. The allowance for
11 losses on loans held for investment was \$186.0 million and \$23.8
12 million for the REIT and TRS portfolios, respectively, representing
13 1.32 percent and 1.14 percent of the unpaid principal balance of the
14 respective portfolios. This compares with 1.23 percent and 1.22
15 percent of the unpaid principal balance of the respective portfolios at
16 December 31, 2005. Delinquency rates as of March 31, 2006 and
17 actual losses to date in the company's REIT and TRS portfolios
18 continue to be significantly lower than historical experience. The
19 company's 60-plus day delinquency rates as of March 31, 2006 were
20 4.46 percent at the REIT and 4.78 percent at the TRS. While actual
21 losses to date have been significantly lower than the company's
22 expectations, the company continues to build its allowances for loan
23 losses based on various factors, which include seasoning of the
24 portfolios, as well as overall economic and market conditions.

25 Mortgage Loan Production by Channel – Non-Prime, Prime and Alt-A
26 The company originates and purchases mortgage loans through two
27 channels -- Wholesale and Retail. The Wholesale channel originates
28 and purchases mortgage loans through a network of independent

1 mortgage brokers and correspondent lenders solicited by its Account
2 Executives. The company's Retail channel originates mortgage loans
3 directly through its 240 branch offices and its central telemarketing
4 unit, as well as through relationships that are referred or solicited
5 through builders and realtors.

6 Total Mortgage Loan Production

7 Total mortgage loan production for the first quarter of 2006 was \$13.4
8 billion, a 31 percent increase over the same period a year ago. "Our
9 key objectives this year include maximizing the capabilities of the
10 prime and Alt-A platform we acquired in 2005 for future growth and
11 utilizing that acquisition as a catalyst for expanding the mortgage
12 products we offer through each of our delivery channels," said Brad
13 A. Morrice, Vice Chairman, President and Chief Operating Officer.
14 "This quarter's mortgage loan production results were enhanced by
15 \$1.9 billion in prime and Alt-A originations and we expect to see even
16 stronger results as we continue the expansion of our product lines
17 across all channels."

18 Total mortgage loan production for April 2006 was approximately
19 \$4.7 billion, or \$0.235 billion in average daily volume, including \$4.0
20 billion of Wholesale mortgage loan production and \$0.7 billion of
21 Retail mortgage loan production. This compares with \$4.5 billion, or
22 \$0.214 in average daily volume, for April 2005. The weighted average
23 coupon for non-prime production in April 2006 was 8.5 percent.

24 "Earlier this week, we announced that Anthony T. (Tony) Meola has
25 joined the company as Executive Vice President, Loan Production.
26 Tony will be responsible for managing and expanding our production
27 franchise, broadening our product menu and increasing productivity.
28 He brings with him a breadth and depth of knowledge of the mortgage

1 industry and a passion for constant improvement. We look forward to
2 his contribution to our continued growth and success," said Mr.
3 Morrice.

4 Wholesale Channel

5 In the first quarter of 2006, the company originated \$11.4 billion in
6 loans through its Wholesale channel, representing a 25 percent
7 increase over the first quarter of 2005. "The growth in Wholesale
8 mortgage loan production was the result of the superior efforts of our
9 top-tier Account Executives. As a result, I'm proud to report that our
10 Wholesale business ranked as the #1 non-prime wholesale lender and
11 #4 wholesale lender in the overall mortgage market in 2005," said Mr.
12 Morrice.

13 In February 2006, the company purchased Access Lending
14 Corporation's platform that provides warehouse lines of credit to
15 middle-market residential-mortgage bankers. "This acquisition
16 enables us to offer warehouse lending services to our Wholesale
17 customers. We are excited about entering this growing market," said
18 Mr. Cloyd.

19 Retail Channel

20 The company's Retail channel originated approximately \$2.0 billion in
21 loans in the first quarter of 2006, compared with \$1.2 billion in the
22 year ago quarter. The 75 percent increase in Retail mortgage loan
23 production was primarily the result of the addition of the origination
24 platform that the company acquired from RBC Mortgage in
25 September 2005.

26 TRS Operating Results -- Non-Prime Gain-on-Sale

27 In the first quarter of 2006, the company sold \$11.2 billion of non-
28 prime loans at a gain-on-sale of 1.67 percent. Gain-on-sale decreased

1 four basis points from 1.71 percent for the fourth quarter of 2005 as a
2 result of loans sold in the first quarter of 2006 pursuant to forward-
3 sale commitments entered into during the fourth quarter of 2005,
4 when the secondary market was very weak. However, gain-on-sale
5 progressively improved during each of the months in the first quarter
6 of 2006. Continuing this trend, the company expects non-prime gain-
7 on-sale to improve in future quarters of 2006 based on stronger
8 secondary market demand for its product and forward-sale
9 commitments extending into the third quarter of 2006.

10 LAC

11 First quarter 2006 LAC of 1.66 percent was effectively unchanged
12 compared with the fourth quarter of 2005 despite the seasonal
13 decrease in mortgage loan production volume. The operating expense
14 component of LAC increased nine basis points and was offset by an
15 eight basis point decrease in the points and fees component. "We are
16 particularly pleased that we were able to maintain our loan acquisition
17 costs at this low level given the decrease in mortgage loan production
18 that typically occurs in the first quarter of the year," said Patti M.
19 Dodge, Executive Vice President and Chief Financial Officer.

20 Net Operating Margin

21 "Our net operating margin was 50 basis points for the first quarter of
22 2006, which was in-line with our previously announced guidance
23 range. Given our forward-sale commitments and focus on maintaining
24 low loan acquisition costs, we expect our net operating margin will
25 improve in the second quarter of 2006 to a range of 60 to 75 basis
26 points," said Ms. Dodge.

27 TRS Operating Results -- Prime and Alt-A

28

1 In the first quarter of 2006, the company closed \$2.0 billion in loans
2 through the prime and Alt-A mortgage loan origination platform and
3 acted as a broker for an additional \$0.3 billion to third parties. The
4 results from this platform were a \$0.8 million loss for the quarter,
5 which is a significant improvement over the \$4.3 million loss in the
6 previous quarter. "We are pleased to see such progress as we fully
7 integrate this mortgage loan origination platform and we continue to
8 believe this business is well positioned to be accretive to EPS in
9 2006," continued Mr. Morrice.

10 The company has provided the gain-on-sale, LAC and net operating
11 margin of these operations in tables set forth later in this press release.
12 2006 Outlook

13 "Our strategic objectives for 2006 include achieving consistently
14 strong operating performance in both our REIT and TRS, broadening
15 the mortgage products and services available through each of our
16 delivery channels, and lowering costs while increasing productivity,"
17 said Mr. Morrice. "We are already making great progress toward
18 achieving each of these objectives.

19 21. On May 10, 2006, New Century Financial filed with the SEC its Form
20 10-Q for the first quarter ending March 31, 2006. Defendants Cole, Morrice and
21 Dodge each signed certifications pursuant to Securities Exchange Act Rule 13A –
22 14 and 15D – 14 Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of
23 2002, and Certification Pursuant to 18 U.S.C Section 1350, falsely certifying that
24 they reviewed the Form 10-Q; that the report did not contain any untrue statements
25 of material fact; and that the financial statements fairly presented in all material
26 respects the financial condition, results or operations and cash flows of the
27 Company

28

1 22. The Company's press release and Form 10-Q for the first quarter
2 ended March 31, 2006 was materially false and misleading because New Century
3 Financial did not properly account for some of the home loans it had to buy back.
4 Like many mortgage lenders, New Century Financial does not keep its loans; it
5 sells the loans to banks and investors. The deals normally have clauses allowing
6 investors to force New Century Financial to buy back a loan if the borrower misses
7 an early payment. Defendants knew but failed to properly account for the home
8 loans the Company had to buy back. Defendants knew that more investors would
9 sell back loans because loan repurchases surged throughout 2006 amid payment
10 defaults.

11 23. On July 6, 2006, New Century Financial announced that defendant
12 Morrice had transitioned to the role of Chief Executive Officer effective July 1,
13 2006 and will continue to serve as Vice Chairman and President of the company.
14 New Century announced this transition in February 2006. Defendant Morrice
15 succeeds defendant Cole, who will continue to serve the company as Chairman of
16 the Board of Directors.

17 24. On July 10, 2006, New Century announced second quarter 2006 total
18 loan production of \$16.2 billion, representing a 21 percent increase over the same
19 period a year ago. The July 10, 2006 press release stated in part as follows:

20 June 2006 total loan production of \$6.0 billion increased 9 percent
21 compared with May 2006 and brought second quarter total loan
22 production to \$16.2 billion," said Brad A. Morrice, Vice Chairman,
23 President and Chief Executive Officer, who transitioned into this new
24 role on July 1, 2006. "The weighted average coupon for our June non-
25 prime production was 8.4 percent, which reflects an increased amount
26 of higher credit grade non-prime production. Additionally, we have
27 raised the coupon on our non-prime loans by 15 basis points over the
28 past few weeks.

1 We expect that our continued cost reductions and enhanced secondary
2 marketing execution during the second quarter have improved our
3 non-prime net operating margin over the first quarter of 2006. As
4 such, we expect our non-prime net operating margin to be within the
5 recently increased guidance range of 75 basis points to 85 basis points
6 for the second quarter of 2006," concluded Mr. Morrice.

7
8 25. On August 3, 2006, New Century Financial reported results for the
9 three and six months ended June 30, 2006.

10 Second Quarter 2006 Results and Highlights

11 Earnings-per-share (EPS) of \$1.81

12 REIT taxable income(1) per share of \$1.40

13 Total mortgage loan production of \$16.2 billion; total loan production
14 for July 2006 of approximately \$5.3 billion

15 Non-prime net operating margin increased to 1.01 percent

16 Non-prime loan acquisition costs (LAC) decreased to 1.51 percent

17 Prime/Alt-A platform achieved profitability

18 After-tax return on equity(2) was 19.8 percent

19 Board declared third quarter dividend of \$1.85 per share

20 Reaffirmed 2006 dividend guidance of \$7.30 per share

21 Chief Financial Officer Patti M. Dodge to transition to newly created
22 executive role when successor is in place

23 "Our second quarter results are evidence of the strength and stability
24 of our franchise," said Brad A. Morrice, President and Chief
25 Executive Officer. "We achieved the second highest quarterly loan
26 production volume in our history, while substantially improving our
27 operating margin over the first quarter in a challenging environment.
28 As a result, our second quarter net earnings were \$105.5 million, or

1 \$1.81 per share, an 11 percent increase in net earnings compared with
2 the second quarter of 2005. These results are particularly impressive
3 considering that we only sold or securitized 82 percent of the loans we
4 originated in the second quarter, increasing loans held for sale by \$3.0
5 billion. These loans are covered by forward sales commitments with
6 premiums in excess of 102, so we expect to realize the related
7 earnings in the third quarter."

8 Mortgage Loan Portfolios

9 During the second quarter of 2006, the company completed \$1.7
10 billion in securitizations structured as financings at the REIT level,
11 including the company's first Alt-A loan securitization of \$0.5 billion
12 and a \$1.2 billion securitization of non-prime product. "The Alt-A
13 transaction enhanced our secondary market execution and diversified
14 our REIT portfolio of mortgage loans with a new asset class," said
15 Kevin M. Cloyd, President of NC Capital Corporation, the company's
16 secondary marketing subsidiary.

17 At June 30, 2006, the balance of the mortgage loan portfolio was
18 \$16.0 billion. The allowance for losses on loans held for investment
19 was \$209.9 million, representing 1.31 percent of the unpaid principal
20 balance of the portfolio. This compares with 0.79 percent of the
21 unpaid principal balance of the portfolio at June 30, 2005 and 1.30
22 percent of the portfolio at March 31, 2006. Delinquency rates as of
23 June 30, 2006 in the company's portfolio continue to be significantly
24 lower than historical experience. The company's 60-plus day
25 delinquency rate as of June 30, 2006 was 4.61 percent compared with
26 4.50 percent in the previous quarter. The company's 2005 and 2006
27 vintages are experiencing more normalized delinquency trends than
28 the 2003 and 2004 vintages, which have performed exceptionally well

1 when compared with historical experience. "We are comfortable with
2 our current loan loss reserve levels, which take into consideration not
3 only normal portfolio seasoning but also our higher cumulative loss
4 expectations for the newer vintages," said Patti M. Dodge, Executive
5 Vice President and Chief Financial Officer.

6 REIT portfolio income declined to \$52.0 million in the second quarter
7 of 2006 compared with \$83.3 million in the first quarter. REIT
8 portfolio income was \$79.2 million in the second quarter of 2005. The
9 sequential decrease in REIT portfolio income is primarily the result of
10 a lower return-on-assets ("ROA") in the second quarter when
11 compared to the first quarter. ROA declined to 1.49 percent in the
12 second quarter from 2.34 percent in the first quarter as a result of a
13 decrease in interest spread attributable to portfolio seasoning and the
14 expected spread compression that comes with such seasoning. In
15 addition, the company's shift in 2006 to embedding swaps in its
16 securitization transactions, which results in a more level yield over the
17 life of the transaction, also led to a decrease in interest spread. Lower
18 prepayment income, hedge re-balancing gains and income from hedge
19 ineffectiveness and other derivative instruments also had a significant
20 impact on ROA.

21 Mortgage Loan Production by Channel -- Non-Prime, Prime and Alt- 22 A

23 The company originates and purchases mortgage loans through two
24 channels - Wholesale and Retail. The Wholesale channel originates
25 and purchases mortgage loans through a network of independent
26 mortgage brokers and correspondent lenders solicited by its Account
27 Executives. The company's Retail channel originates mortgage loans
28 directly through its 246 branch offices and its central telemarketing

1 unit, as well as through relationships that are referred or solicited
2 through builders and realtors.

3 Total Mortgage Loan Production

4 Total mortgage loan production for the second quarter of 2006 was
5 \$16.2 billion, a 20 percent increase over the same period a year ago
6 and a 21 percent increase over the first quarter of 2006. Excluding the
7 prime and Alt- A loan origination platform that was acquired in the
8 third quarter of 2005, second quarter loan production increased 5
9 percent year-over-year. For the quarter, the company's Wholesale
10 channel originated \$13.8 billion of mortgage loans and the Retail
11 channel originated \$2.4 billion. "We are pleased with the second
12 quarter's strong loan production volume, which resulted from modest
13 growth in our core non-prime product coupled with the addition of our
14 Prime and Alt-A products," said Mr. Morrice. "Additionally, we
15 introduced a new credit grade during the quarter that serves borrowers
16 with qualifications between Alt-A and non-prime. We believe this
17 AAA credit grade is rapidly gaining acceptance in the market place."

18 Total mortgage loan production for July 2006 was approximately \$5.3
19 billion, including \$4.6 billion of Wholesale mortgage loan production
20 and \$0.7 billion of Retail mortgage loan production. This compares
21 with \$4.6 billion for July 2005.

22 TRS Operating Results -- Non-Prime Gain-on-Sale

23 In the second quarter of 2006, the company sold \$10.3 billion of non-
24 prime loans, or 73 percent of the quarter's non-prime production, at a
25 gross premium of 2.31 percent and a net gain-on-sale of 2.10 percent.
26 Second quarter net gain-on-sale increased by 43 basis points
27 compared with 1.67 percent for the first quarter as a result of
28 improved secondary market execution, which was primarily driven by

1 a higher weighted average coupon on the company's loans, a more
2 favorable product mix and stronger secondary market appetite, partly
3 offset by increases in swap rates that outpaced coupon growth.
4 Additionally, second quarter net gain-on-sale included 9 basis points
5 of unanticipated hedging gains.

6 Loan Acquisition Costs (LAC)

7 Second quarter 2006 LAC was 1.51 percent compared with 1.66
8 percent in the previous quarter. The 15 basis point decline was
9 primarily a result of the operating expense component of LAC
10 declining 17 basis points, slightly offset by a modest increase in the
11 points and fees component.

12 "In the current environment, we believe it is becoming increasingly
13 important to be a low-cost originator," continued Ms. Dodge. "Our
14 record low LAC of 1.51 percent is evidence of our ability to use our
15 size and scale to increase efficiencies and leverage fixed costs, which
16 we believe is a distinct competitive advantage. I'm pleased that during
17 a quarter in which loan production increased 22 percent, our cost
18 controls kept expense growth to only 11 percent compared with the
19 first quarter of 2006."

20 Net Operating Margin

21 The company's net operating margin for its non-prime loans improved
22 to 1.01 percent in the second quarter of 2006 from 50 basis points in
23 the first quarter of 2006. "We are proud to have made such a
24 significant improvement in our non-prime net operating margin this
25 quarter," said Ms. Dodge. "We will continue to focus on reducing our
26 LAC, but expect our operating margins to be negatively impacted on a
27 go-forward basis by as much as 10 basis points as a result of the
28 recent Standard and Poor's ABS model changes."

1 TRS Operating Results -- Prime and Alt-A

2 In the second quarter of 2006, the company closed \$2.1 billion in
3 loans through its prime and Alt-A mortgage loan origination platform
4 and acted as a broker for an additional \$0.2 billion to third parties.
5 The company has provided the gain-on-sale, LAC and net operating
6 margin of these operations in tables set forth later in this press release.
7 "Consistent with our projections, our prime and Alt-A business
8 became profitable in the second quarter and reported a net operating
9 margin of 53 basis points," said Mr. Morrice. "This quarter's net
10 operating margin was higher than we anticipated as a result of
11 hedging gains and pair-off fees. A more typical net operating margin
12 for our prime and Alt-A platform is expected to be in the range of 15
13 to 20 basis points."

14
15 26. On August 9, 2006, New Century Financial filed with the SEC its
16 Form 10-Q for the Second quarter ending June 30, 2006. Defendants Cole,
17 Morrice and Dodge each signed certifications pursuant to Securities Exchange Act
18 Rule 13A – 14 and 15D – 14 Adopted Pursuant to Section 302 of the Sarbanes-
19 Oxley Act of 2002, and Certification Pursuant to 18 U.S.C Section 1350, falsely
20 certifying that they reviewed the Form 10-Q; that the report did not contain any
21 untrue statements of material fact; and that the financial statements fairly presented
22 in all material respects the financial condition, results or operations and cash flows
23 of the Company.

24 27. The Company's press release and Form 10-Q for the second quarter
25 ended June 30, 2006 was materially false and misleading because New Century
26 Financial did not properly account for some of the home loans it had to buy back.
27 Like many mortgage lenders, New Century Financial does not keep its loans; it
28 sells the loans to banks and investors. The deals normally have clauses allowing
investors to force New Century Financial to buy back a loan if the borrower misses

1 an early payment. Defendants knew but failed to properly account for the home
2 loans the Company had to buy back. Defendants knew that more investors would
3 sell back loans because loan repurchases surged throughout 2006 amid payment
4 defaults

5 28. On August 16, 2006, New Century announced that it has priced a
6 public offering of 2 million shares of 9.75% Series B Cumulative Redeemable
7 Preferred Stock at \$25 per share. The net proceeds from the offering will be used
8 for general corporate purposes, including, without limitation, repurchases of the
9 company's common stock under its stock repurchase program and investments in
10 the company's on-balance sheet portfolio of mortgage assets.

11 29. On September 13, 2007, New Century Financial announced that the
12 Company has completed a \$50 million private placement of trust preferred
13 securities through its wholly-owned subsidiary, New Century Capital Trust I. The
14 proceeds from the private placement will be used for general corporate purposes,
15 including, without limitation, repurchases of the company's common stock under
16 its stock repurchase program and investments in the company's on-balance sheet
17 portfolio of mortgage assets. The \$50 million of trust preferred securities have an
18 approximate 30-year term ending September 30, 2036.

19 30. On November 2, 2006, New Century Financial reported its financial
20 results for the three and nine months ended September 30, 2006.

21 **Highlights**

22 Earnings-per-share (EPS) was \$1.12

23 REIT taxable income(1) per share was \$0.84

24 Total mortgage loan production was \$15.8 billion

25 Non-prime net operating margin was 0.52 percent

26 Record low non-prime loan acquisition costs (LAC) of 1.49 percent

1 After-tax return-on-equity(2) was 12.7 percent

2 Announces acquisition of Irwin Mortgage Corporation's servicing
3 operations

4
5 Raised \$107 million in gross proceeds of perpetual preferred and trust
6 preferred capital

7 Declared fourth quarter dividend of \$1.90 per share; results in total
8 2006 dividends of \$7.30 per share

9
10 Appointed Taj S. Bindra as Executive Vice President and Chief
11 Financial Officer

12 Announces updated financial and secondary market strategy

13
14 Expects to distribute \$400 million or more to stockholders in 2007
15 through a combination of dividends and common stock repurchases

16 Third Quarter 2006 Results

17 "Current conditions in our industry are clearly challenging," said Brad
18 A. Morrice, President and Chief Executive Officer. "In this context,
19 while our \$1.12 quarterly EPS reflects a year-over-year and sequential
20 decline, it is important to point out that a significant item negatively
21 impacting our EPS was a \$0.75 per share reduction from marking-to-
22 market our derivatives not qualifying for hedge accounting treatment.
23 Notwithstanding the current quarter's impact, we believe our hedging
24 strategies are effective on an economic basis.

25 "Excluding the hedging-related accounting charges, our operating
26 results were solid. As expected, we maintained loan production
27 volume at a level comparable to the previous quarter, achieved record
28 low loan acquisition costs, and improved portfolio interest spread

1 before the impact of hedging during the third quarter. Partially
2 offsetting these positive trends, gain- on-sale declined as a result of
3 increased rating agency credit enhancement levels and higher loan
4 repurchases and discounted loan sales," said Mr. Morrice.

5 Gain-on-Sale

6 Loan Sales - In the third quarter of 2006, the company sold \$13.9
7 billion of non-prime loans at a gross premium of 2.25 percent
8 compared with \$9.9 billion at a gross premium of 2.33 percent in the
9 second quarter of 2006. Additionally, the company sold \$410.0
10 million of non-prime mortgage loans during the third quarter of 2006
11 at an average discount of 12.9 percent of their outstanding principal
12 balances compared with \$415.1 million for the second quarter of 2006
13 at an average discount of 5.0 percent. While the total volume of
14 discounted loans sales decreased slightly, the severity of the discount
15 increased due to the inclusion of a higher percentage of non-
16 performing assets in these sales and a lower average price for loans
17 with minor defects. Higher loan repurchases and discounted mortgage
18 loan sales reduced the gain-on-sale margin by 48 basis points.

19 "We expect the volume of discounted loan sales and the severity of
20 the discount to continue to challenge originators in this industry," said
21 Mr. Cloyd. "Loan buyers have become more vigilant, increasing the
22 number of loan files reviewed in their due diligence process and
23 decreasing the percentage of loans they ultimately purchase. In
24 addition, loan repurchases have increased as a result of higher early
25 payment defaults. While we expect this industry trend to continue in
26 the near-term, we believe our additional underwriting guidelines and
27 continual focus on process improvement will help mitigate this trend."

28 Impact of Forward Sale Commitments and Rate Locks –

1 The accounting impact of the value of the company's forward sale
2 commitments and interest rate locks, which are treated as derivative
3 instruments for accounting purposes but do not currently qualify for
4 hedge accounting, reduced gain-on-sale by an additional 18 basis
5 points for a net gain-on-sale of 1.59 percent. Because these derivatives
6 do not qualify for hedge accounting, the current accounting rules
7 require that the company mark-to-market forward sale commitments
8 without a corresponding offset to its mortgage loans or pipeline. Such
9 marks can be positive or negative to earnings depending on interest
10 rates outstanding at the end of the quarter. These mark-to-market
11 adjustments reverse in the period in which the sale settles.

12 Loan Acquisition Costs (LAC)

13 Third quarter 2006 LAC was 1.49 percent of non-prime production
14 volume, which is a record low for the company and compares with
15 1.51 percent of non- prime production volume in the second quarter of
16 2006. "We are pleased with our success in managing our costs on a
17 dollar basis and as a percentage of loans originated," said Patti M.
18 Dodge, Executive Vice President and Chief Financial Officer. "We
19 have kept corporate and support headcount relatively flat since the
20 beginning of 2005, and as a result, do not expect any across- the-board
21 headcount reductions. However, we will continue to manage
22 headcount in accordance with our productivity metrics. We will also
23 continue our other cost reduction efforts, which we believe can lead to
24 significant further cost reductions. In the current environment, low
25 loan acquisition costs are one of the keys to profitable operations and
26 we have among the lowest costs in the non-prime sector."
27
28

1 31. On November 9, 2006, New Century Financial filed with the SEC its
2 Form 10-Q for the third quarter ending September 30, 2006. Defendants Cole,
3 Morrice and Dodge each signed certifications pursuant to Securities Exchange Act
4 Rule 13A – 14 and 15D – 14 Adopted Pursuant to Section 302 of the Sarbanes-
5 Oxley Act of 2002, and Certification Pursuant to 18 U.S.C Section 1350, falsely
6 certifying that they reviewed the Form 10-Q; that the report did not contain any
7 untrue statements of material fact; and that the financial statements fairly presented
8 in all material respects the financial condition, results or operations and cash flows
9 of the Company.

10 32. The Company’s press release and Form 10-Q for the third quarter
11 ended September 30, 2006 was materially false and misleading because New
12 Century Financial did not properly account for some of the home loans it had to
13 buy back. Like many mortgage lenders, New Century Financial does not keep its
14 loans; it sells the loans to banks and investors. The deals normally have clauses
15 allowing investors to force New Century Financial to buy back a loan if the
16 borrower misses an early payment. Defendants knew but failed to properly account
17 for the home loans the Company had to buy back. Defendants knew that more
18 investors would sell back loans because loan repurchases surged throughout 2006
19 amid payment defaults

20 33. On November 17, 2006, New Century Financial reported that the
21 Company has completed a \$35 million private placement of trust preferred
22 securities through its wholly-owned subsidiary, New Century Capital Trust II. The
23 proceeds from the private placement will be used for general corporate purposes,
24 including, without limitation, repurchases of the company's common stock under
25 its stock repurchase program and investments in the company's on-balance sheet
26 portfolio of mortgage assets.

27 34. On January 8, 2007, New Century Financial announced that total
28 mortgage loan production for 2006 reached a new record high of \$59.8 billion,

1 which is 6.6 percent higher than the \$56.1 billion originated in 2005. Additionally,
2 loan production for December 2006 was \$4.8 billion, representing a 9.4 percent
3 decrease compared with December 2005 and a 6.7 percent increase compared with
4 November 2006. The weighted average coupon for the company's non-prime loan
5 production remained at 8.3 percent for December 2006, unchanged from the prior
6 month.

7 35. Defendant Morrice was quoted as stating”

8 We are pleased to have delivered another year of record loan
9 production and profitable market share growth given the turbulent
10 market environment. Our solid results for the year reflect a modest
11 decline in our non-prime production, offset by the expansion of prime
12 and Alt-A originations. For 2007, we expect our overall mortgage loan
13 production to be relatively flat compared with 2006 as we anticipate a
14 decline in market volume and the impact of our tighter underwriting
15 guidelines to be offset by the continued roll-out of our Alt-A and prime
16 products and additional market share growth for our non-prime
17 products.

18 36. On February 7, 2007 New Century Financial announced that it will
19 restate its consolidated financial results for the quarters ended March 31, June 30
20 and September 30, 2006 to correct errors the company discovered in its application
21 of generally accepted accounting principles regarding the company's allowance for
22 loan repurchase losses. The Press Release stated as follows:

23 The company establishes an allowance for repurchase losses on loans
24 sold, which is a reserve for expenses and losses that may be incurred
25 by the company due to the potential repurchase of loans resulting
26 from early-payment defaults by the underlying borrowers or based on
27 alleged violations of representations and warranties in connection with
28 the sale of these loans. When the company repurchases loans, it adds

1 the repurchased loans to its balance sheet as mortgage loans held for
2 sale at their estimated fair values, and reduces the repurchase reserve
3 by the amount the repurchase prices exceed the fair values. During the
4 second and third quarters of 2006, the company's accounting policies
5 incorrectly applied Statement of Financial Accounting Standards No.
6 140 - Accounting for Transfers and Servicing of Financial Assets and
7 Extinguishment of Liabilities. Specifically, the company did not
8 include the expected discount upon disposition of loans when
9 estimating its allowance for loan repurchase losses.

10 In addition, the company's methodology for estimating the volume of
11 repurchase claims to be included in the repurchase reserve calculation
12 did not properly consider, in each of the first three quarters of 2006,
13 the growing volume of repurchase claims outstanding that resulted
14 from the increasing pace of repurchase requests that occurred in 2006,
15 compounded by the increasing length of time between the whole loan
16 sales and the receipt and processing of the repurchase request.

17 Importantly, the foregoing adjustments are generally non-cash in
18 nature. Moreover, the company had cash and liquidity in excess of
19 \$350 million at December 31, 2006.

20 Although the company's full review of the legal, accounting and tax
21 impact of the restatements is ongoing, at this time the company
22 expects that, once restated, its net earnings for each of the first three
23 quarters of 2006 will be reduced.

24 In light of the pending restatements, the company's previously filed
25 condensed consolidated financial statements for the quarters ended
26 March 31, June 30 and September 30, 2006 and all earnings-related
27 press releases for those periods should no longer be relied upon. The
28 company expects to file amended Quarterly Reports on Form 10-Q for

1 the quarters ended March 31, June 30 and September 30, 2006 as soon
2 as practicable, with a goal to file by March 1, 2007. The company also
3 expects that the errors leading to these restatements constitute material
4 weaknesses in its internal control over financial reporting for the year
5 ended December 31, 2006. However, the company has taken
6 significant steps to remediate these weaknesses and anticipates
7 remediating them as soon as practicable.

8 The company's fourth quarter and full-year 2006 earnings
9 announcement, originally scheduled for February 8, 2007, has been
10 postponed to an undetermined future date, which will follow the
11 company's filing of its amended Quarterly Reports on Form 10-Q for
12 the quarters ended March 31, June 30 and September 30, 2006.

13 Fourth Quarter 2006 Developments

14 The increasing industry trend of early-payment defaults and,
15 consequently, loan repurchases intensified in the fourth quarter of
16 2006. The company continued to observe this increased trend in its
17 early-payment default experience in the fourth quarter, and the
18 volume of repurchased loans and repurchase claims remains high.

19 In addition, the company currently expects to record a fair value
20 adjustment to its residual interests to reflect revised prepayment, loss
21 and discount rate assumptions with respect to the loans underlying
22 these residual interests, based on indicative market data. While the
23 company is still determining the magnitude of these adjustments to its
24 fourth quarter 2006 results, the company expects the combined impact
25 of the foregoing to result in a net loss for that period.

26 37. On this news Shares of New Century Financial plummeted 35
27 percent to closed at \$19.28 with 25 million shares traded.
28

1 that they failed to disclose material adverse information and misrepresented the
2 truth about the Company, its business and operations, as alleged herein.

3 37. At all relevant times, the material misrepresentations and omissions
4 particularized in this Complaint directly or proximately caused or were a
5 substantial contributing cause of the damages sustained by plaintiff and other
6 members of the Class. As described herein, during the Class Period, defendants
7 made or caused to be made a series of materially false or misleading statements
8 about New Century Financial's business, prospects and operations. These material
9 misstatements and omissions had the cause and effect of creating in the market an
10 unrealistically positive assessment of New Century Financial and its business,
11 prospects and operations, thus causing the Company's securities to be overvalued
12 and artificially inflated at all relevant times. Defendants' materially false and
13 misleading statements during the Class Period resulted in plaintiff and other
14 members of the Class purchasing the Company's securities at artificially inflated
15 prices, thus causing the damages complained of herein

16 38. At all relevant times, the market for New Century Financial securities
17 was an efficient market for the following reasons, among others:

- 18 (a) on the NYSE, a highly efficient and automated market;
- 19 (b) As a regulated issuer, New Century Financial filed periodic
20 public reports with the SEC and the NYSE;
- 21 (c) New Century Financial regularly communicated with public
22 investors via established market communication mechanisms, including through
23 regular disseminations of press releases on the national circuits of major newswire
24 services and through other wide-ranging public disclosures, such as
25 communications with the financial press and other similar reporting services; and
- 26 (d) New Century Financial was followed by several securities
27 analysts employed by major brokerage firms who wrote reports, which were
28 distributed to the sales force and certain customers of their respective brokerage

1 firms. Each of these reports was publicly available and entered the public
2 marketplace.

3 39. As a result of the foregoing, the market for New Century Financial's
4 securities promptly digested current information regarding New Century Financial
5 from all publicly available sources and reflected such information in New Century
6 Financial's stock price. Under these circumstances, all purchasers of New Century
7 Financial's securities during the Class Period suffered similar injury through their
8 purchase of New Century Financial's securities at artificially inflated prices and a
9 presumption of reliance applies.

10 **COUNT I**

11 **For Violations of Sections 10(b) of**

12 **The Exchange Act And SEC Rule 10b-5 Promulgated Thereunder**

13 40. Plaintiff repeats and realleges paragraphs 1 through 30, as if set forth
14 fully herein.

15 41. In connection with the sale of New Century Financial securities
16 throughout the Class Period, Defendants participated, directly or by acquiescence,
17 despite a duty to act, in the preparation and/or issuance of materially false and
18 misleading statements and omissions.

19 42. Defendants knew, or were reckless in not knowing, that the statements
20 contained in New Century Financial public filings were materially false and
21 misleading. Plaintiff and the Class relied, directly or indirectly by reliance on the
22 integrity of the market, on Defendants' misstatements and/or omissions and were
23 damaged as a result. But for Defendants' misrepresentations and/or omissions,
24 Plaintiff and the Class would not have purchased New Century Financial securities
25 or would have purchased them at non-artificially inflated prices.

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COUNT II

**For Violation Of Section 20(a) Of The Exchange Act
(Against the Section 20(a) Defendants, as defined below)**

43. Plaintiff repeats and realleges each of the preceding paragraphs 1 through 33 as if fully set forth herein.

44. This claim is brought against Defendant New Century Financial.

45. The Section 20(a) Defendants were control persons within the meaning of the Exchange Act.

46. As set forth above, Defendant New Century Financial violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder, by their acts and omissions as alleged in this complaint. By virtue of his positions as control persons, the Section 20(a) Defendant New Century Financial violated Section 10(b) and Rule 10b-5, are liable pursuant to Section 20(a) of the Exchange Act.

47. As a direct and proximate result of the Section 20(a) Defendant New Century Financial wrongful conduct, Plaintiff and the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

NO SAFE HARBOR

48. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as "forward-looking statements" when made, there was no statement made with respect to any of those representations forming the basis of this Complaint that actual results "could differ materially from those

1 projected," and there were no meaningful cautionary statements identifying
2 important factors that could cause actual results to differ materially from those in
3 the purportedly forward-looking statements. In the alternative, to the extent that
4 the statutory safe harbor is intended to apply to any forward-looking statements
5 pleaded herein, Defendants are liable for those false forward-looking statements
6 because at the time each of those forward-looking statements was made, the
7 speaker had actual knowledge that the forward-looking statement was materially
8 false or misleading, and/or the forward-looking statement was authorized or
9 approved by an executive officer of New Century Financial who knew that the
10 statement was false when made.

11 **PRAYER FOR RELIEF**

12 **WHEREFORE**, Plaintiff, on behalf of himself and all other Class members,
13 prays for judgment as follows:

14 A. A determination that this action is a proper class action and a
15 certification of the Class under Rule 23 of the Federal Rules of Civil Procedure;

16 B. An award of compensatory damages in favor of Plaintiff and
17 the other Class members against all Defendants for damages sustained as a result
18 of Defendants' wrongdoing, including interest thereon;

19 C. An award to Plaintiff and the Class of their reasonable costs and
20 expenses incurred in this action, including counsel fees, expert fees and other
21 disbursements; and

22 D. A grant of such other relief as the Court may deem just and
23 proper.

24 **JURY DEMAND**

25 Plaintiff demands a trial by jury.

26
27 Dated: February 8, 2007

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