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**UNITED STATES DISTRICT COURT**

13

**FOR THE CENTRAL DISTRICT OF CALIFORNIA**

14

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16 IRA for the Benefit of KATHLEEN )  
17 M. KARCICH, on Behalf of Itself )  
and All Others Similarly Situated, )

Case No.

18

Plaintiff, )

**CLASS ACTION COMPLAINT  
FOR VIOLATIONS OF THE  
FEDERAL SECURITIES LAWS**

19

vs. )

20

21 NEW CENTURY FINANCIAL )  
CORP., ROBERT K. COLE, BRAD )  
22 A. MORRICE, KEVIN M. CLOYD, )  
EDWARD F. GOTSCHALL, )  
PATTI M. DODGE, AND TAJ S. )  
23 BINDRA, )

JURY TRIAL DEMANDED

24

Defendants. )

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1 Plaintiff, individually and on behalf of all other persons similarly situated, by  
2 plaintiff's undersigned attorneys, for plaintiff's complaint against defendants, alleges  
3 the following based upon personal knowledge as to plaintiff and plaintiff's own acts,  
4 and upon information and belief as to all other matters, based on, *inter alia*, the  
5 investigation conducted by and through plaintiff's attorneys, which included, amongst  
6 other things, a review of the Defendants' press releases, Securities and Exchange  
7 Commission ("SEC") filings by New Century Financial Corp. ("New Century Financial"  
8 or the "Company") and its related entities (collectively "Defendants"), as well as  
9 media reports about the Defendants. Plaintiff believes that substantial evidentiary  
10 support will exist for the allegations set forth herein after a reasonable opportunity for  
11 discovery.  
12  
13  
14  
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## 16 **SUMMARY AND OVERVIEW**

17 1. This is a securities class action on behalf of all purchasers of the publicly  
18 traded securities of New Century Financial Corp. ("New Century Financial" or the  
19 "Company") between April 7, 2006 and February 7, 2007 (the "Class Period"),  
20 against New Century Financial and certain of its officers and directors for violations  
21 of the Securities Exchange Act of 1934 (the "1934 Act").

22 2. New Century Financial Corp. is a real estate investment trust and  
23 mortgage finance company, providing mortgage products to borrowers nationwide  
24 through its operating subsidiaries, New Century Mortgage Corporation and Home123  
25 Corporation. The company offers a broad range of mortgage products designed to  
26 meet the needs of the retail and wholesale markets.

27 3. During the Class Period, Defendants made false and misleading  
28 statements regarding their quarterly financial results and profits, in active concealment

1 of the wayward nature of their internal controls over accounting. Specifically,  
2 Defendants actively concealed their violations of GAAP and SEC rules, in order to  
3 conceal the true dimensions and adverse impact of rapidly growing early-payment  
4 defaults and loan repurchases on the Company's financial results.

5 4. Rather than disclose the truth of these matters, Defendants were upbeat in  
6 the assessment of the Company's performance, stating that the Company was "on  
7 track" to meet profit margin targets, that the Company's quarterly results were  
8 "particularly impressive", and that "operating results were solid." Towards the end of  
9 the Class Period, Defendants obscured the legitimate concerns of the investment  
10 community, given the nature of market conditions, signaling instead the "prudent  
11 nature" of investing in the Company, coupled with "plans" to distribute \$400 million  
12 or more to stockholders in 2007.

13 5. The truth of these matters was revealed on February 7, 2007, upon  
14 Defendants' shocking announcement that the Company would restate its consolidated  
15 financial results for the quarters ended March 31, June 30 and September 30, 2006 to  
16 correct violations of "generally accepted accounting principles" ("GAAP") regarding  
17 the Company's allowance for loan repurchase losses.

18 6. Defendants also admitted that they failed to properly consider, or to  
19 disclose to the investment community, for each of the first three quarters of 2006, the  
20 growing volume of repurchase claims outstanding that resulted from the increasing  
21 pace of repurchase requests that occurred in 2006. Defendants' active concealment of  
22 these facts was facilitated by the increasing length of time between the company's  
23 whole loan sales and its receipt and processing of repurchase requests. Defendants  
24 admitted that their wayward accounting practices leading to the restatements likely  
25 constitutes material weaknesses in internal controls over financial reporting and that  
26 the combined impact of the foregoing would result in a net loss for the fourth quarter  
27 of 2006.

28



1 in the preparation of the false financial statements and repeated the contents therein to  
2 the market.

3 13. Defendant Brad A. Morrice (“Morrice”) was, during the relevant period,  
4 Vice Chairman, CEO and Chief Operating Officer of New Century Financial.  
5 Defendant Morrice assumed the position of CEO on July 1, 2006. Defendant Morrice  
6 assisted in the preparation of the false financial statements and repeated the contents  
7 therein to the market.

8 14. Defendant Kevin M. Cloyd (“Cloyd”) was, during the relevant period,  
9 Executive Vice President of Secondary Marketing, as well as President of the  
10 Secondary Marketing Division, also known as NC Capital Corporation, of New  
11 Century Financial. Defendant Cloyd assisted in the preparation of the false financial  
12 statements and repeated the contents therein to the market.

13 15. Defendant Edward F. Gotschall (“Gotschall”) was, during the relevant  
14 period, Vice Chairman of Finance, as well as Chief Financial Officer of the Secondary  
15 Marketing Division, also known as NC Capital Corporation, of New Century  
16 Financial. Defendant Gotschall assisted in the preparation of the false financial  
17 statements and repeated the contents therein to the market.

18 16. Defendant Patti M. Dodge (“Dodge”) was, during the relevant period,  
19 Executive Vice President and Chief Financial Officer of New Century Financial.  
20 Defendant Dodge assisted in the preparation of the false financial statements and  
21 repeated the contents therein to the market.

22 17. Defendant Taj S. Bindra (“Bindra”) was, during the relevant period,  
23 Executive Vice President, and Chief Financial Officer of New Century Financial.  
24 Defendant Bindra assumed the position of CFO on November 15, 2006. Defendant  
25 Bindra assisted in the preparation of the false financial statements and repeated the  
26 contents therein to the market.

27 18. The individuals named as defendants in ¶¶12-17 are referred to herein as  
28 the “Individual Defendants.” The Individual Defendants, because of their positions

1 with the Company, possessed the power and authority to control the contents of New  
2 Century Financial's quarterly reports, press releases and presentations to securities  
3 analysts, money and portfolio managers and institutional investors, *i.e.*, the market.  
4 Each individual defendant was provided with copies of the Company's reports and  
5 press releases alleged herein to be misleading prior to or shortly after their issuance  
6 and had the ability and opportunity to prevent their issuance or cause them to be  
7 corrected. Because of their positions and access to material non-public information  
8 available to them but not to the public, each of these defendants knew that the adverse  
9 facts specified herein had not been disclosed to and were being concealed from the  
10 public and that the positive representations which were being made were then  
11 materially false and misleading. The Individual Defendants are liable for the false  
12 statements pleaded herein at ¶¶21-26, as those statements were each "group-  
13 published" information, the result of the collective actions of the Individual  
14 Defendants.

### 15 **SCIENTER**

16 19. In addition to the above-described involvement, each Individual  
17 Defendant had knowledge of New Century Financial's problems and was motivated to  
18 conceal such problems. Defendants Cole and Morrice, as CEO's for the Company  
19 and Cloyd, as President of its Secondary Marketing Division, respectively, were  
20 responsible for financial reporting and communications with the market. Many of the  
21 internal reports showing New Century Financial's forecasted and actual growth were  
22 prepared by the finance department under their direction. Defendants Bindra and  
23 Gotschall, as CFO's of the Company and its Secondary Marketing Division,  
24 respectively, were responsible for the financial results and press releases issued by the  
25 Company. Each Individual Defendant sought to demonstrate that he could lead the  
26 Company successfully and generate the growth expected by the market.

1                                   **FRAUDULENT SCHEME AND COURSE OF BUSINESS**

2           20. Each defendant is liable for (i) making false statements, *or* (ii) failing to  
3 disclose adverse facts known to him about New Century Financial. Defendants'  
4 fraudulent scheme and course of business that operated as a fraud or deceit on  
5 purchasers of New Century Financial common stock was a success, as it (i) deceived  
6 the investing public regarding New Century Financial's prospects and business; (ii)  
7 artificially inflated the prices of New Century Financial's common stock; (iii) allowed  
8 defendants to arrange to sell and actually sell 690,840 shares of their New Century  
9 Financial stock at artificially inflated prices, for proceeds of \$27.5 million; (iii)  
10 allowed defendants to arrange to sell and actually sell in excess of \$50 million of  
11 preferred stock and other securities at artificially inflated prices; and (iv) caused  
12 Plaintiff and other members of the Class to purchase New Century Financial common  
13 stock at inflated prices.

14                                   **DEFENDANTS' FALSE AND MISLEADING**  
15                                   **STATEMENTS ISSUED DURING THE CLASS PERIOD**

16           21. On April 7, 2006, the Company issued a press release entitled, "New  
17 Century Financial Corporation Announces First Quarter 2006 Total Loan Production  
18 of \$13.4 Billion." The release stated in part:

19                                   IRVINE, Calif., April 7, 2006 /PRNewswire-FirstCall via  
20 COMTEX News Network/ -- New Century Financial Corporation  
21 (NYSE: NEW), a real estate investment trust and parent company of one  
22 of the nation's premier mortgage finance companies, today announced  
23 total loan production for the first quarter 2006 and provided the date for  
24 its first quarter 2006 results announcement.

25                                   Mortgage Loan Production

26                                   "We are off to a strong start this year with \$13.4 billion in total  
27 loan production for the first quarter of 2006. We are particularly pleased  
28 to have achieved a 31 percent increase in total loan production over the  
first quarter of 2005, with approximately 14 percent coming from  
organic growth in our non- prime division. *While the weighted average  
coupon on our non-prime product decreased modestly to 8.4 percent  
for March 2006 compared with the previous month, we are on track to  
meet our profit margin target due in part to tighter credit spreads and  
lower loan acquisition costs," said Robert K. Cole, Chairman of the  
Board and Chief Executive Officer.* "We are pleased to see signs of a  
more favorable secondary market for our loans, as we have successfully

1 entered into forward-sale commitments through June 2006 with gain-on-  
2 sale executions above 102."

3 \*\*\*

4 22. On May 4, 2006, the Company issued a press release entitled, "Net New  
5 Century Financial Corporation Reports Strong First Quarter 2006 Results - Company  
6 Achieved Earnings-per-Share of \$1.79 Reaffirms 2006 Dividend Guidance of \$7.30  
7 per Share." The release stated in part:

8 IRVINE, Calif., May 4 /PRNewswire-FirstCall/ -- New Century  
9 Financial Corporation (NYSE: NEW), a real estate investment trust  
10 (REIT) and parent company of one of the nation's premier mortgage  
11 finance companies, today reported results for the three months ended  
12 March 31, 2006.

13 **First Quarter 2006 Highlights**

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

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

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

18 Securitized \$1.7 billion of mortgage loans at the REIT

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

21 Maintained non-prime loan acquisition costs (LAC) at 1.66  
22 percent

23 ***Reaffirms 2006 dividend guidance of \$7.30 per share***

24 (1) REIT taxable income is a non-GAAP financial measure within  
25 the meaning of Regulation G promulgated by the Securities and  
26 Exchange Commission. A reconciliation of REIT taxable income to the  
27 most directly comparable GAAP financial measure is set forth in the  
28 table attached as Schedule 1 to this press release.

(2) See Schedule 2 attached to this press release for an explanation  
of how the company calculated after-tax return on equity.

**Financial Results**

***"We achieved strong first quarter 2006 results highlighted by 21 percent growth in EPS, a 17 percent increase in REIT taxable income, and 31 percent growth in mortgage loan production compared with the same period last year," said Robert K. Cole, Chairman and Chief Executive Officer. "We are also pleased to have maintained low loan acquisition costs, achieved our targeted net operating margin range for***

1 *the quarter, and added mortgage loans to our REIT portfolio, which*  
2 *will contribute to our ability to pay our projected dividend of \$7.30 per*  
3 *share for 2006."*

4 *The company reported net earnings of \$103.7 million, or \$1.79*  
5 *per share, for the first quarter of 2006, compared with \$84.8 million, or*  
6 *\$1.48 per share, for the same period in 2005. The year-over-year*  
7 *increase in net earnings was primarily attributable to the growth in*  
8 *mortgage loan production volume and greater contributions to net*  
9 *earnings from the company's REIT portfolio.*

#### 10 Mortgage Loan Portfolios

11 During the first quarter of 2006, the company completed two  
12 securitizations structured as financings totaling \$1.7 billion in mortgage  
13 loans at the REIT, including one securitization consisting solely of \$0.3  
14 billion of second lien collateral. Substantially all of the collateral in the  
15 \$0.3 billion securitization represents second mortgage loans originated in  
16 connection with the company's 80/20-mortgage product. "We believe the  
17 securitization of second trust deeds allowed us to capture the full  
18 economic value of that particular pool of loans," said Kevin M. Cloyd,  
19 President of NC Capital Corporation, the company's secondary  
20 marketing subsidiary. "The remaining \$1.4 billion of mortgage loans  
21 securitized was representative of our core non-prime mortgage loan  
22 production and received favorable credit enhancement from rating  
23 agencies as a result of lower loss coverage requirements."

24 At March 31, 2006, the balance of the REIT mortgage loan  
25 portfolio was \$14.1 billion and the balance of the taxable REIT  
26 subsidiary (TRS) mortgage loan portfolio was \$2.1 billion. The  
27 allowance for losses on loans held for investment was \$186.0 million and  
28 \$23.8 million for the REIT and TRS portfolios, respectively,  
representing 1.32 percent and 1.14 percent of the unpaid principal  
balance of the respective portfolios. This compares with 1.23 percent and  
1.22 percent of the unpaid principal balance of the respective portfolios  
at December 31, 2005. Delinquency rates as of March 31, 2006 and  
actual losses to date in the company's REIT and TRS portfolios continue  
to be significantly lower than historical experience. The company's 60-  
plus day delinquency rates as of March 31, 2006 were 4.46 percent at the  
REIT and 4.78 percent at the TRS. While actual losses to date have been  
significantly lower than the company's expectations, the company  
continues to build its allowances for loan losses based on various factors,  
which include seasoning of the portfolios, as well as overall economic  
and market conditions.

#### 29 Mortgage Loan Production by Channel -- Non-Prime, Prime and 30 Alt-A

31 The company originates and purchases mortgage loans through  
32 two channels -- Wholesale and Retail. The Wholesale channel originates  
33 and purchases mortgage loans through a network of independent  
34 mortgage brokers and correspondent lenders solicited by its Account  
35 Executives. The company's Retail channel originates mortgage loans  
36 directly through its 240 branch offices and its central telemarketing unit,

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

### 3 Total Mortgage Loan Production

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

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

13 "Earlier this week, we announced that Anthony T. (Tony) Meola  
has joined the company as Executive Vice President, Loan Production.  
14 Tony will be responsible for managing and expanding our production  
franchise, broadening our product menu and increasing productivity. He  
15 brings with him a breadth and depth of knowledge of the mortgage  
industry and a passion for constant improvement. We look forward to his  
16 contribution to our continued growth and success," said Mr. Morrice.

### 17 Wholesale Channel

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

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

### 25 Retail Channel

26 The company's Retail channel originated approximately \$2.0  
27 billion in loans in the first quarter of 2006, compared with \$1.2 billion in  
the year ago quarter. The 75 percent increase in Retail mortgage loan  
28 production was primarily the result of the addition of the origination

1 platform that the company acquired from RBC Mortgage in September  
2 2005.

### 3 TRS Operating Results -- Non-Prime

#### 4 Gain-on-Sale

5 In the first quarter of 2006, the company sold \$11.2 billion of non-  
6 prime loans at a gain-on-sale of 1.67 percent. Gain-on-sale decreased  
7 four basis points from 1.71 percent for the fourth quarter of 2005 as a  
8 result of loans sold in the first quarter of 2006 pursuant to forward-sale  
9 commitments entered into during the fourth quarter of 2005, when the  
10 secondary market was very weak. However, gain-on-sale progressively  
11 improved during each of the months in the first quarter of 2006.  
12 Continuing this trend, the company expects non-prime gain-on-sale to  
13 improve in future quarters of 2006 based on stronger secondary market  
14 demand for its product and forward-sale commitments extending into the  
15 third quarter of 2006.

#### 16 LAC

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

26 LAC is a non-GAAP financial measure within the meaning of  
27 Regulation G promulgated by the Securities and Exchange Commission.  
28 A reconciliation of LAC to the most directly comparable GAAP  
financial measure is set forth in the table attached as Schedule 3 to this  
press release.

#### Net Operating Margin

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

### TRS Operating Results -- Prime and Alt-A

In the first quarter of 2006, the company closed \$2.0 billion in  
loans through the prime and Alt-A mortgage loan origination platform  
and acted as a broker for an additional \$0.3 billion to third parties. The  
results from this platform were a \$0.8 million loss for the quarter, which  
is a significant improvement over the \$4.3 million loss in the previous  
quarter. "We are pleased to see such progress as we fully integrate this  
mortgage loan origination platform and we continue to believe this

1 business is well positioned to be accretive to EPS in 2006," continued  
2 Mr. Morrice.

3 The company has provided the gain-on-sale, LAC and net  
4 operating margin of these operations in tables set forth later in this press  
5 release.

### 6 ***2006 Outlook***

7 ***"Our strategic objectives for 2006 include achieving consistently  
8 strong operating performance in both our REIT and TRS, broadening  
9 the mortgage products and services available through each of our  
10 delivery channels, and lowering costs while increasing productivity,"  
11 said Mr. Morrice. "We are already making great progress toward  
12 achieving each of these objectives.***

13 ***"At the REIT, we expect to execute up to \$2 billion in  
14 securitizations in the second quarter of 2006, subject to our evaluation  
15 of secondary market opportunities. At the TRS, we anticipate our net  
16 operating margin to improve in the second quarter of 2006 reflecting a  
17 stronger secondary market for our loans and our continued efforts to  
18 control operating costs. Additionally, we anticipate growing our second  
19 quarter 2006 production volume over the first quarter 2006 level.***

20 ***"We have continued confidence in our ability to pay a 2006  
21 dividend of \$7.30 per share as a result of this year's REIT portfolio  
22 additions, the carry-over of REIT taxable income from 2005, and, if  
23 necessary, contributions from our TRS," concluded Mr. Morrice.***

24 \*\*\*

25 23. On August 3, 2006, New Century Financial issued a press release  
26 entitled, "New Century Financial Corporation Reports Second Quarter 2006 Results -  
27 Board Declares Third Quarter Dividend of \$1.85 per Share - Company Reaffirms  
28 2006 Dividend Guidance of \$7.30 per Share." The release stated in part:

IRVINE, Calif., August 3 /PRNewswire-FirstCall/ -- New Century  
Financial Corporation (NYSE: NEW), a real estate investment trust  
(REIT) and parent company of one of the nation's premier mortgage  
finance companies, today reported results for the three and six months  
ended June 30, 2006.

### ***Second Quarter 2006 Results and Highlights***

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

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

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

***Non-prime net operating margin increased to 1.01 percent***

1            ***Non-prime loan acquisition costs (LAC) decreased to 1.51***  
2            ***percent***

3            ***Prime/Alt-A platform achieved profitability***

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

5            ***Board declared third quarter dividend of \$1.85 per share***

6            ***Reaffirmed 2006 dividend guidance of \$7.30 per share***

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

9            ***"Our second quarter results are evidence of the strength and***  
10           ***stability of our franchise," said Brad A. Morrice, President and Chief***  
11           ***Executive Officer. "We achieved the second highest quarterly loan***  
12           ***production volume in our history, while substantially improving our***  
13           ***operating margin over the first quarter in a challenging environment.***  
14           ***As a result, our second quarter net earnings were \$105.5 million, or***  
15           ***\$1.81 per share, an 11 percent increase in net earnings compared with***  
16           ***the second quarter of 2005. These results are particularly impressive***  
17           ***considering that we only sold or securitized 82 percent of the loans we***  
18           ***originated in the second quarter, increasing loans held for sale by \$3.0***  
19           ***billion. These loans are covered by forward sales commitments with***  
20           ***premiums in excess of 102, so we expect to realize the related earnings***  
21           ***in the third quarter."***

22           (1) REIT taxable income is a non-GAAP financial measure within  
23           the meaning of Regulation G promulgated by the Securities and  
24           Exchange Commission. A reconciliation of REIT taxable income to the  
25           most directly comparable GAAP financial measure is set forth in the  
26           table attached as Schedule 1 to this press release.

27           (2) See Schedule 2 attached to this press release for an explanation  
28           of the methodology used for calculating after-tax return on equity.

### Mortgage Loan Portfolios

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

At June 30, 2006, the balance of the mortgage loan portfolio was \$16.0 billion. The allowance for losses on loans held for investment was \$209.9 million, representing 1.31 percent of the unpaid principal balance of the portfolio. This compares with 0.79 percent of the unpaid principal balance of the portfolio at June 30, 2005 and 1.30 percent of the portfolio at March 31, 2006. Delinquency rates as of June 30, 2006 in the company's portfolio continue to be significantly lower than historical

1 experience. The company's 60-plus day delinquency rate as of June 30,  
2 2006 was 4.61 percent compared with 4.50 percent in the previous  
3 quarter. The company's 2005 and 2006 vintages are experiencing more  
4 normalized delinquency trends than the 2003 and 2004 vintages, which  
5 have performed exceptionally well when compared with historical  
6 experience. "We are comfortable with our current loan loss reserve  
7 levels, which take into consideration not only normal portfolio seasoning  
8 but also our higher cumulative loss expectations for the newer vintages,"  
9 said Patti M. Dodge, Executive Vice President and Chief Financial  
10 Officer.

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

#### 25 Mortgage Loan Production by Channel -- Non-Prime, Prime and 26 Alt-A

27 The company originates and purchases mortgage loans through  
28 two channels - Wholesale and Retail. The Wholesale channel originates  
and purchases mortgage loans through a network of independent  
mortgage brokers and correspondent lenders solicited by its Account  
Executives. The company's Retail channel originates mortgage loans  
directly through its 246 branch offices and its central telemarketing unit,  
as well as through relationships that are referred or solicited through  
builders and realtors.

#### 29 Total Mortgage Loan Production

30 Total mortgage loan production for the second quarter of 2006  
31 was \$16.2 billion, a 20 percent increase over the same period a year ago  
32 and a 21 percent increase over the first quarter of 2006. Excluding the  
33 prime and Alt- A loan origination platform that was acquired in the third  
34 quarter of 2005, second quarter loan production increased 5 percent year-  
35 over-year. For the quarter, the company's Wholesale channel originated  
36 \$13.8 billion of mortgage loans and the Retail channel originated \$2.4  
37 billion. "We are pleased with the second quarter's strong loan production  
38 volume, which resulted from modest growth in our core non-prime  
product coupled with the addition of our Prime and Alt-A products," said  
Mr. Morrice. "Additionally, we introduced a new credit grade during the  
quarter that serves borrowers with qualifications between Alt-A and non-  
prime. We believe this AAA credit grade is rapidly gaining acceptance in  
the market place."

1 Total mortgage loan production for July 2006 was approximately  
2 \$5.3 billion, including \$4.6 billion of Wholesale mortgage loan  
3 production and \$0.7 billion of Retail mortgage loan production. This  
4 compares with \$4.6 billion for July 2005.

#### 5 TRS Operating Results -- Non-Prime

##### 6 Gain-on-Sale

7 In the second quarter of 2006, the company sold \$10.3 billion of  
8 non-prime loans, or 73 percent of the quarter's non-prime production, at  
9 a gross premium of 2.31 percent and a net gain-on-sale of 2.10 percent.  
10 Second quarter net gain-on-sale increased by 43 basis points compared  
11 with 1.67 percent for the first quarter as a result of improved secondary  
12 market execution, which was primarily driven by a higher weighted  
13 average coupon on the company's loans, a more favorable product mix  
14 and stronger secondary market appetite, partly offset by increases in  
15 swap rates that outpaced coupon growth. Additionally, second quarter  
16 net gain-on-sale included 9 basis points of unanticipated hedging gains.

##### 17 Loan Acquisition Costs (LAC)

18 Second quarter 2006 LAC was 1.51 percent compared with 1.66  
19 percent in the previous quarter. The 15 basis point decline was primarily  
20 a result of the operating expense component of LAC declining 17 basis  
21 points, slightly offset by a modest increase in the points and fees  
22 component.

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

LAC is a non-GAAP financial measure within the meaning of  
Regulation G promulgated by the Securities and Exchange Commission.  
A reconciliation of LAC to the most directly comparable GAAP  
financial measure is set forth in the table attached as Schedule 3 to this  
press release.

##### Net Operating Margin

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

#### TRS Operating Results -- Prime and Alt-A

1 In the second quarter of 2006, the company closed \$2.1 billion in  
2 loans through its prime and Alt-A mortgage loan origination platform  
3 and acted as a broker for an additional \$0.2 billion to third parties. The  
4 company has provided the gain-on-sale, LAC and net operating margin  
5 of these operations in tables set forth later in this press release.

6 "Consistent with our projections, our prime and Alt-A business  
7 became profitable in the second quarter and reported a net operating  
8 margin of 53 basis points," said Mr. Morrice. "This quarter's net  
9 operating margin was higher than we anticipated as a result of hedging  
10 gains and pair-off fees. A more typical net operating margin for our  
11 prime and Alt-A platform is expected to be in the range of 15 to 20 basis  
12 points."

### 13 Stock Repurchase Program

14 The company repurchased 551,800 shares of its common stock  
15 during the second quarter of 2006 at an average price of \$45.56 per share  
16 for an aggregate amount of \$25.1 million. Under its current stock  
17 repurchase program, the company has repurchased more than 1.4 million  
18 shares of its common stock in the aggregate, at an average price of  
19 \$38.17 per share. The company has authority to repurchase an additional  
20 3.6 million shares under the current program.

21 Future stock repurchases may be made on the open market or  
22 through block trades in accordance with applicable laws. The number of  
23 shares to be purchased and the timing of the purchases will be based  
24 upon the level of the company's cash balances, general business  
25 conditions and other factors including alternative investment  
26 opportunities. The company reserves the right to terminate, reduce or  
27 increase the size of the stock repurchase program at any time.

### 28 Dividend

The company's Board of Directors declared a \$1.85 per share  
dividend on its common stock for the third quarter of 2006. This  
dividend reflects a \$0.05 per share increase from the prior quarter and is  
the seventh consecutive increase in the dividend since the company  
elected to become a REIT in the fourth quarter of 2004. The third quarter  
dividend will be paid on October 31, 2006 to stockholders of record at  
the close of business on September 29, 2006 and the ex-dividend date is  
September 27, 2006. The declaration of any future dividends will be  
subject to the company's earnings, financial position, capital  
requirements, contractual restrictions and other relevant factors.

*"The earnings from the current REIT portfolio, plus an  
estimated \$1.88 per share carry-over of REIT taxable income from  
2005, coupled with additions to the REIT portfolio and potential TRS  
contributions, gives us confidence that we will achieve our 2006  
dividend guidance of \$7.30 per share," said Mr. Morrice.*

### Outlook

*"Our year-to-date results reflect the benefits of our combined  
REIT portfolio and TRS operations model, solid execution of our*

1 *business plan and the overall strength and stability of our franchise.*  
2 *Looking forward, we feel that the environment will continue to favor*  
3 *mortgage lenders like New Century that have significant operating*  
4 *scale and low expense structures. As a result, we have continued*  
5 *confidence in our ability to deliver strong future performance and*  
6 *create per share value for our stockholders," said Mr. Morrice.*

#### Chief Financial Officer Transition

7 Ms. Dodge has decided to transition from Chief Financial Officer  
8 to a newly created role, primarily focused on investor communications.  
9 In her new capacity, Ms. Dodge will focus on transforming the Investor  
10 Relations function to a more strategic role in order to more effectively  
11 increase shareholder value. She will continue to report to Mr. Morrice  
12 and the Investor Relations department will continue to report to her. She  
13 will remain an Executive Vice President of the company and a member  
14 of the executive management team, maintaining a key role in the  
15 strategic business decisions of the company. The company has retained  
16 an executive search firm and a nationwide search for her successor is  
17 currently underway. Ms. Dodge will continue in her current role until her  
18 successor is in place.

19 "Patti is a key member of our executive management team and we  
20 are pleased that she will continue to contribute her financial expertise  
21 and strategic thinking in this new capacity," said Mr. Morrice. "We are  
22 also enthusiastic about the opportunity to both strengthen our Investor  
23 Relations function and expand our overall management team. We expect  
24 the transition between chief financial officers to be seamless."

25 \*\*\*

26 24. On August 16, 2006 the Company issued a press release entitled, "New  
27 Century Financial Corporation Announces Pricing of \$50 Million of 9.75% Series B  
28 Cumulative Redeemable Preferred Stock." The press release stated in part:

29 IRVINE, Calif., Aug. 16 /PRNewswire-FirstCall/ -- New Century  
30 Financial Corporation (NYSE: NEW), a real estate investment trust  
31 (REIT) and the parent company of one of the nation's largest non-prime  
32 mortgage finance companies, announced today that it has priced a public  
33 offering of 2 million shares of 9.75% Series B Cumulative Redeemable  
34 Preferred Stock at \$25 per share. The company has also granted the  
35 underwriters an option to purchase up to a maximum of 300,000  
36 additional shares from the company for the purpose of covering  
37 overallotments, if any. The net proceeds from the offering will be used  
38 for general corporate purposes, including, without limitation, repurchases  
39 of the company's common stock under its stock repurchase program and  
40 investments in the company's on-balance sheet portfolio of mortgage  
41 assets.

42 Bear, Stearns & Co. Inc. and Morgan Stanley acted as the co-book  
43 running lead managers for the offering, with Stifel Nicolaus and Jefferies  
44 & Company acting as co-managers.

1 New Century Financial Corporation expects to deliver the 9.75%  
2 Series B Cumulative Redeemable Preferred Stock on or about August  
3 22, 2006. It is expected that trading on the New York Stock Exchange  
4 will commence within 30 days after the initial delivery of the shares and  
5 that the shares will trade under the symbol "NEW PrB."

6 *A prospectus supplement relating to the offering will be filed*  
7 *with the Securities and Exchange Commission. When available, copies*  
8 *of the prospectus supplement and related prospectus for the offering*  
9 *may be obtained from Bear, Stearns & Co. Inc., 383 Madison Avenue,*  
10 *New York, New York 10179 and Morgan Stanley & Co. Incorporated,*  
11 *180 Varick Street, New York, New York 10014; Attention: Prospectus*  
12 *Department.*

13 \*\*\*

14 25. On November 2, 2006, the Company issued a press release entitled "New  
15 Century Financial Corporation Reports Third Quarter 2006 Results and Provides  
16 Outlook for 2007 - Fourth Quarter Dividend Declared; Brings 2006 Total Dividends  
17 to \$7.30 per Share - Expects to Distribute \$400 Million or More to Stockholders in  
18 2007 Through Dividends and Common Stock Repurchases." The release stated in  
19 part:

20 IRVINE, Calif., Nov. 2 /PRNewswire-FirstCall/ -- New Century  
21 Financial Corporation (NYSE: NEW), a real estate investment trust  
22 (REIT) and one of the nation's premier mortgage finance companies,  
23 today reported results for the three and nine months ended September 30,  
24 2006.

25 ***Highlights***

26 ***Earnings-per-share (EPS) was \$1.12***

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

28 ***Total mortgage loan production was \$15.8 billion***

***Non-prime net operating margin was 0.52 percent***

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

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

***Announces acquisition of Irwin Mortgage Corporation's servicing operations***

1                   ***Raised \$107 million in gross proceeds of perpetual preferred and***  
2                   ***trust preferred capital***

3                   ***Declared fourth quarter dividend of \$1.90 per share; results in***  
4                   ***total 2006 dividends of \$7.30 per share***

5                   Appointed Taj S. Bindra as Executive Vice President and Chief  
6                   Financial Officer

7                   Announces updated financial and secondary market strategy

8                   ***Expects to distribute \$400 million or more to stockholders in***  
9                   ***2007 through a combination of dividends and common stock***  
10                   ***repurchases***

### 11                   ***Third Quarter 2006 Results***

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

20                   ***"Excluding the hedging-related accounting charges, our***  
21                   ***operating results were solid. As expected, we maintained loan***  
22                   ***production volume at a level comparable to the previous quarter,***  
23                   ***achieved record low loan acquisition costs, and improved portfolio***  
24                   ***interest spread before the impact of hedging during the third quarter.***  
25                   ***Partially offsetting these positive trends, gain- on-sale declined as a***  
26                   ***result of increased rating agency credit enhancement levels and higher***  
27                   ***loan repurchases and discounted loan sales," said Mr. Morrice.***

28                   (1) REIT taxable income is a non-GAAP financial measure  
within the

meaning of Regulation G promulgated by the Securities and  
Exchange

Commission. A reconciliation of REIT taxable income to the  
most directly

comparable GAAP financial measure is set forth in the table  
attached as

Schedule 1 to this press release.

(2) See Schedule 2 attached to this press release for an  
explanation of

the methodology used for calculating after-tax return-on-  
equity.

1 Mortgage Loan Portfolio The balance of the mortgage loan  
2 portfolio declined to \$14.0 billion at September 30, 2006 from \$15.9  
3 billion at June 30, 2006. "During the third quarter, we chose to sell loans  
4 in the whole loan market rather than adding assets to our REIT portfolio,  
5 resulting in a decline in the portfolio balance," said Kevin M. Cloyd,  
6 President of NC Capital Corporation, the company's secondary  
7 marketing subsidiary. "Going forward, we will continue to evaluate  
8 whole loan sales compared with securitizations on a case-by-case basis."

### REIT Mortgage Loan Portfolio Spread

9 REIT portfolio income was \$23.0 million in the third quarter of  
10 2006 compared with \$52.0 million in the second quarter of 2006. Third  
11 quarter REIT portfolio income was reduced by \$24.7 million, or \$0.45  
12 per share, due to hedging-related activities, approximately \$14.8 million  
13 of which represents a timing difference that the company expects to  
14 recognize as income in future periods.

15 Return-on-assets (ROA) on the REIT portfolio declined to 0.68  
16 percent in the third quarter of 2006 from 1.49 percent in the second  
17 quarter of 2006. However, ROA before the impact of hedging-related  
18 activities increased to 1.38 percent in the third quarter of 2006 from 0.99  
19 percent in the second quarter of 2006. This increase in ROA was the  
20 result of the typical reduction in provision for losses as the portfolio  
21 seasons, as well as an increase in the net spread earned on the portfolio.  
22 The components of the company's REIT mortgage loan portfolio spread  
23 and the methodology used for calculating these ROA figures are set forth  
24 in a table later in this press release.

### Credit Performance

25 At September 30, 2006, the allowance for losses on mortgage  
26 loans held for investment and real estate owned was \$239.4 million  
27 compared with \$236.5 million at June 30, 2006. These amounts represent  
28 1.68 percent and 1.47 percent of the unpaid principal balance of the  
mortgage loan portfolio, respectively. The company's 60-day-plus  
delinquency rate as of September 30, 2006 was 5.95 percent compared  
with 4.61 percent in the second quarter of 2006. The higher delinquency  
rate in the third quarter was the result of normal portfolio seasoning and  
higher delinquencies in the 2005 and 2006 vintages compared with the  
2003 and 2004 vintages. The company planned for these higher  
delinquency rates and believes it is adequately reserved for the expected  
higher level of loan losses after giving consideration to the performance  
of its newer vintages.

### Mortgage Loan Production

29 Total mortgage loan production for the third quarter of 2006 was  
30 \$15.8 billion, a 2.5 percent decrease compared with \$16.2 billion of loan  
production for the second quarter of 2006 and a 5.4 percent decrease  
compared with the company's quarterly record of \$16.7 billion of loan  
production in the third quarter of 2005. The company's Wholesale  
channel originated \$13.5 billion of mortgage loans and the Retail  
channel originated \$2.3 billion of mortgage loans in the quarter.

1 "We are pleased to announce that early last week we rolled out a  
2 pilot program to offer our Alt-A mortgage loan products through our  
3 Wholesale channel. This will enable us to provide a broader menu of  
4 mortgage products to our brokers and marks our entry into the wholesale  
5 Alt-A market where we believe our service levels and value proposition  
6 will be well received," said Anthony T. Meola, Executive Vice  
7 President, Loan Production.

#### 8 Adoption of Additional Lending Best Practices

9 The company recently announced its adoption of additional  
10 lending best practices. These guidelines include improved underwriting  
11 guidelines for its adjustable-rate and interest-only mortgage loan  
12 programs for potential borrowers in owner-occupied properties who have  
13 FICO scores below 580 and loan-to-value ratios greater than 80 percent.  
14 The company is requiring these borrowers to qualify with a debt-to-  
15 income ratio that is less than 50 percent and uses the fully-indexed rate  
16 minus 100 basis points rather than qualifying at the initial interest rate.  
17 Less than 4 percent of the company's recent loan production volume  
18 would not have qualified for a 30-year adjustable-rate or interest-only  
19 loan under these guidelines. "We believe the steps we are taking are  
20 prudent in light of the current market environment and are designed to  
21 help ensure that specific loan products are appropriate for the  
22 circumstances of individual borrowers and improve the overall credit  
23 quality of our loans. We plan to continue evaluating our product line  
24 with these goals in mind. While these underwriting changes may result in  
25 a modest decline in volume, we do not expect a meaningful impact to  
26 profitability," said Mr. Morrice.

#### 27 TRS Operating Results - Non-Prime

##### 28 Gain-on-Sale

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

"We expect the volume of discounted loan sales and the severity  
of the discount to continue to challenge originators in this industry," said  
Mr. Cloyd. "Loan buyers have become more vigilant, increasing the  
number of loan files reviewed in their due diligence process and  
decreasing the percentage of loans they ultimately purchase. In addition,  
loan repurchases have increased as a result of higher early payment  
defaults. While we expect this industry trend to continue in the near-

1 term, we believe our additional underwriting guidelines and continual  
2 focus on process improvement will help mitigate this trend."

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

#### 9 Loan Acquisition Costs (LAC)

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

18 LAC is a non-GAAP financial measure within the meaning of  
19 Regulation G promulgated by the Securities and Exchange Commission.  
20 A reconciliation of LAC to total operating expenses, the most directly  
21 comparable GAAP financial measure, is set forth in the table attached as  
22 Schedule 3 to this press release.

#### 21 Net Operating Margin

22 The company's net operating margin for its non-prime loans  
23 declined to 0.52 percent in the third quarter of 2006 compared with 1.01  
24 percent in the second quarter of 2006. "While we are disappointed with  
25 the decline in our net operating margin, a significant portion of the  
26 decline resulted from the accounting impact associated with our forward  
27 sale commitments. This hedging impact, coupled with the increased  
28 rating agency credit enhancement levels, resulted in a decline in our net  
operating margin that our cost reduction efforts did not offset. We will  
continue to focus on the factors we can influence, including our pricing  
strategy, credit quality and cost reductions, to manage our net operating  
margin in the current environment," continued Ms. Dodge.

#### 28 TRS Operating Results - Prime and Alt-A

1 In the third quarter of 2006, the company closed \$2.0 billion in  
2 loans through its prime and Alt-A mortgage loan origination platform  
3 and acted as a broker for an additional \$184.1 million to third parties.  
4 The company has provided the gain-on-sale, LAC and net operating  
5 margin of these operations in tables set forth later in this press release.

#### 6 *Servicer Rating Upgrade*

7 *On October 27, 2006, Fitch Ratings upgraded the company's*  
8 *residential primary servicer rating to RPS3+ from RPS3 for its non-*  
9 *prime product. Fitch based the rating upgrade on the company's*  
10 *management team, established servicing platform, capable default*  
11 *technology and enhanced cross-functional training programs.*

#### 12 Acquisition of Irwin Mortgage Corporation's Servicing Operations

13 The company announced today that it has entered into a definitive  
14 agreement to purchase certain assets and assume certain related liabilities  
15 of Irwin Mortgage Corporation's servicing operations, an indirect  
16 subsidiary of Irwin Financial Corporation. The Irwin Mortgage servicing  
17 operation has approximately 100 employees and is located in Fishers,  
18 Indiana. The company expects the cash purchase price to be minimal and  
19 expects the transaction to close in January 2007.

20 "We are excited about the prospects of enhancing our capabilities  
21 with Irwin Mortgage's highly-experienced servicing team and its top-  
22 ratings from HUD and Fannie Mae as well as its 'Tier One Gold' servicer  
23 rating from Freddie Mac," said Mr. Cloyd. "This transaction will allow  
24 us to increase scalability, reduce servicing costs and improve time zone  
25 management while also expanding our expertise in servicing Alt-A and  
26 prime mortgage loans. Additionally, by maintaining this operation in  
27 Indiana, we will establish a fully-functional, redundant servicing  
28 platform for disaster recovery. We look forward to welcoming Irwin  
Mortgage's servicing employees to New Century's robust servicing  
team."

#### Capital Raising Activities

During the third quarter of 2006, the company issued 2.3 million  
shares of its 9.75 percent Series B Cumulative Redeemable Preferred  
Stock at \$25 per share and also completed a \$50 million private  
placement of trust preferred securities. "We are pleased to have shown a  
continued ability to access the capital markets, as we raised \$107 million  
in gross proceeds during the quarter through a combination of perpetual  
preferred and trust preferred securities. In addition, we ended the quarter  
with approximately \$17 billion in warehouse capacity. We believe that  
our continued ability to access a variety of funding sources is a key  
competitive differentiator in this environment," said Ms. Dodge.

#### Stock Repurchase Program

The company repurchased 992,500 shares of its common stock  
during the third quarter of 2006 at an average price of \$41.66 per share  
for an aggregate amount of \$41.4 million. Since the inception of the  
stock repurchase program in November 2005, the company has

1 purchased an aggregate of 2.4 million shares of its common stock in the  
2 open market, at an average price of \$39.60 per share.

3 The stock repurchase program under which the company  
4 repurchased shares in the third quarter of 2006 expired as of November  
5 2, 2006. However, on October 31, 2006, the company's board of  
6 directors approved a new stock repurchase program pursuant to which  
7 the company is authorized to repurchase over the next 12 months 5  
8 million shares, which represents approximately 9 percent of the  
9 company's outstanding common stock as of October 31, 2006.

10 Future stock repurchases may be made on the open market or  
11 through block trades in accordance with applicable laws. The number of  
12 shares to be purchased and the timing of the purchases will be based  
13 upon the level of the company's cash balances, general business  
14 conditions and other factors including alternative investment  
15 opportunities. The company reserves the right to terminate, reduce or  
16 increase the size of the stock repurchase program at any time.

### 17 *Dividend*

18 *The company's board of directors declared a \$1.90 per share*  
19 *dividend on its common stock for the fourth quarter of 2006. Total*  
20 *dividends to be paid for 2006 will be \$7.30 per share. The fourth*  
21 *quarter dividend will be paid on January 31, 2007 to stockholders of*  
22 *record at the close of business on December 29, 2006 and the ex-*  
23 *dividend date is December 27, 2006. The declaration of any future*  
24 *dividends will be subject to the company's earnings, financial position,*  
25 *capital requirements, contractual restrictions and other relevant*  
26 *factors.*

### 27 *Chief Financial Officer Transition*

28 The company announced earlier this week that it has appointed  
Taj S. Bindra as Executive Vice President and Chief Financial Officer.  
Mr. Bindra will assume the position of Executive Vice President  
effective November 6, 2006 and Chief Financial Officer effective  
November 15, 2006. He will be a member of the company's Executive  
Management Committee and will report to Mr. Morrice. As announced  
in August, Ms. Dodge will transition to the role of Executive Vice  
President, Investor Relations effective November 15, 2006 and will  
continue to be a member of the Executive Management Committee,  
reporting to Mr. Morrice.

### 29 *Fourth Quarter 2006 Outlook*

30 *"For the fourth quarter, we expect the operating environment to*  
31 *continue to be challenging. We expect loan production volume to be up*  
32 *to 10 percent lower than the third quarter and our non-prime net*  
33 *operating margin to be reduced by 10 to 20 basis points in the fourth*  
34 *quarter as a result of higher loan repurchases and discounted loan*  
35 *sales. However, we do not currently expect the impact of forward sale*  
36 *and interest rate lock commitments in the fourth quarter to be*  
37 *significant, as compared with the 18 basis point negative impact in the*  
38 *third quarter. Additionally, we expect portfolio income to be lower than*

1 *the third quarter as the portfolio balance continues to decline," said*  
2 *Mr. Morrice.*

### 3 *2007 Outlook*

4 *"We expect 2007 will be a year of continued industry evolution*  
5 *and opportunity for New Century. Our strategy for next year focuses*  
6 *on maximizing our core mortgage origination franchise through*  
7 *process innovation, enhanced productivity and increased efficiencies.*  
8 *We believe that we are well- positioned to meet the challenges next*  
9 *year. We expect overall mortgage market volume to decline*  
10 *approximately 10 percent in 2007, yet we believe our size, scale,*  
11 *financial resources, low loan acquisition costs and reputation will*  
12 *enable us to compete successfully and profitably gain market share in*  
13 *this consolidating industry. This environment calls for a financial*  
14 *strategy that is flexible enough to capitalize on the opportunities that*  
15 *arise during 2007 giving consideration to secondary and capital market*  
16 *conditions.*

17 *"We believe that mortgage banking remains an excellent*  
18 *business for the long-term, and we remain committed to delivering*  
19 *long-term value to stockholders. REIT status and the portfolio are tools*  
20 *that help us execute our mortgage banking strategy but we do not*  
21 *expect to add to the portfolio simply to support a specific dividend*  
22 *target. We expect to continue to evaluate whole loan sales versus*  
23 *securitizations on a case-by-case basis based on whole loan prices*  
24 *relative to our view of the risk-adjusted returns on capital available*  
25 *through securitization.*

26 *"During 2007, we plan to distribute capital to stockholders*  
27 *through a combination of dividends and stock repurchases, which will*  
28 *be dependent on market conditions and the relative return of each. It is*  
*not possible to predict these market conditions in advance. Therefore,*  
*rather than providing specific dividend guidance, we are announcing*  
*our plan to distribute \$400 million or more to stockholders in 2007 in*  
*some form," concluded Mr. Morrice.*

\*\*\*

26. On November 28, 2006, Defendants participated at the 2006 FBR  
Investor Conference. Commenting on the Company's anticipated profits for FY2006  
Defendant Dodge stated in part:

Sure. In '05 the taxable income per share was about \$8.40, and the  
dividend was \$6.50. So the undistributed portion was about \$1.90 --  
\$1.90 was the undistributed portion, so that was effectively carried over  
into 2006. As we look at 2006, the composition of the \$7.30 dividend  
this year includes that \$1.90, roughly, of carryover, as well as the REIT  
taxable income that we'll earn this year and certainly we haven't finished  
the year yet, so we don't have the final tally for taxable income for 2006.  
But our estimate right now is that the \$1.90 carryover plus the REIT  
taxable income in 2006 will fall somewhere between \$0.50 and \$0.75  
short of the \$7.30 dividend, which means there will be some portion of

1 that dividend that's either supported by a dividend from the TRS to the  
2 REIT parent company or simply a return of capital. *We haven't yet made*  
3 *that determination, and we'll make that before the end of the year, but*  
4 *our estimation right now is about \$0.50 to \$0.75 short of the \$7.30.*

5 \*\*\*

6 27. Defendants' Class Period statements in ¶¶21-26, regarding their quarterly  
7 financial results and profits were false and misleading. While well-aware of or in  
8 conscious and reckless disregard of the wayward nature of their internal controls over  
9 accounting, Defendants actively concealed the true dimensions of the adverse impact  
10 of early-payment defaults and loan repurchases on the Company's financial results.

11 28. Rather than disclose the truth of these matters, Defendants were upbeat in  
12 the assessment of the Company's performance, stating that the Company was "on  
13 track" to meet profit margin targets, that the Company's quarterly results were  
14 "particularly impressive", and that "operating results were solid." Towards the end of  
15 the Class Period, Defendants failed to give even the slightest warning of the gravity of  
16 the Company's circumstances. Even when it was clear that market conditions  
17 provided reason to doubt the Company's ability to deliver accurate, dependable and  
18 strong financial results going into 2007, Defendant Morrice obscured these concerns,  
19 choosing instead to signal the "prudent nature" of investing in New Century Financial,  
20 in that "mortgage banking remains an excellent business for the long-term, and we  
21 remain committed to delivering long-term value to stockholders."

22 29. Finally, if comforting advice in concealment of the truth was not enough,  
23 Defendant Morrice went the extra mile, announcing that the Company planned to  
24 distribute \$400 million or more to stockholders in 2007. In fact, Defendants knew well  
25 or consciously and recklessly disregarded the fact that the Company had already  
26 begun to wrestle with substantial negative impacts to earnings as a result early-  
27 payment defaults and loan repurchases, *concealed in substantial part by the*  
28 *Company's erroneous, false and misleading accounting practices.* As a direct result  
of these facts, Defendants lacked an objectively reasonable basis for their Class Period

1 statements, in that the Company could not achieve the results they had claimed and  
2 that were anticipated by the investment community.

### 3 **THE TRUTH IS REVEALED**

4 30. Finally, on February 7, 2007, just after the close of the markets,  
5 Defendants issued a shocking press release entitled, “New Century Financial  
6 Corporation to Restate Financial Statements for the Quarters Ended March 31, June  
7 30 and September 30, 2006.” The press release stated in part:

8 IRVINE, Calif., Feb. 7 /PRNewswire-FirstCall/ -- New Century  
9 Financial Corporation (NYSE: NEW - News), a real estate investment  
10 trust (REIT), today announced that *it will restate its consolidated*  
11 *financial results for the quarters ended March 31, June 30 and*  
*September 30, 2006 to correct errors the company discovered in its*  
*application of generally accepted accounting principles regarding the*  
*company's allowance for loan repurchase losses.*

12 The company establishes an allowance for repurchase losses on  
13 loans sold, which is a reserve for expenses and losses that may be  
14 incurred by the company due to the potential repurchase of loans  
15 resulting from early-payment defaults by the underlying borrowers or  
16 based on alleged violations of representations and warranties in  
17 connection with the sale of these loans. When the company repurchases  
18 loans, it adds the repurchased loans to its balance sheet as mortgage  
19 loans held for sale at their estimated fair values, and reduces the  
20 repurchase reserve by the amount the repurchase prices exceed the fair  
21 values. *During the second and third quarters of 2006, the company's*  
*accounting policies incorrectly applied Statement of Financial*  
*Accounting Standards No. 140 - Accounting for Transfers and*  
*Servicing of Financial Assets and Extinguishment of Liabilities.*  
*Specifically, the company did not include the expected discount upon*  
*disposition of loans when estimating its allowance for loan repurchase*  
*losses.*

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

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

27 Although the company's full review of the legal, accounting and  
28 tax impact of the restatements is ongoing, at this *time the company*

1 ***expects that, once restated, its net earnings for each of the first three***  
2 ***quarters of 2006 will be reduced.***

3 In light of the pending restatements, the company's previously  
4 filed condensed consolidated financial statements for the quarters ended  
5 March 31, June 30 and September 30, 2006 and all earnings-related press  
6 releases for those periods should no longer be relied upon. ***The company***  
7 ***expects to file amended Quarterly Reports on Form 10-Q for the***  
8 ***quarters ended March 31, June 30 and September 30, 2006 as soon as***  
9 ***practicable, with a goal to file by March 1, 2007. The company also***  
10 ***expects that the errors leading to these restatements constitute material***  
11 ***weaknesses in its internal control over financial reporting for the year***  
12 ***ended December 31, 2006.*** However, the company has taken significant  
13 steps to remediate these weaknesses and anticipates remediating them as  
14 soon as practicable.

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

#### 20 Fourth Quarter 2006 Developments

21 The increasing industry trend of early-payment defaults and,  
22 consequently, loan repurchases intensified in the fourth quarter of 2006.  
23 The company continued to observe this increased trend in its early-  
24 payment default experience in the fourth quarter, and the volume of  
25 repurchased loans and repurchase claims remains high.

26 ***In addition, the company currently expects to record a fair value***  
27 ***adjustment to its residual interests to reflect revised prepayment, loss***  
28 ***and discount rate assumptions with respect to the loans underlying***  
29 ***these residual interests, based on indicative market data. While the***  
30 ***company is still determining the magnitude of these adjustments to its***  
31 ***fourth quarter 2006 results, the company expects the combined impact***  
32 ***of the foregoing to result in a net loss for that period.***

\*\*\*

33 31. The corrective nature of the Company's press release of February 7, 2007  
34 was immediate in its effect. As a result of Defendants' shocking announcement, on  
35 February 8, 2007, the next trading day, New Century Financial's stock price plunged  
36 \$10.92 or 36.2%, closing at \$19.24 per share, on astounding and unprecedented  
37 volume of 25.2 million shares.

38 32. The almost 36.2% decline in New Century Financial's stock price on  
39 February 8, 2007, at the end of the Class Period, was the direct result of the unraveling  
40 of the nature and extent of Defendants' fraud finally being revealed to investors and

1 the market. The timing and magnitude of New Century Financial's stock price  
 2 declines negate any inference that the loss suffered by plaintiff and other Class  
 3 members was caused by changed market conditions, macroeconomic or industry  
 4 factors or Company-specific facts unrelated to the Defendants' fraudulent conduct.

5 33. While the almost 36.2% decline in New Century Financial's stock price  
 6 occurred as Defendants' fraud was being revealed, the Standard & Poor's 500  
 7 securities index was flat. The economic loss, i.e., damages, suffered by plaintiff and  
 8 other members of the Class were a direct result of Defendants' fraudulent scheme to  
 9 artificially inflate New Century Financial's stock price and the subsequent significant  
 10 decline in the value of New Century Financial's stock when Defendants' prior  
 11 misrepresentations and other fraudulent conduct were revealed.

12 **INSIDER STOCK SALES DURING**  
 13 **THE CLASS PERIOD**

14 34. During the Class Period, in the midst of Defendants' fraudulent scheme,  
 15 Company insiders, including Defendants, sold their shares of New Century Financial  
 16 stock in accordance with the following schedule:

<b>Date</b>	<b>Defendant</b>	<b>Shares</b>	<b>Price</b>	<b>Proceeds</b>
8/7/2006	COLE ROBERT K	100000	\$46.60	\$4,660,000
9/15/2006	COLE ROBERT K	25000	\$41.43	\$1,035,750
10/6/2006	COLE ROBERT K	25000	\$40.32	\$1,008,000
1/22/2007	COLE ROBERT K	4792	\$30.30	\$145,197
7/18/2006	DODGE PATTI M	13889	\$46.00	\$638,894
8/15/2006	GOTSCHALL EDWARD F	100000	\$41.69	\$4,169,000
9/1/2006	GOTSCHALL EDWARD F	20000	\$37.97	\$759,400
9/5/2006	GOTSCHALL EDWARD F	80000	\$38.36	\$3,068,800
10/2/2006	GOTSCHALL EDWARD F	100000	\$38.98	\$3,897,999
11/20/2006	GOTSCHALL EDWARD F	65300	\$36.99	\$2,415,447
11/21/2006	GOTSCHALL EDWARD F	136145	\$36.62	\$4,985,629
1/22/2007	GOTSCHALL EDWARD F	4020	\$30.30	\$121,806
6/30/2006	MORRICE BRAD A	6776	\$45.75	\$310,002
1/22/2007	MORRICE BRAD A	4020	\$30.30	\$121,806
2/2/2007	MORRICE BRAD A	5898	\$30.25	\$178,414
	<b>Totals</b>	<b>690840</b>		<b>\$27,516,144</b>

1 **FALSE FINANCIAL STATEMENTS**

2 35. In order to overstate its earnings during the Class Period, New Century  
3 Financial violated GAAP and SEC rules, including the implementation and  
4 application of sound accounting practices, including Statement of Financial  
5 Accounting Standards (“SFAS”) No. 140 - Accounting for Transfers and Servicing of  
6 Financial Assets and Extinguishment of Liabilities. Amongst other things, the  
7 Company did not include the expected discount upon the disposition of loans, when  
8 estimating its allowance for loan repurchase losses. Additionally, the Company failed  
9 to attend to the proper training of its staff and the implementation of adequate and  
10 reliable internal controls over the Company’s financial reporting.

11 36. The Company’s financial statements issued during the Class Period and  
12 the statements about them were false and misleading, as such financial information  
13 was not prepared in conformity with GAAP or SEC guidelines, nor was the financial  
14 information a fair presentation of the Company’s operations due to the Company’s  
15 improper accounting in violation of GAAP and SEC rules.

16 37. GAAP are those principles recognized by the accounting profession as  
17 the conventions, rules and procedures necessary to define accepted accounting  
18 practice at a particular time. Regulation S-X (17 C.F.R. §210.4-01(a) (1)) states that  
19 financial statements filed with the SEC which are not prepared in compliance with  
20 GAAP are presumed to be misleading and inaccurate. Regulation S-X requires that  
21 interim financial statements must also comply with GAAP, with the exception that  
22 interim financial statements need not include disclosure which would be duplicative of  
23 disclosures accompanying annual financial statements. 17 C.F.R. §210.10-01(a).

24 38. Due to these accounting improprieties, the Company presented its  
25 financial results and statements in a manner which violated GAAP, including the  
26 following fundamental accounting principles:  
27  
28

1 (a) The principle that interim financial reporting should be based upon  
2 the same accounting principles and practices used to prepare annual financial  
3 statements was violated (APB No. 28, ¶10);

4 (b) The principle that financial reporting should provide information  
5 that is useful to present and potential investors and creditors and other users in making  
6 rational investment, credit and similar decisions was violated (FASB Statement of  
7 Concepts No. 1, ¶34);

8 (c) The principle that financial reporting should provide information  
9 about the economic resources of an enterprise, the claims to those resources, and  
10 effects of transactions, events and circumstances that change resources and claims to  
11 those resources was violated (FASB Statement of Concepts No. 1, ¶40);

12 (d) The principle that financial reporting should provide information  
13 about how management of an enterprise has discharged its stewardship responsibility  
14 to owners (stockholders) for the use of enterprise resources entrusted to it was  
15 violated. To the extent that management offers securities of the enterprise to the  
16 public, it voluntarily accepts wider responsibilities for accountability to prospective  
17 investors and to the public in general (FASB Statement of Concepts No. 1, ¶50);

18 (e) The principle that financial reporting should provide information  
19 about an enterprise's financial performance during a period was violated. Investors  
20 and creditors often use information about the past to help in assessing the prospects of  
21 an enterprise. Thus, although investment and credit decisions reflect investors'  
22 expectations about future enterprise performance, those expectations are commonly  
23 based at least partly on evaluations of past enterprise performance (FASB Statement  
24 of Concepts No. 1, ¶42);

25 (f) The principle that financial reporting should be reliable in that it  
26 represents what it purports to represent was violated. That information should be  
27 reliable as well as relevant is a notion that is central to accounting (FASB Statement  
28 of Concepts No. 2, ¶¶58-59);

1 (g) The principle of completeness, which means that nothing is left out  
2 of the information that may be necessary to insure that it validly represents underlying  
3 events and conditions was violated (FASB Statement of Concepts No. 2, ¶79); and

4 (h) The principle that conservatism be used as a prudent reaction to  
5 uncertainty to try to ensure that uncertainties and risks inherent in business situations  
6 are adequately considered was violated. The best way to avoid injury to investors is to  
7 try to ensure that what is reported represents what it purports to represent (FASB  
8 Statement of Concepts No. 2, ¶¶95, 97).

9 39. Further, the undisclosed adverse information concealed by defendants  
10 during the Class Period is the type of information which, because of SEC regulations,  
11 regulations of the national stock exchanges and customary business practice, is  
12 expected by investors and securities analysts to be disclosed and is known by  
13 corporate officials and their legal and financial advisors to be the type of information  
14 which is expected to be and must be disclosed.

15 **APPLICABILITY OF PRESUMPTION OF RELIANCE**

16 **FRAUD-ON-THE-MARKET DOCTRINE**

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

19 (a) New Century Financial met the requirements for listing, and was  
20 listed and actively traded on the NYSE, a highly efficient and automated market;

21 (b) As a regulated issuer, defendants filed periodic public reports with  
22 the SEC; and

23 (c) Defendants regularly communicated with public investors via  
24 established market communication mechanisms, including through regular  
25 disseminations of press releases on the national circuits of major newswire services  
26 and through other wide-ranging public disclosures, such as communications with the  
27 financial press and other similar reporting services.

28



1 benefits to the parties and the Court. New Century Financial had more than 50 million  
2 shares of stock outstanding, owned by hundreds if not thousands of persons.

3 45. There is a well-defined community of interest in the questions of law and  
4 fact involved in this case. Questions of law and fact common to the members of the  
5 Class which predominate over questions which may affect individual Class members  
6 include:

- 7 (a) Whether the Exchange Act was violated by defendants;
- 8 (b) Whether defendants omitted and/or misrepresented material facts;
- 9 (c) Whether Defendants' statements omitted material facts necessary  
10 to make the statements made, in light of the circumstances under which they were  
11 made, not misleading;
- 12 (d) Whether defendants knew or deliberately disregarded that their  
13 statements were false and misleading;
- 14 (e) Whether the prices of New Century Financial's publicly traded  
15 securities were artificially inflated; and
- 16 (f) The extent of damage sustained by Class members and the  
17 appropriate measure of damages.

18 46. Plaintiff's claims are typical of those of the Class because plaintiff and  
19 the Class sustained damages from Defendants' wrongful conduct.

20 47. Plaintiff will adequately protect the interests of the Class and has retained  
21 counsel who are experienced in class action securities litigation. Plaintiff has no  
22 interests which conflict with those of the Class.

23 48. A class action is superior to other available methods for the fair and  
24 efficient adjudication of this controversy.

## 25 **COUNT I**

### 26 **For Violation of §10(b) of the 1934 Act and Rule 10b-5** 27 **Against All Defendants**

28 49. Plaintiff incorporates ¶¶1-48 by reference.





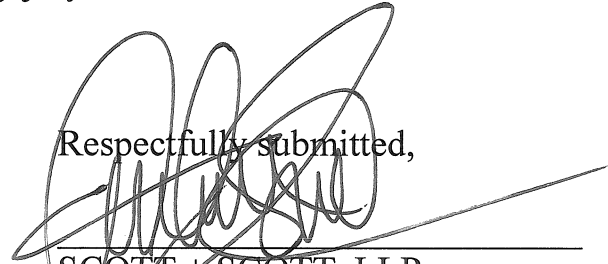
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**JURY DEMAND**

Plaintiff hereby demands a trial by jury on all causes of action so triable.

DATED: February 9, 2007

Respectfully submitted,



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