

NEW CENTURY FINANCIAL CORP
Form DEF 14A
April 11, 2005
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

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New Century Financial Corporation

(Name of Registrant as Specified in Its Charter)

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18400 Von Karman, Suite 1000

Irvine, California 92612

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Dear New Century Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of New Century Financial Corporation on May 17, 2005 at our headquarters located at 18400 Von Karman, Suite 1000, Irvine, California. The Annual Meeting will begin at 9:00 a.m. Pacific time.

At the Annual Meeting, you will be asked to consider and vote on the following:

1. The re-election of Harold A. Black, Brad A. Morrice and Michael M. Sachs, and the election of Marilyn A. Alexander, as Class II directors for three-year terms ending in 2008;
2. The approval of an amendment to the New Century Financial Corporation 2004 Performance Incentive Plan that would increase the number of shares issuable under the plan by 4,000,000 shares and amend certain other share limits under the plan;
3. The ratification of KPMG LLP's appointment as our Independent Registered Public Accounting Firm for 2005; and
4. Any other business that is properly brought before the Annual Meeting.

Your vote is very important. Whether or not you plan to attend the Annual Meeting, we encourage you to read this proxy statement and submit your proxy or voting instructions as soon as possible. You need not be present at the Annual Meeting in order to vote. You may vote electronically through the Internet or by telephone. The instructions on your proxy card describe how to use these convenient services. If you prefer, you can vote by mail by signing and dating the enclosed proxy card and returning it in the enclosed postage-paid envelope. If you later decide to attend the Annual Meeting, you may withdraw your proxy and vote personally on each matter. Therefore, we recommend that you vote your shares by Internet, telephone or mail without delay.

We are mailing this proxy statement and accompanying proxy card to you on or about April 15, 2005, as part of our board of directors solicitation of proxies to be voted at the Annual Meeting, and at any adjournments of that meeting. We are also enclosing a copy of our 2004 Annual Report to Stockholders, which includes our financial statements for 2004.

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By Order of the Board of Directors,

Stergios Theologides

Secretary

This notice of Annual Meeting of Stockholders and proxy statement and form of proxy are being distributed on or about April 15, 2005.

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EXPLANATORY NOTE

On April 5, 2004, the board of directors of New Century TRS Holdings, Inc., or New Century TRS, formerly known as New Century Financial Corporation, approved a plan to change its capital structure to enable it to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes. On April 19, 2004, the board of directors of New Century TRS approved certain legal and financial matters related to the proposed REIT conversion.

On April 12, 2004, New Century TRS formed New Century Financial Corporation, or New Century, a Maryland corporation formerly known as New Century REIT, Inc. On September 15, 2004, the stockholders of New Century TRS approved and adopted the merger agreement which implemented the restructuring of New Century TRS in order for it to qualify as a REIT.

Pursuant to the merger agreement, (i) a wholly-owned subsidiary of New Century merged with and into New Century TRS, with New Century TRS as the surviving corporation, (ii) each outstanding share of common stock of New Century TRS was converted into the right to receive one share of New Century common stock, (iii) New Century TRS changed its name to New Century TRS Holdings, Inc. and became a wholly-owned subsidiary of New Century, (iv) New Century changed its name to New Century Financial Corporation and became the publicly-traded New York Stock Exchange, or NYSE, -listed parent company that succeeded to and continued to operate substantially all of the existing businesses of New Century TRS. The merger was consummated and became effective on October 1, 2004.

The board of directors, committees of the board of directors and management of New Century immediately after the consummation of the merger had the same membership as the board of directors, committees of the board of directors and management of New Century TRS immediately prior to the consummation of the merger.

In this proxy statement, unless the context suggests otherwise, for time periods before October 1, 2004, the terms the company, our company, we, our and us refer to New Century TRS, and for time periods on and after October 1, 2004, the terms the company, our company, we, us refer to New Century.

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QUESTIONS AND ANSWERS

ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

Q: Why am I receiving these materials?

A: We are providing these proxy materials to you in connection with the Annual Meeting, which will take place on May 17, 2005. As a holder of shares of our common stock as of March 15, 2005, you are invited to attend the Annual Meeting and are entitled to and requested to vote on the items of business described in this proxy statement.

Q: What information is contained in this proxy statement?

A: The information in this proxy statement relates to the Annual Meeting and to proposals by our board of directors to be voted on by the holders of our common stock at the Annual Meeting. The proxy materials also contain certain information concerning our board of directors and the committees of our board of directors, the compensation paid by us to our directors and the five most highly paid executive officers for 2004, and certain other information that we are required to include in this proxy statement.

Q: What am I voting on?

A: At the Annual Meeting, you will be asked to consider and vote on the following:

The re-election of Harold A. Black, Brad A. Morrice and Michael M. Sachs, and the election of Marilyn A. Alexander, as Class II directors for a three-year term ending in 2008;

The approval of an amendment to our 2004 Performance Incentive Plan that would increase the number of shares issuable under the plan by 4,000,000 shares and amend certain other share limits under the plan;

The ratification of KPMG LLP's appointment as our Independent Registered Public Accounting Firm for 2005; and

Any other business that is properly brought before the Annual Meeting.

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Q: How does the board of directors recommend I vote on the proposals?

A: *Our board of directors unanimously recommends that you vote:*

FOR the re-election of Harold A. Black, Brad A. Morrice and Michael M. Sachs, and the election of Marilyn A. Alexander, as Class II directors;

FOR the approval of the amendment to our 2004 Performance Incentive Plan; and

FOR ratification of KPMG LLP's appointment as our Independent Registered Public Accounting Firm for 2005.

Q: Who is entitled to vote at the Annual Meeting?

A: *Holders of shares of our common stock as of the close of business on the record date, March 15, 2005, are entitled to vote.*

Q: What shares can I vote?

A: *Each share of our common stock issued and outstanding as of the close of business on March 15, 2005, is entitled to be voted upon at the Annual Meeting. You may vote all shares of our common stock owned by you as of that date, including (1) shares held directly in your name as the owner of record, and (2) shares held for you as the beneficial owner through a broker or other nominee.*

Q: How do I vote?

A: *Whether you hold shares directly as the owner of record or beneficially through a broker or other nominee, you may direct how your shares are voted.*

If you hold shares of our common stock as a registered stockholder, you can vote in person at the Annual Meeting or you can vote your shares in any of the following manners:

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by mail, by marking, signing and dating each proxy card you receive and returning it in the prepaid envelope prior to the Annual Meeting. If you vote by mail and return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted FOR each of the four director nominees and FOR each of the other two proposals;

by telephone, by dialing the toll-free telephone number 1-866-540-5760, within the United States or Canada, and following the instructions. Stockholders voting by telephone need not return the enclosed proxy card; or

through the Internet, by accessing the World Wide Web site at <http://www.proxyvoting.com/new>. Stockholders voting via the Internet need not return the enclosed proxy card.

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If your shares are held beneficially through a broker or other nominee, such as a bank, you will receive voting instructions from your broker, nominee or bank describing the method for voting your shares. Shares held beneficially may be voted in person at the Annual Meeting only if you obtain a legal proxy from the broker, nominee or bank that holds your shares giving you the right to vote the shares.

Q: Can I change my vote after I have submitted my proxy by mail, telephone or Internet?

A: Yes. You may change your vote at any time before your proxy is voted at the Annual Meeting. You can do this by giving written notice to our corporate secretary, by properly submitting another proxy by mail, telephone or Internet with a later date, or by attending the Annual Meeting and voting in person.

Q: How will voting on any other business be conducted?

A: Other than the three proposals described in this proxy statement, we know of no other business to be considered at the Annual Meeting. However, if any other matters are properly presented at the Annual Meeting, your duly submitted proxy by mail, telephone or Internet authorizes Robert K. Cole, our Chairman and Chief Executive Officer, and Brad A. Morrice, our Vice Chairman, President and Chief Operating Officer, to vote on those matters according to their best judgment.

Q: Who will count the votes?

A: Representatives of Mellon Investor Services LLC, the independent Inspector of Elections, will count the votes.

Q: What does it mean if I receive more than one proxy card?

A: It probably means your shares are registered differently and are in more than one account. Please submit a proxy by mail, telephone or Internet for each of your registered accounts to ensure that all your shares are voted.

Q: How many shares can vote?

A: As of the record date, there were 55,262,258 shares of our common stock entitled to vote. Holders of our common stock are entitled to one vote per share for each proposal before the Annual Meeting.

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Q: How many votes are necessary to take action at the meeting?

A: To transact business at the Annual Meeting, a quorum of the voting power entitled to vote must be present, either in person or represented by proxy. Under our amended and restated bylaws, a quorum requires that a majority of all of the votes entitled to be cast at the meeting as of the record date be present in person or represented by proxy at the Annual Meeting. Because there were 55,262,258 shares entitled to vote as of the record date, we will need at least 27,631,130 shares present, in person or represented by proxy, at the Annual Meeting to establish a quorum. Both abstentions and broker non-votes are considered present for purposes of determining the presence of a quorum.

Provided that a quorum exists, the four nominees for director who receive the most votes will be elected. For the other two proposals to be approved, they must receive the affirmative vote of the holders of a majority of the voting power, present at the Annual Meeting or represented by proxy, and entitled to vote. Finally, cumulative voting rights are not authorized and dissenters' rights are not applicable to the matters before the Annual Meeting.

Q: What happens if I abstain?

A: If you submit a properly executed proxy by mail, telephone or Internet and indicate your intention to ABSTAIN on one or more proposals, your shares will still be considered present for purposes of determining whether a quorum is present. Abstention on a particular matter is counted as shares entitled to vote with respect to that matter, and therefore have the same effect as a vote cast AGAINST that matter.

Q: How will broker non-votes be treated?

A: In some cases, brokers and nominees will return proxy cards indicating that they did not receive specific voting instructions from the beneficial owner and that they lack the discretionary power to vote the shares on behalf of the beneficial owner. These are called broker non-votes. Like abstentions, broker non-votes are considered present for purposes of establishing a quorum. Generally, broker non-votes are not treated as entitled to vote for purposes of determining whether the holders of a majority of the shares entitled to vote have voted in favor of the matter. Therefore, broker non-votes will be disregarded for purposes of determining the outcome of the vote on the proposal to ratify the engagement of our Independent Registered Public Accounting Firm and the proposal to approve the amendment to our 2004 Performance Incentive Plan.

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Q: What if I want to attend the Annual Meeting in person?

A: All stockholders as of the record date can attend the Annual Meeting, although seating is limited. If your shares are issued in your name and not held through a brokerage account and you wish to attend the Annual Meeting, please check the box on your proxy card and return it in the enclosed prepaid envelope prior to the Annual Meeting. If your shares are held through a broker and you would like to attend, please (1) write to Carrie Marrelli, our vice president of investor relations, at 18400 Von Karman, Suite 1000, Irvine, California 92612, or send her an e-mail at cmarrell@ncen.com, and (2) bring a copy of your brokerage account statement or an omnibus proxy (which you can get from your broker) to the Annual Meeting.

Q: What is the deadline to propose actions for consideration at the 2006 annual meeting of stockholders or to nominate individuals to serve as directors?

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

Stockholder proposals for inclusion in our proxy statement. If you intend to have a proposal considered for inclusion in our proxy materials for presentation at the 2006 annual meeting of stockholders, you must submit your proposal in writing to our corporate secretary at New Century Financial Corporation, 18400 Von Karman, Suite 1000, Irvine, California 92612. We must receive your proposal no later than December 16, 2005. If the date of the 2006 annual meeting of stockholders is changed by more than 30 days from the anniversary date of the 2005 annual meeting of stockholders, the deadline for receiving your proposal is a reasonable time before we begin to print and mail our proxy materials. For more information on how to include a proposal in the proxy statement for our 2006 annual meeting of stockholders, please see Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Other stockholder proposals. To present any other proposal at the 2006 annual meeting of stockholders, you must provide timely notice to our corporate secretary in accordance with our amended and restated bylaws. In general, our amended and restated bylaws require that the notice be received by our corporate secretary at our principal executive offices: (i) not earlier than the close of business on January 17, 2006 and (ii) not later than the close of business on February 16, 2006. If the date of the 2006 annual meeting of stockholders is moved more than 30 days before or 60 days after the anniversary of the 2005 annual meeting of stockholders, then notice of a proposal that is not intended to be included in our proxy statement under Rule 14a-8 must be received no earlier than the close of business 120 days prior to the meeting and no later than the close of business on the later of the following two dates: (i) 90 days prior to the meeting and (ii) 10 days after our public announcement of the meeting date.

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Nomination of Director Candidates. The policy of our governance and nominating committee is to consider candidates properly recommended by our stockholders. In evaluating any such candidates, our governance and nominating committee will consider the criteria set forth under Corporate Governance Director Nominations Qualification of Candidates and Board Independence on page 29 of this proxy statement. Any such recommendations should include the nominee's name and qualifications for membership on our board of directors and should be directed to our corporate secretary, New Century Financial Corporation, 18400 Von Karman, Suite 1000, Irvine, California 92612. In addition, our amended and restated bylaws permit our stockholders to nominate directors for election at our stockholder meetings. To nominate a director, you must give timely notice to our corporate secretary in accordance with our amended and restated bylaws, which require that the notice be received by our corporate secretary within the time periods described above under Other stockholder proposals. In the event that the number of directors to be elected to our board of directors at the 2006 annual meeting of stockholders is increased and we do not publicly announce the increased size of our board of directors at least 100 days prior to the first anniversary of the 2005 annual meeting of stockholders, the notice shall be considered timely if (i) it is delivered to the corporate secretary at our principal executive offices no later than the close of business 10 days following the date on which we first publicly announce the increase and (ii) the notice relates only to nominees to fill any new position on our board of directors that was created by the increase in the number of directors.

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

Q: How are proxies being solicited?

A: Our board of directors is soliciting your proxy for use at the Annual Meeting and any adjournment thereof by mailing this proxy statement and proxy card to our stockholders of record as of March 15, 2005. In addition, some of our directors, officers and regular employees may, without extra pay, make additional solicitations by telephone or in person. We will bear the cost of this proxy solicitation. We will also reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for expenses incurred in forwarding proxy materials to beneficial owners of shares of our common stock. Lastly, we might hire a proxy solicitation company to help solicit votes. We expect that the fee of the proxy solicitation company will not exceed \$5,000.

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Q: Whom should I call with questions?

A: If you have any questions about the proposals for the Annual Meeting, if you would like additional copies of this proxy statement, or our 2004 annual report on Form 10-K that is being mailed to you with this proxy statement, or if you would like a new proxy card, or if you have questions or need assistance with the completion of your proxy card, please contact us at:

New Century Financial Corporation

18400 Von Karman, Suite 1000

Irvine, California, 92612

Attention: Vice President of Investor Relations

(949) 224-5745

email: cmarrell@ncen.com

Free copies of this proxy statement and our 2004 annual report on Form 10-K are also available on the Investor Relations section of our Web site at <http://investorrelations.ncen.com/>.

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PROPOSALS YOU MAY VOTE ON

PROPOSAL 1

ELECTION OF DIRECTORS

Four directors will be elected to our board of directors at the Annual Meeting. Our board of directors is divided into three classes: Class I, Class II and Class III. Currently, there are ten directors three Class I directors, four Class II directors and three Class III directors. The term of office of the current Class II directors expires after the Annual Meeting. The term of the current Class III directors expires after the 2006 annual meeting of stockholders and the term of the current Class I directors expires after the 2007 annual meeting of stockholders. The term of the Class II directors to be elected at the Annual Meeting will expire after the 2008 annual meeting of stockholders.

Three of the nominees for election as Class II directors at the Annual Meeting, namely Harold A. Black, Brad A. Morrice and Michael M. Sachs, have previously served as directors of New Century. One of the nominees for election as Class II director, Marilyn A. Alexander, has not previously served as director of New Century. Ms. Alexander was approved by our governance and nominating committee, which is comprised solely of independent directors, for inclusion herein as a nominee to our board of directors after recommendation from Michael M. Sachs, independent director, William J. Popejoy, independent director and chairman of our governance and nominating committee and Fredric J. Forster, independent director. Ms. Alexander's nomination was ratified on March 10, 2005 by our board of directors.

Terrence P. Sandvik, who has served on our board of directors since September 2000 and previously from February 1999 to April 2000, is retiring from our board of directors.

Each nominee has consented to be named in this proxy statement and to serve as a director if elected.

NOMINEES FOR CLASS II DIRECTOR

MARILYN A. ALEXANDER
Age 53

Director

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Ms. Alexander has worked as a consultant focusing on strategy, diagnostics, and process redesign for senior executives of corporations and not-for-profit organizations since 2003. Previously, from May 2000 to November 2003, Ms. Alexander was Senior Vice President and Chief Financial Officer of the Disneyland Resort in California. From October 1992 to May 2000, Ms. Alexander held both marketing and financial executive positions at the Walt Disney World Resort in Florida. Prior to her time at Walt Disney, Ms. Alexander held executive positions with Marriott Corporation from July 1985 to

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September 1992. Ms. Alexander's last executive position with Marriott Corporation was as Vice President, Financial Planning and Analysis from September 1988 to September 1992. From August 1981 to July 1985, Ms. Alexander was a managing consultant for Cresap, a division of Towers Perrin. Since November 2004, Ms. Alexander has served on the board of trustees and audit committee of Equity Office Properties Trust, the nation's largest owner of office properties, based on market capitalization and square footage. Ms. Alexander has also served as a member of the board of governors and a member of the finance and audit committee of the board of trustees of Chapman University in Orange, California since 2002. Ms. Alexander is a founding board member and has served as the Chief Financial Officer and Chair of the Finance Committee of the Breast Health Awareness Foundation in Tustin, California since July 2004. Ms. Alexander received a bachelor's degree from Georgetown University and a Masters of Business Administration from the Wharton Graduate School of the University of Pennsylvania.

HAROLD A. BLACK, PH.D.

Age 59

Director

Director since 2004

Dr. Black was appointed to serve on our board of directors in June 2004. Dr. Black has served as the James F. Smith, Jr. Professor of Financial Institutions at the University of Tennessee, Knoxville since 1987. From 1987 to 1995, he was Head, Department of Finance, College of Business Administration of the University of Tennessee. Prior to joining the faculty at the University of Tennessee, Knoxville, Dr. Black served on the faculties of American University, Howard University, the University of North Carolina - Chapel Hill and the University of Florida. His government service includes being Deputy Director, Department of Economic Research and Analysis, Office of the Comptroller of the Currency from 1976 to 1978 and board member of the National Credit Union Administration from 1979 to 1981. Dr. Black served as a director from 1990 to 1994, and Chairman in 1992, of the Nashville Branch of the Federal Reserve Bank of Atlanta, as a public interest member of the Federal Deposit Insurance Corporation's Savings Association Insurance Fund Advisory Committee from 1994 to 1998 and as a director of H.F. Ahmanson & Co., the parent company of Home Savings of America prior to its merger with Washington Mutual Savings Bank, from 1995 to 1998. Dr. Black received his undergraduate degree from the University of Georgia and his M.A. and Ph.D. degrees from the Ohio State University.

BRAD A. MORRICE

Age 48

**Vice Chairman, President and
Chief Operating Officer**

Director since 1995

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

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MICHAEL M. SACHS

Age 63

Director

Director since 1995

Mr. Sachs has served on our board of directors since November 1995. Mr. Sachs has been Chairman of the board of directors and Chief Executive Officer of Westrec Financial, an operator of marinas and related businesses, since 1990. He has also served as Chairman of the board of directors and Chief Executive Officer of Pinpoint Systems, a manufacturer of marine electronic equipment, since December 1995.

Detailed information regarding each of the Class I and Class III directors is provided beginning on page 22.

At the Annual Meeting, you will be asked to elect one and re-elect three Class II directors for terms of three years or until their successors are elected. The four candidates receiving the highest number of votes will be elected. If you chose to vote by mail and you return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted **FOR** each of the four director nominees. If any nominee becomes unavailable for any reason, the persons named in the proxy card will vote **FOR** the candidate that our board of directors selects to replace the nominee.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU

VOTE FOR EACH OF THE FOUR NOMINEES.

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PROPOSAL 2

**APPROVAL OF AN AMENDMENT TO THE
NEW CENTURY FINANCIAL CORPORATION
2004 PERFORMANCE INCENTIVE PLAN**

At the Annual Meeting, stockholders will be asked to approve the following amendments to the New Century Financial Corporation 2004 Performance Incentive Plan (the 2004 Plan), which were adopted by our board of directors, subject to stockholder approval, on March 10, 2005:

Increase in Aggregate Share Limit. The proposed amendment would increase the number of shares of our common stock available for award grants under the 2004 Plan by an additional 4,000,000 shares.

Amendments to Sub-Limits. The 2004 Plan currently limits the number of shares of our common stock that may be delivered under the 2004 Plan pursuant to options qualified as incentive stock options to 450,000 shares and further limits the number of shares that may be delivered pursuant to certain full-value awards. The proposed amendment would increase the incentive stock option limit by an additional 1,550,000 shares so that the new incentive stock option limit for the 2004 Plan would be 2,000,000 shares. The sub-limit on full-value awards would be deleted in its entirety.

As of March 10, 2005, a total of 546,800 shares of our common stock were then subject to outstanding awards granted under the 2004 Plan, and an additional 1,115,171 shares of our common stock were then available for new award grants under the 2004 Plan. Our board of directors approved the additional share authority requested under the 2004 Plan based, in part, on a belief that the number of shares of our common stock currently available under the 2004 Plan does not give us sufficient authority and flexibility to adequately provide for future incentives. Our board of directors has determined that it is advisable to adopt the sub-limit amendments described above to create greater flexibility to structure future award grants in light of changing market trends in how employees are compensated. We will continue to have the authority to grant awards under the 2004 Plan, within the existing 2004 Plan share limits, if stockholders do not approve this 2004 Plan proposal.

Summary Description of the 2004 Plan

The principal terms of the 2004 Plan are summarized below. The following summary is qualified in its entirety by the full text of the 2004 Plan, which appears as [Annex A](#) to this proxy statement.

Purpose. The purpose of the 2004 Plan is to promote our success and the interests of our stockholders by providing an additional means for us to attract, motivate, retain and reward directors, officers, employees and other eligible persons through the grant of awards and incentives for high levels of individual performance and our improved financial performance. Equity-based awards are also intended to further align the

interests of award recipients and our stockholders.

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Administration. Our board of directors or one or more committees appointed by our board of directors administers the 2004 Plan. Our board of directors has delegated general administrative authority for the 2004 Plan to our compensation committee. A committee may delegate some or all of its authority with respect to the 2004 Plan to another committee of directors. The compensation committee has delegated certain limited authority to grant awards to employees under the 2004 Plan to our stock option committee. (The appropriate acting body, be it the board of directors or a committee within its delegated authority, is referred to in this proposal as the Administrator).

The Administrator has broad authority under the 2004 Plan with respect to award grants including, without limitation, the authority to:

- select participants and determine the type(s) of award(s) that they are to receive;
- determine the number of shares that are to be subject to awards and the terms and conditions of awards, including the price (if any) to be paid for the shares or the award;
- cancel, modify, or waive our rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding awards, subject to any required consents;
- accelerate or extend the vesting or exercisability or extend the term of any or all outstanding awards;
- subject to the other provisions of the 2004 Plan, make certain adjustments to an outstanding award and to authorize the conversion, succession or substitution of an award; and
- allow the purchase price of an award or shares of our common stock to be paid in the form of cash, check, or electronic funds transfer, by the delivery of already-owned shares of our common stock or by a reduction of the number of shares deliverable pursuant to the award, by services rendered by the recipient of the award, by notice in third party payment or cashless exercise on such terms as the Administrator may authorize, or any other form permitted by law.

No Repricing. In no case (except due to an adjustment to reflect a stock split or similar event or any repricing that may be approved by our stockholders) will any adjustment be made to a stock option or stock appreciation right award under the 2004 Plan (by amendment, cancellation and regrant, exchange or other means) that would constitute a repricing of the per share exercise or base price of the award.

Eligibility. Persons eligible to receive awards under the 2004 Plan include our officers or employees or any officers or employees of any of our subsidiaries or other affiliates in which we own a significant equity interest, our directors, and certain consultants and advisors to us or any of our subsidiaries or other affiliates in which we own a significant equity interest. Currently, approximately 5,300 officers and employees of New Century and our subsidiaries (including all of our named executive officers), and each of our 7 non-employee directors, are considered eligible under the 2004 Plan at the present time.

The following information may be relevant to your analysis of this proposal (information as of March 10, 2005):

Number of Shares Available for Issuance under the Plan	1,115,171
Total Number of Granted but Unexercised Options	4,585,508
Total Number of Shares of Outstanding Restricted Stock and Other Equity-Based Awards	487,480
Weighted Average Exercise Price of Granted but Unexercised Options	\$21.28
Weighted Average Term Remaining for Granted but Unexercised Options	7.04 years

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Authorized Shares; Limits on Awards. As of March 10, 2005, the maximum number of shares of our common stock that may be issued or transferred pursuant to awards under the 2004 Plan is 1,661,971. If stockholders approve this proposal, the number of shares available for award grant purposes under the 2004 Plan will be increased by an additional 4,000,000 shares. The limit will also automatically increase by (1) the number of any shares subject to stock options granted under the New Century Financial Corporation 1995 Stock Option Plan which expire, or for any reason are cancelled or terminated, after March 10, 2005 without being exercised, plus (2) the number of any shares of restricted stock granted under the 1995 Stock Option Plan that are unvested as of March 10, 2005 and are forfeited, terminated, cancelled or otherwise reacquired by us without having become vested. As of March 10, 2005, 4,244,664 stock options and 45,246 unvested restricted shares were subject to awards then outstanding under the 1995 Stock Option Plan.

The following other limits are also contained in the 2004 Plan:

The maximum number of shares of our common stock that may be delivered pursuant to options qualified as incentive stock options granted under the plan is 450,000 shares. This limit will increase to 2,000,000 shares if stockholders approve this proposal.

The maximum number of shares of our common stock subject to those options and stock appreciation rights that are granted during any calendar year to any individual under the plan is 750,000 shares.

The maximum amount of compensation to be paid to any one participant in any one year with respect to all Performance-Based Awards under Section 5.2 of the 2004 Plan payable only in cash and not related to shares of our common stock will not exceed \$10,000,000.

To the extent that an award is settled in cash or a form other than shares of our common stock, the shares of our common stock that would have been delivered had there been no such cash or other settlement will not be counted against the shares of our common stock available for issuance under the 2004 Plan. In the event that shares of our common stock are delivered in respect of a dividend equivalent, stock appreciation right, or other award, only the actual number of shares of our common stock delivered with respect to the award will be counted against the share limits of the 2004 Plan. Shares of our common stock that are subject to or underlie awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under the 2004 Plan will again be available for subsequent awards under the 2004 Plan. Shares of our common stock that are exchanged by a participant or withheld by us as full or partial payment in connection with any award under the 2004 Plan or the 1995 Stock Option Plan, as well as any shares of our common stock exchanged by a participant or withheld by us to satisfy the tax withholding obligations related to any award under the 2004 Plan or the 1995 Stock Option Plan, will be available for subsequent awards under the 2004 Plan. In addition, the 2004 Plan generally provides that shares of our common stock issued in connection with awards that are granted by or become our obligations through the assumption of awards (or in substitution for awards) in connection with an acquisition of another company will not count against the shares of our common stock available for issuance under the 2004 Plan.

Types of Awards. The 2004 Plan authorizes stock options, stock appreciation rights, restricted stock, stock bonuses and other forms of awards granted or denominated in our common stock or units of our common stock, as well as cash bonus awards pursuant to Section 5.2 of the 2004 Plan. The 2004 Plan retains flexibility to offer competitive incentives and to tailor benefits to specific needs and circumstances. Any award may be paid or settled in cash.

A stock option is the right to purchase shares of our common stock at a future date at a specified price per share, or the exercise price. The per share exercise price of each option will be determined by the Administrator at the time of grant of the award and may be less than the fair market value of a share of

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our common stock on the date of grant. The maximum term of an option is ten years from the date of grant. An option may either be an incentive stock option or a nonqualified stock option. Incentive stock option benefits are taxed differently from nonqualified stock options, as described under **Federal Income Tax Consequences of Awards Under the 2004 Plan** below. Incentive stock options are also subject to more restrictive terms and are limited in amount by the U.S. Internal Revenue Code and the 2004 Plan. Incentive stock options may only be granted to our employees or any employees of our subsidiaries.

A stock appreciation right is the right to receive payment of an amount equal to the excess of the fair market value of one share of our common stock on the date of exercise of the stock appreciation right over the base price of the stock appreciation right. The base price will be established by the Administrator at the time of grant of the stock appreciation right. Stock appreciation rights may be granted in connection with other awards or independently. The maximum term of a stock appreciation right is ten years from the date of grant.

The other types of awards that may be granted under the 2004 Plan include, without limitation, stock bonuses, restricted stock, performance stock, stock units, dividend equivalents, or similar rights to purchase or acquire shares of our common stock, and cash awards granted consistent with Section 5.2 of the 2004 Plan as described below.

Performance-Based Awards. The Administrator may grant awards that are intended to be performance-based awards within the meaning of Section 162(m) of the U.S. Internal Revenue Code (**Performance-Based Awards**). Performance-Based Awards are in addition to any of the other types of awards that may be granted under the 2004 Plan (including options and stock appreciation rights which may also qualify as performance-based awards for Section 162(m) purposes). Performance-Based Awards may be in the form of restricted stock, performance stock, stock units, other rights, or cash bonus opportunities.

The vesting or payment of Performance-Based Awards (other than options or stock appreciation rights) will depend on our absolute or relative performance on a consolidated, subsidiary, segment, division, or business unit basis. The Administrator will establish the criterion or criteria and target(s) on which performance will be measured. The Administrator must establish criteria and targets in advance of applicable deadlines under the U.S. Internal Revenue Code while it is substantially uncertain whether the performance targets will be attained. The criteria that the Administrator may use for this purpose will include one or more of the following: before-tax net income (after deducting benefits payable under employee incentive compensation plans and excluding any income or loss from discontinued operations), cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), corporate overhead costs, delinquency rates, earnings per share, economic profit, number of employees, gain on sale of loans, liquidity management, loan losses, loan production volume, loan quality, operating margin, origination expenses, origination revenues, residual performance, return on assets, return on capital invested, return on equity, return on sales/revenue, stock price, total stockholders' equity, total stockholder return, or any combination thereof. These terms are defined in more detail in the 2004 Plan. The performance measurement period with respect to an award may range from three months to ten years. Performance targets will be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting changes or other extraordinary events not foreseen at the time the targets were set unless the Administrator provides otherwise at the time of establishing the targets.

Performance-Based Awards may be paid in stock or in cash (in either case, subject to the limits described under the heading **Authorized Shares; Limits on Awards** above). Before any Performance-Based Award (other than an option or stock appreciation right) is paid, the Administrator must certify

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that the performance target or targets have been satisfied. The Administrator has discretion to determine the performance target(s) and any other restrictions or other limitations of Performance-Based Awards and may reserve discretion to reduce payments below maximum award limits.

Deferrals. The Administrator may provide for the deferred payment of awards, and may determine the other terms applicable to deferrals. The Administrator may provide that deferred settlements include the payment or crediting of interest or other earnings on the deferred amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in shares of our common stock.

Acceleration of Awards; Possible Early Termination of Awards. Generally, and subject to limited exceptions set forth in the 2004 Plan, if any person acquires more than 25% of our outstanding common stock or combined voting power, if certain changes in a majority of our board of directors occur over a period of not longer than two years, if our stockholders prior to a transaction do not continue to own more than 50% of our voting securities (or a successor or a parent) following a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving us or any of our subsidiaries, a sale or other disposition of all or substantially all of our assets or the acquisition of assets or stock of another entity by us or any of our subsidiaries, or if we are dissolved or liquidated, then awards then-outstanding under the 2004 Plan may become fully vested or paid, as applicable, and may terminate or be terminated in such circumstances. The Administrator also has the discretion to establish other change in control provisions with respect to awards granted under the 2004 Plan. For example, the Administrator could provide for the acceleration of vesting or payment of an award in connection with a change in control event that is not described above and provide that any such acceleration shall be automatic upon the occurrence of any such event.

Transfer Restrictions. Subject to certain exceptions contained in Section 5.7 of the 2004 Plan, awards under the 2004 Plan are not transferable by the recipient other than by will or the laws of descent and distribution and are generally exercisable, during the recipient's lifetime, only by the recipient. Any amounts payable or shares of our common stock issuable pursuant to an award will be paid only to the recipient or the recipient's beneficiary or representative. The Administrator has discretion, however, to establish written conditions and procedures for the transfer of awards to other persons or entities, provided that such transfers comply with applicable federal and state securities laws.

Adjustments. As is customary in incentive plans of this nature, each share limit and the number and kind of shares of our common stock available under the 2004 Plan and any outstanding awards, as well as the exercise or purchase prices of awards, and performance targets under certain types of performance-based awards, are subject to adjustment in the event of certain reorganizations, mergers, combinations, recapitalizations, stock splits, stock dividends, or other similar events that change the number or kind of shares outstanding, and extraordinary dividends or distributions of property to our stockholders.

No Limit on Other Authority. The 2004 Plan does not limit the authority of our board of directors or any of its committee to grant awards or authorize any other compensation, with or without reference to our common stock, under any other plan or authority.

Termination of or Changes to the 2004 Plan. Our board of directors may amend or terminate the 2004 Plan at any time and in any manner. Stockholder approval of an amendment will be required only to the extent then required by applicable law or any applicable listing agency or required under Sections 162, 422 or 424 of the U.S. Internal Revenue Code to preserve the intended tax consequences of the plan. For example, stockholder approval will be required for any amendment that proposes to increase the maximum number of shares that may be delivered with respect to awards granted under

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the 2004 Plan. (Adjustments as a result of stock splits or similar events will not, however, be considered an amendment requiring stockholder approval.) Unless terminated earlier by our board of directors, the authority to grant new awards under the 2004 Plan will terminate on March 25, 2009. Outstanding awards, as well as the Administrator's authority with respect thereto, generally will continue following the expiration or termination of the plan. Generally speaking, outstanding awards may be amended by the Administrator (except for a repricing), but the consent of the award holder is required if the amendment (or any plan amendment) materially and adversely affects the holder.

Federal Income Tax Consequences of Awards under the 2004 Plan

The U.S. federal income tax consequences of the 2004 Plan under current federal law, which is subject to change, are summarized in the following discussion of the general tax principles applicable to the 2004 Plan. This summary is not intended to be exhaustive and, among other considerations, does not describe state, local, or international tax consequences.

With respect to nonqualified stock options, we are generally entitled to deduct and the participant recognizes taxable income in an amount equal to the difference between the option exercise price and the fair market value of the shares at the time of exercise. With respect to incentive stock options, we are generally not entitled to a deduction nor does the participant recognize income at the time of exercise, although the participant may be subject to the U.S. federal alternative minimum tax.

The current federal income tax consequences of other awards authorized under the 2004 Plan generally follow certain basic patterns: nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value over the price paid (if any) only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); bonuses, stock appreciation rights, cash and stock-based performance awards, dividend equivalents, stock units, and other types of awards are generally subject to tax at the time of payment; and compensation otherwise effectively deferred is taxed when paid. In each of the foregoing cases, we will generally have a corresponding deduction at the time the participant recognizes income.

If an award is accelerated under the 2004 Plan in connection with a change in control (as this term is used under the U.S. Internal Revenue Code), we may not be permitted to deduct the portion of the compensation attributable to the acceleration (parachute payments) if it exceeds certain threshold limits under the U.S. Internal Revenue Code (and certain related excise taxes may be triggered). Furthermore, the aggregate compensation in excess of \$1,000,000 attributable to awards that are not performance-based within the meaning of Section 162(m) of the U.S. Internal Revenue Code may not be permitted to be deducted by us in certain circumstances.

Specific Benefits under the 2004 Plan

We have not approved any awards that are conditioned upon stockholder approval of this 2004 Plan proposal. The number, amount and type of awards to be received by or allocated to eligible persons in the future under the 2004 Plan cannot be determined at this time. If the share increase reflected in this 2004 Plan proposal had been in effect in fiscal 2004, we expect that our award grants for fiscal 2004 would not have been substantially different from those actually made in that year under the 2004 Plan.

For information regarding stock-based awards granted to our named executive officers during fiscal 2004, see the material under the heading "Executive Compensation - Option Grants in 2004" below. For information regarding past award grants under the 2004 Plan, see the "Aggregate Past Grants under the 2004 Plan" table below.

The closing market price for a share of our common stock as of March 15, 2005 was \$46.26 per share.

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AGGREGATE PAST GRANTS UNDER THE 2004 PLAN

As of March 15, 2005, awards covering 546,800 shares of our common stock had been granted under the 2004 Plan. The following table shows information regarding the distribution of those awards among the persons and groups identified below, option exercises and restricted stock vesting prior to and option and unvested restricted stock holdings as of that date.

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