

NEW CENTURY FINANCIAL CORP
Form DEF 14A
April 10, 2001

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

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- // Preliminary Proxy Statement
- // Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- /x/ Definitive Proxy Statement
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New Century Financial Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- (1) Amount Previously Paid:

- (2) Form, Schedule or Registration Statement No.:

- (3) Filing Party:

- (4) Date Filed:

New Century Financial Corporation

18400 Von Karman, Suite 1000

Irvine, California 92612

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 15, 2001

New Century Financial Corporation, a Delaware corporation (the "Company"), will hold its Annual Meeting of Stockholders on May 15, 2001 at 9:00 a.m. at the Company's headquarters located at 18400 Von Karman, Suite 1000, Irvine, California, to consider and vote on:

1. Re-election of three directors for three-year terms ending in 2004;
2. Approval of KPMG LLP as the Company's independent auditors for 2001;
3. Approval of an amendment to the Company's 1995 Stock Option Plan to allow for automatic annual option grants to non-employee directors; and
4. Any other business properly before the meeting.

The Board of Directors has fixed March 23, 2001 as the record date for the Annual Meeting of Stockholders, and only the holders of record of Common Stock, Series 1998A Convertible Preferred Stock and Series 1999A Convertible Preferred Stock at the close of business on that date are entitled to receive notice of and vote at the meeting.

Please sign the enclosed proxy card and return it without delay in the enclosed postage-paid envelope. If you attend the meeting, you may withdraw your proxy and vote personally on each matter.

By Order of the Board of Directors

Stergios Theologides
Secretary

Irvine, California
April 9, 2001

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NEW CENTURY FINANCIAL CORPORATION

PROXY STATEMENT

We are sending this Proxy Statement to you, the stockholders of New Century Financial Corporation (the "Company"), as part of the Board of Directors' solicitation of proxies to be voted at the Company's Annual Meeting of Stockholders at 9:00 a.m. on May 15, 2001, and at any adjournments of the meeting. The Annual Meeting will take place at the Company's headquarters located at 18400 Von Karman, Suite 1000, Irvine, California 92612.

We are mailing this Proxy Statement and proxy card on or about April 9, 2001. We are also enclosing a copy of our 2000 Annual Report to Stockholders, which includes the Company's 2000 financial statements. The Annual Report is not, however, part of the proxy materials.

QUESTIONS AND ANSWERS

Q: **What am I voting on?**
A: (1) Re-election of three directors (Fredric J. Forster, Edward F. Gotschall and Richard A. Zona);
(2) Approval of KPMG LLP as the Company's independent auditors for 2001; and
(3) Approval of an amendment to the Company's 1995 Stock Option Plan to allow for automatic annual option grants to non-employee directors (see page 7 for details).

Q: **How does the Board recommend I vote on the proposals?**
A: The Board recommends you vote FOR each of the nominees and FOR each of the other two proposals.

Q: **Who is entitled to vote at the meeting?**
A: Stockholders of record as of the close of business on March 23, 2001 (the "Record Date") are entitled to vote.

Q: **How do I vote?**
A: Sign and date each proxy card you receive and return it in the prepaid envelope. If 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 three director nominees and FOR each of the other two proposals. You have the right to revoke your proxy at any time before your shares are actually voted at the Annual Meeting by:
(1) notifying the Company's Corporate Secretary in writing;
(2) signing and returning a later-dated proxy card; or
(3) voting in person at the Annual Meeting.

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 meeting, your signed proxy card authorizes Robert K. Cole, the Company's Chairman and Chief Executive Officer, and Brad A. Morrice, the Company's Vice Chairman, President and Chief Operating Officer, to vote on those matters according to their best judgment.

Q: **Who will count the vote?**
A: Representatives of U.S. Stock Transfer Corporation, 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. Sign and return all proxy cards to ensure that all your shares are voted.

Q: **How many shares can vote?**
A: As of the Record Date, 14,893,198 shares of Common Stock, 20,000 shares of Series 1998A Convertible Preferred Stock and 20,000 shares of Series 1999A Convertible Preferred Stock were issued and outstanding. Holders of Common Stock are entitled to one vote per share for each matter before the meeting. Holders of 1998A Convertible Preferred Stock and 1999A Convertible Preferred Stock are entitled to 136.24 and 69.98 votes per share, respectively, for each matter before the meeting. In other words, the 20,000 shares of 1998A Convertible Preferred Stock and 1999A Convertible Preferred Stock have the voting power of 2,724,800 and 1,399,600 shares of Common Stock, respectively. Therefore, there were a total of 19,017,598 eligible votes as of the Record Date.

Q: **What constitutes a "quorum"?**
A: A quorum is a majority of the voting power of the shares entitled to vote at the meeting. Since there were 19,017,598 eligible votes as of the Record Date, we will need at least 9,508,800 votes present in person or by proxy at the Annual Meeting for a quorum to exist.

Q: **What happens if I abstain?**
A: If you submit a properly signed proxy card, but you abstain on one or more proposals, you will still be considered present for purposes of calculating a quorum. However, your abstention will not count "for" or "against" any matter.

Q: **How will "broker non-votes" be treated?**
A: "Broker non-votes" are shares held by brokers or nominees for which the broker or nominee (1) lacks discretionary power to vote and (2) never received specific voting instructions from the beneficial owner of the shares. Broker non-votes are counted for

purposes of calculating a quorum. However, when the broker or nominee notes on the proxy card that it lacks discretionary authority to vote shares on a particular matter, those shares will not count "for" or "against" that matter.

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Q: Who can attend the Annual Meeting?

A: All stockholders as of March 23, 2001 can attend the Annual Meeting, although seating is limited. If you plan to attend, please check the box on your proxy card. If your shares are held through a broker and you would like to attend, please either (1) write Carrie Marrelli, our Vice President of Investor Relations, at 18400 Von Karman, Suite 1000, Irvine, California 92612 or cmarrell@ncen.com or (2) bring to the meeting a copy of your brokerage account statement or an omnibus proxy (which you can get from your broker).

Q: When are Stockholder Proposals Due for the 2002 Annual Meeting?

A: If you are submitting a proposal to be included in next year's proxy statement pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, we must receive the proposal by December 10, 2001. If you are submitting a proposal outside of Rule 14a-8, we must receive it not less than 60 nor more than 90 days before the 2002 Annual Meeting in order for the proposal to be brought before the meeting.

Q: How will the Company solicit proxies for the Annual Meeting?

A: We are soliciting proxies by mailing this Proxy Statement and proxy card to the stockholders. In addition to solicitations by mail, some of the Company's directors, officers and regular employees may, without extra pay, make additional solicitations by telephone or in person. The Company will pay the solicitation costs, and will reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses in forwarding proxy materials to beneficial owners. The Company may also engage a proxy solicitation company in connection with the Annual Meeting for a fee which is not expected to exceed \$2,500 plus out-of-pocket expenses.

Q: How do I obtain a copy of the Annual Report on Form 10-K that the Company filed with the Securities and Exchange Commission?

A: Our 10-K is actually part of the Annual Report that is being mailed to you with this Proxy Statement. If, for whatever reason, you need another copy, please write Carrie Marrelli, Vice President Investor Relations, at 18400 Von Karman, Suite 1000, Irvine, California 92612 or cmarrell@ncen.com.

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PROPOSALS YOU MAY VOTE ON

PROPOSAL 1

ELECTION OF DIRECTORS

At the Annual Meeting, you will be asked to elect three directors for terms of three years or until their successors are elected. Common stockholders are entitled to one vote per share for each of the three directors to be elected. Holders of the Company's Series 1998A and 1999A Convertible Preferred Stock are entitled to 136.24 and 69.98 votes per share, respectively, for each of the three directors to be elected. The three candidates receiving the highest number of votes will be elected.

The nominees for election are Fredric J. Forster, Edward F. Gotschall and Richard A. Zona. Each nominee is a member of the Company's Board of Directors. Messrs. Forster and Gotschall were elected to their present term of office by the Company's stockholders. Mr. Zona was appointed to the Board in June 2000. Each nominee has consented to be named in this Proxy Statement and to serve as a director if elected. (See page 14 for additional information about the nominees).

If any nominee becomes unavailable for any reason, the persons named in the proxy card will vote for the candidate the Board selects to replace the nominee.

**THE BOARD OF DIRECTORS RECOMMENDS THAT
YOU VOTE "FOR" THE THREE NOMINEES.**

PROPOSAL 2

APPROVAL OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors has appointed KPMG LLP as independent auditors of the Company for the fiscal year ending December 31, 2001, and seeks your approval of this decision. KPMG LLP has served as the Company's independent auditors for the past three years.

A KPMG representative will attend the Annual Meeting to answer appropriate questions and make a statement if he or she so desires.

Approval of this proposal requires the affirmative vote of the holders of a majority of the voting power present in person or by proxy and entitled to vote at the meeting. If the stockholders do not approve KPMG LLP as independent auditors, the Board will reconsider the selection of independent auditors.

**THE BOARD OF DIRECTORS RECOMMENDS THAT
YOU VOTE "FOR" APPROVAL OF THIS PROPOSAL.**

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PROPOSAL 3

**AMENDMENT TO ALLOW FOR AUTOMATIC ANNUAL OPTION GRANTS TO
NON-EMPLOYEE DIRECTORS UNDER THE STOCK OPTION PLAN**

The Company's 1995 Stock Option Plan (referred to as the "Stock Option Plan" or the "Plan") helps attract, motivate and retain officers and key employees through stock options and other incentive awards.

One element of the Plan is a program under which stock options are automatically granted to individuals who become members of the Company's Board and who are not employed by the Company or a subsidiary. These Board members are referred to as "non-employee directors." Currently, the Stock Option Plan provides that when an individual is first elected or appointed as a non-employee director, he or she will be granted a nonqualified stock option to purchase 15,000 shares of the Company's Common Stock.

On March 19, 2001, the Board of Directors adopted an amendment to the Stock Option Plan to provide for additional automatic stock option grants to non-employee directors. The stockholders must approve the amendment before it can take effect. The additional option grants to

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non-employee directors will be made from the Company's existing authorized shares under the Plan stockholders are not being asked to increase the Plan's existing share limits.

WHY DOES THE COMPANY WANT TO AMEND THE PLAN?

It is important that the Company be able to attract and retain qualified Board members. We believe that the proposed amendment to the Stock Option Plan will help the Company attract and retain qualified non-employee directors.

WHAT IS THE PROPOSED AMENDMENT?

The proposed amendment expands the non-employee director stock option grant program under the Plan. If stockholders approve the proposed amendment, non-employee directors will be eligible for the following automatic stock option grants under the Plan:

- (1) The current element of the non-employee director grant program will be retained. That is, when an individual is first elected or appointed as a non-employee director, he or she will be granted a nonqualified stock option to purchase 15,000 shares of Common Stock.
- (2) On the date of the Company's 2001 Annual Meeting, each non-employee director who continues on the Board after that meeting will be granted a nonqualified stock option to purchase 25,000 shares of Common Stock.
- (3) On the date of each of the Company's Annual Meetings of Stockholders commencing in 2002 and continuing for the term of the Plan, each non-employee director then continuing in office will automatically be granted a nonqualified stock option to purchase 10,000 shares of Common Stock. (A non-employee director will not be eligible for the 10,000-share stock option described in this paragraph if, during that same calendar year, he or she had previously been granted the 15,000-share option described in (1) above.)

The purchase price per share for each option granted under the non-employee director program will be the closing price of the Company's Common Stock as of the date of grant of the option. The shares subject to each option granted under the non-employee director program will vest in three equal annual

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installments. Such options will be granted for 10-year terms, but will terminate earlier if the director ceases to be a member of the Company's Board.

Each stock option granted under the non-employee director program will become fully vested if the Company's stockholders approve any one of the following events: (1) the Company's dissolution or liquidation, (2) certain mergers or consolidations of the Company, or (3) the sale of all or substantially all of the Company's assets.

The number of shares subject to each non-employee director option will be subject to customary adjustments in the event of stock splits and similar changes in the capitalization of the Company.

SPECIFIC BENEFITS

Assuming that the nominees identified in Proposal 1 are re-elected to the Board at the 2001 Annual Meeting, and assuming that the stockholders approve the proposed Plan amendment, the following options will be granted as of the date of the 2001 Annual Meeting:

NEW PLAN BENEFITS 1995 STOCK OPTION PLAN

Name of Director	Number of Shares Subject to the Option
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Fredric J. Forster	25,000
Michael M. Sachs	25,000
Terrence P. Sandvik	25,000
Richard A. Zona	25,000
Non-Employee Director Group	100,000

Such options will have a per share exercise price that is equal to the closing price of a share of Common Stock on the date of the Company's 2001 Annual Meeting and will otherwise be granted consistent with the terms and conditions summarized above.

The future number, amount and type of other options to be received by or allocated to non-employee directors under the Stock Option Plan, as amended by this proposal, cannot be determined at this time. As described in more detail above under "What is the proposed amendment?" each new non-employee director generally will be granted a nonqualified stock option to acquire 15,000 shares of Common Stock and each non-employee director continuing in office after an Annual Meeting of the Company's stockholders (commencing in 2002 and continuing for the term of the Plan) generally will be granted a nonqualified stock option to acquire an additional 10,000 shares of Common Stock.

The closing price of the Company's Common Stock on March 19, 2001 was \$10.50.

VOTE REQUIRED FOR APPROVAL

Approval of this proposal requires the affirmative vote of the holders of a majority of the voting power present in person or represented by proxy and entitled to vote at the meeting. All directors are eligible to receive awards under the Plan. Non-employee directors are eligible for the automatic option grants described above and therefore have an interest in the proposed Plan amendment.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" APPROVAL OF THIS PROPOSED AMENDMENT TO THE STOCK OPTION PLAN

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SUMMARY OF THE STOCK OPTION PLAN

In order to help you evaluate Proposal 3, below we have summarized the Stock Option Plan's key features. Because this is only a summary, it does not contain all the information that may be important to you in considering Proposal 3.

The full text of the Plan is available on the Securities and Exchange Commission's website at <http://www.sec.gov>. You may also receive a free copy of the Stock Option Plan by writing Carrie Marrelli, Vice President Investor Relations at 18400 Von Karman, Suite 1000, Irvine, California 92612 or cmarrell@ncen.com.

GENERAL

The Company adopted the Stock Option Plan in December 1995. Its purpose is to promote the Company's success by providing a means to attract, motivate and retain key employees, consultants, advisors and directors.

GRANT OF AWARDS UNDER THE PLAN

Under the Stock Option Plan, awards ("Awards") may consist of any combination of stock options (incentive or nonqualified), restricted stock, stock appreciation rights ("SARs") and performance share awards. The Company can grant Awards to officers, key employees and consultants of the Company. In addition, directors who are not employees or officers of the Company ("Non-Employee Directors") are eligible for automatic option grants under the Plan. Approximately 1,320 people are currently eligible to receive Awards under the Plan, including all executive officers and directors of the Company.

The Stock Option Plan currently authorizes 3,500,000 shares of the Company's Common Stock for issuance. No participant may receive more than 500,000 shares covered by options, SARs and performance share awards in a calendar year. Section 6.2 of the Plan describes the customary circumstances under which these limits and the other share limits under the Stock Option Plan may be adjusted (for example, in connection with stock splits, stock dividends, exchanges of shares and similar events affecting the Common Stock).

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As of March 31, 2001, 3,389,870 shares had been issued under the Plan, Awards covering an aggregate 1,975,279 shares were outstanding (of these, options to acquire 1,162,567 shares were vested), and 921,306 shares remained available for Award purposes.

NON-TRANSFERABILITY

Generally, Awards may not be sold, assigned, pledged, encumbered or otherwise transferred. In other words, during his or her lifetime, only the participant who was granted the Award may exercise it. However, the Compensation Committee may, for estate and/or tax planning purposes, allow a participant's relatives or related entities to exercise the participant's Awards.

ADMINISTRATION

Awards under the Stock Option Plan are recommended by management and approved by the Compensation Committee.

The Board of Directors appoints the Compensation Committee. The Compensation Committee has the authority to interpret the Stock Option Plan and any Award agreements, prescribe, amend and rescind

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rules and regulations relating to the Plan's administration, accelerate or extend the vesting or exercisability or extend the term of any or all outstanding Awards (within the maximum 10 year limit on the term of Awards), and make all other decisions necessary or desirable for the Plan's administration. The current members of the Compensation Committee are identified on page 17.

The Stock Option Plan does not limit the authority of the Board of Directors or the Compensation Committee to authorize other compensation under any other plan. Shareholder approval of the proposed Stock Option Plan amendment will not, however, constitute advance approval of any such other compensation.

STOCK OPTIONS

The Committee may grant two types of stock options under the Plan nonqualified stock options and incentive stock options (those intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code")). Incentive stock options may only be granted to employees of the Company.

The Compensation Committee determines the exercise price, vesting provisions, and terms of options. However, the exercise price of incentive stock options cannot be less than the fair market value of the Common Stock on the date of grant (110% if granted to an employee who owns 10% or more of the Common Stock).

NON-EMPLOYEE DIRECTOR PROGRAM

Currently, the Plan provides that each new non-employee director who is elected or appointed to the Board of Directors will be granted a nonqualified stock option to purchase 15,000 shares of Common Stock. The purchase price per share for each non-employee director option equals the fair market value of a share of Common Stock as of the grant date of the option. The shares subject to a non-employee director's option become exercisable in three equal annual installments. These options are granted for 10-year terms, but will terminate earlier if the director ceases to be a member of the Company's Board.

If stockholders approved the proposed Plan amendment, the non-employee director program will be amended as described above under "What is the proposed amendment?"

RESTRICTED STOCK AWARDS

Under the Plan, the Compensation Committee may also award restricted stock, establishing whatever restrictions on the stock it deems appropriate. However, the restrictions must not terminate earlier than six-months after the grant date.

Each restricted stock award agreement must specify the following:

- (1) the number of shares of Common Stock subject to the award,
- (2)

- the grant date,
- (3) the price, if any, to be paid for the restricted shares by the participant,
- (4) whether and to what extent the cash consideration paid for the shares must be returned upon a forfeiture of the restricted shares, and
- (5) the restrictions imposed on the shares.

Shares subject to restricted stock awards are nontransferable.

STOCK APPRECIATION RIGHTS

The Committee may grant SARs in two ways in connection with stock options or separately. SARs granted with stock options provide for payments to the holder based upon increases in the Common Stock price over the exercise price of the related option on the exercise date. The Compensation Committee may elect to pay SARs in cash, Common Stock or in a combination of cash and Common Stock.

PERFORMANCE SHARE AWARDS

The Compensation Committee may grant performance share awards based on whatever factors it deems appropriate. The Compensation Committee will specify the number of shares of Common Stock subject to the Award, the price, if any, to be paid for such shares by the participant and the conditions upon which the issuance to the participant will be based.

PERFORMANCE-BASED AWARDS

The Stock Option Plan also permits the Compensation Committee to grant other Awards ("Performance-Based Awards") which are intended to qualify as "performance-based compensation" under Section 162(m) of the Code. Options and SARs granted at fair market value are intended to qualify as Performance-Based Awards. In addition, other share-based awards may be granted under the Stock Option Plan that are intended to qualify as Performance-Based Awards. The Stock Option Plan also provides for grants of Performance-Based Awards that are not linked to or payable in the Company's stock, but are payable only in cash ("Cash-Based Awards").

Only the Company's executive officers may receive Performance-Based Awards. The maximum number of shares of Common Stock which may be delivered pursuant to all Awards that are granted as Performance-Based Awards to any participant in any calendar year may not exceed 500,000 shares (subject to adjustment as described above). The annual aggregate amount of compensation that may be paid to any participant in respect of Cash-Based Awards may not exceed \$1,000,000.

The performance goals and performance targets applicable to Performance-Based Awards will be determined by the Compensation Committee and may be based on one or more of the following criteria Cash Flow, Earnings Per Share, Gain on Sale of Loans (the gain recognized by the Company on loans sold through whole loan transactions or securitizations), Loan Production Volume (loans funded during a given period), Loan Quality (the percentage of the Company's loans in a given period that command a premium price), Return on Equity, and Total Stockholder Return (each as defined in Article VII of the Stock Option Plan). These goals will be applied over performance cycles specified by the Compensation Committee. Specific cycles and target levels of performance, as well as the Award levels, will be determined by the Compensation Committee not later than the applicable deadline under Section 162(m) of the Code and in any event at a time when achievement of such targets is substantially uncertain. Appropriate adjustments to goals and targets may be made by the Compensation Committee based upon objective criteria in the case of certain events that were not anticipated at the time goals were established. The Company believes that specific performance targets (when established) are likely to constitute confidential business information, the disclosure of which may adversely affect the Company or mislead the public.

The Compensation Committee must certify the achievement of the applicable performance goals and the actual amount payable to each participant under Performance-Based Awards prior to payment. The Compensation Committee may retain discretion to reduce, but not increase, the amount payable under a Performance-Based Award, notwithstanding the achievement of targeted performance goals. Performance-Based Awards may be fully accelerated or the Compensation Committee may provide for partial credit in the event of certain circumstances that the Compensation Committee may determine.

CONTINUATION OF EMPLOYMENT

The following table generally describes how different types of Awards under the Stock Option Plan are usually treated in the event the participant ceases to be an employee of the Company:

Type of Award	Event	Consequences
Options not yet exercisable	Termination of employment for any reason	Options lapse immediately
Options that are exercisable	Termination of employment for any reason other than retirement, total disability, death or discharge for cause	Options must be exercised within 30 days after such date
	Discharge for cause	Options lapse immediately
	Retirement, total disability, death	Options must be exercised within 3 months of termination date, or such shorter period provided in the applicable Award agreement
SARs granted with options	Termination of employment for any reason	Have the same termination provisions as the options to which they relate
SARs granted without options	Termination of employment for any reason	The SARs will be governed by the applicable Award agreement
Restricted Stock	Termination of employment for any reason	Unvested shares will be forfeited according to the terms of the applicable Award agreement
Performance Share Award	Termination of employment for any reason	Shares of Common Stock subject to the award will be forfeited according to the terms of the applicable Award agreement to the extent the shares have not been issued or become issuable on the date of termination

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ACCELERATION OF AWARDS

Unless the Board decides beforehand that there will be either no acceleration or limited acceleration of Awards, if the Company's stockholders approve any one of the following events, each option and related SAR will become immediately exercisable, restricted stock will immediately vest and the number of shares or an amount of cash covered by each performance share award will be issued or paid to the participant: (1) the Company's dissolution or liquidation, (2) certain mergers or consolidations of the Company, and (3) the sale of all or substantially all of the Company's assets.

TERMINATION OF OR CHANGES TO THE STOCK OPTION PLAN

The authority to grant new Awards under the Stock Option Plan will terminate in December 2005, unless the Board terminates the Plan prior to that time. The Plan's termination typically will not affect rights of participants that accrued prior to the termination.

The Board of Directors and the Compensation Committee generally may amend the Stock Option Plan and outstanding Awards. Generally, the Stock Option Plan may not be amended without stockholder approval to (1) increase the maximum number of shares which may be delivered pursuant to Awards, (2) materially increase the benefits accruing to participants thereunder, or (3) materially change the requirements as to the eligibility to participate in the Plan.

FEDERAL INCOME TAX CONSEQUENCES

With respect to nonqualified stock options, the Company is generally entitled to deduct 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, the Company is generally not entitled to a similar deduction either upon grant of the option or at the time the option is exercised. The current federal income tax consequences of other Awards authorized under the Stock Option Plan generally follow certain basic patterns: SARs are taxed and deductible when paid in an amount equal to the value of the payment; nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value of the stock over the purchase price only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); performance share awards generally are subject to tax at the time of payment; unconditional stock bonuses are generally subject to tax measured by the value of the payment received; and Cash-Based Awards generally are subject to tax at the time of payment; in each of the foregoing cases, the Company will generally have a corresponding deduction at the time the participant recognizes income. If an Award is accelerated under the Stock Option Plan, the Company may not be permitted to deduct the portion of the compensation attributable to the acceleration. Furthermore, if the compensation attributable to Awards is not "performance-based" within the meaning of Section 162(m) of the Code, the Company may not be permitted to deduct such compensation in certain circumstances.

The above tax summary is based upon federal income tax laws in effect on March 15, 2001.

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BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

The Company's Bylaws provide that the Board of Directors shall initially consist of nine members and thereafter, that the number of directors be fixed or altered exclusively by an affirmative vote of two-thirds of all of the directors. Currently, the Board consists of seven directors.

The Board of Directors is divided into three classes: Class I, Class II and Class III. At present, three directors are Class I directors, three directors are Class II directors and one director is a Class III director. The current term of office of directors in Class I expires after the 2001 Annual Meeting. The current terms of the Class II and Class III directors expire in 2002 and 2003, respectively.

The information set forth below as to each nominee has been furnished by the nominee.

NOMINEES FOR ELECTION AS DIRECTORS TO SERVE THREE-YEAR TERMS

Name	Age	Principal Business Experience During Past Five Years and Certain Other Directorships	Director Since
Fredric J. Forster	56	Director of LoanTrader, Inc. (March 1999-present); Private Investor and Business Consultant (January 1998-present); Principal of Financial Institutional Partners Mortgage Company, LP (November 1996-December 1998); President and Chief Operating Officer of H.F. Ahmanson and Company and its subsidiary Home Savings of America (March 1993-April 1996) (savings and loan).	1997
Edward F. Gotschall	46	Vice Chairman of the Company (December 1996-present); Chief Financial Officer of the Company (August 1998 to present); Chief Operating Officer Finance/Administration (December 1995-August 1998) of the Company; Executive Vice President/Chief Financial Officer of Plaza Home Mortgage Corporation (April 1994-July 1995) (mortgage banking).	1995

Richard A. Zona	56	Chairman and CEO of Zona Financial (2000-present); Vice Chairman of U.S. Bancorp (1996-2000); Chief Financial Officer of U.S. Bancorp (1991-1996); Director of ING Direct Bank, F.S.B. (2000-present); Director of Polaris Industries, Inc. (2000-present); Director of Centre Pacific Partners (2000-present).	2000
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Set forth below is information concerning each of the other four directors of the Company whose three-year terms of office will continue after the 2001 Annual Meeting of Stockholders.

DIRECTORS WHOSE TERMS EXPIRE IN 2002

Name	Age	Principal Business Experience During Past Five Years and Certain Other Directorships	Director Since
Brad A. Morrice	44	Chief Operating Officer of the Company (December 2000-present); Vice Chairman of the Company (December 1996-present); President of the Company (December 1995-present); General Counsel of the Company (December 1995-December 1997); President and Chief Operating Officer Administration of Plaza Home Mortgage Corporation (February 1994-March 1995) (mortgage banking).	1995
Michael M. Sachs	60	Chairman of the Board and Chief Executive Officer of Westrec Financial, Inc. (1990-present) (operator of marinas and related businesses); Chairman of the Board and Chief Executive Officer of Pinpoint Systems, Inc. (December 1995-present) (manufacturer of marine electronic equipment).	1995
Terrence P. Sandvik	62	President of U.S. Bancorp Business Technology Center at U.S. Bancorp, Inc. (1990-1999).	2000

DIRECTOR WHOSE TERM EXPIRES IN 2003

Name	Age	Principal Business Experience During Past Five Years and Certain Other Directorships	Director Since
Robert K. Cole	54	Chairman and Chief Executive Officer of the Company (December 1995-present); President and Chief Operating Officer Finance of Plaza Home Mortgage Corporation (February 1994 to March 1995) (mortgage banking).	1995

DIRECTORS DESIGNATED BY U.S. BANCORP

Both Mr. Sandvik and Mr. Zona were originally designated by U.S. Bancorp to serve on the Company's Board of Directors. Under its October 1998 Preferred Stock Purchase Agreement with the Company, U.S. Bancorp had the right to designate nominees to the Company's Board approximately in proportion to U.S. Bancorp's ownership stake in the Company. Mr. Zona was appointed to the Board in June 2000. Mr. Sandvik resigned from the Board in April 2000 and was reappointed to the Board in September 2000. In March 2001, U.S. Bancorp terminated its right to designate directors. Mr. Sandvik and Mr. Zona remain on the Company's Board, but no longer serve as U.S. Bancorp designees.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Prior to his retirement from U.S. Bancorp in October 1999, Mr. Sandvik was a senior officer of a division of U.S. Bancorp. Prior to his retirement in 2000 from U.S. Bancorp, Mr. Zona was Vice Chairman of U.S. Bancorp. The Company has a variety of business relationships with several U.S. Bancorp affiliates. U.S. Bank National Association is the agent and lead lender on the Company's \$265 million warehouse credit agreement. In 2000, the Company's outstanding borrowings under that agreement averaged approximately \$184.5 million, and the Company expects its borrowings in the current year will be in a similar range. The Company also has borrowed \$40 million from U.S. Bank in the form of subordinated debt and until March 2001 had borrowed an additional \$22.5 million secured by the Company's receivables for servicing advances.

In addition, U.S. Bank National Association serves as Trustee or Trust Administrator for the Company's loan securitizations and serves as custodian of the Company's loan files that are held as collateral under financing arrangements with third parties. In 2000, U.S. Bank received fees of approximately \$650,000 for providing these services to the Company. Finally, U.S. Bank and the Company have a strategic alliance in which the Company assists U.S. Bank to originate loans to its customers who do not qualify under its traditional loan programs. In 2000, mortgage loans with an aggregate principal balance of approximately \$45 million were originated through this alliance.

Mr. Forster is a director and consultant to LoanTrader, Inc. and also owns approximately 4% of LoanTrader's equity. During 2000, LoanTrader, Inc. incurred rental obligations of approximately \$528,500 to the Company as a subtenant.

On November 11, 2000, Brookhaven Capital Management and its affiliates (the "Brookhaven Parties") executed an irrevocable proxy appointing Messrs. Cole and Morrice to vote all shares beneficially owned by the Brookhaven Parties in excess of 34.9% of the total voting power of the Company. As of December 31, 2000, the Brookhaven Parties owned approximately 42.5% of the total voting shares of the Company.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

During 2000, the Board of Directors met seven (7) times. Except for Mr. Sandvik, no director attended fewer than 75% of the aggregate number of meetings held by the Board of Directors and the Committees of the Board of Directors on which he served.

COMPENSATION OF DIRECTORS

During 2000, the Company paid its non-employee directors an annual retainer of \$10,000 and a fee of \$2,500 for each board or committee meeting attended. However, if a board and committee meeting occurred on the same day, they were treated as a single meeting for purposes of the \$2,500 fee. The Company also reimbursed all of its non-employee directors for reasonable expenses incurred in attending meetings. The Company did not compensate non-employee directors for brief ad hoc telephonic meetings for which the combined preparation and meeting time did not exceed one hour.

In addition, the Company's Stock Option Plan provides that, upon initial election or appointment to the Board, each director designated as a Non-Employee Director for purposes of the Plan is granted a nonqualified option to purchase 15,000 shares of Common Stock, subject to vesting in equal installments over three years from the date of grant (a "Non-Employee Director Option"). If any Non-Employee Director ceases to be a member of the Board, his unvested Non-Employee Director Options terminate immediately.

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All of the current non-employee directors (other than Mr. Sandvik and Mr. Zona) were granted Non-Employee Director Options in 1997 in accordance with the Stock Option Plan. In September 1998, Mr. Forster received a nonqualified option to purchase 10,000 shares of Common

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Stock at an exercise price of \$10.00 per share, subject to vesting in equal installments over three years from the date of grant. At the time of this grant, the Company's Common Stock was trading at \$8.38. In 2000, Messrs. Sandvik and Zona were granted Non-Employee Director Options in accordance with the Stock Option Plan. If Proposal 3 is adopted at the Annual Meeting, each of the current non-employee directors also will receive an option grant to purchase 25,000 shares of Common Stock.

In 2000, the Company paid Mr. Zona additional compensation in the amount of \$4,000 for performing services in connection with the Company's contemplated strategic alliances.

COMMITTEES OF THE BOARD

The Company's Board of Directors has a Compensation Committee, an Executive Committee and an Audit Committee.

THE COMPENSATION COMMITTEE. The Compensation Committee is comprised of Messrs. Forster, Sachs and Sandvik, all of whom are non-employee directors. The Compensation Committee has the exclusive responsibility for establishing the compensation and other benefits payable to executive officers and has the responsibility for administering the Company's incentive compensation and benefit plans, including the Stock Option Plan and the 1999 Incentive Compensation Plan. During 2000, the Compensation Committee met three (3) times.

THE EXECUTIVE COMMITTEE. From time to time, the Board of Directors delegates special powers and authority to the Executive Committee. The Executive Committee is comprised of Messrs. Cole, Sachs and Zona. Any act of the Executive Committee requires at least two (2) affirmative votes. During 2000, the Executive Committee met four (4) times.

THE AUDIT COMMITTEE. The Audit Committee is comprised of three non-employee directors Messrs. Forster, Sachs and Zona. Nasdaq Marketplace Rules require that at least two members of the Audit Committee be "independent directors." Under these rules, Messrs. Forster and Sachs are "independent directors" but Mr. Zona is not due to the fact that he was employed by U.S. Bancorp within the last three years. Under the securities laws, U.S. Bancorp could be considered to be an "affiliate" of the Company by virtue of its 24.66% ownership stake in the Company. The Board of Directors concluded that Mr. Zona's former affiliation with U.S. Bancorp would not compromise his independence, and that his considerable experience as a CPA and senior executive would be beneficial to the work of the Audit Committee.

The Audit Committee operates under a written charter adopted by the Board of Directors, a copy of which is attached to this Proxy Statement as Appendix A. The Audit Committee is responsible for making recommendations concerning the engagement of independent certified public accountants, approving professional services provided by the independent certified public accountants and reviewing the adequacy of the Company's internal accounting controls. The Audit Committee also has considered whether the provision of services by KPMG LLP under the caption "All Other Fees" below is compatible with maintaining the independence of KPMG. During 2000, the Audit Committee met three (3) times.

AUDIT FEES. The aggregate fees billed by KPMG LLP for professional services rendered for the audit of the Company's most recent annual financial statements and the reviews of the financial statements included in the Company's Forms 10-Q during 2000 were \$311,000.

ALL OTHER FEES. The aggregate fees billed by KPMG LLP for all other services rendered during 2000 were \$772,107.

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The following report of the Audit Committee does not constitute soliciting material and should not be deemed filed with the Securities and Exchange Commission under the Securities Act of 1933 or the Securities Exchange Act of 1934 or incorporated by reference in any document so filed.

AUDIT COMMITTEE REPORT

To the Board of Directors
of New Century Financial Corporation

March 22, 2001

Our Committee has reviewed and discussed with the Company's management and its independent auditing firm, KPMG LLP, the Company's audited financial statements for each of the three years in the period ended December 31, 2000 (the "Audited Financial Statements"). In addition, we have discussed with KPMG LLP the matters required by Codification of Statements on Auditing Standards No. 61.

The Committee also has received and reviewed the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1, and we have discussed with that firm its independence from the Company. We also have discussed with the Company's

management and KPMG LLP such other matters and received such assurances from them as we deemed appropriate.

Management is responsible for the Company's internal controls and the financial reporting process. KPMG LLP is responsible for performing an independent audit of the Company's financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Committee's responsibility is to monitor and oversee these processes.

Based on the foregoing review and discussions and a review of the report of KPMG LLP with respect to the Audited Financial Statements, and relying thereon, we have recommended to the Company's Board of Directors the inclusion of the Audited Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Audit Committee

Michael Sachs, Chair
Fredric Forster
Richard Zona

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SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

On March 23, 2001, the record date with respect to this solicitation for determining stockholders entitled to notice of and to vote at the Annual Meeting, 14,893,198 shares of the Company's Common Stock, 20,000 shares of the Company's Series 1998A Convertible Preferred Stock and 20,000 shares of the Company's Series 1999A Convertible Preferred Stock were outstanding. No shares of any other class of stock were outstanding. Only stockholders of record on such date are entitled to notice of and to vote at the Annual Meeting and at any adjournment thereof. Holders of Common Stock are entitled to one vote per share on all matters to come before the Annual Meeting and at any adjournment thereof. Holders of 1998A Convertible Preferred Stock and 1999A Convertible Preferred Stock are entitled to 136.24 and 69.98 votes per share, respectively (which corresponds to the number of shares of Common Stock that would be issued upon conversion of a share of Preferred Stock).

Except as otherwise indicated, the following table sets forth information as of March 15, 2001 with respect to the beneficial ownership of the Company's Common Stock by (1) each person who is known by the Company to beneficially own more than 5% of the Company's Common Stock, (2) each director of the Company, (3) each nominee for election to the Board of Directors, (4) each executive officer named in the Summary Compensation Table, and (5) all directors and executive officers as a group. Except as otherwise indicated, beneficial ownership includes both voting and investment power with respect to the shares shown.

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Percent of Class (2)
Brookhaven Capital Management Co. Ltd (3) 3000 Sand Hill Road #3-105 Menlo Park, California 94025	8,077,527	54.24%
U.S. Bancorp (4) U.S. Bank Place 601 Second Avenue South Minneapolis, Minnesota 55402	4,689,400	24.66%
The Foundation Companies, Inc. (5) 1313 East Osborn Road, Suite 250 Phoenix, Arizona 85067	881,269	5.92%
Dimensional Fund Advisors Inc. (6) 1299 Ocean Avenue, 11 th Floor Santa Monica, CA 90401	1,095,700	7.36%
Robert K. Cole (7)	1,397,108	9.25%
Brad A. Morrice (8)	1,299,568	8.65%
Edward F. Gotschall (9)	1,353,401	8.93%

Steven G. Holder (10)	916,404	6.02%
Fredric J. Forster (11)	21,667	*
Michael M. Sachs (12)	565,882	3.80%
Terrence P. Sandvik		
Richard A. Zona		
All directors and executive officers as a group (8 persons) (13)	5,554,030	35.09%

* Less than one percent.

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- (1) *Each of the directors and executive officers listed can be reached through the Company at 18400 Von Karman, Suite 1000, Irvine, California 92612.*
- (2) *If a stockholder holds options or other securities that are exercisable or otherwise convertible into Common Stock within 60 days of March 15, 2001, we treat the Common Stock underlying those securities as owned by that stockholder, and as outstanding shares when we calculate that stockholder's percentage ownership of the Company's Common Stock. However, we do not consider that Common Stock to be outstanding when we calculate the percentage ownership of any other stockholder.*
- (3) *The share information reflected is based on the Schedule 13F filed by Brookhaven Capital Management Co. Ltd. on February 16, 2001. Brookhaven and its affiliates, Watershed Partners, Watershed (Cayman) Ltd. and Vincent Carrino, have granted the Company an irrevocable proxy to vote all shares controlled by these shareholders which exceed 34.9% of the total voting shares of the Company.*
- (4) *Includes 2,724,800 shares of Common Stock issuable upon the conversion of 20,000 shares of Series 1998A Convertible Preferred Stock and 1,399,600 shares of Common Stock issuable upon the conversion of 20,000 shares of Series 1999A Convertible Preferred Stock. The share information reflected is based on the Schedule 13D Amendment filed on January 23, 2001.*
- (5) *The Foundation Companies, Inc. is a wholly-owned subsidiary of Foundation Administrative Services, Inc., which in turn is a wholly-owned subsidiary of the Baptist Foundation of Arizona, each of which may also be deemed to be the beneficial owner of the shares owned by The Foundation Companies, Inc. The share information reflected is based on the Schedule 13G Amendment filed jointly on February 23, 2001 by The Foundation Companies, Inc., Foundation Administrative Services, Inc. and the Baptist Foundation of Arizona.*
- (6) *The share information reflected is based on the Schedule 13G filed by Dimensional Fund Advisors Inc. ("Dimensional") on February 2, 2001. In this filing, Dimensional, a registered investment advisor, disclaims beneficial ownership of all such shares.*
- (7) *Includes 2,700 shares of restricted stock, as to which Mr. Cole has voting, but not dispositive power. Also includes 208,305 shares of Common Stock issuable pursuant to options exercisable within 60 days of March 15, 2001.*
- (8) *Includes 21,103 shares owned by the Samantha H. Morrice Trust, the sole beneficiary of which is Mr. Morrice's daughter. Also includes 2,700 shares of restricted stock, as to which Mr. Morrice has voting, but not dispositive power, and 120,535 shares of Common Stock issuable pursuant to options exercisable within 60 days of March 15, 2001.*
- (9) *Includes 248,305 shares of Common Stock issuable pursuant to options exercisable within 60 days of March 15, 2001.*
- (10) *Includes 321,055 shares of Common Stock issuable pursuant to options exercisable within 60 days of March 15, 2001. On December 27, 2000, Mr. Holder ceased to be an employee of the Company. The share and option information reflected herein is based on the Schedule 13G filed by Mr. Holder on February 14, 2001.*

- (11) Consists of 21,667 shares of Common Stock issuable pursuant to options exercisable within 60 days of March 15, 2001.
- (12) Includes 225,232 shares of Common Stock owned by Westrec PS Plan, of which Mr. Sachs is the trustee and sole beneficiary, and 2,000 shares owned by Mr. Sachs' wife. Also includes 15,000 shares of Common Stock issuable pursuant to options exercisable within 60 days of March 15, 2001.
- (13) Includes (1) 5,400 shares of restricted stock and (2) 934,867 shares of Common Stock issuable pursuant to options exercisable within 60 days of March 15, 2001.

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EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth certain information with respect to compensation earned by the Company's Chief Executive Officer and the Company's three named executive officers other than the Chief Executive Officer during fiscal 2000, 1999 and 1998.

Name and Principal Position	Year	Annual Compensation		Long Term Compensation Awards		
		Salary (\$) ⁽¹⁾	Bonus (\$) ⁽²⁾	Restricted Stock Awards (\$)	Securities Underlying Options (#)	Other Compensation (\$) ⁽³⁾
Robert K. Cole	2000	350,000				8,625
Chairman and Chief Executive Officer	1999	333,000	653,915		20,000	8,500
	1998	281,600	600,893			8,500
Brad A. Morrice	2000	350,000				6,115
Vice Chairman, President and Chief Operating Officer	1999	333,000	653,915		20,000	8,154
	1998	281,600	600,893			8,500
Edward F. Gotschall	2000	350,000				8,370
Vice Chairman and Chief Financial Officer	1999	333,000	653,915		20,000	8,500
	1998	281,600	592,330			13,366
Steven G. Holder ⁽⁴⁾	2000	332,060				39,066
Former Vice Chairman and Chief Operating Officer	1999	333,000	653,915		20,000	8,500
	1998	281,600	600,893		75,000	11,481

(1) Amounts shown include cash compensation earned and received by the executive officers. The amounts do not include the value of certain perquisites, which in the aggregate did not exceed the lesser of either \$50,000 or 10 percent of the total of annual salary and bonus reported for the named executive officer.

(2) Amounts reported for 1998, 1999 and 2000 for Messrs. Cole, Morrice and Holder represent amounts earned in those years pursuant to the Founding Managers' Incentive Compensation Plan and the 1999 Incentive Compensation Plan, as the case may be, even though portions of the bonus were paid in the following year.

(3)

Amounts reported for 2000 represent a \$6,000 automobile allowance provided by the Company to Messrs. Cole, Morrice, Gotschall and Holder, contributions made by the Company to a 401(k) profit sharing plan of \$2,625 for Mr. Cole, \$115 for Mr. Morrice, \$2,370 for Mr. Gotschall, and \$2,625 for Mr. Holder, and \$30,441 paid to Mr. Holder as compensation for accrued but unused vacation time as of the date of the termination of his employment with the Company. Amounts reported for 1999 represent a \$6,000 automobile allowance provided by the Company to Messrs. Cole, Morrice, Gotschall and Holder, and contributions made by the Company to a 401(k) profit sharing plan of \$2,500 for each of Messrs. Cole, Gotschall and Holder, and a contribution of \$2,154 for Mr. Morrice. Amounts reported for 1998 represent a \$6,000 automobile allowance provided by the Company to Messrs. Cole, Morrice, Gotschall and Holder, and \$4,866 paid by the Company to lease an automobile for Mr. Gotschall, and contributions made by the Company to a 401(k) profit sharing plan of \$2,500 for each of Messrs. Cole, Morrice, Gotschall and Holder.

(4)

On December 27, 2000, Mr. Holder ceased to be an employee of the Company.

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OPTION GRANTS IN LAST FISCAL YEAR

No stock options were granted to executive officers during fiscal 2000.

FISCAL YEAR-END OPTION VALUES

The following table sets forth certain information with respect to the value of options at the end of 2000 held by the named executive officers.

Name	Number of Securities Underlying Unexercised Options at FY-End (#)	Value of Unexercised In-the-Money Options at FY-End (\$)(1)
	Exercisable/Unexercisable	Exercisable/Unexercisable
Robert K. Cole	208,305/12,000	\$413,415/0
Brad A. Morrice	120,535/12,000	\$150,105/0
Edward F. Gotschall	248,305/12,000	\$693,415/0
Steven G. Holder	321,503/54,252	\$1,006,269/40,159

(1)

The amounts set forth represent the difference between the estimated fair market value of \$10.50 per share as of December 31, 2000 and the exercise price of the in-the-money options, multiplied by the applicable number of shares underlying such options.

EMPLOYMENT AGREEMENTS AND CHANGE-IN-CONTROL ARRANGEMENTS

FOUNDING MANAGER EMPLOYMENT AGREEMENTS. The Company has entered into employment agreements with Messrs. Cole, Morrice and Gotschall (the "Founding Managers"). Each agreement was entered into as of January 1, 1999, replacing a prior employment agreement of January 1, 1997. The new agreements continue in effect until December 31, 2003. Unless terminated by either the Company or the Founding Manager, each agreement renews for an additional three years at the end of each year. For instance, on December 31, 2001, the term of each agreement will be automatically extended until December 31, 2004 unless otherwise terminated. The agreements provide for a base salary of \$350,000 in 2000. The Board has the authority to establish the base salary level for subsequent years, provided that it must represent at least a 5% increase over the preceding year. For 2001, the Board has established the base salary at \$367,500 (a 5% increase from 2000). The agreements also provide for a \$500 per month automobile allowance.

In the event a Founding Manager is terminated without "cause" or quits his employment for "good reason" (as such terms are defined in the employment agreements), then the Company will:

- (i) pay the Founding Manager his base salary through the end of the current month plus credit for any vacation earned but not taken;
- (ii) pay the Founding Manager as severance pay (a) his base salary in effect as of the termination date, for a minimum of six months, or, if longer, through the expiration of the current term of the employment agreement; plus (b) an amount equal to the cash portion of the most recent annual profit sharing and/or incentive bonus received by the Founding Manager from the Company or, if more, the cash amount which would be due under the profit sharing and/or incentive bonus plans applicable to him for the then current year; such payment to be made in substantially equal installments over the same time period as base salary payments continue;

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- (iii) maintain the Founding Manager's medical insurance and other benefit programs in which he was entitled to participate until the earlier of expiration of the term of employment then in effect or his commencement of full time employment with a new employer; and
- (iv) pay all costs up to \$20,000 related to such Founding Manager's participation in a senior executive outplacement program.

Also, if within twelve months following a "change in control" of the Company, a Founding Manager is terminated without "cause," quits his employment for "good reason," or is given notice that the Company intends not to renew his employment agreement (as such terms are defined in the employment agreement), then the Company shall pay to such Founding Manager the amounts set forth in subparagraphs (i) through (iv) above, except that the six-month period of subparagraph (ii) shall be extended to eighteen (18) months.

INCENTIVE COMPENSATION PLAN AWARDS. The agreements also provide that the Founding Managers will be eligible to receive Incentive Awards under the Founding Managers' Incentive Compensation Plan, or its successor, the 1999 Incentive Compensation Plan. The employment agreements stipulate the basic terms of the Incentive Awards for the six-months ended June 30, 2001 (the "Six-Month Performance Period") and the year ended December 31, 2001 (the "Twelve-Month Performance Period"). Under the Incentive Awards, the Founding Managers will be entitled to a percentage of the Company's earnings before income taxes for the applicable Performance Period (without deducting amounts payable under the Plan) ("Earnings"). The specific percentage of Earnings used to determine the bonus levels is based on the ratio (the "Ratio") of Earnings for the Performance Period to Total Stockholders' Equity (as defined in the 1999 Incentive Compensation Plan).

For the Six-Month Performance Period, if the Ratio is at least 9% but less than 18%, each Founding Manager is entitled to 1.25% of Earnings in excess of 9% of Total Stockholders' Equity. If the Ratio is at least 18%, each Founding Manager will receive incentive payments equal to the sum of (1) 1.25% of Earnings in excess of 9% of Total Stockholders' Equity, plus (2) 0.50% of Earnings in excess of 18% of Total Stockholders' Equity.

For the Twelve-Month Performance Period, if the Ratio is at least 18% but less than 35%, each Founding Manager is entitled to 1.25% of Earnings in excess of 18% of Total Stockholders' Equity. If the Ratio is at least 35%, each Founding Manager will receive incentive payments equal to the sum of (1) 1.25% of Earnings in excess of 18% of Total Stockholders' Equity, plus (2) 0.50% of Earnings in excess of 35% of Total Stockholders' Equity.

The amount of any Incentive Award paid for the Twelve-Month Performance Period will be reduced by any amounts paid for the Six-Month Performance Period. Amounts payable under the Awards are payable in either cash or restricted stock if the Compensation Committee and respective Founding Manager so agree.

OTHER CHANGE-IN-CONTROL PROVISIONS. The Company's 1995 Stock Option Plan provides for the acceleration of award vesting upon a change in control (as defined in the plan), unless the Board decides otherwise prior to the change in control. Similarly, under the Company's 1999 Incentive Compensation Plan, unless the Board decides otherwise prior to the event, a change in control results in accelerated payment of outstanding Awards. The payment level assumes achievement of the maximum performance goal for each Award, but is pro-rated according to the portion of the applicable performance period elapsed at the time of acceleration.

TERMINATION OF EMPLOYMENT. On December 27, 2000, one of the Founding Managers, Steven G. Holder, ceased to be an employee of the Company. In satisfaction of Mr. Holder's rights under his Founding Manager Employment Agreement, Mr. Holder and the Company entered into a Separation Agreement and

a Consulting Agreement whereby Mr. Holder will receive aggregate compensation of \$1.2 million from January 1, 2001 through February 15, 2002. Also, Mr. Holder will serve as a consultant to the Company through the end of the year 2001.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the Compensation Committee is a former or current officer or employee of the Company or any of its subsidiaries. No executive officer of the Company serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee.

Mr. Forster is a director and consultant to LoanTrader, Inc. and also owns approximately 4% of LoanTrader'