**STATEMENT**

**Of**

**THE COALITION FOR FAIR AND AFFORDABLE LENDING ("CFAL")**

**And**

**NEW CENTURY FINANCIAL CORPORATION**

**On**

**"Subprime Lending: Defining the Market and Its Customers"**

**At The Joint Hearing Of The**

**Subcommittee on Housing and Community Opportunity**

**And**

**Subcommittee on Financial Institutions and Consumer Credit**

**March 30, 2004**

## Introduction

The Coalition for Fair and Affordable Lending[1] ("CFAL") and New Century Financial Corporation appreciate the opportunity to testify at today's hearing. My name is Terry Theologides, and I am Executive Vice President of Corporate Affairs for New Century Financial Corporation, one of CFAL's founding members. Among other things, I run the compliance, legal and fair lending functions at New Century, which is the nation's second-largest non-prime lender.

At your Committees' joint hearing on November 6, 2003, CFAL's Chairman, Steve Nadon, testified about the need to pass enhanced federal statutory protections to prevent abusive lending practices.[2] He described inadequacies in the current federal

[1] The Coalition for Fair and Affordable Lending (CFAL), launched in January 2003, was formed to advocate uniform federal legislative standards for non-prime mortgage lending. CFAL's members make up one-third of all non-prime mortgage loans.

[2] On behalf of CFAL, Mr. Nadon said: *"Without question, some lenders and mortgage brokers engage in inappropriate lending practices that need to be stopped. Many of these abuses are fraudulent, deceptive and illegal. Enhanced enforcement together with more consumer financial education and counseling opportunities are needed to help prevent them. However, significant new federal statutory requirements*

"HOEPA" law[3] and the negative effects of the confusing patchwork of state and local "anti-predatory lending" laws. Mr. Nadon offered thoughtful proposals on how to further enhance pending legislation, such as H.R. 833, the Ney-Lucas bill. In that regard, New Century and other CFAL members are continuing to work with Members to help craft an even better final measure that can be passed with very broad bipartisan support. We believe that it is in the best interest of both borrowers and industry to have clear uniform rules that apply equally to all types of mortgage lenders and that provide strong protections to all Americans while preserving access to affordable non-prime mortgage credit.

Members of the Subcommittees will be better able to craft such national standards if they have a good understanding of the non-prime[4] mortgage market and the Americans who rely on it. Therefore, we commend Chairmen Ney and Bachus for holding today's hearing focusing primarily on the nature of the non-prime market itself.

## The Non-Prime Mortgage Market

The American mortgage market has greatly expanded over the last 30 years, and homeownership rates are at the highest levels in history. Indeed, our strong mortgage marketplace is the envy of the world. In the fourth quarter of 2003, there were an estimated 121.4 million housing units in the United States of which roughly 105.9 million housing units were occupied. This high occupancy rate was comprised of 72.7 million

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*also are needed to remove gaps or weaknesses in current law. . .CFAL believes that it is imperative that Congress promptly pass such new federal requirements. H.R. 833, the Ney-Lucas bill, effectively addresses many of the current law's shortcomings. We urge Members to work together after the November 5th hearing to further refine H.R. 833 as may be needed to address any additional concerns and gain broader bipartisan support. We want to work constructively with you and other interested parties to help craft a fair and balanced refined legislative proposal that can be the basis for the new federal law and that the full Committee can act on early next year. . .The arbitrary and irrational growing patchwork of state and local laws intended to prevent mortgage lending abuses is proving to be unduly burdensome and costly. Moreover, federally chartered depositories, as well as some state chartered entities, are being exempted from these state and local laws' requirements. This creates not only an unlevel regulatory playing field for lenders, but also confusion and inconsistent levels of protection for borrowers. Many consumers are not being adequately or equally protected by these measures, and the national housing finance market is being disrupted. . .Accordingly, CFAL thinks that the new federal fair lending rules should apply uniformly so that all mortgage lenders are governed by them and that every American borrower receives the same effective protections. And, we want to see both federal and state regulators actively enforce these nationwide standards. . .Congress clearly has the power to pass legislation providing for uniform national standards for nonprime lending. We believe that such uniform rules are badly needed and that it is sound public policy for Congress to establish them."*

[3] The "Home Ownership and Equity Protection Act of 1994"
[4] This market segment is also sometimes called "sub-prime," "non-conforming," or "specialty" lending.

homeowners and 33.2 million renters.[5] These statistics set a new record homeownership rate of 68.3%.[6] This impressive rate could not have been realized without the development of a highly specialized non-prime mortgage market.

**Non-Prime Market Size**

Today, the non-prime market has grown significantly into a highly competitive market. In 1994, there were $34 billion in non-prime mortgage originations, representing about 5% of the overall mortgage origination market.[7] Last year, originations grew to roughly $325 billion, which represented 10.5% of all mortgage originations.[8]

Much of our industry's dramatic growth has been due to the securitization of non-prime mortgages. The industry depends on the liquidity generated by the secondary market in order to bring affordable mortgage credit from Wall Street to Main Street. In 1994, $11 billion of non-prime mortgage loans were securitized. By 2003, this had increased to around $215 billion, which represented 66% of the entire non-prime market. Securitization has greatly increased the availability of mortgage capital and has helped lower borrowers' cost.[9]

In particular, the growth of the non-prime mortgage market since the early 1990's has dramatically transformed the national mortgage market by providing access to credit for millions of Americans who historically have been unable to qualify for credit under so-called "prime" mortgage[10] underwriting standards.

**Expanded Credit Opportunities for Minorities**

The credit provided by the non-prime lending industry is especially important for many minorities. For example, overall the African-American and Hispanic populations differ in a number of important economic characteristics relative to the White population. As a group, their respective median incomes are lower, wealth is lower, unemployment rates are higher and credit scores lower. This unfortunate economic disparity has been clearly documented in data by the Census Bureau, the Federal Reserve, the Labor Department and a variety of other reports.[11]

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[5] U.S. Census Bureau
[6] Department of Housing and Urban Development ("HUD")
[7] HUD/Treasury Report
[8] SMR Research, "Subprime Mortgage Loans, 2004" ("SMR")
[9] Securitization is discussed further in Appendix "A"
[10] The term "prime" in the mortgage context does not refer to the "prime" interest rate that banks charge their best customers for loans; instead, it refers to the lower rate that mortgage lenders charge the lowest risk borrowers who qualify for mortgages that are bought by Fannie Mae and Freddie Mac, the two large housing government sponsored enterprises ("GSEs").
[11] CFAL will be soon releasing a report prepared by a major national consulting firm that explains these issues in detail and that highlights some of the basic economic data outlined in a number of these reports. For example, it will note that, in 2002, median income of African-Americans was 62% that of White median income and Hispanic median income was 71 % of White median income. In 2002, African-American adults age 25-54 experienced unemployment rates twice that of Whites, and Hispanic adult unemployment rates were about 50% higher than Whites. In 2001, 27% of African Americans had less

What this means is that African-Americans and Hispanics therefore are less likely to meet the more stringent economic risk evaluation criteria in the conforming or "prime" market that operates largely through Fannie Mae and Freddie Mac. However, with the emergence of a significant non-prime market, many of these higher risk minority borrowers, as well as similarly situated higher risk White borrowers, now are able to qualify for affordable mortgage credit at only moderately higher costs where heretofore most would have been unable to obtain it.

**Market Participants**

Today's non-prime lending industry is dominated by large, national companies who employ sophisticated risk-grading techniques to provide mortgages to millions of Americans who generally cannot qualify for "prime" mortgages. Most companies rely heavily on the capital generated in the secondary market from securitizations and whole loan sales to fund the mortgage loans they make to their higher risk customers.

This industry is comprised of mortgage companies, consumer finance companies, banks, thrifts, and other financial institutions. However, an analysis of the market share of these various financial institutions reveals that a substantial majority of non-prime mortgages are originated by state-licensed mortgage companies. Specifically, according to the GAO, "fifty-nine percent of these lenders were independent mortgage companies (mortgage bankers and finance companies), 20 percent were non-bank subsidiaries of financial or bank holding companies, and the remainder were other types of financial institutions. Only 10 percent were federally regulated banks and thrifts."[12] In addition, it is important to recognize that over half of the non-prime loans now are originated through mortgage brokers as opposed to lenders' retail loan offices.[13]

**Borrower Profiles**

Contrary to frequent allegations, non-prime borrower profiles typically are representative of the U.S. population as a whole. Often, charges have been made that most non-prime borrowers are elderly or minorities with low incomes. However, anyone who understands the industry knows this is not the case. This has been clearly documented publicly by using HMDA data and other information.

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than $1,000 in wealth (net worth) compared to only 8% of Whites. Around 36% of African-Americans had less than $5,000 in wealth compared to 13% of Whites. For Hispanics, median wealth is 20% to 35% of median White wealth. In fact, at every income level, wealth of African-Americans and Hispanics is significantly below that of Whites. Credit scores of these groups also have been found to be significantly lower. All of these economic factors help explain why it is more difficult for these minority populations to qualify for loans in the traditional prime segment of the market.

[12] GAO Report 04-280. It is also worth highlighting, especially given the current concerns many Members have raised over the OCC's recent preemption rule that the vast majority of non-prime loans are not made by federal banks or thrifts or by their operating subsidiaries. Therefore, most such loans are not affected by this preemption.

[13] Appendix "B" discusses how New Century manages its dealings with brokers to help ensure that no broker engages in improper lending practices that might harm our borrowers.

For example, SMR Research,[14] which is one of the leading national third-party firms that collects and reviews industry data, found after analyzing year 2002 HMDA data and 2000 Census data that the ethnic breakdown of non-prime lending was the following:

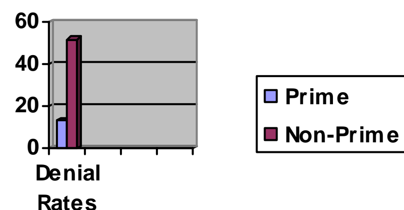
- Whites represented 68.2% of the population with 62.5% of non-prime loans;
- Hispanics represented 13.7% of the population with 14.6% of non-prime loans;
- African-Americans represented 11.9% of the population with 13.2% of non-prime loans;
- Asians comprised 3.7% of the population with 3.9% of non-prime mortgage loans; and
- Native Americans represented roughly .7% of the population with .6% of non-prime loans.

Additionally, regarding borrower income levels, SMR Research found that in 2002 non-prime borrowers had an average annual income of $71,509 compared to prime borrowers with $87,184 in average yearly income.

Lastly, regarding ages, Census Bureau data shows that 12.35% of the population is 65 years or older and 62.14% of the population is adults ages 20 to 65. However, SMR noted that "only 6.36% of all home purchase and refinancing loan borrowers in 2002 were 65 or older. . .This means that adults aged 65 or older were roughly three-fold less likely to have obtained mortgage loans in 2002 as were all adults." [15] And, after analyzing subprime lending in census tracts, SMR concluded: *"Rather than 'targeting' the elderly, these data seem to prove the reverse. It would appear subprime lenders focus attention on census tracts where the elderly do not get many loans, and make a lesser share of loans where the elderly borrowers are most plentiful."*

**Repayment Ability**

The perception that some people have that non-prime lenders typically engage in "asset-based lending" and will lend to anyone who has equity in their home irrespective of their repayment ability to make money by then foreclosing on the loan is false. Certainly, every reasonable effort is made to provide affordable credit, but lenders seriously evaluate a potential borrower before extending credit. We do a strict credit evaluation and apply a debt-to-income or residual income test to every loan to ensure the potential borrower can repay the loan without having to rely on the equity in their home. This reality is demonstrated by examining average approval versus denial rates. In 2002, 2.986 million loan applications were received by non-prime lenders of which 1.619 million were denied, yielding a 52% loan




[14] SMR Research Corporation, "Predatory Lending" A New Study of Unfair Lending Accusations" (2004)
[15] SMR

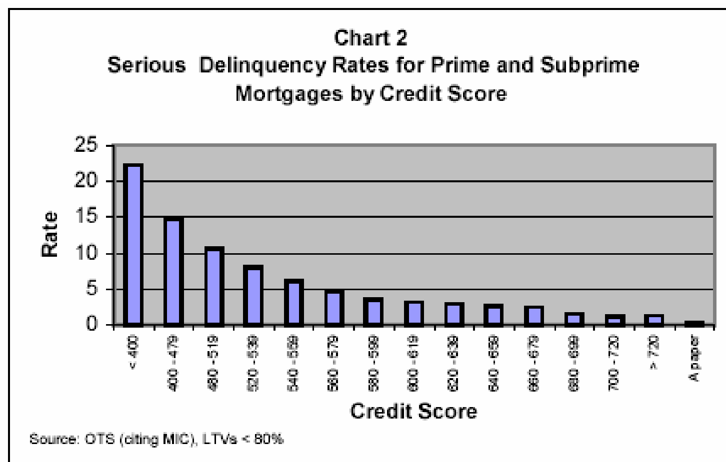
denial rate. In contrast, prime lenders denied 13.2%.[16]

In the non-prime mortgage business, it is important to balance the risk of making loans to borrowers who present more credit risk by rigorous credit evaluation and risk-based pricing. There are many examples of mortgage lenders that have failed in this regard, one notable example being the failure of Superior Bank. It is one reason why federal regulators impose higher capital requirements on depository lenders that make non-prime loans. Legitimate lenders make money by making loans to people who repay those loans, not by foreclosing and profiting from a borrower's remaining home equity. In fact, foreclosures are our worst nightmare, and we do everything possible to avoid them because lenders almost always lose money on foreclosures. New Century, for example, loses an average of around $40,000 whenever it is forced to foreclose on a loan.[17]

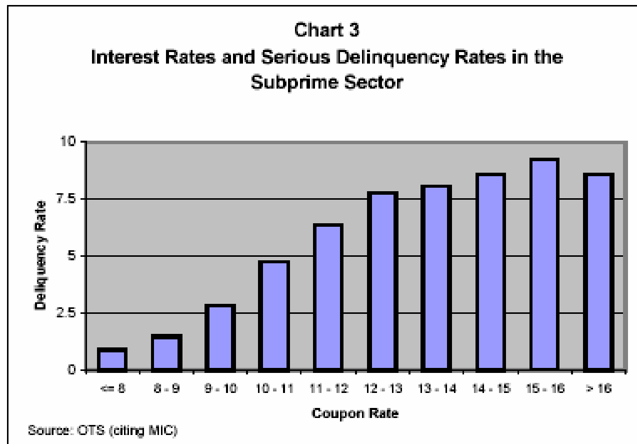
**Non-Prime Rates and Risk-Based Pricing**

As the non-prime mortgage market matures, the ability to quantify risk has become more manageable, and increased competition is working for the benefit of consumers by creating a more favorable interest rate environment. This occurrence is evidenced by a narrowing spread in interest rates between prime and non-prime mortgages. For example, in the 1990's the average rate spread between "A-" non-prime loans and prime loans was 2.5%, and by 2003 the average spread had fallen significantly to a range of 1.75 – 2.0%.[18] Likewise, as overall interest rates have fallen, the average non-prime rate has followed suit. In 2003 the average non-prime mortgage interest rate dropped over 1% to 7.91% compared to an average interest rate of 9.14% in 2002 and slightly over 11% in 2000.[19]

Lenders seek to price according to risk, and it is well documented that the industry does a relatively good job matching pricing to risk. A helpful illustration of this can be seen in Charts 2 and 3, reproduced from OCC's 2003 report on non-prime lending. These charts show how credit scores and interest rate track and indicate risk.




[16] SMR
[17] New Century's handling of delinquencies and foreclosures is discussed later in this testimony.
[18] "Economic Issues in Predatory Lending," OCC (July 30, 2003) at p. 8.
[19] SMR (based on average rate for 18 top lenders)




In order to better explain risk-based pricing and rates, as well as non-prime borrower characteristics in more detail, I will now provide you considerable summary data from my own company's records. Before doing so, however, I will first highlight some basic information about New Century.

## New Century Information

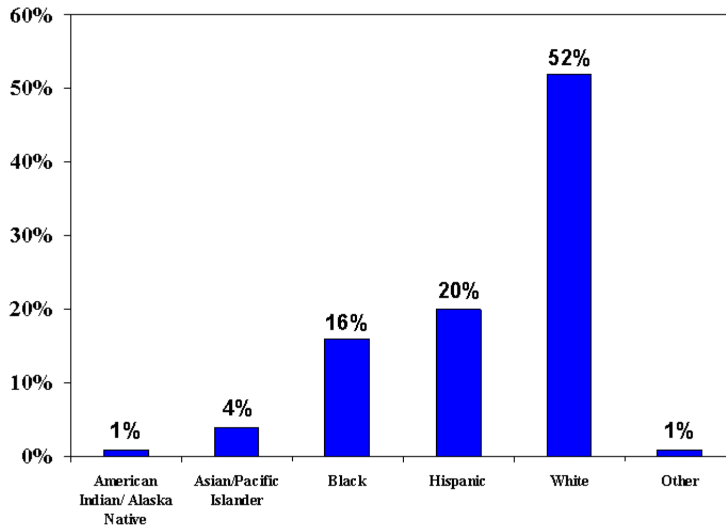
As I mentioned at the beginning of my testimony, New Century Financial Corporation[20] is the second largest provider of non-prime mortgages in the United States. We represent about 8% of the non-prime market. Together with our partners in CFAL, we represent a third of the non-prime market. In many ways New Century is representative not just of the CFAL membership, but of other major non-prime lenders that make up this marketplace today. By describing our products, processes, customers and pricing in this testimony, we hope to enhance the Committees' understanding of the non-prime lending industry in general.

### Borrowers' Racial & Ethnic Characteristics

Like other major non-prime lenders, New Century's borrowers typically are not poor, nor are they primarily minority or elderly. Instead, they are middle-class, non-minority and in their 40s and 50s. The following charts, which show New Century 2003 data for funded loans by race or ethnic group,[21] demonstrate the diversity, age and income of our borrowers:

[20] New Century was founded in 1995 in California and has grown and expanded so that today we lend throughout the United States and have approximately 4,000 employees. We are a publicly traded company that, through our subsidiaries, made over 160,000 mortgages totaling over $27 billion last year. Our company originates first and second mortgage loans to customers who do not satisfy the stricter credit, documentation or other underwriting standards prescribed by Fannie Mae and Freddie Mac. Because these loans present a higher risk of default, we charge rates that are slightly higher than the rates offered by conforming lenders to borrowers with credit and loan characteristics that present the lowest risk. We originate 92% of our loans through a network of over 18,000 independent mortgage brokers located in 49 states and the District of Columbia. The other 8 percent are originated through our retail network of 72 branches in 26 states as well as a central retail operations center.

[21] Note: the information set forth in these charts is based on New Century's primary borrower only. "Primary borrower" is defined as the person whose name is first placed on an application for credit. Co-borrower information is not included herein, except as to average family income.

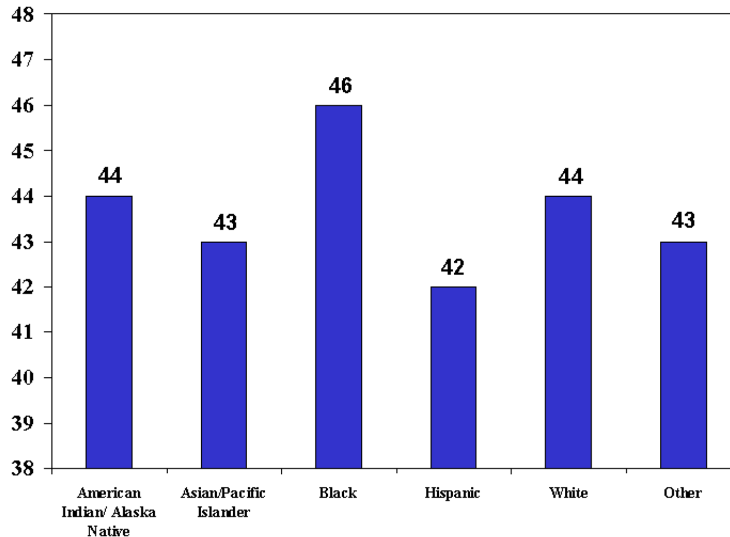



Source: HMDA data. 6% of applicants did not provide racial information.

As indicated previously, substantially more loans were made to Whites than to any other racial group.

**Borrowers' Ages**

This chart combines 2002 and 2003 data and depicts the average age of New Century borrowers in each racial group that received funded loans during that period.



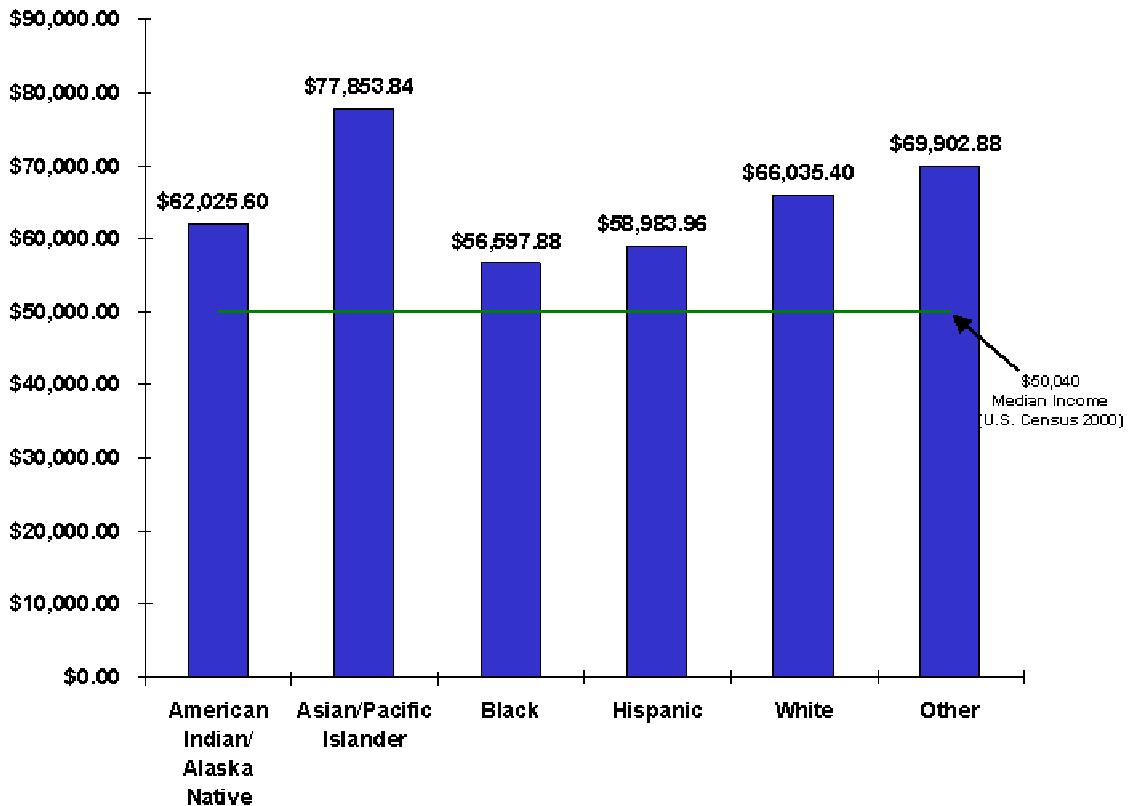

This data is further broken down in the following table:

| Age Range | Company all | American Indian/ AK Native | Asian/ Pacific Islander | Black | Hispanic | White | Other | Information not provided |
|---|---|---|---|---|---|---|---|---|
| 20-30 | 12.54% | 12.18% | 15.96% | 8.98% | 15.40% | 12.33% | 13.48% | 12.08% |
| 31-40 | 31.64% | 30.21% | 30.12% | 28.18% | 36.09% | 31.23% | 29.96% | 31.39% |
| 41-50 | 31.07% | 32.44% | 28.99% | 31.57% | 29.69% | 31.42% | 33.91% | 32.11% |
| 51-60 | 17.55% | 16.51% | 18.66% | 19.90% | 14.02% | 18.11% | 16.18% | 17.58% |
| 61-70+ | 7.20% | 8.67% | 6.27% | 11.37% | 4.87% | 6.92% | 6.47% | 6.82% |

As can be seen from the preceding data, the average age of all borrowers was well below 65, indicating that New Century is not targeting the older population in any racial group and that less than 7.5% of all of our borrowers are over the age of 60. We believe that other major non-prime lenders' data would be similar.

**Borrowers' Incomes**

The following chart shows New Century 2002 and 2003 combined data for funded loans by family income:




**Summary Borrower Characteristics**

As can be seen from the above information, New Century's non-prime borrowers are as racially diverse as the general population. Our average borrower has an annual family income that is approximately $72,000 per year and is under 50 years of age. Other 2003 statistics that define "who is New Century's borrower" include:

- ✓ 93.3% lived in the home that they pledged as security for their loans;
- ✓ 6.7% were non-owner occupied;
- ✓ 26.75% of the loans were for purchase of the home;
- ✓ 73.25% were refinances;
- ✓ Average first mortgage loan size was $170,857;

- ✓ Average second mortgage loan size was $46,165;
- ✓ Average FICO score was 606;
- ✓ Average Loan to Value ratio was 76.11%; and
- ✓ Average Debt to Income Ratio was 39.25%.

**Current Production Data**

In order to enhance the Committees' further understanding of today's non-prime mortgage lending industry, we thought it would be useful to provide more detail using our February 2004 loan production to better illustrate the characteristics of our loans. The table below shows the principal characteristics of those loans:

**NEW CENTURY'S FEBRUARY 2004 LOAN PRODUCTION**

| Loans Originated | |
|---|---|
| Number of loans | 15,249 |
| Dollar Value of Loans | $2.54 billion |

| Average Loan Size | |
|---|---|
| First Mortgage | $179,000 |
| Second Mortgage | $49,000 |

| Product Types | |
|---|---|
| Fixed Rate | 28.0% |
| 2-Yr. Adjustable* | 60.4% |
| 3-Yr. Adjustable** | 2.4% |
| Interest only programs and other niche programs | 9.6% |

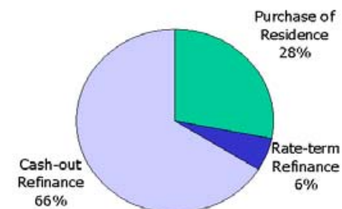
| Averages for First Mortgages | |
|---|---|
| | |
| | |
| Debt-to-Income Ratio | 40.28% |
| Loan-to-Value Ratio | 78.88% |
| FICO score | 617 |

*fixed for 2 years then adjustable for the remaining 28

**fixed for 3 years then adjustable for the remaining 27

**Loan Purpose**

Borrowers in the non-prime market, just as those in the prime market, have a variety of reasons that serve as the catalyst for seeking a mortgage loan to purchase a home or to refinance an existing home loan. The accompanying table shows the stated loan purposes for our February 2004 loan production.




Fully two-thirds of our business in February involved our customers tapping into the equity in their homes to meet other financial needs. Those needs typically include:

- Refinancing higher interest rate mortgage loans or paying off higher interest consumer debt like credit cards and auto loans;
- Paying to remodel or repair the residence;

- Paying for higher education;
- Paying health care costs or debts;
- Purchasing a vehicle;
- Investing in a small business; and
- Lifestyle purchases like recreational equipment.

While some may take the position that borrowers should be restricted in using the equity in their home to better manage their financial lives, we believe that if a borrower is working within their income and budget and finds a loan that fits within their means, a home can be a financial asset that when used wisely can further a borrower's financial objectives. However, we believe that it is important that all borrowers be in a position to make informed choices. Therefore, New Century and other major lenders are strong supporters of consumer financial education and counseling programs. New Century's current educational and counseling initiatives, which are expanding, are highlighted in Appendix "H."

Also, in the lower interest rate climate we are currently experiencing, we afford first time homebuyers the opportunity to get a mortgage on reasonable terms to purchase a house. The recent increases in home ownership are in significant part due to the fact that non-prime mortgage lenders have made credit available to many first-time homebuyers. As noted in the above chart, 28% of our loans last month were for home purchase.

**Prime vs. Non-Prime Underwriting Criteria**

To help illustrate for you why our borrowers end up with a non-prime loan instead of a prime loan, we took some of our key underwriting guidelines and juxtaposed them to the Fannie Mae Guidelines. By doing so, the differences can be more easily understood. As can be seen in more detail in the Criteria Comparison Table in Appendix "C", there are a number of broad categories where borrowers could be precluded from qualifying for a prime loan under certain Fannie Mae criteria. These can be generally summarized as follows:

- Income documentation – Over 40% of New Century's loans are made on a "stated income" basis. Fannie and Freddie have more stringent income documentation guidelines. Borrowers who are self-employed or who have supplemental income from self-employment, as well as borrowers who have not been at their job very long and many recent immigrants, have difficulty satisfying the income verification requirements of conforming lenders. We are able to accommodate many of those borrowers. We use a variety of alternative means to evaluate their repayment ability including: (i) looking at their credit, (ii) looking at their history of meeting their other obligations such as their prior mortgage, their consumer debts, their rent and other debts, (iii) verifying the existence of their business if they are self employed, and (iv) obtaining a statement from them, under oath, regarding their income.

- Loan amount – The average loan size in states like California and New York is often in excess of the Fannie/Freddie maximums.
- Credit criteria – Non-prime criteria provide more tolerance and flexibility for late payments and even bankruptcy.
- Limited down payment and/or cash reserves – Again, conforming lenders typically require a down payment of 15% to 20% when making a mortgage loan for the purchase of a home. (They will go as low as 5% for some programs, but they may in all cases impose cash reserve requirements that will vary by borrower in order for a customer to qualify for the best rates.) We offer more flexible options as we will accommodate borrowers that may need some flexibility with regard to down payment while not requiring cash reserves.
- More cash-out – For refinance transactions, Fannie Mae and Freddie Mac do not generally permit a borrower to exceed a 90% loan to value ratio on a cash-out refinance loan. We and other nonprime lenders allow borrowers to take out more cash. Thus, in February, about 66% of our business consisted of such so-called "cash-out" mortgages in which our customers tap into their home equity to meet other financial needs such as paying off higher-interest consumer debt, purchasing a car, paying for educational or medical expenses and a host of other personal reasons.

**Few Non-Prime Borrowers Qualify for Prime Loans**

There is a widespread misperception that a large percentage of nonprime borrowers, especially those who are minorities, can in fact qualify for prime rate mortgages, but are being improperly steered into higher cost non-prime loans. This contention is wrong. One frequently repeated false statement in the debate over the predatory lending issue is that "30% to 50% of non-prime borrowers qualify for a prime loan." New Century's data, which we believe to be representative of other major players in the industry, shows that this is absolutely false.

In order to show why such claims are wrong, we took the Fannie Mae guidelines (per the above noted table) and ran our entire population of 2003 loans – 164,414 in all, through the above noted screening criteria. Recognizing that there are other factors that go into approving a loan under Fannie Mae criteria which we are not privy to, we found that a full 96.5% of our customers had credit, documentation or loan characteristics that would have precluded them from qualifying for a conforming mortgage based on the published Fannie Mae guidelines.

Of the 3.5% that could potentially have qualified for a conforming mortgage:

- The average interest rate was about 7.14% and the average APR was about 7.63%; and
- A majority (58.61%) of these borrowers were White, and, only 9.1% of this 3.5%, or .03% of all of our 2003 borrowers, were African-Americans who might possibly qualify for a prime loan.

Thus, it is seriously misleading to contend that 30% to 50% of our borrowers last year (or any year) could have potentially ended up with a conforming or "prime" mortgage.[22]

To further demonstrate how non-prime borrowers generally do not qualify for prime loans, by looking at credit scores alone one can see that only a small percentage might qualify. Of New Century's 2003 loans, 81% had credit scores below 660, which is the level below which the major federal banking regulatory agencies consider a borrower to be non-prime. [23] 88% of our African American borrowers, 87% of our Hispanic borrowers, and 81% of our White borrowers were below the 660 score level as illustrated in the following chart:

**2003 New Century Originations by FICO Score**

| Fico Score Range | ALL | Am Indian/ AK Native | Asian/ Pacific Islander | Black | Hispanic | White | Other | Info not provided |
|---|---|---|---|---|---|---|---|---|
| | Percent | Percent | Percent | Percent | Percent | Percent | Percent | Percent |
| <500 | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.01% |
| 500-539 | 17.16% | 18.74% | 8.77% | 23.42% | 13.99% | 17.03% | 15.04% | 17.79% |
| 540-579 | 20.08% | 22.95% | 13.19% | 24.39% | 17.61% | 20.28% | 17.68% | 19.79% |
| 580-619 | 21.70% | 23.19% | 20.48% | 22.22% | 21.26% | 21.83% | 21.99% | 21.31% |
| 620-659 | 21.72% | 19.44% | 26.52% | 17.96% | 23.86% | 21.75% | 23.73% | 21.14% |
| 660-699 | 11.64% | 10.42% | 17.71% | 7.97% | 13.89% | 11.42% | 13.66% | 11.63% |
| 700+ | 7.69% | 5.27% | 13.33% | 4.04% | 9.39% | 7.69% | 7.91% | 8.33% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

I believe that it also is worth pointing out that similar results have been noted for the broader non-prime industry. In that regard, let me quote from the earlier referenced OCC paper:

[22] We expect that number to be even lower this year as we continue a pilot project that we started last year to offer prime products through a private label arrangement with a large prime originator. Most of our brokers offer prime mortgages. Our software system for our brokers is set up so that they can run a borrower through Fannie Mae's Desktop Underwriter or Freddie Mac's Loan Prospector first. If the borrower does not satisfy those requirements, the broker can then in 2 clicks send the loan to New Century to see if it satisfies our guidelines.

[23] Interagency memo, *Expanded Guidance for Subprime Lending Programs*, January 31, 2001.

*"As discussed earlier, risk plays a dominant role in determining whether or not a borrower ends up in the subprime market. Table 8, which was assembled by OTS, shows the percent of subprime mortgages in the MIC database within specific credit score categories. These data generally support the case that less creditworthy borrowers receive the great majority of subprime mortgage loans, as 81% of subprime loans have credit scores below 660. As discussed earlier, all of the major regulatory agencies use 660 as the cutoff point to denote borrowers that are at high risk of default. In addition, many prime lenders generally regard 680 as the point at which a borrower comes into consideration for a prime loan. Over 88% of the MIC subprime mortgages are associated with credit scores below 680. At the same time, 11.8% of borrowers with credit scores above 680 received subprime mortgage loans."*

**Table 8**

**Percentage Distribution of Subprime Mortgages by Credit Score**

| Credit Score | Percent |
|---|---|
| Under 400 | 0.02% |
| 400 to 479 | 1.1 |
| 480-519 | 6.2 |
| 520-539 | 7.5 |
| 540-559 | 9.9 |
| 560-579 | 11.2 |
| 580-599 | 11.8 |
| 600-619 | 12.1 |
| 620-639 | 11.5 |
| 640-659 | 9.7 |
| 660-679 | 7.2 |
| 680-699 | 4.8 |
| 700-719 | 3.2 |
| Over 720 | 3.8 |

Source: OTS (citing MIC); Percent figures based on $ volumes.

**Risk-Based Pricing**

Our pricing is based on risk. Applicants are categorized into 6 separate risk grades based on a variety of factors including the following:

- Credit Score;
- Mortgage or Rental Payment History;
- History of paying consumer obligations;
- Income documentation;
- Loan-to-Value Ratio;
- Debt-to-Income Ratio; and
- History of bankruptcy, if any.

Our six risk grades are designated as AA, A+, A-, B, C and C-. Almost three-quarters of our production falls in our AA and A+ grades. As our underwriting guidelines[24] show, borrowers in our AA credit grade are typically those who have credit quality that is quite close to qualifying for a prime loan. However, they typically have debt ratios, loan-to-value ratios or income documentation limitations that would preclude them from qualifying in the prime market. In contrast, borrowers in our C and C- credit grades, representing only about 4% of our production, have more seriously impaired credit through some combination of late mortgage payments, late consumer debt payments, recent bankruptcies or other credit blemishes.

[24] Attached as Appendix "D" to this testimony, for example, is a table summarizing our underwriting guidelines as of March 17, 2004 for our California loans. Such state tables are available to our brokers in all states and anyone else at our website www.newcentury.com .

Once an applicant is categorized into a risk grade, his or her interest rate depends on a variety of factors including:

- Loan program;
- Loan size;
- Credit score band;
- Loan-to-value ratio;
- Income documentation;
- Property type (non-owner occupied; condominium, single family home, etc.);
- Points paid;
- Whether or not there is a prepayment penalty; and
- The state in which the property is located.

The assignment of risk grades to our applicants is done through an automated computer program and is not subject to employee discretion. It is also blind with respect to race and age. The following table shows how this system assigned risk grades last year.

**2003 New Century Originations by Risk Grade**

| Risk Grade | Company All | Am Indian/ AK Native | Asian/ Pacific Islander | Black | Hispanic | White | Other | Info not provided |
|---|---|---|---|---|---|---|---|---|
| | Percent | Percent | Percent | Percent | Percent | Percent | Percent | Percent |
| AA | 60.82% | 57.03% | 71.17% | 55.89% | 64.60% | 60.24% | 64.29% | 59.25% |
| A+ | 19.02% | 21.08% | 16.05% | 19.93% | 18.34% | 19.19% | 18.99% | 19.19% |
| A- | 9.86% | 10.54% | 6.59% | 11.79% | 8.68% | 10.03% | 7.37% | 9.76% |
| B | 6.62% | 7.38% | 4.25% | 8.11% | 5.22% | 6.82% | 5.99% | 7.15% |
| C | 3.05% | 3.51% | 1.57% | 3.65% | 2.70% | 3.07% | 2.82% | 3.42% |
| C- | 0.64% | 0.47% | 0.39% | 0.64% | 0.46% | 0.66% | 0.54% | 1.23% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

You can see from this table that 87.6% of African American borrowers, 91.6% of our Hispanic borrowers and 89.5% of our White borrowers have risk grades of "A-" or better. Only 3.7% of our borrowers (4.3% African American; 3.2% Hispanic; 3.7% White) are in our highest risk grades of "C" or lower.

Borrowers within a particular credit grade, as shown in the rate sheet in Appendix "D"[25] have variability in rate based on the screening factors noted earlier. The table below summarizes how various factors can affect the interest rate on our rate sheet:

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[25] Appendix "D" contains a copy of our March 17, 2004 rate sheet effective for Southern California. Again, this information is available on our website.

| Factor | Effect on Interest Rate |
|---|---|
| ***Loan Program*** | Our rate sheet displays the rate for our most common product, the 2-28 Adjustable Rate Mortgage. This product is fixed for 2 years and then adjusts every 6 months thereafter. As is typical, our rate for a 30-year fixed-rate loan is higher than for our adjustable product. Our rate for a 30-year fixed-rate loan is 1.00% higher than that for the 2-28 ARM. Our lowest rate for a 2-28 ARM is 4.50% while our lowest rate for a 30-year fixed-rate loan is 5.50%. |
| ***Credit Score*** | Even within our credit grades, we stratify pricing by FICO score. Therefore, for a borrower in our AA credit grade with a high credit score, the rate could be as low as 4.50%. A borrower with the lowest eligible credit score within our AA credit grade could receive a rate no higher than 6.85%. |
| ***Income Documentation*** | Our AA borrowers are eligible for rates as low as 4.50% if they are able and willing to provide full documentation of their income. Borrowers who apply under our Limited Documentation program pay rates that are 0.25% higher. Borrowers who apply under our Stated Documentation program, which has the most flexible requirements regarding income documentation, pay about 0.90% above the Full Documentation rates. |
| ***Loan Size*** | Because so many of the origination costs are fixed regardless of the size of the loan, we are able to adjust the rate depending on the loan size. Borrowers who apply for loans of between $250,000 and $500,000 are eligible for a rate typically 0.25% lower than the rate for a corresponding loan of $100,000 to $249,999. Likewise, we charge an extra 0.25% for loans under $100,000. |
| ***Loan-to-Value Ratio*** | All things being equal, a loan with a higher loan-to-value ratio presents a higher risk to a lender if the borrower were to default. Therefore, we offer our best rates within a credit grade to applicants with Loan-to-Value Ratios of 65% or less. Our rate sheet typically provides a rate increase of 0.15% to 0.35% as a borrower moves from a 65% LTV loan to one with an 80% LTV. |
| ***Property Type*** | Our rate sheet provides for rate increases of 0.25% to 0.75% if a property is non-owner occupied, a condominium, a rural property, or if it is a 3-4 unit property. |
| ***Prepayment Penalty*** | If a borrower agrees to a prepayment penalty on his or her loan, our rate sheet provides for a rate reduction of up to 1.00%, depending on the loan program and the duration of the prepayment penalty, which can be no longer than 3 years. In some states where prepayment penalties are not permitted, we cannot offer the benefit of such a rate |

| | |
|---|---|
| | reduction option to our borrowers. |
| ***Points*** | In our retail originations, if a borrower wishes to pay lower points than a particular loan program would typically require, the borrower may be eligible to do so in exchange for a slightly higher interest rate. Likewise, through our wholesale channel we offer our brokers the opportunity to provide the same tradeoff choice to their applicants. If a wholesale applicant either cannot afford to or prefers not to pay the up-front compensation that the broker would typically require for a particular loan program, the broker can offer a higher rate to the borrower and receive a so-called "yield spread premium" from us. |
| ***State*** | Our rates vary depending on the state in which the property is located. In some states, such as Georgia and New Jersey, state laws constrain our ability to offer loans with prepayment penalties or for us or our brokers to collect as much in points and fees as we would typically collect in another state. In order to make certain that we stay within acceptable risk parameters, we are forced to make fewer loans in those states and, to the extent we are able to make a loan, more of our pricing is driven into the interest rate. All things being equal, our rates in Georgia and New Jersey are 0.50% to 1.15% higher in our AA risk grade than our Southern California rates. We believe that the state laws in Georgia and New Jersey contribute significantly to this pricing differential. |

Our rate sheet and pricing then correspond to the risk grades and loan characteristics. Below is a table showing high-level data regarding our February 2004 loans:

| Risk Grade | Weighted Avg Interest Rate | Weighted Avg APR | Weighted Avg Points & Fees* | Weighted Avg FICO Score |
|---|---|---|---|---|
| AA | 6.83 | 7.26 | 2.47 | 633 |
| A+ | 7.06 | 7.51 | 2.83 | 592 |
| A- | 7.28 | 7.74 | 3.14 | 575 |
| B | 7.80 | 8.26 | 3.40 | 561 |
| C | 8.13 | 8.64 | 3.32 | 551 |
| C- | 9.58 | 10.03 | 3.67 | 547 |

*Includes both New Century and broker points and fees paid by the borrower, but excludes third-party pass-through fees such as appraisal, title insurance and public official fees.

Set forth in Appendix "E" is a breakdown of the average compensation that is paid to the broker and to New Century in a typical loan transaction. <u>On average the borrower in our broker transactions will pay less than 2.5% in points and fees.</u> The brokers' average compensation, including amounts paid by the borrower and New Century was only 2.72% of the loan amount.

**Prepayment Penalties**

Prepayment penalties have been one of the most heated and misunderstood issues in debates at the state and local level over how best to eliminate abusive lending practices. Clearly, any bipartisan federal legislation will need to grapple with how to address potential abuses and benefits stemming from prepayment penalties.

There is no doubt that prepayment penalties can be abusive and harmful to borrowers, especially when they are unduly long, unusually large, poorly disclosed or simply forced on an unwitting borrower. They pose particular risks in the non-prime market. When a borrower is striving to migrate up the credit spectrum in order to be able to refinance into a lower rate mortgage, a long prepayment penalty can thwart that effort or make it more expensive.[26]

It is fair, then, to ask what legitimate purpose is served by prepayment penalties and why are they so prevalent in the non-prime market. The value and opportunity in prepayment penalties stem from the fact that borrowers can obtain a substantially lower rate if they accept a loan with such a penalty. The secondary mortgage market will pay significantly more for a loan that is less likely to prepay within the first 2 or 3 years after origination. What the investor pays is a function of their expectation of the return on their investment taking into account that the loan may prepay earlier than expected.

The higher secondary market value enables lenders to offer a lower rate if a loan has a prepayment penalty as part of its terms. For example, on our March 17, 2003 rate sheet attached in Appendix "D", a borrower in our AA credit grade applying for a 30-year fixed-rate $180,000 loan with us with a 595 FICO score and an 85% loan-to-value ratio would get a 6.50% rate. If that borrower were comfortable that she was not planning to move or refinance in the next 3 years,[27] she could lower her rate by a full 1.00%, to 5.50% with the addition of a prepayment penalty. In practical terms, that would amount to lowering the monthly payment by $115.70, from $1,137.72 to $1,022.70. In the first 3 years the borrower would save $4,165.20 in interest.[28]

[26] One misperception is that prepayment penalties exist only in the non-prime world. While they are certainly more prevalent in the non-prime market, tens of thousands of prime loans are originated each year with prepayment penalties. Fannie Mae and Freddie Mac buy both prime and non-prime loans with prepayment penalties.

[27] Although borrowers do not enter into a loan transaction thinking they will pay a prepayment penalty, inevitably some do for reasons including the following: (1) an unexpected job relocation; (2) a declining rate environment in which the borrower may conclude that it is economically in his or her best interest to refinance into a lower rate and pay the prepayment penalty than it is to wait until it lapses and risk a change in the interest rate environment---for example, a declining rate environment, combined with improvement in the borrower's credit profile so that the borrower would qualify in a higher non-prime grade or even a prime grade, may tilt the scale in favor of refinancing even with the additional cost of a prepayment penalty; or (3) a need to refinance to tap into additional equity in the home to meet unanticipated financial needs.

[28] After 5 years the borrower would have saved $6,942.00. If the borrower were to hold the loan for 30 years, the total savings would be $41,652.

But, what would happen if the borrower were to need to refinance within the 3-year penalty period? In the above example, the borrower would have to pay a prepayment penalty of $3,949.09.[29] The true cost of the prepayment penalty is in fact less since the borrower received a $115.70 payment reduction for each month of the mortgage until she refinanced. Thus, for example, if the borrower prepaid after 2 years, the actual cost to the borrower after factoring in the interest savings is only $1172.29.

This example, based on our average loan size and using our most common credit grade, including a typical FICO score and loan-to-value ratio, comes straight off of our rate sheet. It illustrates how, in the hands of a well-informed borrower, a prepayment penalty can be a very powerful payment reduction tool.

Another very important consideration in accepting a prepayment penalty is the fact that it enables many borrowers to qualify for the loan. For many borrowers, lowering the rate by agreeing to a prepayment penalty and obtaining a significantly lower monthly payment enables them to qualify for a loan because it helps them to meet our debt-to-income ratio guidelines.

**Length of Prepayment Penalties -** Like most of the leading non-prime lenders, the longest prepayment penalty we offer is 3 years. On our adjustable rate loans, we do not permit the prepayment penalty term to extend beyond the first adjustment date. For example, our most common product is a so-called 2-28 ARM. This loan bears a fixed rate for the first 2 years and then converts to an adjustable rate loan for the remaining 28 years. On these loans, our prepayment penalty does not extend beyond 2 years. This, too, is typical for the industry today.

**Frequency of Prepayment Penalty Election** - The example above illustrates the potential benefits of prepayment penalties. Thus, it should not be surprising that so many non-prime borrowers choose to obtain a lower rate by accepting such a penalty. About 75% of our borrowers agree to take loans with prepayment penalties. Those who charge that "prepayment penalties lock borrowers into higher cost loans" usually fail to note that the borrower receives a significant benefit through a lower rate and lower monthly payment, that this helps many qualify for the loan, and that even if the penalty is triggered a year or two later, the real cost has been substantially offset by the savings in monthly payments due to the lower rate.

While the mortgage process is admittedly complex and there is always room for improved disclosure, we in industry find it to be inconceivable that critics' charges are correct that hundreds of thousands of non-prime loans were made last year without most borrowers realizing they have a prepayment penalty. We know that the primary reason so many of our borrowers elect to take the loan with the prepayment penalty is that one of

[29] In California, as in most states, the formula we use for a prepayment penalty is 6-months' interest on 80% of the original balance.

their main considerations is cash flow. They want to be able to keep their monthly payment as low as possible.[30]

**Informing Borrowers About Prepayment Penalties**

Nevertheless, as noted earlier, prepayment penalties, like many other loan terms, have the potential of being abusive when they are unusually long, unusually large and/or not properly explained to the borrower. We are required by law in our initial disclosures to a borrower to indicate whether or not the loan may bear a prepayment penalty. Likewise, we include a color brochure with our initial borrower disclosure package that contains an explanation of how prepayment penalties work. [31]

Our sales associates are trained to explain how the prepayment penalties work. And, as we continue to strive to improve our practices, we are engaging a nationally respected fair lending firm to, among other things, to test our branches and loan officers on the quality of their explanation of prepayment penalties. Finally, in our loan documents themselves, we do not bury the prepayment clause in the middle of the promissory note. Rather, we have a separate, prominently labeled form that covers the prepayment penalty. We have the borrower review and sign that form separately. [32]

Despite my confidence that New Century and other responsible lenders are handling prepayment penalties properly, we and our CFAL partners recognize that not all lenders or brokers do so. Therefore, we have called for additional federal legislative protections to ensure that borrowers are always given the choice of a loan with or without such a penalty and that the length and amount of the penalty be limited.

**Making Loans That Benefit Borrowers**

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[30] A typical borrower has two principal means of reducing his or her monthly payment. One is to pay more points up front to "buy down" the interest rate. This is in effect an upfront prepayment penalty. The borrower must either bring additional cash to the table or borrow additional sums to finance the additional up-front points. The alternative, and often more attractive choice, is to agree to accept a prepayment penalty. If a borrower believes he or she is likely to remain in the home and not refinance for 2 or 3 years, then for no cost the borrower can reduce his or her payment significantly by agreeing to a limited prepayment penalty.

[31]This disclosure explanation states*: Determine what prepayment option makes the most sense for you. Many borrowers elect to have a prepayment clause included in their loan agreement to obtain a lower interest rate. If you choose to have a prepayment clause in your loan, be sure you understand the length of time it will be in effect and how much it will cost to pay your loan off early. New Century Mortgage offers loans with and without prepayment options.*

[32] While we are always searching for ways to improve how we explain and disclose these potentially confusing concepts, on the whole we think we are doing a good job. Last year we originated over 128,000 loans with prepayment penalties. Our central complaint log shows that we currently have only 29 complaints related to prepayment penalty issues. Now, in my view, even one legitimate complaint is one too many, and you can be sure that we follow through on each one of those complaints to understand the potential causes. However, with such a low complaint rate I am comfortable concluding that there is nothing inherently or systemically wrong with the way we offer prepayment penalties.

Our policy is that each loan must benefit the borrower so we subject each loan to a reasonable benefit test prior to closing. In the case of cash-out refinance loans, we measure the cost of the loan, i.e., the points and fees being paid by the borrower, against the cash that the borrower is receiving back from the loan. The loan is not made unless the borrower is getting more cash out than they are paying in points and fees. With respect to rate and term refinances, we look at the monthly reduction in mortgage payment as a result of the refinance versus the points and fees paid on the loan. If the borrower cannot recoup the points and fees paid from the reduced mortgage payments within 48 months, then there is deemed to be no benefit to the borrower. In these situations, the underwriter is responsible for running the test and if it is determined that there is no such benefit, the file is escalated to an operations manager. The operations manager can look for ways to lower the costs to the borrower, which may involve reducing the interest rate or lowering the points and fees charged. If no reasonable benefit can be achieved, then the loan will be declined. In addition, there are situations where after the loan is closed, a borrower may complain, an investor may raise a question, or we may discover by our own audit of the file as part of a quality assurance review that some aspect of the loan needs to be revisited. In these situations, we often will pro-actively rewrite the loan to correct the problem or refund points and fees as appropriate.

Although New Century and other responsible lenders now apply borrower benefit tests before we make a loan, and document our determination, we do have a real concern over the fact that statutory or regulatory benefit tests vary and are in some cases quite unclear, making compliance uncertain. Such tests include wording such as "identifiable" benefit, "tangible net" benefit, or "borrower's interest" with little or no definition or limitation in most cases. CFAL believes that a uniform national benefit test should be enacted when Congress amends HOEPA, but we feel that it should be clearly defined and contain reasonable qualifications (such as requiring that any violation be "knowing or intentional") and that safe harbor examples be provided in the statute and implementing regulations.

**Lending "Best Practices"**

I also want to point out that, like other major non-prime lenders, we have a strong commitment to fair and ethical lending. Therefore, not only do we seek to comply fully with applicable and regulations, but we also frequently go beyond what the law requires with additional voluntary "best practices." Here are some of New Century's best practices that we adhere to in originating mortgage loans:

- We will not underwrite or purchase "high cost" loans as defined by the federal Home Ownership and Equity Protection Act (HOEPA"), or any loans defined as "high cost" under State or local law. [33]

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[33] New Century Mortgage does not originate "high cost" loans due to the reputation risk and legal risk associated with initiating high cost loans. We, like most other companies, do not wish to have our reputation tarnished by being associated with loans that are perceived as being "high cost," which in turn

- We do not purchase or offer loans with balloon payments, negative amortization or mandatory arbitration clauses, abusive reverse mortgages, or with loan terms that trigger interest rate increases by borrower default.
- We do not make or purchase loans containing single premium credit insurance or debt cancellation products.
- We offer loans with and without prepayment penalty clauses.
- We do not originate loans that pay off zero interest rate mortgages provided by charities or government without 3rd party counseling for the borrower.
- We only approve loan applications where we have verified the borrower's ability to repay the loan.
- In evaluating applications, we confirm that our loan represents a reasonable benefit to the borrower.
- We do not solicit our loan portfolio within twelve months of loan origination.

Most CFAL members have similar practices and procedures, as do other leading companies.

**Delinquency, Loss Mitigation and Foreclosure**

New Century's overriding objective is to keep our customers in their homes should they encounter financial hardship. Two New Century employees specially trained to help customers in financial difficulty review every potential foreclosure. New Century makes every effort possible to provide payment alternatives, and we routinely refer borrowers to HUD-approved credit counselors. New Century also is currently establishing relationships with nationally recognized credit counseling organizations to help borrowers who want or need assistance. Equally as important, New Century does not offer financial incentives to employees based upon their foreclosure results. Our objective is to avoid foreclosure by exploring every option to keep customers in their homes.

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has for many become synonymous with "predatory." Additionally, the legal risk of originating high cost loans is enormous.

Under the federal HOEPA, penalties for even an unintentional violation include having the loan rescinded at any time during its first three years and being required to refund all fees and payments made by the borrower. Moreover, under this law, assignees and secondary market purchasers would likewise be liable for this unintentional violation of which they neither knew nor could have known. State and local laws, such as the original version of the Georgia Fair Lending Act and ordinances enacted in Oakland, California and elsewhere, contain even more draconian penalties.

The laws that have been enacted contain requirements for making so-called "high cost" loans are generally unclear and contain overly broad requirements. They lack any meaningful right to cure unintentional errors, provide severe penalties for violation of the law, and in many cases mandate unlimited assignee liability. For these reasons, most non-prime lenders have stopped making "high cost" loans and the secondary market for purchasing or securitizing them has virtually evaporated.

Contrary to the claims of some consumer advocates, our delinquency and foreclosure rates on our securitized pools of loans, like those of other leading companies, are quite respectable. Our average 13-month rolling 60-day delinquency rate is 9.82% for all loans and 13.31% for our seasoned loans (at least 6 months old). Most delinquent borrowers are able to become current in their payments and their delinquencies do not become foreclosures.

Our average foreclosure rate is around 5% - nowhere near the rates claimed by some consumer advocates.[34] The table attached as Appendix "F" shows the delinquency and foreclosure rates for loans originated in 2001, 2002, and 2003 broken out by FICO score bands. It clearly shows how delinquencies and foreclosures track by the credit standing of the borrower. This information is further evidence that responsible non-prime lenders can make reasonable loans that consumers are able to repay and thereby avoid foreclosure.[35] When a foreclosure occurs, we find that it most frequently is not due to some improper lending practice, but is due to an unexpected and adverse change in the borrower's personal circumstances. This scenario typically includes things such as the loss of employment or a serious illness. We try whenever possible to help borrowers weather such personal crises, but this is not always possible.

New Century has a Loss Mitigation Department whose job it is to turn delinquent loans into performing ones by pursuing available workout alternatives. This Department has the ability to work out mutually acceptable forbearance plans to help the borrower reinstate their loan. Candidates for workout proposals from the Loss Mitigation Department include delinquent loans, damaged properties, loans involving fraud or title issues, loans in foreclosure, delinquent Chapter 7 Bankruptcy discharges, and loans where the property is located in an area where a natural disaster has occurred. Acceptable reasons for default assistance include the following:

- Involuntary reduction of income;
- Unemployment of one or both spouses;
- Loss of overtime income;
- Decline of income for the self employed borrower;
- Incarceration of a spouse or co-borrower;

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[34]This percentage represents those borrowers that enter the foreclosure process. The percentage of borrowers that actually have their properties foreclosed is much less. With the recent restart of our Loan Servicing Division, we have seen a definite trend in the improvement of roll rates as well as in cure rates. Foreclosures are also at a 13-month low on a dollar basis and are flat on a percentage basis. The percentage of 90+ day delinquencies that went bankrupt declined by almost 10% in 2003, as did the percentage of 90+ day delinquencies that went into foreclosure for the same period. As a result, the percentage of 90+ day delinquencies that became foreclosed mortgages (REO – "real estate owned") also declined. Additional information regarding our servicing practices is contained in Appendix "G."

[35] While responsible lenders like New Century are not engaging in lending practices that result in inappropriately high foreclosure rates, it should be pointed out that we understand that in some areas of the country there have been a number of cases of so-called "property flipping" where borrowers have been grossly overcharged for homes due to fraud by unethical appraisers, brokers, lenders and others. Congress should consider whether additional statutory protections are needed to address such property flipping fraud which often results in borrowers losing their homes in foreclosures.

- Permanent or temporary disability;
- Serious illness;
- Divorce or separation;
- Natural or man-made disasters;
- Non-paying renters in a multi-family situation;
- Increases in expenses;
- Unexpected expenditures for property maintenance; and
- Funeral expenses of a family member.

New Century's goal is to do everything possible to work with borrowers to make their loans current and keep them in their homes. We have no interest in foreclosing on properties since foreclosure results in significant losses to the Company, typically more than $40,000 on an average loan.[36]

## CONCLUSION

As our testimony has documented, New Century and other major reputable lenders like its CFAL partners are meeting the mortgage credit needs of millions of Americans whose risk profiles prevent them from qualifying under the stricter

[36] In the event that foreclosure becomes necessary, there are a number of steps that must be taken before a loan can be submitted for foreclosure action. Although every state has its own foreclosure procedures that we follow, at a minimum, no foreclosure can be initiated without issuing a Notice of Intent to Foreclose ("NOI") and giving the borrower at least 30 days notice prior to commencing a foreclosure. Loss mitigation efforts as described above take place during this notification period. Loans are submitted for foreclosure review after the 30-day notice period expires, upon breach of a formal payment arrangement and the delivery of the NOI, or upon recommendation of the Collection Department and the delivery of the NOI letter. The Foreclosure Committee reviews loans that are submitted for foreclosure review. This Committee meets weekly and consists of managers from the Collection Department, Foreclosure Department, and the Loss Mitigation Department. The Foreclosure Committee reviews foreclosure referrals that fall into the following categories: (1) unpaid principal balance over $300,000; (2) random 2% of all referrals; (3) potential risk management referrals; and (4) first payment default referrals.

Foreclosure files are referred to our Risk Management Department for investigation and potential resolution when one or more of the following events occur:

- If the loan was originated through our Retail Division and the difference between the original value of the property and the foreclosure evaluation is greater than 20%;
- If the loan was originated through a mortgage broker and the difference between the original value of the property and the foreclosure evaluation is greater than 30%;
- The loss is over $60,000 (regardless of the percentage difference in the property value);
- The loan is originated by a broker whose loans repeatedly result in foreclosure/loss;
- The loan is the product of an apparent "flip scheme";
- The loan may not represent an "arm's-length transaction";
- The loan was originated to a borrower who has multiple loans in default; and
- First payment default loans.

Thus, every effort is made to address potential abuses before a foreclosure is initiated on a defaulted loan.

underwriting standards of the "prime" mortgage market.[37] We are carefully evaluating risks and seeking to make loans only to those who can repay them. We always try to ensure that the borrower receives a reasonable benefit from the loan, which we price as fairly as we can based on our evaluation of each applicant's risk profile. Only a very small percentage of our borrowers actually might qualify for "prime" rates. We never intentionally engage in or condone improper practices, but we make mistakes, we seek to correct them and make the borrower whole. Borrowers are not intentionally "targeted" on the basis of race, age or other improper discriminatory factors. The vast majority of all our borrowers receive loans that are only modestly more expensive than "prime" loan costs, and this is due in substantial part to the flow of reasonably priced capital from the secondary market and competition in the non-prime marketplace.

At the same time, we recognize that there are some bad lenders and brokers who take unfair advantage of borrowers. We accordingly support strengthening current federal law, as well as enhancing enforcement and consumer financial education opportunities. We also understand that the many state and local legislators who have stepped in to try to fill the gaps in the federal HOEPA law have been well intended. However, the irrational patchwork of state and local "anti-predatory lending" laws that is developing is not workable.

**Uniform National Non-Prime Lending Standards Are Needed** –

None of these laws is the same, and requirements vary greatly. Provisions are often arbitrary, unclear and totally impractical for lenders to implement.[38] Well intended, but poorly crafted state and local requirements are having unintended negative consequences for borrowers. As noted in OCC's 2003 paper:

*"There is a good deal of empirical evidence to suggest that anti-predatory statutes impede the flow of mortgage credit, especially to low income and higher-risk borrowers, and any reductions in predatory abuses resulting from these measures is probably achieved at the expense of many legitimate loans."*[39]

Our earlier experience in Georgia is a good illustration of the problems lenders and borrowers experience due to well intended, but poorly drafted state or local laws. The

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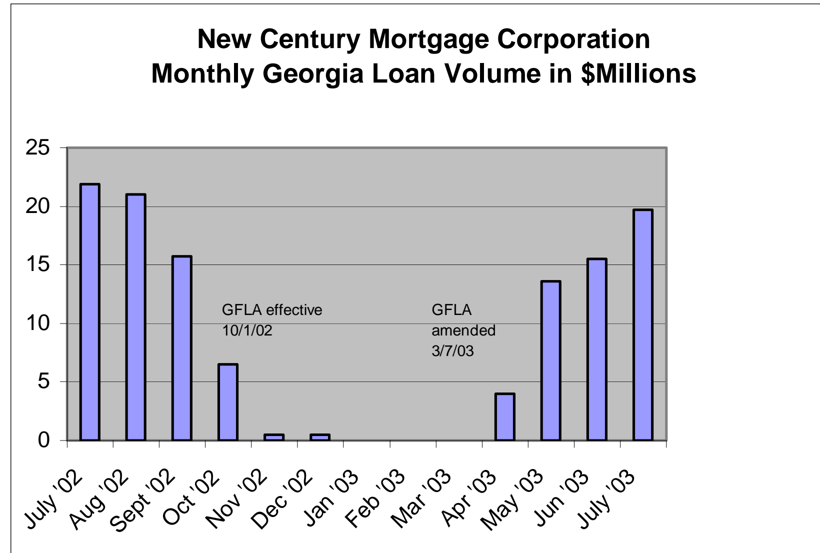
[37] We receive many communications from our borrowers expressing their appreciation for the services we provide to them. Appendix "I" contains several customer testimonials to illustrate this fact.

[38] All current and prospective homeowners, regardless of being prime or non-prime borrowers, should be given the opportunity to receive the best possible rate a lender offers based on their financial histories. As various states and cities enact predatory lending legislation, the legislation is impacting the rate and terms that borrowers receive. For example, the State of California has legislation that sets a standard for rates, points and fees throughout the state. Yet, the City of Oakland and the City of Los Angeles have proposed ordinances that will be more restrictive in terms of the interest rates, points and fees that can be charged in those municipalities. Thus, a resident of the City of Los Angeles may be denied access to credit under its proposed legislation but that same borrower who lives in a suburb outside of the Los Angeles city limits may be able to qualify for a loan because they will fall under the less restrictive state legislation. It seems inherently unfair that borrowers should have to deal with these inconsistencies and it makes it extremely difficult for lenders to operate in that patchwork of inconsistent laws and regulations.

[39] OCC report at p. 8.

Georgia Fair Lending Act ("GFLA") was enacted in 2002 in order to stop predatory lending practices without affecting the availability of credit. However, the act was so overbroad and contained such ambiguous provisions that mortgage credit was severely impacted. Many lenders ceased doing home lending in the state, including New Century, as the secondary market stopped purchasing Georgia home loans.[40]




This chart shows the impact on New Century's loan business in Georgia from shortly before the GFLA went into effect until shortly after the law was amended to correct its major deficiencies. We believe New Century's experience to be representative of the industry as a whole.

Although our Georgia business has rebounded somewhat, the sad fact is that there are still many higher risk Georgians who we cannot lend to because of the law even as it has been amended. Restrictions that still exist under Georgia law with regard to points, fees, prepayment penalties and other issues mean that many borrowers that can no longer qualify for a loan.

I also want to note that currently my company and most others are having to significantly limit the types of mortgage produces we offer in New Jersey due to that state's overly restrictive law. The "balkanization" of credit occasioned by such state and local laws simply leads to higher costs that are passed on to consumers, or to the reduction of products, and ultimately credit, to the detriment of those very consumers these "well intentioned" laws are designed to help.

When legitimate major lenders such as New Century are unable to operate under reasonable, consistent and predictable standards, business suffers. So, too, do consumers.

Today, nonprime lending is clearly a nationwide, interstate business that is highly dependent on the national capital markets in order to make affordable mortgages

[40] *Lawmakers Promise to Fix Predatory Lending Law* – Augusta Chronicle, January 23, 2003.

available to the millions of Americans who cannot qualify for conventional financing.[41] We need consistent, nationwide requirements to be able to continue providing access to credit effectively and efficiently. Most states also still have no effective borrower safeguards in place. Borrowers need protections not only from abusive lending practices, but also from differing, poorly crafted state and local laws that limit their access to affordable credit and force them to pay more.

New Century and CFAL therefore strongly support prompt Congressional action to provide clear, effective and workable uniform national fair lending standards for nonprime mortgage loans. These standards should provide equal protections for all Americans and apply to all mortgage originators, regardless of how they may be structured or chartered.

We also believe that state officials should have an active role along with federal authorities in enforcing these national standards.

Thank you for this opportunity to appear before your Subcommittees. New Century and its CFAL partners look forward to continuing to work with you and your colleagues, consumer and community groups, and all other interested parties to help craft a fair, effective and workable legislative measure that sets such national standards and that can be passed with broad bipartisan support.

[41] Since the advent of the secondary mortgage market, borrowers have been able to take advantage of longer terms and lower rates that are made possible by the free flow of capital. No longer are borrowers dependent on local financiers. No longer is the condition of the local economy a detriment to securing funding. Today, national and international funds from Wall Street are used to make the dream of homeownership a reality for millions of American families.

**APPENDIX "A"**

## The Importance of the Secondary Market

The ability to secure access to capital is vital to the growth and prosperity of communities and families in our country. With access to capital, families are able to invest in a home, a college education or meet other financial goals. Additionally, a healthy stream of capital flowing through a community can contribute to the local economy in the form of jobs and services.

Since the 1930s, the federal government has been actively working to increase the amount of capital available in the marketplace through the creation of the secondary market. One of the primary objectives of the secondary mortgage market was to integrate local mortgage markets with national capital markets. Today, globalization has brought international capital into the secondary market, which translates into more financial resources for Americans. The secondary market allows banks, thrifts, mortgage companies and other lenders to sell their mortgage originations to investors through a process called mortgage securitization. The development of the secondary market has provided a free flow of capital for primary lenders. This has been recognized by Freddie Mac as having a significant impact on the pricing of loans as evidenced by the following quote:

***The supply of cash the secondary mortgage market makes available to lenders through the process drives down mortgage rates by as much as one-half percent – saving the homeowner with a $100,000 mortgage around $12,000 in interest over the life of a 30-year loan.**   "Our Role Within the Secondary Market"* Freddie Mac 2004.

When New Century initially makes a mortgage loan, it draws the funds that it needs from a warehouse line of credit, which is a revolving credit facility designed for that purpose. New Century maintains the ownership of the mortgage loans that it makes for approximately 30-60 days during which time the mortgage loans are aggregated into pools which are sold into the secondary market. New Century sells all of its mortgage loan production into the secondary market in one of two ways: either by securitizing the mortgage loans; or by selling them in pools of whole loans to investors who, in turn, ultimately securitize them. So, eventually, virtually all of our mortgage loans are included in a securitization. New Century uses the proceeds of the sales of mortgage loans to repay the warehouse line of credit which it can then draw down on again to make more mortgage loans.

New Century makes "representations and warranties" to the banks who provide warehouse lines of credit, to the investors who purchase whole loans and to the investors in securitizations. Among the representations and warranties are those that are "loan-level". Loan-level representations and warranties are specific promises that New Century makes to its investors and bank lenders that mortgage loans being financed on warehouse lines of credit and sold to investors meet certain specifications. Included in typical loan-

level representations are requirements that each mortgage loan is valid, enforceable and was made in compliance with applicable laws and regulations. If any of the mortgage loans fails to meet these specifications, New Century is obligated to repay the bank or investor. Today, these representations and warranties also encompass whether or not the loans being securitized or sold are "high-cost"loans which New Century does not intentionally make and in some cases whether they are "covered" loans which may not be subject to being securitized or sold when made in certain states like New Jersey that have enacted overly restrictive predatory lending legislation.

As mentioned previously, New Century originates loans from one of two basic channels: wholesale and retail. Wholesale refers to mortgage loans, which were originated through a loan broker, and retail refers to mortgage loans funded directly by New Century through one of its own retail branches. Over 90% of New Century's mortgage loan production comes through the wholesale channel. That means that the consumer relationship is managed in large part by the mortgage loan broker whose job it is to find the best mortgage loan for their clients subject to our own standards for broker conduct.

In order to insure that we can comply with loan-level representations and warranties, New Century employs a number of systems and procedures. First, we monitor loan brokers for compliance with their broker agreement and we remove brokers from our approved list if we detect inappropriate behavior. Then, we have a quality control department that reviews samples of the mortgage loans that we produce both through the wholesale and retail channels. Our banks and our investors also conduct due diligence on our mortgage loans. Investors typically review a sample of loans before purchasing a whole loan pool. Finally, we have a quality assurance program which reviews mortgage loans which have been funded for problems and insures that our systems are appropriate.

In addition to these procedures, we have systems to detect potentially fraudulent mortgage loans. We are also subject to audits by state regulators who visit us and review loan files. All of our mortgage loans are produced by a loan origination computer system that generates loan documents and has logic built-in to prevent loans from being made which are not in compliance with applicable and our underwriting guidelines or which are not saleable.

All of these systems and procedures are designed to obtain a rating without onerous and uneconomical credit enhancement requirements from the rating agencies (Standard & Poors, Moody's and Fitch) so that our loans can be sold or securitized in the secondary market as investment grade securities. Consequently, when states impose overly restrictive requirements on the purchasers of these securities and seek to make them liable for any issues that may arise with respect to these loans, the rating agencies are unwilling to rate the securities, or rate them so poorly, making it impossible for lenders like New Century to access the secondary market in order to obtain the capital needed to continue to make mortgage loans. This type of broad or even unlimited "assignee liability" is detrimental to both non-prime lenders and consumers alike because

it defeats the overall goal of making credit available at lower rates for consumers. Georgia and New Jersey are real life examples of what can happen when access to capital dries up. In Georgia, many non-prime lenders stopped making all loans until their legislation was amended, and, in New Jersey, we have seen loan volume reduced by as much as 60% for important types of loans, particularly "cash-out refinance" loans.

As the Subcommittees consider legislation that will set a national standard for predatory lending, we urge you to not disrupt the flow of capital in the secondary market to responsible non-prime lenders like New Century by making standards with regard to assignee liability overly broad and restrictive.

**APPENDIX "B"**

## Monitoring Broker Conduct

New Century is committed to setting the industry's highest code of conduct among the brokers with whom it does business. To work with New Century, brokers are required to consistently make loans that are fair and reasonable, and enable borrowers to equitably pursue their financial objectives. New Century's brokers must also conduct business in an ethical manner reflecting the company's values of professionalism, integrity, and outstanding service to all customers. New Century does not condone any broker practice that is predatory in nature and will terminate any broker who engages in such practices.

Brokers working with New Century must make a good faith effort to fully understand a borrower's needs and financial situation. Brokers must demonstrate that a loan has a reasonable benefit to borrowers, that borrowers clearly have the ability to repay the loan, and that the loan is not considered a "high cost" loan under federal, state and local laws. New Century will not purchase or fund any loan that includes potentially abusive loan terms such as single premium credit insurance premiums, balloon payments, negative amortization, unilateral loan call provisions absent default, mandatory arbitration clauses, or interest rate increases triggered by default. New Century also does not engage in equity stripping, flipping or packing, and expects the same of brokers.[42]

All New Century brokers must complete a qualification and certification process that includes background checks conducted by New Century's Broker Services Department and confirmed through a variety of independent sources. Our brokers are encouraged to take continuing broker education and training offered by New Century or other reputable education providers.

New Century also monitors brokers' loan production, complaints and lending data in order to confirm adherence to the Broker Code of Conduct. New Century will appropriately discipline brokers, including terminating our relationship, if they fail to comply with the company's Broker Code of Conduct. Terminated brokers may face a variety of civil and criminal penalties, and we may require brokers to repay the loan, forfeit fees, or take other action as deemed appropriate. New Century works closely with regulators to ensure the highest code of conduct among brokers.

We have cultivated a corporate environment that encourages fair and equitable treatment of all customers with regard to loan pricing, underwriting and servicing regardless of race, color, age, gender, marital status, disability, national origin or other prohibited basis. When negotiating the price or terms of a loan, brokers must treat all

[42] "Equity stripping" is typically considered to be the making of a series of loans with unjustifiably high costs to a borrower that results in the loss of equity and potentially the loss of the property. "Flipping" is the practice of refinancing existing loans within a short period of time when the borrower receives little or no benefit, and the lender charges unnecessary fees. "Packing " generally refers to the practice of including single premium credit insurance fees in a loan.

customers in a consistent manner. Brokers must be able to explain disclosure notices to each customer, be able to answer questions in a timely manner and respond quickly to customer concerns and issues by taking appropriate action to resolve them.

New Century brokers must make consumers aware of all applicable loan products to ensure that they understand their full range of options. Brokers may not engage in predatory marketing practices with any demographic group, including minority and elderly loan applicants. Broker advertising and marketing materials also must comply with federal, state and local laws.

**APPENDIX "C"**

## CRITERIA COMPARISON TABLE

| New Century Guidelines | Fannie Mae Guidelines | Source Verified By |
|---|---|---|
| | | |
| **1.**Stated income, full documentation and limited documentation allowed | **1.** Full income documentation required. | Fannie Mae's Single Family Selling Guide/Underwriting Guidelines (www.fanniemae.com) |
| **2**. Maximum Loan Amount: $500,000 standard $750,000 jumbo | **2.** Maximum Loan Amount: $333,700 / Hawaii $500,550 | Fannie Mae's Reference Tools & Information/ Loan Limits |
| **3.** Maximum Debt to Income Ratio: 50% | **3.** Maximum Debt to Income Ratio: 36% - but a higher ratio is sometimes allowed if certain factors are used to justify the higher ratio and this is documented. Maximum Debt to Income Ratio for Community Lending Mortgages: 38%. | Fannie Mae's Single Family Selling Guide/ Underwriting Guidelines/ Chapter X, Section 703: Benchmark Qualifying Ratio & Section 304: Underwriting Community Lending Mortgages |
| **4.** Minimum FICO Score: 500 | **4.** Minimum FICO Score: 600 | Fannie Mae's Single Family Selling Guide/ Underwriting Guidelines/ Chapter X, Section 301: Primary Risk Factors |
| **5.** Minimum FICO Score for loans with LTV over 90% is 580 and there are various programs available for borrowers with FICO scores between 580 and 640. | **5.** Minimum FICO Score for loans with LTV over 90%: 680 | Fannie Mae's Single Family Selling Guide/ Underwriting Guidelines/ Chapter VII, Ch1, Exhibit 2: Enhanced Eligibility Criteria: Maximum Allowable Loan-to-Value Ratios for Fixed-Rate and Adjustable-Rate Mortgages (excluding special mortgage products) |
| **6.** Minimum FICO Score for self employed borrowers: 500 | **6.** Minimum FICO Score for self employed borrowers: 740 | Fannie Mae's Single Family Selling Guide/ Underwriting Guidelines/ Chapter VII, Ch1, Exhibit 2: Enhanced Eligibility Criteria: Maximum Allowable Loan-to-Value Ratios for Fixed-Rate and Adjustable-Rate Mortgages (excluding special mortgage products) |
| **7**. Minimum FICO score for investment properties: 500 | **7**. Minimum FICO score for investment properties: 720 | Fannie Mae's Single Family Selling Guide/ Underwriting Guidelines/ Chapter VII, Ch1, Exhibit 2: Enhanced Eligibility Criteria: Maximum Allowable Loan-to-Value |

| | | |
|---|---|---|
| | | Ratios for Fixed-Rate and Adjustable-Rate Mortgages (excluding special mortgage products) |
| **8.** Maximum LTV for investment properties: 90% LTV including cash out refinance | **8.** Maximum LTV for investment properties: 90% for Purchase Money and Limited Cash-Out Refinance; 85% for Cash-Out Refinance | Fannie Mae's Single Family Selling Guide/ Underwriting Guidelines/ Chapter VII, Ch1, Exhibit 2: Enhanced Eligibility Criteria: Maximum Allowable Loan-to-Value Ratios for Fixed-Rate and Adjustable-Rate Mortgages |
| **9.** Maximum Mortgage delinquencies 2x90 or 1x120 days late in the last 24 months | **9.** Maximum Mortgage delinquencies: 1x30 days late in the last 13 to 24 months preceding the date of the borrower's application | Fannie Mae's Single Family Selling Guide/Underwriting Guidelines Chapter X, Section 304.01: Credit History Based on Traditional Credit |
| **10.** Maximum Consumer credit delinquencies: open, with minimum FICO score of 500 | **10.** Maximum Consumer credit delinquencies: 1x30 days late in the last 13 to 24 months preceding the date of the borrower's application | Fannie Mae's Underwriting Guide Chapter X, Section 304.01: Credit History Based on Traditional Credit |
| **11.** Chapter 7 Bankruptcy: Discharge - can be discharged at funding. | **11.** Chapter 7 Bankruptcy: Discharge must be at least 4 years from application date | Fannie Mae's Single Family Selling Guide/ Underwriting Guidelines/ Chapter X, Section 803.02: Payment History |
| **12.** Chapter 13 Bankruptcy: Discharge – can be discharged at funding. | **12.** Chapter 13 Bankruptcy: Discharge must be at least 2 years from application date | Fannie Mae's Single Family Selling Guide/Underwriting Guidelines, Chapter X, Section 803.02: Payment History |

# APPENDIX "D"
# NEW CENTURY UNDERWRITING MATRIX AND RATE SHEET
# (CALIFORNIA)

Effective 03.01.04 | 888-623-LOAN (5626) | www.NewCentury.com

**TRADITIONAL MATRIX**

| PARAMETERS | AA[3] | A+[3] | A-[3] | B | C | C- |
|---|---|---|---|---|---|---|
| Full Doc | 95% LTV - $500,000 - FICO 620[1]<br>95% LTV - $400,000 - FICO 580[1]<br>90% LTV - $500,000 - FICO 550<br>85% LTV - $500,000 - FICO 525<br>80% LTV - $500,000[1] | 95% LTV - $500,000 - FICO 640[1]<br>95% LTV - $400,000 - FICO 600[1]<br>90% LTV - $500,000 - FICO 550<br>85% LTV - $500,000 - FICO 525<br>80% LTV - $500,000[1] | 90% LTV - $500,000 - FICO 550<br>85% LTV - $500,000 - FICO 525<br>80% LTV - $500,000[1] | 85% LTV - $300,000 - FICO 525<br>80% LTV - $400,000<br>75% LTV - $450,000[1]<br>70% LTV - $500,000[1] | 80% LTV - $300,000 - FICO 550<br>75% LTV - $350,000<br>70% LTV - $400,000<br>65% LTV - $450,000[1]<br>60% LTV - $500,000[1] | 70% LTV - $300,000<br>65% LTV - $350,000<br>60% LTV - $400,000<br>55% LTV - $450,000[1] |
| Limited Doc (12 Mo Personal Bank Statements) | 95% LTV - $400,000 - FICO 600[1]<br>90% LTV - $450,000 - FICO 550<br>85% LTV - $500,000 - FICO 525<br>80% LTV - $500,000[1] | 90% LTV - $450,000 - FICO 580<br>85% LTV - $500,000 - FICO 525<br>80% LTV - $500,000[1] | 85% LTV - $400,000 - FICO 525<br>80% LTV - $450,000[1]<br>75% LTV - $500,000[1] | 80% LTV - $350,000<br>75% LTV - $400,000<br>70% LTV - $500,000[1] | 75% LTV - $350,000<br>70% LTV - $400,000<br>65% LTV - $450,000[1]<br>60% LTV - $500,000[1] | 70% LTV - $300,000<br>65% LTV - $350,000<br>60% LTV - $400,000<br>55% LTV - $450,000[1] |
| Stated Doc | 95% LTV - $400,000 - FICO 620[1]<br>90% LTV - $400,000 - FICO 580<br>85% LTV - $400,000 - FICO 525<br>80% LTV - $400,000<br>75% LTV - $450,000[1]<br>70% LTV - $500,000[1] | 90% LTV - $400,000 - FICO 620<br>85% LTV - $400,000 - FICO 550<br>80% LTV - $400,000 - FICO 525<br>75% LTV - $450,000[1]<br>70% LTV - $500,000[1] | 80% LTV - $400,000 - FICO 525<br>75% LTV - $400,000<br>70% LTV - $450,000[1]<br>65% LTV - $500,000[1] | 75% LTV - $300,000<br>70% LTV - $350,000<br>65% LTV - $400,000<br>60% LTV - $450,000[1] | 70% LTV - $250,000<br>65% LTV - $300,000<br>60% LTV - $350,000<br>55% LTV - $400,000 | 55% LTV $250,000 |
| LTV/CLTV Adjustments (Adj. are cumulative) | Condos/Attached PUD - 5% (when FICO <620)<br>3-4 units - 5%<br>Non Owner – 5% FICO 620+<br>(Max Loan Amt $400K when LTV >85%)<br>Non Owner – 10% FICO <620 | Condos/Attached PUD - 5%<br>3-4 units - 5%<br>Non Owner- 5% FICO 620+<br>(Max Loan Amt $400K when LTV >85%)<br>Non Owner – 10% FICO <620 | Condos/Attached PUD - 5%<br>3-4 units - 5%<br>Non Owner – 5% FICO 620+<br>(Max Loan Amt $400K when LTV >85%)<br>Non Owner – 10% FICO <620 | Condos/Attached PUD - 5%<br>3-4 units - 5%<br>Non Owner – 5% FICO 620+<br>(Max Loan Amt $400K when LTV >85%)<br>Non Owner – 10% FICO <620 | Condos/Attached PUD - 5%<br>3-4 units - 5%<br>Non Owner – 5% FICO 620+<br>(Max Loan Amt $400K when LTV >85%)<br>Non Owner – 10% FICO <620<br>(Non Owner – Refi Only) | Condos/Attached PUD - 5%<br>3-4 units - 5%<br>Non Owner 1- 5% FICO 620+<br>(Max Loan Amt $400K when LTV >85%)<br>Non Owner – 10% FICO <620<br>(Non Owner – Refi Only) |
| Mortgage / Rental 12 month history | AA = 0 x 30 | A+ = 1 x 30 | 3 x 30; no 60-days | Maximum 1 x 60 | Maximum 1 x 90 | Maximum 2 x 90<br>Or 1 x 120 |
| Consumer Credit | Credit score ≥ 500<br>(2+ AA Trade Lines, one w/ 24 mnt hist for >90% Full/Limited Doc;<br>2+ AA Trade Lines, one with 24 mnt hist for >90% Stated Doc) | Credit score ≥ 500<br>(3+ AA Trade Lines, one with 24 mnt hist for >90%) | Credit score ≥ 500 | Credit score ≥ 500 | Credit score ≥ 500 | Credit score ≥ 500 |
| Rural/Unique | 85% LTV Maximum<br>(10% Reduction) | 85% LTV Maximum<br>(10% Reduction) | 80% LTV Maximum<br>(10% Reduction) | 70% LTV Maximum<br>(10% Reduction) | 65% LTV Maximum<br>(10% Reduction) | Not Available |
| Max CLTV | 100% CLTV-Max 80% LTV on 1st<br>95% CLTV-no restriction on 1st LTV<br>Purchase or refinance | 100% CLTV-Max 80% LTV on 1st<br>95% CLTV-no restriction on 1st LTV<br>Purchase or refinance | 100% CLTV-Max 80% LTV on 1st<br>95% CLTV-no restriction on 1st LTV<br>Purchase or refinance | 100% CLTV-Max 80% LTV on 1st<br>95% CLTV - no restriction on 1st LTV<br>Purchase or refinance | 85% Purchase<br>85% Refinance | 80% Purchase<br>80% Refinance |
| Debt to Income Ratio at LTV | 50% LTV<br>55% - 75% LTV | 50% LTV<br>55% - 75% LTV | 50%<br>55% - 75% LTV | 50%<br>55% - 75% LTV | 55% | 55% |
| Bankruptcy | Ch 7 > 2 Yrs from Discharge<br>Ch 13 > 2 Yrs from Discharge | Ch 7 > 2 Yrs from Discharge<br>Ch 13 > 2 Yrs from Discharge | Ch 7 > 2 Yrs from Discharge<br>Ch 13 > 2 Yrs from Filing & Discharged Prior to Funding | Ch 7 > 18 Mons from Discharge<br>Ch 13 > 18 Mons from Filing & Paid<br>Or Discharged at Funding | Ch 7 > 1 Yr from Discharge<br>Ch 13 > 1 Yr from Filing & Paid<br>Or Discharged at Funding | Ch 7 – Discharged<br>Ch 13 – Paid or Discharged at Funding |
| N.O.D. or Foreclosure | Minimum 3 years | Minimum 3 years | Minimum 3 years | Minimum 2 years | Minimum 12 months | No Current NOD |
| Liens | All liens affecting title must be paid/or subordinated per guidelines | All liens affecting title must be paid/or subordinated per guidelines | All liens affecting title must be paid/or subordinated per guidelines | All liens affecting title must be paid/or subordinated per guidelines | All liens affecting title must be paid/or subordinated per guidelines | All liens affecting title must be paid/or subordinated per guidelines |

FOR WHOLESALE USE ONLY. NOT FOR DISTRIBUTION TO THE GENERAL PUBLIC. NEW CENTURY DOES NOT MAKE "HIGH COST HOME LOANS" AS DEFINED IN HOEPA AND SECTION 32 OF REGULATION Z. TERMS AND PRICING SUBJECT TO CHANGE WITHOUT NOTICE. ADJUSTABLE RATE PROGRAMS, FIXED RATE PROGRAMS, PRE-PAYMENT PENALTIES AND APPLICABLE FEES APPLY ACCORDING TO INDIVIDUAL, STATE SPECIFIC RULES AND REGULATIONS.

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page 1

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**TRADITIONAL MATRIX**

## GENERAL NOTES

### Limited Doc

12 months, current consecutive, personal, one-account bank statements including DBA to home address considered Limited Doc. No business bank statements allowed. The applicant(s) should be the only person on the account.

### Stated Doc

Borrowers with traditional 1099 income (realtors, consultants, etc.) or wage earners, are allowed on the stated income product.

Stated wage earners with LTVs greater than 90 or CLTVs over 95 require 2 months PITI S/S 60 days.

### Mortgage/Rental History

- 12-month mortgage history must be documented by credit report, VOM, VOR or 12 months cancelled checks. Rental history cannot be verified on credit report.

- Borrowers without previous mortgage or rental history are defined as:
1) 1st time homebuyers with no rental history (lived w/ relatives, etc)
2) Borrowers with free and clear homes that were last active over 12 months ago

**These borrowers may be considered with the following restrictions:**
1) 2+ AA trade lines and max grade of A-
2) Absent of trade line requirement, max grade is C

Special programs may have different restrictions.

### Consumer Credit

Trade line requirements, as noted on matrix, allow consumer credit only. Mortgage/VOR rating cannot be counted toward required tradelines. One of the needed accounts must have at least 24 months history. Each of the accounts must be open/active and paid as agreed (date of last activity is used, not date last reported). A closed or zero balance account will be considered open/active if it was closed, or went zero balance within the last 24 months.

### Rural/Unique Property

Maximum allowable acreage: 20 acres

### MAX CLTV

Seller contributions toward closing costs are limited to 6% of the purchase price. Seller carry backs are allowed; 100% CLTV limits seller contributions to 3% and requires $1,000 minimum borrower funds for closing costs (when secondary financing is seller carry). 100% CLTV requires additional supporting value documentation. No Texas Home Equity on LTV/CLTV > 80%.

### Second Homes

Second homes are treated as Owner Occupied up to a maximum LTV of 90%.

### Bankruptcy

- Bankruptcies, Chapters 7 & 13, are seasoned from date of discharge, unless otherwise noted.
- A Bankruptcy Rating from the Trustee is required for any Chapter 13 Bankruptcy to be paid through close, or any Chapter 13 Bankruptcy discharged in the last 12 months. Rating is treated like a mortgage rating and the loan is graded accordingly.

### NOD or Foreclosure

Foreclosure seasoning is based on sale date or payoff date, and NOD seasoning date is based on the filing date.

LTVs >90% generally do not allow any exceptions.

### Restrictions

NO MOBILE OR MANUFACTURED HOMES
NO FICO SCORES BELOW 500
Minimum loan amount for general products is $50,000. See special products for other minimums.
Not currently available to Correspondent.

### Other

[1]All Grades require 525 minimum FICO for loan amounts >$400,000

[2]LTV's > 90% are subject to 1) VOR/Rental requirements as defined under Special Products notes section and 2) stated wage earners require 2 months PITI S&S 60 days (must be liquid).

[3]Interest only option available on 2 and 3 year ARM. See rate sheet. Minimum FICO is 580 or minimum for program, whichever is greater. Interest only payment used for qualification. Interest Only not available for non-owner occupied properties. Not available on loans where only source of income is "fixed" income. Not available in AK, FL, LA, ME, NH, PA, TX, VA, VT, WI, WV.
Not currently available to Correspondent.

FOR WHOLESALE USE ONLY. NOT FOR DISTRIBUTION TO THE GENERAL PUBLIC. NEW CENTURY DOES NOT MAKE "HIGH COST HOME LOANS" AS DEFINED IN HOEPA AND SECTION 32 OF REGULATION Z. TERMS AND PRICING SUBJECT TO CHANGE WITHOUT NOTICE. ADJUSTABLE RATE PROGRAMS, FIXED RATE PROGRAMS, PRE-PAYMENT PENALTIES AND APPLICABLE FEES APPLY ACCORDING TO INDIVIDUAL STATE SPECIFIC RULES AND REGULATIONS.

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page 2

New Century Mortgage Corporation | FastQual

# FastQual® Internet Rate Sheet | SOUTHERN CALIFORNIA

Effective 3/17/2004 | 888-623-LOAN (5626) | www.NewCentury.com

## 2 YR. ARM @ PAR

**FULL DOC**

| Mortgage Lates (last 12 months) | Credit Score* | 65% | 70% | 75% | 80% | 85% | 90% | 95% |
|---|---|---|---|---|---|---|---|---|
| AA | 680 + | 4.500 | 4.625 | 4.700 | 4.750 | 5.000 | 5.200 | 5.750 |
| 0x30 | 660-679 | 4.700 | 4.750 | 4.800 | 4.900 | 5.100 | 5.300 | 5.900 |
| No BK Last | 640-659 | 4.850 | 4.850 | 4.900 | 5.000 | 5.200 | 5.400 | 6.000 |
| 24 months | 620-639 | 4.950 | 4.950 | 5.000 | 5.100 | 5.300 | 5.500 | 6.100 |
| | 600-619 | 5.050 | 5.050 | 5.100 | 5.200 | 5.400 | 5.600 | 6.350 |
| No NOD Last | 580-599 | 5.150 | 5.150 | 5.300 | 5.400 | 5.500 | 6.250 | 6.850 |
| 36 months | 550-579 | 5.500 | 5.500 | 5.700 | 5.800 | 6.000 | 6.650 | |
| | 525-549 | 6.100 | 6.100 | 6.300 | 6.400 | 6.600 | | |
| Margin: 5.30 | 500-524 | 6.650 | 6.650 | 6.850 | 6.950 | | | |
| A+ | 680 + | 4.600 | 4.725 | 4.800 | 4.850 | 5.100 | 5.300 | 5.850 |
| 1x30 | 660-679 | 4.800 | 4.850 | 4.900 | 5.000 | 5.200 | 5.400 | 6.000 |
| No BK Last | 640-659 | 4.900 | 4.900 | 4.950 | 5.050 | 5.250 | 5.450 | 6.050 |
| 24 months | 620-639 | 5.000 | 5.000 | 5.050 | 5.150 | 5.350 | 5.550 | 6.150 |
| | 600-619 | 5.100 | 5.100 | 5.150 | 5.250 | 5.450 | 5.750 | 6.400 |
| No NOD Last | 580-599 | 5.200 | 5.200 | 5.300 | 5.400 | 5.600 | 6.250 | |
| 36 months | 550-579 | 5.700 | 5.700 | 5.800 | 5.900 | 6.100 | 6.750 | |
| | 525-549 | 6.350 | 6.350 | 6.550 | 6.550 | 6.750 | | |
| Margin: 5.50 | 500-524 | 6.850 | 6.850 | 6.950 | 7.050 | | | |
| A- | 680 + | 4.700 | 4.825 | 4.900 | 4.950 | 5.200 | 5.400 | |
| 3x30 | 660-679 | 4.850 | 4.900 | 4.950 | 5.050 | 5.250 | 5.450 | |
| No BK Last | 640-659 | 4.900 | 4.950 | 5.000 | 5.100 | 5.300 | 5.500 | |
| 24 months | 620-639 | 5.000 | 5.050 | 5.100 | 5.200 | 5.400 | 5.600 | |
| | 600-619 | 5.100 | 5.150 | 5.200 | 5.300 | 5.500 | 5.800 | |
| No NOD Last | 580-599 | 5.300 | 5.350 | 5.550 | 5.650 | 5.850 | 6.400 | |
| 36 months | 550-579 | 5.800 | 5.850 | 6.050 | 6.150 | 6.350 | 6.900 | |
| | 525-549 | 6.350 | 6.400 | 6.600 | 6.700 | 6.900 | | |
| Margin: 5.70 | 500-524 | 6.850 | 6.900 | 7.100 | 7.200 | | | |
| B | 680 + | 5.100 | 5.275 | 5.400 | 5.450 | 6.200 | | |
| 1x60 | 660-679 | 5.300 | 5.400 | 5.500 | 5.600 | 6.300 | | |
| No BK Last | 640-659 | 5.400 | 5.500 | 5.600 | 5.700 | 6.400 | | |
| 18 months | 620-639 | 5.500 | 5.600 | 5.700 | 5.800 | 6.500 | | |
| | 600-619 | 5.700 | 5.800 | 5.900 | 6.000 | 6.600 | | |
| No NOD Last | 580-599 | 6.150 | 6.250 | 6.350 | 6.450 | 6.650 | | |
| 24 months | 550-579 | 6.650 | 6.750 | 6.850 | 6.950 | 7.150 | | |
| | 525-549 | 6.800 | 6.900 | 7.000 | 7.100 | 7.900 | | |
| Margin: 6.05 | 500-524 | 7.300 | 7.400 | 7.500 | 7.600 | | | |
| C | 680 + | 5.800 | 6.000 | 6.200 | 6.700 | | | |
| 1x90 | 660-679 | 5.900 | 6.100 | 6.300 | 6.800 | | | |
| No BK/NOD Last | 640-659 | 6.000 | 6.200 | 6.400 | 6.900 | | | |
| 12 months | 620-639 | 6.150 | 6.350 | 6.500 | 7.050 | | | |
| | 600-619 | 6.300 | 6.500 | 6.700 | 7.200 | | | |
| | 580-599 | 6.500 | 6.700 | 6.900 | 7.400 | | | |
| | 550-579 | 6.750 | 6.950 | 7.150 | 7.650 | | | |
| | 525-549 | 7.000 | 7.200 | 7.400 | | | | |
| Margin: 6.70 | 500-524 | 7.350 | 7.550 | 7.750 | | | | |
| C- | 680 + | 8.300 | 8.500 | | | | | |
| 2x90 | 660-679 | 8.400 | 8.600 | | | | | |
| 1x120 | 640-659 | 8.500 | 8.700 | | | | | |
| | 620-639 | 8.600 | 8.800 | | | | | |
| | 600-619 | 8.700 | 8.900 | | | | | |
| | 580-599 | 8.800 | 9.000 | | | | | |
| | 550-579 | 9.050 | 9.250 | | | | | |
| | 525-549 | 9.300 | 9.500 | | | | | |
| Margin: 7.00 | 500-524 | 9.550 | 9.750 | | | | | |
| | Max D/R | 55% | 55% | 55% | 50% | 50% | 50% | 50% |

**STATED DOC**

| Mortgage Lates (last 12 months) | Credit Score* | 65% | 70% | 75% | 80% | 85% | 90% | 95% |
|---|---|---|---|---|---|---|---|---|
| AA | 680 + | 5.400 | 5.525 | 5.600 | 5.650 | 5.900 | 6.100 | 6.650 |
| 0x30 | 660-679 | 5.600 | 5.650 | 5.700 | 5.800 | 6.000 | 6.200 | 6.800 |
| No BK Last | 640-659 | 5.750 | 5.750 | 5.800 | 5.900 | 6.100 | 6.300 | 6.900 |
| 24 months | 620-639 | 5.850 | 5.850 | 5.900 | 6.000 | 6.200 | 6.400 | 7.000 |
| | 600-619 | 5.950 | 5.950 | 6.000 | 6.100 | 6.300 | 7.000 | |
| No NOD Last | 580-599 | 6.050 | 6.050 | 6.200 | 6.300 | 6.400 | 7.650 | |
| 36 months | 550-579 | 6.400 | 6.400 | 6.600 | 6.700 | 6.900 | | |
| | 525-549 | 7.000 | 7.000 | 7.200 | 7.300 | 8.000 | | |
| Margin: 5.55 | 500-524 | 7.550 | 7.550 | 7.750 | 7.850 | | | |
| A+ | 680 + | 5.500 | 5.625 | 5.700 | 5.750 | 6.000 | 6.200 | |
| 1x30 | 660-679 | 5.700 | 5.750 | 5.800 | 5.900 | 6.100 | 6.300 | |
| No BK Last | 640-659 | 5.800 | 5.800 | 5.850 | 5.950 | 6.150 | 6.350 | |
| 24 months | 620-639 | 5.900 | 5.900 | 5.950 | 6.050 | 6.250 | 6.450 | |
| | 600-619 | 6.000 | 6.000 | 6.050 | 6.150 | 6.350 | | |
| No NOD Last | 580-599 | 6.100 | 6.100 | 6.200 | 6.300 | 7.000 | | |
| 36 months | 550-579 | 6.600 | 6.600 | 6.700 | 6.800 | 7.500 | | |
| | 525-549 | 7.450 | 7.450 | 7.650 | 7.650 | | | |
| Margin: 5.80 | 500-524 | 8.150 | 8.150 | 8.250 | | | | |
| A- | 680 + | 5.600 | 5.725 | 5.800 | 5.850 | | | |
| 3x30 | 660-679 | 5.750 | 5.800 | 5.850 | 5.950 | | | |
| No BK Last | 640-659 | 5.800 | 5.850 | 5.900 | 6.000 | | | |
| 24 months | 620-639 | 5.900 | 5.950 | 6.000 | 6.100 | | | |
| | 600-619 | 6.000 | 6.050 | 6.100 | 6.200 | | | |
| No NOD Last | 580-599 | 6.200 | 6.250 | 6.450 | 6.550 | | | |
| 36 months | 550-579 | 6.700 | 6.750 | 6.950 | 7.050 | | | |
| | 525-549 | 7.450 | 7.500 | 7.700 | 7.800 | | | |
| Margin: 6.00 | 500-524 | 8.150 | 8.200 | 8.400 | | | | |
| B | 680 + | 6.000 | 6.175 | 6.300 | | | | |
| 1x60 | 660-679 | 6.200 | 6.300 | 6.400 | | | | |
| No BK Last | 640-659 | 6.300 | 6.400 | 6.500 | | | | |
| 18 months | 620-639 | 6.400 | 6.500 | 6.600 | | | | |
| | 600-619 | 6.600 | 6.700 | 6.800 | | | | |
| No NOD Last | 580-599 | 7.050 | 7.150 | 7.250 | | | | |
| 24 months | 550-579 | 7.550 | 7.650 | 7.750 | | | | |
| | 525-549 | 7.700 | 7.800 | 7.900 | | | | |
| Margin: 6.40 | 500-524 | 8.200 | 8.300 | 8.400 | | | | |
| C | 680 + | 6.700 | 6.900 | | | | | |
| 1x90 | 660-679 | 6.800 | 7.000 | | | | | |
| No BK/NOD Last | 640-659 | 6.900 | 7.100 | | | | | |
| 12 months | 620-639 | 7.050 | 7.250 | | | | | |
| | 600-619 | 7.200 | 7.400 | | | | | |
| | 580-599 | 7.400 | 7.600 | | | | | |
| | 550-579 | 7.650 | 7.850 | | | | | |
| | 525-549 | 7.900 | 8.100 | | | | | |
| Margin: 6.70 | 500-524 | 8.250 | 8.450 | | | | | |
| | Max D/R | 55% | 55% | 55% | 50% | 50% | 50% | 50% |

| Adjustments To Rate | +/- Rate |
|---|---|
| **LOAN SIZE** | |
| Loan Amounts | |
| $250,000 - $500,000 | -0.25 |
| $50,000 - $99,999 | +0.25 |
| **INCOME TYPES** | |
| Limited Docs (Bank Statements) | +0.25 |
| **PROPERTY TYPES** | |
| N/O/O | +0.75 |
| 2nd Home | +0.50 |
| Rural | +0.50 |
| 3-4 Units | +0.50 |
| Condo | +0.25 |
| **YSP (1st mortgages only)** | |
| 0.50 point YSP | +0.25 |
| 1 point YSP | +0.50 |
| 1.50 point YSP | +0.875 |
| 2 point YSP | +1.25 |
| 1 point Buydown | -0.50 |
| **PREPAYMENT PENALTY**** | |
| 2-yr ppp term (products w/3 yrs Prepay) | +0.50 |
| 1-yr ppp term (all products) | +0.75 |
| Waive Pre-pay Penalty | +1.00 |
| **PROGRAM** | |
| 3 Year ARM | +0.25 |
| 30 Year Fixed | +1.00 |
| 20 Year Fixed | +1.00 |
| 15 Year Fixed | +0.75 |
| Interest Only Adjustment | +0.25 |
| **MINIMUM PRODUCT RATES** | |
| ARMs | 4.50% |
| Fixed | 5.50% |

Note: The final calculated start rate = the floor rate.

**TERMS AND CONDITIONS**

Max deductions are subject to program minimum product rates.
Max YSP = 1 pt. If no pre-pay.

**where allowed by law

*Based on middle of 3 scores or lower of 2

FOR WHOLESALE USE ONLY. NOT FOR DISTRIBUTION TO THE GENERAL PUBLIC. NEW CENTURY DOES NOT MAKE "HIGH COST HOME LOANS" AS DEFINED IN HOEPA AND SECTION 32 OF REGULATION Z. TERMS AND PRICING SUBJECT TO CHANGE WITHOUT NOTICE. ADJUSTABLE RATE PROGRAMS, FIXED RATE PROGRAMS, PRE-PAYMENT PENALTIES AND APPLICABLE FEES APPLY ACCORDING TO INDIVIDUAL, STATE SPECIFIC RULES AND REGULATIONS.

**TO BE REMOVED FROM OUR FAX LIST, please fax this document with your fax number clearly indicated to (866) 560-8042**

# APPENDIX "E"

## BROKER COMPENSATION

Set forth below is a table showing average broker compensation, along with points and fees charged[43], on loans made through our Wholesale Division in the year 2003. Since the Retail Division does not utilize the services of mortgage loan brokers, its loans are not included in this table.

These are the average points and fees paid to New Century:

| Average Loan | Average Points | Average Fees | Total | Percent |
|---|---|---|---|---|
| $166,590 | $660 | $518 | $1,177 | 0.71% |

These are the average points and fees paid to the broker:

| Average Loan | Average Points | Average Fees | Average YSP | Total | Percent |
|---|---|---|---|---|---|
| $166,590 | $2,389 | $576 | $1,558 | $4,523 | 2.72% |

On average, then, our wholesale borrower will pay $4,143, or 2.49% in total points and fees. This is substantially lower than the 10% to 4%, or higher, amounts that some often cite as the amount of points and fees paid in non-prime loan transactions.

Under the Home Ownership and Equity Protection Act (HOEPA), yield spread premiums (YSP) are not included in the definition of points and fees for calculating the maximum amount of points and fees that may be charged before triggering coverage under the law. See FRB Commentary to Paragraph 32(b)(1)(ii). Under the New Jersey Home Security Act, NJSA 46:10B-101, they are included. In Colorado, by comparison, they are not. See CRS 5-3.5-101. And to further confuse matters, in California, it is not clear whether they are included. See CA Financial Code Section 4970.

These inconsistencies between the state and federal law need to be resolved through the adoption of a uniform standard.

[43] Excludes third party fees, such as appraisal, title and public official fees.

**APPENDIX "F"**

## NEW CENTURY DELINQUENCY AND FORECLOSURE RATES FOR 2001, 2002 AND 2003

| | | 2001 | | 2002 | | 2003 | | Grand Total | % |
|---|---|---|---|---|---|---|---|---|---|
| **30** | | $ | % | $ | % | $ | % | $ | % |
| | <500 | $171,498 | 33.08% | $0 | 0.00% | $0 | 0.00% | $171,498 | 25.40% |
| | 500-539 | $5,853,007 | 6.17% | $5,146,579 | 3.60% | $9,479,464 | 1.61% | $20,479,051 | 2.48% |
| | 540-579 | $4,602,932 | 5.47% | $4,186,855 | 2.87% | $4,543,509 | 0.70% | $13,333,296 | 1.52% |
| | 580-619 | $2,535,809 | 3.53% | $2,194,651 | 1.58% | $2,982,799 | 0.39% | $7,713,258 | 0.79% |
| | 620-659 | $1,622,543 | 3.20% | $2,414,828 | 1.93% | $3,791,354 | 0.40% | $7,828,724 | 0.70% |
| | 660-699 | $387,892 | 1.84% | $1,354,218 | 2.36% | $832,102 | 0.13% | $2,574,212 | 0.35% |
| | 700+ | $0 | 0.00% | $197,465 | 0.46% | $0 | 0.00% | $197,465 | 0.03% |
| | Grand Total | $15,173,681 | 4.50% | $15,494,596 | 2.37% | $21,629,227 | 0.50% | $52,297,504 | 0.99% |

| | | | 2001 | | 2002 | | 2003 | Grand Total | % |
|---|---|---|---|---|---|---|---|---|---|
| **60** | | $ | % | $ | % | $ | % | $ | % |
| | <500 | $0 | 0.00% | $0 | 0.00% | $0 | 0.00% | $0 | 0.00% |
| | 500-539 | $3,899,631 | 4.11% | $2,989,337 | 2.09% | $5,219,880 | 0.89% | $12,108,848 | 1.47% |
| | 540-579 | $2,514,837 | 2.99% | $2,697,430 | 1.85% | $1,924,885 | 0.30% | $7,137,152 | 0.82% |
| | 580-619 | $2,151,257 | 2.99% | $842,401 | 0.61% | $1,979,402 | 0.26% | $4,973,060 | 0.51% |
| | 620-659 | $978,694 | 1.93% | $1,124,918 | 0.90% | $2,253,919 | 0.24% | $4,357,532 | 0.39% |
| | 660-699 | $125,819 | 0.60% | $349,303 | 0.61% | $313,911 | 0.05% | $789,033 | 0.11% |
| | 700+ | $0 | 0.00% | $121,214 | 0.29% | $541,762 | 0.08% | $662,976 | 0.09% |
| | Grand Total | $9,670,239 | 2.87% | $8,124,602 | 1.25% | $12,233,760 | 0.29% | $30,028,600 | 0.57% |

| | | | 2001 | | 2002 | | 2003 | Grand Total | % |
|---|---|---|---|---|---|---|---|---|---|
| **90** | | $ | % | $ | % | $ | % | $ | % |
| | <500 | $178,136 | 34.36% | $0 | 0.00% | $0 | 0.00% | $178,136 | 26.38% |
| | 500-539 | $25,457,216 | 26.82% | $17,747,439 | 12.42% | $4,342,064 | 0.74% | $47,546,720 | 5.76% |
| | 540-579 | $18,543,762 | 22.02% | $13,353,321 | 9.15% | $3,062,791 | 0.47% | $34,959,874 | 3.99% |
| | 580-619 | $13,892,179 | 19.32% | $8,251,161 | 5.96% | $1,555,045 | 0.20% | $23,698,386 | 2.43% |
| | 620-659 | $5,160,404 | 10.19% | $4,435,112 | 3.55% | $830,157 | 0.09% | $10,425,673 | 0.94% |
| | 660-699 | $905,715 | 4.31% | $548,635 | 0.96% | $1,160,685 | 0.18% | $2,615,035 | 0.35% |
| | 700+ | $718,042 | 5.26% | $441,943 | 1.04% | $407,082 | 0.06% | $1,567,066 | 0.21% |
| | Grand Total | $64,855,454 | 19.25% | $44,777,611 | 6.86% | $11,357,825 | 0.27% | $120,990,890 | 2.29% |

| | | | 2001 | | 2002 | | 2003 | Grand Total | % |
|---|---|---|---|---|---|---|---|---|---|
| **FC** | | $ | % | $ | % | $ | % | $ | % |
| | <500 | $0 | 0.00% | $0 | 0.00% | $0 | 0.00% | $0 | 0.00% |
| | 500-539 | $6,706,585 | 7.07% | $11,196,904 | 7.83% | $7,390,866 | 1.26% | $25,294,356 | 3.07% |
| | 540-579 | $5,567,517 | 6.61% | $7,117,812 | 4.88% | $4,265,026 | 0.66% | $16,950,354 | 1.94% |
| | 580-619 | $5,032,973 | 7.00% | $4,982,422 | 3.60% | $2,592,541 | 0.34% | $12,607,936 | 1.29% |
| | 620-659 | $2,759,962 | 5.45% | $3,553,085 | 2.84% | $1,688,794 | 0.18% | $8,001,840 | 0.72% |
| | 660-699 | $356,078 | 1.69% | $566,464 | 0.99% | $927,227 | 0.14% | $1,849,769 | 0.25% |
| | 700+ | $638,163 | 4.67% | $563,157 | 1.33% | $948,843 | 0.14% | $2,150,163 | 0.29% |
| | Grand Total | $21,061,278 | 6.25% | $27,979,844 | 4.29% | $17,813,297 | 0.42% | $66,854,418 | 1.27% |

**APPENDIX "G"**

## Loan Servicing

New Century is committed to offering fast, convenient, customer-friendly service that meets our customer's needs on their terms. We offer customer assistance by telephone, as well as online help through our website, www.newcenturymortgage.com. Our customer service representatives are available 8:30 a.m. – 5:30 p.m. Pacific Time, Monday through Friday, at 1-800-561-4567 and speak both English and Spanish.

We offer a variety of services at no cost as part of our ongoing commitment to our customers. These services include the following:

- Impound account set up or cancellation;
- Payoff Requests;
- Payment History;
- Requests for copies of loan documents;
- Requests for copies of the property appraisal;
- Year-End Statements; and
- Faxing Documents

New Century seeks to maintain its high levels of customer service by regularly conducting customer satisfaction surveys and mystery shopping to evaluate our performance. Our quality assurance programs regularly monitor calls and correspondence to ensure they meet our high standards of integrity and professionalism. Our Customer Service Leadership Team oversees all aspects of our customer service. We welcome thoughts and suggestions about how we can improve our service.

New Century understands that not all customer service issues are the same. For particularly complex issues, we have a specially trained Customer Advocacy Group that will take care to resolve an issue that requires extra attention.

To provide customers with the highest level of customer service, New Century devotes significant resources to training. Before our associates can begin working with customers, they are enrolled in 40 hours of training that emphasizes our corporate values of conducting business with the highest levels of professionalism and integrity. Each employee in the servicing department must understand our Servicing Practices. Our collectors are trained to strictly follow all laws and regulations governing fair debt collection practices and procedures. They also are extensively trained to assist customers if they are faced with problems managing their mortgage debt. All new associates are also given additional one-on-one coaching and cross-training courses covering other service and compliance issues. During their first year, most associates complete an additional 20 to 30 hours of training and take some of the 40 courses we provide to employees. Training courses are regularly updated to reflect changes in regulatory and compliance issues, as well as changes in our policies and procedures.

**APPENDIX "H'**

## New Century's Commitment To Financial Education And Affordable Housing Initiatives

In the last forty years, we have witnessed a tremendous amount of growth in the financial services industry. The development of a wide range of products and services offered in the marketplace has created a complex environment that calls for a more sophisticated borrower. While a generation ago a simple understanding of how to balance a check book was sufficient, today, it is imperative that consumers possess a fundamental understanding of how to navigate through the endless choices of products and services.

To meet the need for increased literacy in the marketplace, financial education programs have been established around the country. As one of the nation's largest non-prime mortgage lenders, New Century understands that a lack of financial education is one of the primary obstacles to obtaining a mortgage and owning a home. Borrowers are often intimidated by the mortgage lending process or are discouraged from applying for a loan because of their previous credit history. To eliminate these barriers, we have taken internal and external steps to bring financial education to consumers. Internally, our Emerging Markets Department is developing a project whose objective will be to educate consumers about what it takes to be able to own a home and help them achieve their goal of homeownership. Our external initiatives include sponsorship of both national and local programs geared toward educating consumers on credit, mortgage lending, and home ownership.

Below you will find a list of a few of the consumer and financial education programs New Century has and continues to support.

- **New Century Brochures.** Since 2001, New Century has published informational brochures that help borrowers evaluate loan terms, understand the mortgage refinancing process and find a HUD-approved housing counseling agency. The brochures also include information on the New Century Fair Lending Hotline for prospective borrowers. Borrowers who visit www.newcenturymortgage.com have access to Loan University, which provides a tutorial for the mortgage applications process.
- **CHCI National Housing Initiative.** The NHI is aimed at addressing the lagging Hispanic homeownership rate and helping more Latino families achieve the American dream of owning their own home. The effort will target 63 Congressional districts – in 11 states and the Commonwealth of Puerto Rico – where Latinos comprise at least 25 percent of the population.
- **CBCF With Ownership Wealth (WOW) Housing Initiative.** New Century is a national supporter and advisory committee member of the Congressional Black

Caucus Foundation's CBCF WOW Initiative. The goal of the WOW Initiative is to help prepare African-Americans and other minorities to buy and keep homes of their own, so they can build intergenerational wealth. Each local WOW program directs consumers to sources of tangible assistance - education, credit counseling, down payment resources, etc.- and stays with them as they move toward their goal of becoming homeowners.

- **Borrowsmart Public Education Foundation.** The Foundation's mission is to educate homeowners about the home equity borrowing process, prevent abusive lending practices, inform borrowers of their rights and responsibilities, and show consumers how to get help if they encounter financial trouble. New Century has been a sponsor of Borrowsmart since February 2002. For more information, visit www.borrowsmart.org .

- **Los Angeles and Chicago Neighborhood Housing Services (NHS).** The NHS programs help troubled borrowers keep their homes and provides pre- and post-homeownership counseling to low-to moderate-income families, among other things

- **"America Saves"** National **Savings Education Program.** In 2004, New Century became an underwriter of the AmericaSaves quarterly newsletter produced by the Consumer Federation of America. America Saves is a nationwide campaign in which a broad coalition of nonprofit, corporate, and government groups helps individuals and families save and build wealth. Through information, advice, and encouragement, America Saves assist those who wish to pay down debt, build an emergency fund, save for a home, save for an education, or save for retirement

- **Detroit Financial Literacy Consortium.** The Consortium is a group of community leaders representing the school district, financial service organizations, businesses and community organizations coming together to provide a comprehensive strategy for economic literacy education in Detroit. The Consortium will act as a clearinghouse for coordinating and publicizing the existing resources available to promote financial literacy and economic empowerment.

Suffice it to say that New Century is committed to supporting financial literacy education for consumers and looks for substantial ways that we can give back to the communities we lend to so that more consumers can enjoy the benefits of homeownership. We continue to be opposed to predatory lending practices in any form and we will continue to be strong supporters of education and enforcement initiatives, as well as strengthening existing federal laws, that help stamp out these practices. Predatory lenders give our industry a bad name and we support them being driven from the marketplace through the implementation of strong, reasonable national standards.

**APPENDIX "I'**

## Customer Testimonials

*For the past 16 years, Rhonda O. has been a Los Angeles probation officer, working with juvenile offenders seeking to make a fresh start on life. Always quick to help others, Rhonda's big heart almost cost her an opportunity to own her own home and build wealth. After buying a home with her husband on the block where she grew up, Rhonda's marriage ended. As she was starting over, Rhonda wound up with consumer debt from five credit cards and the responsibility of supporting her young daughter.*

*To secure her home, Rhonda needed a mortgage to buy out her former husband's portion of the house. She also wanted to pay off the credit card debt and knew that because rates had fallen since she got her first loan in 1999, she might get a better term. The only problem with that plan was that several years earlier, Rhonda had co-signed for a loan for a friend, whose home fell into foreclosure on more than one occasion. Foreclosures stay on a consumer's credit report for as long as 10 years and make it almost impossible to get a loan.*

*"I knew that the foreclosure was on my record. It was always on my mind," Rhonda said. "Because the foreclosure was still on my credit report, I wasn't sure that I was going to be able to get a loan."*

*After securing a mortgage loan through a broker approved by New Century, Rhonda went from an 11 percent loan to 7.75 percent fixed-rate loan for 30 years. Even after taking out more than $30,000 to pay off her credit card bills, her payment remained the same as her previous loan amount because she was able to secure a far better rate.*

*"Having all that debt was horrible, to stay the least," Rhonda said. "I already had a mound of debt from when I was married and I also have a small girl who goes to private school. People were calling me about the debt. I had to find a way to get all of those monkeys off my back. Words can't express what a relief it was to get that loan. "*

*Rhonda believes the house she purchased five years ago for $139,000 is now worth at least $250,000. "My whole financial perspective is bright, extremely bright, thanks to my broker and New Century. I'm able to save money. I don't have to cringe at the first of every month when my daughter's tuition bill comes."*

Now that she is in full charge of her financial future, Rhonda's plan is to refinance her home if rates fall, pull money out, and buy another house as an investment property. "We are living the American dream. For the average person, real estate is all there is."

Rhonda O. represents just one of millions of homeowners across the country who have benefited from receiving a nonprime loan. Frequently, those consumers who were able to purchase a home, finance a college education, consolidate credit card debt and make

home improvements as a result of securing a nonprime loan are overlooked in the policy debate over predatory lending legislation.

In the haste to address the unscrupulous actions of a relatively small proportion of lenders and brokers in the nonprime market, testimonials of consumers who have been victimized are highlighted while Rhonda's story and millions of other stories similar to hers are forgotten.

To highlight the significant impact that nonprime loans have made in the lives of those consumers who do not qualify for prime loans, we have provided excerpts from New Century borrower testimonials. These testimonials represent a few.

**Herculano T.**

*Now I am very happy. Smiling all the time no worries. I feel like I am on top of the world again. You really made a big difference.*

**Dee E.**

*We are starting on restructuring the kitchen on Feb. 7, and with the money, we will have more left to get new carpet for the dining room and the living room and new chairs for the dining table. Thanks!*

**Valerie S.**

*I wanted to express my sincere thanks and gratitude to you for all your help during my refinance/loan process with New Century Mortgage. I am particularly pleased with the fact that, throughout the tedious process, I never once felt as if I were any less of a person simply because my credit was in disarray. You treated me with respect, and you showed an exemplary level of patience throughout the long process. A blemished credit history isn't exactly a point of pride, yet you encouraged me and continued to offer suggestions as to how I could improve my credit rating, especially during this critical two-year period prior to possible refinancing of this new loan.*

**Cliff and Maria H.**

*Maria and I would like to thank you for all the advice and assistance you provided to us in our attempt to refinance our mortgage. I know that putting this loan together and getting us through the process took a considerable amount of your time and energy. Although the process took sometime and willingness to work with us and to clearly explain the process each step of the way went a long ways towards alleviating some of the fears and/or anxieties often associated with refinancing a loan as complicated as ours.*

**Michelle L.**

*This letter is to inform you that I am so happy with New Century!!! Shane at the Summerlin office was absolutely wonderful and helped me SO much it was incredible. I am more than happy with him, hid personality and his professionalism. Beyond that I am*

*in awe of the information and the general knowledge that New Century has readily available to new loan purchasers about payment options etc.*

**Robert O.**

*You have handled yourself in a courteous, businesslike, professional and friendly manner at all times. You've kept this process simple for us to understand. You are an asset and great representative for your employer, and we won't hesitate to recommend you and your company to others. Things were getting pretty gray for us, you've helped us start turning that color around. You've shown us that there could be a light at the end of the tunnel and it isn't a train.*