FORM 10-K

Annual report pursuant to section 13 and 15(d)

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LONG BEACH FINANCIAL CORP
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ____________ TO __________

COMMISSION FILE NUMBER 1-12889

LONG BEACH FINANCIAL CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	33-0739843 (I.R.S. EMPLOYER IDENTIFICATION NO.)

1100 TOWN & COUNTRY ROAD, SUITE 1600, ORANGE, CALIFORNIA 92868
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES INCLUDING ZIP CODE)

(714) 835-5743
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, PAR VALUE $0.001	NASDAQ NATIONAL MARKET
PREFERRED STOCK PURCHASE RIGHTS	NASDAQ NATIONAL MARKET

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ].

The aggregate market value of the voting stock held by non-affiliates of Registrant, as of March 15, 1999, was $223,270,000, based upon the closing price of Registrant's Common Stock on that date. For purposes of this disclosure, shares of common stock held by directors and executive officers of Registrant are assumed to be "held by affiliates"; this assumption is not to be deemed to be an admission by such persons that they are affiliates of Registrant.

As of March 15, 1999, Registrant had outstanding 22,609,618 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Proxy Statement relating to its 1999 Annual

Meeting of Stockholders are incorporated by reference into Part III of this report.

LONG BEACH FINANCIAL CORPORATION

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TO FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 1998

LONG BEACH FINANCIAL CORPORATION

PART I

ITEM 1. BUSINESS

GENERAL

Long Beach Financial Corporation ("LBFC"), through its subsidiary, Long Beach Mortgage Company (collectively, the "Company"), is a specialty finance company engaged in the business of originating, purchasing and selling subprime residential mortgage loans secured by one-to-four family residences. The Company's core borrower base consists of individuals who do not qualify for traditional "A" credit because their credit histories, debt to income ratios or other factors cause them not to conform to standard agency lending criteria. The Company's primary operating strategy has been to originate, purchase and sell loans on a basis that exposes the Company to less default and prepayment risk than is normally inherent in a mortgage lender's business. A key element in this strategy has been the Company's sales of its loans for cash to institutional purchasers at a premium above the outstanding principal balance of the loans. As a result, the Company has historically generated positive cash flow and substantially reduced the risk of holding residual interests in the loans sold by the Company.

The Company sources loans through approximately 12,500 independent mortgage loan brokers that generate loans in all 50 states. The large number of brokers reflects the Company's strategy of utilizing a diverse group of small brokers to avoid becoming dependent on a few primary producers. In 1998, the Company's single largest wholesale producing broker was responsible for less than 1% of the Company's wholesale originations during the year. The Company maintains a close working relationship with brokers through its sales force of approximately 325 account executives located in 72 offices. Having account executives geographically close to the independent brokers enables the Company to deliver a high level of customer service to the brokers with whom the Company does business. The primary elements of the Company's customer service are actively assisting the broker in identifying the appropriate product for the borrower, applying lending criteria in a consistent manner, promptly processing loan applications and providing any other assistance that the broker may require to complete the loan transaction. A high level of customer service, together with the account executive's processing team's knowledge of the local market and the Company's products, is a key part of the Company's origination strategy.

The Company originates loans through wholesale and retail channels of production. The wholesale channel is comprised of broker-sourced production and production from correspondents. Through the retail production channel the Company directly interacts with the customer through direct mail, telemarketing, the internet and other sources. See Management's Discussion and Analysis of Financial Condition, Results of Operations, Liquidity and Capital Resources and Note 16 to the Consolidated Financial Statements for financial information about the Company's business segments.

The Company historically has followed a strategy of selling substantially all of its loan originations in the secondary market through loan sales in which the Company disposes of its entire economic interest in the loan except for the related servicing rights, which it has generally retained, for a cash price that represents a premium over the principal balance of the loans sold. Cash from loan sales has been used by the Company to repay borrowings previously made under its warehouse financing facility. These loan sales have been an important factor in generating the Company's historic earnings and creating consistent positive cash flow to further its operations. The Company may utilize alternative strategies to maximize the value it receives on its loan sales. Such strategies may include securitization. The Company's focus in utilizing such a strategy would be to retain a positive cash flow operating model.

Growth Strategy

The Company seeks to profitably expand its broker-sourced business through increased penetration in its existing markets and expansion into new geographic markets. Elements in achieving these objectives include the following: (i) expanding the account executive network to reach new brokers; (ii) increasing coordination

between the Company's centralized marketing efforts and the account executives in the field; (iii) developing and implementing electronic broker support systems (including electronic loan application submission and risk classification); and (iv) expanding the automation of the underwriting process.

The retail loan operations conducted under the name "Financing USA" offers the same products as those of the broker-sourced operations and are sourced primarily through technology-based direct mail and electronic media marketing, rather than on a network of branch sales offices. This strategy is designed to enable the Company to operate with less overhead than a direct-sourced loan business that operates through a branch sales office network.

In accordance with the strategic plan, the Company successfully launched an independent servicing operation in November 1998. The Company was approved as a residential subprime loan servicer by Standard & Poor's during the fourth quarter of 1998. Additionally, the Company is approved as a seller for Fannie Mae, and as a non-supervised mortgagee by the United States Department of Housing and Urban Development.

Corporate History

The Company's broker-sourced mortgage business was begun in 1988 by Long Beach Savings and Loan Association (later known as Long Beach Bank, F.S.B.). In order to gain greater operating flexibility and improve its ability to compete against other financial services companies, Long Beach Bank, F.S.B. voluntarily surrendered its federal thrift charter in October 1994 and transferred the broker-sourced business, along with its direct-sourced business and loan servicing operations, to "Long Beach Mortgage Company."

LBFC was incorporated in January 1997. At the time of incorporation, LBFC was a wholly-owned subsidiary of a company now known as Ameriquest Mortgage Company ("AMC"). AMC conducted its mortgage lending business through four divisions: (i) the direct-sourced lending division, (ii) the broker-sourced lending division, (iii) loan sales division, and (iv) the loan servicing division. LBFC was formed to facilitate the public sale of AMC's broker-sourced lending and loan sales divisions. All references to the "Wholesale Division" herein shall be deemed to include the operations of the broker-sourced lending division of AMC prior to the Reorganization (defined below).

On April 28, 1997, LBFC's Registration Statement (No. 333-22013) on Form S-1 under the Securities Act of 1933, as amended (the "Registration Statement"), relating to the initial public offering of its common stock was declared effective. The initial public offering of 22,504,000 shares of common stock closed at a price of $6.50 per share on May 2, 1997. On May 14, 1997, the underwriters, Friedman, Billings, Ramsey and Co., Inc. ("FBR"), purchased an additional 2,496,000 shares of common stock at a price of $6.50 per share following their exercise of the overallotment option, resulting in a total of 25,000,000 shares sold in the initial public offering (the "Offering") for a total aggregate price of $162.5 million.

On May 2, 1997, immediately prior to the closing of the initial public sale of LBFC's common stock, AMC reorganized its business operations (the "Reorganization") by transferring certain assets (including furniture, leasehold improvements and equipment) and personnel relating to the broker-sourced lending and the loan sales divisions and approximately $40.0 million in cash (less approximately $2.0 million in related expenses) to the Company in exchange for 24,999,999 shares of common stock. The assets transferred to the Company included loans in process as of May 2, 1997, but did not include loans funded or servicing rights with respect to loans funded prior to May 2, 1997. The rights to loans which were originated by the Wholesale Division but remained unsold at May 2, 1997 were retained by AMC (the "Retained Loans"). The costs relating to the production of these loans were incurred and recorded by the Wholesale Division and are included in the Company's consolidated results of operations for 1997. These loans are included in loan production amounts reported for the Company for the year ended December 31, 1997. Subsequent to the Reorganization, the Company purchased the Retained Loans from AMC at the same price and at the same time that the Company sold these loans to independent, third-party purchasers. Because the gain from the sale of the Retained Loans was recorded after the Reorganization, and because the Company's stockholders did not receive any of the benefit of this gain, the Company did not include the gain from the sale of the Retained Loans as part of the Company's net earnings in 1997. The principal amount of the Retained Loans was approximately $33.8 million and the after-tax gain from the sale of these loans was approximately $807,000.

The gains from the sale of the Retained Loans are not reflected either as income from the Wholesale Division of AMC or as income from the Company.

Additionally, as part of the Reorganization, the Company acquired the going-concern value of the existing and established approved customer base of independent brokers and the sole right to the "Long Beach Mortgage Company" name. The Company did not assume any liabilities of AMC other than certain liabilities associated with equipment and property leases acquired by the Company and accrued vacation and other employee benefits for personnel transferred to the Company. The Reorganization has been accounted for in a manner similar to a pooling of interests; therefore, the historical cost basis of the assets and liabilities transferred to the Company was carried over from the Wholesale Division.

The transfer of the assets and personnel described above by AMC to the Company was treated for federal income tax purposes as a taxable sale of assets. As a result, the tax basis of the assets transferred from AMC to the Company in the Reorganization was increased to their fair market value (determined by reference to the initial public offering price.) In general, Section 197 of the Internal Revenue Code allows for the amortization over a 15-year period of intangible assets (including goodwill and going concern value) acquired in a transaction such as the Reorganization. The so-called "anti-churning rules set forth in Section 197(f)(9) of the Internal Revenue Code, however, prohibit the amortization of goodwill, going concern value and intangible assets, the useful lives of which cannot be determined with reasonable accuracy where such assets are transferred between related parties and the transferor held or used such intangible assets at any time on or after July 25, 1991, and on or before August 10, 1993.

For income tax purposes, the Company is amortizing over a 15-year period the intangible assets acquired from AMC in the Reorganization. Based upon historical earnings levels it is probable that the Company will generate sufficient taxable income to realize the benefits associated with the net deferred tax asset through future tax deductions. As the Company realizes the benefits associated with the deferred tax asset, there will be a corresponding reduction in income taxes payable by the Company. The deferred tax benefit is realized through a reduction in the current tax payable resulting in no effect on net income. If the Company determines that estimated future earnings are not sufficient to realize the deferred tax benefit, the Company will establish a valuation allowance for the impairment of the deferred tax assets, through a charge to the income tax provision, which will result in a reduction of net earnings.

As part of the Reorganization, the Company and AMC entered into several agreements which include: (i) two administrative services agreements, (ii) a loan sub-servicing agreement and (iii) a contribution agreement. Under the first administrative services agreement, AMC agreed to provide various services to the Company, including certain employee benefits administration services, information services and data processing functions. The agreement had a one-year term from the effective date of the Reorganization unless earlier terminated by the Company upon 30 days written notice. In February 1998, the Company terminated the administrative services agreement, effective March 1, 1998.

Under an additional administrative services agreement, the Company agreed to assist AMC in selling the mortgage loans originated by AMC and to provide investor coordination and information for the existing loan portfolio as well as new loan originations. The agreement had a one-year term from the effective date of the Reorganization, unless earlier terminated by AMC upon 30 days written notice. In February 1998, AMC terminated the second administrative service agreement, effective March 1, 1998.

Under the loan sub-servicing agreement, AMC agreed, for a three-year period, to sub-service mortgage loans originated or purchased by the Company after the Reorganization. Sub-servicing activities include collecting and remitting loan payments, accounting for principal and interest, holding escrow or impound funds for payment of taxes and insurance, if applicable, making required inspections of the mortgaged property, contacting delinquent borrowers, and supervising foreclosures and property dispositions. The agreement provides that either party has the right to terminate the agreement effective at any time after November 2, 1998, upon six months prior written notice to the other party. The Company has agreed to pay AMC a 45 basis points annual servicing fee on the declining principal balance of each loan sub-serviced. During the third quarter of 1998, the Company and AMC modified the sub-servicing agreement to accommodate the establishment of the Company's independent servicing operations. Under the modified sub-

servicing agreement, AMC no longer is required to sub-service loans originated by the Company on or after November 2, 1998 and the Company is no longer required to engage AMC to sub-service its loans.

Under the contribution agreement, AMC agreed to indemnify and hold the Company harmless from any tax liability attributable to periods ending on or before the Reorganization. For periods ending after the Reorganization, the Company will pay its tax liability directly to the appropriate taxing authorities.

The agreements between the Company and AMC were developed in the context of a related party relationship and, therefore, may not necessarily reflect the same business terms as might have been obtained in arm's length negotiations between independent parties.

Products and Marketing

The Company offers both fixed rate and adjustable rate loans. The adjustable rate loans begin with an interest rate that is initially fixed for a period of time after which the interest rate converts to an adjustable rate. The Company's borrowers, who use the loans primarily to consolidate other debt, negotiate better terms on their existing mortgage, or purchase homes, fall into four subprime risk classifications, and products are available at different interest rates and with different origination and application points and fees depending on the particular borrower's risk classification. The Company's adjustable rate loans primarily consist of (i) loans that bear a fixed interest rate for the first two or three years that convert to an adjustable rate thereafter ("fixed/adjustable rate loans") and (ii) loans that bear a fixed interest rate for the first six months that convert to an adjustable rate thereafter ("six-month adjustable rate loans"). The Company has established interest rate caps for its adjustable rate loans which limit changes in the interest rate on such loans to 1% during any six month period.

The following table presents the Company's loan production by product type for the periods indicated (dollars in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Fixed rate loans......................	$ 588,794	$ 428,793	$ 392,251
Fixed/adjustable rate loans...........	1,594,738	756,853	97,962
Six-month adjustable rate loans........	392,433	500,096	567,909
Total loan production........	$2,575,965	$1,685,742	$1,058,122

Many of the Company's borrowers utilize funds from loans to pay-off existing debts. During 1998, approximately 62% of the Company's loan production was made for the purpose of providing funds for refinancing, and in approximately 71% of these refinancings, the respective borrowers received cash to pay-off other debts.

While the Company's core loan products allow for maximum loan amounts of up to $500,000 with a loan-to-value ratio of up to 85%. During 1998, core product origination totaled $2.2 billion and represented 86.8% of total production. The Company also offers a "jumbo" product allowing balances of up to $1,000,000 with lower loan-to-value ratios than the core products, and products that permit a loan-to-value ratio of up to 90% for selected borrowers with a risk classification of "A-."

Broker-Sourced Loan Operations

The Company's primary means of marketing its products is direct contact between its account executives and the independent mortgage loan brokers. Each account executive is responsible for maintaining and expanding existing broker relationships through "cold calls" and following up on inquiries made by brokers to a toll-free number.

A key element in developing, maintaining and expanding its independent mortgage loan broker relationships is to provide the highest possible level of product knowledge and customer service to its brokers. Each account executive receives comprehensive training prior to being assigned to a territory. In most cases,

training includes experience in the loan processing department so that the account executive will be familiar with all phases of loan origination and production. This training enables the account executive to quickly review a loan application in order to identify the borrower's probable risk classification and thereby enhance the likelihood that the loan will be approved at the rate and on the terms submitted by the broker. After a loan package is submitted to the Company, the account executive provides assistance to the broker throughout the process to complete the loan transaction. The account executive does not have approval authority on the transaction. Account executives are compensated based on the number and the dollar volume of loans funded.

The marketing department designs and produces the Company's marketing materials in-house. Marketing materials are delivered through the account executives as well as through regional and national advertising outlets, daily faxing, fax-on-demand, direct mail and the Company's recently established interactive internet website. The Company has a presence at and sponsors most national industry conventions and trade shows, as well as most state and regional industry conventions and trade shows in states where the Company has an operating location. The Company conducts free seminars at its operating locations designed to target new and existing independent brokers.

Correspondent Loan Purchasing

The Company augments its loan production by purchasing loans on a correspondent basis from smaller mortgage companies and other financial institutions after such loans have been funded by the originator. The Company typically purchases the servicing rights to the loans as well. Purchasing loans from such originators is attractive because the Company is able to acquire a pool of loans in a single transaction on a cost-efficient basis. The cost efficiency is due to the economies of scale in larger transactions.

When it first begins buying loans from an originator, the Company works closely with the originator's personnel to familiarize them with the process necessary to produce loans that the Company is willing to purchase. This ensures that the Company will be able to include these loans in its loan sales. In this initial phase with a new originator, the Company processes the loan applications as if they were the Company's own originations. Once the Company is comfortable that the originator has developed the capability to originate and process loans that comply with the Company's guidelines, the Company's active involvement in the processing of the originator's loans is reduced. At this point, the Company re-underwrites loans submitted by the originator prior to accepting them, confirming compliance with the Company's underwriting guidelines and documentation standards.

When the Company purchases loans, it receives representations and warranties and first payment default and fraud protections from the originators that are similar to those that the Company provides to its loan purchasers.

The loan purchase program accounted for approximately 11.5% of the Company's total loan volume by principal amount during 1998, compared to 9.0% and 3.1% in 1997 and 1996, respectively. Such increase is due to the expansion of the loan purchase program which was accomplished through better integration of the loan purchasing process into the Company's correspondent team structure.

Direct-Sourced Loan Operations

Direct-sourced loan operations offer the same products as those of the broker-sourced operations and are sourced primarily through technology-based marketing, relying to a great extent on telemarketing, direct mail and electronic media advertising rather than a network of branch sales offices. This enables the Company to operate with less overhead than a direct-sourced loan business that operates through a branch office network. The Company's senior management is experienced in both direct-sourced and broker-sourced loan originations, since several of the senior executives were involved in creating the direct-sourced lending operations of AMC prior to the Reorganization. The Company filled a portion of the staffing needs of the direct-sourced loan operations with experienced personnel previously working in the broker-sourced loan operations.

The direct-sourced loan origination channel accounted for approximately 2.3% of the Company's total loan volume by principal amount during 1998.

LOAN ORIGINATION AND PURCHASING

The Company originates loans through Company approved independent mortgage loan brokers and, to a lesser extent, purchases loans from other mortgage banking companies. The following table shows certain combined data regarding the Company's loan originations and purchases for the periods indicated:

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Aggregate principal balance:			
Broker-sourced	$2,220,096	$1,531,266	$1,026,390
Correspondent	296,283	151,768	31,732
Retail	59,586	2,708	--
Total	$2,575,965	$1,685,742	$1,058,122
Average principal balance per loan			
Broker-sourced	$ 113	$ 112	$ 107
Correspondent	119	124	94
Retail	110	129	--
Total	$ 113	$ 113	$ 105
Combined weighted average loan-to-value(2)			
Broker-sourced	77.8%	77.0%	75.1%
Correspondent	77.3%	77.4%	74.3%
Retail	76.5%	76.6%	--%
Total	77.7%	77.1%	75.1%

Weighted average interest rate(2)			
Broker-sourced	9.6%	9.6%	9.9%
Correspondent	9.9%	9.9%	10.1%
Retail	9.6%	9.1%	--%
Total	9.6%	9.5%	10.0%
"A-" through "B-" loans as a percentage of total loans(1)(2)	85.2%	88.1%	85.4%

</TABLE>

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(1) Based on original principal balance.

(2) For 1996, amounts were calculated based on raw data from the loan origination system which did not consider timing differences between the time various loans actually funded and the date such loans were uploaded into the Company's system. Although these amounts differ from the "true" origination and purchase amounts recorded in 1996, the calculated amounts above are not materially affected by such differences. See the tables on pages 11 and 12 for more information.

All loans originated or purchased by the Company are secured by a first priority mortgage on the subject property.

Geographic Markets

The approximately 12,500 independent mortgage loan brokers with whom the Company has had a relationship originate loans in all 50 states. The following table shows geographic distribution of the aggregate principal balance of loan originations and purchases for the periods shown.

<TABLE>
<CAPTION>

	LOAN ORIGINATIONS YEAR ENDED DECEMBER 31,			
	1998	1997	1996	1995
<S>	<C>	<C>	<C>	<C>
States(1)(3):				
California	33.8%	34.4%	37.1%	43.1%
Colorado	7.8	8.4	7.3	2.9
Michigan	5.3	6.0	3.7	3.9
Texas	4.9	3.7	3.8	1.5
Florida	4.6	5.1	3.5	1.5
Oregon	4.0	5.3	4.3	4.0
Illinois	3.8	4.1	6.2	8.7
New York	3.5	2.0	1.5	0.3
Minnesota	3.0	2.7	2.2	--
All other States (41 other states)(2)	29.3	28.3	30.4	34.1
Total	100.0%	100.0%	100.0%	100.0%

</TABLE>

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(1) States are listed in order of percentage of loan originations and purchases for the year ended December 31, 1998.

(2) For the year ended December 31, 1998, loan originations and purchases in each state were less than 2.7% of total originations and purchases for the year.

(3) For 1996 and 1995, amounts were calculated based on raw data from the loan origination system which did not consider timing differences between the time various loans actually funded and the date such loans were uploaded into the Company's system. Although these amounts differ from the "true" origination and purchase amounts recorded in 1996 and 1995, the calculated amounts above are not materially affected by such differences.

The Company's geographic markets are divided among 19 regional teams and one national correspondent lending team. Each team is headed up by a regional manager and includes dedicated account executives, underwriters, appraisers and other production personnel so that the team can originate and produce loans in that region. The 20 teams are deployed into 11 regional processing centers. When a regional processing center is first established, the staff responsible for underwriting and funding is physically located at the Company's headquarters.

Once the Company determines that the level of current and projected business from a region warrants the deployment of the regional processing center, the Company moves the processing center in or near the region and relocates the relevant regional teams to the new center. These centers enable the Company to more effectively anticipate and respond to broker and borrower needs in each region. The concept also appeals to independent brokers who may be reluctant to deal with a larger, more remote lender. Each regional team is connected to senior management and the corporate headquarters by a wide area network that enables management to monitor the quality of all regional functions on a real time basis. The Company opened four regional processing centers during 1998 and intends to establish two additional regional processing centers in 1999.

Underwriting

The Company trains its account executives and underwriters to evaluate loan application and supporting documentation (a "loan package") against the Company's underwriting guidelines. The Company utilizes experienced underwriters who have been provided comprehensive training. Underwriters are educated regarding the Company's underwriting guidelines and the implementation of the Company's underwriting

procedures. The Company's training program enables its underwriters to review and evaluate loan packages while understanding and adhering to the Company's underwriting guidelines. The Company's underwriters are required to have one or more years of subprime underwriting experience gained from either a finance company or other subprime lender. Underwriting experience may be substituted with one or more years experience acquired by performing other Company subprime lending functions.

The Company's underwriting guidelines are primarily intended to evaluate the applicant's credit profile, repayment ability, and the value and adequacy of the property offered as mortgage collateral. Loan applications meeting the Company's core product guidelines may be approved by regional service managers, who are required to have a minimum of five years subprime underwriting lending experience. On occasion, with the approval of a regional service manager, divisional operations manager or regional vice president, a prospective borrower not strictly adhering to the Company's underwriting guidelines may be granted an underwriting exception. Divisional operations managers and regional vice presidents are required to have a minimum of seven years subprime lending experience. Underwriting exceptions are granted based upon compensating factors which may include, but are not limited to, good credit history (mortgage and/or consumer), low debt-to-income and loan-to-value ratios, stable employment and residency at the borrower's current address.

All of the wholesale loans originated by the Company are based on loan packages submitted through mortgage brokers directly or through Company account executives, directly from a borrower or purchased from a Company-approved originator. Loan packages submitted through mortgage brokers are required to include information relevant to credit, the property offered as collateral and any additional related facts for underwriting purposes. This information is compiled by the submitting broker and submitted to the Company for underwriting approval and funding authorization. The mortgage broker receives a fully disclosed portion of the loan origination fee charged to the borrower at the time the loan is funded.

The Company reviews loan packages submitted by originators prior to accepting them to confirm each complies with the Company's underwriting guidelines and documentation standards. The Company's underwriting procedures comply with applicable state and federal laws and regulations. Each prospective borrower is required to complete a loan application which includes information related to the borrower's liabilities, assets, income, employment history and other relevant personal information. When the loan package is received, it is entered into the Company's underwriting system. The underwriters from the appropriate regional team, including those reviewing loans submitted for purchase, typically re-verify the borrower's information for compliance with the Company's underwriting guidelines. Information re-verified includes: (i) sources of income, (ii) credit history, (iii) debt-to-income ratios, (iv) sources of down payment funds, and (v) value of the property offered as collateral.

The prospective applicant generally provides to the Company or the originator of a purchased loan, a letter explaining all late payments on mortgage, consumer installment and revolving debt with local and national merchants and lenders, records of defaults, bankruptcies, repossessions, suits and judgments. Prior to funding a loan and as a function of its quality control system, the Company re-verifies the information that has been provided by the submitting mortgage broker. Additionally, the Company performs a random post funding audit on 5% of all originations that re-evaluates all of the factors previously identified.

The Company utilizes three different income documentation programs to which prospective borrower's income is evaluated and determined for underwriting purposes. Each imposes specific documentation requirements and standards. The full income documentation program may include and be based on W-2's, tax returns, verifications of employment and current paycheck stubs. Alternatively, a less rigorous documentation standard is the limited documentation program where income may be determined and based on cash flow over an extended period based on bank statements. The third source is the stated income program in which the borrowers provide the Company with their source and amount of monthly earnings. The stated amount is then assessed to determine whether or not it is reasonable as it relates to the occupation and source. Additionally, employment of the applicant is verbally re-verified.

The Company's guidelines are less stringent with respect to the borrower's credit and repayment ability than the standards generally acceptable to the Federal National Mortgage Association ("FNMA") and the

Federal Home Loan Mortgage Corporation ("FHLMC"). However, in those cases, the Company's loan-to-value ratio requirements are more stringent than those of the agencies. Borrowers who qualify under the Company's guidelines generally have payment histories which would not satisfy FNMA and FHLMC underwriting guidelines. Their credit reports may exhibit major derogatory credit items, such as outstanding judgments or previous bankruptcies.

The Company has formed risk classifications with respect to each prospective borrower's credit profile and ability to repay. The Company's guidelines establish maximum permitted loan-to-value ratios for each loan type risk based upon these and other factors. These classifications are indications of the borrower's credit-worthiness. Each prospective borrower is identified by one of five letter ratings ("A-", "B", "B-", "C", and "D"). Other factors that are evaluated during the underwriting process and affect the final lending decision are the property value and type, loan-to-value ratio, loan amount, and subject property's occupancy status.

Mortgaged properties that are offered as security for underwriting purposes are appraised by qualified independent appraisers. These appraisers are qualified and accepted by the Company's internal valuation staff or chief appraiser. The Company requires an appraisal of the mortgage property offered as collateral that conforms to agency standards. Every appraisal includes a market data analysis based on recent sales in the market area of the offered property of comparable homes. Where deemed appropriate, replacement cost analysis based on current cost of constructing a similar home is provided.

An appraisal review is conducted on each appraisal submitted. These reviews may be performed by a Company trained underwriter, a Company valuation manager, or a Company approved independent appraiser. Additionally, depending upon the original principal balance or the loan-to-value ratio of the mortgaged property, a drive-by review appraisal may be performed. Properties that are identified to be in below average condition and have below average marketability (including properties exhibiting major deferred maintenance) are considered unacceptable collateral for the Company's mortgage loan program.

The Company strives to process each loan package in compliance with its underwriting guidelines as quickly as possible. Accordingly, most underwriting decisions are rendered in 24 to 48 hours, and approved packages are funded on average within 20 calendar days from submission date.

Upon completion of the underwriting process and subsequent approval, the closing of the loan is scheduled with a Company approved closing attorney or agent. The closing attorney or agent is responsible for completing the loan closing in accordance with applicable law and the Company's operating procedures. The closing attorney or agent is typically selected by the mortgage broker. The Company audits the selected closing attorney or agent to ensure the attorney or agent is a fully licensed, experienced professional from an established firm or company. In addition, the Company generally requires the closing attorneys and agents to maintain insurance against errors and omissions.

The Company requires each mortgage loan to be covered by title insurance and secured by a lien on single-family real property. The Company also requires fire and extended coverage casualty insurance to be maintained on the secured property. Flood insurance is also required for all properties located in a defined flood zone. The dollar amount of insurance coverage on the secured property is to be at least equal to the principal balance of the related loan. The Company monitors the existence of insurance coverage through a bonded outside insurance vendor. If the borrower's coverage is subsequently canceled or not renewed at any time during the loan period, and the borrower fails to obtain new coverage, the outside vendor will provide coverage on the borrower's behalf under policies insuring the Company's collateral interest. The amount, type of insurance and circumstances under which the Company can force place insurance are subject to state and federal regulations, with which the Company believes that it complies.

The chart below summarizes the general criteria used by the Company at February 28, 1999, in classifying prospective borrowers who have provided the basic documentation described above:

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UNDERWRITING CRITERIA/RISK CLASSIFICATION	"A-" RISK	"B" RISK	"B-" RISK	"C" RISK	"D" RISK
<S>	<C>	<C>	<C>	<C>	<C>
Loan-to-Value Ratio	85% for owner occupied purchases of single family residences, planned unit developments, and condominiums; 80% for owner occupied purchases or refinances of 2 to 4 unit dwellings and second homes, 80% for non-owner occupied single family residences, planned unit developments or condominiums; 70% for non-owner occupied 2 to 4 unit dwellings.	85% for owner occupied purchases of single family residences, planned unit developments, and condominiums; 80% for owner occupied purchases or refinances of 2 to 4 unit dwellings and second homes, 80% for non-owner occupied single family residences, planned unit developments or condominiums; 70% for non-owner occupied 2 to 4 unit dwellings.	80% for owner occupied purchases or refinances of single family residences, planned unit developments, and condominiums; 75% for owner occupied purchases or refinances of 2 to 4 unit dwellings and second homes, 75% for non-owner occupied single family residences, planned unit developments or condominiums; 65% for non-owner occupied 2 to 4 unit dwellings.	75% for owner occupied purchases of single family residences, planned unit developments, and condominiums; 70% for owner occupied purchases or refinances of 2 to 4 unit dwellings and second homes, 70% for non-owner occupied single family residences, planned unit developments or condominiums; 60% for non-owner occupied 2 to 4 unit dwellings.	65% for owner occupied purchases or refinances of single family residences, planned unit developments, and condominiums; 60% for owner occupied purchases or refinances of 2 to 4 unit dwellings and second homes, 60% for non-owner occupied single family residences, planned unit developments or condominiums; 50% for non-owner occupied 2 to 4 unit dwellings.
Maximum Debt Ratio(A)	LTV's .85% = 45% LTV's ,85% = 47%	50%	55%	55%	55%
Consumer Credit(B)	LTV's ,85% 30 day late in the past 12 months; derogatory credit items are less than 25% of total items on credit report, no bankruptcies in the last 24 months. LTV's .85% (3) 30-day revolving lates and (3) 30-day installment lates.	30 & 60 days late in the past 12 months; derogatory credit items are less than 35% of total items on credit report, no bankruptcies in the last 24 months.	30 & 60 days late in the past 12 months; derogatory credit items are less than 50% of total items on credit report, no bankruptcies in the last 18 months.	Other derogatory credit items are considered on a case-by-case basis; no bankruptcies in the last 12 months.	Other derogatory credit items are considered on a case-by-case basis.
Mortgage Credit(C)	Maximum of (2) 30-day late payments in the past 12 months; no notices of default or foreclosures in the last 36 months.	Maximum of (3) 30-day late payments in the past 12 months; no notices of default or foreclosures in the last 36 months.	Maximum of (1) 60-day late payments in the past 12 months; maximum 30 days late at time of application or funding, no notices of default or foreclosures in the last 24 months.	Maximum of (2) 60-day late payments and (1) 90-day late payment or (3) 60- day late payments and no 90-day late payments in the last 12 months; maximum of a 60 days late at time of funding; no notices of default or foreclosures in the last 12 months.	All mortgage and consumer credit including bankruptcies and foreclosures may be waived if reasonable explanation is provided and problem no longer exists.

</TABLE>

(A) Debt ratios may be increased to 55% if the net disposable income minimum requirement is doubled on loan programs A- and B, where LTV's are ,85%.

(B) For LTV's ,85% non-mortgage and consumer-related credit, collections or judgments (i.e., dental and/or medical) may be disregarded on a case-by-case basis. Thirty day credit may be disregarded and not included in the percentage of derogatory credit items.

(C) Consecutive rolling consumer and mortgage 30-day delinquencies up to six months reported on a credit report may be counted as one late payment.

The following table sets forth certain information with respect to the Company's loan purchases and originations by product and risk classification, for the years ended December 31 (dollars in thousands):

<TABLE>
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	1998				1997(3)			
PRODUCT/ RISK CLASSIFICATIONS	VOLUME	% OF TOTAL	WEIGHTED AVERAGE INTEREST RATE(1)	WEIGHTED AVERAGE MARGIN(2)	VOLUME	% OF TOTAL	WEIGHTED AVERAGE INTEREST RATE(1)	WEIGHTED AVERAGE MARGIN(2)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
FIXED RATE:								
A-.......................	$ 374,953	63.68%	9.50%		$ 281,828	65.73%	9.83%	
B+.......................	NA	NA	NA		33,302	7.77	10.20	
B........................	67,742	11.51	10.18		43,830	10.22	10.45	
B-.......................	61,576	10.46	10.49		28,507	6.65	10.73	
C........................	56,531	9.60	11.38		35,806	8.35	11.43	
C-.......................	NA	NA	NA		3,064	0.71	11.77	
D........................	27,992	4.75	12.23		2,456	0.57	12.26	
Totals............	$ 588,794	100.00%	9.99%		$ 428,793	100.00%	10.16%	
SIX-MONTH ADJUSTABLE RATE:								
A-.......................	$ 276,691	70.50%	8.54%	6.46%	$ 319,045	63.80%	8.58%	6.34%
B+.......................	NA	NA	NA	NA	35,204	7.04	8.88	6.16
B........................	37,507	9.56	8.88	6.50	42,641	8.53	9.12	6.42
B-.......................	32,213	8.21	9.41	6.52	33,758	6.75	9.44	6.54
C........................	28,173	7.18	10.07	6.58	46,932	9.38	10.18	6.63
C-.......................	NA	NA	NA	NA	18,077	3.61	10.96	6.73
D........................	17,849	4.55	11.47	6.67	4,439	0.89	11.49	7.02
Totals............	$ 392,433	100.00%	8.89%	6.49%	$ 500,096	100.00%	8.97%	6.40%
FIXED/ADJUSTABLE RATE:								
A-.......................	$ 910,886	57.12%	9.30%	6.61%	$ 487,351	64.39%	9.46%	6.29%
B+.......................	NA	NA	NA	NA	50,048	6.61	9.72	6.20
B........................	225,212	14.12	9.64	6.67	75,780	10.01	9.95	6.50
B-.......................	208,907	13.10	9.96	6.70	53,037	7.01	9.99	6.59
C........................	165,626	10.39	10.55	6.73	73,489	9.71	10.62	6.60
C-.......................	NA	NA	NA	NA	10,171	1.35	11.28	6.79
D........................	84,107	5.27	11.51	6.81	6,977	0.92	11.70	7.04
Totals............	$1,594,738	100.00%	9.68%	6.65%	$ 756,853	100.00%	9.73%	6.37%
ALL PRODUCTS:								
A-.......................	$1,562,530	60.66%			$1,088,224	64.56%		
B+.......................	NA	NA			118,554	7.03		
B........................	330,461	12.83			162,251	9.62		
B-.......................	302,696	11.75			115,302	6.84		
C........................	250,330	9.72			156,227	9.27		
C-.......................	NA	NA			31,312	1.86		
D........................	129,948	5.04			13,872	0.82		
Totals............	$2,575,965	100.00%			$1,685,742	100.00%		

</TABLE>

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	1996(4)				1995(4)			
		% OF	WEIGHTED AVERAGE INTEREST	WEIGHTED AVERAGE		% OF	WEIGHTED AVERAGE INTEREST	WEIGHTED AVERAGE

PRODUCT/ RISK CLASSIFICATIONS	VOLUME	TOTAL	RATE(1)	MARGIN(2)	VOLUME	TOTAL	RATE(1)	MARGIN(2)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
FIXED RATE:								
A-......................	$ 231,792	59.23%	10.20%		$ 38,896	49.86%	10.95%	
B+......................	53,184	13.59	10.43		18,577	23.81	11.25	
B.......................	36,257	9.26	10.76		6,365	8.16	11.23	
B-......................	28,699	7.33	10.97		4,359	5.59	11.74	
C.......................	39,594	10.12	11.66		9,598	12.30	12.46	
C-......................	1,820	0.47	11.36		219	0.28	12.83	
D.......................	NA	NA	NA		NA	NA	NA	
Totals............	$ 391,346	100.00%	10.49%		$ 78,014	100.00%	11.28%	
SIX-MONTH ADJUSTABLE RATE:								
A-......................	$ 293,519	51.82%	8.98%	6.09%	$ 207,152	43.11%	9.70%	5.80%
B+......................	67,306	11.88	9.30	6.15	42,811	8.91	10.13	5.84
B.......................	51,770	9.14	9.90	6.39	42,050	8.75	10.50	6.29
B-......................	45,080	7.96	10.00	6.49	63,324	13.18	10.64	6.29
C.......................	86,778	15.32	10.73	6.64	100,768	20.97	11.28	6.58
C-......................	22,001	3.88	11.89	6.85	24,378	5.08	12.33	6.87
D.......................	NA	NA	NA	NA	NA	NA	NA	NA
Totals............	$ 566,454	100.00%	9.57%	6.27%	$ 480,483	100.00%	10.40%	6.13%
FIXED/ADJUSTABLE RATE:								
A-......................	70,949	73.08	9.84	5.58	$ 11,804	42.96%	10.61%	5.24%
B+......................	13,462	13.86	10.30	6.00	2,854	10.39	10.78	5.35
B.......................	6,649	6.85	10.46	6.17	2,878	10.47	11.17	5.18
B-......................	1,987	2.05	10.72	6.41	3,921	14.27	11.57	5.58
C.......................	3,521	3.63	11.19	6.77	4,826	17.56	12.53	5.74
C-......................	518	0.53	11.11	6.87	1,196	4.35	13.37	6.10
D.......................	NA	NA	NA	NA	NA	NA	NA	NA
Totals............	$ 97,086	100.00%	10.02%	5.75%	$ 27,479	100.00%	11.28%	5.42%
ALL PRODUCTS:								
A-......................	$ 596,260	56.52%			$ 257,852	44.01%		
B+......................	133,952	12.70			64,242	10.96		
B.......................	94,675	8.98			51,293	8.75		
B-......................	75,766	7.18			71,604	12.22		
C.......................	129,893	12.31			115,192	19.66		
C-......................	24,340	2.31			25,793	4.40		
D.......................	NA	NA			NA	NA		
Totals............	$1,054,886	100.00%			$ 585,976	100.00%		

</TABLE>

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(1) Each Fixed Rate loan bears interest at a fixed rate set on its date of funding and lasting through the term of the loan. Loans bearing interest at the Six-Month Adjustable Rate adjust every six months to a new rate through the term of the loan. The Weighted Average Interest Rate for loans bearing interest at a Six-Month Adjustable Rate is the weighted average of the rates of such loans during the initial six month period. Loans bearing interest at the Fixed/Adjustable Rate bear interest at a fixed rate for the first two years commencing on the date of funding and thereafter adjust to new rates every six months for the remaining term of the loans. The Weighted Average Interest Rate for loans bearing interest at a Fixed/Adjustable Rate is the weighted average of the rates of such loans during the initial period.

(2) The Margin for a loan is a fixed amount set for the life of the loan, which when added to the Index (as described below) determines the interest rate on the loan (subject to interest rate floors, ceilings and caps). The Index used by the Company is the six-month London Inter Bank Offered Rate, as published each Monday in The Wall Street Journal. Fixed Rate loans have no Margin because such loans are not tied to an index.

(3) Underwriting guidelines were revised effective 10/1/97, eliminating B+ and C- categories and adding D category.

(4) For 1996 and 1995, amounts were compiled based on raw data from the loan origination system which did not consider timing differences between the time various loans actually funded and the date such loans were uploaded into the Company's system. As a result, origination and purchase amounts differ from the "reportable amount of" origination and purchase amounts recorded in 1996 and 1995.

FINANCING AND SALE OF LOANS

Warehouse Financing Facility

The Company finances originations and purchases of loans primarily with the proceeds of borrowings under a committed warehouse financing facility, which initially provided for a borrowing capacity of $250 million and was increased to $300 million in April 1998 (the "Facility"). This Facility is provided by a syndicate of banks led by Chase Bank of Texas. Borrowings under this Facility for a particular loan may remain outstanding for no more than 120 days, except for an aggregate amount not to exceed $10 million, which may remain outstanding for up to 180 days. Borrowings under this Facility are permitted up to 98% of the principal balance of the originated and purchased loans and bear interest at rates ranging from 1.25% to 1.50% over the 30-day reserve-adjusted LIBOR (i.e., the London Inter Bank Offered Rate), depending on the level of loan documentation the Company has delivered to the agent for the syndicate of banks providing credit under the Facility. The Facility also includes a $15 million subline for principal and interest advances and a $10 million subline for other servicing advances made primarily to security holders in connection with securitizations by purchasers of the Company's loans in which the Company serves as the master servicer, and a $15 million subline which may be used to finance mortgage loans owned by the Company that are in the process of collection or resale to investors. The sublines bear interest at 2.0% over the 30-day reserve-adjusted LIBOR. The Facility will expire on April 16, 2000, unless earlier terminated or extended in accordance with its terms. The Facility contains a number of financial covenants including: (i) the Company maintain tangible net worth equal to at least $30 million, plus 25% of cumulative positive net earnings, (ii) delinquencies on the Company's mortgage servicing portfolio not exceed 12% and (iii) the ratio of total liabilities to adjusted tangible net worth not exceed 10:1. The Facility also contains other affirmative, negative and financial covenants typical of similar credit facilities. The Company was in compliance with all such covenants at December 31, 1998.

At December 31, 1998 the Company had access to a $100 million uncommitted warehouse line from an investment banking firm. This line bears interest at LIBOR plus 0.75%. The line expires in September 1999. During February 1999, the Company obtained an additional $100 million warehouse line from another investment banker. This line bears interest at LIBOR plus 1.25% and expires January 2000. The Company was in compliance with all of its debt and equity covenants at December 31, 1998.

Loan Sales

The Company has followed a strategy of selling for cash substantially all loan originations and purchased loans in the secondary market through loan sales in which the Company disposes of its entire economic interest in the loans. The Company sold $2.5 billion, $1.7 billion and $1.0 billion of loans through loan sales during 1998, 1997 and 1996, respectively. The Company did not issue any securities during the period; however, substantially all of the loans sold during the period were ultimately securitized by the purchasers thereof.

Loans generally have been sold to institutional purchasers on a quarterly basis. Upon the consummation of loan sales, the Company receives a "premium," representing a cash payment in excess of the par value of the loans (par value representing the unpaid balance of the loan amount). Cash gains from loan sales represented 93% of the Company's total revenues in 1998. The Company maximizes its premium on loan sale revenue by closely monitoring institutional purchasers' requirements and focusing on originating or purchasing the types of loans that meet those requirements and for which institutional purchasers tend to pay higher premiums. During 1998, the Company sold loans to a number of institutional purchasers. The Company's loan purchasers typically securitize the loans and sell major portions of the economic interest through mortgage backed securities.

The Company has historically engaged in loan sales by obtaining commitments from its loan purchasers 30 to 120 days in advance of funding the loans to be purchased. These commitments are obtained through a competitive bidding process among potential purchasers who in most cases have purchased loans from the Company previously. The successful bidder is committed to a minimum quantity of loans at a determined price, and may be granted the option to purchase more than the minimum quantity at a negotiated price. The

Company continuously monitors its loan production and purchases against its unfilled purchase commitments to identify potential shortfalls or overages in loans available for delivery. As loans are funded, the Company packages them and delivers them to the purchaser on a periodic basis.

Loan sales are made on a non-recourse basis pursuant to a purchase agreement containing customary representations and warranties regarding the underwriting criteria and the origination process. The Company, therefore, may be required to repurchase or substitute loans in the event of a breach of its representations and warranties. In addition, the Company sometimes commits to repurchase or substitute a loan if the borrower defaults on the first payment due after the loan is funded, unless other arrangements are made between the Company and the purchaser. The Company is also required in some cases to repurchase or substitute a loan if the loan documentation is alleged to contain fraudulent misrepresentations made by the borrower.

The Company's gain on sale of loans is determined by the excess of the premiums that the Company receives over the cost of acquiring the loan. The gain on sale for each of the Company's channels of production differs due to differences in the cost of acquisition and loan fees. The cost of acquiring a broker-sourced loan includes the fees paid to the originating broker. This results in a broker-sourced loan having a lower gain on sale than a retail loan, in which no broker fees are paid. However, the cost of acquiring a retail generated loan reflects higher general and administrative expenses as compared to a broker-sourced loan. Additionally, because the originating broker typically retains all origination points and fees, the gain on sale of broker-sourced loans have substantially smaller fee components than retail generated loans. Loans originated through correspondents have a higher cost of acquisition and no fee component. Correspondent loans require little incremental general and administrative expenditures by the Company.

The following table illustrates the historical economics of the gain on sale of loans from the Company's various channels (general and administrative expenses are not included):

	BROKER-SOURCED PRODUCTION	RETAIL PRODUCTION	CORRESPONDENT PRODUCTION
Gross sales premiums.........	4 - 6 points	4 - 6 points	4 - 6 points
Less broker fees (PYA).......	0 - 2 points	N/A	N/A
Less purchase costs..........	N/A	N/A	1 - 4 points
Plus points and fees.........	40 - 60 basis points	2 - 5 points	N/A
Less capitalized direct origination costs..........	40 - 50 basis points	50 - 70 basis points	N/A
Net gain on sale of loans....	4 - 5 1/2 points	7 - 10 points	2 - 4 points

During 1998, the Company's net gain on sale of loans, as a percentage of loans sold, totaled 4.87%. This represents a decrease from 5.28% in 1997 and from 4.92% in 1996. The reduction in net gain on sale resulted from a decline in the prices of subprime loans in the secondary market, negatively impacting the gross sales premiums that the Company has realized from the sale of its loans. There can be no assurance provided that the Company will be able to sell its loans at historical premiums or at the levels indicated in the above table. As a result of the recent decline in whole loan prices, the Company may consider alternatives to whole loan sales, including securitizations, depending on market conditions and available levels of whole loan executions. The Company's focus in utilizing such strategy would be to retain a positive cash flow operating model.

SERVICING

At the time of the Reorganization, the Company entered into a sub-servicing agreement with AMC under which AMC agreed to sub-service loans originated or purchased by the Company following the Reorganization. Sub-servicing has been provided by AMC at an agreed-upon rate and with default terms comparable to industry standards. The agreement contains other customary terms and conditions. Either AMC or the Company has the right to terminate the agreement at any time upon six months' prior written notice to the other party, provided that all required approvals of investors, rating agencies and other parties have been obtained. During the third quarter of 1998, the Company and AMC modified the sub-servicing agreement to accommodate the establishment of the Company's independent servicing operations. Under the

modified sub-servicing agreement, AMC no longer is required to sub-service loans originated by the Company on or after November 2, 1998, and the Company is no longer required to engage AMC to sub-service its loans.

The Company's objective in establishing a proprietary loan servicing platform was to continue its evolution into a fully integrated mortgage banking organization. The Company's loan service function is a critical component in managing the loan collection process, generating recurring revenues, and providing full service to its customers. In developing its loan servicing operation, the Company sought seasoned professionals and a platform that was year 2000 compliant.

In accordance with the strategic plan, the Company successfully launched an independent servicing operation in November 1998. The Company was approved as a residential subprime loan servicer by Standard & Poor's during the fourth quarter of 1998. Additionally, the Company is an approved FNMA seller/servicer and is licensed as a non-supervised mortgagee by the United States Department of Housing and Urban Development.

At December 31, 1998, the Company was directly servicing loans with an aggregate principal balance of $546.6 million. An additional $972.9 million of loans were serviced by AMC at December 31, 1998 pursuant to the sub-servicing agreement. During January 1999, the Company transferred $550 million of loans from AMC to its own servicing operation.

TECHNOLOGY

During the first quarter of 1998, the Company completed the development and deployment of its independent data processing center. The implementation of the data center enabled the Company to terminate the utilization of AMC's data center on March 1, 1998.

The Company utilizes computer technology to maximize its loan originations. Most of the account executives are linked to the Company's computer systems by a wide area network. Through this network, an account executive receives daily status reports regarding pending loans so that he or she can direct efforts to those cases that require attention to complete the processing. Certain account executives, who are not on the network, receive the same data by daily fax communication. Long Beach Mortgage Company has an established internet website through which brokers can access information about the Company and its products. Brokers also can use the website to submit requests for loan prequalification. The website address is http://www.longbeachmortgage.com. Financing USA, the Company's retail lending division, also has established an internet website through which borrowers can access information about the Company's retail products and submit data to simplify the application process. Financing USA's website address is http://www.financingusa.com.

The Company makes extensive use of computer technology in its underwriting process. Each loan application file is computerized so that it can be accessed immediately by the appropriate persons, thereby eliminating delay that would be caused by not having physical access to the file. The system also reduces the time required for an underwriter to make certain essential calculations by enabling the underwriter to input specified raw data after which the computer will automatically make such calculations.

The Company regularly reviews its computer capabilities in order to better utilize and expand those capabilities. The Company also expanded the automation of its underwriting process in order to increase the number of loan applications processed by each underwriter in a given day.

COMPETITION

The Company continues to anticipate intense competition, primarily from mortgage banking companies, commercial banks, credit unions, thrift institutions and finance companies. Many of these competitors are substantially larger and have more capital resources than the Company and may have lower costs of funds than the Company. Establishing a broker-sourced loan business requires a substantially smaller commitment of capital and personnel resources compared to a direct-sourced loan business. Such relatively low barriers to entry permit potential new competitors with an easy entrance into the market, in particular, existing direct-

sourced lenders who can draw upon existing branch networks and personnel in seeking to add product through broker sources.

In the future, the Company may also face competition from, among others, government-sponsored entities who may enter the subprime mortgage market. Existing or new loan purchase programs may be expanded by FNMA, FHLMC or the Government National Mortgage Association to include subprime mortgages, particularly those in the "A-" category, which constitute a significant portion of the Company's loan production. Increased competition could have the possible effect of (i) lowering gains that may be realized on the Company's loan sales, (ii) reducing the volume of the Company's loan originations and loan sales, (iii) increasing the demand for the Company's experienced personnel and the potential that such personnel will be recruited by the Company's competitors, and (iv) broadening the industry standard for subprime underwriting guidelines as competitors attempt to maintain market share in the face of increased competition.

Competition also may be affected by fluctuations in interest rates, general economic conditions, and localized economic conditions. During periods of rising interest rates, competitors that have "locked in" low borrowing costs may have a competitive advantage. During periods of declining rates, competitors may solicit the Company's customers to refinance their loans. Such "prepayment risk" may have a long-term impact affecting the Company's ability to sell its loans in the future. During economic slowdowns or recessions, the Company's borrowers may have new financial difficulties and may be receptive to offers by the Company's competitors. In addition, in periods of economic slowdown the Company may experience an increase in default rates and loss experience.

REGULATION

The Company's consumer lending activities are subject to the Federal Truth-in-Lending Act ("TILA") and Regulation Z (including the Home Ownership and Equity Protection Act of 1994), the Equal Credit Opportunity Act of 1974, as amended ("ECOA") and Regulation B, the Fair Credit Reporting Act of 1970, as amended, the Real Estate Settlement Procedures Act of 1974, as amended ("RESPA") and Regulation X, the Home Mortgage Disclosure Act ("HMDA") and Regulation C, the Federal Debt Collection Practices Act and the Fair Housing Act, as well as other federal and state statutes and regulations affecting the Company's activities. Failure to comply with these requirements can lead to loss of approved status, termination or suspension of servicing contracts without compensation to the servicer, demands for indemnification or mortgage loan repurchases, certain rights of rescission for mortgage loans, class action lawsuits and administrative enforcement actions.

The Company is subject to the rules and regulations of, and examinations by, the Department of Housing and Urban Development ("HUD"), the Federal Housing Administration and other federal and state regulatory authorities with respect to originating, underwriting, funding, acquiring, selling and servicing mortgage loans. In addition, there are other federal and state statutes and regulations affecting such activities. These rules and regulations, among other things, impose licensing obligations on the Company, establish eligibility criteria for loans, prohibit discrimination, provide for inspection and appraisals of properties, require credit reports on prospective borrowers, regulate payment features and, in some cases, fix maximum interest rates, fees and loan amounts. The Company is required to submit annual audited financial statements to various governmental regulatory agencies that require the maintenance of specified net worth levels.

The Company is a FNMA approved seller/servicer and is subject to the supervision of FNMA. In addition, the Company's operations are subject to supervision by state authorities (typically state banking or consumer credit authorities), many of which generally require that the Company be licensed to conduct its business. This normally requires state examinations and reporting requirements on an annual basis.

TILA requires a written statement showing an annual percentage rate of finance charges and requires that other information be presented to debtors when consumer credit contracts are executed. RESPA requires written disclosure concerning settlement fees and charges, mortgage servicing transfer practices and escrow or impound account practices. It also prohibits the payment or receipt of kickbacks or referral fees in connection with the performance of settlement services. The Fair Credit Reporting Act requires certain disclosures to

applicants concerning information that is used as a basis for denial of credit. HMDA requires collection and reporting of statistical data concerning the loan transaction. ECOA prohibits discrimination against applicants with respect to any aspect of a credit transaction on the basis of sex, marital status, race, color, religion, national origin, age, derivation of income from public assistance programs, or the good faith exercise of a right under the Federal Consumer Credit Protection Act. The Fair Housing Act prohibits discrimination in mortgage lending on the basis of race, color, religion, sex, handicap, familial status or national origin.

In October 1997, HUD issued a proposed rule which would create a qualified "safe harbor" under RESPA for lender payments to mortgage brokers (such as yield spread premiums). Under the proposal, fees paid by a lender to a mortgage broker would not be prohibited under RESPA if the broker enters into a contract with the consumer explaining the broker's relationship and total compensation. In

July 1998, HUD and the Board of Governors of the Federal Reserve System delivered to Congress a joint report containing legislative proposals to reform RESPA and TILA. This report proposed an exemption from the fee restrictions of RESPA for mortgage brokers that offer a package of settlement services for mortgage loans at a guaranteed price and follow other requirements. In March 1999, HUD issued a policy statement setting forth its position on lender-paid broker compensation under RESPA. In the policy statement, HUD asserts that lender payments to mortgage brokers are not per se illegal, but rather must be analyzed on a case-by-case basis. In determining whether lender-paid compensation is permissible under RESPA, the policy statement sets forth a two-part test: (i) whether the broker actually provided compensable goods, facilities or services and (ii) whether the broker's total compensation is reasonably related to the value of the goods, facilities or services it provided. In the policy statement, HUD also stated that legislation to improve RESPA is needed and that a reform package along the lines specified in the HUD and Federal Reserve Board report remains the most effective way to resolve the legal uncertainties under that statute. It is unknown at this time whether HUD's October 1997 proposal or reform legislation will be adopted.

The interest rates which the Company may charge on its loans are subject to state usury laws, which specify the maximum rate which may be charged to consumers. In addition, both federal and state truth-in-lending regulations require that the Company disclose to its borrowers prior to execution of the loans all material terms and conditions of the financing, including the payment schedule and total obligation under the loans. The Company believes that it is in compliance in all material respects with such regulations.

As a condition to funding of its loans, the Company requires each borrower to obtain and maintain in force a policy of insurance providing coverage for improvements on any real property securing the borrower's loan. If the borrower fails to provide fire and extended coverage insurance (and flood insurance if required) prior to closing of the borrower's loan or if the borrower's coverage is subsequently canceled or not renewed at any time during the loan period and the borrower fails to obtain new coverage, the Company, through an outside insurance vendor who monitors whether insurance is maintained, will provide coverage on the borrower's behalf under policies insuring the Company's interest in the collateral. Such practice is commonly referred to as a "forced placement" of insurance. The insurance which can be required and insurance which is forced placed is subject to regulation under TILA, the National Flood Insurance Act, and state insurance regulatory and lender statutes. Such laws and regulations generally impose disclosure and notice requirements which must be satisfied in connection with insurance requirements and the forced placement of coverage, limitations on the amount of coverage that a lender may obtain to protect its interest in the collateral and restrictions on fees and charges that the Company may assess in connection with such insurance.

Failure to comply with any of the foregoing federal and state laws and regulations could result in the imposition of civil and criminal penalties on the Company, class action lawsuits and administrative enforcement actions.

DEPARTMENT OF JUSTICE SETTLEMENT AGREEMENT

In September 1996, AMC entered into a settlement agreement with the U.S. Department of Justice (the "DOJ") arising out of a DOJ investigation and complaint which alleged that Long Beach Bank, F.S.B., during the period from January 1991 through June 1994, charged certain African-American, Hispanic, female and older borrowers more than younger, white male borrowers in violation of fair lending laws. AMC denied all

allegations in the complaint and all claims of discrimination. AMC also disputed the validity of the statistical analysis relied upon by the DOJ as the principal basis for its claims and further maintained that the DOJ theories of liability regarding broker-sourced lending were legally unsupportable. Nonetheless, to avoid costly, protracted litigation, AMC agreed to establish a $3 million fund to reimburse up to 1,200 borrowers identified by the DOJ as the maximum number of individuals who may have been affected by the alleged fair lending violations. AMC asserted that the better solution to the issues raised by the DOJ was an intensive national effort in consumer education and industry-wide initiatives directed at employee and broker education and training. For this reason, AMC also agreed to contribute an additional $1 million (payable over 3 years) to fund consumer education programs in conjunction with civil rights groups. AMC has established all funds required by the settlement agreement.

Pursuant to the settlement agreement, the Company, as a successor to AMC's wholesale division, agreed to (i) document any price exceptions from the Company's rate sheet on broker-sourced loans, (ii) periodically review the results of its broker-sourced lending operations for its compliance with fair lending laws (but in no event shall the Company be required to disclose any documents or information therewith, including the identities of any brokers with whom it does business), (iii) retain all loan application files submitted for mortgage loans and all loan-rider documents and notices relevant to any pricing decisions until September 1999 and report to the DOJ semi-annually on compliance with the settlement agreement, and (iv) provide to brokers information about the Company's fair-lending and pricing procedures and an opportunity to participate in fair-lending training. Any failure of the Company to comply with the requirements of the DOJ settlement agreement could allow the DOJ to seek injunctive relief against the Company.

In addition, in connection with the Company's direct-sourced mortgage lending, the Company is required to provide certain training courses for Company employees involved in direct-sourced mortgage loan pricing, use its best efforts to place mortgage loan applicants in appropriate risk classifications based on objective credit and risk-related criteria, and implement a direct-sourced mortgage loan monitoring system of mortgage loan prices. The Company believes that it is in compliance in all material respects with the settlement agreement. The Company's obligations under the settlement agreement terminate in September 1999.

ENVIRONMENTAL MATTERS

In the course of its business, the Company has acquired, and may acquire in the future, properties securing loans that are in default. It is possible that hazardous substances or waste, contaminations, pollutants or sources thereof could be discovered on such properties after acquisition by the Company. In such event, the Company may be required by law to remove such substances from the affected properties at its sole cost and expense. There can be no assurance that (i) the cost of such removal would not substantially exceed the value of the affected properties or the loans secured by the properties, (ii) the Company would have adequate remedies against the prior owner or other responsible parties, or (iii) the Company would not find it difficult or impossible to sell the affected properties either prior to or following such removal.

EMPLOYEES

As of February 28, 1999, the Company had a total of 866 employees. None of the Company's employees is covered by a collective bargaining agreement. The Company considers its relations with its employees to be good.

CERTAIN FACTORS AND TRENDS AFFECTING THE COMPANY AND ITS BUSINESS

Certain disclosures made by the Company in this report and in other reports and statements released by the Company are and will be forward-looking in nature, such as comments which express the Company's opinion about trends and factors which may impact future operating results. Disclosures which use words such as the Company "believes," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from expectations. Any such forward-looking statements, whether made in this

report or elsewhere, should be considered in context with the various disclosures made by the Company about its business including the factors discussed below.

Economic Slowdown and Decline in Collateral Value May Adversely Affect Volume of Loans

Periods of economic slowdown may reduce the demand for mortgage loans as people elect not to purchase new homes due to economic uncertainty and also may adversely affect the financial condition of potential borrowers so that they do not meet the Company's underwriting criteria. In addition, economic slowdowns may cause a decline in real estate values. Any material decline in real estate values will reduce the ability of borrowers to use home equity to support borrowings by negatively affecting loan-to-value ratios of the home equity collateral. To the extent that the loan-to-value ratios of prospective borrowers' home equity collateral do not meet the Company's underwriting criteria, the volume of loans originated by the Company could decline. A decline in loan origination volumes could have a material adverse effect on the Company's operations and financial condition.

Focus on Credit Impaired Borrowers May Result in Increased Delinquency Rates, Foreclosures and Losses

The Company is a lender in the subprime mortgage banking industry, which means that the Company focuses its marketing efforts on borrowers who may be unable to obtain mortgage financing from conventional mortgage sources. Approximately 5% of the total principal amount of loans originated or purchased by the Company in 1998 were to borrowers with a Company risk classification of "D," which includes borrowers with numerous derogatory credit items up to and including a bankruptcy in the most recent twelve month period. Loans made to such borrowers may entail a higher risk of delinquency and higher default frequency than loans made to borrowers who utilize conventional mortgage sources. Delinquencies, foreclosures and losses generally increase during economic slowdowns or recessions. Further, any material decline in real estate values increases the loan-to-value ratios of loans previously made by the Company, thereby weakening collateral coverage and increasing the possibility of a loss in the event of a borrower default. Any sustained period of increased delinquencies, foreclosures or default after the loans are sold could adversely affect the pricing of the Company's future loan sales, the ability of the Company to sell its loans in the future, and the market value of the Company's loans held for sale.

Loss of Funding Sources Could Adversely Affect Results of Operations

The Company funds substantially all of the loans it originates or purchases through the Facility and other borrowings. These borrowings will be repaid with the proceeds received by the Company from selling such loans. Banks and other creditors offering financing to mortgage lenders, such as the Company, have been concerned over financial difficulties experienced by certain specialty finance companies during 1998 and 1999. These difficulties include a lack of liquidity caused by secondary market conditions and other factors and have led to the bankruptcy filings of a few mortgage lenders. As a result, mortgage warehouse lenders have been more cautious with respect to borrowings offered to mortgage lenders, especially those specializing in subprime loans. Any failure to renew or obtain adequate funding under the Facility, or other borrowings, or any substantial reduction in the size of, or prices received in, the markets for the Company's loans, could have a material adverse effect on the Company's results of operations and financial condition. In the long term, to the extent that the Company is not successful in maintaining or replacing the Facility, it would likely have to curtail its loan production activities, thereby having a material adverse effect on the Company's results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition, Results of Operations, Liquidity and Capital Resources." See "Business -- Financing and Sale of Loans -- Warehouse Financing Facility."

Reliance on Secondary Purchasers of Loans Could Adversely Affect Results of Operations

Gain on sales of loans generated by the Company's loan sales has represented the primary source of the Company's revenues and net income. Furthermore, the Company has relied almost entirely on proceeds from loan sales to generate cash for repayment of borrowings under the Warehouse Financing Facility. The Company has historically sold substantially all of its loan originations in the secondary market to a number of

institutional purchasers. During 1998, prices received by the Company in its whole loan sale transactions declined from levels previously realized. This decline resulted in part from widening spreads in the asset-backed capital markets and excess inventory of subprime loans. There can be no assurance that the Company will be able to sell its loans in the secondary market at prices near the levels achieved during 1998 or 1997. To the extent that the Company could not successfully replace such loan purchasers or negotiate favorable terms for such loan purchases, the Company's results of operations and financial condition could be materially and adversely affected.

Elimination of Lender Payments to Brokers Could Adversely Affect Results of Operations

Lawsuits have been filed against several mortgage lenders, alleging that such lenders have made certain payments to independent mortgage brokers in violation of RESPA. These lawsuits have generally been filed on behalf of a purported nationwide class of borrowers alleging that payments made by a lender to a broker in addition to payments made by the borrower to a broker are prohibited by RESPA and are therefore illegal. In a majority of these cases, courts have declined to grant class certification, holding that it is necessary to analyze the facts of each transaction to determine whether the lender-paid fee, either alone or in combination with borrower-paid fees, constitutes a reasonable payment for goods, facilities or services provided. In March 1999, HUD clarified its position on lender payments to mortgage brokers further undermining class action lawsuits alleging that all lender-paid fees are per se illegal. See "Business -- Regulation." The Company's broker compensation programs permit such payments. Although the Company believes that its broker compensation programs comply with all applicable laws and are consistent with long-standing industry practice and regulatory interpretations, in the future new legislation, regulatory interpretations or judicial decisions may require the Company to change its broker compensation practices. Such a change may have a material adverse effect on the Company and the entire mortgage lending industry.

Elimination of Deductibility of Mortgage Interest Could Adversely Affect Results of Operations

Members of Congress and government officials have from time to time suggested the elimination of the mortgage interest deduction for federal income tax purposes, either entirely or in part, based on borrower income, type of loan or principal amount. Because many of the Company's loans are made to borrowers for the purpose of consolidating consumer debt or financing other consumer needs, the competitive advantages of tax deductible interest, when compared with alternative sources of financing, could be eliminated or seriously impaired by such government action. Accordingly, the reduction or elimination of these tax benefits could have a material adverse effect on the demand for the kind of loans offered by the Company.

Risk of Variations in Quarterly Operating Results

Several factors affecting the Company's business can cause significant variations in its quarterly results of operations. In particular, variations in the volume of the Company's loan originations and purchases, the differences between the Company's costs of funds and the average interest rates of originated or purchased loans, the inability of the Company to complete significant loan sales transactions in a particular quarter, and problems generally affecting the mortgage loan industry can result in significant increases or decreases in the Company's revenues from quarter to quarter. A delay in closing a particular loan sale transaction during a particular quarter would postpone recognition of gain on sale of loans. In addition, unanticipated delays in closing a particular loan sale transaction would also increase the Company's exposure to interest rate fluctuations by lengthening the period during which its variable rate borrowings are outstanding. If the Company were unable to sell a sufficient number of its loans at a premium in a particular reporting period, the Company's revenues for such period would decline, resulting in lower net income and possibly a net loss for such period, which could have a material adverse effect on the Company's results of operations, financial condition and liquidity. See "Management's Discussion and Analysis of Financial Condition, Results of Operations, Liquidity and Capital Resources."

Risk of Competition in New Markets

As the Company expands its retail origination and broker-sourced operations into new geographic markets, it may face competition from lenders with established positions in these locations. There can be no assurance that the Company will be able to successfully compete with such established lenders.

Risks of Contracted Services

The Company typically retains servicing rights upon the sale of loans originated or purchased by the Company and agrees to certain servicing performance criteria. If the Company does not meet such servicing performance criteria, the loan purchaser may terminate the servicing rights of the Company. The Company entered into an agreement with AMC pursuant to which it sub-services loans originated or purchased by the Company after the Reorganization. If AMC fails to meet the servicing performance criteria set forth in the relevant servicing agreements governing the loans, the Company's servicing rights could be terminated. Any termination of servicing rights could have a material adverse effect on the Company's results of operations and financial condition.

Impairment of Value of Loan Servicing Rights; Declining Interest Rates

The Company records gain on sales of loans based in part on the fair value of retained servicing rights related to such loans. The fair value of such servicing rights are in turn based in part on projected loan prepayment and credit loss rates. Higher than anticipated rates of loan prepayment or credit loss may be caused by, among other factors, a material decline in the level of interest rates and could require the Company to write down the value of such servicing rights which could have a material adverse effect on the Company's results of operations and financial condition.

Dependence Upon Independent Mortgage Brokers

The Company depends on independent mortgage brokers, and, to a lesser extent, smaller mortgage companies and commercial banks, for a substantial portion of its originations and purchases of mortgage loans. Substantially all of the independent mortgage brokers with whom the Company does business deal with multiple loan originators for each prospective borrower. Such originators, including the Company, compete for business based upon pricing, service, loan fees and costs and other factors. The Company's competitors also seek to establish relationships with such independent mortgage brokers, mortgage companies and commercial banks, most of whom are not obligated by contract or otherwise to continue to do business with the Company. In addition, the Company expects the volume of broker-sourced loans purchased by the Company to increase. The Company's future operating and financial results may be more susceptible to fluctuations in the volume and cost of its broker-sourced loans resulting from, among other things, competition from other purchasers of such loans.

Risks Related to Representations and Warranties in Loan Sales

The Company engages in bulk loan sales pursuant to agreements that generally require the Company to repurchase or substitute loans in the event of: a breach of a representation or warranty made by the Company to the loan purchaser, any misrepresentation during the mortgage loan origination process or, in some cases, upon any fraud or first payment default on such mortgage loans.

For loans the Company purchases from mortgage companies, banks and other originators, the Company generally limits the potential remedies of the institutions to which the Company later sells the loans to the potential remedies the Company receives from the parties from whom the Company purchased the loans. However, in some cases, the remedies available to a purchaser of loans from the Company may be broader than those available to the Company against the originators of such loans, and, even where this is not the case, should a purchaser enforce its remedies against the Company, the Company may not always be able to enforce its remedies against the related originators.

Any claims asserted against the Company in the future by one of its loan purchasers may result in liabilities or legal expenses that could have a material adverse effect on the Company's results of operations and financial condition.

Concentration of Operations in California

Approximately 34% of the dollar volume of loans originated or purchased by the Company during 1998 was secured by properties located in California. No other state contained properties securing more than 10% of the dollar volume of loans originated or purchased by the Company during 1998. Although the Company has a nationwide independent broker network, developing nationwide retail operations and a regional processing center network, the Company is likely to continue to have a significant amount of its loan originations and purchases in California for the foreseeable future, primarily because California represents a significant portion of the national mortgage marketplace. Consequently, the Company's results of operations and financial condition are dependent upon general trends in the California economy and its residential real estate market. The California economy experienced a slowdown or recession in recent years that has been accompanied by a sustained decline in the California real estate market. Residential real estate market declines may adversely affect the values of the properties securing loans such that the principal balances of such loans will equal or exceed the value of the mortgaged properties. Reduced collateral value will adversely affect the volume of the Company's loans as well as the pricing of the Company's loans and the Company's ability to sell its loans. See "-- Economic Slowdown and Decline in Collateral Value May Adversely Affect Volume of Loans" and "-- Focus on Credit Impaired Borrowers May Result in Increased Delinquency Rates, Foreclosures and Losses."

In addition, California historically has been vulnerable to certain natural disaster risks, such as earthquakes and erosion-caused mudslides, which are not typically covered by the standard hazard insurance policies maintained by borrowers. Uninsured disasters may adversely impact borrowers' ability to repay loans made by the Company. Because the Company sells its loans on a forward basis, it is not exposed to the risk of loan delinquencies and defaults (except to the extent they affect servicing rights) unless the Company is required to repurchase or substitute a loan due to a breach of a representation or warranty in connection with a loan sale, or, under certain circumstances, due to fraud or default on the first payment due after sale. However, any sustained period of increased delinquencies or defaults could adversely affect the pricing of the Company's loan sales and the ability of the Company to sell its loans. The existence of adverse economic conditions or the occurrence of such natural disasters in California could have a material adverse effect on the Company's results of operations and financial condition.

Ability of the Company to Implement its Growth Strategy

The Company's growth strategy involves expanding its broker-sourced loan business through increased penetration into existing markets and expansion into new markets and growing its direct-sourced loan origination business while maintaining its customary premiums on sale, interest rate spreads and underwriting criteria. Implementation of this strategy will depend in large part on the Company's ability to (i) expand its independent mortgage broker network and its direct-sourced origination activities in markets with a sufficient concentration of borrowers meeting the Company's underwriting criteria, (ii) hire, train and retain skilled employees, (iii) continue to expand in the face of increasing competition from other mortgage lenders, and (iv) finance increased loan production with additional warehouse lines or other borrowing. There can be no assurance that the Company will be able to implement these growth strategies, or that such strategies will be effective. See "Business."

ITEM 2. PROPERTIES

The Company's corporate headquarters are located in Orange, California, where it leases approximately 80,600 square feet of office space. The facilities are covered by several leases that, in general, expire in 2001 and 2002, and have an option to renew for five years. The current annual rent of such space is approximately $1.5 million and the related leases provide for certain scheduled increases in annual rent. The Company also

leases or subleases space for eleven Regional Processing Centers and 72 account executive field offices all in the United States.

The Company believes its facilities are both suitable and adequate for the current business activities conducted at its existing corporate headquarters, Regional Processing Centers and account executive field offices. As part of the Company's geographic expansion, the Company anticipates leasing additional office space in the future.

ITEM 3. LEGAL PROCEEDINGS

Although the Company is currently not a party to any material litigation it may be subject to various routine legal proceedings arising out of the ordinary course of its business.

When the Company operated as a division of AMC, it was involved in various lawsuits incidental to its business, none of which had a material adverse effect on the Company. In connection with the Reorganization, the Company did not assume any liabilities that arose out of the lending activities of AMC, including liabilities related to the broker-sourced mortgage loan operations, nor has the Company agreed to indemnify AMC against any such liabilities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the quarter ended December 31, 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

In April 1997, the Company's common stock began trading under the symbol LBFC on the Nasdaq National Market. The following table sets forth the range of high and low closing sale prices of the Company's common stock for the periods indicated:

	HIGH	LOW
1998		
Fourth Quarter	$ 8.125	$ 4.625
Third Quarter	11.188	6.688

Second Quarter	14.125	10.250
First Quarter	13.313	9.875
1997		
Fourth Quarter	$15.063	$ 9.875
Third Quarter	13.563	8.750
Second Quarter	8.875	6.500

No dividends were declared during the period covered by the above table. The Company does not anticipate declaring dividends in the near future. Any decision made by the Company's Board of Directors to declare dividends in the future will depend upon the Company's future earnings, capital requirements, financial condition and other factors deemed relevant by the Company's Board of Directors.

On March 5, 1999, the Company had approximately 33 stockholders of record of its common stock. The Company believes its common stock is beneficially held by more than 3,000 stockholders.

The Company is authorized to repurchase up to 2.5 million shares of the Company's common stock through the end of September 1999 pursuant to a stock repurchase plan adopted by the Board of Directors in October 1997. During 1998, the Company used $21.2 million of available liquidity to purchase an additional

2.1 million shares of common stock. The Company has spent $24.5 million and has repurchased 2.4 million shares since the plan's inception.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE DATA)

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
STATEMENT OF OPERATIONS DATA:					
Revenues	$ 132,650	$ 92,666	$ 51,160	$ 31,873	$ 22,364
Expenses	82,618	50,833	35,188	21,912	22,328
Net earnings	$ 30,019	$ 24,644	$ 9,392	$ 5,792	$ 22
Basic earnings per share:					
Net earnings	$ 1.27	$ 0.99	n/m	n/m	n/m
Average number of common shares	23,706	24,976	n/m	n/m	n/m
Diluted earnings per share:					
Net earnings	$ 1.22	$ 0.96	n/m	n/m	n/m
Average number of common shares	24,613	25,653	n/m	n/m	n/m
Return on average assets	32.15%	n/m	n/m	n/m	n/m
Return on average equity	12.94%	n/m	n/m	n/m	n/m
Loans originated and purchased	$2,575,965	$1,685,742	$1,058,122	$592,542	$565,547
Loan sales	2,521,606	1,679,522	1,029,789	580,366	562,054
G&A as a % of originations	2.82%	2.72%	3.29%	3.70%	3.95%
Gain on sale as a % of loans sold	4.87%	5.28%	4.92%	5.46%	3.86%
Net earnings as a % of production	1.17%	1.46%	0.89%	0.98%	0.00%

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n/m -- Not meaningful as this includes periods prior to the initial public offering.

	AS OF DECEMBER 31,				
	1998	1997	1996	1995	1994
STATEMENT OF FINANCIAL CONDITION DATA:					
Cash and cash equivalents	$ 24,941	$ 38,782	$ --	$ --	$ --
Loans held for sale	59,148	17,241	49,580	21,342	10,364
Capitalized mortgage servicing rights	9,806	3,054	--	--	--
Deferred income taxes	32,523	34,400	2,120	882	--

Total assets	328,595	248,088	79,750	24,778	12,529
Warehouse financing facility	211,787	146,271	72,829	20,613	11,483
Total liabilities	228,969	157,343	78,613	23,046	13,391
Stockholders' and divisional equity (deficit)	99,626	90,745	1,137	1,732	(862)
OPERATING DATA:					
States in which loans were originated	50	48	43	35	27
Account Executives at year end	327	232	120	64	79
Independent broker relationships	12,500	10,000	7,000	5,000	4,000
Book value per share at year-end	$ 4.41	$ 3.67	n/m	n/m	n/m
Equity to Asset Ratio at year-end	30.32%	36.58%	n/m	n/m	n/m

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS, LIQUIDITY AND CAPITAL RESOURCES

Management's discussion and analysis of financial condition, results of operations, liquidity and capital resources contained within this report should be read in conjunction with the Company's Consolidated Financial Statements. The Notes to the Consolidated Financial Statements define certain terms that are used throughout this discussion and provide information on the Company's initial public offering and the basis of presentation.

GENERAL

The Company is a specialty finance company engaged in the business of originating, purchasing and selling subprime residential mortgage loans secured by one- to four-unit family residences. The Company's core borrower base consists of individuals who do not qualify as traditional "A" credit borrowers because their credit history, debt to income ratio or other factors do not conform to standard agency lending criteria. The Company originates loans through independent mortgage brokers and, to a lesser extent, purchases loans from mortgage companies and commercial banks. Substantially all of the Company's loan originations and purchases have been sold in the secondary market through loan sales in which the Company disposes of its economic interest in the loans for cash, except for the related servicing rights, which it has generally retained. There may be some instances when all servicing rights are sold. See "Business."

Prior to May 1997, the Company operated as the Wholesale Division of a company now known as Ameriquest Mortgage Company ("AMC"). In May of 1997, AMC reorganized (the "Reorganization") its business operations by transferring certain assets, liabilities and personnel relating to the Company and approximately $40.0 million in cash (less approximately $2.0 million in related expenses) to the Company in exchange for 24,999,999 shares of common stock. Immediately after the Reorganization, the initial public offering of 25,000,000 shares of LBFC common stock was completed. The Reorganization has been accounted for in manner similar to a pooling of interests and therefore, the historical cost basis of the assets and liabilities transferred to the Company was carried over from AMC.

Because the Reorganization was accounted for in a manner similar to a pooling of interests, the information contained within this report includes the following: (i) for the year ended December 31, 1997, combined results of operations represent activity for the Wholesale Division of AMC from January 1, 1997 through May 1, 1997 and activity for the Company from May 2, 1997 through December 31, 1997; and (ii) for the year ended December 31, 1996, results of operations represent activity solely for the Wholesale Division of AMC. All of the benefits, rights and obligations relating to the operations and net earnings of the Wholesale Division of AMC, up to the date of the Reorganization, remained with AMC.

The financial statements of the Company, up to the date of the Reorganization, have been prepared in part from records maintained by AMC. The historical financial statements of the Company, up to the date of the Reorganization, may not necessarily be indicative of the conditions that would have existed if the Company had operated as an independent entity. The financial statements, up to the date of the Reorganization, reflect key assumptions regarding the allocation of certain revenue and expense items and certain balance sheet accounts, many of which could be material. In particular, in cases involving assets, liabilities, revenues and expenses not specifically identifiable to any particular division of AMC, certain allocations were made to reflect the operations of the Company. These allocations were based on a variety of factors which management believes provide a reliable basis for the financial statements. A summary of the revenues, expenses and net earnings for the years ended December 31, 1998, 1997 and 1996 follows:

	1998	1997 WHOLESALE DIVISION OF AMC	1997 THE COMPANY MAY 2 THROUGH DEC. 31, 1997	1997 COMBINED	1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Revenues.....................	$132,650	$25,772	$66,894	$92,666	$51,160
Expenses.....................	82,618	15,841	34,992	50,833	35,188
Net earnings.................	30,019	5,947	18,697	24,644	9,392
Basic earnings per share.....	1.27	0.24	0.75	0.99	n/a
Diluted earnings per share...	1.22	0.24	0.72	0.96	n/a

The primary components of the Company's revenues are gain on sales of loans and net interest income. Gain on sales of loans consists of: (i) the excess of the cash selling price over the outstanding principal balance of the loan (the "Gross Cash Premium"), minus (ii) the fees and other compensation paid to independent mortgage brokers and other lenders, plus (iii) capitalized servicing rights, and plus (iv) points and fees received from the borrower, offset by incremental direct loan origination costs. The Gross Cash Premium plus capitalized servicing rights equals the "Gross Sales Premium." Gross Sales Premiums are affected by market conditions, loan type, credit quality, interest rate and other factors as negotiated between the Company and independent purchasers. The recorded net gain on sale of loans, as expressed as a percentage of loans sold, is the "Net Premium" realized for that period.

Net interest income represents the difference between the interest that is earned on loans and other interest earning assets over the interest that is paid under the revolving warehouse credit facility. Net interest income can be affected by the volatility of interest rates, the level of interest earned on interest earning assets, the cost of interest on the revolving warehouse credit facility, the average amount of interest earning assets outstanding, non-performing loans and the average amount of borrowings outstanding.

Expenses include general and administrative expenses, provisions for losses, sub-servicing costs and income tax expense. Prior to the Reorganization, certain expenses, not specifically identifiable to any particular division of AMC, were allocated to AMC's various divisions, including the Wholesale Division.

The Company generates its loan production through three channels: broker-sourced, correspondent and consumer direct. The broker-sourced and correspondent channels comprise wholesale production and the consumer direct channel represents retail production (the "Retail Channel").

The Company's primary channel of loan production is through its relationship with a network of approved independent mortgage brokers. The Company has established a sales force ("Account Executives") to serve as the principal contact between the Company and the independent mortgage brokers. The Company offers a variety of loan programs and products; however, all loans originated by the Company are secured by first-lien mortgages on residential properties consisting of one- to four-unit family residences. In addition the Company purchases loans on a correspondent basis from other lenders. Loan purchases totaled $296.3 million or 11.5% of production for the year ended December 31, 1998, as compared to $151.8 million or 9.0% and $32.3 million or 3.1% for the years ended December 31, 1997 and 1996, respectively. In the fourth quarter of 1997, the Company initiated its retail channel. The Company created the retail channel in order to diversify its

production and to have direct interaction with borrowers at the time of origination. During 1998, the retail channel generated $59.6 million of loans.

The following table presents the Company's loan production by channel for the years presented (in thousands):

	1998	1997	1996
Broker-sourced	$2,220,096	$1,531,266	$1,026,390
Correspondent	296,283	151,768	31,732
Wholesale	2,516,379	1,683,034	1,058,122
Retail	59,586	2,708	--
Total	$2,575,965	$1,685,742	$1,058,122

The Company's geographic markets are divided into various regions. Once the Company determines that the level of current and projected business from a region warrants creation of a local presence, the Company establishes a regional processing center in or near the region. At December 31, 1998 the Company had 11 regional processing centers located throughout the United States.

The Company follows the practice of entering into forward commitments to sell its production. These forward commitments are typically made for the next 30 to 180 days of production. Prior to entering into a forward commitment, the Company evaluates prospective purchasers in order to assess their ability to fulfill the terms of the agreement. In the event that the coupon rate or margin of the loans originated and delivered to the purchaser are materially different from the terms of the forward commitment, the sales price of the loans are adjusted.

The following table presents the Company's loan sales for the periods indicated (dollars in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Loan sales (principal balance)	$2,521,606	$1,679,522	$1,029,789
Gain on sale of loans	122,704	88,597	50,699
Gross Sales Premiums as a % of loans sold	6.11%	6.47%	5.63%
Net gain on sale as a % of loans sold	4.87%	5.28%	4.92%

Loan sales have been made to institutional purchasers on a nonrecourse basis pursuant to a purchase agreement containing customary representations and warranties regarding underwriting criteria and the origination process. As of December 31, 1998, the Company has not retained residual interests in the loans that it sells other than servicing rights. In the future, however, the Company may consider alternatives to whole loan sales, including securitizations, depending on market conditions and available levels of whole loan executions. The Company's focus in utilizing such a strategy would be to retain a positive cash flow operating model. In the event of a breach of a representation or a warranty, the Company may be required to repurchase or substitute a new loan. The Company may also be required to repurchase or substitute a loan if the borrower defaults on the first payment due after the loan is funded or if the loan documentation contains fraudulent misrepresentations made by the borrower. Such repurchase or substitution may result in the Company recording a reduction in the gain on sale that it previously recognized and/or a loss. The Company realizes that such repurchases are inherent in its operations and that the Company may realize a reduction in the previously recognized gain on sale or sustain a loss from such repurchases. The Company provides reserves to cover such activities that arise in connection with originating loans and subsequently selling them to investors. During 1998 the Company repurchased $81 million of loans.

RESULTS OF OPERATIONS

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

During 1998, net earnings increased $5.4 million, to $30.0 million, an increase of 21.8% over $24.6 million of net earnings for the same period in 1997. The Company's net earnings per diluted share was $1.22 for the year ended December 31, 1998, an increase of 27.1% over net earnings per diluted share of $0.96 for the year ended 1997.

The primary factors that led to the improvement in net earnings and net earnings per share during 1998 as compared to 1997 included:

- Increased loan production. Loan production increased by $890.2 million or 52.8% to $2.6 billion during the year ended December 31, 1998 as compared to $1.7 billion for 1997.

- Increased loan sales. Loans sold during the year ended December 31, 1998 totaled $2.5 billion, an increase of $842.1 million or 50.1% over the same period of 1997.

- Lower effective income tax rate. The income tax rate was 40.0% during the year ended December 31, 1998 as compared to 41.1% during the same period of 1997.

- Lower level of shares outstanding. The decline in the average number of shares outstanding positively impacted net earnings per share. The average number of diluted shares outstanding declined to 24.6 million for year ended December 31, 1998, a decline of 1.1 million shares from the same period of 1997. The primary reason for the decline in the average number of shares is due to the Company repurchasing 2.4 million shares of its common stock, pursuant to its stock repurchase program.

Revenues. The table below presents the Company's revenues by primary component for the years indicated.

<TABLE>
<CAPTION>

	1998	1997
	(DOLLARS IN THOUSANDS)	
Gain on sale of loans	$122,704	$88,597
Net interest income	6,787	3,354
Loan servicing and other fees on loans	4,922	946
Amortization of mortgage servicing rights	(1,763)	(231)
Total revenues	$132,650	$92,666

</TABLE>

Total revenues increased by approximately $40.0 million or 43.2% in 1998, compared to 1997, primarily as a result of an increase in gain on sales of loans of $34.1 million or 38.5% as compared to 1997. The primary factor contributing to this increase was an increase in the amount of loans sold of 50.1% to $2.5 billion during 1998, as compared to the same period in 1997. Such increase was partially offset by a decrease in Net Premiums on the sale of loans to 4.87%

during 1998, from 5.28% in 1997.

The increase in the amount of loans sold resulted from an increase in loan originations and purchases to $2.6 billion during year ended December 31, 1998, from $1.7 billion during 1997. This trend reflects the Company's continued growth of its broker-sourced business through penetration in existing markets and expansion into new geographic markets. During 1998 the Company originated loans in all 50 states compared to 48 states in 1997. Additionally, the Company expanded its sales force to 327 at December 31, 1998, an increase of 40.9% over the level in 1997.

The table below presents the Company's revenues by reportable segment for the years indicated. For 1997 the Company made certain estimates in order to compute the revenues by using actual results from the Reorganization date to December 31, 1997 to allocate revenues.

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
	(DOLLARS IN THOUSANDS)	
Broker-sourced	$106,956	$82,208
Correspondent	10,832	6,159
Subtotal Wholesale	117,788	88,367
Other	14,862	4,299
Total revenues	$132,650	$92,666

</TABLE>

Gain on sale of loans increased to $122.7 million during 1998, an increase of $34.1 million over gain on sale of $88.6 million during 1997. The increase in gain on sale during 1998 is due to an increase in the amount of loans sold, partially offset by a decline in Gross Sales Premiums. The table below presents the premiums received and fees paid by the Company and such amounts expressed as a percentage of loans sold during the periods indicated.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			
	1998		1997	
	(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Gross Sales Premium	$154,068	6.11%	$108,585	6.47%
Fees paid to brokers	(28,682)	(1.14)%	(17,927)	(1.07)%
Fees paid to correspondents	(8,194)	(0.32)%	(4,849)	(0.29)%
Points, fees and other	5,512	0.22%	2,788	0.17%
Net Premium	$122,704	4.87%	$ 88,597	5.28%

</TABLE>

Net Premiums on the sale of loans decreased to 4.87% for the year ended December 31, 1998, as compared to 5.28% in 1997. The decrease is the result of lower Gross Sales Premiums, higher fees paid to brokers, and a larger volume of correspondent business.

The table below presents the premiums received and fees paid by reportable segment of the Company and such amounts expressed as a percentage of loans sold during 1998, dollars in thousands.

	YEAR ENDED DECEMBER 31, 1998	
BROKER-SOURCED		
Gross Sales Premium	$131,784	6.05%
Fees paid to brokers	(28,682)	(1.32)%
Points, fees and other	3,854	0.18%
Net Premium	$106,956	4.91%
CORRESPONDENT		
Gross Sales Premium	$ 19,063	6.60%
Fees paid to correspondents	(8,194)	(2.84)%
Points, fees and other	(37)	(0.01)%
Net Premium	$ 10,832	3.75%
RETAIL		
Gross Sales Premium	$ 3,221	5.70%
Points, fees and other	1,695	3.01%
Net Premium	$ 4,916	8.70%

Investor demand for the Company's loans, the level of available supply of such products and the direction of mortgage interest rates all have a direct impact on the negotiated Gross Cash Premiums. A recent decline in market pricing for subprime mortgage loans has negatively affected the Gross Cash Premiums that the Company will be able to receive on future loan sales. Planned expansion in the retail loan origination channel, however, may mitigate this impact on the Company's gain on sale since such originations do not result in any broker or correspondent fees paid. There can be no assurance provided that the Company will be able to

maintain its historical level of Gross Cash Premiums and Net Premiums or that it will be able to generate sufficient volume in retail loan originations for the Retail Channel to generate profitable operations.

Loan servicing and other fees totaled $3.2 million during 1998, net of amortization of mortgage servicing rights totaling $1.8 million. The Company generally earns an annual 50 basis points on the outstanding principal balance of each loan it services, and retains the right to receive late fees and other charges in connection with the servicing of such loans. At December 31, 1998, the outstanding balance of the servicing portfolio, including the loans sub-serviced by AMC totaled $1.5 billion. Prior to the Reorganization, all related loan servicing revenues were recognized by an affiliated division of AMC. During the third quarter, the Company and AMC modified the existing loan sub-servicing agreement, which provides the Company the right to begin servicing its loans. The Company began its independent servicing operations on November 2, 1998. As of December 31, 1998, the Company was directly servicing loans with an aggregate outstanding principal amount of $547 million.

Net interest income totaled $6.8 million during 1998, an increase of $3.4 million compared to the same period in 1997. Such increase resulted from a higher level of average loans held for sale during the period, partially offset by a higher level of average borrowings under the revolving warehouse financing facility. During 1997 the Company began utilizing its excess liquidity to fund a portion of its loan originations. This strategy has resulted in higher levels of return on its excess liquidity and has allowed the Company the flexibility to transfer such loans to its warehouse line on a same-day basis.

Expenses. The following table sets forth the components of the Company's expenses for the periods indicated.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1997
	(DOLLARS IN THOUSANDS)	
Compensation expense	$50,025	$32,229
Premises and equipment expenses	11,487	4,141
Other general and administrative expenses	11,039	7,206
Total direct expenses	72,551	43,576
Allocated expenses from AMC	--	2,294
Total general and administrative expenses	72,551	45,870
Provision for losses	5,247	4,028
Sub-servicing costs	4,820	935
Total expenses	$82,618	$50,833

</TABLE>

The following table presents certain data and statistics on the Company's general and administrative expenses for the periods indicated.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			
	1998		1997*	
	PER UNIT	% OF PRODUCTION	PER UNIT	% OF PRODUCTION
Broker-sourced	$2,404	2.14%	$ 2,425	2.17%
Correspondent	822	0.69	951	0.74
Wholesale	2,227	1.97	2,292	2.02
Retail	8,998	8.17	43,425	33.68
Total Production	$2,388	2.11%	$ 2,372	2.09%
Corporate support	1,232	1.09	1,153	1.02
Net general and administrative expenses	$3,188	2.82%	$ 3,080	2.72%

</TABLE>

----

* 1997 Production data is from the date of the Reorganization to December 31, 1997.

The total dollar amount of general and administrative expenses increased by $26.7 million or 58.2% to $72.6 million during 1998, compared to the same period in 1997. Additionally, the percentage of total general and administrative expense to loan production increased to 2.82% during 1998 compared to 2.72% during the same period 1997. The increase in general and administrative expenses is due to: (i) costs relating to the increase in volume of loan production, (ii) an increase in corporate infrastructure, (iii) the costs of initiating a retail production channel, and (iv) the costs of initiating a loan servicing function. During 1998 the Company added regional processing centers in Denver, Dallas, Chicago and Portland in order to support loan production.

Compensation expense increased by $17.8 million or 55.2% to $50.0 million during 1998, compared to the same period in 1997. The primary reason for such increase is attributable to increases in commissions paid to production employees. Additionally, compensation expenses increased during 1998 as a result of the increase in corporate staff to support the infrastructure of the Company as an independent entity. The number of employees totaled 819 at December 31, 1998, versus 578 at December 31, 1997.

Premises and equipment expenses increased by $7.3 million or 177.4% to $11.5 million during 1998, compared to the same period in 1997. Such increases reflect an increase in occupancy costs related to growth in personnel to support the increased volume of loan production, initiating a loan servicing function as well as an increase in headquarters space to support the Company's infrastructure as an independent entity since the Reorganization.

Other general and administrative expenses increased by $3.8 million or 53.2% to $11.0 million during 1998, compared to the same period in 1997. The increase in other general and administrative expenses is primarily the result of increased infrastructure and costs incurred in support of the Company's loan production.

Provision for losses increased to $5.2 million compared to $4.0 million for the same period in 1997. The Company provides market valuation adjustments for loans held for sale and for liabilities associated with (i) breaches of representations and warranties, (ii) first payment defaults, and (iii) repurchases of loans recorded as sold. At December 31, 1998, the Company had $3.2 million of market valuation adjustments on loans held for sale and $2.0 million of liabilities for potential repurchases of loans. Prior to the Reorganization, AMC allocated $2.8 million of provision for losses to the Wholesale Division. This allocation related to losses sustained by the Wholesale Division during April 1997 from the repurchase and sale of certain loans which were originated by the Wholesale Division in previous years.

As more fully discussed in Note 13 to the Company's Consolidated Financial Statements, since the Reorganization, the Company has entered into an agreement with AMC pursuant to which AMC agreed to sub-service mortgage loans originated or purchased by the Company after the Reorganization. The Company has agreed to pay AMC a 45 basis point annual servicing fee on the outstanding principal balance of each loan sub-serviced. Such sub-servicing costs for 1998 and 1997 totaled $4.8 million and $935,000, respectively. The Company and AMC modified the sub-servicing agreement during the third quarter of 1998. The Company anticipates that its future sub-servicing cost will decline commensurate with the decline in the volume of loans serviced by the sub-servicer.

The table below presents the Company's expenses by reportable segment for the years indicated. For 1997 the Company made certain estimates in order to compute the expenses by using actual results from the Reorganization date to December 31, 1997 to allocate expenses.

<TABLE>
<CAPTION>

	1998	1997
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Broker-sourced	$42,673	$33,228
Correspondent	2,253	1,123
Subtotal Wholesale	44,926	34,351
Other	37,692	16,482
Total Expenses	$82,618	$50,833

</TABLE>

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

The Company had substantial growth during 1997 as a result of increased loan originations and purchases in both existing and new markets. Net earnings increased by $15.3 million or 162.4% to $24.6 million in 1997 from $9.4 million in 1996.

The primary factors that led to the improvement in net earnings recorded during 1997 as compared to 1996 include:

- Increased loan production. Loan production increased by $627.6 million or 59.3% to $1.7 billion during the year ended December 31, 1997 as compared to the same period of 1996.

- Increased loan sales. Loans sold during the year ended December 31, 1997 totaled $1.7 billion, an increase of $649.7 million or 63.1% over the same period of 1996.

- Higher premiums received on the sale of loans. Net Premiums on the sale of loans during the year ended December 31, 1997 totaled 5.28% as compared to 4.92% for the same period of 1996.

- Improved operational efficiencies. General and administrative expenses as a percent of loan production declined to 2.72% during the year ended December 31, 1997, from 3.29% during the same period in 1996.

Revenues. The following table sets forth the components of the Company's revenues for the periods indicated:

	YEAR ENDED DECEMBER 31, 1997	1996
	(IN THOUSANDS)	
Gain on sale of loans	$88,597	$50,699
Loan servicing and other fees, net	715	--
Net interest income	3,354	461
Total revenues	$92,666	$51,160

Total revenues increased by $41.5 million or 81.1% in 1997, compared to 1996, as a direct result of an increase in gain on sales of loans of $37.9 million or 74.8% in 1997, compared to 1996. The primary factors contributing to this increase are: (i) an increase in loan sales of 63.1% to $1.7 billion in 1997, as compared to 1996, and (ii) an increase in the Net Premiums on the sale of loans to 5.28% in 1997 from 4.92% in 1996.

The increase in loan sales resulted from an increase in loan originations and purchases to $1.7 billion in 1997 from $1.1 billion in 1996, which reflects the Company's goal to profitably expand its broker-sourced business through penetration in its existing markets and expansion into new geographic markets. The number of Account Executives increased to approximately 232 at December 31, 1997 compared to approximately 120 at December 31, 1996. The Company's efforts to expand the number of approved independent mortgage brokers resulted in approximately 10,000 approved brokers at December 31, 1997 compared to approximately 7,000 approved brokers at December 31, 1996. During 1997, the Company originated loans in 48 states compared to 43 states during 1996. Loan originations in California during 1997 represented 34.4% of total loan production for the year.

Net Premiums on the sale of loans increased in 1997 as a result of higher Gross Sales Premiums negotiated on loans sold, partially offset by both higher Broker Fees paid and a reduced level of capitalized mortgage servicing rights recognized at the time of sale. Gross Cash Premiums on loans sold increased to 6.03% in 1997 compared to 4.77% in 1996, while at the same time, Broker and Correspondent Fees increased to 1.36% of loans sold compared to 0.93% in 1996. Capitalized mortgage servicing rights recognized at the time of sale dropped to 0.43% in 1997 from 0.90% in 1996, primarily due to an increase in the estimated cost to service loans resulting from the need to contract with a sub-servicer immediately following the Reorganization.

Loan servicing and other fees totaled $715,000 in 1997, net of amortization of mortgage servicing rights totaling $231,000. The Company generally earns an annual 50 basis points on the outstanding principal balance of each loan it services, and retains the right to receive late fees and other charges in connection with the servicing of such loans. At December 31, 1997, the outstanding balance of the servicing portfolio totaled $896.2 million, including certain loans serviced on an interim basis until servicing is transferred to the purchasing investor. Prior to the Reorganization, all related loan servicing revenues were recognized by an affiliated division of AMC.

Net interest income totaled $3.4 million in 1997, an increase of $2.9 million or 627.5%, compared to 1996. Such increase resulted from a higher level of loans held for sale during the period, partially offset by a higher level of advances under the revolving warehouse financing facility, coupled with investment returns from the Company's short-term investment securities. During 1997, the Company began utilizing its excess liquidity to fund a portion of its loan originations. This strategy resulted in higher levels of return on investments and allowed the Company the flexibility to transfer such loans to its warehouse line on a same-day basis.

Expenses. The following table sets forth the components of the Company's expenses for the periods indicated:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1997	1996
	(IN THOUSANDS)	
<S>	<C>	<C>
Compensation	$32,229	$17,168
Premises and equipment	4,141	3,870
Other general and administrative	7,206	4,900
Total direct expenses	43,576	25,938
Allocated expenses from AMC	2,294	8,900
Total general and administrative	45,870	34,838
Provision for losses	4,028	350
Sub-servicing costs	935	--
Total expenses	$50,833	$35,188

</TABLE>

Compensation expense increased 87.7% or $15.1 million in 1997 as compared to 1996. The increased level of compensation expense represents 85.4% of the total increase in direct general and administrative expenses in 1997 as compared to 1996. The primary reason for such increase is growth in the number of employees resulting from the Company's expansion of its loan production capabilities. The number of employees totaled 578 at December 31, 1997, up from 338 at December 31, 1996. The increase in compensation expense is also attributable to increases in commissions paid to production employees. Both the growth in the employee base and the increased commissions are directly related to increased loan production during 1997 as compared to 1996. Although total general and administrative expenses increased in 1997, as compared to 1996, such expenses declined as a percentage of loan production to 2.72% in 1997, as compared to 3.29% in 1996.

Premises and equipment expenses increased by $271,000 or 7.0%, to $4.1 million in 1997, as compared to $3.9 million in 1996, reflecting an increase in occupancy costs related to growth in personnel forces to support the increased loan production as well as an increase in headquarters' space to support the Company as an independent entity since the Reorganization.

Other general and administrative expenses increased by $2.3 million or 47.1% to $7.2 million in 1997, as compared to $4.9 million in 1996. The increase in other general and administrative expenses is primarily the result of increased infrastructure and indirect costs incurred in support of the Company's loan production. As more fully discussed in the Notes to the Company's Consolidated Financial Statements, since the Reorganization, the Company had entered into several agreements with AMC, pursuant to which AMC provided data processing, human resources and, through August 1997, mail room services to the Company. The Company

has paid $1.1 million to AMC for such services during 1997 since the Reorganization. The Company has developed an internal capacity for these functions and has given AMC notice to curtail those agreements. Expenses as a percent of production may increase due to the development of those independent capabilities to replace contracted services initially being provided by AMC. In addition, the Company provided certain services to AMC, as described in Note 13 to the Company's Consolidated Financial Statements. The Company has received $440,000 from AMC for such services during 1997 since the Reorganization. The Company has received notice from AMC to curtail those services.

Prior to the Reorganization, the Wholesale Division received an allocation of expenses from AMC, as detailed in Note 1 to the Company's Consolidated Financial Statements. Immediately following the Reorganization, such allocations ceased as the Company now incurs all of its expenses directly. In 1997, such allocated expenses from AMC totaled $2.3 million compared to $8.9 million in 1996.

Provision for losses increased to $4.0 million in 1997 compared to $350,000 in 1996. Prior to the Reorganization, the Wholesale Division received an allocation from AMC based on the total provision for losses recorded by AMC. Such allocation totaled $2.8 million in 1997 and is primarily the result of a loss recorded by AMC related to the repurchase of certain loans in 1997. Provision for losses totaling $1.2 million has been recorded by the Company since the Reorganization to provide for any future losses resulting from breaches of representations and warranties, first payment defaults, and other factors.

As more fully discussed in Note 13 to the Company's Consolidated Financial Statements, since the Reorganization, the Company has entered into an agreement with AMC pursuant to which AMC agreed to sub-service mortgage loans originated or purchased by the Company after the Reorganization. The Company has agreed to pay AMC a 45 basis point annual servicing fee on the outstanding principal balance of each loan sub-serviced. Such sub-servicing costs in 1997 amounted to $935,000.

Income Taxes

The effective income tax rates for 1998, 1997 and 1996 were 40.0%, 41.1% and 41.2%, respectively. Prior to the Reorganization, the Wholesale Division was not a separate legal entity for tax purposes. Because the Wholesale Division was part of AMC until the Reorganization, AMC is responsible for payment of federal and state income taxes attributable to income earned by the Wholesale Division of AMC prior to the Reorganization.

As discussed in Note 9 to the Company's Consolidated Financial Statements, the amortization of the deferred tax asset has no impact on the Company's provision for income taxes, rather it reduces the amount of income taxes payable to the Internal Revenue Service ("IRS").

FINANCIAL CONDITION

A substantial portion of the Company's cash and cash equivalents are maintained in accounts with its warehouse lender. The Company earns interest on these funds at a yield that approximates the 30 day reserve adjusted London Inter-Bank Offered Rate ("LIBOR"). At December 31, 1998, cash and cash equivalents included $17.5 million in funds which were borrowed from its warehouse lender for the funding of loans. Such advances were not utilized to fund loans and were repaid to the warehouse lender the following business day.

As discussed in more detail in Liquidity and Capital Resources, the Company invests in securities which consist of high-quality, short-term securities.

Loans held for sale totaled $59.1 million which is an increase of $41.9 million as of December 31, 1998, as compared to December 31, 1997. This increase is a result of the increase in loan origination activity during 1998. Loans held for sale is composed of recently originated loans that have not yet been presented to an investor, and/or loans that have been repurchased from investors. At December 31, 1998, $37.3 million of loans held for sale were performing in accordance with their contractual terms. The aggregate principal balance of loans held for sale at December 31, 1998 is net of a market valuation adjustment of $3.2 million. The Company believes that these loans are carried at the lower of aggregate cost or market.

Receivable from the sales of loans represents the proceeds from the sales of loans that have not been received by the Company from the purchaser. At December 31, 1998, receivable from the sales of loans totaled $186.8 million compared to $143.1 million at December 31, 1997. Such balances normally are collected within a 30-day period from month-end. All of the proceeds related to the receivable from the sales of loans at December 31, 1998 have been collected.

At December 31, 1998, the Company had recorded $9.8 million of capitalized servicing rights, net of amortization. Capitalized servicing rights are subject to downward valuation in the event that the market value of the servicing is lower than the recorded amounts, which typically occurs when the related loans have higher ratios of loss (charge-offs) and/or rates of prepayment than had been predicted at the time of sale.

The warehouse financing facility increased $65.5 million over the 1997 year-end level as a result of an increase in the receivable from the sales of loans over the same comparative period and increased origination volume. Borrowings under the Facility are short-term and typically are repaid within 60 days.

LIQUIDITY AND CAPITAL RESOURCES

The Company had $24.9 million in cash and cash equivalents at December 31, 1998 reflecting continued positive cash flows generated since the Reorganization. Prior to the Reorganization, all cash generated by the Wholesale

Division of AMC was collected by AMC, and as such, cash and cash equivalents for the Company at any point prior to the Reorganization reflects a zero balance. At December 31, 1998, the Company had borrowed $17.5 million on loans which had not yet funded. These borrowings were repaid the following business day. At December 31, 1998, the Company had utilized $52.1 million of its liquidity to fund loans. Sources of cash flow include loan sales, net interest income and borrowings. Uses of cash include the funding of loan originations and purchases, repayment of borrowings and related interest expenses, operating and administrative expenses, income taxes, purchases of treasury stock, and capital expenditures.

The Company funds its operations through its loan sales, revolving warehouse credit facility, cash reserves and net earnings. Additionally, the Company may utilize cash reserves to fund loan production in order to maximize the return on excess liquidity. The Company repays borrowings with the proceeds from loan sales. During the years ended December 31, 1998, 1997 and 1996, the Company used cash in the amount of $2.6 billion, $1.7 billion and $1.1 billion, respectively, for new loan originations and purchases. During the same periods, the Company received cash proceeds from the sale of loans of $2.5 billion, $1.7 billion and $1.0 billion, respectively, representing the principal balance of loans sold. The Company received cash proceeds from the premiums on such loans sales of $137.4 million, $96.5 million and $48.7 million, respectively, for the years ended December 31, 1998, 1997 and 1996.

The Company has a number of sources for funding its loans: (i) a committed $300 million revolving warehouse facility provided by a syndicate of banks, (ii) an uncommitted $100 million repurchase facility, (iii) proceeds from the sale of loans, and (iv) the Company's excess liquidity. These facilities bear interest at a specified margin over one month LIBOR. The weighted average cost of funds for these facilities was 6.86% at December 31, 1998. During February 1999, the Company obtained an additional $100 million warehouse line from an investment banker. This line bears interest at LIBOR plus 1.25%. The Company's borrowing facilities have a variety of financial and compliance covenants and the Company exceeded all of these covenants at December 31, 1998.

The Company has adopted an investment program for available liquidity. The objectives of this program are to preserve the capital of the Company while maintaining flexibility for strategic opportunities. The Company's investment strategy seeks to maximize returns within the policy's objectives.

Pursuant to a stock repurchase plan adopted by the Board of Directors in October 1997, the Company is authorized to repurchase up to 2.5 million shares of the Company's common stock through the end of September 1999. During 1998, the Company used $21.2 million of available liquidity to purchase an additional 2.1 million shares of its common stock. The Company has spent $24.5 million and has repurchased 2.4 million shares since the plan's inception.

The Company believes that sufficient cash from operations and borrowings will be generated to fund operations. However, the Company's ability to continue to originate and purchase loans is dependent in large part upon its ability to sell the loans at a premium in order to generate cash proceeds to repay borrowings under the warehouse financing facility, thereby creating borrowing capacity to fund new originations and purchases. The value of and market for the Company's loans are dependent upon a number of factors, including the loan-to-value ratios and interest rates on the loans, general economic conditions, interest rates and governmental regulations. Adverse changes in such factors may affect the Company's ability to sell loans for acceptable prices within a reasonable period of time. A prolonged, substantial reduction in the size of the secondary market for loans of the type originated or purchased by the Company may adversely affect the Company's ability to sell loans in the secondary market with a consequent adverse impact on the Company's results of operations, financial condition and ability to fund future originations and purchases.

During the third quarter of 1998, the Company entered into a forward sales contract with an investment banking firm to sell $1.3 billion of its future loan production to be delivered to the purchaser on or before March 31, 1999. At December 31, 1998, the Company had delivered $1.0 billion of loans on this commitment. The Gross Sales Premium that the Company will realize from this commitment is dependent upon the type, quality, interest rate and other terms of the loans delivered to the purchaser. Additionally the prices in secondary market for subprime mortgage have recently constricted. Excess inventory of subprime loans and widening spreads in the asset-backed capital markets have caused pricing for loans, similar to those originated by the Company, to substantially decline. There can be no assurance provided that after the expiration of its forward sales commitment, that the Company will be able to sell its loans in the secondary market at a price near levels achieved during 1998 or 1997. A material decline in such prices could have a material adverse impact on the Company's profitability and liquidity.

Year 2000

The Company is aware on ensuing issues involving the upcoming date change from December 31, 1999 to January 1, 2000 ("Year 2000") and the effect of such change on the Company's information systems. The Company established a task force to evaluate the internal information technology (IT) and non-IT systems that could be affected by such date change and also identified the external systems that are critical to the Company's operations. An assessment of the readiness of the Company's suppliers is ongoing.

During 1998, the Company implemented and upgraded several of its core systems in its effort to establish fully independent operations from its predecessor company. The discontinuation of the Administrative Services Agreements was made possible by building an in-house IT infrastructure. This infrastructure was designed to be fully compliant with the Year 2000 date change. The software packages selected by the Company as part of establishing independent operations was chosen in part based on being Year 2000 compliant. This software includes the Company's accounting, treasury, human resources, payroll, and network management software. The total expenditures during 1998 related to establishing independent IT systems approximate $2.5 million, of which $1.0 million has been capitalized.

The Company's plan for Year 2000 readiness has three phases. Phase one involves identifying and remediating the internal systems and processes that must be Year 2000 compliant. Phase one has been completed. Phase two consists of testing both the internal and external systems as a whole, and has been scheduled to be fully implemented by the end of first quarter 1999. The Company intends to test its systems throughout 1999 to ensure that system and software upgrades are fully compliant. Phase three consists of developing a contingency plan for those external systems or suppliers that are critical for the Company to operate, but are not yet Year 2000 compliant. The Company will finalize these contingency plans during the second quarter of 1999.

The Company does not anticipate the cost of addressing all the issues associated with becoming Year 2000 compliant will have a material impact on its financial condition, results of operations or liquidity in any single year. The Company's estimates are based upon the assumption that its major third party suppliers are or become Year 2000 compliant within the time frame outlined above. The Company has requested that its

major third party suppliers provide details of their Year 2000 compliance program and schedule of testing. In the event any of these vendors are unable to become compliant the Company may incur additional costs.

Although the Company has taken steps to identify, evaluate and remediate its Year 2000 compliance issues, it is possible that certain of its suppliers and/or systems may not be Year 2000 compliant by January 1, 2000. These suppliers provide the Company with computer processing systems, banking and financial systems, and utility infrastructure. In the event that any of these suppliers and/or systems are not Year 2000 compliant as of January 1, 2000, the Company may be exposed to an impairment of its: (i) operations, (ii) business processes, (iii) ability to meet its financial obligations. The impairment in any of these areas could have a material adverse effect on the Company's financial condition, results of operations and liquidity. The Company is assessing these risks and is creating contingency plans intended to address such risks, and expects to have such plans in place by the end of the second quarter of 1999.

ACCOUNTING CONSIDERATIONS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which is effective for annual periods beginning after June 15, 1999. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company is currently evaluating the effect this standard may have on the Company's financial condition, results of operations and cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The table below presents information about the Company's financial instruments subject to market risk at December 31, 1998 including market value and interest rate of these instruments. In addition, the table presents the expected cash flows from these instruments. The contractual terms, accounting policies, and other data concerning these instruments is disclosed in the consolidated financial statements and accompanying notes. The Company's receivable from the sales of loans and mortgage warehouse line of credit are subject to interest rate risk; however, such obligations reprice frequently and are short-term in duration and accordingly the risk is not material.

<TABLE>
<CAPTION>

Market Risk Sensitive Instruments	DECEMBER 31, 1998	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	THEREAFTER
			(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS							
Loans Held for Sale(a)							
Fair Value.............	$59,148						
Weighted average interest rate.......	10.41%	10.41%	--	--	--	--	--
Expected cash flows....		$59,148	$ --	$ --	$ --	$ --	$ --
Capitalized mortgage servicing rights(b)							
Fair Value.............	$ 9,806						
Weighted average interest rate.......	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%
Expected cash flows....		$ 2,119	$ 2,306	$ 1,762	$ 1,204	$ 814	$ 1,601

</TABLE>

(a) See Notes 3, 6, and 15 to the consolidated financial statements for detailed information on the basis of determining fair value and for further information on this financial instrument.

(b) See Notes 3 and 5 to the consolidated financial statements for detailed information on the basis of determining fair value and for further information on this asset. The Company has provided its estimate of cashflows consistent with the assumptions that are utilized to value this asset. The interest rate for this asset represents the discount rate utilized to value the asset.

The Company has exposure to market risk in a number of areas, including: (1) the secondary market for subprime loans; (2) the origination market for subprime mortgages; (3) the market for residential one-to four-unit single-family real estate in those geographic regions where the Company originates loans; (4) the interest rate environment for subprime mortgages and the interest expense on the Company's borrowings; and (5) other markets risks that are discussed in Item of 1 of the 1998 Report on Form 10-K under the heading "Certain Factors and Trends Affecting the Company and Its Business", in Management's Discussion and Analysis of Financial Condition, Results of Operations, Liquidity and Capital Resources, and in Note 14 to the Company's consolidated financial statements.

The Company manages its market risks by entering into forward sale commitments of loans 30-120 days in advance of funding the loans. At the time of the forward sales commitment, the Company estimates its expected volume of loan production and closely monitors the level of production against the amount of the unfilled purchase commitments. The objective of this strategy is to have a purchase commitment for each loan at the time of origination. The Company has sought to mitigate its exposure to regional real estate recessions by expanding its operations throughout the United States.

During the latter part of 1998, the prices for subprime mortgages in the secondary market constricted. Excess inventories and widening spreads in the asset-backed capital markets caused the secondary market pricing for loans similar to those originated by the Company to decline. During the third quarter of 1998, the Company entered into forward sales contract with an investment banking firm to sell $1.3 billion of its future loan production to be delivered to the purchasor on or before March 31, 1999. At December 31, 1998, the Company had delivered $1.0 billion of loans on this commitment; the Company delivered the balance of the loans during the first quarter of 1999. There can be no assurance provided that the Company will be able to sell its loans in the secondary market at a price near historical levels. A material decline in such prices could have a material adverse impact on the Company's profitability and liquidity.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Consolidated Financial Statements beginning on Page F-1 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is set forth under the caption "Executive Compensation and Other Information" in the Company's definitive Proxy Statement (the "Proxy Statement"), which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities and Exchange Act of 1934 and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is set forth under the caption "Executive Compensation and Other Information" in the Proxy Statement, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities and Exchange Act of 1934 and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities and Exchange Act of 1934 and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities and Exchange Act of 1934 and is incorporated herein by reference.

PART IV

ITEM 14. FINANCIAL STATEMENT SCHEDULES, EXHIBITS AND REPORTS ON FORM 8-K

(a) 1. Financial Statements:

<TABLE>

</TABLE>

2. Exhibits

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
<S>	<C>
* 3.1	Amended and Restated Certificate of Incorporation of Long Beach Financial Corporation. (Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
* 3.2	Bylaws of Long Beach Financial Corporation. (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
* 4.1	Specimen of the Common Stock of Long Beach Financial Corporation. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.1	Administrative Services Agreement among Long Beach Mortgage Company, Long Beach Financial Corporation and Ameriquest Mortgage Company. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 12, 1997)
*10.2	Form of Master Sub-Servicing Agreement, between Long Beach Mortgage Company and Ameriquest Mortgage Corporation Company. (Incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.3	4/97 Senior Secured Credit Agreement, among Ameriquest Mortgage Corporation and Texas Commerce Bank National Association, as Lender and Agent. (Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)

</TABLE>

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EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
<S>	<C>
*10.4	Form of Director/Officer Indemnification Agreement. (Incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.5	Contribution Agreement, between Ameriquest Capital Corporation, Long Beach Mortgage Company, Long Beach Financial Corporation and Ameriquest Mortgage Corporation Company. (Incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 12, 1997)
*10.6	1997 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.7	Employment Agreement, between Long Beach Financial Corporation, Ameriquest Mortgage Corporation and M. Jack Mayesh. (Incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.8	Employment Agreement, between Long Beach Financial Corporation, Ameriquest Mortgage Corporation and Edward Resendez. (Incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
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*10.12	Department of Justice Settlement Agreement. (Incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.13	Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and William K. Komperda. (Incorporated by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 12, 1997)
*10.14	Form of Amendment to Employment Agreement, among Long Beach Financial Corporation, Long Beach Mortgage Company and each of M. Jack Mayesh, Edward Resendez, Frank J. Curry, James H. Leonetti, and James J. Sullivan. (Incorporated by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 1997)
*10.15	4/98 Amended and Restated Senior Secured Credit Agreement, among Long Beach Mortgage Company and Chase Bank of Texas, as Lender and Agent.
*10.16	Amended and Restated Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and M. Jack Mayesh.

</TABLE>

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EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
<S>	<C>
*10.17	Amended and Restated Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and Edward Resendez.
*10.18	Amended and Restated Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and Frank J. Curry.
*10.19	Amended and Restated Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and William K. Komperda.
*10.20	Amended and Restated Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and James H. Leonetti.
*10.21	Amended and Restated Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and James J. Sullivan.
*10.22	Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and Elizabeth A. Wood.
*10.23	Supplement Agreement to Master Sub-Servicing Agreement between Long Beach Mortgage Company and Ameriquest Mortgage Company.
*10.24	Master Repurchase Agreement between Merrill Lynch Mortgage Capital Inc., Merrill Lynch Credit Corporation and Long Beach Mortgage Company.
10.25	Purchase and Sale Agreement between Salomon Brothers Realty Corp. and Long Beach Mortgage Company.
27	Financial Data Schedule.

</TABLE>

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* Previously filed.

(b) No reports on Form 8-K were filed during the quarter ended December 31, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 of 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 26, 1999

LONG BEACH FINANCIAL CORPORATION

By: /s/ M. JACK MAYESH

M. Jack Mayesh
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on date indicated.

SIGNATURE	TITLE	DATE
/s/ M. JACK MAYESH M. Jack Mayesh	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 26, 1999
/s/ EDWARD RESENDEZ Edward Resendez	President, Director	March 26, 1999
/s/ JAMES H. LEONETTI James H. Leonetti	Chief Financial Officer, Senior Vice President (Principal Financial Officer)	March 26, 1999
/s/ DAVID E. ENGELMAN David S. Engelman	Director	March 26, 1999
/s/ RICHARD A. KRAEMER Richard A. Kraemer	Director	March 26, 1999
/s/ C. STEPHEN MANSFIELD C. Stephen Mansfield	Director	March 26, 1999

EXHIBIT INDEX

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LONG BEACH FINANCIAL CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

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LONG BEACH FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(DOLLARS IN THOUSANDS)

ASSETS

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>

Cash and cash equivalents	$ 24,941	$ 38,782
Investment securities available for sale	--	3,793
Loans held for sale (Note 6)	59,148	17,241
Receivable from the sales of loans	186,786	143,088
Premises and equipment, net (Note 4)	4,824	3,620
Deferred income taxes, net (Note 9)	32,523	34,400
Capitalized mortgage servicing rights (Note 5)	9,806	3,054
Prepaid expenses and other assets	10,567	4,110
Total assets	$328,595	$248,088

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:		
Warehouse financing facility (Note 7)	$211,787	$146,271
Accounts payable and accrued liabilities	17,182	8,280
Accrued income taxes payable (Note 9)	--	2,792
Total liabilities	228,969	157,343
Commitments and contingencies (Note 14)	--	--
Stockholders' equity (Notes 2 and 10):		
Common stock, $.001 par value; 150.0 million shares authorized; 25.0 million shares issued: 22.6 million and 24.7 million shares outstanding for 1998 and 1997, respectively	25	25
Additional paid in capital	75,360	75,307
Retained earnings	48,716	18,697
Treasury stock, at cost; 2,400,682 and 300,000 shares for 1998 and 1997, respectively	(24,475)	(3,284)
Total stockholders' equity	99,626	90,745
Total liabilities and stockholders' equity	$328,595	$248,088

</TABLE>

See accompanying notes to the consolidated financial statements.

LONG BEACH FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 1998
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
REVENUES:			
Gain on sale of loans	$122,704	$88,597	$50,699
Interest income, net of interest expense (Note 8)	6,787	3,354	461
Loan servicing and other fees on loans	4,922	946	--
Amortization of mortgage servicing rights	(1,763)	(231)	--
Net operating income	132,650	92,666	51,160
EXPENSES:			
Compensation expense	50,025	32,229	17,168
Premises and equipment expenses	11,487	4,141	3,870
Other general and administrative expenses	11,039	7,206	4,900
Corporate administrative charges (Note 1)	--	2,294	8,900
Provision for losses	5,247	4,028	350
Sub-servicing costs (Note 13)	4,820	935	--
Total expenses	82,618	50,833	35,188
Earnings before income taxes	50,032	41,833	15,972
Provision for income taxes (Note 9)	20,013	17,189	6,580
Net earnings (Note 2)	$ 30,019	$24,644	$ 9,392
Basic earnings per share (Note 11)	$ 1.27	$ 0.99	Not Applicable
Diluted earnings per share (Note 11)	$ 1.22	$ 0.96	Not Applicable

</TABLE>

LONG BEACH FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' AND DIVISIONAL EQUITY

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 1998

(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	NUMBER OF SHARES OF COMMON STOCK	COMMON STOCK	ADDITIONAL PAID IN CAPITAL	DIVISIONAL (DEFICIT) EQUITY	RETAINED EARNINGS	TREASURY STOCK	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, JANUARY 1, 1996................		$--	$ --	$ 1,732	$ --	$ --	$ 1,732
Net change in divisional deficit arising from intracompany transactions (Note 1)..................................		--	--	(9,987)	--	--	(9,987)
Net earnings...........................		--	--	9,392	--	--	9,392
BALANCE, DECEMBER 31, 1996.............		--	--	1,137	--	--	1,137
Net earnings (Note 2)..................		--	--	5,947	18,697	--	24,644
Net change in divisional equity arising from intracompany transactions (Note 1)..................................		--	--	(3,852)	--	--	(3,852)
Reorganization of Long Beach Financial Corporation (Note 1)..................	25,000,000	25	75,307	(3,232)	--	--	72,100
Purchase of treasury stock.............	(300,000)	--	--	--	--	(3,284)	(3,284)
BALANCE, DECEMBER 31, 1997.............	24,700,000	25	75,307	--	18,697	(3,284)	90,745
Net earnings...........................	--	--	--	--	30,019	--	30,019
Exercise of stock options..............	8,200	--	53	--	--	--	53
Purchase of treasury stock.............	(2,100,982)	--	--	--	--	(21,191)	(21,191)
BALANCE, DECEMBER 31, 1998.............	22,607,218	$25	$75,360	$ --	$48,716	$(24,475)	$ 99,626

</TABLE>

LONG BEACH FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 1998
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Cash Flows from Operating Activities:			
Net earnings.......................................	$ 30,019	$ 24,644	$ 9,392
Adjustments to reconcile net earnings to net cash used in operating activities:			
Depreciation and amortization of premises, equipment and warehouse financing facility issuance costs................................	2,537	1,106	1,270
Loans originated and purchased for sale...........	(2,575,965)	(1,685,742)	(1,058,122)
Proceeds from sales of loans held for sale........	2,521,606	1,679,522	1,029,789
Noncash gain recognized on capitalization of mortgage servicing rights......................	(8,515)	(7,259)	(9,225)
Amortization of capitalized mortgage servicing rights..	1,763	231	--
Deferred income taxes............................	1,877	2,131	(1,238)

Changes in:			
Receivable from sales of loans	(43,698)	(143,872)	(25,103)
Accounts payable and accrued liabilities	8,902	5,894	3,351
Accrued income taxes payable	(2,792)	2,792	--
Other	5,123	(5,018)	(91)
Net cash used in operating activities	(59,143)	(125,571)	(49,977)
Cash Flows from Investing Activities:			
Purchases of premises and equipment	(2,868)	(2,278)	(1,232)
Purchase of investment securities available for sale	(26,810)	(163,869)	--
Maturity of investment securities available for sale	30,602	160,094	--
Net cash provided by (used in) investing activities	924	(6,053)	(1,232)
Cash Flows from Financing Activities:			
Net change in warehouse financing facility	65,516	135,568	51,971
Cash provided to AMC prior to the Reorganization	--	(3,852)	(9,987)
Proceeds from mortgage servicing rights transferred to AMC (Note 1)	--	3,974	9,225
Reorganization and capitalization of LBFC (Note 1)	--	38,000	--
Purchase of treasury stock (Note 10)	(21,191)	(3,284)	--
Proceeds from exercise of stock options	53	--	--
Net cash provided by financing activities	44,378	170,406	51,209
Net increase (decrease) in cash and cash equivalents	(13,841)	38,782	--
Cash and cash equivalents, beginning of the year	38,782	--	--
Cash and cash equivalents, end of the year	$ 24,941	$ 38,782	$ --
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for interest on warehouse financing facility	$ 12,664	$ 3,524	$ 2,569
Cash paid during the year for federal and state income taxes	20,546	8,812	--
Supplemental Disclosures of Non-Cash Activities:			
Deferred tax asset	--	36,000	--

</TABLE>

See accompanying notes to the consolidated financial statements.

LONG BEACH FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 1998

NOTE 1. DESCRIPTION OF THE BUSINESS, INITIAL PUBLIC OFFERING AND BASIS OF PRESENTATION

Description of the Business

Long Beach Financial Corporation ("LBFC"), through its wholly-owned subsidiary, Long Beach Mortgage Company ("LBMC") (collectively, the "Company"), is currently engaged in the business of originating, purchasing and selling subprime residential mortgage loans secured by one- to four-unit family residences. The Company originates loans primarily through independent mortgage loan brokers. The Company's core borrower base consists of individuals who do not qualify as traditional "A" credit borrowers because their credit history, debt to income ratio or other factors do not conform to standard agency lending criteria.

The Company has followed a strategy of selling substantially all of its loan originations in the secondary market through loan sales for cash. Prior to each fiscal quarter, the Company historically has obtained a purchase commitment from one or more loan purchasers for the volume of loans expected to be originated during such quarter.

LBFC was incorporated in January 1997. At the time of incorporation, LBFC was a wholly-owned subsidiary of a company now known as Ameriquest Mortgage Company ("AMC"). AMC conducted its mortgage lending business through four divisions: (i) the direct-sourced lending division, (ii) the broker-sourced lending division, (iii) the loan sales division, and (iv) the loan servicing division. LBFC was formed to facilitate the public sale of AMC's broker-sourced lending division. All references to the "Wholesale Division" herein shall be deemed to include the operations of the broker-sourced lending division of AMC prior to the Reorganization (defined below).

Initial Public Offering

On April 28, 1997, LBFC's Registration Statement on Form S-1 under the Securities Act of 1933, as amended (the "Registration Statement"), relating to the initial public offering of its common stock, was declared effective. The initial public offering of 22,504,000 shares of common stock closed at a price of $6.50 per share on May 2, 1997. On May 14, 1997, the underwriters purchased an additional 2,496,000 shares of common stock at a price of $6.50 per share following their exercise of the overallotment option, resulting in a total of 25,000,000 shares sold in the initial public offering (the "Offering").

On May 2, 1997, immediately prior to the closing of the initial public sale of LBFC's common stock, AMC reorganized its business operations (the "Reorganization") by transferring certain assets (including furniture, leasehold improvements and equipment) and personnel relating to the broker-sourced lending division and the loan sales division and approximately $40.0 million in cash (less approximately $2.0 million in related expenses) to the Company in exchange for 24,999,999 shares of common stock. The assets transferred to the Company included loans in process as of May 2, 1997, but did not include loans funded or servicing rights with respect to loans funded prior to May 2, 1997.

Additionally, the Company acquired the going-concern value of the existing and established approved customer base listing of independent brokers and the sole right to the "Long Beach Mortgage Company" name. The Company did not assume any liabilities of AMC other than certain liabilities associated with equipment and property leases acquired by the Company and accrued vacation and other employee benefits for personnel transferred to the Company. The Reorganization has been accounted for in a manner similar to a pooling of interests; therefore, the historical cost basis of the assets and liabilities transferred to the Company was carried over from the Wholesale Division of AMC.

The transfer of the assets and personnel described above by AMC to the Company was treated for federal income tax purposes as a taxable sale of assets. As a result, the tax basis of the assets transferred from AMC to

the Company in the Reorganization was increased to their fair market value (determined by reference to the initial public offering price.) As discussed more fully in Note 9 to the Consolidated Financial Statements, such tax basis is generally expected to produce a tax benefit to the Company in future tax years. Accordingly, the Company recorded a deferred tax asset of $36.0 million (with a corresponding credit to additional paid-in capital) for the tax effect of the excess of the tax basis of the Company's assets following the Reorganization and the Offering, over their net book value.

Basis of Presentation

The consolidated financial statements include the accounts of LBFC and its subsidiary LBMC and are prepared in accordance with generally accepted accounting principles. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company had no separate operations through the date of the Reorganization and all rights, benefits and obligations relating to the operations and net earnings of the Wholesale Division of AMC, up to the date of the Reorganization, remained with AMC. However, because the Reorganization has been accounted for in a manner similar to a pooling of interests, the results of operations reported for the year ended December 31, 1997 include: (i) the operating results of the Wholesale Division of AMC from January 1, 1997 through May 1, 1997 (the "1997 Operating Results of the Wholesale Division of AMC"), and (ii) the operating results of the Company from May 2, 1997 to December 31, 1997 (the "Company's Results of Operations"). Collectively, the combination of the 1997 Operating Results of the Wholesale Division of AMC and the Company's Results of Operations represent the "Consolidated Results of Operations for the Year Ended December 31, 1997."

Cash flows for the year ended December 31, 1997 include: (i) cash flows of the Wholesale Division of AMC from January 1, 1997 through May 1, 1997 (the "1997 Cash Flows of the Wholesale Division of AMC"), and (ii) the Company's cash flows from May 2, 1997 through December 31, 1997 (the "Company's Cash Flows").

Collectively, the combination of the 1997 Cash Flows of the Wholesale Division of AMC and the Company's Cash Flows represent the "Consolidated Cash Flows for the Year Ended December 31, 1997."

Also included in the accompanying financial statements are: (i) the results of operations for the Wholesale Division of AMC for the year ended December 31, 1996, and (ii) the cash flows of the Wholesale Division of AMC for the year ended December 31, 1996. All such information included or used in the preparation of this report has been prepared from records maintained by AMC and provided to the Company by AMC.

In connection with the Reorganization described above, AMC transferred to the Company certain assets and liabilities relating to the Wholesale Division. AMC, however, retained certain assets and liabilities reflected on the books of the Wholesale Division as of May 1, 1997 including: (i) loans held for sale totaling $39.3 million, (ii) receivables from the sales of loans totaling $25.9 million, (iii) servicing rights and (iv) borrowings under the warehouse financing facility totaling $62.0 million. Accordingly, the balances of these assets and liabilities at May 1, 1997 are not reflected in the beginning balances of the Company as of May 2, 1997. The Consolidated Statements of Stockholders' and Divisional Equity and Cash Flows reflect an adjustment to eliminate these assets and liabilities retained by AMC. The Consolidated Statements of Cash Flows include changes in balances from January 1, 1997 through May 1, 1997 combined with changes in balances from May 2, 1997 through December 31, 1997.

In the normal course of business prior to the reorganization on May 2, 1997, the Wholesale Division had various transactions with other divisions of AMC that are material in amount. The financial statements and financial data of the Wholesale Division of AMC included in the accompanying financial statements reflect key assumptions regarding the allocation of certain revenue and expense items and certain balance sheet

accounts, many of which could be material. The financial data of the Wholesale Division of AMC included in the accompanying consolidated financial statements may not necessarily be indicative of the conditions that would have existed if the Wholesale Division of AMC had operated as an independent entity.

The accompanying consolidated financial statements include financial data of the Wholesale Division of AMC and reflect the assets, liabilities, revenues and expenses that were directly related to the continuing operations of the Wholesale Division as they were operated by AMC prior to the Reorganization. In cases involving assets, liabilities, revenues and expenses not specifically identifiable to any particular division of AMC, certain allocations were made to reflect the operations of the Wholesale Division. Allocations have been made for, among other things, accounting, information services, legal, compliance, and other executive and administrative services. These allocations were based on a variety of factors which take into consideration the loan origination volume, employee head count, and historical ratios of direct expenses incurred by the divisions to total direct expenses. Management believes these allocations provide a reliable basis for the accompanying consolidated financial statements, which are also based on the following assumptions:

1. No cash balances were recorded as part of these historical financial statements as it was the practice of AMC not to maintain separate cash balances for the various divisions.

2. The net change in divisional equity (deficit) arising from intracompany transactions, as reflected in the Consolidated Statements of Stockholders' and Divisional Equity, includes: (i) the aggregate intracompany allocations of costs and expenses incurred by the Wholesale Division and paid by AMC, (ii) cash generated by the Wholesale Division and collected by AMC during the periods presented, and (iii) cash advanced by AMC on behalf of the Wholesale Division. The net change in divisional equity (deficit) arising from intracompany transactions also includes all liabilities of the Wholesale Division, such as income taxes payable, that are not separate legal obligations of the Wholesale Division but have been charged to the Wholesale Division.

The cash generated by the Company and collected by AMC consisted primarily of proceeds from the sales of loans of $471.0 million and $1.0 billion for the years ended December 31, 1997 and 1996, respectively. Advances by AMC on behalf of the Company consisted primarily of the cash used to pay operating expenses and fund loans. Also, AMC allocated a portion of the net borrowings under its warehouse financing facility to the Company. Cash used to fund loans was $458.9 million and $1.1 billion for the years ended December 31, 1997 and 1996, respectively.

Total costs allocated to the Company by AMC for the years ended December 31, 1997 and 1996 were $2.3 million and $8.9 million, respectively. While the Company believes that expenses reflected in the accompanying statements of operations would not have been materially affected if it had operated as a stand alone entity, no assurance can be given that such expenses are indicative of expenses to be incurred in the future.

NOTE 2. 1997 STATEMENT OF OPERATIONS, PRESENTATION AND ANALYSIS OF PRO FORMA OPERATIONS

The consolidated statement of operations for the year ended December 31, 1997, presented in the accompanying financial statements includes the 1997 Operating Results of the Wholesale Division of AMC and the Company's Results of Operations. All rights, benefits and obligations relating to the 1997 Operating Results of the Wholesale Division of AMC up to the time of the Reorganization remain with AMC.

The rights to loans which were originated by the Wholesale Division but remained unsold at May 2, 1997 were retained by AMC (the "Retained Loans"). The costs relating to the production of these loans were incurred and recorded by the Wholesale Division of AMC and are included in the 1997 Operating Results of the Wholesale Division of AMC. These loans are included in loan production amounts reported for the Company for the year ended December 31, 1997. Subsequent to the Reorganization, the Company purchased

the Retained Loans from AMC at the same price and at the same time that the Company sold these loans to independent, third-party purchasers. Because the gain from the sale of the Retained Loans was recorded after the Reorganization, and because the Company's stockholders did not receive any of the benefit of this gain, the Company did not include the gain from the sale of the Retained Loans as part of the Company's Results of Operations. The principal amount of the Retained Loans was approximately $33.8 million and the after-tax gain from the sale of these loans was approximately $807,000. The gains from the sale of the Retained Loans are not reflected either as income from the Wholesale Division of AMC or as income from the Company.

The following table presents separately the operations of the Wholesale Division of AMC and the Company, and the combined effect of their results of operations for the year ended December 31, 1997. Additionally, the gain from the sale of the Retained Loans is presented for informational purposes, with corresponding earnings and per share data presented on a pro forma basis.

<TABLE>
<CAPTION>

	1997		
	WHOLESALE DIVISION OF AMC	THE COMPANY	COMBINED
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)		
<S>	<C>	<C>	<C>
REVENUES:			
Gain on sale of loans..................................	$25,604	$62,993	$88,597
Interest income, net of interest expense...............	168	3,186	3,354
Loan servicing and other fees on loans.................	--	946	946
Amortization of mortgage servicing rights..............	--	(231)	(231)
Net operating income...................................	25,772	66,894	92,666
EXPENSES:			
Compensation expense...................................	8,242	23,987	32,229
Premises and equipment expenses........................	1,106	3,035	4,141
Other general and administrative expenses..............	1,391	5,815	7,206
Corporate administrative charges.......................	2,294	--	2,294
Provision for losses...................................	2,808	1,220	4,028
Sub-servicing costs....................................	--	935	935
Total expenses...	15,841	34,992	50,833

Earnings before income taxes	9,931	31,902	41,833
Provision for income taxes	3,984	13,205	17,189
Net earnings	$ 5,947	$18,697	$24,644
Basic net earnings per share	$ 0.24	$ 0.75	$ 0.99
Diluted net earnings per share	$ 0.24	$ 0.72	$ 0.96
Pro forma net gain from sale of Retained Loans net of taxes	807	--	807
Pro forma net earnings inclusive of gain from sale of Retained Loans	$ 6,754	$18,697	$25,451
Pro forma basic net earnings per share	$ 0.27	$ 0.75	$ 1.02
Pro forma diluted net earnings per share	$ 0.27	$ 0.72	$ 0.99

</TABLE>

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents -- Highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents. Because of the short maturities of these instruments, the carrying amount is a reasonable estimate of fair value.

Investment Securities -- The Company has adopted an investment policy which limits its investment activities to high-quality, short-term investments, largely consisting of money market mutual funds, which limit their holdings to government securities. At December 31, 1998 and 1997 the Company did not intend to hold securities to maturity, nor did it engage in trading activities, and as such, the Company's investment securities are classified as available for sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of deferred taxes. Gains or losses on the sales of investment securities available for sale are determined on the specific identification method. Premiums and discounts on investment securities are amortized or accreted using the interest method over the expected lives of the related securities. Quoted market prices, which approximated acquisition cost as of the balance sheet dates, are reasonable estimates of the securities' fair value.

Loans Held for Sale -- Loans held for sale are carried at the lower of aggregate cost or market value. Loan origination fees and related direct origination costs are deferred until the related loan is sold. Market value is determined by outstanding commitments from investors, if any, or management's estimate of value that the Company could reasonably expect to obtain from a sale, that is, other than in a forced or liquidation sale of the loans on an aggregate basis.

Provision for losses -- The Company provides market valuation adjustments for loans held for sale and for liabilities associated with (i) breaches of representations and warranties, (ii) first payment defaults, and (iii) repurchases of loans recorded as sold.

Receivable from Sales of Loans -- Receivable from sales of loans represents proceeds due from certain sales transactions which were recorded in December 1998 and 1997. All amounts due to the Company have subsequently been collected.

Real Estate Owned -- Real estate acquired in settlement of loans ("REO") generally results when property collateralizing a loan is foreclosed upon or otherwise acquired by the Company in satisfaction of the loan. Real estate acquired through foreclosure is carried at fair value less costs to dispose.

Fair value is based on the net amount that the Company could reasonably expect to receive for the asset in a sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Included in other assets at December 31, 1998 is REO of approximately $1.5 million. The Company did not have any REO at December 31, 1997.

Premises and Equipment -- Premises and equipment are stated at cost and depreciated over the estimated useful lives of the assets using the straight-line method. Useful lives generally range from three to five years. Leasehold improvements are amortized on the straight-line method over the lesser of the useful lives of the assets or the terms of the related leases.

Income Taxes -- Deferred income tax assets and liabilities result from revenues and expenses being recognized in different time periods for financial reporting purposes than for income tax purposes. Deferred income taxes arise from temporary differences and carryforwards which are tax-effected at the enacted tax rates and subsequently adjusted for changes in tax laws and rates. For more information on the Company's deferred tax asset, see Note 9 to the Consolidated Financial Statements.

Capitalized Mortgage Servicing Rights -- Effective January 1, 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinquishments of Liabilities," as amended by SFAS No. 127, which superseded SFAS No. 122, "Accounting for Mortgage Servicing Rights." SFAS No. 125 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of a financial-components approach that focuses on control. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. Under the financial-components approach, after a transfer of financial assets, an entity recognizes all financial and servicing assets it controls and liabilities it has incurred

and derecognizes financial assets it no longer controls and liabilities that have been extinguished. The financial-components approach focuses on the assets and liabilities that exist after the transfer. Many of these assets and liabilities are components of financial assets that existed prior to the transfer. If a transfer does not meet the criteria for a sale, the transfer is accounted for as a secured borrowing with pledge of collateral.

Under SFAS No. 125, servicing assets (the excess of benefits to be received from servicing less adequate compensation to the servicer associated with such servicing) are initially valued based on their relative fair values, if practicable, at the date of sale of the related assets. Servicing assets are required to be subsequently measured by (a) amortization in proportion to and over the period of estimated net servicing income, and (b) assessment for asset impairment based on their fair values. Retroactive application of this statement was not permitted. The adoption of SFAS No. 125 did not have a material impact on the Company's operating results or financial condition.

The Company recognizes the amortization of capitalized mortgage servicing rights as an offsetting component of revenues, against loan servicing and other fees on loans. Impairment, if it occurs, is recognized in a valuation allowance for such pool in the period of impairment. No impairment existed at December 31, 1998 or 1997.

During 1996 and through May 1, 1997, immediately after sale of the loans, the Wholesale Division of AMC transferred its servicing rights to an affiliated division of AMC at their carrying value.

Revenue Recognition -- Gain on sale of loans, representing the difference between the total sales price received for the loans and the allocated cost of the loans, is recognized when mortgage loans are sold and delivered to the purchasers.

Loan servicing and other fees on loans, representing servicing fee income, late fees and other ancillary charges related to the Company's servicing portfolio, are recorded as earned.

Interest income, representing the interest earned on loans during the warehousing period (the period prior to their sale) and the interest earned on the Company's investment securities, is recorded as earned.

Use of Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

Reclassifications -- Certain reclassifications have been made to conform the 1997 and 1996 consolidated financial statements to the 1998 presentation.

Recent Accounting Developments -- In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income," which is effective for annual periods beginning after December 15, 1997. This statement requires that all items that are required to be recognized under accounting standards as comprehensive income be reported in a financial statement that is displayed with the same prominence as other items reported in a financial statement. The adoption of SFAS No. 130 did not have a material impact on the Company's financial statements. The Company does not have any Other Comprehensive Income and therefore Comprehensive Income equals Net Earnings.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which is effective for annual and interim periods beginning after December 15, 1997. This statement established standards for the method in which public entities report information about operating segments in annual financial statements and requires that those enterprises report selected

information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about product and services, geographical areas, and major customers.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which is effective for annual periods beginning after June 15, 1999. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company is currently evaluating the effect this standard may have on the Company's financial condition, results of operations and cash flows.

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment at December 31 consists of the following:

<TABLE>
<CAPTION>

	1998	1997

	(DOLLARS IN THOUSANDS)	
Furniture and equipment	$ 4,503	$3,804
Leasehold improvements	2,583	414
	7,086	4,218
Less accumulated depreciation and amortization	(2,262)	(598)
	$ 4,824	$3,620

NOTE 5. CAPITALIZED MORTGAGE SERVICING RIGHTS

The following is a summary of capitalized mortgage servicing rights activity during the years ended December 31:

	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
Balance at January 1	$ 3,054	$ --	$ --
Capitalization of mortgage servicing rights	8,515	7,259	9,225
Amortization of mortgage servicing rights	(1,763)	(231)	--
Transfer of mortgage servicing rights to AMC (Note 1)	--	(3,974)	(9,225)
Balance at December 31	$ 9,806	$ 3,054	$ --
Principal balance of loans serviced by the Company	$546,581	$ --	$ --
Principal balance of loans serviced by sub-servicer	$972,893	$896,233	$ --

Primary assumptions utilized in determining the value of servicing rights at December 31, 1998 and 1997:

Range of CPR 18% - 35% depending on product type

Discount rate 14%

Servicing fees 50 basis points

NOTE 6. LOANS HELD FOR SALE

Loans held for sale are comprised of three types of loans: (i) loans which the Company anticipates delivering in satisfaction of its forward sale commitments, which totalled $4.5 million at December 31, 1998 (ii) other performing loans that it anticipates selling to a second tier investor outside of its forward sale commitment, and which totalled $32.8 million at December 31, 1998, (iii) non-performing loans. At December 31, 1998 and 1997 $23.9 million and $2.1 million of loans held for sale were non-performing. The Company anticipates that its expected resolution of non-performing loans may include: (i) cure and/or sale, (ii) repayment by the borrower, (iii) negotiated settlement between the Company and borrower and,

(iv) foreclosure of the related collateral by the Company. Loans held for sale are valued at the lower of aggregate cost or market value. At December 31, 1998, loans held for sale are presented net of a $3.2 million market valuation adjustment.

NOTE 7. WAREHOUSE FINANCING FACILITY

The Company utilizes a committed warehouse financing facility funded by a national banking association and a syndicate of lenders. This facility, which commenced in April 1997, initially provided for a borrowing capacity of $200 million and was increased to $250 million in January 1998 and to $300 million in April 1998. The facility expires on April 16, 2000 and is collateralized by loans held for sale. The facility bears interest at either a fixed rate, a floating rate based on the London Interbank Offered Rate ("LIBOR") for U.S. dollar deposits, or a combination of the two, at the option of the Company.

The following table presents data on the warehouse financing facility of the Company for the years ended December 31:

<TABLE>
<CAPTION>

	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Weighted-average interest rate for the period......	6.91%	7.17%	7.28%
Weighted-average interest rate at the end of the period..	6.47%	7.23%	7.25%
Weighted-average amount outstanding for the period..	$179,457	$ 90,184	$ 97,714
Maximum amount outstanding at any month-end........	$299,535	$146,271	$170,102

</TABLE>

The Warehouse Financing Facility contains a number of financial covenants including: (i) the Company must maintain adjusted tangible net worth equal to at least $30 million, plus 25% of cumulative positive net earnings, (ii) delinquencies on the Company's mortgage servicing portfolio not exceed 12% and (iii) the ratio of total liabilities to adjusted tangible net worth may not exceed 10:1. The Warehouse Financing Facility also contains other affirmative, negative and financial covenants typical of similar credit facilities. The Company was in compliance with all such covenants at December 31, 1998.

The Company has access to a $100 million uncommitted warehouse line from an investment banking firm. The line expires in September 1999 and at December 31, 1998 the Company had no outstanding balance on this line. The maximum outstanding balance at any month-end during 1998 was $95 million. The uncommitted facility contains several financial covenants including: (i) the Company maintains tangible net worth equal to a least $35 million, and (ii) the ratio of total debt to tangible net worth may not exceed 10:1. The uncommitted facility also contains other affirmative, negative and financial covenants typical of similar credit facilities. The Company was in compliance with all of its debt covenants at December 31, 1998.

The Company recorded interest expense related to the amortization of warehouse financing issuance costs of $901,000, $415,000, and $245,000 for the years ended December 31, 1998, 1997 and 1996, respectively. Unamortized warehouse financing issuance costs were $157,000 and $280,000 at December 31, 1998 and 1997 respectively, and are a component of other assets on the consolidated statements of financial condition.

NOTE 8. INTEREST INCOME, NET OF INTEREST EXPENSE

The components of interest income, net of interest expense for the years ended December 31, are presented in the table that follows:

	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
Interest on loans	$ 19,959	$ 9,456	$ 3,275
Interest on investments	947	1,036	--
Subtotal interest income	20,906	10,492	3,275
Interest expense	(14,119)	(7,138)	(2,814)
Interest income, net of interest expense	$ 6,787	$ 3,354	$ 461

NOTE 9. INCOME TAXES

In connection with the Reorganization, AMC transferred certain tangible and intangible assets to the Company, and immediately thereafter sold shares of the Company's common stock in the Offering. The transfer of these assets and personnel was treated, for federal income tax purposes, as a taxable sale of assets. As a result, the tax basis of the assets transferred from AMC to the Company in the Reorganization was increased to their fair market value (determined by reference to the initial public offering price.) In general, Section 197 of the Internal Revenue Code ("IRC") allows for the amortization over a 15-year period of intangible assets (including goodwill and going concern value) acquired in a transaction such as the Reorganization. The so-called "anti-churning" rules set forth in Section 197(f)(9) of the IRC, however, prohibit the amortization of goodwill, going concern value and intangible assets, the useful lives of which cannot be determined with reasonable accuracy where such assets are transferred between related parties and the transferor held or used such intangible assets at any time on or after July 25, 1991, and on or before August 10, 1993.

The Company believes that the anti-churning rules should not apply to any intangible assets (whether goodwill, going concern value or otherwise) transferred from AMC to the Company in the Reorganization. Because the Internal Revenue Service ("IRS") could assert that the anti-churning rules apply to the Reorganization, the Company will limit the value of the deferred tax asset that is recorded, solely for financial accounting and reporting purposes, to the amount that would be recorded assuming the application of the anti-churning rules. The Company, using an independent third party, has appraised the value of certain intangible assets transferred in the Reorganization that are of a type not subject to the anti-churning rules -- i.e., assets that can be valued and to which the Company can reasonably ascertain useful lives ("Amortizable Intangibles"). Based in part upon such valuation, the Company recorded a $36.0 million net deferred tax asset solely for financial accounting and reporting purposes. No assurance can be given, however, that the IRS will not challenge the value of the Amortizable Intangibles. If such a challenge were successful, the Company may be prevented from realizing all or a portion of the future tax benefits reflected by the net deferred tax asset. Any adjustment to the net deferred tax asset, arising from IRS challenge or other ruling concerning the deductibility of the deferred tax asset or the valuation of the Amortizable Intangibles, will be charged or credited to additional paid-in capital and will have no impact on earnings.

Based upon the offering price of $6.50 per share, the excess of the tax basis of the Company's net assets over their net book value was approximately $117.5 million, resulting in a gross deferred tax asset of $47.0 million. The Company recorded a net deferred tax asset of $36.0 million to take into account the potential that the IRS may disallow some portion of the resulting deduction. For income tax purposes, the Company is amortizing over a 15-year period the intangible assets acquired from AMC in the Reorganization. The Company believes that based upon historical earnings levels it is probable that the Company will generate

sufficient taxable income to realize the benefits associated with the net deferred tax asset through future tax deductions. As the Company realizes the benefits associated with the deferred tax asset, there will be a corresponding reduction in income taxes payable by the Company. As the deferred tax benefit is realized through a reduction in the current tax payable, the statement of operations will reflect an offsetting charge to the amount of the deferred tax benefit, resulting in no effect on net income. If the Company determines that estimated future earnings are not sufficient to realize the deferred tax benefit, the Company will establish a valuation allowance for the impairment of the deferred tax assets, through a charge to the income tax provision, which will result in a reduction of net earnings.

The income tax provision (benefit) consists of the following, for the years ended December 31:

	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
Current:			
Federal	$14,725	$12,622	$ 5,895
State	3,411	2,436	1,923
	18,136	15,058	7,818
Deferred:			
Federal	1,506	605	(1,135)
State	371	1,526	(103)
	1,877	2,131	(1,238)
Provision for income taxes	$20,013	$17,189	$ 6,580

The reconciliation of statutory tax rates to the Company's effective income tax rate follows, for the years ended December 31:

	1998	1997	1996
Federal income tax at statutory rates	35.0%	35.0%	35.0%
State taxes, net of federal tax benefits	5.0	6.0	7.4
Other	--	0.1	(1.2)
	40.0%	41.1%	41.2%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the net deferred tax assets (liabilities) are as follows, at December 31:

	1998	1997
	(DOLLARS IN THOUSANDS)	
Deferred tax assets:		
Mark to market	$ --	$ 428
Goodwill	32,855	37,557
Vacation accrual	300	186
Reserves	1,182	371
State taxes	85	32
Depreciation	323	122
	34,745	38,696

Deferred tax liabilities:		
Deferred state taxes	(2,185)	(3,690)
Other	(37)	(606)
	(2,222)	(4,296)
Deferred tax asset, net	$32,523	$34,400

</TABLE>

NOTE 10. STOCKHOLDERS' EQUITY

Common Stock -- The Company is authorized to issue 150.0 million shares of $0.001 par value common stock. At December 31, 1998 and 1997, the Company had 22.6 million and 24.7 million shares outstanding, respectively.

Common Stock Repurchase Plan -- In October 1997, the Board of Directors authorized a stock repurchase plan which permits the repurchase on the open market of up to 2.5 million shares of the Company's common stock, or 10% of the current shares outstanding, through the end of September 1999. The Company had repurchased a total of 2.4 million and 300,000 shares of stock as of December 31, 1998 and 1997 respectively, which are included in treasury stock.

Preference Share Purchase Rights -- In October 1997, the Board of Directors authorized a stockholder rights plan, which provides for the distribution to the Company's stockholders of one preferred stock purchase "right" for each outstanding share of common stock owned. The rights will trade with the Company's common stock and will not be exercisable until the occurrence of certain takeover related events. The rights can be redeemed by the Company at any time, and will otherwise expire on November 9, 2007.

Preferred Stock -- The Company is authorized to issue 25.0 million shares of $0.001 par value preferred stock. No preferred shares are outstanding and the Company has no current plan to issue any such shares.

NOTE 11. EARNINGS PER SHARE

SFAS No. 128, Earnings per Share, requires computation of earnings per share ("EPS") using basic and diluted methodologies. Basic EPS excludes any dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if common stock equivalents were exercised and converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

The Company did not have independent operations through the date of the Reorganization, and all rights, benefits and obligations relating to the net earnings of the Wholesale Division up to the date of the Reorganization remained with AMC. Additionally, only one share of LBFC's common stock was issued and outstanding until the Reorganization and no shares were issued or outstanding at any time prior to 1997.

Earnings per share data for 1997 was prepared under the assumption that the Company's 25,000,000 shares of common stock were issued and outstanding as of January 1, 1997 through December 31, 1997, less the impact of stock repurchases during the fourth quarter of 1997, and by using the common stock equivalents for all stock options issued by the Company from the Reorganization through December 31, 1997.

A reconciliation of the numerators and denominators used in basic and diluted EPS computations for the periods indicated follows:

	YEAR ENDED DECEMBER 31, 1998	WHOLESALE DIVISION OF AMC JANUARY 1 THROUGH MAY 1, 1997(A)	THE COMPANY MAY 2 THROUGH DEC. 31, 1997	COMBINED RESULTS OF OPERATIONS DEC. 31, 1997
COMPUTATION OF BASIC EARNINGS PER SHARE				
Net earnings available to common shareholder	$30,019,000	$ 5,947,000	$18,697,000	$24,644,000
Average common shares outstanding	23,706,357	25,000,000	24,771,135	24,975,781
Basic earnings per share	$ 1.27	$ 0.24	$ 0.75	$ 0.99
COMPUTATION OF DILUTED EARNINGS PER SHARE				
Net earnings available to common shareholder	$30,019,000	$ 5,947,000	$18,697,000	$24,644,000
Average common shares outstanding	23,706,357	25,000,000	24,771,135	24,975,781
Common stock equivalents -- stock options	907,126	--	998,716	677,257
Average diluted common shares	24,613,483	25,000,000	25,769,851	25,653,038
Diluted earnings per share	$ 1.22	$ 0.24	$ 0.72	$ 0.96

(a) Represents per share data on the assumption that the Company's shares of common stock were issued and outstanding during the entire period from January 1, 1997 through May 1, 1997.

NOTE 12. EMPLOYEE BENEFITS

Defined Contribution Plan -- The Company has a 401(k) defined contribution plan for all eligible employees. Employees may generally contribute up to 15% of qualifying compensation each year, and the Company, at its discretion, may make employer contributions to participants. Employees become vested in the Company's contribution at a rate of 20% each year, with complete vesting after five years. The Company made no contributions to the plan during 1998 or 1997 and therefore, no contribution expense was recognized. The Company's cost for the plan was not material for the years ended December 31, 1998, 1997 and 1996.

Deferred Compensation -- The Company has established a deferred compensation plan which permits certain officers and key employees of the Company to elect to defer portions of their compensation. There was no liability related to this plan as of December 31, 1998 and 1997.

Stock Options -- The Company's 1997 Stock Incentive Plan (the "Plan") provides for a total of 3.0 million shares for issuance. Options granted under the Plan may be incentive stock options or non-qualified stock options. The exercise price of both types of options may not be less than 100% of the fair market value of the shares on the date of grant.

The options issued to officers and other employees vest 20% per year over a five year period and expire on the earlier of ten years from the date of grant or thirty days after a holder's termination of service. Options issued to non-employee directors vest ratably each year over a three year period.

The following is a summary of stock option information and weighted-average exercise prices for the Company's stock option plan as of December 31, 1998 and 1997 and changes during the years then ended are as follows:

	NUMBER	PRICE
Outstanding at January 1, 1997	--	$ --

Options granted	2,808,000	6.84
Options canceled	(20,000)	6.50
Outstanding at December 31, 1997	2,788,000	$ 6.84
Outstanding at January 1, 1998	2,788,000	$ 6.84
Options granted	155,600	12.04
Options exercised	(8,200)	6.50
Options canceled	(41,000)	8.80
Outstanding at December 31, 1998	2,894,000	$ 7.09

</TABLE>

The number of options exercisable at December 31, 1998, was 550,160 with a weighted average exercise price of $6.84. There were no exercisable options at December 31, 1997.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." This Statement establishes a fair value based accounting method for stock-based compensation plans and encourages (but does not require) employers to adopt the new method in place of the provisions of APB Opinion No. 25, "Accounting for Stock Issues to Employees." The Company has elected to adopt the disclosure-only provisions of SFAS No. 123 and will, therefore, continue to account for its stock incentive plan based on the methodologies presented in APB Opinion No. 25. No compensation expense was recognized during 1998 or 1997 for options granted under the Company's stock incentive plan.

Had compensation cost for the stock incentive plan been determined based on the fair value provisions of SFAS No. 123, pro forma net earnings and pro forma basic and diluted earnings per share for the periods indicated would have been reduced to the amounts that follow:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	
	1998	1997
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Net Earnings		
As reported	$30,019	$24,644
Pro forma	28,752	23,460
Basic earnings per share		
As reported	1.27	0.99
Pro forma	1.21	0.94
Diluted earnings per share		
As reported	1.22	0.96
Pro forma	1.17	0.91

</TABLE>

The fair value of each option grant, $3.65 and $3.60 for options granted in 1998 and 1997 respectively, is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
Dividend yield	--	--
Expected volatility	50.0%	49.4%
Risk-free interest rate	5.66%	6.75%
Expected life of option	5 years	5 years

</TABLE>

NOTE 13. AGREEMENTS WITH RELATED PARTIES

Administrative Services Agreements -- On April 28, 1997, the Company and AMC entered into an administrative services agreement under which AMC agreed to provide various services to the Company, including certain employee benefits administration services, information services and data processing functions and, through August 1997, mail room services. The agreement had a one year term from the effective date of the Reorganization, unless earlier terminated by the Company upon 30 days written notice. In February 1998, the Company terminated this agreement, effective March 1, 1998. The Company incurred charges of $250,000 and $1.1 million for the years ended December 31, 1998 and 1997, respectively, pursuant to this agreement.

In addition, on April 28, 1997, the Company and AMC entered into a second administrative services agreement pursuant to which the Company agreed to assist AMC in selling the mortgage loans originated by AMC and provide investor coordination and information for the existing loan portfolio as well as new loan originations. The agreement had a one-year term from the effective date of the Reorganization, unless earlier terminated by AMC upon 30 days written notice. In February 1998, AMC terminated this agreement, effective March 1, 1998. The Company received $110,000 and $440,000 during the years ended December 31, 1998 and 1997, respectively, pursuant to this agreement.

Loan Sub-servicing Agreement -- On April 28, 1997, the Company and AMC entered into a three year loan sub-servicing agreement pursuant to which AMC agreed to sub-service mortgage loans originated or purchased by the Company after the Reorganization. Sub-servicing activities include collecting and remitting loan payments, accounting for principal and interest, holding escrow or impound funds for payment of taxes and insurance, if applicable, making required inspections of the mortgaged property, contacting delinquent borrowers, and supervising foreclosures and property dispositions. The agreement provides that either party has the right to terminate the agreement effective at any time after November 2, 1998, upon six months prior written notice to the other party. During the third quarter of 1998, the Company and AMC modified the existing loan sub-servicing agreement, which provided the Company the right to begin its servicing operations, on November 2, 1998. The Company has incurred charges of $4.8 million and $935,000 during the years ended December 31, 1998 and 1997, respectively, pursuant to this agreement. The balance of the sub-serviced loan portfolio at December 31, 1998 and 1997 totaled $972.9 million and $896.2 million, respectively. In January 1999, the Company transferred $550 million of loans from the subservicer to its own servicing operation.

Income Taxes -- In connection with the Reorganization, AMC agreed to indemnify and hold the Company harmless from any tax liability attributable to periods ending on or before the Reorganization. For periods ending after the Reorganization, the Company pays its tax liability directly to the appropriate taxing authorities.

The agreements between the Company and AMC were developed in the context of a related party relationship and, therefore, may not necessarily reflect the same business terms as might have been obtained in arm's length negotiations between independent parties.

NOTE 14. COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS OF RISK

Leases -- The Company's operations are conducted from leased facilities located in various areas of the United States. These leases have clauses which provide for increases in rent based on increases in the cost of living index and options for renewal. Rental expense for the years ended December 31, 1998, 1997 and 1996 was $2.9 million, $1.7 million and $1.4 million, respectively.

The future minimum lease payments are as follows (in thousands):

<TABLE>

<S>	<C>
Year ending December 31:	
1999..	$2,845

2000	2,510
2001	2,040
2002	1,110
2003	222

	$8,727
	======

</TABLE>

The Company routinely enters into noncancelable lease agreements for furniture and equipment used in the normal course of business. The following table sets forth the minimum lease obligations under lease commitments in effect at December 31, 1998:

<TABLE>
<CAPTION>

	CAPITALIZED	OPERATING	TOTAL
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Year ending December 31:			
1999	$170	$1,733	$1,903
2000	170	1,342	1,512
2001	111	446	557
2002	46	17	63
2003	2	--	2
	----	------	------
	499	3,538	4,037
Less amounts representing interest	(66)	--	(66)
	----	------	------
	$433	$3,538	$3,971
	====	======	======

</TABLE>

The capital lease obligations are included in accrued liabilities in the accompanying consolidated statements of financial condition. As of December 31, 1998, the net book value of furniture and equipment under capital lease was $411,000.

The Company has negotiated employment agreements with certain officers. These agreements provide for the payment of base salaries, performance bonuses subject to certain restrictions, and the payment of severance benefits upon termination.

In the ordinary course of business, the Company has liability under representations and warranties made to purchasers and insurers of mortgage loans. Under certain circumstances, the Company may be liable for the unpaid principal and interest on defaulted loans or other loans if there has been a breach of representations or warranties.

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments primarily represent commitments to fund and sell loans. These instruments involve, to varying degrees, elements of interest rate

risk and credit risk in excess of the amount recognized in the consolidated statement of financial condition. The credit risk is mitigated by the Company's evaluation of the creditworthiness of potential borrowers on a case-by-case basis.

Commitments to fund and sell loans generally have fixed expiration dates or other termination clauses and may require payment of a fee. Also, external market forces impact the probability of commitments being exercised; therefore, commitments outstanding do not necessarily represent future cash requirements.

The Company had commitments to fund loans of $460.2 million and $331.0

million at December 31, 1998 and 1997, respectively. The Company's loan purchase commitments totaled $54.3 million and $19.7 million at December 31, 1998 and 1997, respectively. The Company has entered into forward loan sale contracts under which it has committed to deliver $1.3 billion in loans, with the related commitment expiration dates varying from February 28, 1999 through March 31, 1999. At December 31, 1998, the Company had delivered $1.0 billion of loans on this commitment.

Contingencies

In September 1996, AMC entered into a settlement agreement with the U.S. Department of Justice ("DOJ") arising out of a DOJ investigation and complaint which alleged that AMC during the period from January 1991 through June 1994 charged certain African-American, Hispanic, female and older borrowers more than younger, white male borrowers in violation of fair lending laws. AMC denied all allegations in the complaint and all claims of discrimination. AMC also disputed the validity of the statistical analysis relied upon by the DOJ as the principal basis for its claims and further maintained that the DOJ theories of liability regarding broker-sourced lending were legally insupportable. Nonetheless, to avoid costly, protracted litigation, AMC agreed to establish a $3 million fund to reimburse up to 1,200 borrowers identified by the DOJ as the maximum number of individuals who may have been affected by the alleged fair lending violations. AMC asserted that the better solution to the issues raised by the DOJ was an intensive national effort in consumer education and industry-wide initiatives directed at employee and broker education and training. For this reason, AMC also agreed to contribute an additional $1 million (payable over 3 years) to fund consumer education programs in conjunction with civil rights groups. AMC has established all funds required by the settlement agreement. Pursuant to the settlement agreement, the Company, as successor to AMC, has agreed to (i) document any price exceptions from the Company's rate sheet on broker-sourced loans, (ii) periodically review the results of its broker-sourced lending operations for its compliance with fair lending laws but in no event shall the Company be required to disclose any documents or information therewith, including the identities of any brokers with who it does business, (iii) retain all loan application files submitted for mortgage loans and all loan-rider documents and notices relevant to any pricing decisions until September 1999 and report to the DOJ semi-annually on compliance with the settlement agreement and (iv) provide to brokers information about the Company's fair-lending and pricing procedures and an opportunity to participate in fair-lending training.

While the Company believes it is in compliance with the broker-sourced provisions of the settlement agreement, there can be no assurance that the DOJ will not take a contrary position in the future and seek to compel compliance by the Company. The Company was allocated $1,065,000 in 1996, of the settlement costs on the basis of the portion of the settlement pertaining to broker-sourced loans, as stipulated in the settlement agreement, which is included in other expenses in the accompanying consolidated statement of operations.

When the Company operated as a division of AMC, it was involved in various lawsuits incidental to its business, none of which had a material adverse effect on the Company. However, in the Reorganization, the Company did not assume any liabilities that arose out of the lending activities of AMC, including liabilities related to the broker-sourced mortgage loan operations, nor has the Company agreed to indemnify AMC against any such liabilities.

The Company is a party to various routine legal proceedings arising out of the ordinary course of its business. Management believes that none of these actions, individually or in the aggregate, will have a material adverse effect on the consolidated financial condition or results of operations of the Company.

Concentrations of Risk

The Company funds substantially all of the loans which it originates or purchases through borrowings under the warehouse financing facility (see Note 7) and internally generated funds. These borrowings are in turn repaid with the proceeds received by the Company from selling such loans. Any failure to renew or obtain adequate funding under those warehouse financing facilities, or other borrowings, or any substantial reduction in the size of or pricing in the markets for the Company's loans, could have a material adverse effect on the Company's consolidated results of operations and financial condition. To the extent that the Company is not successful in maintaining or replacing existing financing, it would have to curtail its loan production activities, thereby having a material adverse effect on the Company's consolidated results of operations and financial condition.

Periods of economic slowdown may reduce the demand for mortgage loans as people elect not to purchase new homes due to economic uncertainty and also may adversely affect the financial condition of potential borrowers so that they do not meet the Company's underwriting criteria. In addition, economic slowdowns may cause a decline in real estate values. Any material decline in real estate values will reduce the ability of borrowers to use home equity to support borrowings by negatively affecting loan-to-value ratios of the home equity collateral. To the extent that the loan-to-value ratios of prospective borrowers' home equity collateral do not meet the Company's underwriting criteria, the volume of loans originated by the Company could decline.

Approximately 33.8% and 34.4% of the dollar volume of loans originated or purchased by the Company were secured by properties located in California for the years ended December 31, 1998 and 1997, respectively. No other state contained properties securing more than 10% of the dollar volume of loans originated or purchased by the Company during the years ended December 31, 1998 and 1997. Although the Company has a nationwide independent broker network and regional processing center network, the Company is likely to continue to have a significant amount of its loan originations and purchases in California for the foreseeable future, primarily because California represents a significant portion of the national mortgage marketplace. Consequently, the Company's results of operations and financial condition are dependent upon the general trends in the California economy and its residential real estate market. Residential real estate market declines may adversely affect the values of properties securing loans such that the principal balances of such loans will equal or exceed the value of the mortgaged properties. Reduced collateral value will adversely affect the volume of the Company's loans as well as the pricing of the Company's loans and the Company's ability to sell its loans.

The Company focuses its marketing efforts on borrowers who may be unable to obtain mortgage financing from conventional mortgage sources. Loans made to such borrowers may entail a higher risk of delinquency and higher losses than loans made to borrowers who utilize conventional mortgage sources. Accordingly, the actual rates of delinquencies, foreclosures and losses on such loans could be higher under adverse economic conditions than those currently experienced by the mortgage lending industry in general. Any sustained period of increased delinquencies, foreclosures or losses after the loans are sold could adversely affect the pricing of the Company's loan sales and the ability of the Company to sell its loans.

The Company has historically sold substantially all of its loan originations in the secondary market to a limited number of institutional purchasers. There can be no assurance that such purchasers of the Company's loans will continue to purchase loans or be willing to purchase loans under terms which such purchasers have historically purchased the Company's loans. To the extent that the Company could not successfully replace

such loan purchasers or negotiate favorable terms for such loan purchasers, the Company's consolidated results of operations and financial condition could be materially adversely affected. Additionally, the secondary market for subprime loans is volatile and prices for subprime loans have been depressed, particularly since the beginning of the fourth quarter of 1998. In the event that the secondary market for the Company's loans remains in a depressed state, the sales premiums that the Company has historically received from the sale of its loans may not be achievable. Such a decrease in pricing could have a material adverse effect on the Company's profitability, liquidity and operating performance.

The Company depends largely on independent mortgage brokers, and to a lesser extent, smaller mortgage companies and commercial banks for its originations and purchases of loans. The Company's competitors also seek to establish relationships with such independent mortgage brokers, mortgage companies and commercial banks, none of whom is obligated by contract or otherwise to continue to do business with the Company. The Company's future operating and financial results may be more susceptible to fluctuations in the volume and costs of its broker-sourced loans resulting from, among other things, competition from other purchasers of such loans.

The Company's business is subject to extensive regulation, supervision and licensing by federal, state and local governmental authorities and is subject to various laws and judicial and administrative decisions imposing requirements and restrictions on a substantial portion of its operations. These rules and regulations, among other things, impose licensing obligations on the Company, establish eligibility criteria for mortgage loans, prohibit discrimination, provide for inspections and appraisals of properties, require credit reports on loan applicants, regulate assessment, collection, foreclosure and claims handling, investment and interest payments on escrow balances and payment features, mandate certain disclosures and notices to borrowers and, in some cases, fix maximum interest rates, fees and mortgage loan amounts. Failure to comply with these requirements can lead to loss of approved status, termination or suspension of servicing contracts without compensation to the servicer, demands for indemnifications or mortgage loan repurchases, certain rights of recission for borrowers, class action lawsuits and administrative enforcement actions. Although the Company believes that it has systems and procedures to facilitate compliance with these requirements and believes that it is in compliance in all material respects with applicable local, state and federal laws, and rules and regulations, in the future more restrictive laws, rules and regulations or the judicial interpretation of existing laws, rules and regulations could make compliance more difficult or expensive.

Lawsuits have been filed against several mortgage lenders, alleging that such lenders have made certain payments to independent mortgage brokers in violation of RESPA. These lawsuits have generally been filed on behalf of a purported nationwide class of borrowers alleging that payments made by a lender to a broker in addition to payments made by the borrower to a broker are prohibited by RESPA and are therefore illegal. In a majority of these cases, courts have declined to grant class certification, holding that it is necessary to analyze the facts of each transaction to determine whether the lender-paid fee, either alone or in combination with borrower-paid fees, constitutes a reasonable payment for goods, facilities or services provided. In March 1999, HUD clarified its position on lender payments to mortgage brokers further undermining class action lawsuits alleging that all lender-paid fees are per se illegal. See "Business -- Regulation." The Company's broker compensation programs permit such payments. Although the Company believes that its broker compensation programs comply with all applicable laws and are consistent with long-standing industry practice and regulatory interpretations, in the future new legislation, regulatory interpretations or judicial decisions may require the Company to change its broker compensation practices. Such a change may have a material adverse effect on the Company and the entire mortgage lending industry.

NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosures of the estimated fair value of the financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosure About Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts at December 31 (dollars in thousands):

<TABLE>
<CAPTION>

	1998		1997	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Assets:				
Cash and cash equivalents....................	$ 24,941	$ 24,941	$ 38,782	$ 38,782
Investment securities available for sale......	$ --	$ --	$ 3,793	$ 3,793
Loans held for sale...........................	$ 59,148	$ 59,148	$ 17,241	$ 17,429
Receivable from the sales of loans...........	$186,786	$186,786	$143,088	$143,088
Liabilities:				
Warehouse financing facility.................	$211,787	$211,787	$146,271	$146,271

Off-Balance sheet unrealized gains (losses):				
Loan origination commitments..................	$ --	$ --	$ --	$ --

</TABLE>

Because of the short maturities of cash and cash equivalents, management believes that their carrying amount is a reasonable estimate of fair value. The estimated fair value of investment securities available for sale is based upon quoted market prices. The estimated fair value of loans held for sale is determined by outstanding commitments from investors, if any, or management's estimate of value that the Company could reasonably expect to obtain from a sale, that is, other than in a forced or liquidation sale of the loans on an aggregate basis. Due to their short turnover rate, management believes that the carrying amount of receivable from the sales of loans is a reasonable estimate of fair value. Warehouse financing facility is valued at par as management believes that the terms of the warehouse financing facility represent current market rates.

The fair value of loan origination commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparts.

The fair value estimates are based on pertinent information available to management as of December 31, 1998 and 1997. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

NOTE 16. SEGMENT AND RELATED INFORMATION

The Company has adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", which changes the way a company reports information about its operating segments. The Company has two reportable operating segments: Broker-sourced and Correspondent.

The summarized financial information concerning the Company's reportable segments is shown in the following table. "Other" represents corporate administration, the retail segment, and other related items and

results of ancillary operations. The Company made certain estimates in order to compute revenues and expenses by reportable segment. Prior to the Reorganization date in 1997, and for 1996, the Company utilized actual results from the Reorganization date to December 31, 1997 to allocate revenues and expenses. The accounting policies of the segments are the same as those described in the summary of significant accounting policies described in Note 3.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Revenues:			
Broker-sourced...............................	$ 106,956	$ 82,208	$ 47,175
Correspondent................................	10,832	6,159	3,524

Subtotal Wholesale	117,788	88,367	50,699
Other	14,862	4,299	461
Total Revenues	$ 132,650	$ 92,666	$ 51,160
Expenses:			
Broker-sourced	$ 42,673	$ 33,228	$ 22,273
Correspondent	2,253	1,123	235
Subtotal Wholesale	44,926	34,351	22,508
Other	37,692	16,482	12,680
Total Expenses	$ 82,618	$ 50,833	$ 35,188

</TABLE>

<TABLE>

<S>	<C>	<C>	<C>
Earnings (Loss) Before Income Taxes:			
Broker-sourced	$ 64,283	$ 48,980	$ 24,902
Correspondent	8,579	5,036	3,289
Subtotal Wholesale	72,862	54,016	28,191
Other	(22,830)	(12,183)	(12,219)
Earnings before income taxes	$ 50,032	$ 41,833	$ 15,972
Net Earnings (Loss):			
Broker-sourced	$ 38,570	$ 28,854	$ 14,643
Correspondent	5,147	2,967	1,934
Subtotal Wholesale	43,717	31,821	16,577
Other	(13,698)	(7,177)	(7,185)
Net Earnings	$ 30,019	$ 24,644	$ 9,392
Loan Production:			
Broker-sourced	$2,220,096	$1,531,266	$1,026,390
Correspondent	296,283	151,768	31,732
Subtotal Wholesale	2,516,379	1,683,034	1,058,122
Other	59,586	2,708	--
Total Production	$2,575,965	$1,685,742	$1,058,122
Assets:			
Broker-sourced	$ 53,270	$ 15,491	
Correspondent	6,832	755	
Subtotal Wholesale	60,102	16,246	
Other	268,493	231,842	
Total Assets	$ 328,595	$ 248,088	

</TABLE>

NOTE 16. SELECTED QUARTERLY DATA (UNAUDITED)

<TABLE>
<CAPTION>

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
<S>	<C>	<C>	<C>	<C>
YEAR ENDED DECEMBER 31, 1998				
Gain on sale of loans	$23,925	$31,630	$31,098	$36,051

Net interest income	1,370	1,666	1,996	1,755
Net operating income	25,861	34,102	34,298	38,389
General and administrative expenses	14,491	19,183	18,426	20,451
Provision for losses	1,400	1,000	1,100	1,747
Sub-servicing costs	646	1,138	1,542	1,494
Earnings before income taxes	9,324	12,781	13,230	14,697
Net earnings	$ 5,410	$ 7,408	$ 8,257	$ 8,944
Basic earnings per share:				
Net earnings	$ 0.22	$ 0.31	$ 0.35	$ 0.40
Average number of common shares	24,498	24,236	23,506	22,607
Diluted earnings per share:				
Net earnings	$ 0.21	$ 0.29	$ 0.34	$ 0.39
Average number of common and equivalent shares	25,674	25,478	24,433	22,767
YEAR ENDED DECEMBER 31, 1997				
Gain on sale of loans	$17,238	$19,941	$24,829	$26,589
Net interest income	472	145	1,151	1,586
Net operating income	17,710	20,104	26,200	28,652
General and administrative expenses	9,639	9,581	11,947	14,703
Provision for losses	438	2,490	500	600
Sub-servicing costs	--	46	294	595
Earnings before income taxes	7,633	7,987	13,459	12,754
Net earnings	$ 4,568	$ 4,872	$ 7,859	$ 7,345
Basic earnings per share:				
Net earnings	$ 0.18	$ 0.19	$ 0.31	$ 0.29
Average number of common shares	25,000	25,000	25,000	24,904
Diluted earnings per share:				
Net earnings	$ 0.18	$ 0.19	$ 0.30	$ 0.28
Average number of common and equivalent shares	25,000	25,310	26,075	26,126

</TABLE>

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Long Beach Financial Corporation:

We have audited the accompanying consolidated statements of financial condition of Long Beach Financial Corporation and subsidiary (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' and divisional equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Long Beach Financial Corporation and subsidiary as of December 31, 1998 and 1997, the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

As more fully described in Note 1, the Company was a part of Ameriquest Mortgage Company ("AMC") and had no separate legal status or existence through May 1, 1997. The Company had various transactions with AMC, including various expense allocations and reimbursements, that are material in amount. The consolidated financial statements of the Company have been prepared from separate records maintained by the Company, as well as from the records of AMC, and may not necessarily be indicative of the conditions that would have existed if the Company had operated as an independent entity.

DELOITTE & TOUCHE LLP

Costa Mesa, California
January 25, 1999

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
* 3.1	Amended and Restated Certificate of Incorporation of Long Beach Financial Corporation. (Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
* 3.2	Bylaws of Long Beach Financial Corporation. (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
* 4.1	Specimen of the Common Stock of Long Beach Financial Corporation. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.1	Administrative Services Agreement among Long Beach Mortgage Company, Long Beach Financial Corporation and Ameriquest Mortgage Company. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 12, 1997)
*10.2	Form of Master Sub-Servicing Agreement, between Long Beach Mortgage Company and Ameriquest Mortgage Corporation Company. (Incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.3	4/97 Senior Secured Credit Agreement, among Ameriquest Mortgage Corporation and Texas Commerce Bank National Association, as Lender and Agent. (Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.4	Form of Director/Officer Indemnification Agreement. (Incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.5	Contribution Agreement, between Ameriquest Capital Corporation, Long Beach Mortgage Company, Long Beach Financial Corporation and Ameriquest Mortgage Corporation Company. (Incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 12, 1997)
*10.6	1997 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.7	Employment Agreement, between Long Beach Financial Corporation, Ameriquest Mortgage Corporation and M. Jack Mayesh. (Incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.8	Employment Agreement, between Long Beach Financial Corporation, Ameriquest Mortgage Corporation and Edward Resendez. (Incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.9	Employment Agreement, between Long Beach Financial Corporation, Ameriquest Mortgage Corporation and Frank J. Curry. (Incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
*10.10	Employment Agreement, between Long Beach Financial Corporation, Ameriquest Mortgage Corporation and James H. Leonetti. (Incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.11	Employment Agreement, between Long Beach Financial Corporation, Ameriquest Mortgage Corporation and James J.

	Sullivan. (Incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.12	Department of Justice Settlement Agreement. (Incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1, Commission File No. 333-22013)
*10.13	Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and William K. Komperda. (Incorporated by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 12, 1997)
*10.14	Form of Amendment to Employment Agreement, among Long Beach Financial Corporation, Long Beach Mortgage Company and each of M. Jack Mayesh, Edward Resendez, Frank J. Curry, James H. Leonetti, and James J. Sullivan. (Incorporated by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 1997)
*10.15	4/98 Amended and Restated Senior Secured Credit Agreement, among Long Beach Mortgage Company and Chase Bank of Texas, as Lender and Agent.
*10.16	Amended and Restated Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and M. Jack Mayesh.
*10.17	Amended and Restated Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and Edward Resendez.
*10.18	Amended and Restated Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and Frank J. Curry.
*10.19	Amended and Restated Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and William K. Komperda.
*10.20	Amended and Restated Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and James H. Leonetti.
*10.21	Amended and Restated Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and James J. Sullivan.
*10.22	Employment Agreement, between Long Beach Financial Corporation, Long Beach Mortgage Company and Elizabeth A. Wood.
*10.23	Supplement Agreement to Master Sub-Servicing Agreement between Long Beach Mortgage Company and Ameriquest Mortgage Company.
*10.24	Master Repurchase Agreement between Merrill Lynch Mortgage Capital Inc., Merrill Lynch Credit Corporation and Long Beach Mortgage Company.
10.25	Purchase and Sale Agreement between Salomon Brothers Realty Corp. and Long Beach Mortgage Company.
27	Financial Data Schedule.

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* Previously filed.

EXHIBIT 10.25

PURCHASE AND SALE AGREEMENT

This purchase and sale agreement, dated as of February 11, 1999 (the "Agreement") is between Salomon Brothers Realty Corp. ("SBRC") and Long Beach Mortgage Company (the "Seller"). From time to time SBRC may engage in purchase and sale transactions (each, a "Transaction") whereby the Seller sells to SBRC fixed and adjustable rate one- to-four family first lien mortgage loans acceptable to SBRC in its sole discretion ("Eligible Mortgage Loans"), any related prepayment charges payable in connection with any voluntary principal prepayment in full on related Eligible Mortgage Loans (the "Prepayment Charges") and related servicing rights at a price equal to the Purchase Price (as defined in the Letter Agreement) and whereby, on a date fixed by agreement between SBRC and the Seller (the "Repurchase Date"), the Seller agrees to repurchase such Eligible Mortgage Loans, Prepayment Charges and related servicing rights from SBRC, and SBRC agrees to resell such Mortgage Loans, Prepayment Charges and related servicing rights to the Seller, at the repurchase price, which is based on the Purchase Price and reflects the agreed upon return to SBRC as provided in Paragraph 1 of the Letter Agreement (the "Repurchase Price"), all subject to and in accordance with the terms and conditions set forth below. The Repurchase Date shall be 30 days after the related Purchase Date, or such shorter period of time if the related Purchase Date is not a "Roll Date". A "Roll Date" is the date each month on which all of the Mortgage Loans subject to the Aggregation Line are repurchased by the Seller. All such Eligible Mortgage Loans, Prepayment Charges and related servicing rights which shall at any time have been purchased by SBRC and not yet repurchased by the Seller hereunder, together with all rights related thereto, shall hereinafter be referred to as the "Mortgage Loans" and the date on which SBRC purchases each such Mortgage Loan shall be referred to as the "Purchase Date". Capitalized terms used but not defined herein shall have the meanings set forth in the letter agreement dated February 11, 1999 between SBRC and the Seller (the "Letter Agreement"). The Purchase Prices for the Mortgage Loans are as set forth in the Letter Agreement.

The Seller will from time to time offer to enter into Transactions with SBRC. SBRC agrees to enter into such Transactions, provided the following conditions have been met:

1. As the Seller and SBRC enter into a Transaction, then on the same day the Seller shall sell and deliver to SBRC or its agent the agreed upon Eligible Mortgage Loans including any applicable Prepayment Charges, together with all rights related thereto (including the servicing rights), against the crediting of the Purchase Price for such Transaction to an account of the Seller in immediately available funds. The Seller represents and warrants that it has the unqualified right to sell, transfer, assign or pledge the Eligible Mortgage Loans (any related servicing rights) that will become Mortgage Loans and that such Mortgage Loans, upon delivery to SBRC, will be free and clear of any lien,

claim or encumbrance (other than the Seller's obligation to resell such Mortgage Loan to the Seller on the related Repurchase Date). The Seller further represents that this Agreement is legally entered into by the Seller, does not violate any ordinance, charter, rule or statute applicable to it and that the person executing this Agreement on behalf of the Seller has been duly and properly authorized to do so. The Seller hereby represents and warrants that as of the Purchase Date of any Mortgage Loan, each of the representations and warranties specified on Exhibit A attached hereto are true and correct and each of the representations and warranties specified on Exhibit B attached hereto are true and correct as to

each of the Mortgage Loans delivered to SBRC on such date. If the Seller breaches a representation or warranty specified on Exhibit A attached hereto such breach shall be deemed a Seller Event of Default under Section 6(d) hereof and SBRC shall have the remedies provided for in Section 7. If the Seller breaches a representation or warranty specified on Exhibit B attached hereto, SBRC shall have the right to accelerate to a date designated by SBRC the Repurchase Date of the directly affected Mortgage Loan.

2. No later than the business day on which each Transaction as described in paragraph 1 is effected, SBRC shall send to the Seller a confirmation (the "Confirmation") setting forth with respect to such Transaction: the Eligible Mortgage Loans subject thereto; the Purchase Price of such Eligible Mortgage Loans (including the related servicing rights); the Aggregation Cost Rate; the Repurchase Date; and the Repurchase Price. Each Confirmation shall be binding upon the parties hereto unless written notice of objection is given by the objecting party within two (2) business days after the objecting party's receipt of such confirmation. In addition, the Seller shall deliver to SBRC on each Purchase Date a Bill of Sale with respect to the related Mortgage Loans in the form of Exhibit C hereto.

3. On the Repurchase Date for any Mortgage Loan, such repurchase will be effected by delivery to the Seller or its agent of the Mortgage Loans against the crediting of the Repurchase Price to an account of SBRC in immediately available funds.

4. Upon a Seller Event of Default (as defined herein) or upon the failure of the Seller to repurchase the Mortgage Loans on a Repurchase Date, SBRC may reregister any of the Mortgage Loans in its name or the name of its agent and may resell the Mortgage Loans, with the right to reregister given to the purchaser in accordance with the provisions of Section 7.

5. The Seller has delivered to SBRC its most recent financial statements and represents that such statements fairly represent its financial condition as to the date of such statements. The Seller also represents that there has been no material adverse change in its financial condition since that

date. During the term of this Agreement, the Seller shall promptly deliver to SBRC all monthly financial statements, including but not limited to, balance sheets, income statements and cashflow statements. The Seller agrees that its agreement to enter into each Transaction shall constitute a representation that there has been no material adverse change in its financial condition since the date of the latest such statement.

6. The occurrence of any of the following shall constitute a "Seller Event of Default":

(a) the judgment by SBRC in good faith that a material adverse change has occurred with respect to the business, properties, assets or condition (financial or otherwise) of the Seller;

(b) SBRC shall reasonably request, specifying the reasons for such request, information, and/or written responses to such requests, regarding the financial well-being of the Seller and such information and/or responses shall not have been provided within three business days of such request;

(c) A change in control of the Seller shall have occurred without the consent of SBRC, other than in connection with and as a result of the issuance and sale by the Seller of registered, publicly offered common stock;

(d) There is (A) a material breach by the Seller of any representation and warranty contained in this Agreement or the Letter Agreement, other than a representation or warranty relating to a particular Mortgage Loan, and SBRC has reason to believe in good faith either that such breach is not curable within 30 days or that such breach may not have been cured in all material respects at the expiration of 30 days following discovery thereof by the Seller or (B) a failure by the Seller to make any payment payable by it hereunder or -- -- (C) any other failure by the Seller to observe and perform in any material respect its material covenants, agreements and obligations with SBRC, including without limitation those contained in this Agreement or any other agreement between SBRC and the Seller, and SBRC has reason to believe in good faith that such failure may not have been cured in all material respects at the expiration of 30 days following discovery thereof by the Seller;

(e) If the Seller shall fail to provide written notification to SBRC of any material change in its loan origination, acquisition or appraisal guidelines or practices, or the Seller, without the prior consent of SBRC (which shall not be unreasonably withheld), shall amend in any material respect its loan origination, acquisition or appraisal guidelines or practices;

(f) If the Seller shall fail to fully and timely perform any obligation to SBRC or to any broker, dealer, bank or other financial institution in respect of a transaction involving securities, commodities or other instruments ("Instruments") (regardless of whether SBRC has any right, title or interest therein);

(g) If the Seller admits its inability or SBRC reasonably believes the Seller is unable to perform fully when such performance will become due any obligation on the Seller's part to any broker, dealer, bank or other financial institution in respect of a transaction involving Instruments not then due (regardless of whether SBRC has any right, title or interest therein);

(h) If the Seller shall make an assignment for the benefit of creditors, or admit in writing its inability to pay debts as they become due, or generally not pay its debts as they become due, or file any petition, application or answer seeking for itself any entry of an order for relief, protective decree, reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the Bankruptcy Code or any other federal, state or foreign, present or future, statute, law or regulation, or be subject to any such order for relief or protective decree entered by a court,

or file any answer admitting or not controverting the material allegations of such a petition or application filed against the Seller, or seek or acquiesce in the appointment or designation of, on taking possession by, any trustee, receiver, liquidator or agent in respect of all or a substantial part of the Seller's property, or the Seller's trustees, directors, majority shareholders, partners or other principals, as the case may be, shall take any action looking to the dissolution or liquidation of the Seller or to the taking of any action described in this paragraph (h), or any of the foregoing shall occur in respect of any one or more of the Seller's general partners, principals or parent entities or other persons exercising control over the Seller;

(i) If an action shall be commenced or a petition or application shall be filed against the Seller seeking any order for relief, protective decree, reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the Bankruptcy Code, Securities Investor Protection Act or any federal, state or foreign present or future statute, law or regulation and such action, petition or application shall not have been dismissed or all orders or proceedings thereunder stayed or vacated, or such stay shall be set aside, or any trustee, receiver, liquidator or agent of all or a substantial part of the Seller's property shall be appointed or designated and such appointment or designation shall not have been vacated, or any of the foregoing shall occur in respect of any one or more of the Seller's general partners, principals or parent entities or other persons exercising control over the Seller;

(j) If a material judgment for the payment of money or affecting all or a substantial part of the Seller's business or property shall be entered or rendered against the Seller, and such judgment shall not have been discharged in full or effectively stayed as to enforcement and execution;

(k) If the Seller shall default (as principal, guarantor or surety) in the performance of any material contract or in the material payment of any principal or interest on any indebtedness or in the performance of or compliance with any material agreement, instrument or other writing evidencing such indebtedness or delivered pursuant thereto or in connection therewith, which default shall have continued beyond any applicable period of grace and, in the case of a default in respect of indebtedness, would permit the holder of such indebtedness to accelerate payment of the principal thereof;

(l) If any statement of the Seller's financial condition prepared by the Seller or at its request shall indicate that, or it shall have acknowledged that, the Seller has a negative net worth or is insolvent;

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(m) If the Securities and Exchange Commission, Commodity Futures Trading Commission, any securities or commodities exchange or association, any banking department or authority, or any other business association or governmental entity or authority shall revoke, cancel, enjoin, suspend or fail to renew the Seller's registration, licensing, qualification or other authorization to do business in respect of any type of business or any geographic area, or any of the foregoing shall occur in respect of any one or more of the Seller's general partners, principals or parent entities or other persons exercising control over the Seller to the extent such event has a material adverse effect on the Seller;

(n) If the Seller shall fail to maintain, or acknowledge that it has failed to maintain, sufficient net capital or any other indicia of financial condition as required by any rule or regulation applicable to the Seller of the Securities and Exchange Commission, Commodity Futures Trading Commission, any securities or commodities exchange or association, any banking department or authority, or any other business association or governmental entity or authority to the extent such event has a material adverse effect on the Seller;

(o) If any securities or commodities exchange or association or other business association shall revoke, cancel, enjoin, suspend or fail to renew the Seller's membership to the extent such event has a material adverse effect on the Seller;

(p) If there shall have occurred any outbreak or material escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis, the effect of which on the financial markets is such as to make it, in the judgment of SBRC, impracticable to continue this Agreement; or

(q) If the Seller or any of its affiliates shall default in respect of any transaction with SBRC or any of its affiliates.

Notwithstanding any other provision of this Agreement, any grace or notice period provided herein in respect of a notice to be given or action to be taken by SBRC may be shortened or eliminated by SBRC if, in its sole good faith discretion, it is reasonable to do so under the circumstances, taking into consideration, among other things, the volatility of the market for the collateral involved, the extent and nature of any Seller Events of Default (or events which with the giving of such notice and passage of time would constitute Seller Events of Default), and the risks inherent in deferring the exercise of remedies for the otherwise applicable grace or notice period.

7. If a Seller Event of Default shall have occurred and be continuing, SBRC may, upon notice to the Seller (which notice shall not be required to be given in advance in the case of a Seller Event of Default of a type described in paragraph 6(h) or (i)), (a) terminate or

accelerate to a date designated by SBRC the date fixed for termination of the directly affected Transaction or all of the Transactions hereunder and (b) sell a sufficient amount of the Mortgage Loans and related servicing rights in a commercially reasonable manner or elect to be deemed to have sold to the Seller such Mortgage Loans and related servicing rights, and in either event apply the proceeds of such sale (excluding any reasonable expenses incurred in connection therewith) or, in the case of a deemed sale, the market value of such Mortgage Loans as of the date of such deemed sale, against the payment of the Purchase Price and any other amounts owing by the Seller under this Agreement, upon which application the Purchase Price or any such other amounts shall be reduced by the amount as applied and SBRC shall be released from any obligation to sell, return or redeliver such Mortgage Loans. If any Mortgage Loans remain after all obligations of the Seller under this Agreement have been satisfied, SBRC or its agent shall promptly return to the Seller or its agent the balance of the Mortgage Loans. If the Mortgage Loans are not sufficient to satisfy all such obligations, the Seller shall be liable to SBRC for the amount of remaining obligations plus interest at the then prevailing effective Federal Funds Rate as determined by SBRC in its sole discretion. Notwithstanding anything contained in this Agreement, except as expressly provided for in this paragraph 7, SBRC shall under no circumstances whatsoever have any obligation or liability to the Seller in respect of any Transaction following the failure of the Seller to pay the applicable Repurchase Price or deliver the applicable Mortgage Loans as and when required by the terms of this Agreement.

8. The occurrence of any of the following shall constitute a "SBRC Event of Default":

(a) If the Purchase Price is not paid as specified in the Letter Agreement;

(b) If SBRC shall make a general assignment for the benefit of creditors; admit in writing its inability to pay its debts as they become due; file a petition in bankruptcy or a petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future bankruptcy, reorganization, insolvency or similar statute, law or regulation or seek the appointment of any trustee, receiver, custodian or liquidator of SBRC or of all or substantially all of its properties;

(c) If a proceeding is commenced against SBRC seeking relief or an appointment of a type described in paragraph 8(b) above and such proceeding is not dismissed within 30 days after the commencement thereof;

(d) If a final judgment for the payment of money shall be rendered against SBRC, and such judgment shall not have been discharged or its execution stayed pending appeal within 60 days of entry or such judgment shall not have been discharged within 60 days of expiration of any such stay;

(e) If SBRC shall have defaulted under this Agreement by operation of clause (a) of the second sentence of paragraph 16 below, and such default is not cured within three business days after notice; or

(f) If SBRC or any of its affiliates shall default in respect of any transaction with the Seller or any of its affiliates.

9. If an SBRC Event of Default shall have occurred and be continuing, the Seller may, upon one business day's prior notice to SBRC, which notice shall not be required to be given in advance in the case of an SBRC Event of Default of a type described in paragraph 8(b) or (c)), (a) terminate or accelerate to a date designated by the Seller the date fixed for termination of the directly affected Transaction or all Transactions hereunder and (b) either (x) purchase in a commercially reasonable manner Eligible Mortgage Loans with a market value equal to any Mortgage Loans required to be returned or delivered by SBRC but not so returned or delivered and apply the cost of such purchase (including any reasonable expenses incurred in connection therewith) against the Repurchase Price and any other amounts owing by the Seller under this Agreement,

upon which application the Repurchase Price and any such other amounts shall be reduced by the amount so applied and SBRC shall be released from any obligation to sell, return or deliver such Mortgage Loans or (y) pay to SBRC the Repurchase Price and repurchase the related Mortgage Loans. If the Seller chooses the remedy available in clause 9(b)(x) above, after all obligations of SBRC under this Agreement have been satisfied, the Seller shall promptly pay SBRC any portion of such positive amount (after such reduction) which has not previously been paid or SBRC shall promptly pay to the Seller any excess of such cost of purchase of replacement Eligible Mortgage Loans (including expenses as aforesaid) over the amount of the Repurchase Price (prior to reduction), plus interest on such excess for the period from the date of such purchase until the date of full payment by SBRC at the then prevailing effective Federal Funds Rate.

10. The market value of the Mortgage Loans shall be determined by SBRC acting in good faith.

11. The Seller represents that it will have the authority to enter into and perform any Transactions under this Agreement. Each party represents that the person executing this Agreement and the persons executing Transactions under this Agreement on its behalf have and will have the authority to do so and that this Agreement does not conflict with any other agreement binding on such party.

12. The Mortgage Loans shall be identified on a detailed listing to be provided by the Seller to SBRC (a "Mortgage Loan Schedule") by diskette or via modem. The Mortgage Loan Schedule must be received by SBRC not less than two (2) business days prior to each transfer of Mortgage Loans and must be in a format acceptable to SBRC, consisting of the loan characteristics set forth in the definition of "Mortgage Loan Schedule" in the Custodial Agreement. The Confirmation shall be sent by SBRC to the Seller and the documents contained in the Mortgage File (as defined herein) shall be delivered to Chase Bank of Texas, National Association (the "Custodian") and held by the Custodian pursuant to the terms of a Custodial

Agreement, dated as of February 11, 1999 (the "Custodial Agreement"), among the Seller, SBRC and the Custodian pursuant to which the Custodian shall, among other things, issue trust receipts, as defined therein (the "Trust Receipts"). As a condition to closing any Transaction on any Purchase Date, the Custodian must deliver to SBRC a Trust Receipt in form and substance acceptable to SBRC. The transfer of such Mortgage Loans for the purposes of this paragraph 12 shall include the delivery to the Custodian of the following documents (the "Mortgage File") with respect to each Mortgage Loan, as set forth in the Custodial Agreement:

(a) the original Mortgage Note, endorsed in the following form: "Pay to the order of ____________________, without recourse", with all prior and intervening endorsements showing a complete chain of endorsement from the originator to the Seller;

(b) the original Mortgage with evidence of recording thereon, and the original recorded power of attorney, if the Mortgage was executed pursuant to a power of attorney, with evidence of recording thereon;

(c) an executed original Assignment of Mortgage, in blank, from the Seller, which assignment shall be in form and substance acceptable for recording;

(d) the original recorded Assignment or Assignments of the Mortgage showing a complete chain of assignment from the originator to the Seller;

(e) the original or copies of each assumption, modification, written assurance or substitution agreement, if any; and

(f) the original lender's title insurance policy, together with all endorsements or riders which when issued with or subsequent to the issuance of such policy, insuring the priority of the Mortgage as a first lien on the Mortgaged Property represented therein as a fee interest vested in the Mortgagor, or in the event such original title policy is unavailable, a written commitment or uniform binder or preliminary report of title issued by the title insurance or escrow company.

Notwithstanding anything to the contrary contained in this Section 12, in those instances where either (x) the public recording office has not returned the original Mortgage, power of attorney or Assignment or (y) the public recording office retains the original Mortgage, power of attorney or Assignment after it has been recorded or such document has been lost, the obligations of the Seller hereunder and under the Custodial Agreement shall be deemed to have been satisfied upon (1) delivery by the Seller to the Custodian of a copy of such Mortgage, power of attorney or Assignment certified by the Seller in the case of (x) above or the public recording office in the case of (y) above to be a true and complete copy of the recorded original thereof and (2) if such copy is certified by the Seller, delivery to the Custodian, promptly upon receipt thereof of either the original or a copy of such document certified by the public recording office to be a true and complete copy of the original. Upon delivery to the Seller (x) by the public recording office of any recorded original Mortgage, power of attorney or Assignment or (y) by a title insurance or escrow company of any lender's title insurance policy, the Seller promptly shall (and in no event later than five business days following such receipt) deliver such document to the Custodian.

In addition to the documents contained in the Mortgage File, the Seller shall deliver to SBRC on or prior to the Purchase Date for such Transaction a security release certification acceptable to SBRC, certifying the release of any security interest of a third party which may have existed with respect to any of the Mortgage Loans subject to such Transaction during the 45-day period prior to the related Purchase Date and a Bill of Sale in the form of Exhibit C.

13. Unless otherwise agreed to between SBRC and the Seller, SBRC hereby covenants and agrees to hire the Seller to service; and the Seller hereby covenants and agrees to service each Mortgage Loan for a term beginning on the related Purchase Date of such Mortgage Loan and ending on the related Repurchase Date; provided that if a Seller Event of Default shall have occurred and be continuing, the Seller shall immediately be terminated as servicer. The Mortgage Loans shall be serviced in accordance with Accepted Servicing Practices. "Accepted Servicing Practices" shall mean that in performing its servicing duties, the Seller must comply with all applicable state and federal laws and shall exercise the degree of skill and care consistent with the highest degree of skill and care that the Seller exercises with respect to similar Mortgage Loans serviced by it for its own account or others but in no event shall Accepted Servicing Practices mean any duties less than those set forth in the Pooling and Servicing Agreement, Series 1997-LB5, dated as of November 1, 1997 (the "1997-LB5 PSA") among Salomon Brothers Mortgage Securities VII, Inc., the Borrower and Norwest Bank Minnesota, National Association; provided, however that Accepted Servicing Practices shall not include the advance of any delinquent principal or interest payments on the Mortgage Loans. Any payments received by the Seller on the Mortgage Loans (including any Prepayment Charges) must be placed into a collection account for the benefit of SBRC. The collection account must meet the requirements of an Eligible Account, as such term is defined in the 1997-LB5 PSA. After payment of all funds due to SBRC on each Repurchase Date, SBRC will instruct the bank holding the collection account to release any funds in the collection account to the Seller. Notwithstanding the foregoing, if the Seller fails to repurchase the Mortgage Loans on a Repurchase Date or upon a Seller Event of Default, all funds held in the collection account will be released to SBRC by such Bank.

As part of its servicing duties, the Seller enforce "due-on-sale" provisions to the extent permitted by law, shall administer all escrow/impound deposits and shall make all servicing advances (not including the advances of delinquent principal and interest) on the Mortgage Loans. The Mortgage Loans shall be serviced for a servicing fee equal to 0.50% per annum payable monthly on the then-outstanding principal balance of each Mortgage Loan (the "Servicing Fee"). Such Servicing Fee will be deemed to be paid to Long Beach out of the funds delivered on each Repurchase Date from the collection account to Long Beach. If the Seller is terminated as servicer hereunder, its entitlement to such fee is subordinate to any rights and interests of SBRC under this Agreement. Notwithstanding the foregoing, in the event the Seller fails to repurchase a Mortgage Loan on the related Repurchase Date or if a Seller Event of Default has occurred and is continuing, the Seller will no longer be servicer with respect to such Mortgage Loan or Mortgage Loans, unless the term of servicing is extended by SBRC in its sole discretion. In such event, SBRC shall have the right to transfer such servicing to another servicer without payment of any

fee to the Seller. The Seller will cooperate in good faith to effect such servicing transfer and shall pay all costs associated with such servicing transfer.

14. All notices, deliveries and payments under this Agreement shall be sufficient if in writing and delivered to the party entitled to receive such notices, deliveries or payments, or if transmitted to such party by facsimile transfer, at the following address or facsimile number: (i) if to SBRC: Salomon Brothers Realty Corp., Seven World Trade Center, New York, New York 10048, Attention: Secretary (facsimile no.: (212) 783-3895); (ii) if to the Seller: Long Beach Mortgage Company, 1100 Town & Country Road, Suite 1650, Orange, California 92868, Attention: Treasurer (telecopy number: (714) 560-0508), or to such other addresses as either party may furnish the other party by written notice under this paragraph.

15. It is the intention of the parties to this Agreement that Transactions entered into hereunder be considered purchases and sales of Mortgage Loans notwithstanding their treatment for certain accounting purposes as financing transactions. Notwithstanding any other provision of this Agreement, in the event that a Transaction hereunder is deemed not to constitute a purchase and sale (a) the Seller shall be deemed to have hereby pledged to SBRC the Mortgage Loans applicable to such Transaction as security for the performance by the Seller of its obligations in respect of such Transaction and any other Transaction between SBRC and the Seller and (b) the existence of such pledge shall be deemed not to violate the representations and warranties in respect of such Mortgage Loans made by the Seller in paragraph 1 above.

16. SBRC and the Seller hereby acknowledge that they consider each Transaction hereunder and all other transactions under this Agreement or any other agreement between the parties, either party and any affiliate of the other party or any affiliates of the parties to constitute a single business and contractual relationship and to have been made in consideration of each other. Therefore, (a) each party and each affiliate of each party hereby agrees to fulfill all of its obligations to the other party and any affiliate of the other party with respect to any transaction or agreement between them or any of their affiliates, and agrees that a default in the performance of any such obligations shall constitute a default hereunder, (b) each party and any of its affiliates

shall have a right of setoff against the other party and any of its affiliates of amounts owing hereunder and any other amounts or obligations owing in respect of any other agreement or transaction whatsoever and (c) payments and deliveries made by either party or any of either party's affiliates hereunder shall be considered to have been made in consideration of payments and deliveries made by the other party or any of the other party's affiliates with respect to any other agreement or transaction between them, and the obligations to make any such payments and deliveries may be applied against each other and netted. In order to secure any obligation of either party to the other party or to any affiliate of the other party under this Agreement or any other agreement, each party grants to the other party and the affiliates of the other party a security interest in all property heretofore or hereafter held by or for the benefit of such other party or the affiliates of such other party.

17. In the event, for any reason, any purchase by SBRC hereunder on any Purchase Date is construed by a court as a secured loan rather than a purchase and sale, the parties intend that SBRC shall have a perfected first priority security interest in all of the related Mortgage

Loans. The Seller shall pay all fees and expenses associated with perfecting such security interest, including, without limitation, the cost of filing financing statements under the Uniform Commercial Code to the extent required by SBRC.

18. The most recent Confirmation by SBRC to the Seller of each Transaction delivered pursuant to paragraph 2, as supplemented by this Agreement, shall constitute a binding agreement between SBRC and the Seller. In the event of any conflict between the provisions of this Agreement and any other agreement, confirmation, instrument or other document, the provisions of this Agreement shall govern; provided that, in the event of any conflict between the terms of this Agreement and any Confirmation duly executed pursuant to Section 2 of this Agreement, such Confirmation shall govern. This Agreement shall not be assignable by the Seller without prior written consent of SBRC, shall be binding upon and inure to the benefit of the parties and their respective successors and assigns, shall not be changed except by an instrument in writing signed by each of the parties, and shall be governed by the laws of the State of New York. This Agreement may be executed in any number of counterparts, each of which counterparts shall constitute but one and the same instrument. The Seller shall promptly provide such further assurances or agreements as SBRC may request in order to effect the purposes of this Agreement.

19. In connection with each Transaction entered into between the Seller and SBRC, the Seller and SBRC agree as follows:

(a) In the case of any Transaction for which the Repurchase Date is other than the business day immediately following the Purchase Date and with respect to which Seller does not have any existing right to substitute substantially the same mortgage loans for the Mortgage Loans, Seller shall have the right, subject to the proviso to this sentence, upon notice to SBRC, which notice shall be given at or prior to 10 A.M. New York time on such business day, to substitute substantially the same mortgage loans for any Mortgage Loans; provided, however, that SBRC may elect, by the close of business on the business day notice is received, or by the close of the next business day if notice is given after 10 A.M. New York time on such day, not to accept such substitution. In the event such substitution is accepted by SBRC, such substitution shall be made by Seller's transfer to SBRC of such other mortgage loans and SBRC's transfer to Seller of such Mortgage Loans, and after such substitution, the substituted mortgage loans shall be deemed to be Mortgage Loans. In the event SBRC elects not to accept such substitution, SBRC shall offer Seller the right to terminate such Transaction.

(b) In the event Seller exercises its right to substitute or terminate under sub-paragraph (a), Seller shall be obligated to pay to SBRC, by the close of the business day of such substitution or termination, as the case may be, an amount equal to (A) SBRC's actual cost (including all fees, expenses and commissions) of (i) entering into replacement transactions; (ii) entering into or terminating hedge transactions; and/or (iii) terminating transactions or substituting mortgage loans in like transactions with third parties in connection with or as a result of such

substitution or termination, and (B) to the extent SBRC determines not to enter into replacement transactions, the loss incurred by SBRC directly arising or resulting from such substitution or termination. The foregoing amounts shall be solely determined and calculated by SBRC in good faith.

IN WITNESS WHEREOF, SBRC and the Seller have caused their names to be signed hereto by their respective officers thereunto duly authorized as of February 11, 1999.

SALOMON BROTHERS REALTY CORP.

By:

Name:
Title:

LONG BEACH MORTGAGE COMPANY

By:

Name:
Title:

EXHIBIT A

The Seller represents, warrants and covenants to SBRC as of each Purchase Date or as of such other date as specifically provided herein:

(a) The Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is duly authorized and qualified to transact any and all business contemplated by this Agreement to be conducted by the Seller in any state in which a Mortgaged Property is located or is otherwise not required under applicable law to effect such qualification and, in any event, is in compliance with the doing business laws of any such State, to the extent necessary to ensure its ability to enforce each Mortgage Loan and to service the Mortgage Loans in accordance with the terms of this Agreement;

(b) The Seller has the full corporate power and authority to originate, hold, sell and service each Mortgage Loan, and to execute, deliver and perform, and to enter into and consummate the Transactions contemplated by this Agreement and has duly authorized by all necessary corporate action on the part of the Seller the execution, delivery and performance of this Agreement; and this Agreement, assuming the due authorization, execution and delivery thereof by SBRC, constitutes a legal, valid and binding obligation of the Seller, enforceable against the Seller in accordance with its terms, except to the extent that (a) the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, receivership and other similar laws relating to creditors' rights generally and (b) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to the equitable defenses and to the discretion of the court before which any proceeding therefor may be brought;

(c) The execution and delivery of this Agreement by the Seller, the servicing of the Mortgage Loans by the Seller hereunder, the consummation of any other of the Transactions herein contemplated, and the fulfillment of or compliance with the terms hereof are in the ordinary course of business of the Seller and will not (A) result in a breach of any term or provision of the charter or by-laws of the Seller or (B) conflict with, result in a breach, violation or acceleration of, or result in a default under, the terms of any other material agreement or instrument to which the Seller is a party or by which it may be bound, or any statute, order or regulation applicable to the Seller of any court, regulatory body, administrative agency or governmental body having jurisdiction over the Seller; and the Seller is not a party to, bound by, or in breach or violation of any indenture or other agreement or instrument, or subject to or in violation of any statute, order or regulation of any court, regulatory body, administrative agency or governmental body having jurisdiction over it, which materially and adversely affects or, to the Seller's knowledge, would in the future materially and adversely affect, (x) the ability of the Seller to perform its obligations under this Agreement or (y) the business, operations, financial condition, properties or assets of the Seller taken as a whole;

(d) The Seller is an approved seller/servicer for Fannie Mae or Freddie Mac in good standing and is a HUD approved mortgagee pursuant to Section 203 of the National Housing Act;

(e) No litigation is pending against the Seller that would materially and adversely affect the execution, delivery or enforceability of this Agreement or the ability of the Seller to service the Mortgage Loans or to perform any of its other obligations hereunder in accordance with the terms hereof;

(f) No consent, approval, authorization or order of any court or governmental agency or body is required for the execution, delivery and performance by the Seller of, or compliance by the Seller with, this Agreement or the consummation of the Transactions contemplated hereby, or if any such consent, approval, authorization or order is required, the Seller has obtained the same;

EXHIBIT B

Any capitalized terms used in this Exhibit B but not otherwise defined in the Purchase and Sale Agreement shall have the meanings assigned to them in the Master Mortgage Loan Purchase and Servicing Agreement, dated and effective as of June 1, 1997 between the Seller and SBRC.

The Seller hereby represents and warrants to SBRC that, as to each Mortgage Loan, as of the related Purchase Date, or as of such date specifically provided herein:

(i) The information set forth in the Mortgage Loan Schedule (as defined in the Custodial Agreement) is complete, true and correct as of the related Purchase Date;

(ii) The Mortgage Loan is in compliance with all requirements set forth in the applicable Confirmation, and the characteristics of the Mortgage Loans as set forth in such Confirmation are true and correct;

(iii) [intentionally omitted];

(iv) Each Mortgage is a valid and enforceable first lien on the Mortgaged Property, including all improvements thereon, subject only to (a) the lien of nondelinquent current real property taxes and assessments, (b) covenants, conditions and restrictions, rights of way, easements and other matters of public record as of the date of recording of such Mortgage, such exceptions appearing of record being acceptable to mortgage lending institutions generally or specifically reflected in the appraisal made in connection with the origination of the related Mortgage Loan, and (c) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by such Mortgage;

(v) Immediately prior to the assignment of the Mortgage Loans to SBRC, the Seller had good title to, and was the sole legal and beneficial owner of, each Mortgage Loan free and clear of any pledge, lien, encumbrance or security interest and has full right and authority, subject to no interest or participation of, or agreement with, any other party to sell and assign the same;

(vi) To the best of the Seller's knowledge, there is no delinquent tax or assessment lien against any Mortgaged Property;

(vii) There is no valid offset, defense or counterclaim to any Mortgage Note or Mortgage, including the obligation of the Mortgagor to pay the unpaid principal of or interest on such Mortgage Note, nor will the operation of any of the terms of the Mortgage Note and the Mortgage, or the exercise of any right thereunder, render the Mortgage unenforceable, in whole or in part, or subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury and no such right of rescission, set-off, counterclaim or defense has been asserted with respect thereto;

(viii) To the best of the Seller's knowledge, there are no mechanics' liens or claims for work, labor or material affecting any Mortgaged Property which are or may be a lien prior to, or

equal with, the lien of the related Mortgage, except those which are insured against by the title insurance policy referred to in (xii) below;

(ix) To the best of the Seller's knowledge, each Mortgaged Property is free of material damage and is in good repair;

(x) Each Mortgage Loan at origination complied in all material respects with applicable local, state and federal laws, including, without limitation, usury, equal credit opportunity, real estate settlement procedures, truth-in-lending and disclosure laws, and consummation of the transactions contemplated hereby will not involve the violation of any such laws;

(xi) Neither the Seller nor any prior holder of any Mortgage has modified the Mortgage in any material respect (except that a Mortgage Loan may have been modified by a written instrument which has been recorded, if necessary, to protect the interests of SBRC and which has been delivered to the Custodian); satisfied, cancelled or subordinated such Mortgage in whole or in part; released the related Mortgaged Property in whole or in part from the lien of such Mortgage; or executed any instrument of release, cancellation, modification or satisfaction with respect thereto;

(xii) A lender's policy of title insurance together with a condominium endorsement and extended coverage endorsement, if applicable, and, with respect to each Adjustable Rate Mortgage Loan, an adjustable rate mortgage endorsement in an amount at least equal to the balance of the Mortgage Loan as of the related Purchase Date or a commitment (binder) to issue the same was effective on the date of the origination of each Mortgage Loan, each such policy is valid and remains in full force and effect, the transfer of the related Mortgage Loan to SBRC will not affect the validity or enforceability of such policy and each such policy was issued by a title insurer qualified to do business in the jurisdiction where the Mortgaged Property is located and acceptable to FNMA or FHLMC and in a form acceptable to FNMA or FHLMC, which policy insures the Seller and successor owners of indebtedness secured by the insured Mortgage, as to the first priority lien of the Mortgage; to the best of the Seller's knowledge, no claims have been made under such mortgage title insurance policy and no prior holder of the related Mortgage, including the Seller, has done, by act or omission, anything which would impair the coverage of such mortgage title insurance policy;

(xiii) Each Mortgage Loan was originated by the Seller (or, if generated on behalf of the Seller by a Person other than the Seller, is subject to the same standards and procedures used by the Seller in originating mortgage loans directly) or by a savings and loan association, savings bank, commercial bank, credit union, insurance company or similar institution which is supervised and examined by a federal or state authority, or by a mortgagee approved by the Secretary of Housing and Urban Development pursuant to sections 203 and 211 of the National Housing Act;

(xiv) With respect to each Adjustable Rate Mortgage Loan on each adjustment date, the Mortgage Interest Rate will be adjusted to equal the Index plus the Margin, rounded to the nearest 0.125%, subject to the Periodic Rate Cap, the Maximum Rate and the Minimum Rate. Except for Balloon Loans, the related Mortgage Note is payable on the first day of each month in self-

amortizing monthly installments of principal and interest, with interest payable in arrears, and requires a Monthly Payment which is sufficient to fully amortize the outstanding principal balance of the Mortgage Loan over its remaining term and to pay interest at the applicable Mortgage Interest Rate. No Mortgage Loan is subject to negative amortization;

(xv) To the best of the Seller's knowledge, all of the improvements which were included for the purpose of determining the Appraised Value of the Mortgaged Property lie wholly within the boundaries and building restriction lines of such property, and no improvements on adjoining properties encroach upon the Mortgaged Property;

(xvi) All inspections, licenses and certificates required to be made or issued with respect to all occupied portions of the Mortgaged Property and, with respect to the use and occupancy of the same, including but not limited to certificates of occupancy, have been made or obtained from the appropriate authorities and the Mortgaged Property is lawfully occupied under applicable law;

(xvii) All parties which have had any interest in the Mortgage, whether as mortgagee, assignee, pledgee or otherwise, are (or, during the period in which they held and disposed of such interest, were) in compliance with any and all applicable licensing requirements of the laws of the state wherein the Mortgaged Property is located;

(xvii) The Mortgage Note and the related Mortgage are genuine, and each is the legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms and with applicable laws. All parties to the Mortgage Note and the Mortgage had legal capacity to execute the Mortgage Note and the Mortgage and each Mortgage Note and Mortgage have been duly and properly executed by such parties;

(xviii) The proceeds of each Mortgage Loan have been fully disbursed, there is no requirement for future advances thereunder and any and all requirements as to completion of any on-site or off-site improvements and as to disbursements of any escrow funds therefor have been complied with. All costs, fees and expenses incurred in making, closing or recording the Mortgage Loans were paid;

(xix) The related Mortgage contains customary and enforceable provisions which render the rights and remedies of the holder thereof adequate for the realization against the Mortgaged Property of the benefits of the security, including, (i) in the case of a Mortgage designated as a deed of trust, by trustee's sale, and (ii) otherwise by judicial foreclosure. There is no homestead or other exemption available to the Mortgagor which would interfere with the right to sell the Mortgaged Property at a trustee's sale or the right to foreclose the Mortgage;

(xx) With respect to each Mortgage constituting a deed of trust, a trustee, duly qualified under applicable law to serve as such, has been properly designated and currently so serves and is named in such Mortgage, and no fees or expenses are or will become payable by SBRC to the trustee under the deed of trust, except in connection with a trustee's sale after default by the Mortgagor;

(xxi) There exist no deficiencies with respect to escrow deposits and payments, if such are required, for which customary arrangements for repayment thereof have not been made, and no escrow deposits or payments of other charges or payments due the Seller have been capitalized under the Mortgage or the related Mortgage Note;

(xxii) The origination, underwriting and collection practices used by the Seller with respect to each Mortgage Loan have been in all respects legal, proper, prudent and customary in the mortgage servicing business;

(xxiii) There is no pledged account or other security other than real estate securing the Mortgagor's obligations;

(xxiv) No Mortgage Loan has a shared appreciation feature, or other contingent interest feature;

(xxv) No Mortgage Loan provides for primary mortgage insurance;

(xxvi) The improvements upon each Mortgaged Property are covered by a valid and existing hazard insurance policy with a generally acceptable carrier that provides for fire extended coverage and such other hazards as are customary in the area where the Mortgaged Property is located representing coverage not less than the lesser of the outstanding principal balance of the related Mortgage Loan or the minimum amount required to compensate for damage or loss on a replacement cost basis. All individual insurance policies and flood policies referred to in clause (xxvii) below contain a standard mortgagee clause naming the Seller or the original mortgagee, and its successors in interest, as mortgagee, and the Seller has received no notice that any premiums due and payable thereon have not been paid; the Mortgage obligates the Mortgagor thereunder to maintain all such insurance, including flood insurance, at the Mortgagor's cost and expense, and upon the Mortgagor's failure to do so, authorizes the holder of the Mortgage to obtain and maintain such insurance at the Mortgagor's cost and expense and to seek reimbursement therefor from the Mortgagor;

(xxvii) If the Mortgaged Property is in an area identified in the Federal Register by the Federal Emergency Management Agency as having special flood hazards, a flood insurance policy in a form meeting the requirements of the current guidelines of the Flood Insurance Administration is in effect with respect to such Mortgaged Property with a generally acceptable carrier in an amount representing coverage not less than the least of (A) the original outstanding principal balance of the Mortgage Loan, (B) the minimum amount required to compensate for damage or loss on a replacement cost basis or (C) the maximum amount of insurance that is available under the Flood Disaster Protection Act of 1973;

(xxviii) Other than with respect to any failure of a Mortgagor to make timely payments of principal and interest due on the related Mortgage Note, there is no default, breach, violation or event of acceleration existing under the Mortgage or the related Mortgage Note; and the Seller has not waived any default, breach, violation or event of acceleration;

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(xxix) Each Mortgaged Property is improved by a one- to four-family residential dwelling, including condominium units and dwelling units in planned unit developments, which, to the best of the Seller's knowledge, does not include cooperatives or mobile homes and does not constitute other than real property under state law;

(xxx) There is no obligation on the part of the Seller or any other party under the terms of the Mortgage or related Mortgage Note to make payments in addition to those made by the Mortgagor;

(xxxi) Any future advances made prior to the related Purchase Date have been consolidated with the outstanding principal amount secured by the Mortgage, and the secured principal amount, as consolidated, bears a single interest rate and single repayment term reflected on the related Mortgage Loan Schedule. The consolidated principal amount does not exceed the original principal amount of the Mortgage Loan;

(xxxii) Each Mortgage Loan was underwritten in accordance with the Seller's underwriting guidelines;

(xxxiii) The Mortgage File contains an appraisal which was performed by an appraiser who satisfied, and which was conducted in accordance with, all of the applicable requirements of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended;

(xxxiv) None of the Mortgage Loans is a graduated payment mortgage loan, nor is any Mortgage Loan subject to a temporary buydown or similar arrangement;

(xxxv) With respect to each Mortgage Loan, no loan junior in lien priority to such Mortgage Loan and secured by the related Mortgaged Property was originated by the Seller at the time of origination of such Mortgage Loan;

(xxxvi) The Mortgage contains an enforceable provision for the acceleration of the payment of the unpaid principal balance of the Mortgage Loan in the event that the Mortgaged Property is sold or transferred without the prior written consent of the mortgagee thereunder.

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EXHIBIT C

BILL OF SALE

On this ____ day of __________, 199__, Long Beach Mortgage Company ("Long Beach") does hereby sell, transfer, assign, set over and convey to Salomon Brothers Realty Corp. ("SBRC"), without recourse, all of the right, title and interest of Long Beach in and to each of the fixed rate and adjustable rate one-to-four family residential first and second lien mortgage loans identified on the Mortgage Loan Schedule attached hereto as Exhibit One (the "Mortgage Loans"), and the related Mortgage Loan Files. Such Mortgage Loans are sold to SBRC pursuant to the Purchase and Sale Agreement dated as of February 11, 1999 between SBRC and Long Beach (the "Agreement").

Long Beach hereby represents and warrants that Long Beach is the sole legal, beneficial and equitable owner of each Mortgage Loan and has full power and authority to transfer and sell each Mortgage Loan to SBRC free and clear of any encumbrance, equity, lien, pledge, charge, claim or security interest that Long Beach had or created in the Mortgage Loans or the related Mortgage Loan Files and that as of the date hereof the representations and warranties specified in Exhibits A and B to the Agreement are true and correct as to Long Beach and the Mortgage Loans.

This Bill of Sale shall be governed by, and construed in accordance with, the laws of the State of New York.

LONG BEACH MORTGAGE COMPANY

By:

Name:
Title:

EXHIBIT ONE

MORTGAGE LOAN SCHEDULE

SALOMON BROTHERS REALTY CORP.
SEVEN WORLD TRADE CENTER
NEW YORK, NEW YORK 10048

February 11, 1999

Long Beach Mortgage Company
1100 Town & Country Road, Suite 1650
Orange, California 92868

Attention: General Counsel

Ladies and Gentlemen:

This letter agreement (the "Letter Agreement") confirms the understanding and agreements between Long Beach Mortgage Company ("Long Beach") and Salomon Brothers Realty Corp. ("SBRC"), under the terms set forth herein, regarding SBRC's agreement to provide an Aggregation Line (as defined herein) to Long Beach in connection with certain fixed-rate and adjustable-rate, first lien mortgage loans (the "Mortgage Loans") that are originated or purchased by Long Beach, its affiliates and/or subsidiaries and any related prepayment charges payable in connection with any voluntary principal prepayment in full on the related Mortgage Loans (the "Prepayment Charges").

1. Aggregation Line.

SBRC shall make available to Long Beach an aggregation line (the "Aggregation Line") from February 11, 1999 until January 31, 2000 pursuant to which SBRC shall simultaneously purchase from, and sign a forward commitment to resell to, Long Beach, Mortgage Loans, Prepayment Charges and the related servicing rights that are deemed acceptable for such Aggregation Line as set forth below. The Aggregation Line shall be more fully documented pursuant to the Mortgage Loan Purchase and Sale Agreement (the "Purchase and Sale Agreement") being entered into on the date hereof between Long Beach and SBRC. Under the Purchase and Sale Agreement, Long Beach will make standard secondary market corporate representations and warranties as of the date such Purchase and Sale

Agreement is executed and as of any Purchase Date (as defined herein) for the purchase and sale of any Mortgage Loans pursuant to such Purchase and Sale Agreement and Long Beach shall make standard secondary market representations and warranties with respect to each Mortgage Loan as of the Purchase Date on which such Mortgage Loan is sold to SBRC.

The "Purchase Price" with respect to each Mortgage Loan, Prepayment Charge and related servicing rights shall be equal to the lesser of (i) the market value of such Mortgage Loan, Prepayment Charge and related servicing rights as determined by SBRC acting in good faith and (ii) the greater of (a)(I) 100% of the unpaid principal balance of such Mortgage Loan as of the date

of purchase if such Mortgage Loan is current or delinquent one payment or (II) 100% of the unpaid principal balance of such Mortgage Loan, minus an additional 10% of the unpaid principal balance of such Mortgage Loan for each additional delinquent payment (after the first delinquent payment) and (b) 65% of the Broker's Price Opinion obtained by Long Beach at its expense regarding the real property subject to the Mortgage Loan. The vendor providing such Broker's Price Opinion must be approved by SBRC.

The repurchase price (the "Repurchase Price") shall reflect the agreed upon return to SBRC for providing the Aggregation Line (the "Aggregation Cost Rate"). With respect to any Mortgage Loan, the Aggregation Cost Rate shall equal One Month LIBOR (as defined herein) plus 1.25% per annum, calculated on the basis of a 360-day year and the actual number of days between the Purchase Date and the Repurchase Date (as defined herein) and rounded up to the nearest 0.0625%. The Repurchase Price shall equal the sum of (i) the Purchase Price and (ii) the Purchase Price multiplied by the Aggregation Cost Rate.

"One Month LIBOR" means as of the related Settlement Date, the 30 day London Interbank Offered Rate as of 11:00 a.m. (London time) on such date, as indicated on page number 3750 of the Telerate Service. If One Month LIBOR cannot be so determined, then One Month LIBOR shall mean the rate determined by SBRC in its sole discretion.

The Aggregation Line at any one time shall be limited to $100 million in amount of Mortgage Loans and shall have a term of one month or shorter period of time if the related Purchase Date is not a "Roll Date". A "Roll Date" is the date each month on which all of the Mortgage Loans subject to the Aggregation Line are repurchased by Long Beach and then purchased again by SBRC.

Long Beach shall have the right to add Mortgage Loans to the Aggregation Line up to twice each month. Long Beach may remove Mortgage Loans from the Aggregation Line twice a month (one of which shall be on the Roll Date).

SBRC shall provide not less than twenty eight days' prior notice to Long Beach in the event that SBRC elects to not renew the Aggregation Line for any month.

2. Servicing of the Mortgage Loans. The purchase by SBRC of a Mortgage Loan pursuant to the Aggregation Line shall include the purchase of any related Prepayment Charge and the related servicing rights for such Mortgage Loan and the repurchase by Long Beach shall also include the repurchase of the related Prepayment Charge and the related servicing rights. Unless otherwise agreed to between SBRC and Long Beach, SBRC hereby covenants and agrees to hire Long Beach to service; and Long Beach hereby covenants and agrees to service the Mortgage Loans for a term beginning on the related purchase date (each such date, a "Purchase Date") and ending on the related date fixed for repurchase (the "Repurchase Date"); provided that if a Seller Event of Default (as defined herein) has occurred, Long Beach shall immediately be terminated as servicer. The Mortgage Loans shall be serviced in accordance with Accepted Servicing Practices (as defined in the Purchase and Sale Agreement). Any payments received by

Long Beach on the Mortgage Loans (including any Prepayment Charges) must be placed into a collection account for the benefit of SBRC. The collection account must meet the requirements of an Eligible Account, as such term is defined in the Pooling and Servicing Agreement, Series 1997-LB5 dated as of November 1, 1997 among Norwest Bank Minnesota, National Association, SBMSVII and Long Beach. After the payment of all funds due to SBRC on each Repurchase Date, SBRC will instruct the bank holding the collection account to release any funds in the collection account to Long Beach. Notwithstanding the foregoing, if Long Beach fails to repurchase the Mortgage Loans on a Repurchase Date or upon a Seller Event of Default, all funds held in the collection account will be released to SBRC by such bank.

As part of its servicing duties, Long Beach shall enforce "due-on-sale" provisions to the extent permitted by law, shall administer all escrow/impound deposits, and shall make all servicing advances (not including advances of delinquent principal and interest) on the Mortgage Loans. The Mortgage Loans shall be serviced for a servicing fee equal to 0.50% per annum payable monthly on the then-outstanding principal balance of each Mortgage Loan (the "Servicing Fee"). Such Servicing Fee will be deemed to be paid to Long Beach out of the funds delivered on each Repurchase Date from the collection account to Long Beach. If the Seller is terminated as Servicer hereunder, the entitlement to such Servicing Fee is subordinate to any rights and interests of SBRC under this Letter Agreement. Notwithstanding the foregoing, in the event Long Beach fails to repurchase a Mortgage Loan on the related Repurchase Date or if a Seller Event of Default occurs, Long Beach will no longer be servicer with respect to such Mortgage Loan or Mortgage Loans, unless the term of servicing is extended by SBRC in its sole discretion. In such event, SBRC shall have the right to transfer such servicing to another servicer without payment of any fee to Long Beach. Long Beach will cooperate in good faith to effect such servicing transfer and shall pay all costs associated with such servicing transfer.

3. Conditions Precedent to Mortgage Loan Purchases. SBRC's obligation to purchase any Mortgage Loans and related servicing rights which it accepts for its Aggregation Line shall be subject to each of the following conditions:

(i) there shall have been delivered to SBRC a Trust Receipt issued by Chase Bank of Texas, National Association ("Chase") with a mortgage loan schedule attached thereto and an exception report which is acceptable to SBRC in its sole discretion;

(ii) SBRC shall have had an opportunity to perform a due diligence review of each Mortgage Loan and shall have arranged for reappraisals of value with respect to each Mortgage Loan if desired by SBRC; and

(iii) Long Beach shall have provided to SBRC such other documents which are then required to have been delivered under the Purchase and Sale Agreement or which are reasonably requested by SBRC, which other documents may include UCC financing statements, a

favorable opinion or opinions of counsel with respect to matters which are reasonably requested by SBRC (including a perfection opinion), and/or an officer's or secretary's certificate.

4. Custodial Agreement. Long Beach will pay all expenses in connection with the custodial agreement, dated as of February 11, 1999 (the "Custodial Agreement"), among SBRC, Long Beach and Chase, which Custodial

Agreement will be used to hold the mortgage files relating to the Mortgage Loans.

5. Information. Long Beach will furnish, in a timely manner, to SBRC all financial and other information (including historical loan information) concerning Long Beach as SBRC deems reasonably appropriate in connection with the performance of the services contemplated by this letter. In addition, Long Beach will provide SBRC reasonable access during normal business hours to Long Beach's officers, directors, employees, accountants, and other representatives. Long Beach acknowledges and confirms that SBRC (i) will rely on such information in the performance of the services contemplated by this letter without independently investigating or verifying any of it, (ii) assumes no responsibility for the accuracy or completeness of such information and (iii) will not disclose such information to any third party (other than its affiliates, its counsel or its independent accountants) without the prior written consent of Long Beach; provided, however, SBRC can use such information if necessary in connection with a Seller Event of Default under the Purchase and Sale Agreement to market the Mortgage Loans for sale.

6. Unfundings. In the event any Mortgage Loan subject to the Aggregation Line unfunds, the Repurchase Date with respect to such Mortgage Loan will immediately accelerate to the next business day and Long Beach with repurchase the Mortgage Loan at the Repurchase Price (including interest only for the actual number of days since the Purchase Date).

7. Mortgage Loan Schedule. No Mortgage Loan shall be included in the Aggregation Line unless Long Beach shall have delivered to SBRC at least two (2) business days prior to such inclusion, a magnetic tape, in a format acceptable to SBRC, consisting of the loan characteristics set forth in the definition of "Mortgage Loan Schedule" in the Custodial Agreement. In addition, Long Beach shall deliver to SBRC, a magnetic tape, in a format acceptable to SBRC, with updated loan characteristics agreed upon by SBRC and Long Beach with respect to each Mortgage Loan.

8. Hedging. Long Beach will have the option to establish one or more securities or commodities accounts at Salomon Smith Barney Inc. and to enter into transactions in such accounts (and only in such accounts) that are intended to hedge the interest rate risk on Mortgage Loans included in the Aggregation Line.

9. Third party whole loan sales. During the course of the Aggregation Line, Long Beach may sell mortgage loans to third parties; provided, that SBRC is given the "last look" in order to match the whole loan offer on the Mortgage Loans from the third party.

10. Financing of REO Properties. In the event there is a foreclosure sale for any Mortgage Loan, simultaneously with the occurrence of such foreclosure, Long Beach will repurchase such Mortgage Loan from SBRC on such date.

11. Termination.

(a) Long Beach shall have the right to terminate this Letter Agreement upon the occurrence of any of the SBRC Events of Default under the Purchase and Sale Agreement and shall be afforded any of the remedies provided thereunder.

(b) SBRC shall have the right to terminate this Letter Agreement upon the occurrence of any of the Seller Events of Default under the Purchase and Sale Agreement and shall be afforded any of the remedies provided thereunder.

(c) Subject to the provisions of this Paragraph 11, this Letter Agreement shall terminate upon January 31, 2000.

12. General Provisions.

(a) SBRC's Discretion. It is understood that SBRC shall have the right to approve or disapprove any Mortgage Loan for this Aggregation Line. In addition, unless SBRC consents, it will not allow any Mortgage Loan with an unpaid principal balance in excess of $500,000 onto the Aggregation Line.

(b) Governing Law. This Letter Agreement shall be governed by and construed in accordance with the laws of the State of New York (without regard to its conflicts of laws principles).

(c) Amendment or Waiver. This Letter Agreement may not be amended or modified except in writing signed by each of the parties hereto.

(d) Counterparts. This Letter Agreement may be executed simultaneously in any number of counterparts. Each counterpart shall be deemed to be an original, and all such counterparts shall constitute one and the same instrument.

(e) Severability Clause. Any part, provision, representation or warranty of this Letter Agreement which is prohibited or which is held to be void or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof. Any part, provision, representation or warranty of this Letter Agreement which is prohibited or unenforceable or is held to be void or unenforceable in any jurisdiction shall be ineffective, as to such jurisdiction, to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof. To the extent permitted by applicable law, the parties hereto waive any provision of law which prohibits or renders void or unenforceable any provision hereof. If the invalidity of any part, provision, representation or warranty of this Letter

Agreement shall deprive any party of the economic benefit intended to be conferred by this Letter Agreement, the parties shall negotiate, in good-faith, to develop a structure the economic effect of which is nearly as possible the same as the economic effect of this Letter Agreement without regard to such invalidity.

(f) No Partnership. Nothing herein contained shall be deemed or construed to create a co-partnership or joint venture between the parties hereto.

(g) Further Agreements. Long Beach and SBRC each agree to execute and deliver to the other such reasonable and appropriate additional documents, instruments or agreements as may be necessary or appropriate to effectuate the purposes of this Letter Agreement.

(h) Expenses. Each party hereto shall pay its own expenses in connection with any amendment hereto.

Please confirm that the foregoing is in accordance with your understanding by signing this letter of agreement and two enclosed copies and returning to us the enclosed copies. The letter signed by you shall constitute a binding agreement between us as of the date first above written.

Yours sincerely,

SALOMON BROTHERS REALTY CORP.

By:

Name:
Title:

ACCEPTED AND AGREED TO
AS OF THE DATE FIRST ABOVE WRITTEN:

LONG BEACH MORTGAGE COMPANY

By:

Name:
Title:

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