

NEWS RELEASE



contact: Suzy W. Taylor
(866) 652-1810

FirstCity Financial Announces Second Quarter 2002 Results

Waco, Texas August 14, 2002... FirstCity Financial Corporation (Nasdaq: FCFC) today announced earnings from continuing operations for the quarter ended June 30, 2002 of \$4.2 million, or \$.43 per share. Net earnings to common shareholders were \$2.1 million or \$.25 per share on a diluted basis after subtracting \$1.5 million provision for loss from discontinued operations and \$.6 million of accrued and unpaid dividends on the Company's preferred stock. For the six months ended June 30, 2002, the Company reported net earnings to common shareholders of \$84,000 or \$.01 per share.

Components of the profits for the second quarter and six months ended June 30, 2002 and 2001 are detailed below:

(\$ thousands)	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	2002	2001	2002	2001
Portfolio Acquisition and Resolution	\$ 4,203	\$ 1,378	\$ 6,534	\$ 3,943
Gain on sale of interest in equity investments	1,779	—	1,779	3,134
Consumer	395	5,118	(686)	3,595
Parent overhead, net	(2,175)	(2,632)	(4,259)	(5,183)
Earnings from continuing operations	<u>4,202</u>	<u>3,864</u>	<u>3,368</u>	<u>5,489</u>
Loss from discontinued operations	(1,500)	(1,000)	(2,000)	(1,000)
Accrued preferred dividends	(642)	(642)	(1,284)	(1,284)
Net earnings to common stockholders	<u>\$ 2,060</u>	<u>\$ 2,222</u>	<u>\$ 84</u>	<u>\$ 3,205</u>

Portfolio Asset Acquisition

The operating contribution of \$6.0 million for the quarter includes the gain on sale of equity investments in France of \$1.8 million. The operating contribution of \$6.0 million also includes \$3.0 million of additional equity earnings in the acquisition partnerships, which represents the Company's share of a \$12 million gain recorded in three domestic acquisition partnerships that completed a bulk loan sale of performing and non-performing assets with a carrying value of \$59 million for proceeds of \$71 million. As a result of the sale, the Company also recorded additional servicing fees of \$.9 million.

Earnings were comprised of \$12.1 million in revenues, net of \$6.1 million of expenses. The business generated 70% of the revenues from domestic investments, 22% from investments in France, and 8% from investments in Mexico. The major components of revenue for the quarter include servicing fees of \$4.2 million, equity earnings in acquisition partnerships of \$3.4 million, gains on sale of equity investments in France of \$1.8 million, and interest income of \$1.3 million.

Acquisitions in the second quarter of \$52.2 million were comprised of three portfolios, one in France at a cost of \$27.5 million, one in Italy at a cost of \$16.9 million, and one in the United States at a cost of \$7.7 million. The Company's share of the purchase price was \$1.9 million in France, \$.8 million in Italy and \$1.0 million in the United States, for a total investment for the quarter of \$3.7 million.

(more)

31% Interest in Drive Financial

Drive originated \$101 million of receivables during the quarter. Defaults, losses and delinquencies have risen to 17.70%, 8.43% and 6.76%, respectively, at the end of the quarter compared to 14.70%, 6.71% and 6.50%, respectively, for the same period last year. These increases are primarily a result of a continued weakness in the economy and seasonal trends in the business.

Discontinued Operations

The Company recorded a provision for impairment of discontinued operations of \$1.5 million during the quarter. The provision is primarily a result of reduction in the anticipated future cash flows from securitization trusts resulting from an increase in the actual prepayments during the quarter over predicted levels. As of June 30, 2002, the anticipated net realizable value of the Company's investment in discontinued operations is \$15.2 million, which is net of reserves of \$.7 million. The remaining reserves represent estimates of the anticipated liquidation costs associated with the cash flows from the securitization trusts.

Corporate Matters

Currently, FirstCity has approximately 1.2 million preferred shares outstanding with accrued and unpaid dividends of approximately \$7.7 million or \$6.29 per share. In June, the Company announced that, in conjunction with a proposed recapitalization, it had filed a registration statement with the Securities and Exchange Commission for a proposed exchange offer for its outstanding shares of New Preferred Stock. Upon the commencement of the exchange offer, FirstCity will offer to exchange each share of its New Preferred Stock for, at the holder's election, either:

- (1) \$10.00 cash and 2 shares of FirstCity's common stock, or
- (2) \$ 8.00 cash and 3 shares of FirstCity's common stock.

FirstCity anticipates commencing the exchange offer promptly after its registration statement is declared effective by the Securities and Exchange Commission. Once the registration statement is declared effective the exchange offer will commence and appropriate documents will be mailed to holders of the New Preferred Stock.

Because the exchange offer has not commenced, any materials submitted by any holder of New Preferred Stock to the exchange agent pursuant to an attempt to tender its shares in connection with the proposed tender offer will be returned by the exchange agent to the stockholder until the actual commencement of the proposed exchange offer as described above. Shares of FirstCity's New Preferred Stock and common stock may not be exchanged or sold nor may offers to exchange or buy be accepted prior to the time the registration statement becomes effective. This news release shall not constitute an offer to exchange or sell, or the solicitation of an offer to exchange or buy, nor shall there be any exchange or sale of these securities in any State in which such offer, exchange, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State. (more)

The recapitalization is discussed in detail in the Company's news release issued on June 11, 2002 and in the Company's Form 10-Q for the quarter ended June 30, 2002 filed today.

FirstCity has filed a tender offer statement and other related documents with the Securities and Exchange Commission. Upon the effectiveness of the registration statement and commencement of the exchange offer, copies of the exchange offer materials may be obtained from Suzy Taylor, toll free, at (866) 652-1810. **Holders of New Preferred Stock are strongly advised to read these documents when they are available because they contain important information.** Stockholders may obtain a free copy of these documents, when they are available, from FirstCity or at the SEC's website, www.sec.gov.

Certain statements in this press release, which are not historical in fact, including, but not limited to, statements relating to the proposed recapitalization and future performance, may be deemed to be forward-looking statements under the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, performance or achievements, and may contain the words "expect", "intend", "plan", "estimate", "believe", "will be", "will continue", "will likely result", and similar expressions. Such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. There are many important factors that could cause FirstCity's actual results to differ materially from those indicated in the forward-looking statements. These factors include, but are not limited to, the consummation and the effect of the proposed recapitalization, the performance of FirstCity's subsidiaries and affiliates; availability of portfolio assets; assumptions underlying portfolio asset performance, the degree to which the FirstCity is leveraged; FirstCity's continued need for financing; availability of FirstCity's credit facilities; the impact of certain covenants in loan agreements of FirstCity and its subsidiaries, general economic conditions; interest rate risk; changes (legislative and otherwise) in the asset securitization industry; fluctuation in residential and commercial real estate values; capital markets conditions, including the markets for asset-backed securities; risks of declining value of loans, collateral or assets; risks associated with foreign operations; currency exchange rate fluctuations and foreign social and economic conditions; the ability of FirstCity to utilize net operating loss carryforwards; uncertainties of any litigation arising from discontinued operations; factors more fully discussed and identified under Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," risk factors and other risks identified in FirstCity's Annual Report on Form 10-K, filed with the SEC on April 1, 2002, as well as in FirstCity's other filings with the SEC, including the registration statement described above. Many of these factors are beyond FirstCity's control. In addition, it should be noted that past financial and operational performance of FirstCity is not necessarily indicative of future financial and operational performance. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements.

The forward-looking statements in this release speak only as of the date of this release. FirstCity expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement to reflect any change in FirstCity's expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based.

FirstCity is a diversified financial services company with operations dedicated to portfolio asset acquisition and resolution and consumer lending with offices in the U.S. and with affiliate organizations in France and Mexico. Its common (FCFC) and preferred (FCFCO) stocks are listed on the Nasdaq National Market System.

FirstCity Financial Corporation
Summary of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenues:				
Servicing fees from affiliates	\$ 4,170	\$ 3,204	\$ 6,392	\$ 5,669
Gain on resolution of Portfolio Assets	456	214	700	432
Equity in earnings of investments	3,939	10,426	5,414	12,486
Interest income from affiliates	1,077	896	2,101	1,587
Interest income - other	280	517	561	1,066
Gain on sale of interest in equity investments	1,779	-	1,779	3,134
Other income	936	428	1,176	548
Total revenues	<u>12,637</u>	<u>15,685</u>	<u>18,123</u>	<u>24,922</u>
Expenses:				
Interest and fees on notes payable to affiliates	1,531	2,283	2,936	4,668
Interest and fees on notes payable - other	94	29	237	86
Salaries and benefits	3,425	2,769	6,160	4,992
Provision for loan and impairment losses	22	1,543	121	2,128
Occupancy, data processing, communication and other	2,460	2,889	4,370	5,467
Total expenses	<u>7,532</u>	<u>9,513</u>	<u>13,824</u>	<u>17,341</u>
Earnings from continuing operations before income taxes and minority interest	5,105	6,172	4,299	7,581
Benefit (provision) for income taxes	6	(7)	(7)	8
Earnings from continuing operations before minority interest	<u>5,111</u>	<u>6,165</u>	<u>4,292</u>	<u>7,589</u>
Minority interest	(909)	(1,997)	(924)	(1,796)
Cumulative effect of accounting change	-	(304)	-	(304)
Earnings from continuing operations	<u>4,202</u>	<u>3,864</u>	<u>3,368</u>	<u>5,489</u>
Loss from discontinued operations	<u>(1,500)</u>	<u>(1,000)</u>	<u>(2,000)</u>	<u>(1,000)</u>
Net earnings	2,702	2,864	1,368	4,489
Accumulated preferred dividends in arrears	(642)	(642)	(1,284)	(1,284)
Net earnings to common shareholders	<u>\$ 2,060</u>	<u>\$ 2,222</u>	<u>\$ 84</u>	<u>\$ 3,205</u>

Basic and diluted earnings per common share are as follows:

Earnings from continuing operations before accounting change	\$ 0.43	\$ 0.43	\$ 0.25	\$ 0.54
Accounting change	-	(0.04)	-	(0.04)
Discontinued operations	(0.18)	(0.12)	(0.24)	(0.12)
Net earnings per common share	\$ 0.25	\$ 0.27	\$ 0.01	\$ 0.38
Wtd. avg. common shares outstanding	8,376	8,376	8,376	8,372

Selected Unaudited Balance Sheet Data

	June 30, 2002	December 31, 2001
Portfolio acquisition and resolution assets	\$ 77,172	\$ 79,335
Consumer assets	8,842	10,205
Deferred tax asset	20,101	20,101
Net assets of discontinued operations	15,175	16,657
Total assets	141,597	138,893
Notes payable	89,435	91,209
Preferred stock	33,385	32,101
Total common shareholders' equity	5,014	3,877

FirstCity Financial Corporation
Supplemental Information
(Dollars in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2002	2001	2002	2001
Summary Operating Statement Data for Each Business				
Portfolio Asset Acquisition and Resolution:				
Revenues	\$ 12,098	\$ 8,944	\$ 18,889	\$ 20,058
Expenses	6,094	6,023	10,455	10,853
Operating contribution before provision for loan and impairment losses	6,004	2,921	8,434	9,205
Provision for loan and impairment losses	22	1,543	121	2,128
Operating contribution, net of direct taxes	<u>\$ 5,982</u>	<u>\$ 1,378</u>	<u>\$ 8,313</u>	<u>\$ 7,077</u>
Consumer Lending:				
Revenues, net of equity in loss of investment	\$ 497	\$ 6,731	\$ (848)	\$ 4,839
Expenses, net of minority interest	102	1,613	(162)	1,244
Operating contribution (loss), net of direct taxes	<u>\$ 395</u>	<u>\$ 5,118</u>	<u>\$ (686)</u>	<u>\$ 3,595</u>

Portfolio Acquisition and Resolution:

Overview

Aggregate purchase price of portfolios acquired:

Acquisition partnerships				
Domestic	\$ 7,724	\$ 22,896	\$ 20,494	\$ 89,225
Mexico	-	10,117	11,709	29,582
France	27,502	-	27,502	1,613
Italy	16,943	-	16,943	-
Total	<u>\$ 52,169</u>	<u>\$ 33,013</u>	<u>\$ 76,648</u>	<u>\$ 120,420</u>

Historical Acquisitions - Annual

	Purchase Price	FirstCity's Investment
2002 year to date	\$ 76,648	\$ 9,113
2001	224,927	24,319
2000	394,927	22,140
1999	210,799	11,203
1998	139,691	28,478
1997	183,229	37,109

Portfolio acquisition and resolution assets by region:

Domestic	\$ 44,023	\$ 54,893
Mexico	20,054	18,931
France	12,245	9,058
Italy	850	-
Total	<u>\$ 77,172</u>	<u>\$ 82,882</u>

Revenues by region:

Domestic	\$ 8,515	\$ 4,580	\$ 11,961	\$ 12,595
Mexico	931	3,238	3,367	4,993
France and Italy	2,648	1,126	3,556	2,450
Other foreign	4	-	5	20
Total	<u>\$ 12,098</u>	<u>\$ 8,944</u>	<u>\$ 18,889</u>	<u>\$ 20,058</u>

Revenues by source:

Equity earnings	\$ 3,442	\$ 3,699	\$ 6,262	\$ 7,653
Servicing fees	4,170	3,204	6,392	5,669
Interest income - loans	1,313	1,350	2,590	2,518
Gain on sale of interest in equity investment	1,779	-	1,779	3,134
Gain on resolution of Portfolio Assets	456	214	700	432
Other	938	477	1,166	652
Total	<u>\$ 12,098</u>	<u>\$ 8,944</u>	<u>\$ 18,889</u>	<u>\$ 20,058</u>

FirstCity Financial Corporation
Supplemental Information
(Dollars in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Analysis of Equity Investments in Acquisition Partnerships:				
FirstCity's Average investment in Acquisition Partnerships				
Domestic	\$ 33,385	\$ 29,803	\$ 33,181	\$ 28,984
Mexico	(365)	1,172	(53)	1,169
France and Italy	8,767	7,078	8,825	7,247
France-Servicing subsidiaries	2,650	1,975	2,399	1,738
Total	<u>\$ 44,437</u>	<u>\$ 40,028</u>	<u>\$ 44,352</u>	<u>\$ 39,138</u>
FirstCity Share of Equity Earnings (Loss):				
Domestic	\$ 4,544	\$ 2,366	\$ 6,502	\$ 5,494
Mexico	(1,897)	129	(1,914)	(342)
France and Italy	534	1,046	994	1,514
France-Servicing subsidiaries	261	158	680	987
Total	<u>\$ 3,442</u>	<u>\$ 3,699</u>	<u>\$ 6,262</u>	<u>\$ 7,653</u>
Selected other data:				
Average investment in wholly owned portfolio assets and loans receivable:				
Domestic	\$ 13,662	\$ 26,643	\$ 14,167	\$ 28,474
Mexico	21,178	16,746	20,022	14,893
Total	<u>\$ 34,840</u>	<u>\$ 43,389</u>	<u>\$ 34,189</u>	<u>\$ 43,367</u>
Income from wholly owned portfolio assets and loans receivable:				
Domestic	\$ 748	\$ 724	\$ 1,284	\$ 1,469
Mexico	1,021	840	2,006	1,481
Total	<u>\$ 1,769</u>	<u>\$ 1,564</u>	<u>\$ 3,290</u>	<u>\$ 2,950</u>
Servicing fee revenues:				
Domestic partnerships:				
\$ Collected	\$ 104,388	\$ 31,999	\$ 136,211	\$ 65,942
Servicing fee revenue	2,333	952	3,150	1,839
Average servicing fee %	2.23%	2.98%	2.31%	2.79%
Mexico partnerships:				
\$ Collected	\$ 29,156	\$ 28,512	\$ 48,350	\$ 64,421
Servicing fee revenue	1,632	2,077	2,986	3,421
Average servicing fee %	5.60%	7.28%	6.18%	5.31%
Incentive service fees	\$ 205	\$ 175	\$ 256	\$ 409
Total Service Fees:				
\$ Collected	\$ 133,544	\$ 60,511	\$ 184,561	\$ 130,363
Servicing fee revenue	4,170	3,204	6,392	5,669
Average servicing fee %	3.12%	5.29%	3.46%	4.35%
Servicing portfolio (face value)				
Domestic	\$ 406,918	\$ 529,701		
Mexico	1,391,792	1,481,749		
France and Italy	731,566	381,861		
Total	<u>\$ 2,530,276</u>	<u>\$ 2,393,311</u>		
Number of personnel at period end:				
Production	25	27		
Servicing				
Domestic	60	54		
Mexico	75	33		
Total personnel	<u>160</u>	<u>114</u>		

FirstCity Financial Corporation
Supplemental Information
(Dollars in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Consumer Lending:				
Retail installment contracts acquired ⁽¹⁾	\$ 100,780	\$ 107,890	\$ 214,181	\$ 230,444
Origination characteristics:				
Face value to wholesale value	99.56%	100.03%	100.46%	100.60%
Weighted average coupon	21.18%	20.76%	21.06%	20.58%
Purchase discount (% of face value)	15.40%	15.14%	15.59%	15.23%
Servicing portfolio (face value in \$)	637,229	495,527		
Defaults (% of total loans acquired)	17.70%	14.70%		
Losses on defaults (% of original loan balance at time of default)	8.43%	6.71%		
Delinquencies (% of total serviced portfolio)	6.76%	6.50%		
Equity in earnings (loss) of Drive	\$ 497	\$ 6,727	\$ (848)	\$ 4,833
Cumulative effect of accounting change	-	(304)	-	(304)
Minority interest	(99)	(1,283)	170	(905)
Net equity in earnings (loss) of Drive	<u>\$ 398</u>	<u>\$ 5,140</u>	<u>\$ (678)</u>	<u>\$ 3,624</u>

(1) Auto lending business formerly conducted by FirstCity Funding (FirstCity now owns 31% of Drive Financial Services and accounts for its investment using the equity method of accounting).