

# NEWS RELEASE



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

## FirstCity Financial Announces First Quarter 2004 Results and 2004 Annual Meeting

**Waco, Texas May 6, 2004...** FirstCity Financial Corporation (NASDAQ FCFC) today announced net earnings to common stockholders for the quarter ended March 31, 2004 of \$4,849,000 or \$.41 per share on a diluted basis.

Components of the results for the three months ended March 31, 2004 and 2003, respectively, are detailed below (dollars in thousands):

	Three Months Ended March 31, (unaudited)	
	2004	2003
Portfolio Asset Acquisition and Resolution	\$ 4,043	\$ 1,777
Consumer	3,118	576
Corporate interest	(1,000)	(1,172)
Corporate overhead	(1,312)	(1,200)
Earnings from continuing operations	4,849	(19)
Accrued preferred dividends	-	(66)
Net earnings (loss) to common stockholders	\$ 4,849	\$ (85)
Diluted earnings (loss) per common share	\$ 0.41	\$ (0.01)

### Portfolio Asset Acquisition and Resolution

Operating contribution for the quarter was \$4.0 million, comprised of \$8.9 million in revenues, net of \$4.9 million of expenses. The business generated 46% of the revenues from domestic investments, 29% from investments in Mexico and 25% from investments in Europe. The major components of revenue for the quarter include equity earnings in Acquisition Partnerships and servicing entities of \$4.2 million, servicing fees of \$3.0 million, and interest income of \$.5 million.

Operating contribution from the Portfolio Asset Acquisition business for the quarter includes foreign currency gains of \$.8 million, comprised of \$.5 million in Mexican peso gains, and foreign currency gains related to cash collections of certain Euro investments of \$.3 million. Quarterly results have been, and continue to be impacted by fluctuations in foreign currencies.

The following table details these impacts on corporate earnings (dollars in thousands):

<u>Illustration of the Effects of Currency Fluctuations</u>	First Quarter 2004	First Quarter 2003
Net earnings (loss) to Common Stockholders as reported	\$ 4,849	\$ (85)
Mexican Peso gains (losses)	463	(1,623)
Euro gains	309	247
Peso exchange rate at valuation date	11.09	11.03
Euro exchange rate at valuation date	0.82	0.93

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The Company and its Acquisition Partnerships purchased three portfolios in the 1<sup>st</sup> Quarter - two domestic portfolios totaling \$6.5 million and one \$.2 million portfolio in Chile. The Company invested equity of \$3.1 million in these portfolios. A summary of acquisitions for the recent quarters follows (dollars in millions):

	Domestic	France	Mexico/ South America	Italy	Total	Invested Equity
1 <sup>st</sup> Quarter 2004	\$ 6.5	\$ -	\$ 0.2	\$ -	\$ 6.7	\$ 3.1
2003						
4 <sup>th</sup> Quarter	\$ 46.7	\$ 11.1	\$ -	\$ -	\$ 57.7	\$ 7.6
3 <sup>rd</sup> Quarter	39.3	-	-	-	39.3	3.9
2 <sup>nd</sup> Quarter	6.7	20.1	5.4	-	32.2	11.4
1 <sup>st</sup> Quarter	-	-	-	-	-	-
Total Year 2003	\$ 92.6	\$ 31.2	\$ 5.4	\$ -	\$ 129.2	\$ 22.9 *
Total Year 2002	\$ 61.4	\$ 81.8	\$ 11.7	\$ 16.9	\$ 171.8	\$ 16.7

\* The Company invested \$3.4 million in partnerships during 2003 in addition to the acquisitions above.

### Consumer

Operating contribution for the quarter was \$3.1 million, comprised of \$4.0 million from the Company's investment in Drive, net of interest and other expenses of \$.9 million. The other expenses of \$.9 million include an accrual of additional interest expense of \$.8 million relating to the contingent fee arrangement with the Bank of Scotland. See additional discussion related to contingent fee arrangement below.

The Company owns a 31% interest in Drive Financial Services L.P., a sub prime auto lending company. Drive originated \$244.1 million of receivables during the quarter, nearly doubling originations of the prior year's quarter. Defaults and losses were 20.77% and 10.98%, respectively, at the end of the quarter compared to 21.03% and 10.83%, respectively, for the same period last year. These statistics reflect the weakness in the economy in prior periods and the resulting impact on used car prices, although recent indicators reflect an upward trend in used car prices. Delinquencies were 11.52% for the quarter, up from 4.66% the same period last year as a result of a change in collection strategies, which in some instances will allow Drive to provide borrowers additional time to cure delinquencies rather than pursue immediate repossession.

Net income from Drive continues to be positive as originations and the volume of portfolio assets grow over time. Based on information provided by Drive, the Company expects that this positive trend will continue.

The following table details this trend (dollars in thousands):

	Originations	Loan Inventory	Total Assets	Income (loss) before provisions on residual assets	Provisions on residual assets	Net Income (Loss)	FirstCity's 31% share
<b>2004</b>							
1 <sup>st</sup> Quarter	\$244,121	\$770,042	\$ 915,128	\$ 13,001	\$ -	\$ 13,001	\$ 4,031
<b>2003</b>							
4 <sup>th</sup> Quarter	102,228	623,389	738,829	6,308***	(2,087)	4,221	1,308
3 <sup>rd</sup> Quarter	128,688	577,974	700,760	9,132	(3,904)	5,228	1,621
2 <sup>nd</sup> Quarter	127,706	511,212	619,269	8,251	(1,240)	7,011	2,173
1 <sup>st</sup> Quarter	126,118	443,099	551,412	3,707	(1,217)	2,490	689

\*\*\* Net of \$3.7 million of additional provisions related to loans receivable.

Note: As of March 31, 2004, Drive holds on its balance sheet residual interests with a book value of \$30.1 million compared with \$56.6 million as of March 31, 2003.

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### **Contingent Fee Arrangement with Bank of Scotland**

As a part of the recapitalization in December 2002, BoS (USA) Inc. provided a non-recourse loan of \$16 million to the Company secured by a 20% interest in Drive. In connection with the \$16 million loan, the Company agreed to pay a contingent fee to BoS (USA) Inc. equal to 20% of all amounts received by the Company upon any sale of the Company's 20% interest in Drive or any receipt of distributions from Drive related to the 20% ownership interest, once such payments exceed \$16 million in the aggregate. During the first quarter, the Company recorded \$.8 million of additional interest expense related to the contingent fee. The Company currently estimates that additional interest expense will be recognized in the amount of \$160,000 per quarter through December 2007. This additional interest expense currently has no impact on the Company's cash flow. The payment of the interest and any gain or income resulting from any sale or distribution will not be recognized until a sale occurs or distribution is received. The Company has no present plans to sell any interest in Drive and does not anticipate that any distributions will be made from Drive in the near future that would result in an obligation to pay a contingent fee.

### **Discontinued Operations**

The anticipated realizable value of the Company's investment in discontinued mortgage operations decreased to \$5.9 million, net of reserves of \$268,000 million, at March 31, 2004. No additional provisions were required during the first quarter of 2004.

### **Annual Meeting/Stockholder Proposals**

The Company will hold its annual meeting of stockholders on August 5, 2004 at the Company headquarters located at 6400 Imperial Drive, Waco, Texas 76712. The record date for the meeting is June 8, 2004.

Pursuant to Rule 14a-8 of the Securities and Exchange Act of 1934, stockholder proposals intended to be presented at the annual meeting of stockholders to be held on August 5, 2004 must be received at the Company's principal executive offices no later than May 31, 2004.

### **Conference Call**

The Company will host a conference call to discuss the quarterly results today, Thursday, May 6, 2004 at 9:00 a.m., CDT. James T. Sartain, the Company's President and Chief Executive Officer will lead the call. To participate, dial toll free 1-866-206-5917 and specify conference I.D. number 454179. International callers should dial 1-703-639-1106. Please dial in five minutes prior to the call. If you are unable to listen to the live conference call, a replay will be available by dialing 1-888-266-2081. For international callers the replay number is 1-703-925-2533. The pass code for the replay is 454179. The replay will be available through Thursday, May 20, 2004.

### **Forward Looking Statements**

Certain statements in this press release, which are not historical in fact, including, but not limited to, statements relating to 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 the Company's actual results to differ materially.

These factors include, but are not limited to, the performance of the Company's subsidiaries and affiliates, availability of portfolio assets, assumptions underlying portfolio asset performance, risks associated with foreign operations, currency exchange rate fluctuations, interest rate risk, risks of declining value of loans, collateral or assets; the degree to which the Company is leveraged, the Company's continued need for financing, availability of the Company's credit facilities, the impact of certain covenants in loan agreements of the Company and its subsidiaries, the ability of the Company to utilize net operating loss carry forwards, uncertainties of any litigation arising from discontinued operations, general economic conditions, foreign social and economic conditions, 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; factors more fully discussed and identified under Item 7, "Management's Discussion and Analysis of

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Financial Condition and Results of Operations,” risk factors and other risks identified in the Company’s Annual Report on Form 10-K, filed with the SEC on March 30, 2004, as well as in the Company’s other filings with the SEC.

Many of these factors are beyond the Company’s control. In addition, it should be noted that past financial and operational performance of the Company 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. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based.

The Company 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.

**(Tables follow)**

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
Revenues:		
Servicing fees from affiliates	\$ 3,032	\$ 3,507
Gain on resolution of Portfolio Assets	75	695
Equity in earnings of investments	9,212	2,091
Interest income from affiliates	444	915
Interest income - other	85	188
Other income	1,338	362
Total revenues	<u>14,186</u>	<u>7,758</u>
Expenses:		
Interest and fees on notes payable to affiliates	2,529	1,891
Interest and fees on notes payable - other	69	62
Interest on shares subject to mandatory redemption	66	-
Salaries and benefits	4,077	3,496
Provision for loan and impairment losses	-	34
Occupancy, data processing, communication and other	1,452	1,994
Total expenses	<u>8,193</u>	<u>7,477</u>
Earnings from continuing operations before income taxes and minority interest	5,993	281
Provision for income taxes	(112)	(121)
Earnings from continuing operations before minority interest	<u>5,881</u>	<u>160</u>
Minority interest	(1,032)	(179)
Earnings (loss) from continuing operations	<u>4,849</u>	<u>(19)</u>
Earnings (loss) from discontinued operations	-	-
Net earnings (loss)	<u>4,849</u>	<u>(19)</u>
Accumulated preferred dividends in arrears	-	(66)
Net earnings (loss) to common stockholders	<u>\$ 4,849</u>	<u>\$ (85)</u>
Basic earnings (loss) per common share are as follows:		
Earnings (loss) from continuing operations	\$ 0.43	\$ (0.01)
Discontinued operations	-	-
Net earnings (loss) per common share	\$ 0.43	\$ (0.01)
Wtd. avg. common shares outstanding	11,198	11,202
Diluted earnings (loss) per common share are as follows:		
Earnings (loss) from continuing operations	\$ 0.41	\$ (0.01)
Discontinued operations	-	-
Net earnings (loss) per common share	\$ 0.41	\$ (0.01)
Wtd. avg. common shares outstanding	11,792	11,202

**Selected Unaudited Balance Sheet Data**

	<b>March 31,</b>	<b>December 31,</b>
	<b>2004</b>	<b>2003</b>
Cash	\$ 2,753	\$ 2,745
Portfolio acquisition and resolution assets	78,122	80,428
Consumer assets	20,732	15,685
Deferred tax asset	20,101	20,101
Net assets of discontinued operations	5,882	6,150
Total assets	137,065	132,139
Notes payable to affiliates	82,994	88,628
Notes payable other	4,912	2,432
Preferred stock subject to mandatory redemption (including accrued and unpaid dividends)	3,912	3,846
Total common stockholders' equity	32,898	28,969

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

	Three Months Ended March 31,	
	2004	2003
<b>Summary Operating Statement Data for Each Business</b>		
Portfolio Asset Acquisition and Resolution:		
Revenues	\$ 8,942	\$ 6,836
Expenses	4,899	5,025
Operating contribution before provision for loan and impairment losses	4,043	1,811
Provision for loan and impairment losses	-	34
Operating contribution, net of direct taxes	\$ 4,043	\$ 1,777
Consumer Lending:		
Revenues	\$ 5,040	\$ 861
Expenses	1,922	285
Operating contribution, net of direct taxes	\$ 3,118	\$ 576

**Portfolio Asset Acquisition and Resolution:**

**Overview**

**Aggregate purchase price of portfolios acquired:**

Acquisition partnerships		
Domestic	\$ 6,549	\$ -
South America	150	-
Total	\$ 6,699	\$ -

**Historical Acquisitions - Annual:**

	Purchase Price	FirstCity's Investment
2004 year to date	\$ 6,699	\$ 3,097
2003	129,192	22,944
2002	171,769	16,717
2001	224,927	24,319
2000	394,927	22,140
1999	210,799	11,203

**Portfolio acquisition and resolution assets by region:**

	March 31, 2004	March 31, 2003
Domestic	\$ 44,776	\$ 41,339
Mexico	13,699	15,407
France and Italy	19,598	15,261
Other foreign	49	-
Total	\$ 78,122	\$ 72,007

**Revenues by region:**

Domestic	\$ 4,143	\$ 4,407
Mexico	2,588	1,425
France and Italy	2,202	1,004
Other foreign	9	-
Total	\$ 8,942	\$ 6,836

**Revenues by source:**

Equity earnings	\$ 4,175	\$ 1,230
Servicing fees	3,032	3,507
Interest income - loans	523	1,096
Gain on resolution of Portfolio Assets	75	695
Other	1,137	308
Total	\$ 8,942	\$ 6,836

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

	Three Months Ended March 31,	
	2004	2003
<b>Analysis of Equity Investments in Acquisition Partnerships:</b>		
<b>FirstCity's Average investment in Acquisition Partnerships</b>		
Domestic	\$ 36,595	\$ 32,977
Mexico	1,015	1,042
France	13,946	11,264
France-Servicing subsidiaries	4,513	3,414
Total	\$ 56,069	\$ 48,697
<b>FirstCity Share of Equity Earnings (Loss):</b>		
Domestic	\$ 1,949	\$ 2,347
Mexico	112	(2,060)
France	1,784	727
France-Servicing subsidiaries	330	216
Total	\$ 4,175	\$ 1,230
<b>Selected other data:</b>		
<b>Average investment in wholly owned portfolio assets and loans receivable:</b>		
Domestic	\$ 6,490	\$ 9,558
Mexico	13,133	15,354
France	2,155	-
Other foreign	34	-
Total	\$ 21,812	\$ 24,912
<b>Income from wholly owned portfolio assets and loans receivable:</b>		
Domestic	\$ 196	\$ 913
Mexico	376	878
France	26	-
Other foreign	-	-
Total	\$ 598	\$ 1,791
<b>Servicing fee revenues:</b>		
Domestic partnerships:		
\$ Collected	\$ 26,353	\$ 24,051
Servicing fee revenue	1,038	1,041
Average servicing fee %	3.9%	4.3%
Mexico partnerships:		
\$ Collected	\$ 14,846	\$ 16,512
Servicing fee revenue	1,956	2,395
Average servicing fee %	13.2%	14.5%
Incentive service fees	\$ 38	\$ 71
Total Service Fees:		
\$ Collected	\$ 41,199	\$ 40,563
Servicing fee revenue	3,032	3,507
Average servicing fee %	7.4%	8.6%
<b>Servicing portfolio (face value)</b>		
Domestic	\$ 415,835	\$ 399,403
Mexico	1,007,366	1,141,495
France and Italy	811,951	730,710
Total	\$ 2,235,152	\$ 2,271,608
<b>Number of personnel at period end:</b>		
Domestic	91	76
Mexico	162	143
Total personnel	253	219

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>Consumer Lending:</b> <sup>(1)</sup>		
Retail installment contracts acquired	\$ 244,121	\$ 126,118
Origination characteristics:		
Face value to wholesale value	102.40%	98.86%
Weighted average coupon	21.10%	20.91%
Purchase discount (% of face value)	17.34%	17.08%
Servicing portfolio (face value in \$)	998,491	723,456
Defaults (% of original balance at time of default)	20.77%	21.03%
Net loss on defaults after recovery	10.98%	10.83%
Delinquencies (% of total serviced portfolio)	11.52%	4.66%
Equity in earnings (loss) of Drive	\$ 5,037	\$ 861
Minority interest	(1,006)	(172)
Net equity in earnings (loss) of Drive	<u>\$ 4,031</u>	<u>\$ 689</u>

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