CENTEX CORP
Form 10-K
June 03, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

JOINT ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended March 31, 2003

Commission File No. 1-6776	**Commission File Nos. 1-9624 and 1-9625, respectively**
CENTEX CORPORATION	**3333 HOLDING CORPORATION and CENTEX DEVELOPMENT COMPANY, L.P.**
(Exact name of registrant as specified in its charter)	**(Exact name of registrants as specified in their charters)**
Nevada	**Nevada and Delaware, respectively**
(State of incorporation)	**(States of incorporation or organization)**
75-0778259	**75-2178860 and 75-2168471, respectively**
(I.R.S. Employer Identification No.)	**(I.R.S. Employer Identification Nos.)**
2728 N. Harwood, Dallas, Texas 75201	**2728 N. Harwood, Dallas, Texas 75201**
(Address of principal executive office, including zip code)	**(Address of principal executive office, including zip code)**
(214) 981-5000	**(214) 981-6770**
(Registrant s telephone number)	**(Registrants telephone number)**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered	Title of each class	Name of each exchange on which registered
Centex Corporation		**3333 Holding Corporation**	
Common Stock ($.25 par value)	**New York Stock Exchange**	**Common Stock ($.01 par value)**	**New York Stock Exchange**
	London Stock Exchange		**London Stock Exchange**
		Centex Development Company, L.P.	
		Warrants to Purchase Class B Units of Limited Partnership Interest Expiring November 30, 2007	**New York Stock Exchange**
			London Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether each 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 each such 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 the registrants 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. [ ]

Indicate by check mark whether the registrants are an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ].

On September 30, 2002 (the last business day of the registrants most recently completed second fiscal quarter), the aggregate market value of the tandem traded Centex Corporation common stock, 3333 Holding Corporation common stock and Centex Development Company, L.P. warrants to purchase Class B units of limited partnership interest held by non-affiliates of the registrants was $2.68 billion based upon the last sale price reported for such date on the New York Stock Exchange. For purposes of determining this amount only, registrants have defined affiliates as the executive officers and directors of Centex Corporation.

Indicate the number of shares of each of the registrants classes of common stock (or other similar equity securities) outstanding as of the close of business on May 15, 2003:

Centex Corporation	Common Stock	62,251,136	shares
3333 Holding Corporation	Common Stock	1,000	shares
Centex Development Company, L.P.	Class A Units of Limited Partnership Interest	32,260	units
Centex Development Company, L.P.	Class C Units of Limited Partnership Interest	208,330	units

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in Parts A.III and B.III of this Report:

(a) Proxy statements for the annual meetings of stockholders of Centex Corporation and 3333 Holding Corporation to be held on July 17, 2003.

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JOINT ANNUAL REPORT ON

FORM 10-K
FOR THE FISCAL YEAR ENDED MARCH 31, 2003

CENTEX CORPORATION AND SUBSIDIARIES

AND
3333 HOLDING CORPORATION AND SUBSIDIARY
AND CENTEX DEVELOPMENT COMPANY, L.P. AND SUBSIDIARIES

JOINT EXPLANATORY STATEMENT

On November 30, 1987, Centex Corporation distributed as a dividend to its stockholders, through a nominee, all of the 1,000 issued and outstanding shares of common stock of 3333 Holding Corporation and 900 warrants to purchase Class B Units of limited partnership interest in Centex Development Company, L.P. Pursuant to an agreement with the nominee, the nominee is the record holder of the 3333 Holding Corporation common stock and warrants to purchase Class B Units of Centex Development Company on behalf of and for the benefit of persons who are from time to time the holders of the Centex Corporation common stock. Each Centex Corporation stockholder owns a beneficial interest in that portion of the common stock of 3333 Holding Corporation and the warrants to purchase Class B Units of Centex Development Company that the total number of shares of Centex Corporation common stock held by such stockholder bears to the total number of shares of Centex Corporation common stock outstanding from time to time. This beneficial interest is not represented by a separate certificate or receipt. Instead, each stockholder s beneficial interest in such pro rata portion of the shares of 3333 Holding Corporation common stock and the Centex Development Company warrants is represented by the certificate or certificates evidencing his Centex Corporation common stock and is currently tradable only in tandem with, and as a part of, each stockholder s Centex Corporation common stock. The tandem securities are listed and traded on the New York Stock Exchange and the London Stock Exchange and are registered with the Securities and Exchange Commission separately under Section 12(b) of the Securities Exchange Act of 1934, or the Exchange Act. 3333 Holding Corporation and Centex Development Company were each organized in 1987 in connection with the distribution described above. 3333 Development Corporation, a wholly-owned subsidiary of 3333 Holding Corporation, holds a 1% interest in, and is the sole general partner of, Centex Development Company. Centex Corporation indirectly owns 100% of the Class A Units and 100% of the Class C Units of the limited partnership interest in Centex Development Company. These units are collectively convertible into 20% of the Class B Units of the limited partnership in Centex Development Company. Please refer to the ownership chart on page 3.

At present, Centex Corporation, 3333 Holding Corporation and Centex Development Company have elected to satisfy their respective periodic reporting obligations under the Exchange Act by preparing and filing joint periodic reports. ***Part A*** of this Annual Report on Form 10-K for the fiscal year ended March 31, 2003, or fiscal 2003, relates to Centex Corporation and its subsidiaries. ***Part B*** of this Report relates to 3333 Holding and its subsidiary, 3333 Development Corporation and to Centex Development Company and its subsidiaries.

You should read this Report together with the proxy statements of Centex Corporation and 3333 Holding Corporation for their respective 2003 annual meetings of stockholders, the Annual Report to Stockholders of Centex Corporation for fiscal 2003 and the Annual Report to Stockholders of 3333 Holding Corporation and Centex Development Company for fiscal 2003. For a complete understanding of the tandem-traded securities, you should read both ***Part A*** and ***Part B*** of this Report.

We include information concerning the earnings and financial condition of the three companies, on an aggregate basis, in Note (G), Centex Development Company, L.P., of the Notes to Consolidated Financial Statements of Centex Corporation and subsidiaries on pages 84-85 of this Report.

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For a description of this ownership chart, please see the Joint Explanatory Statement on the previous page.

OWNERSHIP CHART

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Part B. **3333 HOLDING CORPORATION AND SUBSIDIARY AND CENTEX DEVELOPMENT COMPANY, L.P. AND SUBSIDIARIES**

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PART A.

CENTEX CORPORATION AND SUBSIDIARIES

PREFATORY STATEMENT

Part A of this Report (pages 6 through 106) includes information relating to Centex Corporation and its subsidiaries, SEC File No. 1-6776. See Joint Explanatory Statement on page 2 of this Report. ***Part B*** of this Report (pages 107 through 174) includes information relating separately to 3333 Holding Corporation and its subsidiary, to 3333 Development Corporation and to Centex Development Company, L.P. and subsidiaries.

PART I

ITEM 1. BUSINESS

General Development of Business

Centex Corporation is a Nevada corporation. Our common stock, par value $.25 per share, began trading publicly in 1969. Our common stock is traded on the New York Stock Exchange, or the NYSE, and the London Stock Exchange. As of May 15, 2003, 62,251,136 shares of our common stock were outstanding. Any reference herein to we, us or our includes Centex Corporation and its subsidiary companies.

Since our founding in 1950 as a Dallas, Texas-based residential construction company, we have evolved into a multi-industry company. Our subsidiary companies operate in five principal business segments: Home Building, Financial Services, Construction Products, Construction Services and Investment Real Estate. We provide a brief overview of each segment below, and we provide a more detailed discussion of each segment later in this section.

Our Home Building operations currently involve the purchase and development of land or lots and the construction and sale of single-family homes, townhomes and low-rise condominiums. We have participated in the conventional homebuilding business since 1950. Home Building internally tracks its performance compared to the last reported twelve months of revenues for its competitors. Based on Home Building's comparisons, we believe that it ranked as the nation s fourth largest homebuilder at March 31, 2003.

Our Financial Services operations primarily are engaged in the residential mortgage banking business, as well as in other financial services that are in large part related to the residential mortgage market. These operations include mortgage origination, servicing and other related services for purchasers of homes sold by our Home Building operations and other homebuilders, as well as sub-prime home equity lending and the sale of title insurance and various other insurance coverages. We have been in the mortgage banking business since 1973.

Our Construction Products operations involve the manufacture, production, distribution and sale of cement, gypsum wallboard, recycled paperboard, aggregates and readymix concrete. Our involvement in the construction products business started in 1963 when we began construction of our first cement plant. During the quarter ended June 30, 1994, our construction products subsidiary, Centex Construction

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Products, Inc., completed an initial public offering of 51% of its stock and began trading on the NYSE under the symbol CXP. Primarily as a result of Construction Products repurchase of its own stock, our ownership has increased to 65.1% as of March 31, 2003. Accordingly, we have consolidated Construction Products financial statements with our financial statements for the years ended March 31, 2003, 2002 and 2001, or fiscal 2003, 2002 and 2001.

Our Construction Services operations involve the construction of buildings for both private and government interests, including office, commercial and industrial buildings, hospitals, hotels, correctional facilities, educational institutions, museums, libraries, airport facilities and sports facilities. We entered the Construction Services business in 1966 by acquiring a Dallas-based contractor that had been in business since 1936. We also acquired significant construction companies in 1978, 1982, 1987 and 1990.

Our Investment Real Estate operations involve the acquisition, development and sale of land, primarily for industrial, office, multi-family, retail, residential and mixed-use projects. Through our investment in Centex Development Company, the operations also include the International Home Building business located in the United Kingdom.

In fiscal 1988, we established Centex Development Company. Please refer to ***Part B*** of this Report for a discussion of the business of Centex Development Company.

Financial Information about Industry Segments

Note (J), Business Segments, of the Notes to Consolidated Financial Statements of Centex Corporation and subsidiaries on pages 88-91 of this Report contains additional information about our business segments for fiscal 2003, 2002 and 2001.

Narrative Description of Business

HOME BUILDING

Our conventional homebuilding subsidiary, Centex Homes, purchases and develops land or lots and constructs and sells single-family homes, townhomes and low-rise condominiums. Centex Homes is the only company to rank among the nation s top 10 homebuilders for each of the past 35 years according to *Professional Builder* magazine. Centex Homes sells to both first-time and move-up buyers. In fiscal 2003, over 81% of the homes we sold were single-family detached homes, and the remainder were townhomes and low-rise condominiums.

Markets

Centex Homes follows a strategy of reducing exposure to local market volatility by diversifying operations across geographically and economically diverse markets. As of March 31, 2003, Centex Homes was building in 92 market areas, including Washington, D.C., and in 26 states. The markets are listed below by geographic areas.

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Region	States	Markets
Mid-Atlantic	Maryland	Baltimore
	New Jersey	Atlantic/Cape May
		Middlesex/Hunterdon/Sommerset
		Monmouth/Ocean
		Trenton
	North Carolina	Charlotte/Gastonia/Rock Hill
		Greensboro/Winston Salem/High Point
		Raleigh/Durham/Chapel Hill
		Wilmington
	Pennsylvania	Philadelphia
		Pittsburgh
	South Carolina	Charleston/North Charleston
		Hilton Head
		Myrtle Beach
	Virginia	Norfolk/Virginia Beach/Newport
		Richmond/Petersburg
		Washington, D.C.
Midwest	Colorado	Boulder/Longmont
		Denver
		Eagle
		Fort Collins/Loveland
		Greeley
	Indiana	Indianapolis
		Fort Wayne
	Illinois	Chicago
	Kentucky	Louisville
	Michigan	Ann Arbor
		Detroit
		Grand Rapids/Muskegon/Holland
		Kalamazoo/Battle Creek
	Minnesota	Minneapolis/St. Paul
		Rochester
	Missouri	St. Louis
	Ohio	Akron
		Canton/Massillon
		Cincinnati
		Cleveland/Lorain/Elyria
		Columbus
		Dayton/Springfield
		Mansfield
		Steubenville/Weirton
		Toledo
		Youngstown/Warren
	Utah	Salt Lake City

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Region	States	Markets
Southwest	Arizona	Phoenix/Mesa
	Nevada	Las Vegas
	New Mexico	Albuquerque
		Santa Fe
	Texas	Austin/San Marcos
		Brazoria
		Dallas
		Ft. Worth/Arlington
		Galveston/Texas City
		Houston
		Killeen/Temple
		San Antonio
Southeast	Florida	Daytona Beach
		Ft. Lauderdale
		Ft. Myers/Cape Coral
		Ft. Pierce/St. Lucie
		Ft. Walton Beach
		Jacksonville
		Lakeland/Winter Haven
		Naples
		Orlando
		Punta Gorda
		Sarasota/Bradenton
		Tampa/St. Petersburg/Clearwater
		West Palm Beach/Boca Raton
	Georgia	Atlanta
	South Carolina	Columbia
		Greenville/Spartanburg/Anderson
	Tennessee	Nashville
West Coast	California	Bakersfield
		Fresno
		Kings County
		Los Angeles/Long Beach
		Oakland
		Orange County
		Riverside/San Bernardino
		Sacramento
		San Diego
		San Jose
		San Luis Obispo
		Visalia/Tulare/Porterville
		Yolo
	Hawaii	Hawaii
	Nevada	Reno
	Oregon	Eugene
		Portland/Vancouver
	Washington	Seattle/Bellevue/Everett
		Tacoma

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In fiscal 2003, Centex Homes closed 26,427 homes, including first-time, move-up and, in some markets, custom homes, ranging in price from approximately $57,000 to about $1.6 million. The average sale price in fiscal 2003 was $220,183.

Our practice has been to acquire land, build homes on the land and sell the homes within 24 to 36 months from the date of land acquisition. Generally, this involves acquiring land that is properly zoned and is either ready for development or, to some degree, already developed. The purchase of finished lots generally allows us to shorten the lead time to commence construction and reduces the risk of unforeseen improvement costs and volatile market conditions. We have acquired a substantial amount of finished and partially improved lots and land through option agreements that we exercise over specified time periods or, in certain cases, as the lots are needed. At March 31, 2003, Centex Homes owned approximately 60,000 lots and had rights to purchase approximately 71,000 lots. In addition, Centex Homes enters into joint ventures for land acquisition, development and other activities. Centex Homes holds less than a majority interest in these joint ventures, therefore we do not consolidate these joint ventures in our financial statements.

Our growth strategy for Centex Homes has been focused primarily on internally generated, organic growth opportunities through land acquisition and development in existing business units. As a secondary driver, we have also grown the business through the acquisition of other homebuilding companies. Since April 1998 we have acquired homebuilding operations of the following companies:

Company	Date Acquired	Description
Wayne Homes	April 1998	Builds single-family homes in the on-your-lot market segment.
Teal Homes	May 1998	Builds single-family homes for the first-time and move-up buyer in the Richmond, Virginia area.
Calton Homes	December 1998	Builds single-family homes for the first-time and move-up buyer in New Jersey.
Real Homes	September 1999	Builds single-family homes for the first-time and move-up buyer in the Las Vegas, Nevada area.
Selective Group	March 2001	Builds single-family homes for the first-time and move-up buyer in the Detroit, Michigan area.
CityHomes	March 2001	Builds upscale urban townhomes and condominiums in the Dallas, Texas area.
Jones Company	January 2003	Builds single-family homes for the first-time and move-up buyer in the St. Louis, Missouri and Indianapolis, Indiana areas.

In addition, in July 1999, we acquired substantially all of the land and other operating assets for the construction of single-family homes, townhomes and duplexes from Sundance Homes, a suburban Chicago homebuilder. Sundance Homes retained its name and continues to operate in other markets in which we do not compete.

The table below summarizes by geographic area Centex Homes home closings, sales (orders) backlog and sales (orders) for the five most recent fiscal years. Some of the prior year balances have been reclassified to be consistent with the fiscal 2003 presentation.

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Closings (in units):

	For the Years Ended March 31,				
	2003	2002	2001	2000	1999
Mid-Atlantic	**4,501**	3,877	3,395	3,058	2,332
Southeast	**4,851**	4,440	4,137	4,142	3,559
Midwest	**4,695**	3,688	3,296	3,089	2,062
Southwest	**8,157**	6,910	5,661	4,923	3,779
West Coast	**4,223**	4,045	4,170	3,692	3,060
	26,427	22,960	20,659	18,904	14,792
Average Sales Price (in 000 s)	**$ 220**	$ 214	$ 206	$ 192	$ 186

Sales (Orders) Backlog, at the end of the period (in units):

	For the Years Ended March 31,				
	2003	2002	2001	2000	1999
Mid-Atlantic	**2,148**	1,503	1,365	1,210	1,061
Southeast	**2,713**	2,315	1,936	1,891	1,831
Midwest	**2,920**	2,093	2,037	1,628	1,355
Southwest	**2,258**	2,361	2,546	1,861	1,624
West Coast	**2,011**	1,099	1,381	989	921
	12,050	9,371	9,265	7,579	6,792

Sales (Orders) (in units):

	For the Years Ended March 31,				
	2003	2002	2001	2000	1999
Mid-Atlantic	**5,146**	3,936	3,550	3,207	2,464
Southeast	**5,249**	4,819	4,182	4,202	3,952
Midwest	**5,087**	3,744	3,572	3,207	2,515
Southwest	**8,054**	6,725	6,325	5,031	4,010
West Coast	**5,132**	3,763	4,562	3,760	2,990
	28,668	22,987	22,191	19,407	15,931

We define backlog units as units that have been sold, as indicated by a signed contract, but not closed. Substantially all of these orders are expected to be filled during fiscal year 2004.

Competition and Other Factors

The conventional homebuilding industry is essentially a local business and is highly competitive. We compete in each of Centex Homes market areas with numerous other homebuilders, including national, regional and local builders. Centex Homes top six competitors based on revenues for their most recent year-end are as follows: Beazer Homes, D. R. Horton, Inc., KB Homes, Lennar Corporation, Pulte and Ryland. Centex Homes operations accounted for approximately 1.6% of the total for-sale housing starts in the United States for the twelve months ended March 31, 2003. The main competitive factors affecting

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Centex Homes operations are location, price, availability of mortgage financing for customers, construction costs, design and quality of homes, customer service, marketing expertise, availability of land, price of land and reputation. We believe that Centex Homes competes effectively by maintaining geographic diversity, being responsive to the specific demands of each market and managing the operations at a local level.

The homebuilding industry is cyclical and is particularly affected by changes in national and local economic conditions, job growth, long-term and short-term interest rates, consumer confidence, governmental policies, zoning restrictions and, to a lesser extent, changes in property taxes, energy costs, federal income tax laws, federal mortgage financing programs and various demographic factors. The political and economic environments affect both the demand for housing constructed and the subsequent cost of financing. Unexpected climatic conditions, such as unusually heavy or prolonged rain or snow, may affect operations in certain areas.

The homebuilding industry is subject to extensive and complex regulations. Centex Homes and its subcontractors must comply with various federal, state and local laws and regulations, including worker health and safety, zoning, building standards, advertising, consumer credit rules and regulations and the extensive and changing federal, state and local laws, regulations and ordinances governing the protection of the environment, including the protection of endangered species. Centex Homes is also subject to other rules and regulations in connection with its manufacturing and sales activities, including requirements as to incorporated building materials and building designs. All of these regulatory requirements are applicable to all homebuilding companies, and, to date, compliance with these requirements has not had a material impact on us. We believe that Centex Homes is in material compliance with these requirements.

We purchase materials, services and land from numerous sources and believe that we can deal effectively with the problems we may experience relating to the supply or availability of materials, services and land.

FINANCIAL SERVICES

Our Financial Services operations primarily are engaged in the residential mortgage banking business, as well as in other financial services that are in large part related to the residential mortgage market. These operations include mortgage origination, servicing and other related services for purchasers of homes sold by our Home Building operations and other homebuilders, as well as sub-prime home equity lending and the sale of title insurance and various other insurance coverages.

Conforming Mortgage Banking

We established CTX Mortgage Company, L.L.C., or CTX Mortgage, together with its predecessors and affiliates, to provide mortgage financing for homes built by Centex Homes. By opening CTX Mortgage offices in Centex Homes housing markets, we have been able to provide mortgage financing for an average of 68% of Centex Homes sales, other than cash sales, over the past five years. In fiscal 2003, this capture ratio was 73%. In 1985, we expanded CTX Mortgage s operations to include mortgage loans that are not associated with the sale of homes built by Centex Homes. We refer to mortgage financing for homes built by Centex Homes as Builder loans and to mortgage financing for homes built by others as Retail loans.

At March 31, 2003, CTX Mortgage had 223 offices located in 36 states. The offices vary in size depending on loan volume.

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The following table shows the unit breakdown of Builder and Retail loans for CTX Mortgage for the five years ended March 31, 2003:

	For the Years Ended March 31,				
	2003	2002	2001	2000	1999
Loan Types:					
Builder	**18,127**	15,435	12,506	10,958	9,882
Retail	**66,807**	64,949	48,244	48,301	66,496
	84,934	80,384	60,750	59,259	76,378
Origination Volume (in billions)	**$ 13.99**	$ 12.45	$ 8.88	$ 8.11	$ 10.06
Percent of Centex Homes Non-Cash Closings Financed	**73%**	72%	64%	61%	70%

We provide mortgage origination and other mortgage-related services for the Federal Housing Administration, or FHA, the Department of Veterans Affairs, or VA, and conventional loans on homes that Centex Homes or others build and sell, as well as resale homes and refinancing of existing mortgages. Our loans are generally first-lien mortgages secured by one- to four-family residences. A majority of the loans qualify for inclusion in programs sponsored by the Government National Mortgage Association, or GNMA, the Federal National Mortgage Association, or FNMA, or the Federal Home Loan Mortgage Corporation, or FHLMC. These loans are known in the industry as conforming loans. The remainder of the loans are either pre-approved and individually underwritten by CTX Mortgage or private investors who subsequently purchase the loans or are funded by private investors who pay a broker fee to CTX Mortgage for referring a loan.

CTX Mortgage s principal sources of income consist of sales of mortgage loans, inclusive of all service rights, and, to a lesser extent, net interest income and other fees. Generally, we sell our right to service the mortgage loans and retain no other residual interests.

We also participate in joint-venture agreements with third-party homebuilders and other real estate professionals to provide mortgage originations for their customers. These joint venture companies are fully consolidated in CTX Mortgage s financial statements. At March 31, 2003, CTX Mortgage had 23 of these agreements, operating in 24 offices located in 11 states.

In fiscal 2000, CTX Mortgage entered into a mortgage loan purchase agreement with Harwood Street Funding I, L.L.C., or HSF-I, that we refer to as the HSF-I Purchase Agreement. HSF-I is an unaffiliated entity that is not consolidated with Financial Services or Centex Corporation at March 31, 2003. Under the terms of the HSF-I Purchase Agreement, CTX Mortgage may elect to sell to HSF-I, and HSF-I is obligated to purchase from CTX Mortgage, mortgage loans that satisfy certain eligibility criteria and portfolio requirements. At March 31, 2003, the maximum amount of mortgage loans that HSF-I is allowed to carry in its inventory under the HSF-I Purchase Agreement is limited to $2.50 billion. Under the terms of the sales agreement, CTX Mortgage is the sole manager of HSF-I and, in that capacity, arranges for the sale of these loans into the secondary market. For a subservicing fee, CTX Mortgage also acts as servicer of these mortgage loans for HSF-I until HSF-I sells the loans. At March 31, 2003, CTX Mortgage was servicing approximately $2.27 billion of mortgage loans owned by HSF-I. For further discussion of HSF-I and the implication of recent accounting pronouncements on HSF-I, see Management s Discussion and Analysis of Financial Condition and Results of Operations Certain Off-Balance-Sheet and Other Obligations below.

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Sub-Prime Home Equity Lending

We formed the predecessors of Centex Home Equity Company, L.L.C., or Home Equity, in fiscal 1995. The business of Home Equity involves the origination of primarily nonconforming home equity mortgage loans. The sub-prime lending market comprises borrowers whose financing needs are not being met by traditional mortgage lenders for a variety of reasons, including credit histories that may limit a borrower s access to credit or a borrower s need for specialized loan products such as cash-out refinance and jumbo loans. Since its inception, Home Equity has focused on lending to individuals who have substantial equity in their homes but have impaired or limited credit histories. Home Equity s mortgage loans to these borrowers are made primarily for such purposes as debt consolidation, refinancing, home improvement or educational expenses. Substantially all of Home Equity s mortgage loans are secured by first mortgage liens on one- to four-family residences and have amortization schedules ranging from 5 to 30 years.

At March 31, 2003, Home Equity had 162 offices and was doing business in 47 states. Home Equity originates home equity loans through five major origination sources:

- a retail branch network;
- a broker referral network;
- referrals from its conforming mortgage affiliate, CTX Mortgage;
- a correspondent mortgage banker network; and
- Home Equity s direct sales unit that sources loans primarily through the Internet.

The following table summarizes Home Equity s origination statistics for the five-year period ended March 31, 2003:

	For the Years Ended March 31,				
	2003	2002	2001	2000	1999
Loans	**29,448**	26,955	26,418	20,568	15,582
Origination Volume (in billions)	**$ 2.51**	$ 2.09	$ 1.72	$ 1.32	$ 1.02

We began servicing loans through Home Equity in fiscal 1997. Servicing fees for sub-prime loans are significantly higher than for conforming loans primarily due to the frequency of contact with customers. Servicing encompasses, among other activities, the following processes: billing, collection of payments, movement of cash to the payment clearing bank accounts, investor reporting, customer help, recovery of delinquent payments, instituting foreclosure and liquidation of the underlying collateral. As of March 31, 2003, Home Equity was servicing a sub-prime loan portfolio of approximately $5.48 billion.

From October 1997 through March 2000, a majority of Home Equity s loans originated were included in securitizations that utilized a structure that resulted in the securitizations of the loans being accounted for as sales. Under this structure, Home Equity retained a residual interest in, as well as the servicing rights to, the securitized loans. We call this retained residual interest the mortgage securitization residual interest, or MSRI. As a result of the sales accounting treatment, our balance sheet does not reflect the mortgage loans receivable and offsetting debt resulting from these securitizations. The estimated gain on the sale of these loans was included in earnings during the period in which the securitization transaction closed. Between February 1998 and March 2000, Home Equity completed nine securitizations totaling approximately $2.38 billion in loans under this structure. As of March 31, 2003, Home Equity had a remaining MSRI of $106.4 million.

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We changed the structure of securitizations beginning April 1, 2000. Subsequent to March 31, 2000, securitizations have been accounted for as borrowings; interest has been recorded over the life of the loans using the interest, or actuarial, method; the mortgage loans receivable and the securitization debt have remained on Home Equity s balance sheet and the related interest margin has been reflected in our income statement. Under both structures, recourse on the securitized debt is limited to the payments received on the underlying mortgage collateral with no recourse to Home Equity or Centex Corporation. As is common in these structures, Home Equity remains liable for customary loan representations. The change in structure of the securitizations has no effect on the cash flow and profit recognized over the life of the mortgages. However, the change did affect the timing of profit recognition. Interest margin, rather than gain on sale of loans, is now Home Equity s primary source of operating income. From April 1, 2000 to March 31, 2003, Home Equity completed 11 securitizations totaling approximately $5.34 billion in loans under this structure.

Home Equity s principal sources of income are from interest income, loan origination fees and servicing fees.

Other Financial Services Operations

We offer title agent, title underwriting, closing, appraisal and other settlement services in 25 states under the names of Commerce Title Company, Commerce Title Agency and Commerce Title Insurance Company. Our Optima Information Solutions subsidiary provides property information reports, document recording and retrieval, due diligence reports and pre-foreclosure information electronically in all 50 states. Through Westwood Insurance, a multi-line property and casualty insurance agency, we market homeowners and auto insurance to some of our customers and customers of approximately 24 other homebuilders in 50 states. Westwood Insurance also provides coverage for some commercial customers. Our Technologies Group, headquartered in Edmond, Oklahoma, provides mortgage quality control services, owns and operates an automated mortgage processing system and provides the mortgage industry with regulations and guidelines in an electronic format.

Competition and Other Factors

The financial services industry in the United States is highly competitive. CTX Mortgage competes with commercial banks, other mortgage banking companies and other financial institutions to supply mortgage financing at attractive rates to purchasers of homes, as well as to the general public. Home Equity competes with commercial banks, other sub-prime lenders and other financial institutions to supply sub-prime financing at attractive rates. Our title and insurance operations compete with other providers of title and insurance products to sell their products to purchasers of our homes, as well as to the general public. Many of the competitors of our financial services companies have greater resources than we do. During fiscal 2003, Financial Services continued to operate in a very competitive environment.

The Financial Services operations are subject to extensive state and federal regulations, as well as the rules and regulations of, and examinations by, FNMA, FHLMC, FHA, VA, Department of Housing and Urban Development, or HUD, GNMA and state regulatory authorities with respect to originating, processing, underwriting, making, selling, securitizing and servicing loans and providing title and other insurance products. 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 our Financial Services operations, specify standards for origination procedures, establish eligibility criteria for mortgage loans, provide for inspection and appraisals of properties, regulate payment features and, in some cases, fix maximum interest rates, fees, loan amounts and premiums for title and other insurance. Our Financial Services operations are required to maintain specified net worth levels and submit annual audited financial statements to HUD, VA, FNMA, FHLMC, GNMA and some state regulators.

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As an approved FHA mortgagee, CTX Mortgage is subject to examination by the Federal Housing Commissioner at all times to ensure compliance with FHA regulations, policies and procedures. Our title and insurance operations are subject to examination by state authorities. Mortgage origination and servicing activities are subject to the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the Federal Truth-In-Lending Act, the Real Estate Settlement Procedures Act, that also applies to our insurance operations, the Riegle Community Development and Regulatory Improvement Act, the Home Ownership and Equity Protection Act and the regulations promulgated under such statutes, among other federal and state consumer credit laws. These statutes prohibit discrimination and unlawful kickbacks and referral fees and require the disclosure of certain information to borrowers concerning credit and settlement costs. Many of these regulatory requirements seek to protect the interest of consumers, while others protect the owners or insurers of mortgage loans. Failure to comply with these requirements can lead to loss of approved status, demands for indemnification or loan repurchases from investors, class action lawsuits by borrowers, administrative enforcement actions and, in some cases, rescission or voiding of the loan by the consumer.

CONSTRUCTION PRODUCTS

Construction Products operations include the manufacture, production, distribution and sale of cement, gypsum wallboard, recycled paperboard, aggregates and readymix concrete. As of March 31, 2003, our ownership in Construction Products was approximately 65.1%.

Cement

Construction Products operates cement plants in or near Buda, Texas; LaSalle, Illinois; Fernley, Nevada and Laramie, Wyoming. The plants in Buda and LaSalle are owned by separate partnerships in which Construction Products has a 50% interest. Construction Products proportionally consolidates its pro rata interest in the revenues, expenses, assets and liabilities of those extractive industry joint ventures. The kiln start-up dates of the cement plants were as follows: Buda, Texas, 1978 (expanded 1983); LaSalle, Illinois, 1974; Fernley, Nevada (2 kilns), 1964 and 1969 and Laramie, Wyoming (2 kilns), 1988 and 1996. All four of the cement plants are fuel-efficient dry process plants.

Construction Products net cement production, excluding the partners 50% interest in the Buda and LaSalle plants, totaled approximately 2.27 million tons in fiscal 2003 and 2.24 million tons in fiscal 2002. Total net cement sales were 2.36 million tons in fiscal 2003 and 2.44 million tons in fiscal 2002, as all four cement plants sold all of the product they produced. During the past five years, Construction Products purchased cement from others to be resold. In fiscal 2003, 6.7% of the cement sold by Construction Products was acquired from outside sources, compared to 10.5% in fiscal 2002.

Raw Materials and Fuel Supplies

The principal raw material used in the production of portland cement is calcium carbonate in the form of limestone. Construction Products obtains limestone principally through mining and extraction operations at quarries owned or leased by Construction Products or its partnerships that are located in close proximity to the plants. Construction Products management believes that the estimated recoverable limestone reserves owned or leased by it or its partnerships will permit its Buda, Texas; LaSalle, Illinois and Laramie, Wyoming plants to operate at present production capacity for at least 30 years and the Fernley, Nevada plant to operate at its present production capacity for at least 12 years. Construction Products management expects that additional limestone reserves for the Fernley plant will be available when needed on an economically feasible basis, although such reserves may be more distant and more expensive to transport than the Fernley plant's existing reserves.

The cement plants use coal and coke as their primary fuel but are equipped to burn natural gas as an alternative fuel. Electric power is a major cost component in the manufacture of cement. Construction Products seeks to diminish overall power costs by adopting interruptible power supply agreements, which may expose the plants to some production interruptions during periods of power curtailment. While power and coal costs generally increased during fiscal 2003 because of the location of Construction Product's cement plants, such increases are not expected to significantly impact cement manufacturing costs in fiscal 2004.

Sales and Distribution

Demand for cement is highly cyclical and depends on the demand for concrete products, which, in turn, depends on the demand for construction. According to estimates of the Portland Cement Association, the primary construction sectors that account for the largest shares of cement consumption are public works construction, non-residential construction and residential construction. These sectors comprised 49%, 23% and 22%, respectively, of U.S. cement consumption in calendar year 2002. No single customer of Construction Products accounted for as much as 10% of total cement sales during fiscal 2003. The principal geographic markets for Construction Products cement are Texas and western Louisiana, which are serviced by the Buda, Texas plant; Illinois and southern Wisconsin, which are serviced by the LaSalle, Illinois plant; Nevada, except Las Vegas, and northern California, which are serviced by the Fernley, Nevada plant and Wyoming, Utah, northern Colorado, western Nebraska and eastern Nevada, which are serviced by the Laramie, Wyoming plant.

We distribute our cement principally by common carriers and customer pickup. In addition, we transport our cement principally by rail to storage and distribution terminals for further distribution, which expands each plant s selling area.

Competition and Other Factors

The cement business is extremely competitive. In every geographic area in which Construction Products sells cement, one or more other domestic producers compete. In addition, foreign companies compete in most sales areas by importing cement into the United States. The number of principal competitors operating in the same geographic areas as Construction Products cement plants are: six in Buda, six in LaSalle, six in Fernley and four in Laramie. Construction Products competes by operating efficient cement plants, merchandising a high quality product and providing good service and competitive pricing.

Gypsum Wallboard

Construction Products owns and operates four gypsum wallboard manufacturing facilities: two located in Albuquerque and nearby Bernalillo, New Mexico, one located in Gypsum, Colorado (near Vail) and one located in Duke, Oklahoma, acquired in November 2000.

Construction Products gypsum wallboard production totaled 1,956 million square feet in fiscal 2003 and 1,890 million square feet in fiscal 2002. Total gypsum wallboard sales were 1,933 million square feet in fiscal 2003 and 1,930 million square feet in fiscal 2002.

Raw Materials and Fuel Supplies

Construction Products mines and extracts natural gypsum rock, the principal raw material used in the manufacture of gypsum wallboard, from mines and quarries owned, leased or subject to claims owned by Construction Products and located near its plants. Construction Products estimates that the New Mexico, Colorado and Oklahoma mines and quarries contain approximately 50 million tons, 21 million tons and 15 million tons of gypsum reserves. Based on its current production capacity, Construction Products management estimates that the life of its existing gypsum rock reserves is at least 80 years in New Mexico, 35 years in Colorado and 15 years in Oklahoma. Construction Products believes other gypsum deposits are located in the immediate area of the Oklahoma plant and may be obtained at a reasonable cost when needed.

Prior to November 2000, Construction Products purchased paper used in manufacturing gypsum wallboard from third-party suppliers. As a result of the acquisition of paperboard manufacturing operations in November 2000, Construction Products now manufactures almost all of the paper needed for its gypsum wallboard productions.

Construction Products wallboard plants use large quantities of natural gas and electrical power. Construction Products currently obtains a portion of its natural gas requirements from three gas producers under gas supply agreements expiring in September 2003 for Colorado, November 2003 for New Mexico and June 2004 for Oklahoma. If the agreements are not renewed, Construction Products management expects to be able to obtain its gas supplies from other suppliers at competitive prices. Power for the Gypsum, Colorado plant is supplied by the cogeneration power facility that was acquired along with the gypsum wallboard plant in 1997. Natural gas costs generally increased during fiscal 2003 and are likely to remain above average fiscal 2003 gas costs in fiscal 2004. If gas costs remain at the current high level, such costs are expected to significantly impact fiscal 2004 gypsum wallboard manufacturing costs.

Sales and Distribution

The principal sources of demand for gypsum wallboard are residential and non-residential construction, repair and remodeling. While the gypsum wallboard industry remains highly cyclical, recent growth in the repair and remodeling segment has partially mitigated the impact of fluctuations on overall levels of new construction. Construction Products sells wallboard to numerous building materials dealers, wallboard specialty distributors, home center chains and other customers located throughout the United States. Although wallboard is distributed principally in regional areas, Construction Products and some other producers have the ability to ship wallboard by rail outside their usual regional distribution areas to take advantage of other regional increases in demand. Construction Products rail distribution capabilities permit it to reach customers in all states west of the Mississippi River and many eastern states. During fiscal 2003, approximately 22% of Construction Products sales volume of gypsum wallboard was transported by rail. Construction Products had two customers that together accounted for approximately 23% of its wallboard sales during fiscal 2003.

Competition and Other Factors

There currently are eight manufacturers of wallboard in the United States operating a total of 81 plants. Construction Products estimates that the three largest producers, of which Construction Products is not one, accounted for approximately 65% of wallboard sales in the United States in calendar year 2002. Competition among wallboard producers is primarily on a regional basis with local producers benefiting from lower transportation costs and, to a lesser extent, on a national basis. Currently, the wallboard industry has production capacity in excess of demand. This excess capacity has historically resulted in volatile pricing. Because of the commodity nature of the product, competition is based principally on price and, to a lesser extent, on product quality and customer service.

Recycled Paperboard Operations

Construction Products conducts its recycled paperboard manufacturing operations at its Lawton, Oklahoma mill. The Lawton mill commenced commercial operation in March 2000 and was acquired by

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Construction Products in November 2000. The Lawton mill has the capacity to produce up to approximately 275,000 tons, of gypsum-grade recycled paperboard annually. In fiscal 2003, its total recycled paperboard production was approximately 232,000 tons.

Construction Products produces all of the paperboard products manufactured at the paperboard mills from 100% reclaimed paper fiber. These products are classified by the industry as recycled paperboard. Recycled paperboard products include the facing paper used in the manufacture of gypsum wallboard and recycled paperboard used by manufacturers of consumer and industrial paperboard products. The principal raw materials used by the recycled paperboard mills are reclaimed paper fiber, chemicals and water. Construction Products currently purchases reclaimed paper fiber from several sources. The recycled paperboard products are sold primarily to gypsum wallboard manufacturers. During fiscal 2003, approximately 31% of the recycled paperboard manufactured and shipped by Construction Products recycled paperboard mills was consumed by its own gypsum wallboard manufacturing operations and approximately 53% was shipped to two other gypsum wallboard manufacturers. Construction Products supplies one of these gypsum wallboard manufacturers through a long-term supply agreement. The loss of one or more gypsum wallboard manufacturers as customers, unless replaced by a commercially similar arrangement within a reasonable time period, could have an adverse effect on recycled paperboard sales and profit margins. The remaining 16% of the recycled paperboard manufactured and shipped by Construction Products recycled paperboard mills was not gypsum-grade and was shipped to various customers.

The demand for recycled paperboard directly corresponds to the cyclical gypsum wallboard market. Construction Products competes with approximately nine other manufacturers of gypsum-grade paperboard, six of which have gypsum wallboard manufacturing operations. Substantially all of these competitors have greater financial resources. Price, quality, personal relationships and timeliness of deliveries are the principal methods of competition among paperboard producers.

Concrete and Aggregates

Construction Products concrete and aggregates operations are located in and around Austin, Texas and northern California. The 10,000-acre aggregates deposit in northern California contains sufficient estimated reserves to meet current mining requirements for aggregates for a period of more than 100 years. Construction Products sells aggregates from this deposit to customers in the Sacramento, California area and in nearby counties. No single customer accounted for as much as 10% of Construction Products concrete and aggregates sales during fiscal 2003. Competition among concrete producers within Construction Products northern California and Austin markets is strong.

Environmental Matters

The operations of Construction Products, are subject to numerous federal, state and local laws and regulations governing the protection of health and safety and the environment. Some of these laws impose permitting requirements and govern the nature and amount of emissions that may be generated when conducting particular operations. Other laws impose obligations to clean up or remediate spins of hazardous materials into the environment. We believe that Construction Products has obtained all the material permits that are necessary to conduct its operations. We further believe that Construction Products is conducting its operations in material compliance with these permits.

Two environmental issues deserve special mention. First, cement kiln dust or CKD is generated in connection with the operations of Construction Products cement plants. The federal Environmental Protection Agency or EPA has been evaluating the regulatory status of CKD under the federal Resource Conservation and Recovery Act (RCRA) for a number of years. In 1999, the EPA proposed a rule that would allow states to regulate properly managed CKD as a non-hazardous waste under state laws and

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regulations governing solid waste. In contrast, CKD that was not properly managed would be treated as a hazardous waste under RCRA. In 2002, the EPA confirmed its intention to exempt properly managed CKD from the hazardous waste requirements of RCRA. The agency announced that it would collect additional data over the next three to five years to determine if the states regulation of CKD is effective, which may lead the EPA to withdraw its 1999 proposal to treat any CKD as a hazardous waste. Final action implementing the 2002 announcement is expected to occur in June 2003.

Currently, substantially all CKD produced in connection with Construction Products present operations is recycled, and therefore such CKD is not viewed as a waste. However, CKD was historically collected and stored on-site at Construction Products cement plants. If either the EPA or the states decide to impose management standards on this CKD at some point in the future, Construction Products could incur additional costs to comply with those requirements.

A second environmental issue involves the potential regulation of greenhouse gasses from cement plants under the federal Clean Air Act. Although no restrictions have been imposed, it is possible that cement plants may be targeted because of the large amounts of carbon dioxide generated during the manufacturing process.

Any additional environmental requirements imposed on Construction Products would also be imposed on other members of the construction products industry. Although we believe that Construction Products practices and procedures are consistent with industry standards, there can be no assurance that there will not be environmental liabilities or claims imposed in the future. In addition, there is always the risk of more stringent environmental laws being enacted or enforced in such a way that necessitate significant capital outlays.

CONSTRUCTION SERVICES

Construction Services is made up of four principal operating companies with various geographic locations and project niches. Healthcare facility construction has represented nearly one-fourth of Construction Services business mix during recent years. New contracts for the group for fiscal 2003 totaled $0.86 billion versus $1.46 billion for fiscal 2002. The backlog of uncompleted contracts at March 31, 2003 was $1.52 billion compared to $2.18 billion at March 31, 2002. Approximately $1.20 billion of the backlog of uncompleted contracts at March 31, 2003 is projected to be put into place during fiscal year 2004. We define backlog as the uncompleted portion of all signed contracts. Construction Services principal subsidiaries are as follows:

Centex Construction Company, Inc. This subsidiary has operational offices in Dallas, Houston and San Antonio, Texas; Fairfax, Virginia; Charlotte, North Carolina and Atlanta, Georgia. This company pursues negotiated work in its regional market areas.

Centex Rodgers, Inc. This subsidiary is a nationwide healthcare construction specialist and is headquartered in Nashville, Tennessee with operational offices in Pasadena, California; Detroit, Michigan; West Palm Beach, Florida; Rochester, Minnesota and Indianapolis, Indiana.

Centex-Rooney Construction Co., Inc. This subsidiary, based in Plantation, Florida, performs all types of work, principally within the state of Florida, and has operational offices in Miami, Orlando, Tampa, Tallahassee, Jacksonville, Ft. Myers and West Palm Beach.

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Centex Engineering & Construction, Inc. This subsidiary, which focuses on industrial client construction projects, is located in Dyersburg, Tennessee and operates principally within the state of Tennessee. The company has additional marketing offices in Memphis, Tennessee; Lexington, Kentucky and Dallas, Texas.

As a general contractor or construction manager, Construction Services provides supervisory personnel for the construction of facilities. In addition, Construction Services may perform varying amounts of the actual construction work on a project but will generally hire subcontractors to perform the majority of the work.

Construction contracts primarily fit into one of two formats: negotiated or competitive bid. In a negotiated format, the contractor bids a fee (fixed or percentage) over the cost of the project and, in many instances, agrees that the final cost will not exceed a designated amount. These contracts may include a provision whereby the owner will pay a part of any savings from the guaranteed amount to the contractor. In a competitive bid format, Construction Services will bid a fixed amount to construct the project based on an evaluation of detailed plans and specifications. At March 31, 2003, approximately 86% of uncompleted backlog was negotiated. Construction Services projects include hospitals, hotels, office buildings, correctional facilities, schools, shopping centers, airports, parking garages, sport stadiums, post offices and convention and performing arts centers.

Competition and Other Factors

The construction industry is very competitive, and Construction Services competes with numerous other companies. With respect to competitively bid projects and negotiated healthcare work, Construction Services generally competes throughout the United States with local, regional and national contractors, depending upon the nature of the project. For negotiated projects other than healthcare, Construction Services generally competes in the subsidiary s primary geographical area with other local, regional and national contractors. Construction Services solicits new projects by attending project bid meetings, by meeting with builders and owners and through existing customers. Construction Services competes successfully on the basis of its reputation, financial strength, knowledge and understanding of its clients needs.

Construction Services operations are affected by federal, state and local laws and regulations relating to worker health and safety, as well as environmental laws. With respect to health and safety matters, we believe that Construction Services has taken appropriate precautions to protect employees and others from workplace hazards. Current environmental laws may require Construction Services operating subsidiaries to work in concert with project owners to acquire the necessary permits or other authorizations for certain activities, including the construction of projects located in or near wetland areas. Construction Services operations are also affected by environmental laws regulating the use and disposal of hazardous materials encountered during demolition operations.

We believe that Construction Services current procedures and practices are consistent with industry standards and that compliance with the health and safety laws and environmental laws does not constitute a material burden or expense.

Construction Services operations obtain materials and services from numerous sources. Our construction companies have been able to deal effectively with problems they have experienced to date in the supply of materials and services.

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INVESTMENT REAL ESTATE

Investment Real Estate conducts its operations directly and through our investment in Centex Development Company. As noted in Note (G), Centex Development Company, L.P., on pages 84-85 of this Report, our investment in Centex Development Company is not consolidated and is accounted for on the equity method of accounting. Investment Real Estate s operations involve the acquisition, development and sale of land, primarily for industrial, office, multi-family, retail, residential and mixed-use projects. Through our investment in Centex Development Company, the operations also include the International Home Building business located in the United Kingdom.

As of March 31, 2003, Investment Real Estate s property portfolio consisted of land located in five states. We have major conventional homebuilding operations in most markets where Investment Real Estate owns substantial property.

Investment Real Estate s land portfolio, by state, at March 31, 2003 is shown in the following table:

State	Acres	Zoning
Texas	319	Industrial, Office, Retail & Residential
California	204	Residential
Florida	155	Industrial & Office
North Carolina	60	Industrial & Office
Virginia	13	Multi-Family

At March 31, 2003, Investment Real Estate also owned, either directly or through interests in joint ventures, approximately 303,000 square feet of office and retail buildings located in Arizona and Texas.

In addition, Investment Real Estate owns a limited partnership interest in Centex Development Company. At March 31, 2003, Centex Development Company owned or controlled: 4,739 plots in 98 residential developments located throughout England; 101 homes in 37 residential developments located throughout England; 304 acres of land located in California, Florida, Hawaii, Michigan and South Carolina and 2.1 million square feet of industrial, medical, office and retail buildings in California, Massachusetts, Michigan, Mississippi, North Carolina and Texas. At March 31, 2003, Centex Development Company had projects under development totaling approximately 200,000 square feet of office, industrial and retail projects in California and Texas, 661 multi-family units in Florida and Texas and six acres of land in a mixed-use development in Minnesota.

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EMPLOYEES

The following table presents the breakdown of employees in each line of business as of March 31, 2003:

Line of Business	Employees
Home Building	5,764
Financial Services	5,704
Construction Products	1,529
Construction Services	1,596
Investment Real Estate	605
Other Operations	2,187
Corporate	155
	17,540

The 155 corporate employees are employed by Centex Corporation; all others are employees of our various subsidiaries. The 2,187 Other Operations employees are employed by our manufactured homes and home services operations.

AVAILABLE INFORMATION

Shareholders, securities analysts and others seeking information about our business operations and financial performance can receive copies of the 2003 Annual Report to Shareholders, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports and other publications filed with the Securities and Exchange Commission in Washington, D.C., without charge, by contacting our Corporate Communications office at (214) 981-6503; by writing to Centex Corporation, Investor Relations, P.O. Box 199000, Dallas, Texas 75219 or via email at ir@centex.com. In addition, all filings with the Securities and Exchange Commission, news releases and quarterly earnings announcements, including live audio and replays of recent quarterly earnings webcasts, can be accessed free of charge on our web site (www.centex.com). We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act available on our web site as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. To retrieve any of this information, go to www.centex.com, select Investor Relations and select SEC Filings.

ITEM 2. PROPERTIES

The following properties are used in the operation of our business:

Centex Homes owns property in Dallas, Texas. This property consists of office and warehouse buildings situated on approximately 18 acres. Centex Homes also owns smaller parcels of land in rural areas of Ohio, Indiana, Pennsylvania, Florida, North Carolina, Minnesota and Washington. Situated on this land are sales offices for its on-your-lot market segment.

Financial Services owns property in Edmond, Oklahoma. This property consists of two office buildings situated on approximately 12 acres of a 20-acre parcel of land. The remaining eight acres of the parcel are being held for future development or sale.

Construction Products operates cement plants, quarries and related facilities at Buda, Texas; LaSalle, Illinois; Fernley, Nevada and Laramie, Wyoming. Construction Products owns the Fernley and Laramie facilities, and the Buda and LaSalle plants are each owned by separate joint ventures or partnerships in which Construction Products has a 50% interest. Construction Products owns its principal aggregate plants and quarries, which are located near Austin, Texas and Marysville, California. In addition, Construction Products owns gypsum wallboard plants in Albuquerque and nearby Bernalillo, New Mexico; Gypsum, Colorado and Duke, Oklahoma. Construction Products owns a paperboard mill in Lawton, Oklahoma.

Our wholly-owned subsidiaries also own an office building and land located in Ocala, Florida.

See Item 1. Business on pages 6-23 of this Report for additional information relating to the Company s properties.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of our business, we and/or our subsidiaries are named as defendants in suits filed in various state and federal courts. We believe that none of the litigation matters in which we, or any of our subsidiaries, are involved would have a material adverse effect on our consolidated financial condition or operations.

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

Not applicable.

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EXECUTIVE OFFICERS OF CENTEX (See Item 10 of Part III of this Report)

The following is an alphabetical listing of our executive officers, as such term is defined under the rules and regulations of the Securities and Exchange Commission. All of these executive officers were elected by our Board of Directors at our Annual Meeting on July 18, 2002 to serve until the next Annual Meeting of Directors or until the respective successors are duly elected and qualified. There is no family relationship between any of these officers.

Name	Age	Positions with Centex or Business Experience
Leldon E. Echols	47	Executive Vice President and Chief Financial Officer of Centex Corporation since June 2000; Partner and employee at Arthur Andersen LLP from December 1978 to May 2000
Timothy R. Eller	54	President and Chief Operating Officer of Centex Corporation since April 2002; Executive Vice President of Centex Corporation since August 1998; Chairman of the Board and Chief Executive Officer of Centex Real Estate Corporation (Chairman of the Board since April 1998; Chief Executive Officer of Centex Real Estate Corporation since July 1991; President and Chief Operating Officer of Centex Real Estate Corporation from January 1990 to March 1998; Executive Vice President from July 1985 to January 1990)
Laurence E. Hirsch	57	Chairman of the Board and Chief Executive Officer of Centex Corporation (Chairman of the Board since July 1991; Chief Executive Officer since July 1988; President from March 1985 until July 1991)
Mark D. Kemp	41	Vice President and Controller of Centex Corporation since December 2002; Partner and employee at Arthur Andersen LLP from December 1983 to August 2002
Raymond G. Smerge	59	Executive Vice President, Chief Legal Officer, General Counsel and Secretary of Centex Corporation (Executive Vice President since July 1997; Chief Legal Officer since September 1985; General Counsel and Secretary since April 1993; Vice President from September 1985 to July 1997)
Robert S. Stewart	49	Senior Vice President of Centex Corporation since May 2000; Employee at the Weyerhaeuser Company from March 1977 to May 2000, during which time he held a range of key management positions, including positions in strategic planning

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PART II

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

Stock Prices and Dividends

	Year Ended March 31, 2003			*Year Ended March 31, 2002*		
	Price			*Price*		
	High	***Low***	***Dividends***	*High*	*Low*	*Dividends*
Quarter						
First	**$ 58.89**	**$ 48.90**	**$ .04**	$ 45.98	$ 34.00	$ .04
Second	**$ 59.19**	**$ 42.53**	**$ .04**	$ 50.00	$ 28.03	$ .04
Third	**$ 52.68**	**$ 38.31**	**$ .04**	$ 58.80	$ 32.56	$ .04
Fourth	**$ 57.58**	**$ 48.30**	**$ .04**	$ 63.09	$ 51.25	$ .04

The principal market for our common stock is the New York Stock Exchange (ticker symbol CTX). Our common stock also trades on the London Stock Exchange. The approximate number of record holders of our common stock at May 15, 2003 was 3,260.

On November 30, 1987, we distributed as a dividend to our stockholders securities relating to Centex Development Company, L.P. (see Note (G), Centex Development Company, L.P., on pages 84-85 of this Report). Since this distribution, these securities have traded in tandem with, and as a part of, our common stock.

Amounts represent cash dividends per share paid by us on our common stock. 3333 Holding Corporation has paid no dividends on its common stock since its incorporation. We currently expect that comparable cash dividends will continue to be paid for the balance of fiscal year 2004.

The remaining information called for by this item relating to securities authorized for issuance under equity compensation plans is reported in Note (L), Capital Stock and Employee Benefit Plans, on pages 93-96 of this Report.

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ITEM 6. SELECTED FINANCIAL DATA

Summary of Selected Financial Data (Unaudited)
(Dollars in thousands, except per share data)

	For the Years Ended March 31,				
	2003	2002	2001	2000	1999
Revenues	**$ 9,117,241**	$ 7,748,430	$ 6,710,735	$ 6,008,136	$ 5,200,666
Net Earnings	**$ 555,919**	$ 382,226	$ 281,977	$ 257,132	$ 231,962
Stockholders Equity	**$ 2,657,846**	$ 2,116,773	$ 1,714,064	$ 1,419,349	$ 1,197,639
Net Earnings as a Percentage of Beginning Stockholders Equity	**26.3%**	22.3%	19.9%	21.5%	23.4%
Total Assets	**$ 11,610,536**	$ 8,985,455	$ 6,649,043	$ 3,987,903	$ 4,267,909
Deferred Income Tax Asset	**$ 52,929**	$ 76,167	$ 58,454	$ 49,907	$ 49,107
Total Long-term Debt, Consolidated	**$ 6,237,213**	$ 4,943,524	$ 3,040,861	$ 751,160	$ 284,299
Debt (with Financial Services reflected on the equity method) (1)	**$ 2,105,880**	$ 1,791,752	$ 1,464,993	$ 898,068	$ 587,955
Financial Services Debt	**4,998,819**	3,485,027	2,054,898	415,327	1,322,944
Total Debt, Consolidated	**$ 7,104,699**	$ 5,276,779	$ 3,519,891	$ 1,313,395	$ 1,910,899
Capitalization (with Financial Services reflected on the equity method)(1)(2)	**$ 4,932,217**	$ 4,063,296	$ 3,320,548	$ 2,495,784	$ 1,991,298
Financial Services Capitalization (2)	**5,380,226**	3,797,355	2,323,155	620,080	1,443,890
Consolidation Adjustments	**(379,671)**	(313,809)	(266,124)	(202,931)	(119,092)
Total Capitalization, Consolidated	**$ 9,932,772**	$ 7,546,842	$ 5,377,579	$ 2,912,933	$ 3,316,096
Debt as a Percentage of Capitalization (2)					
Debt (with Financial Services reflected on the equity method) (1)	**42.7%**	44.1%	44.1%	36.0%	29.5%
Total Debt, Consolidated	**71.5%**	69.9%	65.5%	45.1%	57.6%
Per Common Share					
Earnings Per Share Basic	**$ 9.15**	$ 6.31	$ 4.77	$ 4.34	$ 3.90
Earnings Per Share Diluted	**$ 8.83**	$ 6.11	$ 4.65	$ 4.22	$ 3.75
Cash Dividends	**$ .16**	$ .16	$ .16	$ .16	$ .16
Book Value Based on Shares Outstanding at Year End	**$ 43.69**	$ 34.60	$ 28.60	$ 24.14	$ 20.17
Stock Prices					
High	**$ 59.19**	$ 63.09	$ 46.20	$ 42.88	$ 45.75
Low	**$ 38.31**	$ 28.03	$ 20.63	$ 17.50	$ 26.00

On November 30, 1987, we distributed as a dividend to our stockholders securities relating to 3333 Holding Corporation and 3333 Development Corporation (See Note (G), Centex Development Company, L.P., on pages 84-85 of this Report). Since this distribution, those securities have traded in tandem with, and as a part of, our common stock.

(1) Represents a supplemental presentation that reflects the Financial Services segment as if accounted for under the equity method. We believe that separate disclosure of the consolidating information is useful because the Financial Services subsidiaries operate in a distinctly different financial environment that generally requires significantly less equity to support their higher debt levels compared to the operations of our other subsidiaries; the Financial Services subsidiaries have structured their financing programs substantially on a

stand alone basis; and we have limited obligations with respect to the indebtedness of our Financial Services subsidiaries. Management uses this information in its financial and strategic planning. We also use this presentation to allow investors to compare us to homebuilders that do not have financial services operations.

(2) *Capitalization is composed of Debt, Negative Goodwill, Minority Interest and Stockholders Equity.*

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FISCAL YEAR 2003 COMPARED TO FISCAL YEAR 2002

We reported consolidated revenues of $9.12 billion for fiscal 2003, 17.7% above the $7.75 billion reported for fiscal 2002. Earnings before income taxes were $794.9 million, 28.5% more than the $618.8 million of earnings before income taxes reported last year. Net earnings for fiscal 2003 reached $555.9 million, a historical high and a 45.4% improvement over net earnings of $382.2 million in fiscal 2002. Earnings per share for fiscal 2003 were $9.15 and $8.83 for basic and diluted, respectively, compared to $6.31 and $6.11 for the prior year. The increase in net earnings is significantly higher than the increase in earnings before income taxes due to a reduction in our effective tax rate. Our effective tax rate decreased to 30.1% for the year ended March 31, 2003 from 38.2% for the year ended March 31, 2002. The decrease in the effective tax rate is primarily the result of the utilization of net operating loss carryforwards during fiscal 2003. We expect that the effective tax rate will increase slightly in fiscal 2004 to approximately 32%.

HOME BUILDING

The following summarizes the results of our Home Building operations for the two-year period ended March 31, 2003 (dollars in millions, except per unit data):

	For the Years Ended March 31,			
	2003		2002	
		% of Revenues		% of Revenues
Revenues	**$ 5,934.5**	**100.0%**	$ 4,984.8	100.0%
Cost of Sales	**(4,388.5)**	**(73.9%)**	(3,713.4)	(74.5%)
Selling, General and Administrative Expenses	**(865.2)**	**(14.6%)**	(743.9)	(14.9%)
Operating Earnings	**$ 680.8**	**11.5%**	$ 527.5	10.6%
		% Change		% Change
Units Closed	**26,427**	**15.1%**	22,960	11.1%
Average Unit Sales Price	**$ 220,183**	**3.0%**	$ 213,738	3.8%
Operating Earnings Per Unit	**$ 25,761**	**12.1%**	$ 22,973	11.6%
Backlog Units	**12,050**	**28.6%**	9,371	1.1%
Ending Operating Neighborhoods	**552**	**16.5%**	474	(1.5%)

Revenues for the year ended March 31, 2003 increased 19.1% versus prior year, primarily due to an increase in units closed and higher unit sales prices. Units closed during fiscal 2003 increased 15.1% from 22,960 units to 26,427 units, and the average unit sales price increased 3.0% from $213,738 to $220,183. The increase in units closed was the result of a higher number of operating neighborhoods in the current year versus last year. The increase in the unit sales price was largely driven by higher selling prices in the Washington, D.C., New Jersey and California markets.

Cost of sales was 73.9% of revenues for the year ended March 31, 2003 compared to 74.5% of revenues for the same period last year. The decrease in cost of sales as a percentage of revenue is a result of higher per unit sales price and ongoing cost reduction efforts.

Selling, general and administrative expenses for the year ended March 31, 2003 were $865.2 million, or 14.6% of revenues, as compared to the $743.9 million and 14.9% of revenues reported for the same period last year. The dollar increase was due to incremental costs associated with closing more homes and higher personnel costs to support Home Building s growth in neighborhoods.

Operating earnings for the year ended March 31, 2003 were 11.5% of revenues and approximately $25,761 on a per-unit basis, compared to operating earnings of 10.6% of revenues and approximately $22,973 on a per-unit basis for the same period last year.

Units in backlog increased 28.6% to 12,050 units at March 31, 2003 compared to 9,371 units at March 31, 2002. The increase in backlog resulted from a 16.5% increase in neighborhoods and a 24.7% increase in sales versus the prior year. Centex Homes defines backlog units as units that have been sold, as indicated by a signed contract, but not closed. Centex Homes enters fiscal 2004 with a record year end backlog of home sales and expects to continue to add more neighborhoods.

FINANCIAL SERVICES

The Financial Services segment primarily is engaged in the residential mortgage banking business, as well as in other financial services that are in large part related to the residential mortgage market. Its operations include mortgage origination, servicing and other related services for purchasers of homes sold by our Home Building operations and other homebuilders, as well as sub-prime home equity lending and the sale of title insurance and various other insurance coverages. The following summarizes Financial Services results for the two-year period ended March 31, 2003 (dollars in millions):

	For the Years Ended March 31,	
	2003	2002
Revenues	**$ 855.0**	$ 699.8
Interest Margin	**$ 172.4**	$ 107.7
Operating Earnings	**$ 161.8**	$ 114.7
Origination Volume	**$ 16,497.4**	$ 14,537.9
Number of Loans Originated		
CTX Mortgage Company, L.L.C.		
Centex-built Homes (Builder)	**18,127**	15,435
Non-Centex-built Homes (Retail)	**66,807**	64,949
	84,934	80,384
Centex Home Equity Company, L.L.C.	**29,448**	26,955
	114,382	107,339

	CTX Mortgage Company, L.L.C.		Centex Home Equity Company, L.L.C.	
	For the Years Ended March 31,		*For the Years Ended March 31,*	
	2003	2002	**2003**	2002
Average Interest Earnings Assets	**$ 198.6**	$ 243.7	**$ 3,895.5**	$ 2,625.1
Average Yield	**7.18%**	7.86%	**8.76%**	9.38%
Average Interest Bearing Liabilities	**$ 132.4**	$ 211.0	**$ 4,049.2**	$ 2,653.9
Average Rate Paid	**4.08%**	5.57%	**4.38%**	5.46%

Financial Services results are primarily derived from conforming mortgage banking and sub-prime home equity lending operations as described below.

Conforming Mortgage Banking

The revenues and operating earnings of CTX Mortgage Company, L.L.C. and related entities, or CTX Mortgage, are derived primarily from the sale of mortgage loans, inclusive of all service rights and, to a lesser extent, interest income and other fees. Our business strategy of selling conforming loans reduces our capital investment and related risks, provides substantial liquidity and is an efficient process given the size and maturity of the conforming mortgage loan secondary capital markets. CTX Mortgage originates mortgage loans, holds them for a short period and sells them to investors and Harwood Street Funding I, L.L.C., or HSF-I. HSF-I is an unaffiliated entity that is not consolidated with Financial Services or Centex Corporation and subsidiaries at March 31, 2003. HSF-I purchases mortgage loans, at closing, from CTX Mortgage with the proceeds from the issuance of securitized term debt, secured liquidity notes and subordinated certificates that are extendable for up to five years. The debt, interest income and interest expense of HSF-I are not reflected in the financial statements of Financial Services or Centex Corporation and subsidiaries. CTX Mortgage sold $10.55 billion and $10.20 billion of mortgage loans to HSF-I and repurchased $6.9 million and $1.1 million of delinquent or foreclosed mortgage loans from HSF-I during the years ended March 31, 2003 and 2002, respectively. CTX Mortgage recognized gains on the sale of mortgage loans of $254.6 million and $188.9 million for the years ended March 31, 2003 and 2002, respectively. For additional information regarding HSF-I and the implication of recent accounting pronouncements on HSF-I, see Certain Off-Balance-Sheet and Other Obligations on pages 49-51 of this Report.

Revenues increased 14.3% to $453.9 million for the year ended March 31, 2003 as compared to the same period last year. The increase in revenues for the year is primarily related to an increase in CTX Mortgage originations as well as higher revenue from Title and Insurance operations. The increase in originations and Title and Insurance revenues for the year ended March 31, 2003 was due, in large part, to an increase in mortgage loans originated for Centex Homes buyers and an increase in refinancing business.

CTX Mortgage s selling, general and administrative expenses increased $38.9 million to $332.2 million at March 31, 2003. This increase primarily was due to increased employee count and related costs at our Title and Insurance operations as a result of the increased volume of business discussed above. CTX Mortgage s operating earnings were $116.3 million for the year ended March 31, 2003, resulting in a 27.2% increase as compared to the same period last year. The increase in operating earnings for the year primarily is due to the increase in revenues discussed above and a decrease in the cost per loan originated.

In the normal course of its activities, CTX Mortgage carries inventories of loans pending sale to investors other than HSF-I and earns an interest margin, that we define as the difference between interest revenue on mortgage loans held for sale or investment and interest expense on debt used to fund the mortgage loans. CTX Mortgage uses short-term mortgage warehouse facilities to finance these inventories of loans. The fact that the average rate paid on interest bearing liabilities decreased significantly more than the yield earned on interest earning assets decreased and the increase in originations noted above led to a 32.8% increase in net interest margin for fiscal 2003 as compared to the same period last year, from $6.4 million to $8.5 million.

For the year ended March 31, 2003, originations totaled 84,934 compared to 80,384 originations in the same period last year; loan volume was $13.99 billion compared to $12.45 billion for the same period last year; the per-loan profit was $1,369, an increase of 20.4% compared to $1,137 for the same period last year and total mortgage applications increased 17.6% to 89,986 from 76,532 applications for the same period last year. For the year ended March 31, 2003, originations increased due to an increase in mortgage loans originated for Centex Homes buyers and an increase in refinancing business. For the year ended March 31, 2003, per-loan profit increased due to increased operational leverage as a result of the increase in the volume of originations, as well as an increase in Title and Insurance revenues and an improvement in the

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spread between the weighted-average coupon rate of loans originated by CTX Mortgage and its cost of funds.

The results of operations of CTX Mortgage depend to a significant extent on the level of interest rates. Any significant increases in mortgage rates above currently prevailing levels could adversely affect the volume of loan originations and may result in a significant curtailment of refinancing activity, which represents a substantial portion of our business. There can be no assurance that mortgage rates will remain at the current level in the future.

Sub-Prime Home Equity Lending

The revenues of Centex Home Equity Company, L.L.C., or Home Equity, increased 32.6% to $401.1 million for the year ended March 31, 2003 as a result of continued growth in our portfolio of residential mortgage loans held for investment. Interest margin,which we define as the difference between interest revenue on mortgage loans held for sale or investment and interest expense on debt used to fund the mortgage loans, increased to $163.9 million for the year ended March 31, 2003 as compared to $101.3 million for the same period last year. The increase in interest margin is primarily a result of an increase in the portfolio of mortgage loans held for investment and a decrease in interest rates on debt used to fund mortgage loans. Home Equity reported operating earnings of $47.1 million for the year ended March 31, 2003, as compared to operating earnings of $25.1 million for the same period last year. The increase in Home Equity s operating earnings is primarily the result of the increase in interest margin, as noted above. Interest income will be positively affected as the portfolio of mortgage loans held for investment increases and matures. The increase in interest margin was partially offset by an increase in servicing and production costs, mostly attributable to loan volume and loan servicing growth, and an increase in the provision for losses on residential mortgage loans held for investment. Home Equity s selling, general and administrative expenses increased $44.0 million to $176.5 million for the year ended March 31, 2003 as a result of Home Equity s growth. Home Equity s increase in loan production volume, the expansion of its branch offices and the increase in the number of its employees are directly related to a corresponding increase in salaries and related costs, rent expense, group insurance costs and advertising expenditures totaling approximately $26.5 million. The remainder of the increase was due to higher charges to the provision for loan losses, as discussed below.

From October 1997 through March 2000, a majority of Home Equity s loans originated were included in securitizations that utilized a structure that caused them to be accounted for as sales. Under this structure, Home Equity retained a residual interest in, as well as the servicing rights to, the securitized loans. We call this retained residual interest the mortgage securitization residual interest, or MSRI. As a result, our balance sheet does not reflect the mortgage loans receivable and offsetting debt resulting from these securitizations. The estimated gain on the sale of these loans was included in earnings during the period in which the securitization transaction closed. The structure of securitizations changed beginning April 1, 2000. As a result of the change, subsequent securitizations have been accounted for as borrowings; interest has been recorded over the life of the loans using the interest, or actuarial method; the mortgage loans receivable and the securitization debt have remained on Home Equity s balance sheet and the related interest margin has been reflected in our income statement. Under both structures, recourse on the securitized debt is limited to the payments received on the underlying mortgage collateral with no recourse to Home Equity or Centex Corporation. As is common in these structures, Home Equity remains liable for customary loan representations. The change in structure of the securitizations has no effect on the ultimate cash flow and profit recognized over the life of the mortgages. However, the change in accounting for securitizations did affect the timing of profit recognition. Interest margin, which is recognized over the life of the loan, is now Home Equity s primary source of operating income as compared to gain on sale of loans, which previously was recognized upon securitization. Home equity loans are securitized to provide a low cost method for funding our mortgage operations, to increase our liquidity and to reduce our interest rate exposure on fixed rate loans.

For the year ended March 31, 2003, originations totaled 29,448 compared to 26,955 originations for the same period last year; origination volume was $2.51 billion compared to $2.09 billion for the same period last year and total applications increased 43.9% to 248,150 from 172,498 applications for the same period last year. For the year ended March 31, 2003, originations increased 9.2% while origination volume increased 19.8% due to an increase in average loan size. The slight increase in the number of originations relative to the larger increase in total applications is reflective of Home Equity s continued adherence to its credit underwriting guidelines. Average interest earning assets increased 48.4%, from $2,625.1 million in fiscal 2002 to $3,895.5 million in fiscal 2003, and the corresponding average interest bearing liabilities increased 52.6%, from $2,653.9 million in fiscal 2002 to $4,049.2 million in fiscal 2003, primarily due to an increase in the volume of loan originations and an increase in average loan size. The average yield earned on these assets decreased from 9.38% in fiscal 2002 to 8.76% in fiscal 2003, and the average rate paid on these liabilities decreased from 5.46% in fiscal 2002 to 4.38% in fiscal 2003, primarily due to lower interest rates in fiscal 2003 compared to fiscal 2002. The fact that the average rate paid on interest bearing liabilities decreased significantly more than the yield earned on interest earning assets decreased and the increase in originations noted above led to a 61.8% increase in net interest margin from $101.3 million in fiscal 2002 to $163.9 million in fiscal 2003.

At March 31, 2003, Home Equity s total servicing portfolio consisted of 74,402 loans totaling $5.48 billion compared to 62,833 loans totaling $4.37 billion at March 31, 2002. For the year ended March 31, 2003, service fee income related to this servicing was $51.4 million compared to $38.2 million for the same period last year.

The primary risks in Home Equity s operations are consistent with those of the financial services industry and include credit risk associated with its loans, liquidity risk related to funding its loans and interest rate risk prior to securitization of the loans. In addition, as Home Equity services its loans, it is also subject to customer prepayment risks.

Allowance for Losses

Home Equity originates and purchases loans in accordance with standard underwriting criteria. The underwriting standards are primarily intended to assess the creditworthiness of the mortgagee and the value of the mortgaged property and to evaluate the adequacy of the property as collateral for the home equity loan.

Home Equity establishes an allowance for losses by charging the provision for losses in the statement of consolidated earnings when it believes the event causing the loss has occurred. When Home Equity determines that a residential mortgage loan held for investment is partially or fully uncollectible, the estimated loss is charged against the allowance for losses. Recoveries on losses previously charged to the allowance are credited to the allowance at the time the recovery is collected.

We believe that the allowance for losses is sufficient to provide for credit losses in the existing residential mortgage loans held for investment, which include real estate owned. We evaluate the allowance on an aggregate basis considering, among other things, the relationship of the allowance to residential mortgage loans held for investment and historical credit losses. The allowance reflects our judgment of the present loss exposure at the end of the reporting period. A range of expected credit losses is estimated using historical losses, static pool loss curves and delinquency modeling. These tools take into consideration historical information regarding delinquency and loss severity experience and apply that information to the portfolio at each reporting date.

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Although we consider the allowance for losses on residential mortgage loans held for investment reflected in our consolidated balance sheet to be adequate, there can be no assurance that this allowance will prove to be adequate over time to cover ultimate losses. This allowance may prove to be inadequate due to unanticipated adverse changes in the economy or discrete events adversely affecting specific customers or industries.

Changes in the allowance for losses on residential mortgage loans held for investment were as follows (dollars in th