

ACCREDITED HOME LENDERS HOLDING CO

Form 424B5

October 04, 2004

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Prospectus Supplement

(To Prospectus dated August 9, 2004)

593,678 Shares

Accredited Mortgage Loan REIT Trust

9.75% Series A Perpetual Cumulative Preferred Shares

(Liquidation Preference \$25 per share)

Fully and Unconditionally Guaranteed by

Accredited Home Lenders Holding Co.

Accredited Mortgage Loan REIT Trust, or REIT, is offering 593,678 shares of its 9.75% Series A Perpetual Cumulative Preferred Shares, par value \$1.00 per share, which are referred to as the Series A Preferred Shares. REIT will pay to investors cumulative dividends on the Series A Preferred Shares in the amount of \$2.4375 per share each year, which is equivalent to 9.75% of the \$25.00 liquidation preference per share. Dividends on the Series A Preferred Shares will be payable quarterly in arrears on the last calendar day of March, June, September and December of each year. The first dividend payment date in respect of the Series A Preferred Shares offered by this prospectus supplement and the accompanying prospectus will be December 31, 2004, covering the quarterly period beginning October 1, 2004. The Series A Preferred Shares have no stated maturity, will not be subject to any sinking fund or mandatory redemption and will not be convertible into any other securities. All of REIT's outstanding preferred shares of all classes or series generally vote as a single class with the holders of REIT's common shares on all matters submitted to shareholders for a vote, having a number of votes per share such that, in the aggregate, the voting preferred shares will have 15 percent of the voting power of all classes or series of shares of beneficial interest entitled to vote on a matter. Furthermore, holders of Series A Preferred Shares have limited class voting rights if REIT fails to pay dividends for six or more quarters and in certain other events.

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REIT may not redeem the Series A Preferred Shares until September 30, 2009 except upon the occurrence of a tax event or an investment company event, as described in Description of REIT's Series A Preferred Shares Redemption. On or after September 30, 2009, REIT may, at its option, redeem the Series A Preferred Shares, in whole or in part, at any time and from time to time, for cash at \$25.00 per share, plus accrued and unpaid dividends (whether or not declared), if any, to but not including the redemption date. Any partial redemption will generally be on a pro rata basis.

Accredited Home Lenders Holding Co. will guarantee payment of dividends on, and the liquidation preference and the redemption price of, the Series A Preferred Shares issued by REIT on a subordinated basis to the extent described herein.

Our Series A Preferred Shares are listed on the New York Stock Exchange under the symbol AHHPRA. The last reported sale price of our Series A Preferred Shares on September 30, 2004 was \$25.45 per share.

See Risk Factors commencing on page S-7 for a discussion of certain factors prospective investors should consider before purchasing any Series A Preferred Shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price(1)	\$ 25.2662	\$ 14,999,987
Underwriting discounts and commissions	\$ 0.7959	\$ 472,508
Proceeds, before expenses, to REIT	\$ 24.4703	\$ 14,527,479

(1) Plus accrued and unpaid dividends from October 1, 2004.

Accredited Home Lenders Holding Co. will not receive any proceeds from this offering.

Delivery of the Series A Preferred Shares will be made in book-entry form through The Depository Trust Company on or about October 6, 2004.

Bear, Stearns & Co. Inc.

Friedman Billings Ramsey

Stifel, Nicolaus & Company

Incorporated

The date of this prospectus supplement is October 1, 2004

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither REIT nor Accredited Home Lenders Holding Co. has authorized anyone to give you different or additional information. You should not assume that the information in this prospectus supplement or the accompanying prospectus is accurate as of any date after their respective dates or that the information in any document incorporated by reference into this prospectus supplement or the accompanying prospectus is accurate as of any date after its respective date.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information appearing elsewhere, or incorporated by reference, in this prospectus supplement and the accompanying prospectus and may not contain all of the information that is important to you. You should read this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference, in their entirety. Unless the context requires otherwise, REIT refers to Accredited Mortgage Loan REIT Trust, Accredited refers to Accredited Home Lenders Holding Co. and its subsidiaries and AHL refers to Accredited Home Lenders, Inc.

Accredited Mortgage Loan REIT Trust

REIT was formed in May 2004 as a Maryland real estate investment trust for the purpose of acquiring, holding and managing real estate assets. All of the outstanding common shares of beneficial interest of REIT are held by AHL, a wholly-owned subsidiary of Accredited. REIT intends to elect to be subject to tax as a real estate investment trust under the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), as a result of which it generally will not be subject to federal income tax to the extent that it distributes its earnings to its shareholders, as required, and maintains its qualification as a real estate investment trust.

REIT's principal business objective is to acquire, hold and manage mortgage assets that will generate net income for distribution to shareholders.

Generally, REIT expects that it will acquire its mortgage assets primarily as contributions of capital from its parent, AHL. These mortgage assets are expected to consist primarily of residential mortgage loans, or interests in these mortgage loans, that have been originated or acquired by AHL. These contributions of mortgage assets from AHL to REIT will be effected in two ways:

First, AHL intends from time to time to transfer to REIT, as contributions of capital, portfolios of mortgage loans to be securitized. These mortgage loans are to be transferred subject to the lien of one or more of AHL's warehouse lenders. REIT will then sponsor a securitization trust, which is to be a wholly-owned subsidiary of REIT, and transfer legal title to the mortgage loans to such securitization trust. The securitization trust then will pledge the mortgage loans to secure notes which are then sold to third-party investors. The net proceeds of the securitization will be used by REIT to repay the related warehouse debt and pay other expenses of the securitization.

Second, AHL intends to transfer to REIT, as contributions of capital, interests in mortgage pools which have already been securitized by AHL.

In each case, REIT's investment in the portfolio of mortgage loans will entitle it to receive the cash flow generated by the mortgage loans in excess of the required payments to the securitization noteholders and the other expenses of the securitization, including servicing fees, trustee fees and insurer premiums. REIT's investments in these portfolios of mortgage loans are referred to herein as REIT's retained interests.

The prior securitizations executed by AHL and REIT have been structured legally as sales, but for accounting purposes as financings. Therefore, while the related securitization trust is the legal owner of the pool of securitized mortgage loans and is the obligor on the securitization notes, for accounting purposes both the securitized mortgage loans and the securitization indebtedness appear as assets and liabilities, respectively, on Accredited's consolidated balance sheet. Mortgage pools securitized by REIT are reflected in the same manner on REIT's consolidated balance

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sheet. See Management's Discussion and Analysis of Financial Condition and Results of Operations of Accredited Accounting for Mortgage-Related Securities Securitizations Structured as Financings.

In May 2004, AHL contributed to REIT mortgage loans with a principal balance of \$707.5 million and an outstanding credit facility balance of \$707.5 million. Additionally, AHL contributed to REIT deferred origination costs of \$480,000, accrued interest income of \$889,000, and market reserve on loans of \$4.7 million related to the contributed loans, as well as cash of \$26 million, resulting in additional paid-in capital to REIT of \$22.7 million.

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On May 26, 2004, REIT completed a securitization of \$707.2 million of mortgage loans, of which \$22.3 million represented upfront over-collateralization, which is equal to the excess of the principal balance of the related mortgage loans over the outstanding principal amount of the related securitization notes.

On August 26, 2004, REIT completed a securitization of \$1.0 billion of mortgage loans, of which \$17.4 million represented upfront over-collateralization.

AHL has executed securitizations of residential mortgage loans in which it retained interests. In June 2004, AHL transferred the retained interests from the Accredited Mortgage Loan Trust 2002-1 and 2002-2 securitizations to REIT as a contribution of \$422.9 million of principal balance of securitized loans and related amounts that resulted in additional capital to REIT of \$14.5 million. As of June 30, 2004, this increased the total securitized loan balance of REIT to \$1.1 billion. In addition, AHL intends to contribute the net loans held for future securitization as of the date of this prospectus supplement of \$335.7 million to REIT for a fourth quarter 2004 securitization. Accredited is in the process of finalizing the transfer of retained interests from its Accredited Mortgage Loan Trust 2003-1 and 2003-2 securitization to REIT, which transfer Accredited expects to be effective as of the end of September 2004. As of June 30, 2004, the unpaid principal balance of securitized loans with respect to the 2003-1 securitization was approximately \$213.9 million and the related outstanding securitization debt, net, was approximately \$205.4 million. As of June 30, 2004, the unpaid principal balance of securitized loans with respect to the 2003-2 securitization was approximately \$361.7 million and the related outstanding securitization debt, net, was approximately \$349.6 million. The foregoing loan balances and amounts of outstanding securitization debt as of June 30, 2004 relating to the transfer of retained interests do not reflect changes in such amounts subsequent to June 30, 2004. AHL also intends to contribute in the future additional retained interests in mortgage pools already securitized by it to REIT, as well as to contribute additional loans to REIT for future securitizations.

In August 2004, REIT completed a public offering of 3,400,000 Series A Preferred Shares, and in September 2004 sold an additional 100,000 Series A Preferred Shares pursuant to the exercise of the underwriters' over-allotment option (collectively referred to in this prospectus supplement as the August 2004 public offering). The sale of the 3,500,000 Series A Preferred Shares resulted in gross proceeds of \$87.5 million to REIT.

Accredited Home Lenders Holding Co.

Accredited is a nationwide mortgage-banking company that originates, finances, sells, securitizes and services non-prime mortgage loans secured by residential real estate. Accredited focuses on borrowers who may not meet conforming underwriting guidelines because of higher loan-to-value ratios (LTVs), the nature or absence of income documentation, limited credit histories, high levels of consumer debt, or past credit difficulties. Accredited originates loans primarily based upon the borrower's willingness and ability to repay the loan and the adequacy of the collateral. Accredited's management team has developed incentive programs, technology tools and business processes that focus its employees on originating non-prime mortgage loans with the financial and other characteristics designed to generate profits for Accredited. Accredited believes that this business approach has contributed to its disciplined growth in both origination volume and profits.

REIT was formed in Maryland in May 2004. REIT's principal executive offices are located at 15090 Avenue of Science, San Diego, California 92128, and its telephone number is (858) 676-2100. Accredited was incorporated in Delaware in May 2002. Accredited's principal executive offices are located at 15090 Avenue of Science, San Diego, California 92128, and its telephone number is (858) 676-2100. Accredited maintains an Internet website at www.accredhome.com. The information on Accredited's website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider it to be a part of this prospectus supplement or accompanying prospectus.

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THE OFFERING

The following is a brief summary of some of the terms of this offering. For a more complete description of the terms of the Series A Preferred Shares, see "Description of REIT's Series A Preferred Shares" in this prospectus supplement.

Issuer	Accredited Mortgage Loan REIT Trust, a Maryland real estate investment trust. The issuer is referred to in this prospectus supplement as "REIT".
Securities Offered	593,678 9.75% Series A Perpetual Cumulative Preferred Shares.
Guarantor	Accredited Home Lenders Holding Co., a Delaware corporation. Accredited Home Lenders Holding Co. is referred to in this prospectus supplement as "Accredited".
Ranking	The Series A Preferred Shares will rank senior to REIT's common shares with respect to dividend rights and rights upon liquidation. Additional preferred shares ranking senior to the Series A Preferred Shares may not be issued without the approval of holders of at least two-thirds of the outstanding Series A Preferred Shares (voting separately as a class with certain other equally ranking series of preferred shares). Additional preferred shares ranking on parity with the Series A Preferred Shares may not be issued without the approval of a majority of the independent trustees of REIT.
Dividends	Dividends on the Series A Preferred Shares will be payable at an annual rate of 9.75% of the liquidation preference of \$25.00 per Series A Preferred Share. Dividends are cumulative and are payable quarterly in arrears on the last calendar day of March, June, September and December of each year. The first dividend payment date in respect of the Series A Preferred Shares offered by this prospectus supplement and the accompanying prospectus will be December 31, 2004, covering the quarterly period beginning October 1, 2004.
Liquidation Preference	If REIT is liquidated, dissolved or wound up, you will be entitled to receive out of REIT's assets legally available for distribution to REIT's shareholders the sum of (a) \$25.00 per Series A Preferred Share, (b) the premium described under "Description of REIT's Series A Preferred Shares - Liquidation Distribution" and (c) accrued and unpaid dividends (whether or not declared) to the date of payment, before any distribution of assets is made to the holders of REIT's common shares or any series of REIT's preferred shares that may be issued ranking junior to the Series A Preferred Shares as to liquidation rights. The rights of the holders of the Series A Preferred Shares to receive their liquidation preference will be subject to the proportionate rights of each other series or class of REIT's equity securities ranking on parity with the Series A Preferred Shares that may be issued by REIT.

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Redemption	<p>The Series A Preferred Shares are not redeemable prior to September 30, 2009, except upon the occurrence of a tax event or an investment company event, as described in Description of REIT's Series A Preferred Shares Redemption. REIT may, at its option, redeem the Series A Preferred Shares, in whole or in part, at any time and from time to time on or after September 30, 2009, for cash at \$25.00 per share, plus accrued and unpaid dividends, if any, to, but excluding, the redemption date unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case the record holder at the close of business on such dividend record date will be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. At any time, upon the occurrence of a tax event or an investment company event, REIT will have the right to redeem the Series A Preferred Shares in whole (but not in part) at a redemption price of \$25.00 per share, plus accrued and unpaid dividends, if any, to, but excluding, the date of redemption. The Series A Preferred Shares have no maturity date.</p>
Guarantee	<p>Accredited will irrevocably and unconditionally agree to pay in full to the holders of each share of REIT's Series A Preferred Shares, as and when due, regardless of any defense, right of set-off or counterclaim which REIT or Accredited may have or assert: (i) all accrued and unpaid dividends (whether or not declared) payable on REIT's Series A Preferred Shares, (ii) the redemption price (including all accrued and unpaid dividends) payable with respect to any of REIT's Series A Preferred Shares redeemed by REIT and (iii) the liquidation preference, if any, payable with respect to any of REIT's Series A Preferred Shares. Accredited's guarantee will be subordinated in right of payment to Accredited's indebtedness, on a parity with the most senior class of Accredited's preferred stock and senior to Accredited's common stock.</p>
Voting Rights	<p>The holders of the Series A Preferred Shares will have the voting rights set forth under Description of REIT's Series A Preferred Shares Voting Rights.</p>
Use of Proceeds	<p>The net proceeds to REIT from the offering are expected to be approximately \$14.4 million after deducting underwriting discounts and commissions and estimated expenses of the offering payable by REIT. REIT currently intends to use the proceeds to make investments in mortgage assets. Pending any ultimate use of any portion of the proceeds from this offering, REIT intends to invest the proceeds in a variety of capital preservation investments, including short-term, interest-bearing instruments such as U.S. government securities.</p>

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Certain Restrictions on REIT

In connection with the issuance of REIT's Series A Preferred Shares, REIT has agreed to be bound by the following covenants:

Commencing with the quarter ending December 31, 2004, REIT will be required to have on its balance sheet total shareholders' equity, as of the end of each quarter and determined in accordance with accounting principles generally accepted in the United States of America, equal to at least \$50 million;

Commencing with the quarter ending December 31, 2004, REIT will be required to have on its balance sheet loans held for investment (generally defined as securitized loans and loans held for securitization), as of the end of each quarter and determined in accordance with accounting principles generally accepted in the United States of America, greater than or equal to \$2 billion; and

Commencing with the quarter ending December 31, 2005, REIT will be required, for the four fiscal quarters most recently ended, to have cumulative unencumbered cash flow (generally defined as earnings before interest expense, income tax expense, depreciation and amortization adjusted to exclude extraordinary gains or losses, gains (but not losses) from sales of assets outside the ordinary course of business and income from subsidiaries of REIT to the extent that such subsidiaries are restricted by law or agreement from distributing such income to REIT, except to the extent such income is actually distributed in a period) greater than or equal to six times the cumulative dividend required to be distributed to holders of REIT's Series A Preferred Shares in those four quarters.

If REIT is not in compliance with any of the foregoing covenants as of the end of any quarter and shall remain in default on one or more covenants as of the end of the following quarter, then no dividends shall be payable on REIT's common shares until it is in compliance with all of the covenants as of the end of two successive quarters.

Restrictions on Ownership

In order to ensure that REIT remains a qualified real estate investment trust for federal income tax purposes, REIT's Declaration of Trust contains certain restrictions on the number of preferred shares that shareholders may directly or beneficially own and on the transfer of such preferred shares. Among other restrictions, no more than 50% of the value of REIT's outstanding shares of beneficial interest may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year (other than the first year for which an election to be a real estate investment trust has been made).

Further Issuances

REIT may from time to time, without the consent of the holders of REIT's Series A Preferred Shares, issue additional preferred shares, including Series A Preferred Shares, having the same ranking and the same liquidation preference and other terms as the Series A Preferred Shares, but may differ as to the issue price and issue date.

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Listing	Our Series A Preferred Shares are listed on the New York Stock Exchange under the Symbol AHHPRA.
Risk Factors	See Risk Factors and the other information in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference, for a discussion of factors you should carefully consider before deciding to invest in the Series A Preferred Shares.
Ratio of Earnings to Fixed Charges	See Selected Financial Data of Accredited on page S-33 of this prospectus supplement.

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RISK FACTORS

Investing in the shares offered by this prospectus supplement and the accompanying prospectus involves a high degree of risk. In addition to the other information included and incorporated by reference in this prospectus supplement and the accompanying prospectus, you should carefully consider the risks described below before purchasing the securities offered by this prospectus supplement and the accompanying prospectus. If any of the following risks actually occur, the business, results of operations or financial condition of REIT and Accredited may suffer and the value of the preferred shares offered by this prospectus supplement and the accompanying prospectus may decline. As a result, you might lose part or all of your investment.

This prospectus supplement, the accompanying prospectus and the incorporated documents contain forward-looking statements that involve risks and uncertainties. REIT's and Accredited's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include those discussed below.

Risks associated with REIT's assets

REIT is a recently formed entity and therefore it has a limited operating history and limited financial information available regarding it.

REIT was formed in May 2004 and has a limited prior operating history. Since REIT's inception, AHL has contributed \$1.7 billion of mortgage loans to REIT, of which REIT subsequently securitized \$707.2 million in May 2004 and \$1.0 billion in August 2004, and AHL has contributed the retained interests in two securitizations executed by AHL in the amount of \$422.9 million. Accredited is in the process of finalizing the transfer of retained interests from its Accredited Mortgage Loan Trust 2003-1 and 2003-2 securitizations to REIT, which transfer Accredited expects to be effective as of the end of September 2004. As of June 30, 2004, the unpaid principal balance of securitized loans with respect to the 2003-1 securitization was approximately \$213.9 million and the related outstanding securitization debt, net, was approximately \$205.4 million. As of June 30, 2004, the unpaid principal balance of securitized loans with respect to the 2003-2 securitization was approximately \$361.7 million and the related outstanding securitization debt, net, was approximately \$349.6 million. The foregoing loan balances and amounts of outstanding securitization debt as of June 30, 2004 relating to the transfer of retained interests do not reflect changes in such amounts subsequent to June 30, 2004.

Immediately after the issuance by REIT of the Series A Preferred Shares to the public in this offering, and after giving effect to REIT's August 2004 public offering of Series A Preferred Shares, REIT is expected to have approximately \$98.5 million of stated capital attributable to the Series A Preferred Shares and \$1,000 of stated capital attributable to the common shares. See Capitalization of REIT.

REIT does not intend to file annual, quarterly or other reports under the Securities Exchange Act of 1934 and is exempt from certain corporate governance rules.

REIT, in reliance on Rule 12h-5 under the Securities Exchange Act of 1934, does not intend to file annual reports, quarterly reports, current reports or transition reports with the SEC. Although Accredited intends to include certain information regarding REIT in its annual reports and quarterly reports, filed pursuant to the Securities Exchange Act of 1934, this will be significantly less information concerning REIT than what would be required in reports filed by REIT if REIT were required to file them as a separate registrant. As a result, investors may receive

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significantly less information concerning REIT on an ongoing basis than they would if REIT were filing these reports as a separate registrant.

In addition, in accordance with New York Stock Exchange rules relating to issuers who list only preferred securities, REIT will not be subject to many of the New York Stock Exchange corporate governance rules applicable to issuers having publicly traded common equity securities. Accredited, whose common stock is traded on the NASDAQ National Market, is subject to NASDAQ's corporate governance standards.

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The timing and amount of contributions of additional assets to REIT by its parent are uncertain, and the existing assets of REIT may not generate sufficient funds to pay the preferred dividend.

AHL, the parent of REIT, intends to contribute pools of mortgage loans from time to time to REIT, which pools will be subject to warehouse indebtedness, in order to facilitate securitization transactions to be executed by REIT. AHL intends to contribute these pools of mortgage loans as is required by the level of originations of mortgage loans by AHL, among other factors. To the extent that the market for whole loans provides execution on more favorable terms than securitization, it is possible that the securitizations executed by REIT will consist of smaller pools and will be executed less frequently than would otherwise be the case. In addition, REIT intends to operate in a manner that will not subject it to regulation under the Investment Company Act of 1940, as amended (the "Investment Company Act"); in order to satisfy the requirements for exemptive relief from regulation under the Investment Company Act, REIT may be subject to restrictions on its operations, including its ability to acquire certain types of mortgage assets. Notwithstanding AHL's intention to contribute mortgage assets to REIT, it is under no obligation to do so.

The distributions to be received by REIT with respect to the securitized mortgage pools are uncertain.

The timing and amount of distributions to REIT with respect to securitized mortgage pools is not fixed and will be determined by the rate and timing of principal payments on the related mortgage loans (including prepayments and collections upon defaults, liquidations and repurchases of the mortgage loans and payment of any prepayment charges), by the rate and timing of realized losses on the mortgage loans and by adjustments of the interest rates of certain classes of the underlying notes and adjustments of the interest rates of the mortgage loans.

The distributions to be received by REIT with respect to the securitized mortgage pools are subordinated in right of payment to the securitization noteholders and to other fees and expenses of the underlying securitization trust.

Payments on the mortgage loans in each mortgage pool will be available to make distributions to REIT only after payment of servicing fees, trustee fees, administrative fees, payment of other related specified expenses and reimbursements and payment of interest due to the securitization noteholders. Consequently, the amount of excess cash flow distributable to REIT is extremely sensitive to losses on the related mortgage loans (and the timing thereof), because certain amounts of realized losses with respect to a mortgage pool will be absorbed in the first instance by REIT, either by reduction in amounts otherwise to be received by REIT or by a reduction in the amount of over-collateralization provided to the securitization noteholders by the mortgage loans in the related mortgage pool. Any such reduction in the amount of over-collateralization to a level below the applicable required over-collateralization amount will be borne by REIT, because any amounts otherwise available for distribution to REIT will be distributed instead to the securitization noteholders to restore the reduced amount of over-collateralization to the applicable required over-collateralization amount.

Certain decisions by AHL or REIT, including, but not limited to, decisions regarding whether to exercise its clean-up call and whether or not certain principal and interest advances or servicing advances are non-recoverable, may also impact the availability of cash flow to REIT. In addition, amounts otherwise to be received by REIT may be reduced by the right of the securitization noteholders to recover the amount of interest not paid because of the application of the applicable available funds cap rate.

The rate of prepayments and defaults on the mortgage loans in a mortgage pool will affect the timing and amount of cash flow that REIT will receive.

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The amount of cash flow that REIT will receive with respect to a securitized mortgage pool will be sensitive to the rate and timing of principal payments and realized losses on the related mortgage loans in the related mortgage pool. The amount of cash flow to REIT in respect of excess interest will be negatively affected by a rapid

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rate of principal payments and realized losses on the related mortgage loans, and the amount of distributions thereon in respect of excess interest will decrease more significantly as a result of principal payments and realized losses on the related mortgage loans with relatively high interest rates. If an underlying securitization trust were terminated as a result of the exercise of the related clean-up call or an event of default under the related indenture, REIT would not be entitled to any further payments in respect of excess interest.

A rapid rate of principal payments on such mortgage loans would have the effect of accelerating payments in respect of principal collections to REIT, and a slow rate of payment would have the effect of decelerating these payments. Generally, REIT will not be entitled to receive any cash flow with respect to a securitized mortgage pool prior to the date on which the related over-collateralization target has been achieved or if a trigger event has occurred and is continuing with respect to that mortgage pool. Realized losses on the related mortgage loans will have the effect of reducing the over-collateralization in the related mortgage pool, and therefore reduce the amount ultimately distributable to REIT, although the application of excess interest may restore a reduction in the over-collateralization amount. There can be no assurance that excess interest will be available for this purpose.

The terms of certain mortgage loans provide for payment by the related mortgagor of a prepayment charge in limited circumstances on certain prepayments. Any prepayment charges paid in respect to the mortgage loans in a mortgage pool will be used to make required payments by the related securitization trust, and any funds in excess thereof will be distributed to REIT. Generally, each prepayment charge only remains applicable with respect to the related mortgage loan for a limited period of time. In addition, under certain instances, the payment of any otherwise applicable prepayment charge may be waived by Accredited, as the underlying master servicer.

The over-collateralization requirement of each securitization trust will affect the rate and timing of distributions to be received by REIT.

Each securitized mortgage pool is subject to an over-collateralization requirement. The required over-collateralization amount for each underlying securitization trust will be determined as set forth in the related underlying indenture and sale and servicing agreement. No payments will be received by REIT with respect to a mortgage pool until the then-applicable required over-collateralization amount has been reached and maintained.

The related required over-collateralization amount with respect to a securitization trust may be permitted to decrease, subject to certain conditions specified in the related indenture and sale and servicing agreement. If such conditions have been satisfied, collections of principal that would otherwise be distributed as a payment of principal to the related securitization noteholders will instead be received by REIT. Conversely, if at any time certain delinquency and/or loss levels are exceeded with respect to a mortgage pool, there will be a delay in the reduction of the related required over-collateralization amount or there may be an increase in the related required over-collateralization amount. There may be significant periods during which no or limited distributions will be made on the retained interests to REIT.

The early termination of an underlying securitization trust could substantially reduce or even eliminate the amount of distributions that would otherwise be received by REIT.

Upon exercise of clean-up call. Each securitization trust is structured such that, when the aggregate outstanding principal balance of the mortgage loans in the related mortgage pool has declined to a level less than or equal to a specified amount (typically 10%) of the original aggregate principal balance, then a specified party has the option to purchase the remaining mortgage loans from the trust, causing the securitization trust to call its outstanding notes and terminate the trust. The party holding this option is AHL, in the case of securitization transactions executed by AHL, and REIT, in the case of transactions executed by REIT.

Upon declaration of event of default. In addition, the indenture with respect to each series of securitization notes issued by a securitization trust includes events of default which, if they occur and are not

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cured within the applicable cure period, entitle the related note insurer to declare an event of default and cause the trustee to liquidate the mortgage loans.

If a clean-up call were exercised or if a mortgage pool were liquidated as a result of and declaration of an event of default, REIT would only be entitled to receive that portion of the proceeds on the mortgage loans not required to make payment in full of the principal and accrued and unpaid interest to the securitization noteholders, plus any unpaid fees and expenses of the master servicer and the trustees, any unpaid amounts owed to the note insurer. There can be no assurance that any such amount would not be substantially less than the amount that would otherwise be distributable to REIT had such clean-up call or liquidation not occurred.

The distributions to REIT may be subject to basis risk in the difference between one-month LIBOR and six-month LIBOR.

Certain of the underlying securitization trusts have been structured such that a group of adjustable-rate mortgage loans collateralizes a class of variable-rate notes. These notes have interest rates based upon one-month LIBOR, while the interest rates on the related mortgage loans are based upon six-month LIBOR, subject to periodic adjustments and limitations on such adjustments. In a rising interest rate environment, the interest rates on the notes may rise more quickly than the interest rates of the mortgage loans. As a consequence, cash flow resulting from excess interest on the mortgage loans, and accordingly, amounts distributable to REIT may be substantially reduced. The interest payments payable on the notes are generally subject to an available funds cap rate. If a rising interest rate environment, or a disproportionately high rate of prepayments (including prepayments and collections upon defaults, liquidations and repurchases) and realized losses on the mortgage loans in the related mortgage pool with relatively high interest rates, causes the interest rate on the related notes to equal the available funds cap rate applicable thereto, then no excess interest will be generated by the portion of each underlying securitization trust represented by the principal balance of the related notes.

The notes that are subject to basis risk shortfalls as described above will be entitled to recover the amount of any such shortfalls, with interest thereon, to the extent that excess cash flow or other amounts become available to fund such recovery. Any amounts paid directly or indirectly from excess cash flow to the securitization noteholders in respect of any such shortfalls will reduce the excess interest amounts that would otherwise be distributable to REIT and may reduce the amount of over-collateralization release that would otherwise be available to REIT.

The available funds cap rate applicable to each of the underlying notes subject to such a ceiling is generally calculated with reference to the weighted average of the interest rates of the mortgage loans in the related mortgage pool, net of servicing and trustee fees and mortgage or bond insurance premiums.

Other underlying securitization trusts have been structured such that a group of fixed- and adjustable-rate mortgage loans collateralizes a class of variable-rate notes. The cash flow distributed to REIT under this structure is also subject to the basis risk described above, to the extent of the adjustable-rate mortgage loans, and the basis risk created by issuing variable-rate notes collateralized by fixed-rate mortgage loans. As market interest rates rise, the interest rate on the senior notes rises, but the interest rate on the fixed-rate mortgage loans remains constant, thereby reducing the excess interest available for distribution to REIT.

The securitized mortgage loans may include mortgage loans with LTVs in excess of 80%, which may present a greater risk of loss.

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A portion of the mortgage loans in each mortgage pool had an LTV at origination in excess of 80% and is not covered by a primary mortgage insurance policy. Mortgage loans with higher LTVs may present a greater risk of loss. There can be no assurance that the LTV of any mortgage loan determined at any time after origination is less than or equal to its original LTV.

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The geographic concentration of the mortgaged properties securing the securitized mortgage loans may create risks of greater losses associated with adverse conditions that may arise in areas of concentration.

The mortgage loans have certain geographic concentrations in a number of states, which may present a greater risk of loss if conditions in those states become adverse. In these states, if the residential real estate market should experience an overall decline in property values after the dates of origination of the mortgage loans, the rates of delinquencies, foreclosures, bankruptcies and losses on the mortgage loans may increase over historical levels of comparable type loans, and may increase substantially. In addition, properties located in California may be more susceptible than homes located in other parts of the country to certain types of uninsured hazards, such as earthquakes, floods, mudslides and other natural disasters. As of June 30, 2004, 40% of the unpaid principal amount of the mortgage loans in REIT's portfolio were secured by properties located in California. In addition, as of June 30, 2004, 7.18% of the unpaid principal amount of the mortgage loans in REIT's portfolio were secured by properties located in Florida, which has recently experienced extensive hurricanes.

The securitized mortgage loans are underwritten to standards that generally do not conform to the credit criteria required by Fannie Mae and Freddie Mac, and therefore may experience higher levels of delinquencies and losses.

In general, Accredited originates and acquires mortgage loans that do not meet the credit criteria required by Fannie Mae and Freddie Mac. These nonconforming mortgage loans may tend to exhibit higher levels of delinquency and loss than mortgage loans which conform to the requirements of Fannie Mae and Freddie Mac. The interest rates and the LTVs for such mortgage loans are established at levels designed to compensate for and offset the increased delinquency, foreclosure and loss risks presented by such loans. No assurances can be given, however, that the loans in any underlying securitization trust will not exceed expected delinquency, foreclosure and loss levels and adversely affect the amount and value of the cash flow to be received by REIT.

The diversification of REIT's property is limited, and the liquidation of a mortgage pool after the occurrence of an event of default could greatly reduce or even eliminate the amount distributable to REIT.

Although the property of REIT will consist primarily of the right to receive cash flows from mortgage pools and will benefit from the diversification of risks associated with the mortgage pools, the mortgage pools contain mortgage loans originated or acquired by Accredited under Accredited's underwriting standards and serviced by Accredited as master servicer. Accordingly, any benefits arising from the diversification of holdings of REIT's property will be limited. Furthermore, there is no cross-collateralization between the underlying securitization trusts.

Accredited and REIT may be adversely affected by litigations to which they are, or may become, a party.

Accredited is currently a defendant in several class action lawsuits more fully described under Business of Accredited Legal Proceedings. Accredited or REIT may in the future become a defendant in additional class action or other lawsuits which seek to recover substantial amounts from Accredited or REIT. No assurances can be given that Accredited or REIT will be able to successfully defend all or any of such lawsuits, and adverse results in one or more of such lawsuits could have a material adverse effect on Accredited, REIT or both.

Risks Related to Accredited's Business

Accredited finances borrowers with lower credit ratings. The non-prime loans Accredited originates generally have higher delinquency and default rates than prime mortgage loans, which could result in losses on loans that Accredited holds or that Accredited is required to repurchase, the loss of Accredited's servicing rights and damage to Accredited's reputation as a loan servicer.

Accredited is in the business of originating, selling and, to a lesser extent, securitizing and servicing non-prime mortgage loans. Non-prime mortgage loans generally have higher delinquency and default rates than prime mortgage loans. Delinquency interrupts the flow of projected interest income from a mortgage loan and default can ultimately lead to a loss if the net realizable value of the real property securing the mortgage loan is insufficient to cover the principal and interest due on the loan. Also, Accredited's cost of financing and servicing a delinquent or defaulted loan is generally higher than for a performing loan. Accredited bears the risk of

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delinquency and default on loans beginning when Accredited originates them until Accredited sells them, and Accredited continues to bear the risk of delinquency and default after it securitizes loans or sells loans with a retained interest. Loans that become delinquent prior to sale or securitization may become unsaleable or saleable only at a discount, and the longer Accredited holds loans prior to sale or securitization, the greater the chance that Accredited will bear the costs associated with the loans' delinquency. Factors that may increase the time held prior to sale or securitization include the time required to accumulate loans for securitizations or sales of large pools of loans, the amount and timing of third-party due diligence in connection with sales or securitizations and defects in the loans.

Accredited also reacquires the risk of delinquency and default for loans that it is obligated to repurchase. Repurchase obligations are typically triggered in loan sale transactions if an early payment default occurs on the loan after sale, or in any sale or securitization if the loan materially violates Accredited's representations or warranties. On June 30, 2004, mortgage loans held for sale included approximately \$10.1 million of loans repurchased. Accredited's total provision for losses was \$25.3 million for the six months ended June 30, 2004. If Accredited experiences higher-than-expected levels of delinquency or default in pools of loans that Accredited services, Accredited may lose its servicing rights, which would result in a loss of future servicing income and may damage Accredited's reputation as a loan servicer.

Accredited attempts to manage these risks with risk-based mortgage loan pricing and appropriate underwriting policies and loan collection methods. However, if such policies and methods are insufficient to control Accredited's delinquency and default risks and do not result in appropriate loan pricing, Accredited's business, financial condition, liquidity and results of operations could be significantly harmed. Accredited's total delinquency rate (including loans in foreclosure and converted into real estate owned) for its servicing portfolio was 1.4% at June 30, 2004. Historically, Accredited's delinquency rate has increased, and may increase in the future, as the mortgage loans in Accredited's portfolio age.

Any substantial economic slowdown or decline in real estate values could increase delinquencies, defaults and foreclosures and reduce Accredited's ability to originate loans and reduce the value of the mortgage loans.

Periods of economic slowdown or recession may be accompanied by decreased demand for consumer credit, decreased real estate values, and an increased rate of delinquencies, defaults and foreclosures. Any material decline in real estate values would increase the LTVs on loans that Accredited holds pending sale and loans in which it has a residual or retained interest, weaken Accredited's collateral coverage and increase the possibility and severity of a loss if a borrower defaults. Accredited originates loans to borrowers who make little or no down payment, resulting in higher LTVs. A lack of equity in the home may reduce the incentive a borrower has to meet his payment obligations during periods of financial hardship, which might result in higher delinquencies, defaults and foreclosures. These factors would reduce Accredited's ability to originate loans and increase Accredited's losses on loans in which it has a residual or retained interest. In addition, loans Accredited originates during an economic slowdown may not be as valuable to Accredited because potential purchasers of its loans might reduce the premiums they pay for the loans to compensate for any increased risks arising during such periods. Any sustained increase in delinquencies, defaults or foreclosures is likely to significantly harm the pricing of Accredited's future loan sales and securitizations and also Accredited's ability to finance its loan originations.

An increase in interest rates could result in a reduction in Accredited's loan origination volumes, an increase in delinquency, default and foreclosure rates and a reduction in the value of and income from Accredited's loans.

The following are some of the risks Accredited faces related to an increase in interest rates:

A substantial and sustained increase in interest rates could harm Accredited's ability to originate loans because refinancing an existing loan would be less attractive and qualifying for a purchase loan may be more difficult.

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Existing borrowers with adjustable-rate mortgages may incur higher monthly payments as the interest rate increases, which may lead to higher delinquency and default rates.

If prevailing interest rates increase after Accredited funds a loan, the value that Accredited receives upon the sale or securitization of the loan decreases.

The cost of financing Accredited's mortgage loans prior to sale or securitization is based primarily upon the London Inter-Bank Offered Rate (LIBOR). The interest rates Accredited charges on its mortgage loans are based, in part, upon prevailing interest rates at the time of origination, and the interest rates on all of Accredited's mortgage loans are fixed for at least the first two or three years. If LIBOR increases after the time of loan originations, Accredited's net interest income which represents the difference between the interest rates Accredited receives on Accredited's mortgage loans pending sale or securitization and Accredited's LIBOR-based cost of financing such loans will be reduced. The weighted average cost of financing Accredited's mortgage loans, prior to sale or securitization, was 2.3% for the six months ended June 30, 2004.

When Accredited securitizes loans or sells loans with retained interests, the value of the income Accredited receives from the securitized loans subject to portfolio-based accounting and the mortgage-related securities Accredited retains are also based on LIBOR to the extent the underlying loans have an adjustable interest rate. This is because the income Accredited receives from these mortgage loans and mortgage-related securities is based on the difference between the fixed rates payable on the loans for the first two or three years, and an adjustable LIBOR-based yield payable to the senior security holders or loan purchasers. Accredited also has interest rate risk when the loans become adjustable after their two- or three-year fixed-rate period. This is due to the loan rates resetting every six months, subject to various caps and floors, versus the monthly reset on the rate passed through to the investors in the mortgage-related securities and holders of the securitization bonds.

Accordingly, Accredited's business, financial condition, liquidity and results of operations may be significantly harmed as a result of increased interest rates.

Accredited's business may be significantly harmed by a slowdown in the economy of California, where Accredited conducts a significant amount of business. In addition, our business may be adversely impacted by recent hurricanes in Florida.

Since inception, a significant portion of the mortgage loans AHL has originated, purchased or serviced has been secured by property in California. For the six months ended June 30, 2004, approximately 30% of the unpaid principal balance of the loans originated by AHL were collateralized by properties located in California. As of June 30, 2004, approximately 34% of the unpaid principal balance of loans AHL serviced were collateralized by properties located in California. An overall decline in the economy or the residential real estate market, or the occurrence of a natural disaster that is not fully covered or not covered at all by standard homeowners' insurance policies, such as an earthquake or wildfire, in California could decrease the value of mortgaged properties in California. This, in turn, would increase the risk of delinquency, default or foreclosure on mortgage loans in AHL's portfolio or that AHL has sold to others. This could restrict AHL's ability to originate, sell, or securitize mortgage loans, and significantly harm Accredited's business, financial condition, liquidity and results of operations. In addition, our business may be adversely impacted by recent hurricanes in Florida.

Accredited faces intense competition that could adversely impact its market share and revenues.

Accredited faces intense competition from finance and mortgage-banking companies, Internet-based lending companies where entry barriers are relatively low, and from traditional bank and thrift lenders that have entered the non-prime mortgage industry. As Accredited seeks to expand its business further, Accredited will face a significant number of additional competitors, many of whom will be well-established in the markets Accredited

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seeks to penetrate. Some of these competitors are much larger, have better name recognition, and have far greater financial and other resources than Accredited.

The government-sponsored entities Fannie Mae and Freddie Mac are also expanding their participation in the non-prime mortgage industry. These government-sponsored entities have a size and cost-of-funds advantage that allows them to purchase loans with lower rates or fees than Accredited is willing to offer. While the government-sponsored entities presently do not have the legal authority to originate mortgage loans, including non-prime loans, they do have the authority to buy loans. A material expansion of their involvement in the market to purchase non-prime loans could change the dynamics of the industry by virtue of their sheer size, pricing power and the inherent advantages of a government charter. In addition, if as a result of their purchasing practices, these government-sponsored entities experience significantly higher-than-expected losses, such experience could adversely affect the overall investor perception of the non-prime mortgage industry.

The intense competition in the non-prime mortgage industry has also led to rapid technological developments, evolving industry standards and frequent releases of new products and enhancements. As mortgage products are offered more widely through alternative distribution channels, such as the Internet, Accredited may be required to make significant changes to its current retail and wholesale structure and information and technology systems to compete effectively. An inability to continue enhancing its current Internet capabilities, or to adapt to other technological changes in the industry, could significantly harm Accredited's business, financial condition, liquidity and results of operations. In addition, Accredited relies on software and other technology-based programs to gather and analyze competitive and other data from the marketplace. Problems with Accredited's technology or inability to implement technological changes may, therefore, result in delayed detection of trends. Competition in the industry can take many forms, including interest rates and costs of a loan, less stringent underwriting standards, convenience in obtaining a loan, customer service, amount and term of a loan and marketing and distribution channels. The need to maintain mortgage loan volume in this competitive environment creates a risk of price competition in the non-prime mortgage industry. Price competition could prevent Accredited from raising rates in response to a rising cost of funds or cause Accredited to lower the interest rates that it charges borrowers, which could adversely impact Accredited's profitability and lower the value of its loans. If Accredited's competitors adopt less stringent underwriting standards, Accredited will be pressured to do so as well, which would result in greater loan risk without compensating pricing. If Accredited does not relax underwriting standards in response to competitors, it may lose market share. Any increase in these pricing and underwriting pressures could reduce the volume of Accredited's loan originations and sales and significantly harm its business, financial condition, liquidity and results of operations.

Accredited's hedging strategies may not be successful in mitigating Accredited's risks associated with interest rates.

Accredited uses various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect Accredited completely. When rates change, Accredited expects to record a gain or loss on derivatives which would be offset by an inverse change in the value of loans held for sale, securitized loans subject to portfolio-based accounting and mortgage-related securities, as reflected in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations of Accredited Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Simulation Sensitivity Analysis." Accredited cannot assure you that its use of derivatives will offset the risks related to changes in interest rates. There have been periods, and it is likely that there will be periods in the future, during which Accredited will not have offsetting gains or losses in loan values after accounting for Accredited's derivative financial instruments. The derivative financial instruments Accredited selects may not have the effect of reducing its interest rate risk. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies, improperly executed transactions, or inaccurate assumptions could actually increase Accredited's risk and losses. In addition, hedging strategies involve transaction and other costs. Accredited cannot assure you that its hedging strategy and the derivatives that Accredited uses will adequately offset the risk of

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interest rate volatility or that its hedging transactions will not result in losses. See Management's Discussion and Analysis of Financial Condition and Results of Operations of Accredited Newly Issued Accounting Pronouncements and Management's Discussion and Analysis of Financial Condition and Results of Operations of Accredited Quantitative and Qualitative Disclosures About Market Risk.

Accredited's business requires a significant amount of cash and if it is not available Accredited's business will be significantly harmed.

Accredited's primary sources of cash are its warehouse credit facilities and the proceeds from the sales and securitizations of its loans. As of June 30, 2004, Accredited's total warehouse and residual financing outstanding was approximately \$2.5 billion and securitization bond financing was approximately \$2.6 billion. Accredited requires substantial cash to fund its loan originations, to pay its loan origination expenses and to hold its loans pending sale or securitization. Also, as a servicer of loans, Accredited is required to advance delinquent principal and interest payments, unpaid property taxes, hazard insurance premiums, and foreclosure and foreclosure-related costs. Accredited's warehouse credit facilities also require Accredited to observe certain financial covenants, including the maintenance of certain levels of cash and general liquidity.

As of June 30, 2004, Accredited financed substantially all of its loans through eight separate warehouse lenders. Each of these facilities is cancelable by the lender for cause at any time and at least one is cancelable at any time without cause. These facilities generally have a renewable, one-year term. Because these are short-term commitments of capital, the lenders may respond to market conditions, which may favor an alternative investment strategy for them, making it more difficult for Accredited to secure continued financing. If Accredited is not able to renew any of these warehouse credit facilities or arrange for new financing on terms acceptable to Accredited, or if Accredited defaults on its covenants or is otherwise unable to access funds under any of these facilities, or if the lenders do not honor their commitments for any reason, Accredited will have to curtail its loan origination activities. This would result in decreased revenues and profits from loan sales.

The timing of Accredited's loan dispositions (which are periodic) is not always matched to the timing of Accredited's expenses (which are continuous). This requires Accredited to maintain significant levels of cash to maintain acceptable levels of liquidity. When Accredited securitizes its loans or sell its loans with a retained interest, Accredited may not receive any amounts in excess of the principal amount of the loan for up to 12 months or longer. Further, any decrease in demand in the whole loan market such that Accredited is unable to timely and profitably sell its loans could inhibit Accredited's ability to meet its liquidity demands.

Accredited's warehouse credit facilities contain covenants that restrict Accredited's operations and may inhibit Accredited's ability to grow its business and increase revenues.

Accredited's warehouse credit facilities contain extensive restrictions and covenants that, among other things, require Accredited to satisfy specified financial, asset quality and loan performance tests and may prohibit inter-company dividends in certain circumstances. If Accredited fails to meet or satisfy any of these covenants, it would be in default under these agreements and its lenders could elect to declare all amounts outstanding under the agreements to be immediately due and payable, enforce their interests against collateral pledged under such agreements and restrict Accredited's ability to make additional borrowings. These agreements also contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under Accredited's other agreements could also declare a default.

The covenants and restrictions in Accredited's warehouse credit facilities may restrict Accredited's ability to, among other things:

incur additional debt;

make certain investments or acquisitions;

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repurchase or redeem capital stock;

engage in mergers or consolidations;

finance loans with certain attributes;

reduce liquidity below certain levels; and

hold loans for longer than established time periods.

These restrictions may interfere with Accredited's ability to obtain financing or to engage in other business activities, which may significantly harm Accredited's business, financial condition, liquidity and results of operations.

Accredited's rights to cash flow from its securitized loans subject to portfolio-based accounting are subordinate to senior interests and may fail to generate any cash flow for Accredited if the cash flow stream only generates enough cash flow to pay the senior interest holders.

As part of the credit enhancement for Accredited's securitizations, the net cash flow that Accredited receives from the securitized loans generally represents the excess of amounts, if any, generated by the underlying mortgage loans over the amounts required to be paid to the senior security holders or loan purchasers. This is also after deduction of servicing fees and any other specified expenses related to the securitization. These excess amounts are derived from, and are affected by, the interplay of several factors, including:

the extent to which the interest rates of the mortgage loans exceed the interest rates payable to the senior security holders or loan purchasers;

the level of losses and delinquencies experienced on the underlying loans; and

the extent to which the underlying loans are prepaid by borrowers in advance of scheduled maturities.

Any combination of the factors listed above may reduce the cash flows Accredited receives from and the value of its securitized loans.

If Accredited does not manage its growth effectively, its financial performance could be harmed.

In recent years, Accredited has experienced rapid growth that has placed, and will continue to place, certain pressures on Accredited's management, administrative, operational and financial infrastructure. As of December 31, 1998, Accredited had approximately 340 employees and by June 30, 2004, Accredited had more than 2,190 employees. Many of these employees have very limited experience with Accredited and a

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limited understanding of its systems and controls. The increase in the size of operations may make it more difficult for Accredited to ensure that it originates quality loans and that it services them effectively. Accredited will need to attract and hire additional sales, servicing and management personnel in an intensely competitive hiring environment in order to preserve and increase its market share. At the same time, Accredited will need to continue to upgrade and expand its financial, operational and managerial systems and controls. Accredited also intends to continue to grow its business in the future, which could require capital, systems development and human resources beyond what Accredited currently has. Accredited cannot assure you that it will be able to:

meet its capital needs;

expand its systems effectively;

allocate its human resources optimally;

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identify and hire qualified employees;

satisfactorily perform its servicing obligations; or

incorporate effectively the components of any businesses that Accredited may acquire in its effort to achieve growth.

The failure to manage growth effectively would significantly harm Accredited's business, financial condition, liquidity and results of operations.

The inability to attract and retain qualified employees could significantly harm Accredited's business.

Accredited depends upon its wholesale account executives and retail loan officers to attract borrowers by, among other things, developing relationships with financial institutions, other mortgage companies and brokers, real estate agents, borrowers and others. Accredited believes that these relationships lead to repeat and referral business. The market for skilled executive officers, account executives and loan officers is highly competitive and historically has experienced a high rate of turnover. Because of the difficulty in retaining qualified management personnel, Accredited currently recruits college graduates to participate in its management trainee program. If Accredited is unable to retain those trainees for a sufficient period following their training, Accredited may be unable to recapture its costs of training and recruitment. In addition, if a manager leaves Accredited there is an increased likelihood that other members of his or her team will follow. Competition for qualified account executives and loan officers may lead to increased hiring and retention costs. If it is unable to attract or retain a sufficient number of skilled account executives at manageable costs, Accredited will be unable to continue to originate quality mortgage loans that it is able to sell for a profit, which will reduce its revenues.

An interruption in or breach of Accredited's information systems may result in lost business.

Accredited relies heavily upon communications and information systems to conduct its business. As Accredited implements its growth strategy and increases its volume of loan production, that reliance will increase. Any failure or interruption or breach in security of Accredited's information systems or the third-party information systems on which Accredited relies could cause underwriting or other delays and could result in fewer loan applications being received, slower processing of applications and reduced efficiency in loan servicing. Accredited cannot assure you that such failures or interruptions will not occur or if they do occur that they will be adequately addressed by Accredited or the third parties on which Accredited relies. The occurrence of any failures or interruptions could significantly harm Accredited's business.

The success and growth of Accredited's business will depend upon its ability to adapt to and implement technological changes.

Accredited's mortgage loan origination business is currently dependent upon its ability to effectively interface with its brokers, borrowers and other third parties and to efficiently process loan applications and closings. The origination process is becoming more dependent upon technological advancement, such as the ability to process applications over the Internet, accept electronic signatures, provide process status updates instantly and other customer-expected conveniences that are cost-efficient to Accredited's process. In addition, competition and increasing regulation may increase Accredited's reliance on technology as a means to improve efficiency. Implementing this new technology and becoming proficient with it may also require significant capital expenditures. As these requirements increase in the future, Accredited will have to fully develop these technological capabilities to remain competitive or its business will be significantly harmed.

If Accredited is unable to maintain and expand its network of independent brokers, its loan origination business will decrease.

A significant majority of Accredited's originations of mortgage loans comes from independent brokers. During the six months ended June 30, 2004, 91.0% of Accredited's loan originations were originated through

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Accredited's broker network. The brokers are not contractually obligated to do business with Accredited. Further, competitors also have relationships with the same brokers and actively compete with Accredited's efforts to expand its broker networks. Accordingly, Accredited cannot assure you that it will be successful in maintaining its existing relationships or expanding its broker networks, the failure of which could significantly harm Accredited's business, financial condition, liquidity and results of operations.

Accredited may not be able to continue to sell and securitize its mortgage loans on terms and conditions that are profitable.

A substantial portion of Accredited's revenue comes from the gain on sale generated by sales of pools of Accredited's mortgage loans as whole loans. Accredited makes whole loan sales to a limited number of institutional purchasers, some of which may be frequent, repeat purchasers, and others of which may make only one or a few purchases. There can be no assurance that Accredited will continue to have purchasers for its loans on terms and conditions that will be profitable. Also, even though Accredited's mortgage loans are generally marketable to multiple purchasers, certain loans may be marketable to only one or a few purchasers, thereby increasing the risk that Accredited may be unable to sell such loans at a profit.

Accredited also relies on its ability to securitize its mortgage loans to realize a greater percentage of the full economic value of the loans. Accredited cannot assure you, however, that it will continue to be successful in securitizing mortgage loans. Accredited's ability to complete securitizations of its loans will depend upon a number of factors, including conditions in the credit and securities markets generally, conditions in the asset-backed securities market specifically, the availability of credit enhancements such as financial guarantee insurance, a senior subordinated structure or other means, and the performance of Accredited's previously securitized loans.

Accredited's financial results fluctuate as a result of seasonality and other timing factors, which makes it difficult to predict its future performance.

Accredited's business is generally subject to seasonal trends. These trends reflect the general pattern of housing sales, which typically peak during the spring and summer seasons. Accredited's quarterly operating results have fluctuated in the past and are expected to fluctuate in the future, reflecting the seasonality of the industry. Further, if the closing of a sale of loans is postponed, the recognition of gain from the sale is also postponed. If such a delay causes Accredited to recognize income in the next quarter, its results of operations for the previous quarter could be significantly depressed.

Accredited is subject to losses due to fraudulent and negligent acts on the part of loan applicants, mortgage brokers, other vendors and Accredited's employees.

When Accredited originates mortgage loans, it relies heavily upon information supplied by third parties including the information contained in the loan application, property appraisal, title information and employment and income documentation. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, the mortgage broker, another third party or one of Accredited's employees, Accredited generally bears the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsaleable or subject to repurchase if it is sold prior to detection of the misrepresentation. Even though Accredited may have rights against persons and entities who made or knew about the misrepresentation, such persons and entities are often difficult to locate and it is often difficult to collect any monetary losses suffered as a result of their actions.

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Accredited has controls and processes designed to help identify misrepresented information in its loan origination operations. Accredited cannot assure you, however, that it has detected or will detect all misrepresented information in its loan originations.

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Accredited is subject to losses due to fraudulent and negligent acts in other parts of its operations. If Accredited experiences a significant number of such fraudulent or negligent acts, its business, financial condition, liquidity and results of operations would be significantly harmed.

Defective loans may harm Accredited's business.

In connection with the sale and securitization of loans, Accredited is required to make a variety of customary representations and warranties regarding Accredited as a company and the loans. Accredited is subject to these representations and warranties for the life of the loan and they relate to, among other things:

compliance with laws;

regulations and underwriting standards;

the accuracy of information in the loan documents and loan file; and

the characteristics and enforceability of the loan.

A loan that does not comply with these representations and warranties may take longer to sell, impact Accredited's ability to obtain third party financing, or be unsaleable or saleable only at a discount. If such a loan is sold before Accredited detects non-compliance, Accredited may be obligated to repurchase the loan and bear any associated loss directly, or Accredited may be obligated to indemnify the purchaser against any such losses, either of which could reduce Accredited's cash available for operations and liquidity. Accredited believes that it has qualified personnel at all levels and has established controls to ensure that all loans are originated to the market's requirements, but Accredited cannot assure you that it will not make mistakes, or that certain employees will not deliberately violate its lending policies. Accredited seeks to minimize losses from defective loans by correcting flaws if possible and selling or re-selling such loans. Accredited also creates allowances to provide for defective loans in its financial statements. Losses associated with defective loans may harm Accredited's results of operations or financial condition.

If the prepayment rates for Accredited's mortgage loans are higher than expected, Accredited's results of operations may be significantly harmed.

When a borrower pays off a mortgage loan prior to the loan's scheduled maturity, the impact on Accredited depends upon when such payoff or prepayment occurs. Accredited's prepayment losses generally occur after it sells or securitizes its loans, and the extent of its losses depends on when the prepayment occurs. If the prepayment occurs:

within 12 to 18 months following a whole loan sale, Accredited may have to reimburse the purchaser for all or a portion of the premium paid by the purchaser for the loan, again resulting in a loss of Accredited's profit on the loan; or

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after Accredited has securitized the loan or sold the loan in a sale with a retained interest, Accredited loses the future income from that loan, and if Accredited records a gain at the time of such securitization or sale, Accredited may be required to record a charge against its earnings if actual prepayment rates for the related pool of loans are higher than the prepayment rates assumed in recording the gain at the time of sale or securitization.

Prepayment rates on mortgage loans vary from time to time and tend to increase during periods of declining interest rates. Of the securitized loans Accredited serviced during the six months ended June 30, 2004, 26.8% (annualized) were prepaid. Accredited seeks to minimize its prepayment risk through a variety of means, including originating a significant portion of loans with prepayment penalties with terms of two to five years. No strategy, however, can completely insulate Accredited from prepayment risks, whether arising from the effects of

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interest rate changes or otherwise. See Statutory and Regulatory Risks below for a discussion of statutes related to prepayment penalties.

Accredited is exposed to environmental liabilities, with respect to properties that Accredited takes title to upon foreclosure, that could increase its costs of doing business and harm its results of operations.

In the course of its servicing activities, Accredited may foreclose and take title to residential properties and become subject to environmental liabilities with respect to those properties. Accredited may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. Moreover, as the owner or former owner of a contaminated site, Accredited may be subject to common law claims by third parties based upon damages and costs resulting from environmental contamination emanating from the property. If Accredited ever becomes subject to significant environmental liabilities, its business, financial condition, liquidity and results of operations would be significantly harmed.

Statutory and Regulatory Risks

The nationwide scope of Accredited's operations exposes it to risks of noncompliance with an increasing and inconsistent body of complex laws and regulations at the federal, state and local levels.

Because Accredited originates mortgage loans in all 50 states, it must comply with the laws and regulations, as well as judicial and administrative decisions, of all of these jurisdictions, as well as an extensive body of federal laws and regulations. The volume of new or modified laws and regulations has increased in recent years, and, in addition, individual cities and counties have begun to enact laws that restrict non-prime loan origination activities in those cities and counties. The laws and regulations of each of these jurisdictions are different, complex and, in some cases, in direct conflict with each other. As Accredited's operations continue to grow, it may be more difficult to comprehensively identify, to accurately interpret and to properly program its technology systems and effectively train Accredited's personnel with respect to all of these laws and regulations, thereby potentially increasing Accredited's exposure to the risks of noncompliance with these laws and regulations.

In addition, recently-enacted and changed laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new Securities and Exchange Commission regulations and New York Stock Exchange and NASDAQ rules, are creating uncertainties for companies like Accredited. These new or changed laws, regulations and standards are subject to varying interpretations due, in many cases, to their lack of specificity. As their applications evolve over time and new guidance is provided by regulatory and governing bodies, Accredited may incur higher costs of compliance, resulting from ongoing revisions to Accredited's disclosure and governance practices.

Accredited's failure to comply with these laws can lead to:

civil and criminal liability;

loss of approved status;

demands for indemnification or loan repurchases from purchasers of Accredited loans;

class action lawsuits; and

administrative enforcement actions.

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Stockholder refusal to comply with regulatory requirements may interfere with Accredited's ability to do business in certain states.

Some states in which Accredited operates may impose regulatory requirements on Accredited's officers and directors and persons holding certain amounts, usually 10% or more, of Accredited common stock. If any person holding such an amount of Accredited stock fails to meet or refuses to comply with a state's applicable regulatory requirements for mortgage lending, Accredited could lose its authority to conduct business in that state.

Accredited may be subject to fines or other penalties based upon the conduct of Accredited's independent brokers.

The mortgage brokers from which Accredited obtains loans have parallel and separate legal obligations to which they are subject. While these laws may not explicitly hold the originating lenders responsible for the legal violations of mortgage brokers, federal and state agencies have increasingly sought to impose such assignee liability.

Recently, for example, the United States Federal Trade Commission (FTC) entered into a settlement agreement with a mortgage lender where the FTC characterized a broker that had placed all of its loan production with a single lender as the agent of the lender. The FTC imposed a fine on the lender in part because, as principal, the lender was legally responsible for the mortgage broker's unfair and deceptive acts and practices. The United States Justice Department in the past has sought to hold a non-prime mortgage lender responsible for the pricing practices of its mortgage brokers, alleging that the mortgage lender was directly responsible for the total fees and charges paid by the borrower under the Fair Housing Act even if the lender neither dictated what the mortgage broker could charge nor kept the money for its own account. Accordingly, Accredited may be subject to fines or other penalties based upon the conduct of Accredited's independent mortgage brokers.

Accredited is no longer able to rely on the Alternative Mortgage Transactions Parity Act to preempt certain state law restrictions on prepayment penalties, and Accredited may be unable to compete effectively with financial institutions that are exempt from such restrictions.

The value of a mortgage loan depends, in part, upon the expected period of time that the mortgage loan will be outstanding. If a borrower pays off a mortgage loan in advance of this expected period, the holder of the mortgage loan does not realize the full value expected to be received from the loan. A prepayment penalty payable by a borrower who repays a loan earlier than expected helps offset the reduction in value resulting from the early payoff. Consequently, the value of a mortgage loan is enhanced to the extent the loan includes a prepayment penalty, and a mortgage lender can offer a lower interest rate and/or lower loan fees on a loan which has a prepayment penalty. Prepayment penalties are an important feature to obtain value on the loans Accredited originates.

Certain state laws restrict or prohibit prepayment penalties on mortgage loans, and Accredited has relied on the federal Alternative Mortgage Transactions Parity Act (the Parity Act) and related rules issued in the past by the Office of Thrift Supervision (the OTS) to preempt state limitations on prepayment penalties. The Parity Act was enacted to extend to financial institutions, other than federally chartered depository institutions, the federal preemption which federally chartered depository institutions enjoy. However, on September 25, 2002, the OTS released a new rule that reduced the scope of the Parity Act preemption as of July 1, 2003, preventing Accredited from relying on the Parity Act to preempt state restrictions on prepayment penalties. The elimination of this federal preemption requires Accredited to comply with state restrictions on prepayment penalties. This may place Accredited at a competitive disadvantage relative to financial institutions that will continue to enjoy federal preemption of such state restrictions because such institutions will be able to charge prepayment penalties without regard to state restrictions and thereby may be able to offer loans with interest rate and loan fee structures that are more attractive than Accredited is able to offer.

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In addition, on April 24, 2003, a New Jersey state appellate court relied on the new OTS rule to find that the Parity Act does not preempt New Jersey state law restrictions on prepayment penalties. This ruling is contrary to previous published court opinions which have upheld such preemption under the Parity Act, including a May 8, 2000 decision by the United States District Court in New Jersey which upheld such preemption with respect to New Jersey state law. However, on May 26, 2004, the New Jersey state supreme court reversed the New Jersey state appellate court's decision finding that the Parity Act does preempt New Jersey state law restrictions on prepayment penalties.

The increasing number of federal, state and local anti-predatory lending laws may restrict Accredited's ability to originate or increase Accredited's risk of liability with respect to certain mortgage loans and could increase Accredited's cost of doing business.

In recent years, several federal, state and local laws, rules and regulations have been adopted, or are under consideration, that are intended to eliminate so-called predatory lending practices. These laws, rules and regulations impose certain restrictions on loans on which certain points and fees or the annual percentage rate (APR) exceeds specified thresholds, commonly referred to as high cost loans. Some of these restrictions expose a lender to risks of litigation and regulatory sanction no matter how carefully a loan is underwritten. In addition, an increasing number of these laws, rules and regulations seek to impose liability for violations on purchasers of loans, regardless of whether a purchaser knew of or participated in the violation.

Accredited has generally avoided and will continue to avoid originating high cost loans because of rating agency restrictions with respect to securities backed by such loans and because the companies that buy Accredited's loans and/or provide financing for Accredited's loan origination operations generally do not want to buy or finance such loans. The continued enactment of these laws, rules and regulations may prevent Accredited from making certain loans that it would otherwise make, may cause Accredited to cease operations in certain jurisdictions altogether and may cause Accredited to reduce the APR or the points and fees on loans that it does make. In addition, the difficulty of managing the risks presented by these laws, rules and regulations may decrease the availability of warehouse financing and the overall demand for non-prime loans, making it difficult to fund, sell or securitize any of Accredited's loans. If Accredited decides to relax its restrictions on loans subject to these laws, rules and regulations, Accredited will be subject to greater risks for actual or perceived non-compliance with such laws, rules and regulations, including demands for indemnification or loan repurchases from Accredited's lenders and loan purchasers, class action lawsuits, increased defenses to foreclosure of individual loans in default, individual claims for significant monetary damages, and administrative enforcement actions. If nothing else, the growing number of these laws, rules and regulations will increase Accredited's cost of doing business as Accredited is required to develop systems and procedures to ensure that it does not violate any aspect of these new requirements. Any of the foregoing could significantly harm Accredited's business, financial condition, liquidity and results of operations.

Risks Relating to the Terms of REIT's Series A Preferred Shares

The Series A Preferred Shares rank subordinate to claims of REIT's creditors and equally with any other parity shares REIT may issue, and your ability to receive dividends or the liquidation preference is therefore limited.

The Series A Preferred Shares rank subordinate to all claims of REIT's existing and future creditors. As a result, upon any distribution to REIT's creditors in a bankruptcy, liquidation or reorganization or similar proceeding, the holders of indebtedness of REIT will be entitled to be paid in full in cash before any payment may be made to holders of the Series A Preferred Shares. REIT may incur substantial indebtedness in the future.

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In addition, with the approval of a majority of REIT's Board of Trustees and obtaining the approval of a majority of REIT's independent trustees, REIT may issue authorized parity shares at any time in the future without your consent or approval. Accordingly, if:

REIT does not have funds legally available to pay full dividends on REIT's Series A Preferred Shares and any other parity shares it may issue; or

REIT does not have funds legally available to pay the full liquidation value of its Series A Preferred Shares and any parity shares in the event of REIT's liquidation, dissolution or winding up,

then any funds that are legally available to pay such amounts will be paid pro rata to holders of REIT's Series A Preferred Shares and any of REIT's parity shares then outstanding.

The guarantee of the Series A Preferred Shares is subordinate to claims of Accredited's creditors and effectively subordinated to the creditors of Accredited's subsidiaries.

Accredited's guarantee of the Series A Preferred Shares ranks behind all of its existing and future indebtedness. As a result, upon any distribution to Accredited's creditors in a bankruptcy, liquidation or reorganization or similar proceeding, the holders of indebtedness of Accredited will be entitled to be paid in full in cash before any payment may be made to holders of the Series A Preferred Shares under the guarantee.

The guarantee also will effectively rank junior to all liabilities of Accredited's subsidiaries, including AHL. Accredited is a holding company and its assets consist primarily of investments in its subsidiaries. Substantially all of the consolidated liabilities of Accredited have been incurred by its subsidiaries. Therefore, Accredited's rights to participate in the distribution of assets of any subsidiary upon the latter's liquidation or reorganization will be subject to prior claims of the subsidiary's creditors, including trade creditors, except to the extent that Accredited may itself be a creditor with recognized claims against the subsidiary (in which case the claims of Accredited would still be subject to the prior claims of any secured creditor of such subsidiary and of any holder of indebtedness of such subsidiary that is senior to that held by Accredited).

The guarantee is an obligation exclusively of Accredited. Accredited's ability to make payments on the guarantee is dependent primarily upon the earnings of its subsidiaries and the distribution or other payment of such earnings to Accredited in the form of dividends, loans or advances and repayment of loans and advances from Accredited. The subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the guarantee or to make any funds available therefor, whether by dividends, loans or other payments. The payment of dividends, or the making of loans and advances to Accredited by its subsidiaries, may be subject to statutory or regulatory restrictions, is contingent upon the earnings of those subsidiaries and is subject to various business considerations.

On June 30, 2004, after giving effect to this offering and the August 2004 public offering, the guarantee would have been effectively subordinated to approximately \$5.1 billion of indebtedness (including warehouse and securitization indebtedness) of Accredited and debt obligations of its subsidiaries. Accredited and its subsidiaries may incur substantial additional indebtedness in the future.

Holders of REIT's Series A Preferred Shares will not have any meaningful voting rights and, accordingly, except in limited circumstances, will not be able to elect trustees or influence other matters submitted to a vote of REIT's shareholders.

Although REIT's Series A Preferred Shares have voting rights, these voting rights are very limited. All series of preferred shares of REIT that provide for such voting rights will have the right to collectively in the aggregate cast 15% of the votes cast by shareholders on all matters put to shareholders of REIT. This voting right will be allocated among the preferred shares according to their liquidation preference. The holders of the common shares

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will have the right to cast 85% of the votes. AHL currently holds all outstanding common shares of beneficial interest of REIT and, accordingly, controls enough voting power to determine the outcome of matters submitted to a vote of REIT's shareholders, including the election of trustees.

Whenever dividends on any of the Series A Preferred Shares or any series of preferred shares ranking on a parity as to the payment of dividends with the Series A Preferred Shares shall be in arrears for six or more quarterly periods (whether consecutive or not), the holders of such Series A Preferred Shares (voting separately as a class with all other series of REIT's preferred shares ranking on a parity with the Series A Preferred Shares as to the payment of distributions and the distribution of assets upon liquidation upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two additional members of REIT's Board of Trustees. In addition, the Series A Preferred Shares will have the right to participate in the vote of all matters put to the preferred shares voting as a class, such vote to be determined by reference to their liquidation preference. For a more detailed description of the voting rights of the Series A Preferred Shares, see Description of REIT's Series A Preferred Shares Voting Rights.

In addition, all of REIT's trustees and officers are also directors and/or officers of Accredited and may conduct the business of REIT in a manner that serves Accredited's interests better than the interests of holders of the Series A Preferred Shares. For these reasons, you should not consider the voting rights of the Series A Preferred Shares as a significant factor in deciding whether to invest in the Series A Preferred Shares.

There may be adverse effects from Accredited's ownership of all of REIT's common shares.

Accredited is involved in virtually every aspect of REIT's existence. AHL is the sole holder of the common shares of beneficial interest of REIT and acts as master servicer of the securitized mortgage loans. In addition, all of the officers and trustees of REIT are also officers and/or directors of Accredited. As the holder of all of the outstanding common shares of beneficial interest of REIT, except in the limited circumstances described under Description of REIT's Series A Preferred Shares Voting Rights, AHL will have the right to elect all trustees of REIT, including the independent trustees.

Accredited may have interests which are not identical to those of REIT. Consequently, conflicts of interest may arise with respect to transactions, including without limitation, REIT's acquisition of mortgage loans from AHL; servicing of mortgage loans; future dispositions of mortgage loans; and the provision by AHL of advisory services to REIT. It is the intention of REIT and Accredited that any agreements and transactions between REIT, on the one hand, and Accredited and/or its affiliates, on the other hand, are fair to all parties and consistent with market terms, including the servicing of mortgage loans. However, there can be no assurance that such transactions will be on terms as favorable to REIT as those that could have been obtained from unaffiliated third parties.

Because until recently there has never been a market for REIT's Series A Preferred Shares, your ability to resell your shares may be limited.

Until recently, there has been no public market for REIT's Series A Preferred Shares. The Series A Preferred Shares are listed on the New York Stock Exchange under the symbol AHHPra. An active and liquid trading market for its Series A Preferred Shares may not develop or be sustained. If such a market were to develop, the price at which REIT's Series A Preferred Shares trade would depend on many factors, including prevailing interest rates, REIT's financial condition and the market for similar securities. You may not be able to resell your shares of REIT's Series A Preferred Shares at or above the initial price to the public, or at all.

REIT may fail to qualify as a real estate investment trust, which would permit REIT to redeem the Series A Preferred Shares under certain circumstances.

REIT intends to be owned, organized and operated so as to qualify as a real estate investment trust under the Internal Revenue Code. Although REIT believes that it will be owned and organized and will operate in such a

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manner, it is not certain that it will be able to become and remain qualified as a real estate investment trust for federal income tax purposes. REIT's qualification as a real estate investment trust depends on, among other factors, the distribution annually of at least 90% of REIT taxable income, determined before any deduction for dividends paid and excluding any net capital gains, the nature of its assets, the manner of its operation, its organization, its capital structure and the ownership of its equity. Qualification as a real estate investment trust involves the application of highly technical and complex tax law provisions for which there are only limited judicial or administrative interpretations and involves the satisfaction of various requirements not entirely within REIT's control. No assurance can be given that new legislation, Treasury regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to qualification as a real estate investment trust or the federal income tax consequences of such qualification in a way that would materially and adversely affect REIT's ability to qualify as a real estate investment trust. Any such new legislation, Treasury regulation, interpretation or decision could be the basis of a tax event that would permit REIT to redeem its Series A Preferred Shares, subject to certain conditions, for the amount of the liquidation preference per share of its Series A Preferred Shares plus accrued and unpaid dividends to, but excluding, the redemption date.

Although REIT intends to be owned, organized and operated in a manner that allows it to qualify and remain qualified as a real estate investment trust, future economic, market, legal, tax or other considerations may cause it to determine that it is in REIT's best interests and the best interests of holders of its common shares of beneficial interest and preferred shares to revoke REIT's election to be treated as a real estate investment trust. Any such determination by REIT may be made without shareholder approval but, as long as any shares of the Series A Preferred Shares are outstanding, will require the prior approval of a majority of REIT's Independent Trustees.

Proposed changes to federal tax laws could make stock in non-REIT corporations more attractive to investors than stock in real estate investment trusts and thereby negatively affect the value of and market for the Series A Preferred Shares.

The terms of the Series A Preferred Shares can be amended even if you do not vote for such amendments or vote against such amendments.

The instruments governing the Series A Preferred Shares and the guarantee from Accredited can be amended with the consent of holders of only two-thirds in aggregate liquidation preference of the Series A Preferred Shares. Even if you vote against changing the terms of the Series A Preferred Shares and the guarantee their terms can be amended despite your vote including with respect to liquidation preference, dividend payments and redemption price. See [Description of REIT's Series A Preferred Shares](#) [Voting Rights](#).

REIT may redeem its Series A Preferred Shares upon the occurrence of a tax event or an investment company event, subject to additional conditions.

At any time following the occurrence of a tax event or an investment company event, even if such tax event or investment company event occurs prior to September 30, 2009, REIT will have the right but not the obligation to redeem its Series A Preferred Shares in whole for an amount equal to the liquidation preference per share, plus accrued and unpaid dividends, if any, to, but excluding, the date of redemption, subject to certain additional conditions. The occurrence of a tax event or an investment company event will not, however, give a shareholder any right to require REIT to redeem its Series A Preferred Shares. A tax event will generally occur if REIT receives an opinion of counsel to the effect that, as a result of a judicial decision or official administrative pronouncement, ruling or regulatory procedure or as a result of changes in the tax laws, regulations or related official interpretations, there is a more than insubstantial risk that dividends with respect to REIT's shares of beneficial interest will not be fully deductible by REIT or REIT will be subject to more than a de minimus amount of additional taxes or governmental charges. An investment company event generally will occur if REIT receives an opinion of counsel to the effect that there is more than an insubstantial risk that REIT is or will be considered an investment company within the meaning of the Investment Company Act as a result of any judicial decision,

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any pronouncement or interpretation, the adoption or amendment of any law, rule or regulation, any notice or announcement by any U.S. legislative body, court, governmental agency or regulatory authority, in each case after the initial issuance of Series A Preferred Shares. See Description of REIT's Series A Preferred Shares - Redemption. If REIT redeems its Series A Preferred Shares, you may not be able to invest your redemption proceeds in securities with a dividend yield and risk profile comparable to that of REIT's Series A Preferred Shares.

The ownership limitations and restrictions on transfer relating to the Series A Preferred Shares could have adverse consequences to you and to REIT.

In order to facilitate REIT's compliance with the requirements to qualify as a real estate investment trust under the Internal Revenue Code, REIT's Declaration of Trust contains certain ownership limitations and transfer restrictions relating to the Series A Preferred Shares. The Declaration of Trust provides that no person may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.8% (the Aggregate Share Ownership Limit) of the value of the outstanding common and preferred shares of beneficial interest of REIT. In addition, the Declaration of Trust further prohibits (a) any person from beneficially or constructively owning shares of beneficial interest of REIT that would result in REIT being closely held under Section 856(h) of the Internal Revenue Code or otherwise cause REIT to fail to qualify as a real estate investment trust and (b) any person from transferring shares of beneficial interest of REIT if such transfer would result in shares of beneficial interest of REIT being owned by fewer than 100 persons. Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of beneficial interest of REIT that will or may violate any of the foregoing restrictions on transferability and ownership is required to give notice immediately to REIT and provide REIT with such other information as REIT may request in order to determine the effect of such transfer on REIT's status as a real estate investment trust. The Aggregate Share Ownership Limit does not apply to the common shares owned, directly or indirectly, by AHL.

If any transfer of shares of beneficial interest of REIT or any other event occurs which, if effective, would result in any person beneficially or constructively owning shares of beneficial interest of REIT in excess or in violation of the above transfer or ownership limitations (a Prohibited Owner), that number of shares of beneficial interest of REIT the beneficial or constructive ownership of which otherwise would cause such person to violate such limitations (rounded to the nearest whole share) will be transferred to a charitable trust and in such event the Prohibited Owner will not be entitled to benefit economically from such shares, will not be entitled to rights to dividends in respect of such shares and will not possess any rights to vote or other rights attributable to such shares.

Whether or not a holder of Series A Preferred Shares is or becomes a Prohibited Owner will depend both on the number of shares owned by such holder and the relative values of REIT's common and preferred shares. Fluctuations in the relative value of REIT's common shares, the Series A Preferred Shares and any other preferred shares then outstanding could cause a holder of Series A Preferred Shares to inadvertently become a Prohibited Owner, which could have negative economic and other consequences to such holder. REIT's common shares are not publicly traded and establishing their value may be difficult. If it were determined by the Internal Revenue Service, and subsequently upheld by a court or other administrative body that REIT's valuation was unreasonable, and because of the valuation error REIT were to become closely held, REIT would cease to qualify as a real estate investment trust under the Internal Revenue Code and would be subject to corporate level tax.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus, including the information incorporated by reference, contain forward-looking statements. Forward-looking statements reflect REIT's and Accredited's current expectations or forecasts of future events. Forward-looking statements include statements about REIT's or Accredited's expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not historical facts. Words or phrases such as will, anticipate, believe, continue, ongoing, estimate, expect, intend, assume, potential, predict, project or similar words or phrases, or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. Statements that are forward-looking include, among other things, statements about the following:

REIT or Accredited's business strategy;

market trends and risks;

assumptions regarding interest rates; and

assumptions regarding prepayment rates on mortgage loans securing mortgage-backed securities.

Forward-looking statements are subject to known and unknown risks and uncertainties and may be based on assumptions that prove to be inaccurate or that are not realized for a number of reasons. As a result, actual results could differ materially from those expected or implied by the forward-looking statements. Actual results could differ for many reasons, including the disclosures and risks described in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of their respective dates. Unless required by law, neither REIT nor Accredited undertakes any obligation to revise any forward-looking statement to reflect circumstances or events after their respective dates or to reflect the occurrence of unanticipated events. You should carefully review the disclosures and risks described in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference. The following are some of the factors that could cause actual results, performance or financial conditions to differ materially from expectations:

changes in the demand for, or the value of, mortgage loans due to the attributes of the loans originated by Accredited; the characteristics of borrowers; and fluctuations in the real estate market, interest rates or the market in which REIT or Accredited sells or securitizes loans;

a general deterioration in economic or political conditions;

REIT's and Accredited's ability to protect and hedge their mortgage loan portfolios against adverse interest rate movements;

changes in government regulations that affect the origination and servicing of mortgage loans;

changes in the credit markets which affect Accredited's ability to borrow money to originate mortgage loans;

the degree and nature of competition;

Accredited's ability to employ and retain qualified employees;

REIT's ability to elect to be qualified, and to then maintain its qualification, as a real estate investment trust for federal income tax purposes; and

the other factors referenced or included in this prospectus supplement, the accompanying prospectus or documents incorporated by reference, including, without limitation, those referred to under the sections entitled Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations of REIT and Management's Discussion and Analysis of Financial Condition and Results of Operations of Accredited.

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FORMATION OF REIT

REIT was formed in May 2004, at which time AHL acquired 100,000 common shares of beneficial interest, representing a 100% ownership interest in REIT.

In May 2004, AHL contributed a pool of mortgage loans in an aggregate principal amount of \$707.5 million and related amounts that resulted in additional capital of \$22.7 million to REIT, which REIT sold and contributed \$707.2 million of loans to a newly formed securitization trust. REIT obtained a retained interest in the securitized mortgage pool as a result of the transaction.

In June 2004, AHL transferred the retained interests from the Accredited Mortgage Loan Trust 2002-1 and 2002-2 securitizations to REIT as a contribution of \$422.9 million of principal balance of securitized loans and related amounts that resulted in additional capital to REIT of \$14.5 million.

In August 2004, AHL contributed a pool of mortgage loans in an aggregate principal amount of \$1.0 billion and related amounts that resulted in additional capital of \$10.0 million to REIT, which REIT sold and contributed \$1.0 billion of loans to a newly formed securitization trust. REIT obtained a retained interest in the securitized mortgage pool as a result of the transaction.

Accredited is in the process of finalizing the transfer of retained interests from its Accredited Mortgage Loan Trust 2003-1 and 2003-2 securitizations to REIT, which transfer Accredited expects to be effective as of the end of September 2004. As of June 30, 2004, the unpaid principal balance of securitized loans with respect to the 2003-1 securitization was approximately \$213.9 million and the related outstanding securitization debt, net, was approximately \$205.4 million. As of June 30, 2004, the unpaid principal balance of securitized loans with respect to the 2003-2 securitization was approximately \$361.7 million and the related outstanding securitization debt, net, was approximately \$349.6 million. The foregoing loan balances and amounts of outstanding securitization debt as of June 30, 2004 relating to the transfer of retained interests do not reflect changes in such amounts subsequent to June 30, 2004.

AHL intends to contribute additional retained interests in securitization transactions executed by it to REIT.

AHL owns all of the issued and outstanding common shares of beneficial interest of REIT. In August 2004, REIT completed a public offering of 3,400,000 Series A Preferred Shares, and in September 2004 sold an additional 100,000 Series A Preferred Shares pursuant to the exercise of the underwriters' over-allotment option. The sale of the 3,500,000 Series A Preferred Shares resulted in gross proceeds of \$87.5 million to REIT.

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USE OF PROCEEDS

The net proceeds to REIT from the sale of its Series A Preferred Shares offered by this prospectus supplement and the accompanying prospectus are expected to be approximately \$14.4 million, after deducting underwriting discounts and commissions and the estimated offering expenses payable by REIT. The net proceeds from the offering are expected to be retained by REIT, and REIT does not intend to distribute any portion of the proceeds from the sale of REIT's Series A Preferred Shares to AHL or Accredited, whether in the form of a dividend, loan, advance or otherwise. REIT currently intends to use the proceeds to make investments in mortgage assets. Pending any ultimate use of any portion of the proceeds from this offering, REIT intends to invest the proceeds in a variety of capital preservation investments, including short-term, interest-bearing instruments such as U.S. government securities.

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Table of Contents**CAPITALIZATION OF REIT**

The following table sets forth the capitalization of REIT as of June 30, 2004:

on an actual basis; and

on an adjusted basis to give effect to the August 2004 public offering and the additional 593,678 shares being offered by this prospectus supplement and the accompanying prospectus, after deducting underwriting discounts and commissions and estimated offering expenses to be paid by REIT.

	As of June 30, 2004	
	Actual	As adjusted
(dollars in thousands)		
Shareholder's Equity:		
Preferred Shares, \$1.00 par value per share, authorized 200,000,000 shares; no shares issued and outstanding (actual); Series A Preferred Shares, \$25.00 liquidation preference, 4,093,678 shares issued and outstanding (as adjusted)	\$	\$ 98,539
Common shares, \$0.01 par value per share; authorized 100,000,000 shares; issued and outstanding 100,000 shares (actual and as adjusted)	1	1
Additional paid-in capital	37,136	37,136
Retained earnings	2,541	2,541
Total shareholder's equity	39,678	138,217
Total capitalization	\$ 39,678	\$ 138,217

The table above should be read in conjunction with REIT's balance sheet and related notes included in the accompanying prospectus. In addition, the table above does not reflect activity of REIT subsequent to June 30, 2004. See Formation of REIT for a discussion of certain events that have occurred subsequent to June 30, 2004.

Table of Contents**CAPITALIZATION OF ACCREDITED**

The following table sets forth the capitalization of Accredited as of June 30, 2004:

on an actual basis; and

on an adjusted basis to give effect to the August 2004 public offering and the additional 593,678 shares being offered by this prospectus supplement and the accompanying prospectus, after deducting underwriting discounts and commissions and estimated offering expenses to be paid by REIT.

	As of June 30, 2004	
	Actual	As adjusted
	(dollars in thousands)	
Long-Term Debt:		
Securitization bond financing	\$ 2,563,389	\$ 2,563,389
Minority interest preferred securities of subsidiary trust		98,539
Stockholders Equity:		
Preferred Stock, \$.001 par value per share; authorized 5,000,000 shares; no shares issued and outstanding (actual and as adjusted)		
Common stock, \$.001 par value per share; authorized 40,000,000 shares, issued and outstanding 20,909,251 shares (actual and as adjusted)	21	21
Additional paid-in capital	74,107	74,107
Note receivable for common stock	(1,250)	(1,250)
Unearned compensation	(11,240)	(11,240)
Retained earnings	214,291	214,291
Total stockholders equity	275,929	275,929
Total capitalization	\$ 2,839,318	\$ 2,937,857

Table of Contents**SELECTED FINANCIAL DATA OF REIT**

The following financial data as of and for the period ending June 30, 2004 is unaudited.

You should read the information below along with other financial information and analysis presented in this prospectus supplement, including the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations of REIT, and the balance sheet and related notes included in the accompanying prospectus.

	May 4, 2004 (inception) to June 30, 2004
	(dollars in thousands)
Operating Data:	
Revenues	
Interest Income	\$ 5,936
Loan servicing income	1
Total revenues	<u>5,937</u>
Expenses	
Interest expense	1,842
Provision for losses	1,210
General and administrative expenses	344
Total expenses	<u>3,396</u>
Net income	<u>\$ 2,541</u>
	As of June 30, 2004
	(dollars in thousands)
Balance Sheet Data:	
Assets	
Cash and Cash Equivalents	\$ 803
Mortgage loans held for investment net of allowance for loan losses of \$15,658	1,109,581
Accounts receivable - intercompany	1,330
Other receivables	5,979
Prepaid expenses and other assets	4,756
Total assets	<u>\$ 1,122,449</u>

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Liabilities	
Securitization bond financing	\$ 1,081,476
Accounts payable and accrued liabilities	1,295
Total Liabilities	