

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

**(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 31, 2004

OR

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

For the transition period from ___ to ___
Commission File Number 001-04146

NAVISTAR FINANCIAL CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-2472404
(I.R.S. Employer Identification No.)

2850 West Golf Road Rolling Meadows, Illinois
(Address of principal executive offices)

60008
(Zip Code)

Registrant's telephone number including area code 847-734-4000

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes X No ___

**APPLICABLE ONLY TO ISSUERS INVOLVED
IN BANKRUPTCY PROCEEDINGS DURING
THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ___ No ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of August 31, 2004, the number of shares outstanding of the registrant's common stock was 1,600,000.

THE REGISTRANT IS A WHOLLY-OWNED SUBSIDIARY OF INTERNATIONAL TRUCK AND ENGINE CORPORATION, WHICH IS A WHOLLY-OWNED SUBSIDIARY OF NAVISTAR INTERNATIONAL CORPORATION, AND MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H (1) (a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.

**NAVISTAR FINANCIAL CORPORATION
AND SUBSIDIARIES**

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Part I – Financial Information

Item 1. Financial Statements

Navistar Financial Corporation and Subsidiaries

Statements of Consolidated Income and Retained Earnings (Unaudited)

Millions of Dollars	Three Months Ended		Nine Months Ended	
	July 2004	July 2003	July 2004	July 2003
Revenues				
Retail Notes and Finance Leases	\$ 7.8	\$ 12.5	\$ 25.2	\$ 34.9
Income Related to Sales of Finance Receivables	13.1	28.2	44.0	63.6
Operating Leases	12.4	14.7	39.9	51.2
Wholesale Notes	9.0	8.6	24.1	23.5
Accounts	5.3	4.0	16.5	13.1
Servicing Fees	8.0	6.5	20.8	19.1
Other Revenue	1.2	1.2	3.3	4.4
Total	56.8	75.7	173.8	209.8
Expenses				
Cost of Borrowing				
Interest Expense	8.8	12.0	31.9	38.1
Other	1.6	2.3	6.2	6.2
Credit, Collection and Administrative	10.1	10.7	28.2	31.9
Provision for Credit Losses	2.1	4.0	6.5	11.9
Depreciation on Operating Leases	9.6	10.9	29.7	35.5
Other Expense	0.4	1.2	1.4	3.3
Total	32.6	41.1	103.9	126.9
Income Before Taxes	24.2	34.6	69.9	82.9
Income Tax Expense	9.2	12.3	26.9	31.6
Net Income	\$ 15.0	\$ 22.3	\$ 43.0	\$ 51.3
Retained Earnings				
Beginning of Period	\$ 232.6	\$ 216.1	\$ 204.6	\$ 197.1
Dividends Paid	-	(5.0)	-	(15.0)
End of Period	<u>\$ 247.6</u>	<u>\$ 233.4</u>	<u>\$ 247.6</u>	<u>\$ 233.4</u>

See Notes to Consolidated Financial Statements.

Navistar Financial Corporation and Subsidiaries

Statements of Consolidated Financial Condition (Unaudited)

Millions of Dollars	July 31, 2004	October 31, 2003	July 31, 2003
ASSETS			
Cash and Cash Equivalents	\$ 77.7	\$ -	\$ 5.2
Finance Receivables			
Finance Receivables Held for Sale	419.7	519.9	533.6
Other Finance Receivables	299.0	347.3	242.5
Allowance for Losses	(7.0)	(12.9)	(15.1)
Finance Receivables, net	711.7	854.3	761.0
Amounts Due from Sales of Receivables	445.9	368.9	460.3
Net Investment in Operating Leases	158.2	191.1	192.5
Restricted Marketable Securities	419.1	505.6	430.1
Other Assets	27.6	39.9	50.6
Total Assets	\$ 1,840.2	\$ 1,959.8	\$ 1,899.7
LIABILITIES AND SHAREOWNER'S EQUITY			
Net Accounts Payables to Affiliates	\$ 9.6	\$ 4.2	\$ 26.2
Senior and Subordinated Debt	1,292.6	1,461.9	1,348.5
Other Liabilities	116.6	129.5	123.6
Total Liabilities	1,418.8	1,595.6	1,498.3
Shareowner's Equity			
Capital Stock (par value \$1.00, 1,600,000 shares issued and outstanding) and Paid-In Capital	182.9	171.0	171.0
Retained Earnings	247.6	204.6	233.4
Accumulated Other Comprehensive Loss	(9.1)	(11.4)	(3.0)
Total Shareowner's Equity	421.4	364.2	401.4
Total Liabilities and Shareowner's Equity	\$ 1,840.2	\$ 1,959.8	\$ 1,899.7

See Notes to Consolidated Financial Statements.

Navistar Financial Corporation and Subsidiaries		
Statements of Consolidated Cash Flow (Unaudited)		
	Nine Months Ended	
	July	July
Millions of Dollars	2004	2003
Cash Flow From Operations		
Net income.....	\$ 43.0	\$ 51.3
Adjustments to reconcile net income to cash provided from operations:		
Gains on sales of receivables.....	(39.8)	(59.3)
Depreciation, amortization and accretion.....	37.3	43.8
Provision for credit losses.....	6.5	11.9
Net change in accounts payable to affiliates.....	5.4	(26.0)
Net change in accrued income taxes.....	(4.9)	21.9
Other.....	2.1	7.9
Total.....	<u>49.6</u>	<u>51.5</u>
Cash Flow From Investing Activities		
Originations of finance receivables held for sale.....	(963.3)	(764.6)
Net proceeds from sales of finance receivables held for sale.....	1,118.6	1,347.2
Net proceeds from sales of retail accounts.....	100.0	-
Net change in restricted marketable securities.....	86.5	(325.5)
Collections of retail notes and finance lease receivables, net of change in unearned finance income.....	97.7	53.7
Repurchase of sold retail receivables.....	(152.8)	(163.5)
Net change in wholesale notes and accounts receivables.....	(51.7)	51.8
Net change in amounts due from sales of receivables.....	(49.6)	(52.7)
Purchase of equipment leased to others.....	(22.0)	(25.1)
Sale of equipment leased to others.....	25.4	45.5
Receipts from derivative contracts.....	0.8	3.1
Payments on derivative contracts.....	(0.5)	(15.0)
Total.....	<u>189.1</u>	<u>154.9</u>
Cash Flow From Financing Activities		
Net change in bank revolving credit facility usage.....	60.0	(147.0)
Proceeds from long-term debt.....	31.3	28.4
Principal payments on long-term debt.....	(82.3)	(99.6)
Dividends paid to International.....	-	(15.0)
Assumption of debt by Navistar International Corporation.....	(170.0)	-
Total.....	<u>(161.0)</u>	<u>(233.2)</u>
Change in Cash and Cash Equivalents	77.7	(26.8)
Cash and Cash Equivalents, Beginning of Period	-	32.0
Cash and Cash Equivalents, End of Period	<u>\$ 77.7</u>	<u>\$ 5.2</u>
Supplementary disclosure of cash flow information:		
Interest paid.....	\$ 33.2	\$ 37.3
Income taxes paid, net of refunds.....	\$ 32.9	\$ 9.4
Supplementary disclosure of non-cash financing activity:		
Additional paid in capital resulting from assumption of debt by Navistar International Corporation.....	\$ 11.9	\$ -

See Notes to Consolidated Financial Statements.

**NAVISTAR FINANCIAL CORPORATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Navistar Financial Corporation and its wholly-owned subsidiaries ("Corporation"). International Truck and Engine Corporation ("International"), which is wholly owned by Navistar International Corporation ("Navistar"), is the parent company of the Corporation.

The accompanying unaudited financial statements have been prepared in accordance with accounting policies described in the Corporation's 2003 Annual Report on Form 10-K and should be read in conjunction with the disclosures therein.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities". This interpretation addresses consolidation requirements of variable interest entities ("VIE's"). In December 2003, the FASB revised this Interpretation to clarify the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest for the entity to finance its activities without additional financial support. This Interpretation, as revised, is effective for periods ending after December 15, 2003. The Corporation determined that it does not have an interest in a VIE, as defined within this Interpretation. Transferors to qualifying special purpose entities ("QSPE's") subject to the reporting requirements of Statements of Financial Accounting Standards ("SFAS") 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", are excluded from the scope of this interpretation. The Corporation currently sells receivables to entities meeting the requirements of QSPE's. Therefore, this Interpretation has no impact on the Corporation's results of operations, financial condition, and cash flows.

In December 2003, the FASB issued a revision to SFAS 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits". This Statement retains the disclosures previously required by SFAS 132 but adds additional disclosure requirements about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. It also calls for the required information to be provided separately for pension plans and for other postretirement benefit plans. The Corporation assessed the assets, obligations, cash flows, and net periodic benefit cost for pension plans and for other postretirement benefit plans and determined the amounts to be immaterial; therefore, related disclosures have been omitted.

On December 8, 2003, the President signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") into law. The Act introduces a voluntary prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care plans that provide prescription drug benefits that are at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FSP 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", which requires the commencement of accounting recognition for the effects of the Act no later than the Corporation's quarter ending

**NAVISTAR FINANCIAL CORPORATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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1. BASIS OF PRESENTATION (continued)

October 31, 2004. The Corporation implemented the accounting guidance related to the effects of the Act during the quarter ended July 31, 2004. The cumulative effect of accounting for the subsidy as of the date of the Act through the date of implementation resulted in an immaterial reduction to the Corporation's postretirement benefit expenses and liabilities.

In the opinion of management, these interim financial statements reflect all adjustments, consisting of normal recurring items, necessary to present fairly the results of operations, financial condition and cash flow for the interim periods presented. Interim results are not necessarily indicative of results to be expected for any other interim period or for the full year. Certain amounts in the prior period financial statements have been reclassified to conform with current period presentations.

2. COMPREHENSIVE INCOME

The Corporation's total comprehensive income was:

	Three Months Ended July 31		Nine Months Ended July 31	
Millions of Dollars	2004	2003	2004	2003
Net income.....	\$ 15.0	\$ 22.3	\$ 43.0	\$ 51.3
Change in net unrealized gains (losses) on investments (net of tax of \$1.0, (\$0.1), (\$1.4), and (\$0.2)).....	<u>(1.6)</u>	<u>0.2</u>	<u>2.3</u>	<u>0.3</u>
Total comprehensive income	<u>\$ 13.4</u>	<u>\$ 22.5</u>	<u>\$ 45.3</u>	<u>\$ 51.6</u>

3. FINANCE RECEIVABLES

Finance receivables are summarized as follows:

	July 31, 2004	October 31, 2003	July 31, 2003
Millions of Dollars			
Retail notes, net of unearned income	\$ 320.9	\$ 404.5	\$ 410.5
Finance leases, net of unearned income	98.8	115.4	123.1
Wholesale notes	87.3	46.0	34.3
Accounts:			
Retail	133.5	217.9	140.1
Wholesale	<u>78.2</u>	<u>83.4</u>	<u>68.1</u>
Total accounts	<u>211.7</u>	<u>301.3</u>	<u>208.2</u>
Total finance receivables	718.7	867.2	776.1
Less: Allowance for losses	<u>7.0</u>	<u>12.9</u>	<u>15.1</u>
Total finance receivables, net	<u>\$ 711.7</u>	<u>\$ 854.3</u>	<u>\$ 761.0</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

3. FINANCE RECEIVABLES (continued)

Finance receivables held for sale consisted of \$419.7 million, \$519.9 million, and \$533.6 million in retail notes and finance leases, net of unearned income, as of July 31, 2004, October 31, 2003, and July 31, 2003, respectively.

4. ALLOWANCE FOR LOSSES

The change in allowance for losses is summarized as follows:

Millions of Dollars	July 31, 2004	October 31, 2003	July 31, 2003
Allowance for losses, beginning of period	\$ 12.9	\$ 16.0	\$ 16.0
Provision for credit losses	6.5	15.8	11.9
Net losses charged to allowance	(4.1)	(4.2)	(5.0)
Allocated to finance receivables sold	(8.3)	(14.7)	(7.8)
Allowance for losses, end of period	<u>\$ 7.0</u>	<u>\$ 12.9</u>	<u>\$ 15.1</u>

The average outstanding balance of impaired finance receivables was not material for the fiscal periods ended July 31, 2004, October 31, 2003, and July 31, 2003. Interest income that would have been recognized on impaired finance receivables during the nine months ended July 31, 2004 and 2003 or for the year ended October 31, 2003 was not material.

Balances with payments past due over 90 days on owned finance receivables, including held for sale, totaled \$11.3 million as of July 31, 2004.

5. SENIOR AND SUBORDINATED DEBT

Senior and subordinated debt outstanding is summarized as follows:

Millions of Dollars	July 31, 2004	October 31, 2003	July 31, 2003
Bank revolving credit facility, at variable rates, due December 2005	\$ 631.0	\$ 571.0	\$ 435.0
Revolving retail warehouse facility, at variable rates, due October 2005	500.0	500.0	500.0
Borrowings secured by operating leases, 3.45% to 6.65%, due serially through April 2010	161.6	212.5	236.6
Convertible debt, 4.75%, due April 2009	-	178.4	176.9
Total senior and subordinated debt	<u>\$ 1,292.6</u>	<u>\$ 1,461.9</u>	<u>\$ 1,348.5</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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5. SENIOR AND SUBORDINATED DEBT (continued)

Navistar assumed the \$220.0 million 4.75 percent convertible subordinated debt due in 2009 from the Corporation in June 2004. As compensation for the assumption of this debt, the Corporation paid Navistar approximately \$170.0 million in cash. Navistar's assumption of the Corporation's debt resulted in an \$11.9 million increase in additional paid in capital for the Corporation.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses derivative financial instruments as part of its overall interest rate risk management strategy as further described under Note 13 of the 2003 Annual Report on Form 10-K.

The Corporation manages its exposure to fluctuations in interest rates by limiting the amount of fixed rate assets funded with variable rate debt. This is accomplished by selling fixed rate receivables on a fixed rate basis and by utilizing derivative financial instruments. These derivative financial instruments may include forward contracts, interest rate swaps, and interest rate caps. The fair value of these instruments is estimated based on quoted market prices and is subject to market risk as the instruments may become less valuable due to changes in market conditions or interest rates. The Corporation manages exposure to counterparty credit risk by entering into derivative financial instruments with major financial institutions that can be expected to fully perform under the terms of such agreements. The Corporation does not require collateral or other security to support derivative financial instruments with credit risk. The Corporation's counterparty credit exposure is limited to the positive fair value of contracts at the reporting date. As of July 31, 2004, the Corporation's derivative financial instruments had a negative net fair value. Notional amounts of derivative financial instruments do not represent exposure to credit loss.

As of July 31, the notional amounts and fair values of the Corporation's derivative financial instruments are summarized as follows:

Inception	Maturity	Instrument	Notional	Fair Value
			(Millions of Dollars)	
October 2000	November 2012	Interest rate cap	\$ 500.0	\$ (1.3)
	November 2012	Interest rate cap	500.0	1.3
July 2001	April 2006	Interest rate swap	25.0	(0.7)
November 2002	March 2007	Interest rate swap*	28.4	-
October 2003	April 2008	Interest rate swap*	-	(0.1)
July 2004	September 2008	Interest rate swap*	-	-

* Accounted for as non-hedging instruments.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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6. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The fair values of all derivatives are recorded in Other Liabilities on the Statements of Consolidated Financial Condition.

On July 30, 2004, the Corporation entered into a Receivable Purchase Agreement. The Corporation is the Servicer of the Receivable Purchase Agreement. The other parties to the Agreement entered into an interest rate swap agreement. Although the Corporation is not a party to the swap agreement, the Corporation's role as Servicer creates an obligation for net amounts owed to the Agent under the swap agreement.

In fiscal 2004, forward starting swap losses were \$3.3 million, compared with \$7.7 million in prior year.

7. SALES OF RECEIVABLES

During the first nine months of fiscal 2004, the Corporation sold \$1,120.0 million of retail notes and leases for a pre-tax gain of \$39.8 million compared to the first nine months of fiscal 2003, when the Corporation sold \$1,350.0 million of retail receivables for a pre-tax gain of \$59.3 million.

The Corporation's retained interests, which include interest-only receivables, cash reserve accounts, and subordinated certificates, are recorded at fair value in the periods in which the sales occur. The fair value of the interest-only receivable is based on estimates of prepayment speeds and discount rates. The Corporation evaluates the fair value of its retained interests quarterly and makes adjustments to these values when it deems permanent changes in its assumptions have changed.

The following table summarizes income related to sales of finance receivables:

Millions of Dollars	Three Months Ended July 31		Nine Months Ended July 31	
	2004	2003	2004	2003
Gains on sales of receivables	\$ 7.8	\$ 26.1	\$ 39.8	\$ 59.3
Excess spread	4.9	2.6	8.9	10.8
Fair value adjustment	-	-	(2.4)	-
Derivative losses	0.2	(1.0)	(3.3)	(7.8)
Interest income from retained securities and other	0.2	0.5	1.0	1.3
Total income related to sales of finance receivables	<u>\$ 13.1</u>	<u>\$ 28.2</u>	<u>\$ 44.0</u>	<u>\$ 63.6</u>

**NAVISTAR FINANCIAL CORPORATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

8. COMMITMENTS AND CONTINGENCIES

Leases

The Corporation is obligated under non-cancelable operating leases for the majority of its office facilities. These leases are generally renewable and provide that property taxes and maintenance costs are to be paid by the lessee. As of July 31, 2004, future minimum lease commitments under non-cancelable operating leases with remaining terms in excess of one year are as follows:

<u>Twelve months period ended July 31</u>	<u>(Millions of Dollars)</u>
2005.....	\$ 1.9
2006.....	1.9
2007.....	0.4
2008.....	0.4
2009.....	0.2
Thereafter.....	<u>0.1</u>
Total.....	<u>\$ 4.9</u>

The total operating lease expense for the nine months ended July 31, 2004 and 2003 and for the year ended October 31, 2003 was \$1.3 million, \$1.8 million and \$2.3 million, respectively.

Guarantees of Debt

The Corporation periodically guarantees the outstanding debt of affiliates. The guarantees allow for diversification of funding sources for the affiliates. As of July 31, 2004, the Corporation has multiple guarantees related to Navistar's three Mexican finance subsidiaries, Servicios Financieros Navistar, S.A. de C.V. ("SOFOL"), Arrendadora Financiera Navistar, S.A. de C.V. ("Arrendadora") and Navistar Comercial S.A. de C.V. The Corporation has no recourse as guarantor in case of default.

**NAVISTAR FINANCIAL CORPORATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

8. COMMITMENTS AND CONTINGENCIES (continued)

The following table summarizes the borrowings as of July 31, 2004:

<u>Type of Funding</u>	<u>Maturity</u>	<u>Amount of Guaranty</u>	<u>Outstanding Balance</u>
(Millions of Dollars)			
Revolving credit facility ⁽²⁾	December 2005	\$ 100.0	\$ 21.0
Medium term note ⁽¹⁾	November 2004	43.8	43.8
Revolving credit facility ⁽¹⁾	July 2007	17.5	17.5
Revolving credit facility ^{(1), (3)}	Indefinite	21.0	21.0
Revolving credit facility ^{(1), (3)}	Indefinite	17.5	3.7
Revolving credit facility ⁽¹⁾	August 2004	6.6	6.6
Revolving credit facility ^{(1), (4)}	June 2005	4.4	-
Total			<u>\$ 113.6</u>

(1) Peso-denominated

(2) Revolving credit facility guaranteed jointly with Navistar

(3) The bank reviews the terms of this facility monthly. This facility may be used for as long as all the conditions and terms are met.

(4) Contract review date June 2005

Guarantees of Derivatives

As of July 31, 2004, the Corporation had guaranteed derivative contracts for interest rate swaps and cross currency swaps related to SOFOL and Arrendadora. The Corporation is liable up to the fair market value of these derivative contracts only in cases of default by SOFOL and Arrendadora.

The following table summarizes the guaranteed derivative contracts as of July 31, 2004:

<u>Instrument</u>	<u>Maturity</u>	<u>Outstanding Notional</u>	<u>Fair Value</u>
(Millions of Dollars)			
Interest rate swaps and cross currency swaps*	May 2007	\$ 65.2	\$ 0.2

* Peso-denominated

Other

The Corporation has entered into an agreement for the repurchase of equipment. Under this agreement, which matures in August 2004, the Corporation would be required to make a maximum potential future payment of \$11.9 million. Under the provisions of this agreement, the Corporation can liquidate the repurchased assets to recover all or a portion of the payment. The Corporation has potential exposure to the extent that there is a difference between the fair value of the repurchased asset and the guaranteed repurchase amount. The Corporation's current exposure under this agreement is estimated to be immaterial.

**NAVISTAR FINANCIAL CORPORATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

8. COMMITMENTS AND CONTINGENCIES (continued)

On November 30, 2001, the Corporation completed the sale of all of the stock of Harco National Insurance Company ("Harco"), a wholly-owned insurance subsidiary, to IAT Reinsurance Syndicate Ltd. ("IAT"), a Bermuda reinsurance company. As part of its sales agreement with IAT, the Corporation has agreed to guarantee the adequacy of Harco's loss reserves. There is no limit to the potential amount of future payments required by the Corporation related to this reserve. The sales agreement is scheduled to expire November 2008. The carrying amount of the Corporation's liability under this guarantee is estimated at \$4.5 million as of July 31, 2004 and is included in Other Liabilities in the Consolidated Statements of Financial Condition. Management believes this reserve is adequate to cover any future potential payments to IAT.

**NAVISTAR FINANCIAL CORPORATION
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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS
AND FINANCIAL CONDITION**

Certain statements under this caption purely constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act, and the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. Navistar Financial Corporation's (“Corporation”) actual results may differ significantly from the results discussed in such forward-looking statements. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, and such forward-looking statements only speak as of the date of this Form 10-Q. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate” or similar expressions. These statements are based on assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this Form 10-Q, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed under the heading “Business Outlook”.

Overview

The Corporation was incorporated in Delaware in 1949 and is a wholly-owned subsidiary of International Truck and Engine Corporation (“International”), which is a wholly-owned subsidiary of Navistar International Corporation (“Navistar”). As used herein, the “Corporation” refers to Navistar Financial Corporation and its wholly-owned subsidiaries unless the context otherwise requires.

The Corporation is a commercial financing organization that provides wholesale, retail and lease financing in the United States for sales of new and used trucks sold by International and International’s dealers. The Corporation also finances wholesale accounts and selected retail accounts receivable of International. Sales of new products (including trailers) of other manufacturers are also financed regardless of whether they are designed or customarily sold for use with International’s truck products.

The Corporation also services finance receivables it originates and purchases. The Corporation’s sources of revenues are from sales of its receivables, servicing of its sold receivables, earnings from investments and interest earned from its financing programs under wholesale and other dealer loan financing programs.

**NAVISTAR FINANCIAL CORPORATION
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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS
AND FINANCIAL CONDITION**

Overview (continued)

The Corporation is exposed to market risk primarily due to fluctuations in interest rates during the accumulation period prior to a sale of finance receivables. Interest rate risk arises when funding fixed rate receivables with floating rate debt. The Corporation has managed exposure to interest rate changes by funding floating rate receivables with floating rate debt and fixed rate receivables with fixed rate debt and equity capital. Management has reduced the net exposure, which results from the funding of fixed rate receivables with floating rate debt by generally selling fixed rate receivables on a fixed rate basis and by utilizing derivative financial instruments when appropriate.

Business Outlook

Navistar currently projects fiscal 2004 U.S. and Canadian Class 8 heavy truck demand to be 211,000 units, up 32.5% from 2003. Class 6 and 7 medium truck demand, excluding school buses, is forecast at 93,000 units, up 24.3% from 2003. Demand for school buses is expected to be 26,000 units, down 10.9% from 2003. Mid-range diesel engine shipments by Navistar to OEMs in fiscal 2004 are expected to be 349,200 units, 5.1% higher than 2003.

Critical Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The significant accounting principles which management believes are the most important to aid in fully understanding the Corporation's financial results are:

- Sales of Receivables
- Allowance for Losses

Details regarding the Corporation's use of these policies and the related estimates are described in the Corporation's 2003 Annual Report on Form 10-K.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS
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Results of Operations

Fiscal Nine- Month Period 2004 Compared with 2003

Year-to-date net income was \$43.0 million for 2004, compared with \$51.3 million for the same period of 2003. During the first nine months of fiscal 2004, the Corporation sold \$1,120.0 million of retail notes and leases for a pre-tax gain of \$39.8 million compared to the first nine months of fiscal 2003, when the Corporation sold \$1,350.0 million of retail receivables for a pre-tax gain of \$59.3 million. The decrease in gains on sales of receivables is primarily due to lower volume and a decline in average portfolio yield due to increased competition. Lease portfolio yield dropped during fiscal 2004 as liquidations of older higher yielding leases were replaced with acquisitions of lower yielding leases. The decrease in revenue was partly offset by reductions in expenses.

During the fiscal nine-month period in 2004, the Corporation experienced improved portfolio performance and pricing in the used truck market. The credit loss provision is funded based on the Corporation's belief that its portfolio performance and pricing will continue, barring any adverse impact on the economy and the trucking industry. The allowance is maintained at an amount management considers appropriate in relation to the outstanding portfolio based on factors such as overall portfolio credit risk quality, historical loss experience, and current economic conditions.

Financial Condition

Finance Volume and Finance Market Share

The Corporation's finance market share of new International trucks sold in the U.S. increased to 15.5% at July 31, 2004 from 15.1% at July 31, 2003 primarily due to increased originations. During the first nine months of fiscal 2004, the Corporation's net retail notes and finance leases originations were \$963.3 million, compared with \$764.6 million during the same period of fiscal 2003. This increase reflects the continued improvement in the Class 6-8 truck market in which International participates. Net serviced retail notes and finance leases balances were \$2,606.6 million and \$2,445.8 million as of July 31, 2004 and 2003, respectively.

Wholesale note originations increased 28.1% to \$2,868.1 million during the first nine months of fiscal 2004, compared with \$2,239.2 million for the same period of fiscal 2003. Serviced wholesale note balances increased 19.6% to \$1,084.6 million as of July 31, 2004 from \$907.0 million as of July 31, 2003. The increase in wholesale note balances and originations reflects an increase in International orders and retail deliveries.

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Financial Condition (continued)

Finance Volume and Finance Market Share

The Corporation has seen an improvement in its truck repossession activities. Total year to date repossessions for fiscal 2004 were 1,180 units, compared with 1,919 units in 2003. Serviced repossession balance also decreased significantly from \$31.7 million, as of July 31, 2003, to \$20.2 million, as of July 31, 2004, as a result of the lower acquisition of repossessed vehicles.

Funds Management

The Corporation has traditionally obtained the funds to provide financing to International's dealers and retail customers from sales of finance receivables, commercial paper, short and long-term bank borrowings, and medium and long-term debt. The Corporation's current debt ratings have made sales of finance receivables the most economical source of funding.

Credit Ratings

The Corporation's debt ratings as of July 31, 2004 are as follows:

	Fitch	Moody's	Standard and Poor's
Senior unsecured debt	BB	Ba3	BB-
Subordinated debt	B+	B2	B
Outlook	Stable	Stable	Stable

Funding Facilities

Receivable sales are a significant source of funding. Through the asset-backed public market and private placement sales, the Corporation has been able to fund fixed rate retail notes and finance leases at rates, which are more economical than those available to the Corporation in the public unsecured bond market. The Corporation sells retail notes and finance leases through Navistar Financial Retail Receivables Corporation ("NFRRC"), a special purpose, wholly-owned subsidiary of the Corporation.

During the first nine months of 2004 and 2003, the Corporation sold \$1,120 million and \$1,350.0 million, respectively, of retail notes and finance leases to owner trusts which, in turn, issued asset-backed securities that were sold to investors. As of July 31, 2004, there was no remaining shelf registration available to NFRRC. On August 13, 2004, a \$4.0 billion shelf registration filed by NFRRC became effective.

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Funds Management (continued)

Funding Facilities

In June 2004, International Truck Leasing Corp. ("ITLC"), a special purpose, wholly-owned subsidiary of the Corporation, was established to provide for the funding of certain leases. ITLC's assets are available to satisfy its creditors' claims prior to such assets becoming available for ITLC's uses or to the Corporation or affiliated companies.

Truck Engine Receivables Financing Corporation, a special purpose, wholly-owned subsidiary of the Corporation, has in place a trust that provides for the funding of \$100.0 million of unsecured trade receivables generated by the sale of diesel engines and engine service parts from International to Ford Motor Company. The facility matures in 2006. As of July 31, 2004, the Corporation had utilized \$81.2 million of this facility.

During the second quarter of fiscal 2004, Truck Retail Accounts Corporation ("TRAC"), a special purpose, wholly-owned subsidiary of the Corporation, obtained financing for its retail accounts with a bank conduit that provides for the funding of up to \$100.0 million of eligible retail accounts. The revolving retail account facility expires in April 2005. The sales of retail accounts under TRAC constitute sales under generally accepted accounting principles in the United States of America, with the result that the sold accounts are removed from the Corporation's balance sheet and the investor's interests are not reflected as liabilities. TRAC is a separate corporate entity, and its assets will be available first and foremost to satisfy the claims of the creditors of TRAC. As of July 31, 2004, the Corporation had utilized \$93.5 million of this facility.

Navistar Financial Securities Corporation ("NFSC"), a special purpose, wholly-owned subsidiary of the Corporation, has in place a revolving wholesale note trust that provides for the funding of up to \$1,236.0 million of eligible wholesale notes. As of July 31, 2004, it comprised two \$200.0 million tranches of investor certificates maturing in 2004 and 2008, three \$212.0 million tranches of investor certificates maturing in 2005 and 2006, and variable funding certificates with a maximum capacity of \$200.0 million maturing in February 2005. NFSC also has retained interest in marketable securities that could be used to fund \$169.6 million in additional eligible wholesale notes. As of July 31, 2004, the Corporation had utilized \$997.3 million of the revolving wholesale note trust.

Truck Retail Instalment Paper Corporation ("TRIP"), a special purpose wholly-owned subsidiary of the Corporation, issued \$500.0 million of senior and subordinated floating rate asset-backed notes on October 16, 2000. The proceeds were used to establish a revolving retail warehouse facility to fund the Corporation's retail notes and retail leases, other than fair market value leases, during the accumulation period prior to a receivable sale. There were \$130.2 million in retail notes and leases at the end of the third quarter 2004, compared with \$500.0 million at the end of the third quarter 2003. This difference was a result of a conduit sale in the third quarter of 2004.

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Funds Management (continued)

Funding Facilities

The Corporation also has \$820.0 million contractually committed bank revolving credit facility that will mature in December 2005. As of July 31, 2004, \$652.0 million of this facility was utilized.

As of July 31, 2004, the aggregate available, including unrestricted cash, to fund finance receivables under all the various facilities was \$1,049.1 million.

Navistar assumed the \$220.0 million 4.75 percent convertible subordinated debt due in 2009 from the Corporation in June 2004. As compensation for the assumption of this debt, the Corporation paid Navistar approximately \$170.0 million in cash. Navistar's assumption of the Corporation's debt resulted in an \$11.9 million increase in additional paid in capital for the Corporation.

The weighted average borrowing rate on all debt outstanding for the first nine months of fiscal 2004 decreased to 3.11% from 3.67% for the same period in 2003. The decrease in the Corporation's weighted average borrowing rate is primarily a result of lower LIBOR rates.

Management believes that collections on the outstanding finance receivables portfolio plus cash available from the Corporation's various funding sources will permit the Corporation to meet the financing requirements of International's dealers and retail customers through 2004 and beyond.

New Accounting Pronouncements

The consolidated financial statements include the accounts of Navistar Financial Corporation and its wholly-owned subsidiaries ("Corporation"). International Truck and Engine Corporation ("International"), which is wholly owned by Navistar International Corporation ("Navistar"), is the parent company of the Corporation.

The accompanying unaudited financial statements have been prepared in accordance with accounting policies described in the Corporation's 2003 Annual Report on Form 10-K and should be read in conjunction with the disclosures therein.

In December 2003, the FASB issued a revision to SFAS 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits". This Statement retains the disclosures previously required by SFAS 132 but adds additional disclosure requirements about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. It also calls for the required information to be provided separately for pension plans and for other postretirement benefit plans. The

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New Accounting Pronouncements (continued)

Corporation assessed the assets, obligations, cash flows, and net periodic benefit cost for pension plans and for other postretirement benefit plans and determined the amounts to be immaterial; therefore, related disclosures have been omitted.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities". This interpretation addresses consolidation requirements of variable interest entities ("VIEs"). In December 2003, the FASB revised this Interpretation to clarify the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest for the entity to finance its activities without additional financial support. This Interpretation, as revised, is effective for periods ending after December 15, 2003. The Corporation determined that it does not have an interest in a VIE, as defined within this Interpretation. Transferors to qualifying special purpose entities ("QSPE's") subject to the reporting requirements of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", are excluded from the scope of this interpretation. The Corporation currently sells receivables to entities meeting the requirements of QSPE's. Therefore, this Interpretation has no impact on the Corporation's results of operations, financial condition, and cash flows.

On December 8, 2003, the President signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") into law. The Act introduces a voluntary prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care plans that provide prescription drug benefits that are at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FSP 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", which requires the commencement of accounting recognition for the effects of the Act no later than the Corporation's quarter ending October 31, 2004. The Corporation implemented the accounting guidance related to the effects of the Act during the quarter ended July 31, 2004. The cumulative effect of accounting for the subsidy as of the date of the Act through the date of implementation resulted in an immaterial reduction to the Corporation's postretirement benefit expenses and liabilities.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Corporation's principal executive officer and principal financial officer, along with other management of the Corporation, evaluated the Corporation's disclosure controls and procedures (as defined in rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of July 31, 2004. Based on that evaluation, the principal executive officer and principal financial officer of the Corporation concluded that, as of July 31, 2004, the disclosure controls and procedures in place at the Corporation were (1) designed to ensure that material information relating to the Corporation is made known to them to allow timely decisions regarding required disclosure and (2) effective, in that such disclosure controls and procedures provide reasonable assurance that information required to be disclosed by the Corporation in reports that the Corporation files or submits under the Exchange Act, is recorded, processed, summarized and reported on a timely basis in accordance with applicable rules and regulations. Although the Corporation's principal executive officer and principal financial officer believe the Corporation's existing disclosure controls and procedures are adequate to enable the Corporation to comply with its disclosure obligations, the Corporation is in the process of formalizing and documenting the procedures already in place.

Changes in Internal Control over Financial Reporting

The Corporation has not made any change to its internal control over financial reporting (as defined in rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended July 31, 2004 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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PART II - OTHER INFORMATION (continued)

ITEM 1. LEGAL PROCEEDINGS

There were no material pending legal proceedings other than ordinary, routine litigation incidental to the business of the Corporation.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

3	Articles of Incorporation and By-Laws	E-1
4	Instruments Defining Rights of Security Holders, including Indentures	E-2
10	Material Contracts.....	E-4
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	E-12
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	E-14
32	CEO and CFO Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	E-16

(b) Reports on Form 8-K filed during the quarter ended July 31, 2004:

The Corporation filed a current report on Form 8-K with the Commission on May 12, 2004 to announce Navistar's intent to assume the Corporation's \$220.0 million 4.75 percent convertible subordinated debt.

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SIGNATURE

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

Navistar Financial Corporation
(Registrant)

Date September 10, 2004

/s/ Paul Martin
Paul Martin
Vice President and Controller
(Principal Accounting Officer)