OCWEN FINANCIAL CORP
Form 10-Q
July 31, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from: ____________________ to ____________________

Commission File No. 1-13219
OCWEN FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Florida	65-0039856
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Abernathy Road NE, Suite 210 Atlanta, Georgia	30328
(Address of principal executive office)	(Zip Code)

(561) 682-8000
(Registrant’s telephone number, including area code)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large Accelerated filer	x		Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes o No x

Number of shares of common stock outstanding as of July 27, 2015: 125,380,118 shares

OCWEN FINANCIAL CORPORATION
FORM 10-Q
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FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact included in this report, including, without limitation, statements regarding our financial position, business strategy and other plans and objectives for our future operations, are forward-looking statements. These statements include declarations regarding our management's beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could", "intend," "consider," "expec "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such terms or other comparable terminolo Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Forward-looking statements involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those suggested by such statements. Accordingly, you should not place undue reliance on any forward-looking statement. Important factors that could cause actual results to differ include, but are not limited to, the risks discussed in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014 and the following:

- adverse effects on our business as a result of regulatory settlements;
- reactions to the announcement of such settlements by key counterparties;
- increased regulatory scrutiny and media attention, due to rumors or otherwise;
- uncertainty related to claims, litigation and investigations brought by government agencies and private parties regarding our servicing, foreclosure, modification and other practices;
- any adverse developments in existing legal proceedings or the initiation of new legal proceedings;
- our ability to effectively manage our regulatory and contractual compliance obligations;
- the adequacy of our financial resources, including our sources of liquidity and ability to sell, fund and recover advances, repay borrowings and comply with our debt agreements;
- our servicer and credit ratings as well as other actions from various rating agencies, including the impact of recent or future downgrades of our servicer and credit ratings;
- volatility in our stock price;
- the characteristics of our servicing portfolio, including prepayment speeds along with delinquency and advance rates;
- our ability to contain and reduce our operating costs, including our ability to successfully execute on our cost improvement initiative;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;
- uncertainty related to legislation, regulations, regulatory agency actions, regulatory examinations, government programs and policies, industry initiatives and evolving best servicing practices;
- our dependence on New Residential Investment Corp. (NRZ) for a substantial portion of our advance funding for non-agency mortgage servicing rights;
- uncertainties related to our long-term relationship with NRZ;
- the loss of the services of our senior managers;
- uncertainty related to general economic and market conditions, delinquency rates, home prices and disposition timelines on foreclosed properties;
- uncertainty related to the actions of loan owners and guarantors, including mortgage-backed securities investors, trustees and government sponsored entities (GSEs), regarding loan put-backs, penalties and legal actions;
- our ability to comply with our servicing agreements, including our ability to comply with our seller/servicer agreements with GSEs and maintain our status as an approved seller/servicer;
- uncertainty related to the GSEs substantially curtailing or ceasing to purchase our conforming loan originations or the Federal Housing Authority of the Department of Housing and Urban Development or Department of Veterans Affairs ceasing to provide insurance;
- uncertainty related to the processes for judicial and non-judicial foreclosure proceedings, including potential additional costs or delays or moratoria in the future or claims pertaining to past practices;
- our reserves, valuations, provisions and anticipated realization on assets;
- our ability to execute on our strategy to reduce the size of our agency portfolio;
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- uncertainty related to the ability of third-party obligors and financing sources to fund servicing advances on a timely basis on loans serviced by us;
- our ability to effectively manage our exposure to interest rate changes and foreign exchange fluctuations;
- uncertainty related to our ability to adapt and grow our business;
- our ability to integrate the systems, procedures and personnel of acquired assets and businesses;
- our ability to maintain our technology systems and our ability to adapt such systems for future operating environments;
- uncertainty related to the ability of our technology vendors to adequately maintain and support our systems, including our servicing systems, loan originations and financial reporting systems;

- failure of our internal security measures or breach of our privacy protections; and
- uncertainty related to the political or economic stability of foreign countries in which we have operations.

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the Securities and Exchange Commission (SEC) including our Annual Report on Form 10-K for the year ended December 31, 2014, our Quarterly Report on Form 10-Q for the three months ended March 31, 2015 and our Current Reports on Form 8-K. Forward-looking statements speak only as of the date they were made and except for our ongoing obligations under the U.S. federal securities laws, we undertake no obligation to update or revise forward-looking statements whether as a result of new information, future events or otherwise.

PART I – FINANCIAL INFORMATION
ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	June 30, 2015	December 31, 2014
Assets		
Cash	$320,080	$129,473
Mortgage servicing rights ($814,450 and $93,901 carried at fair value)	1,341,067	1,913,992
Advances	572,942	893,914
Match funded advances	2,181,493	2,409,442
Loans held for sale ($276,581 and $401,120 carried at fair value)	352,398	488,612
Loans held for investment - reverse mortgages, at fair value	2,097,192	1,550,141
Receivables, net	379,279	270,596
Deferred tax assets, net	97,209	76,987
Premises and equipment, net	39,629	43,310
Other assets ($8,157 and $7,335 carried at fair value)	623,350	490,811
Total assets	$8,004,639	$8,267,278
Liabilities and Equity		
Liabilities		
Match funded liabilities	$1,741,122	$2,090,247
Financing liabilities ($2,569,217 and $2,058,693 carried at fair value)	2,743,670	2,258,641
Other secured borrowings	1,290,431	1,733,691
Senior unsecured notes	350,000	350,000
Other liabilities	734,386	793,534
Total liabilities	6,859,609	7,226,113
Commitments and Contingencies (Notes 19 and 20)		
Equity		
Ocwen Financial Corporation (Ocwen) stockholders’ equity		
Common stock, $.01 par value; 200,000,000 shares authorized; 125,380,118 and 125,215,615 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	1,254	1,252
Additional paid-in capital	525,897	515,194
Retained earnings	617,286	530,361
Accumulated other comprehensive loss, net of income taxes	(2,380)	(8,413)
Total Ocwen stockholders’ equity	1,142,057	1,038,394
Non-controlling interest in subsidiaries	2,973	2,771
Total equity	1,145,030	1,041,165
Total liabilities and equity	$8,004,639	$8,267,278

The accompanying notes are an integral part of these unaudited consolidated financial statements

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue				
Servicing and subservicing fees	$396,983	$491,673	$843,524	$982,132
Gain on loans held for sale, net	45,132	38,836	89,636	82,823
Other revenues	21,136	22,565	40,535	39,380
Total revenue	463,251	553,074	973,695	1,104,335
Expenses				
Compensation and benefits	105,843	110,602	210,987	216,239
Amortization of mortgage servicing rights	31,586	63,198	70,080	125,292
Servicing and origination	52,558	35,787	154,360	79,734
Technology and communications	41,260	39,997	80,611	76,973
Professional services	72,369	30,643	129,300	52,041
Occupancy and equipment	28,773	25,756	54,487	57,807
Other	19,863	39,480	30,785	86,571
Total expenses	352,252	345,463	730,610	694,657
Other income (expense)				
Interest income	5,038	5,553	10,613	10,879
Interest expense	(124,897)	(136,207)	(244,293)	(276,080)
Gain on sale of mortgage servicing rights	30,306	—	56,712	—
Gain on extinguishment of debt	—	356	—	2,609
Other, net	(8,946)	(136)	(10,788)	1,794
Total other expense, net	(98,499)	(130,434)	(187,756)	(260,798)
Income before income taxes	12,500	77,177	55,329	148,880
Income tax expense	2,594	10,165	11,034	21,382
Net income	9,906	67,012	44,295	127,498
Net income attributable to non-controlling interests	(168)	(57)	(202)	(42)
Net income attributable to Ocwen stockholders	9,738	66,955	44,093	127,456
Preferred stock dividends	—	(582)	—	(1,163)
Deemed dividends related to beneficial conversion feature of preferred stock	—	(415)	—	(831)
Net income attributable to Ocwen common stockholders	$9,738	$65,958	$44,093	$125,462
Earnings per share attributable to Ocwen common stockholders				
Basic	$0.08	$0.49	$0.35	$0.93
Diluted	$0.08	$0.48	$0.35	$0.91
Weighted average common shares outstanding				
Basic	125,311,133	134,221,668	125,291,788	134,724,905
Diluted	127,152,479	137,705,793	127,076,178	138,423,012

The accompanying notes are an integral part of these unaudited consolidated financial statements

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$9,906	$67,012	$44,295	$127,498
Other comprehensive income, net of income taxes:				
Reclassification adjustment for losses on cash flow hedges included in net income (1)	5,615	370	6,033	978
Other	—	1	—	2
Total other comprehensive income, net of income taxes	5,615	371	6,033	980
Comprehensive income	15,521	67,383	50,328	128,478
Comprehensive income attributable to non-controlling interests	(168)	(57)	(202)	(42)
Comprehensive income attributable to Ocwen stockholders	$15,353	$67,326	$50,126	$128,436

(1) Net of tax expense of $0.3 million and for the three months ended June 30, 2015 and $0.4 million and $0.2 million for the six months ended June 30, 2015 and 2014, respectively. These losses are reclassified to Other, net in the unaudited Consolidated Statements of Operations.

The accompanying notes are an integral part of these unaudited consolidated financial statements

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

	Ocwen Stockholders Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Non-controlling Interest in Subsidiaries	Total
Balance at December 31, 2014	125,215,615	$1,252	$515,194	$530,361	$ (8,413)	$ 2,771	$1,041,165
Net income	—	—	—	44,093	—	202	44,295
Cumulative effect of fair value election - Mortgage servicing rights, net of income taxes	—	—	—	42,846	—	—	42,846
Exercise of common stock options	85,173	1	508	—	—	—	509
Equity-based compensation and other	79,330	1	10,195	(14)	—	—	10,182
Other comprehensive income, net of income taxes		—	—	—	6,033	—	6,033
Balance at June 30, 2015	125,380,118	$1,254	$525,897	$617,286	$ (2,380)	$ 2,973	$1,145,030
Balance at December 31, 2013	135,176,271	$1,352	$818,427	$1,002,963	$ (10,151)	$ —	$1,812,591
Net income	—	—	—	127,456	—	42	127,498
Preferred stock dividends ($18.75 per share)	—	—	—	(1,163)	—	—	(1,163)
Deemed dividend related to beneficial conversion feature of preferred stock	—	—	—	(831)	—	—	(831)
Repurchase of common stock	(2,663,334)	(27)	(94,580)	—	—	—	(94,607)
Exercise of common stock options	244,000	3	1,036	—	—	—	1,039
Equity-based compensation and other	14,384	—	8,854	—	—	—	8,854
Non-controlling interest in connection with acquisition of controlling interest in Ocwen Structured Investments, LLC	—	—	—	—	—	2,526	2,526
Other comprehensive loss, net of income taxes	—	—	—	—	980	—	980
Balance at June 30, 2014	132,771,321	$1,328	$733,737	$1,128,425	$ (9,171)	$ 2,568	$1,856,887

The accompanying notes are an integral part of these unaudited consolidated financial statements

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

For the Six Months Ended June 30,	2015	2014
Cash flows from operating activities		
Net income	$44,295	$127,498
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage servicing rights	70,080	125,292
Loss on valuation of mortgage servicing rights, at fair value	48,480	11,809
Impairment of mortgage servicing rights	1,608	—
Gain on sale of mortgage servicing rights	(56,712)	—
Realized and unrealized losses on derivative financial instruments	7,268	1,539
Provision for bad debts	24,686	52,564
Depreciation	8,420	10,846
Amortization of debt issuance costs	7,311	2,297
Gain on extinguishment of debt	—	(2,609)
(Gain) loss on sale of fixed assets	(1,095)	165
(Increase) decrease in deferred tax assets, net	(18,909)	16,547
Equity-based compensation expense	3,581	7,784
Gain on loans held for sale, net	(89,636)	(82,823)
Origination and purchase of loans held for sale	(2,314,488)	(4,501,731)
Proceeds from sale and collections of loans held for sale	2,517,096	4,422,560
Changes in assets and liabilities:		
Decrease in advances and match funded advances	383,028	123,299
Increase in receivables and other assets, net	(29,957)	(1,022)
Decrease in other liabilities	(84,690)	(116,971)
Other, net	14,599	12,979
Net cash provided by operating activities	534,965	210,023
Cash flows from investing activities		
Origination of loans held for investment – reverse mortgages	(530,402)	(357,104)
Principal payments received on loans held for investment - reverse mortgages	63,942	28,601
Purchase of mortgage servicing rights, net	(6,252)	(9,749)
Proceeds from sale of mortgage servicing rights	388,938	—
Acquisition of advances in connection with the purchase of mortgage servicing rights	—	(84,373)
Acquisition of advances in connection with the purchase of loans	—	(60,482)
Proceeds from sale of advances and match funded advances	128,821	—
Additions to premises and equipment	(8,038)	(5,092)
Proceeds from sale of premises and equipment	4,758	22
Cash paid to acquire ResCap Servicing Operations (a component of Residential Capital, LLC)	—	(54,220)
Net cash paid to acquire controlling interest in Ocwen Structured Investments, LLC	—	(7,833)
Distributions of capital from unconsolidated entities	—	6,572
Other	2,158	1,459
Net provided by (used in) investing activities	43,925	(542,199)
Cash flows from financing activities		

Repayment of match funded liabilities	(349,125)	(292,297)
Proceeds from other secured borrowings	3,895,539	3,007,709
Repayments of other secured borrowings	(4,455,813)	(3,139,093)
Proceeds from issuance of senior unsecured notes	—	350,000
Payment of debt issuance costs	(18,610)	(6,417)
Proceeds from sale of mortgage servicing rights accounted for as a financing	—	123,551
Proceeds from sale of loans accounted for as a financing	532,856	381,579
Proceeds from sale of advances accounted for as a financing	—	81,828
Repurchase of common stock	—	(94,607)
Payment of preferred stock dividends	—	(1,163)
Proceeds from exercise of common stock options	413	1,176
Other	6,457	869
Net cash (used in) provided by financing activities	(388,283)	413,135
Net increase in cash	190,607	80,959
Cash at beginning of year	129,473	178,512
Cash at end of period	$320,080	$259,471
Supplemental non-cash investing and financing activities		
Transfer of loans held for sale to loans held for investment	$—	$110,874

The accompanying notes are an integral part of these unaudited consolidated financial statements

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015
(Dollars in thousands, except per share data and unless otherwise indicated)

Note 1 – Description of Business and Basis of Presentation

Organization

Ocwen Financial Corporation (NYSE: OCN) (Ocwen, we, us and our) is a financial services holding company which, through its subsidiaries, is engaged in the servicing and origination of mortgage loans. Ocwen is headquartered in Atlanta, Georgia with offices throughout the United States (U.S.) and in the United States Virgin Islands (USVI) with support operations in India and the Philippines. Ocwen is a Florida corporation organized in February 1988.

Ocwen owns all of the common stock of its primary operating subsidiary, Ocwen Mortgage Servicing, Inc. (OMS), and directly or indirectly owns all of the outstanding stock of its other primary operating subsidiaries: Ocwen Loan Servicing, LLC (OLS), Ocwen Financial Solutions Private Limited, Homeward Residential, Inc. (Homeward), and Liberty Home Equity Solutions, Inc. (Liberty).

We perform primary and master servicer activities on behalf of investors and other servicers, including the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the GSEs), the Government National Mortgage Association (Ginnie Mae) and private-label securitizations (non-Agency). As primary servicer, we may be required to make certain payments of property taxes and insurance premiums, default and property maintenance payments, as well as advances of principal and interest payments before collecting them from borrowers. As master servicer, we collect mortgage payments from primary servicers and distribute the funds to investors in the mortgage-backed securities. To the extent the primary servicer does not advance the scheduled principal and interest, as master servicer we are responsible for advancing the shortfall subject to certain limitations.

We originate, purchase, sell and securitize conventional (conforming to the underwriting standards of Fannie Mae or Freddie Mac; collectively referred to as Agency loans) and government insured (Federal Housing Authority (FHA) or Department of Veterans Affairs (VA) forward and reverse mortgages. The GSEs or Ginnie Mae guarantee our mortgage securitizations.

Note 1A — Business Environment and Other Uncertainties

We are facing certain challenges and uncertainties that could have significant adverse effects on our business, liquidity and financing activities. We may be adversely impacted by the following, among other things:

- Failure to maintain sufficient liquidity to operate our servicing and lending businesses;
- Failure to comply with covenants;
- Downgrades in our third-party servicer ratings; or
- Regulatory actions against us.

We have been taking, and continue to take, steps to address these challenges and uncertainties, including those described in “-Recent Actions” below. In addition, we have been, and continue to, execute on our strategic plan to sell a significant portion of our Agency MSRs. We currently expect to receive approximately $950.0 million of proceeds from these transactions, subject in each case to necessary approvals and the satisfaction of closing conditions. We expect that the majority of such proceeds will be used for prepayments under our SSTL, which will significantly reduce our leverage.

We have been, and continue to, engage in communications with the ratings agencies and key stakeholders, including the GSEs, in connection with recent and planned future actions and developments, including the uncertainties identified above.

There can be no assurances that management’s recent and future actions will be successful in mitigating the above risks and uncertainties in our business.

Liquidity

Our ability to finance servicing advances is a significant factor that affects our liquidity. Our use of advance financing facilities is integral to our servicing advance financing strategy, as these advance financing facilities are necessary for us to meet our daily advance funding obligations under our servicing agreements. Our advance funding facilities have 364-day revolving periods. At June 30, 2015, we had $1.7 billion outstanding under these facilities. In the event we are unable to renew, replace or extend one or more of these advance funding facilities, repayment of the outstanding balance must begin at the end of the respective revolving period. In addition, we use mortgage loan warehouse facilities to fund newly originated loans on a short-term basis until they are sold to secondary market investors, including GSEs or other third-party investors. All of our master repurchase and participation agreements for financing new loan originations have 364-day terms and are typically renewed annually. At June 30, 2015, we had $314.8 million outstanding under these financing arrangements. To date, we have successfully renewed, replaced or extended all of our debt agreements prior to their scheduled maturity dates to the extent necessary to maintain adequate liquidity. In the event we are unable to renew, replace or extend any of our debt agreements, we may not have adequate sources of funding for our business. Due to the significant level of cash requirements related to servicing advances, we may not have sufficient levels of liquidity to fund our operations without our advance financing facilities. We typically require significantly more liquidity to meet our advance funding obligations than our available cash on hand.

Covenants

Under the terms of our existing debt agreements, we are subject to various qualitative and quantitative covenants. As a result of the covenants to which we are subject, we may be limited in the manner in which we conduct our business and may be limited in our ability to engage in favorable business activities or raise additional capital to finance future operations or satisfy future liquidity needs. In addition, breaches or events that may result in a default under our debt agreements include, among other things, noncompliance with our covenants, nonpayment of principal or interest, material misrepresentations, the occurrence of material adverse change, insolvency, bankruptcy, certain material judgments and changes of control. Covenants and default provisions of this type are commonly found in debt agreements such as ours. Certain of these covenants and default provisions are open to subjective interpretation and, if our interpretation were contested by a lender, a court may ultimately be required to determine compliance or lack thereof. In addition, our debt agreements generally include cross default provisions such that a default under one agreement could trigger defaults under other agreements. If we fail to comply with our debt agreements and are unable to avoid, remedy or secure a waiver of any resulting default, we may be subject to adverse action by our lenders, including termination of further funding, acceleration of outstanding obligations, enforcement of liens against the assets securing or otherwise supporting our obligations, and other legal remedies. Our lenders can waive their contractual rights in the event of a default.

OLS, Homeward and Liberty are parties to seller/servicer agreements and/or subject to guidelines and regulations (collectively, seller/servicer obligations) with one or more of the GSEs, the Department of Housing and Urban Development (HUD), FHA, VA and Ginnie Mae. These seller/servicer obligations include financial covenants that include capital requirements related to tangible net worth, as defined by the applicable agency, as well as extensive requirements regarding servicing, selling and other matters. To the extent that these requirements are not met or waived, the applicable agency may, at its option, utilize a variety of remedies including requirements to deposit funds as security for our obligations, sanctions, suspension or even termination of approved seller/servicer status, which would prohibit future originations or securitizations of forward or reverse mortgage loans or servicing for the applicable agency. To date, none of these agencies has communicated any material sanction, suspension or prohibition in connection with our seller/servicer obligations. Our non-Agency servicing agreements also contain requirements regarding servicing practices and other matters, and a failure to comply with these requirements could have an adverse impact on our business.

Servicer Ratings

Moody’s Investors Service (Moody’s), Fitch Ratings Inc. (Fitch) Standard & Poor’s (S&P) and Morningstar, Inc. (Morningstar) rate us as a mortgage servicer. Maintaining minimum ratings from these agencies is important to the conduct of our loan servicing and lending businesses. Downgrades in servicer ratings could adversely affect our ability to finance servicing advances and our status as an approved servicer by Fannie Mae and Freddie Mac. The servicer rating requirements of Fannie Mae do not necessarily require or imply immediate action, as Fannie Mae has discretion with respect to whether we are in compliance with their requirements and what actions it deems appropriate under the circumstances in the event that we fall below their desired servicer ratings.

Each of Moody’s, Fitch and S&P took action with respect to our servicer ratings in June 2015. Moody’s confirmed a number of our ratings and removed those ratings from review for downgrade. Fitch confirmed a number of our ratings and revised the outlook to positive from stable. S&P lowered a number of our ratings to below average and revised the outlook for these ratings to stable. Out of 4,053 non-Agency servicing agreements, 726 with $43.1 billion of unpaid principal balance (UPB) as of June 30, 2015 have minimum servicer ratings criteria. As a result of downgrades in our servicer ratings, termination rights have been triggered in 644 of these non-Agency servicing agreements. This represents approximately $36.9 billion in UPB as of June 30, 2015, or approximately 18% of our total non-Agency servicing portfolio. We have received notices terminating us as the servicer under four of our non-Agency servicing agreements due to rating downgrades. Pursuant to our servicing agreements, generally we are entitled to payment of accrued and unpaid servicing fees through the termination date as well as all advances and certain other previously unreimbursed amounts, although we lose the future servicing fee revenue. The financial impact of the termination of servicing under these four servicing agreements was immaterial to our financial condition and results of operations. We could be subject to further terminations, either as a result of recent servicer ratings downgrades or future adverse actions by rating agencies, which could have an adverse effect on our business, financing activities, financial condition and results of operations.

We have agreed to compensate New Residential Investment Corp. (NRZ) for certain increased costs that are the direct result of a downgrade of our S&P rating below "Average". Such compensation shall not exceed $3.0 million for any calendar month or $36.0 million in the aggregate. We accrued $0.3 million at June 30, 2015 in connection with this agreement, and may incur costs in connection with this agreement in the future periods. Compensation related to this agreement is recorded as interest expense in the unaudited Consolidated Statements of Operations

Failure to maintain minimum servicer ratings could also adversely affect our ability to sell or fund servicing advances going forward, could affect the terms and availability of debt financing facilities that we may seek in the future, and could impair our ability to consummate future servicing transactions or adversely affect our dealings with lenders, other contractual counterparties, and regulators, including our ability to maintain our status as an approved servicer by Fannie Mae and Freddie Mac. Any such outcome could have a material adverse effect on our business, financing activities, financial condition and results of operations.

Regulatory Uncertainties

As a result of the current regulatory environment, we have faced, and expect to continue to face, increased regulatory and public scrutiny as well as stricter and more comprehensive regulation of our business. We have recently entered into a number of regulatory settlements which have significantly impacted our ability to grow our servicing portfolio and which subject us to ongoing monitoring or reporting. See Note 18 – Regulatory Requirements and Note 20 – Contingencies for further information regarding regulatory requirements, our recent regulatory settlements and regulatory-related contingencies.

We continue to work with our regulators, including the Consumer Financial Protection Bureau (CFPB) and state regulators and attorneys general, on enhancing our risk and compliance management systems and remediating deficiencies. We are currently unaware of any unresolved issues with state agencies that would have a material financial impact on us. We are not aware of, nor anticipating, any material fines, penalties or settlements from any such agencies. We are not aware of any pending or threatened actions to suspend or revoke any state licenses.

Recent Actions

To address the uncertainties set forth above, we have proactively engaged with our lenders and significant counterparties. Recent developments include the following:

- On April 6, 2015, we amended the agreements governing our relationship with Home Loan Servicing Solutions, Ltd. (HLSS) in consideration for our consent to the assignment by HLSS to NRZ of all HLSS' right, title and interest in, to and under our arrangements with HLSS (including the Rights to MSRs). Most notably, the amendment extended the term during which we are scheduled to be the servicer on loans underlying the Rights to MSRs (along with the associated economic benefits) for two additional years or until April 30, 2020, whichever is earlier, provided that such extension will not apply with respect to any servicing agreement that, as of the date that it was scheduled to terminate under our original agreements, is affected by an uncured termination event due to a downgrade of our servicer rating to below average or lower by S&P or to "SQ4" or lower by Moody's. The amendment also imposed a two-year standstill (until April 6, 2017 and subject to certain conditions) on the rights of NRZ to replace us as servicer. References to NRZ in these unaudited consolidated financial statements include HLSS for periods prior to April 6, 2015 because, following HLSS' sale of substantially all of its assets on April 6, 2015, NRZ, through its subsidiaries, is the owner of the Rights to MSRs and has assumed all rights and obligations under the associated agreements.
- On April 17, 2015, we entered into an amendment to the SSTL facility agreement. Effective as of April 20, 2015, the amendment, among other things (1) removed, with respect to the 2014 fiscal year, the requirement that our financial statements and the related audit report must be unqualified as to going concern; and (2) extended the required time period for delivery of the 2014 audited financial statements to May 29, 2015. We subsequently delivered our 2014 audited financial statements prior to May 29, 2015 and with an audit report that was unqualified as to going concern.
- On June 10, 2015, we refinanced and upsized an existing $400.0 million servicing advance financing facility. The facility was increased to $450.0 million with a revolving period term to June 2016. On June 26, 2015, the facility issued $225.0 million of secured investment grade fixed-rate term notes, reducing the facility revolving note commitment to $225.0 million.

- We are engaged in discussions with global financial institutions for the refinancing of an existing $1.8 billion servicing advance facility and we currently expect to finalize the refinancing in the near term.

Note 1B - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions of the Securities and Exchange Commission (SEC) to Form 10-Q and SEC Regulation S-X, Article 10, Rule 10-01 for interim

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financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The results of operations and other data for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2015. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Reclassifications

Within the Other income (expense) section of the unaudited Consolidated Statements of Operations for the three and six months ended June 30, 2014, we reclassified Interest income from Other, net to a separate line item to conform to the current year presentation.

Certain insignificant amounts in the unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2014 have been reclassified to conform to the current year presentation. These reclassifications had no impact on our consolidated cash flows from operating, investing or financing activities.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the related disclosures in the accompanying notes. Such estimates and assumptions include, but are not limited to, those that relate to fair value measurements, the provision for potential losses that may arise from litigation proceedings, and representation and warranty and other indemnification obligations. In developing estimates and assumptions, management uses all available information; however, actual results could materially differ from those estimates and assumptions.

Income Taxes

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 270, Interim Financial Reporting, and ASC 740-270, Income Taxes — Interim Reporting, at the end of each interim period, we are required to determine the best estimate of our annual effective tax rate and then apply that rate to “ordinary” income or loss (pretax income or loss excluding unusual or infrequently occurring discrete items) in providing for income taxes on an interim period. However, in certain circumstances where we are unable to make a reliable estimate of the annual effective tax rate, ASC 740-270 allows the actual effective tax rate for the interim period to be used in the interim period. For the second quarter ended June 30, 2015, we calculated our effective rate for the six months ended June 30, 2015 and applied that rate to the interim period results because we were unable to reasonably estimate our annual effective rate since small changes in estimated “ordinary” income would result in significant changes in the estimated annual effective tax rate. We determined the historical method would not provide a reliable estimate for the fiscal three and six months ended June 30, 2015.

Recently Issued Accounting Standards

Business Combinations: Pushdown Accounting - Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115 (ASU 2015-08)

In May 2015, the FASB issued Accounting Standards Update (ASU) 2015-08, which removes references to the SEC’s Staff Accounting Bulletin (SAB) Topic 5.J on pushdown accounting from ASC 805-50, thereby conforming the FASB’s guidance on pushdown accounting with the SEC’s guidance on this topic. The SEC’s issuance of SAB No. 115 had superseded the guidance in SAB Topic 5.J in connection with the FASB’s November 2014 release of ASU 2014-17. ASU 2015-08 became effective for us upon issuance.

Our adoption of ASU 2015-08 on May 11, 2015 did not have a material impact on our consolidated financial condition or results of operations.

Note 2 – Securitizations and Variable Interest Entities

We securitize, sell and service forward and reverse residential mortgage loans and regularly transfer financial assets in connection with asset-backed financing arrangements. We have aggregated these securitizations and asset-backed financing arrangements into two groups: (1) securitizations of residential mortgage loans and (2) financings of advances on loans serviced for others.

We have determined that the special purpose entities (SPEs) created in connection with our match funded advance financing facilities are variable interest entities (VIEs) for which we are the primary beneficiary.

Securitizations of Residential Mortgage Loans

Currently, we securitize forward and reverse residential mortgage loans involving the GSEs and Ginnie Mae and loans insured by the FHA or VA. We retain the right to service these loans and receive servicing fees based upon the securitized loan balances and certain ancillary fees, all of which are reported in Servicing and subservicing fees on the unaudited Consolidated Statements of Operations.

Transfers of Forward Loans

We sell or securitize forward loans that we originate or that we purchase from third parties, generally in the form of mortgage-backed securities guaranteed by the GSEs or Ginnie Mae. Securitization usually occurs within 30 days of loan closing or purchase. We retain the servicing rights associated with the transferred loans and receive a servicing fee for services provided. We act only as a fiduciary and do not have a variable interest in the securitization trusts. As a result, we account for these transactions as sales upon transfer.

We report the gain or loss on the transfer of the loans held for sale in Gain on loans held for sale, net in the unaudited Consolidated Statements of Operations along with the changes in fair value of the loans and the gain or loss on any related derivatives. We include all changes in loans held for sale and related derivative balances in operating activities in the unaudited Consolidated Statements of Cash Flows.

The following table presents a summary of cash flows received from and paid to securitization trusts related to transfers accounted for as sales that were outstanding during the three and six months ended June 30:

	Three Months		Six Months	
	2015	2014	2015	2014
Proceeds received from securitizations	$1,415,952	$1,443,272	$2,486,724	$2,977,523
Servicing fees collected	8,229	9,140	19,093	14,334
Purchases of previously transferred assets, net of claims reimbursed	396	—	896	—
	$1,424,577	$1,452,412	$2,506,713	$2,991,857

In connection with these transfers, we retained MSRs of $9.8 million and $18.3 million during the three and six months ended June 30, 2015, respectively, and $9.8 million and $21.4 million during the three and six months ended June 30, 2014, respectively. We initially record the MSRs at fair value and subsequently account for them at amortized cost.

Certain obligations arise from the agreements associated with our transfers of loans. Under these agreements, we may be obligated to repurchase the loans, or otherwise indemnify or reimburse the investor or insurer for losses incurred due to material breach of contractual representations and warranties.

The following table presents the carrying amounts of our assets that relate to our continuing involvement with forward loans that we have transferred with servicing rights retained as well as our maximum exposure to loss including the unpaid principal balance (UPB) of the transferred loans at the dates indicated:

	June 30, 2015	December 31, 2014
Carrying value of assets:		
Mortgage servicing rights, at amortized cost	$72,638	$82,542
Mortgage servicing rights, at fair value	509	2,840
Advances and match funded advances	713	1,236
UPB of loans transferred (1)	9,359,443	9,353,187
Maximum exposure to loss	$9,433,303	$9,439,805

(1) The UPB of the loans transferred is the maximum exposure to loss under our standard representations and warranties obligations.

At June 30, 2015 and December 31, 2014, 5.9% and 5.1%, respectively, of the transferred residential loans that we service were 60 days or more past due. During the three and six months ended June 30, 2015, there were no charge-offs, net of recoveries, associated with these transferred loans.

Transfers of Reverse Mortgages

We are an approved issuer of Ginnie Mae Home Equity Conversion Mortgage-Backed Securities (HMBS) that are guaranteed by Ginnie Mae. We originate Home Equity Conversion Mortgages (HECMs, or reverse mortgages) that are insured by the FHA. We then pool the loans into HMBS that we sell into the secondary market with servicing rights retained. We have determined that loan transfers in the HMBS program do not meet the definition of a participating interest because of the servicing requirements in the product that require the issuer/servicer to absorb some level of interest rate risk, cash flow timing risk and incidental credit risk. As a result, the transfers of the HECMs do not qualify for sale accounting, and therefore, we account for these transfers as financings. Under this accounting treatment, the HECMs are classified as Loans held for investment - reverse mortgages, at fair value, on our unaudited Consolidated Balance Sheets. We record the proceeds from the transfer of assets as secured borrowings (HMBS-related borrowings) in Financing liabilities and recognize no gain or loss on the transfer. Holders of participating interests in the HMBS have no recourse against the assets of Ocwen, except for standard representations and warranties and our contractual obligation to service the HECMs and the HMBS.

We have elected to measure the HECMs and HMBS-related borrowings at fair value. The changes in fair value of the HECMs and HMBS-related borrowings are included in Other revenues in our unaudited Consolidated Statements of Operations. Included in net fair value gains on the HECMs and related HMBS borrowings are the interest income that we expect to be collected on the HECMs and the interest expense that we expect to be paid on the HMBS-related borrowings. We report originations and collections of HECMs in investing activities in the unaudited Consolidated Statements of Cash Flows. We report net fair value gains on HECMs and the related HMBS borrowings as an adjustment to the net cash provided by or used in operating activities in the unaudited Consolidated Statements of Cash Flows. Proceeds from securitizations of HECMs and payments on HMBS-related borrowings are included in financing activities in the unaudited Consolidated Statements of Cash Flows.

At June 30, 2015 and December 31, 2014, we had HMBS-related borrowings of $2.0 billion and $1.4 billion and HECMs pledged as collateral to the pools of $2.1 billion and $1.6 billion, respectively.

Financings of Advances on Loans Serviced for Others

Match funded advances on loans serviced for others result from our transfers of residential loan servicing advances to SPEs in exchange for cash. We consolidate these SPEs because we have determined that Ocwen is the primary beneficiary of the SPE. These SPEs issue debt supported by collections on the transferred advances, and we refer to this debt as Match funded liabilities.

We make the transfers to these SPEs under the terms of our advance financing facility agreements. We classify the transferred advances on our unaudited Consolidated Balance Sheets as Match funded advances and the related liabilities as Match funded liabilities. The SPEs use collections of the pledged advances to repay principal and interest and to pay the expenses of the SPE. Holders of the debt issued by these entities can look only to the assets of the SPE for satisfaction of the debt and the debt is not recourse to Ocwen. The assets and liabilities of the advance financing SPEs are comprised solely of Match funded advances, Debt service accounts, Match funded liabilities and amounts due to affiliates. Amounts due to affiliates are eliminated in consolidation in our unaudited Consolidated Balance Sheets.

Note 3 – Fair Value

Fair value is estimated based on a hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that reflect the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels whereby the highest priority is given to Level 1 inputs and the lowest to Level 3 inputs.

Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
Level 2:	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.
We classify assets in their entirety based on the lowest level of input that is significant to the fair value measurement.

The carrying amounts and the estimated fair values of our financial instruments and certain of our nonfinancial assets measured at fair value on a recurring or non-recurring basis or disclosed, but not carried, at fair value are as follows at the dates indicated:

	Level	June 30, 2015 Carrying Value	June 30, 2015 Fair Value	December 31, 2014 Carrying Value	December 31, 2014 Fair Value
Financial assets:					
Loans held for sale:					
Loans held for sale, at fair value (a)	2	$276,581	$276,581	$401,120	$401,120
Loans held for sale, at lower of cost or fair value (b)	3	75,817	75,817	87,492	87,492
Total Loans held for sale		$352,398	$352,398	$488,612	$488,612
Loans held for investment - Reverse mortgages, at fair value (a)	3	$2,097,192	$2,097,192	$1,550,141	$1,550,141
Advances and match funded advances (c)	3	2,754,435	2,754,435	3,303,356	3,303,356
Receivables, net (c)	3	379,279	379,279	270,596	270,596
Mortgage-backed securities, at fair value (a)	3	8,157	8,157	7,335	7,335
Financial liabilities:					
Match funded liabilities (c)	3	$1,741,122	$1,741,122	$2,090,247	$2,090,247
Financing liabilities:					
HMBS-related borrowings, at fair value (a)	3	$1,987,998	$1,987,998	$1,444,252	$1,444,252
Financing liability - MSRs pledged (a)	3	581,219	581,219	614,441	614,441
Other (c)	3	174,453	161,806	199,948	189,648
Total Financing liabilities		$2,743,670	$2,731,023	$2,258,641	$2,248,341
Other secured borrowings:					
Senior secured term loan (c)	2	$932,797	$933,214	$1,273,219	$1,198,227
Other (c)	3	357,634	357,634	460,472	460,472
Total Other secured borrowings		$1,290,431	$1,290,848	$1,733,691	$1,658,699
Senior unsecured notes (c)	2	$350,000	$327,250	$350,000	$321,563
Derivative financial instruments assets (liabilities) (a):					
Interest Rate Lock Commitments (IRLCs)	2	$5,056	$5,056	$6,065	$6,065
Forward MBS trades	1	2,125	2,125	(2,854)	(2,854)
Interest rate caps	3	155	155	567	567
MSRs:					
MSRs, at fair value (a)	3	$814,450	$814,450	$93,901	$93,901
MSRs, at amortized cost (c) (d)	3	526,617	648,840	1,820,091	2,237,703
Total MSRs		$1,341,067	$1,463,290	$1,913,992	$2,331,604

(a) Measured at fair value on a recurring basis.

(b) Measured at fair value on a non-recurring basis.

(c) Disclosed, but not carried, at fair value.

(d) The balance at June 30, 2015 includes our impaired government-insured stratum of amortization method MSRs, which is measured at fair value on a non-recurring basis. The carrying value of this stratum at June 30, 2015 was $143.7 million, net of a valuation allowance of $1.6 million.

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The following tables present a reconciliation of the changes in fair value of Level 3 assets and liabilities that we measure at fair value on a recurring basis for the three and six months ended June 30, 2015 and 2014.

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs	Total
Three months ended June 30, 2015							
Beginning balance	$1,808,141	$ (1,702,397)	$ 7,701	$(594,495)	$203	$897,797	$416,950
Purchases, issuances, sales and settlements:							
Purchases	—	—	—	—	116	—	116
Issuances	295,131	(294,241)	—	—	—	30	920
Transfer from MSRs, at amortized cost	—	—	—	—	—	—	—
Sales	—	—	—	—	—	(68,072)	(68,072)
Settlements	(37,690)	37,812	—	13,276	—	—	13,398
	257,441	(256,429)	—	13,276	116	(68,042)	(53,638)
Total realized and unrealized gains and (losses):							
Included in earnings	31,610	(29,172)	456	—	(164)	(15,305)	(12,575)
Included in Other comprehensive income	—	—	—	—	—	—	—
	31,610	(29,172)	456	—	(164)	(15,305)	(12,575)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—
Ending balance	$2,097,192	$ (1,987,998)	$ 8,157	$(581,219)	$155	$814,450	$350,737

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs	Total
Three months ended June 30, 2014							
Beginning balance	$923,464	$ (870,462)	$ 7,521	$(634,399)	$324	$110,826	$(462,726)
Purchases, issuances, sales and settlements:							
Purchases	—	—	—	—	—	—	—
Issuances	180,445	(154,952)	—	—	—	—	25,493
Sales	—	—	—	—		—	—
Settlements	(14,572)	7,648	—	4,820	—	—	(2,104)
	165,873	(147,304)	—	4,820	—	—	23,389
Total realized and unrealized gains and (losses):							
Included in earnings	18,289						