

OCWEN FINANCIAL CORP
Form 10-Q
August 04, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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: 1-13219

Ocwen Financial Corporation
(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction
of incorporation or organization)

65-0039856
(I.R.S. Employer
Identification No.)

2002 Summit Boulevard, 6th Floor, Atlanta, Georgia 30319
(Address of principal executive offices) (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 ☒ No ☐

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

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company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

Number of shares of Common Stock, \$0.01 par value, outstanding as of July 29, 2011: 100,948,647 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 forward-looking 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," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such term or comparable terminology. Such statements are not guarantees of future performance as they are subject to certain assumptions, inherent risks and uncertainties in predicting future results. Important factors that could cause actual results to differ materially include, but are not limited to, the following:

- our sources of liquidity; our ability to fund and recover advances, repay borrowings, and comply with debt covenants; and the adequacy of financial resources;

- servicing portfolio characteristics, including prepayment speeds, float balances, delinquency and advances rates;

- our ability to grow or otherwise adapt our business, including the availability of new servicing opportunities and joint ventures;

- our ability to reduce our cost structure;

- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;

- our reserves, valuations, provisions and anticipated realization on assets;

- our ability to effectively manage our exposure to interest rate changes and foreign exchange fluctuations;

- our credit and servicer ratings and other actions from various rating agencies;

- uncertainty related to general economic and market conditions, delinquency rates, home prices and real-estate owned disposition timelines;

- uncertainty related to the actions of loan owners, including mortgage-backed securities investors, regarding loan putbacks or legal actions;

- 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;

- uncertainty related to litigation or dispute resolution and inquiries from government agencies into past servicing and foreclosure practices; and

- uncertainty related to legislation, regulations, regulatory agency actions, government programs and policies, industry initiatives and evolving best servicing practices.

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, 2010, our quarterly reports on Form 10-Q and our current reports on Form 8-K. Forward-looking statements speak only as of the date they were made and should not be relied upon. Ocwen Financial Corporation undertakes no obligation to update or revise forward-looking statements.

PART I – FINANCIAL INFORMATION
ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	June 30, 2011	December 31, 2010
Assets		
Cash	\$ 104,167	\$ 127,796
Restricted cash – for securitization investors	1,507	727
Loans held for resale, at lower of cost or fair value	23,193	25,803
Advances	167,261	184,833
Match funded advances	1,421,636	1,924,052
Loans, net – restricted for securitization investors	62,344	67,340
Mortgage servicing rights	175,591	193,985
Receivables, net	53,066	69,518
Deferred tax assets, net	139,086	138,716
Goodwill	12,810	12,810
Premises and equipment, net	4,578	5,475
Investments in unconsolidated entities	12,611	12,072
Other assets	110,899	158,282
Total assets	\$ 2,288,749	\$ 2,921,409
Liabilities and Equity		
Liabilities		
Match funded liabilities	\$ 1,041,998	\$ 1,482,529
Secured borrowings – owed to securitization investors	58,696	62,705
Lines of credit and other secured borrowings	41,458	246,073
Servicer liabilities	2,065	2,492
Debt securities	82,554	82,554
Other liabilities	106,152	140,239
Total liabilities	1,332,923	2,016,592
Commitments and Contingencies (Note 22)		
Equity		
Ocwen Financial Corporation stockholders' equity		
Common stock, \$.01 par value; 200,000,000 shares authorized; 100,948,647 and 100,726,947 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	1,009	1,007
Additional paid-in capital	469,541	467,500
Retained earnings	493,908	445,456
Accumulated other comprehensive loss, net of income taxes	(8,883)	(9,392)
Total Ocwen Financial Corporation stockholders' equity	955,575	904,571
Non-controlling interest in subsidiaries	251	246
Total equity	955,826	904,817
Total liabilities and equity	\$ 2,288,749	\$ 2,921,409

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

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

For the periods ended June 30,	Three months		Six months	
	2011	2010	2011	2010
Revenue				
Servicing and subservicing fees	\$ 95,837	\$ 65,936	\$ 198,342	\$ 132,416
Process management fees	9,140	8,315	16,936	16,221
Other revenues	860	1,702	1,565	2,902
Total revenue	105,837	75,953	216,843	151,539
Operating expenses				
Compensation and benefits	15,253	13,089	30,040	25,866
Amortization of mortgage servicing rights	9,926	7,854	18,849	14,229
Servicing and origination	1,301	2,458	3,223	3,049
Technology and communications	6,373	6,191	13,245	11,855
Professional services	3,270	9,134	5,654	12,389
Occupancy and equipment	4,153	3,870	8,283	8,316
Other operating expenses	1,978	2,062	4,159	4,131
Total operating expenses	42,254	44,658	83,453	79,835
Income from operations	63,583	31,295	133,390	71,704
Other income (expense)				
Interest income	2,289	1,900	4,458	5,545
Interest expense	(21,813)	(13,359)	(59,356)	(25,830)
Loss on trading securities	—	(1,710)	—	(945)
Loss on loans held for resale, net	(1,616)	(1,049)	(2,520)	(2,087)
Equity in (loss) earnings of unconsolidated entities	(680)	343	(550)	1,078
Other, net	(727)	(4,158)	103	(4,758)
Other expense, net	(22,547)	(18,033)	(57,865)	(26,997)
Income before income taxes	41,036	13,262	75,525	44,707
Income tax expense (benefit)	14,653	(2,777)	27,078	7,797
Net income	26,383	16,039	48,447	36,910
Net loss (income) attributable to non-controlling interest in subsidiaries	(5)	(1)	5	(12)
Net income attributable to Ocwen Financial Corporation	\$ 26,378	\$ 16,038	\$ 48,452	\$ 36,898

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Earnings per share
attributable to Ocwen
Financial Corporation

Basic	\$ 0.26	\$ 0.16	\$ 0.48	\$ 0.37
Diluted	\$ 0.25	\$ 0.15	\$ 0.45	\$ 0.35

Weighted average common
shares outstanding

Basic	100,943,402	100,168,953	100,853,424	100,072,950
Diluted	108,110,588	107,728,092	107,944,681	107,526,786

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

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

For the periods ended June 30,	Three months		Six months	
	2011	2010	2011	2010
Net income	\$ 26,383	\$ 16,039	\$ 48,447	\$ 36,910
Other comprehensive income (loss), net of income taxes:				
Unrealized foreign currency translation income (loss) arising during the period (1)	6	(14)	26	(84)
Change in deferred loss on cash flow hedges arising during the period (2)	(2,177)	(7,403)	(232)	(7,403)
Reclassification adjustment for losses on cash flow hedges included in net income (3)	567	20	722	20
Net change in deferred loss on cash flow hedges	(1,610)	(7,383)	490	(7,383)
Other (4)	2	—	3	—
Total other comprehensive income (loss), net of income taxes	(1,602)	(7,397)	519	(7,467)
Comprehensive income	24,781	8,642	48,966	29,443
Comprehensive loss attributable to non-controlling interests	(5)	4	(5)	12
Comprehensive income attributable to Ocwen Financial Corporation	\$ 24,776	\$ 8,646	\$ 48,961	\$ 29,455

- (1) Net of income tax (expense) benefit of \$4 and \$5 for the three months ended June 30, 2011 and 2010, respectively, and \$(9) and \$35 for the six months ended June 30, 2011 and 2010, respectively.
- (2) Net of income tax benefit of \$1,231 and \$4,348 for the three months ended June 30, 2011 and 2010, respectively, and \$158 and \$4,348 for the six months ended June 30, 2011 and 2010, respectively.
- (3) Net of income tax expense of \$321 and \$12 for the three months ended June 30, 2011 and 2010, respectively, and \$409 and \$12 for the six months ended June 30, 2011 and 2010, respectively.
- (4) Net of income tax expense of \$1 for the six months ended June 30, 2011.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(Dollars in thousands)

	OCN Shareholders						Total
	Common Stock		Additional	Retained	Accumulated	Non-controlling	
	Shares	Amount	Paid-in Capital	Earnings	Comprehensive Loss, Net of Taxes	Interest in Subsidiaries	
Balance at December 31, 2010	100,726,947	\$ 1,007	\$ 467,500	\$ 445,456	\$ (9,392)	\$ 246	\$ 904,817
Net income (loss)	—	—	—	48,452	—	(5)	48,447
Exercise of common stock options	210,336	2	577	—	—	—	579
Equity-based compensation	11,364	—	1,464	—	—	—	1,464
Other comprehensive income, net of income taxes	—	—	—	—	509	10	519
Balance at June 30, 2011	100,948,647	\$ 1,009	\$ 469,541	\$ 493,908	\$ (8,883)	\$ 251	\$ 955,826

	OCN Shareholders						Total
	Common Stock		Additional	Retained	Accumulated	Non-controlling	
	Shares	Amount	Paid-in Capital	Earnings	Comprehensive Loss, Net of Taxes	Interest in Subsidiaries	
Balance at December 31, 2009	99,956,833	\$ 1,000	\$ 459,542	\$ 405,198	\$ (129)	\$ 252	\$ 865,863
Adoption of ASC 810 (FASB Statement No. 167), net of tax	—	—	—	2,274	—	—	2,274
Net income	—	—	—	36,898	—	12	36,910
Exercise of common stock	217,775	2	1,023	—	—	—	1,025

options							
Issuance of							
common stock							
awards to							
employees	9,865	—	—	—	—	—	—
Equity-based							
compensation	7,654	—	1,325	—	—	—	1,325
Other							
comprehensive							
loss, net of							
income taxes	—	—	—	—	(7,443)	(24)	(7,467)
Balance at June							
30, 2010	100,192,127	\$ 1,002	\$ 461,890	\$ 444,370	\$ (7,572)	\$ 240	\$ 899,930

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

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

	For the six months ended June 30,	
	2011	2010
Cash flows from operating activities		
Net income	\$ 48,447	\$ 36,910
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of mortgage servicing rights	18,849	14,229
Amortization of debt discount	7,343	2,104
Amortization of debt issuance costs – senior secured term loan	8,604	—
Depreciation	887	741
Write-off of investment in commercial real estate property	—	3,000
Reversal of valuation allowance on mortgage servicing assets	(701)	(101)
Loss on trading securities	—	945
Loss on loans held for resale, net	2,520	2,087
Equity in loss (earnings) of unconsolidated entities	550	(1,078)
Gain on extinguishment of debt	(1,246)	(152)
(Increase) decrease in deferred tax assets, net	(631)	12,838
Net cash provided by trading activities	—	168,453
Net cash provided by loans held for resale activities	519	849
Changes in assets and liabilities:		
Decrease in advances and match funded advances	518,493	153,997
Decrease in receivables and other assets, net	53,675	11,983
Decrease in servicer liabilities	(427)	(36,702)
Decrease in other liabilities	(32,334)	(13,282)
Other, net	5,836	3,974
Net cash provided by operating activities	630,384	360,795
Cash flows from investing activities		
Purchase of mortgage servicing rights	—	(23,425)
Acquisition of advances and other assets in connection with the purchase of mortgage servicing rights	—	(528,882)
Distributions of capital from unconsolidated entities – Ocwen Structured Investments, LLC, Ocwen Nonperforming Loans, LLC and Ocwen REO, LLC	1,639	2,146
Investment in unconsolidated entity – Correspondent One S.A.	(3,025)	—
Additions to premises and equipment	(571)	(2,202)
Proceeds from sales of real estate	648	2,046
(Increase) decrease in restricted cash – for securitization investors	(780)	743
Principal payments received on loans – restricted for securitization investors	3,512	2,223
Net cash provided (used) by investing activities	1,423	(547,351)
Cash flows from financing activities		
(Repayment of) proceeds from match funded liabilities	(440,531)	369,481

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Repayment of secured borrowings – owed to securitization investors	(4,009)	(4,852)
Proceeds from lines of credit and other secured borrowings	—	96,657
Repayment of lines of credit and other secured borrowings	(210,712)	(53,904)
Repayment of investment line	—	(156,968)
Repurchase of debt securities	—	(11,659)
Exercise of common stock options	836	935
Other	(1,020)	(667)
Net cash (used) provided by financing activities	(655,436)	239,023
Net (decrease) increase in cash	(23,629)	52,467
Cash at beginning of period	127,796	90,919
Cash at end of period	\$ 104,167	\$ 143,386

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

(Dollars in thousands, except share data)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ocwen Financial Corporation (NYSE: OCN) (Ocwen or OCN), through its subsidiaries, is a leading provider of residential and commercial mortgage loan servicing, special servicing and asset management services. Ocwen is headquartered in Atlanta, Georgia with offices in West Palm Beach, Florida, Orlando, Florida, the District of Columbia and support operations in India and Uruguay. Ocwen is a Florida corporation organized in February 1988. Ocwen Loan Servicing, LLC (OLS), a wholly-owned subsidiary of Ocwen, is a licensed mortgage servicer in all 50 states, the District of Columbia and two U.S. territories.

At June 30, 2011, Ocwen owned all of the outstanding stock of its primary subsidiaries: OLS, Ocwen Financial Solutions, Private Limited (OFSPL) and Investors Mortgage Insurance Holding Company. OCN also holds a 25% interest in Ocwen Structured Investments, LLC (OSI) and an approximate 25% interest in Ocwen Nonperforming Loans, LLC (ONL) and Ocwen REO, LLC (OREO). In March 2011, Ocwen and Altisource Portfolio Solutions S.A. (Altisource) each acquired a 50% equity interest in a newly formed entity, Correspondent One S.A. (Correspondent One).

Basis of Presentation

The accompanying unaudited interim 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 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 financial statements contain all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation. The results of operations and other data for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for any other interim period or for the entire year ending December 31, 2011. The unaudited interim 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, 2010.

The preparation of financial statements in conformity with GAAP requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Material estimates that are particularly significant relate to our fair value measurements, the provision for potential estimates that may arise from litigation proceedings, the amortization of mortgage servicing rights (MSRs) and the valuation of goodwill and deferred tax assets.

Principles of Consolidation

Our financial statements include the accounts of Ocwen and its majority-owned subsidiaries. We apply the equity method of accounting to investments when the entity is not a variable interest entity (VIE), and we are able to exercise significant influence, but not control, over the policies and procedures of the entity but own 50% or less of the voting securities. We account for our investments in OSI, ONL, OREO and Correspondent One using the equity method. We

have eliminated intercompany accounts and transactions in consolidation.

Variable Interest Entities

We evaluate each special purpose entity (SPE) for classification as a VIE. When an SPE meets the definition of a VIE and we determine that Ocwen is the primary beneficiary, we include the SPE in our consolidated financial statements.

We have determined that the SPEs created in connection with the match funded financing facilities discussed below are VIEs of which we are the primary beneficiary. We have also determined that we are the primary beneficiary for certain residential mortgage loan securitization trusts. The accounts of these SPEs are included in our consolidated financial statements.

Securitizations or Asset Backed Financing Arrangements

Ocwen or its subsidiaries have been a transferor in connection with a number of securitizations or asset-backed financing arrangements. We have continuing involvement with the financial assets of eight of the securitizations and three of the asset-backed financing arrangements. We also hold residual interests in and are the servicer for three securitizations where we were not a transferor.

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.

Securitizations of Residential Mortgage Loans. In prior years, we securitized residential mortgage loans using certain trusts. These transactions were accounted for as sales even though we continued to be involved with the trusts, typically by acting as the servicer or sub-servicer for the loans held by the trust and by retaining a beneficial ownership interest in the trust. The beneficial interests we held consisted of both subordinate and residual securities that were either retained at the time of the securitization or subsequently acquired.

For four of these trusts, we have determined that our involvement represents a variable interest and that we are the primary beneficiary. We have included these four trusts in our consolidated financial statements. Our involvement with each of the remaining trusts does not represent a variable interest, and therefore, we exclude them from our consolidated financial statements.

We have determined that Ocwen is the primary beneficiary of the four consolidated securitization trusts because:

1. as the servicer we have the right to direct the activities that most significantly impact the economic performance of the trusts through our ability to manage the delinquent assets of the trusts, and
2. as holder of all or a portion of the residual tranches of the securities issued by the trust, we have the obligation to absorb losses of the trusts, to the extent of the value of our investment, and the right to receive benefits from the trust, both of which could potentially be significant to the trusts.

For the three months ended June 30, 2011 and 2010, the four consolidated trusts generated income (loss) before income taxes of \$186 and \$(9), respectively. For the six months ended June 30, 2011 and 2010, these trusts generated income (loss) before income taxes of \$(33) and \$334, respectively. See Note 7 and Note 12 for additional information regarding Loans – restricted for securitization investors and Secured borrowings – owed to securitization investors.

The following table presents a summary of the involvement of Ocwen with unconsolidated securitization trusts and summary financial information for the trusts where we are the transferor and hold beneficial interests. Although we are the servicer for these trusts, the residual interests that we hold in these entities have no value and no potential return of significant cash flows. As a result, we are not exposed to loss from these holdings. Further, since our valuation of the residual interest is based on anticipated cash flows, we are unlikely to receive any future benefits from our residual interests in these trusts.

For the periods ended June 30,	Three months		Six months	
	2011	2010	2011	2010
Total servicing and subservicing fee revenues	\$ 727	\$ 923	\$ 1,570	\$ 1,874
			As of	
		June 30, 2011		December 31, 2010
Total servicing advances	\$	14,497	\$	16,886
Total mortgage servicing rights at amortized cost		1,246		1,330

With regard to both the consolidated and the unconsolidated securitization trusts, we have no obligation to provide financial support to the trusts and have provided no such support. The creditors of the trusts can look only to the assets

of the trusts themselves for satisfaction of the debt and have no recourse against the assets of Ocwen. Similarly, the general creditors of Ocwen have no claim on the assets of the trusts. Our exposure to loss as a result of our continuing involvement is limited to the carrying values of our investments in the residual and subordinate securities of the trusts, our mortgage servicing rights that are related to the trusts and our advances to the trusts. We consider the probability of loss arising from our advances to be remote because of their position ahead of most of the other liabilities of the trusts. At June 30, 2011 and December 31, 2010, our investment in the securities of the trusts was \$2,509 and \$2,691, respectively, all of which is eliminated in consolidation. See Note 5 and Note 8 for additional information regarding Advances and Mortgage servicing rights.

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. These SPEs issue debt supported by collections on the transferred advances. We made these transfers under the terms of three advance facility agreements. We classify the transferred advances on our Consolidated Balance Sheet as Match funded advances and the related liabilities as Match funded liabilities. Collections on the advances pledged to the SPEs are used to repay principal and interest and to pay the expenses of the entity. Holders of the debt issued by these entities can look only to the assets of the entities themselves for satisfaction of the debt and have no recourse against OCN. However, OLS has guaranteed the payment of the obligations under the securitization documents of one of the entities, Ocwen Servicer Advance Funding (Wachovia), LLC (OSAFW). The maximum amount payable under the guarantee is limited to 10% of the notes outstanding at the end of the facility's revolving period on July 1, 2013. As of June 30, 2011, OSAFW had \$162,839 of notes outstanding.

The following table summarizes the assets and liabilities of the SPEs formed in connection with our match funded advance facilities, at the dates indicated:

	June 30, 2011	December 31, 2010
Match funded advances	\$ 1,421,636	\$ 1,924,052
Other assets	67,684	103,448
Total assets	\$ 1,489,320	\$ 2,027,500
Match funded liabilities	\$ 1,041,998	\$ 1,482,529
Due to affiliates (1)	363,172	262,900
Other liabilities	1,816	2,890
Total liabilities	\$ 1,406,986	\$ 1,748,319

(1) Amounts are payable to Ocwen and its consolidated affiliates and eliminated in consolidation.

See Note 6 and Note 11 for additional information regarding Match funded advances and Match funded liabilities.

Reclassification

Within the operating activities section of the Consolidated Statement of Cash Flows for 2010, we reclassified the \$2,104 adjustment for amortization of the discount on the fee reimbursement advance borrowing from the Decrease in other liabilities line item to Amortization of debt discount, to conform to the 2011 presentation. Also within the operating activities section, we reclassified the \$152 gain on extinguishment of debt from Other, net to the new line item, Gain on extinguishment of debt, to conform to the 2011 presentation.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update (ASU) 2011-02 (ASC 310, Receivables): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. The amendments in this ASU clarify the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. This additional guidance will assist creditors in determining whether a restructuring or modification of a receivable meets the criteria to be considered a troubled debt restructuring. If the restructuring is considered a troubled debt restructuring, creditors are required to make certain disclosures in their financial statements. In addition, the calculation of the allowance for credit losses for that receivable follows the impairment guidance specific to impaired receivables.

The amendments in this ASU are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. An entity should disclose the information which was deferred by ASU 2011-01, Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, for interim and annual periods beginning on or after June 15, 2011. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

ASU 2011-03 (ASC 860, Transfers and Servicing): Reconsideration of Effective Control for Repurchase Agreements. ASC 860 prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. That determination is based, in part, on whether the entity has maintained effective control over the transferred financial assets. Repurchase agreements are accounted for as secured financings if the transferee has not surrendered control over the transferred assets. The amendments in this ASU remove from the assessment of

effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The Financial Accounting Standards Board (FASB) concluded that this criterion is not a determining factor of effective control. Consequently, the amendments in this update also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets.

The guidance in this ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. We do not expect our adoption of the provisions in this ASU to have a material impact on our consolidated financial statements.

ASU 2011-04 (ASC 820, Fair Value Measurement): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments clarify FASB's intent about the application of existing fair value measurement and disclosure requirements and prescribe certain additional disclosures about fair value measurements, including: for fair value measurements within Level 3 of the fair value hierarchy, disclosing the valuation process used and the sensitivity of fair value measurement to changes in unobservable inputs; and for items not carried at fair value but for which fair value must be disclosed, categorization by level of the fair value hierarchy. The provisions of this ASU are effective for interim and annual periods beginning on or after December 15, 2011, with early adoption prohibited. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

ASU 2011-05 (ASC 220, Comprehensive Income): Presentation of Comprehensive Income, Current U.S. GAAP allows reporting entities three alternatives for presenting other comprehensive income and its components in financial statements. One of those presentation options is to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This ASU eliminates that option. This ASU also requires consecutive presentation of the statement of net income and other comprehensive income and requires an entity to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2011. Our adoption of this standard will not have a material impact on our consolidated financial statements.

NOTE 3 PENDING ACQUISITION

On June 5, 2011, Ocwen Financial Corporation and The Goldman Sachs Group, Inc. (Seller) entered into a Purchase Agreement (the Agreement) pursuant to which, among other things, Ocwen agreed to acquire, subject to certain conditions (i) all of the outstanding partnership interests of Litton Loan Servicing LP (Litton), a subsidiary of Seller and provider of servicing and subservicing of primarily non-prime residential mortgage loans (the Business) and (ii) certain interest-only servicing strips currently owned by Goldman, Sachs & Co., a subsidiary of Seller. These and other transactions contemplated by the Agreement are referred to herein as the "Transaction." The Transaction will result in the acquisition by Ocwen of a servicing portfolio of approximately \$41,200,000 in unpaid principal balance of primarily non-prime residential mortgage loans (UPB) as of March 31, 2011 and the servicing platform of the Business based in Houston, Texas, Dallas, Texas and Atlanta, Georgia.

The base purchase price for the Transaction is \$263,654 which is payable by Ocwen in cash at closing subject to certain adjustments at closing. In addition, subject to adjustments based on outstanding servicer advances at closing, Ocwen will pay approximately \$337,400 to retire a portion of the outstanding debt on an existing advance facility currently provided by an affiliate of Seller to Litton and will enter into a new facility to finance approximately \$2,470,000 of servicing advances associated with the Business as more specifically described below.

For purposes of the Transaction, Ocwen has received a term sheet from Seller for a servicing advance facility in an amount sufficient to finance all of the servicing advances outstanding as of closing (the Full Seller Advance Facility) or, alternatively, the portion of the servicing advances outstanding as of closing (the Partial Seller Advance Facility) which is not otherwise financed through the commitments of The Royal Bank of Scotland plc, Barclays Bank PLC and Bank of America, N.A., in an aggregate amount not to exceed \$2,100,000 (the Third Party Advance Facility).

Subject to certain conditions and limitations, Seller has the option to determine whether Ocwen will be required to close on the Full Seller Advance Facility (without the Third Party Advance Facility) or the Partial Seller Advance Facility and the Third Party Advance Facility. Ocwen has also received a commitment letter from Barclays Bank PLC to provide a senior secured term loan facility of \$575,000 (the Term Loan Facility) to finance the Transaction. The closing of the financing contemplated by the Term Loan Facility and the Third Party Advance Facility are not conditions to the closing under the Agreement.

Each of Seller and Ocwen has provided various representations, warranties and covenants in the Agreement. Seller has agreed, among other things, to (i) conduct the Business in the ordinary course of business consistent with past custom and practice during the period prior to the consummation of the Transaction and (ii) under certain conditions, to make post-closing adjustments for certain subservicing of whole loans that is terminated or transferred from Litton to another service provider within one year following the consummation of the Transaction. Ocwen has agreed, among other things, to use commercially reasonable efforts to obtain and close on debt financing in an aggregate amount that is sufficient to finance the Transaction, including the full amount of the purchase price and related fees and expenses.

As part of the Transaction, Seller and Ocwen have agreed to indemnification provisions for the benefit of the other party. Additionally, Seller has agreed to retain certain contingent liabilities for fines and penalties that could potentially be imposed by certain government authorities relating to Litton's pre-closing foreclosure and servicing practices. Further, Seller and Ocwen have agreed to share certain losses arising out of third-party claims in connection with Litton's pre-closing performance under its servicing agreements.

The Agreement contains specified termination rights for the parties. Among other circumstances, the Agreement may be terminated by either Seller or Ocwen if the closing has not occurred by November 1, 2011 (the Termination Date); provided, that if either party fails to receive certain requisite regulatory approvals by such date, the Termination Date may be extended until January 1, 2012. The consummation of the Transaction is subject to the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 as amended and other conditions.

The transaction is expected to close on September 1, 2011. Through June 30, 2011, we have incurred approximately \$500 of fees for professional services related to the acquisition which are included in Operating expenses for the second quarter of 2011. Professional fees incurred in connection with advance financing and debt financing for the Transaction have been deferred and are included in Other liabilities in the Consolidated Balance Sheet.

NOTE FAIR VALUE OF FINANCIAL INSTRUMENTS

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The carrying amounts and the estimated fair values of our financial instruments are as follows at the dates indicated:

	June 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Loans held for resale	\$ 23,193	\$ 23,193	\$ 25,803	\$ 25,803
Loans, net – restricted for securitization investors	62,344	59,642	67,340	64,795
Advances	1,588,897	1,588,897	2,108,885	2,108,885
Receivables, net	53,066	53,066	69,518	69,518
Financial liabilities:				
Match funded liabilities	\$ 1,041,998	\$ 1,045,433	\$ 1,482,529	\$ 1,486,476
Lines of credit and other secured borrowings	41,458	42,437	246,073	252,722
Secured borrowings – owed to securitization investors	58,696	57,133	62,705	62,105
Servicer liabilities	2,065	2,065	2,492	2,492
Debt securities	82,554	87,733	82,554	75,325
Derivative financial instruments, net	\$ (15,787)	\$ (15,787)	\$ (15,351)	\$ (15,351)

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 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.

The three broad categories are:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs for the asset or liability.

Where available, we utilize quoted market prices or observable inputs rather than unobservable inputs to determine fair value. We classify assets in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following table presents assets and liabilities measured at fair value categorized by input level within the fair value hierarchy:

	Carrying value	Level 1	Level 2	Level 3
At June 30, 2011:				
Measured at fair value on a recurring basis:				
Derivative financial instruments, net (1)	\$ (15,787)	—	—	\$ (15,787)
Measured at fair value on a non-recurring basis:				
Loans held for resale (2)	23,193	—	—	23,193
Mortgage servicing rights (3)	725	—	—	725
At December 31, 2010:				
Measured at fair value on a recurring basis:				
Derivative financial instruments, net (1)	\$ (15,351)	—	—	\$ (15,351)
Measured at fair value on a non-recurring basis:				
Loans held for resale (2)	25,803	—	—	25,803
Mortgage servicing rights (3)	334	—	—	334

- (1) The derivative financial instruments are not exchange-traded and therefore quoted market prices or other observable inputs are not available. Fair value is based on estimates provided by third-party pricing sources. See Note 15 for additional information on our derivative financial instruments.
- (2) Loans held for resale are reported at the lower of cost or fair value. The fair value of loans for which we do not have a firm commitment to sell is based upon a discounted cash flow analysis with the expected future cash flows discounted at a rate commensurate with the risk of the estimated cash flows. Significant assumptions include collateral and loan characteristics, prevailing market conditions and the creditworthiness of the borrower. All loans held for resale were measured at fair value because the cost exceeded the estimated fair value. At June 30, 2011 and December 31, 2010, the carrying value of loans held for resale is net of a valuation allowance of \$14,680 and \$14,611, respectively. Current market illiquidity has reduced the availability of observable pricing data. Consequently, we classify loans within Level 3 of the fair value hierarchy.
- (3) Balances represent the carrying value of the impaired stratum of MSRs, net of a valuation allowance of \$2,163 and \$2,864 at June 30, 2011 and December 31, 2010, respectively. The estimated fair value exceeded amortized cost for all other strata. See Note 8 for additional information on MSRs, including significant assumptions used in their valuation.

The following tables present a reconciliation of the changes in fair value of our Level 3 assets that we measure at fair value on a recurring basis for the periods indicated:

For the periods ended June 30, 2011:	Derivative Financial Instruments	
	Three months	Six months
Beginning balance	\$ (12,397)	\$ (15,351)
Purchases, issuances, sales and settlements:		
Purchases	—	—
Issuances	—	—
Sales	—	—
Settlements	25	71
	25	71
Total realized and unrealized gains and (losses) (1):		
Included in Other, net	(895)	(1,248)
Included in Other comprehensive income (loss)	(2,520)	741
	(3,415)	(507)
Transfers in and / or out of Level 3	—	—
Ending balance	\$ (15,787)	\$ (15,787)

Three months ended June 30, 2010:	Trading Securities			
	Derivative Financial Instruments	Auction Rate Securities	Subordinates and Residuals	Total
Beginning balance	\$ (480)	\$ 125,036	\$ 59	\$ 124,615
Purchases, issuances, sales and settlements:				
Purchases	—	—	—	—
Issuances	—	—	—	—