OCWEN FINANCIAL CORP
Form 10-Q
May 15, 2017

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 March 31, 2017

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.)
1661 Worthington Road, Suite 100 West Palm Beach, Florida	33409
(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, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 May 4, 2017: 124,582,673 shares

---

OCWEN FINANCIAL CORPORATION
FORM 10-Q
TABLE OF CONTENTS

		PAGE
PART I - FINANCIAL INFORMATION		
Item 1.	Unaudited Consolidated Financial Statements	3
	Consolidated Balance Sheets at March 31, 2017 and December 31, 2016	4
	Consolidated Statements of Operations for the Three Months Ended March 31, 2017 and 2016	5
	Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2017 and 2016	6
	Consolidated Statements of Changes in Equity for the Three Months Ended March 31, 2017 and 2016	7
	Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2017 and 2016	8
	Notes to Unaudited Consolidated Financial Statements	9
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	48
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	72
Item 4.	Controls and Procedures	75
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	76
Item 1A.	Risk Factors	76
Item 6.	Exhibits	77
Signatures		78

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. Our business has been undergoing substantial change, which has magnified such uncertainties. Readers should bear these factors in mind when considering forward-looking statements and should not place undue reliance on such statements.

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. In the past, actual results have differed from those suggested by forward-looking statements and this may happen again. Important factors that could cause actual results to differ include, but are not limited to, the risks discussed in “Risk Factors” in this Quarterly Report on Form 10-Q and in Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2016 and the following:

- uncertainty related to claims, litigation, cease and desist orders and investigations brought by government agencies and private parties regarding our servicing, foreclosure, modification, origination and other practices, including uncertainty related to past, present or future investigations, litigation, cease and desist orders and settlements with state regulators, the Consumer Financial Protection Bureau (CFPB), State Attorneys General, the Securities and Exchange Commission (SEC), the Department of Justice or the Department of Housing and Urban Development (HUD) and actions brought under the False Claims Act by private parties on behalf of the United States of America regarding incentive and other payments made by governmental entities;
- adverse effects on our business as a result of regulatory investigations, litigation, cease and desist orders or settlements;
- reactions to the announcement of such investigations, litigation, cease and desist orders or settlements by key counterparties, including lenders;
- increased regulatory scrutiny and media attention;
- 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, including the financial and other covenants contained in them;
- our servicer and credit ratings as well as other actions from various rating agencies, including the impact of prior 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, the Government National Mortgage Association (Ginnie Mae), 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 Administration 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;
- 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;
- 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;
- 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, including our new business initiatives;
- our ability to meet capital requirements established by regulators or counterparties;
- our ability to protect and maintain our technology systems and our ability to adapt such systems for future operating environments;
- failure of our internal information technology and other 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 SEC including Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2016 and our Current Reports on Form 8-K since such date. Forward-looking statements speak only as of the date they were made and we disclaim any 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)

	March 31, 2017	December 31, 2016
Assets		
Cash	$268,320	$256,549
Mortgage servicing rights ($651,987 and $679,256 carried at fair value)	1,010,518	1,042,978
Advances, net	234,173	257,882
Match funded assets (related to variable interest entities (VIEs))	1,392,421	1,451,964
Loans held for sale ($313,558 and $284,632 carried at fair value)	339,153	314,006
Loans held for investment, at fair value	3,916,387	3,565,716
Receivables, net	212,781	265,720
Premises and equipment, net	60,774	62,744
Other assets ($21,066 and $20,007 carried at fair value) ($27,141 and $43,331 related to VIEs)	428,617	438,104
Total assets	$7,863,144	$7,655,663
Liabilities and Equity		
Liabilities		
Financing liabilities ($4,198,452 and $3,911,488 carried at fair value)	$4,295,408	$4,012,812
Match funded liabilities (related to VIEs)	1,215,212	1,280,997
Other secured borrowings, net	738,447	678,543
Senior notes, net	346,929	346,789
Other liabilities ($3,868 and $1,550 carried at fair value)	643,714	681,239
Total liabilities	7,239,710	7,000,380
Commitments and Contingencies (Notes 18 and 19)		
Equity		
Ocwen Financial Corporation (Ocwen) stockholders' equity		
Common stock, $.01 par value; 200,000,000 shares authorized; 124,577,169 and 123,988,160 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	1,246	1,240
Additional paid-in capital	527,986	527,001
Retained earnings	93,159	126,167
Accumulated other comprehensive loss, net of income taxes	(1,383)	(1,450)
Total Ocwen stockholders' equity	621,008	652,958
Non-controlling interest in subsidiaries	2,426	2,325
Total equity	623,434	655,283
Total liabilities and equity	$7,863,144	$7,655,663

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

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

	For the Three Months Ended March 31,	
	2017	2016
Revenue		
Servicing and subservicing fees	$272,502	$297,496
Gain on loans held for sale, net	22,944	15,572
Other	26,418	17,689
Total revenue	321,864	330,757
Expenses		
Compensation and benefits	91,801	96,249
Servicing and origination	67,907	95,692
Professional services	41,829	70,907
Technology and communications	27,347	26,869
Occupancy and equipment	17,749	24,745
Amortization of mortgage servicing rights	12,715	12,806
Other	17,035	1,389
Total expenses	276,383	328,657
Other income (expense)		
Interest income	3,763	4,190
Interest expense	(84,062)	(106,089)
Gain on sale of mortgage servicing rights, net	287	1,175
Other, net	4,033	(3,501)
Total other expense, net	(75,979)	(104,225)
Loss before income taxes	(30,498)	(102,125)
Income tax expense	2,125	9,076
Net loss	(32,623)	(111,201)
Net income attributable to non-controlling interests	(101)	(130)
Net loss attributable to Ocwen stockholders	$(32,724)	$(111,331)
Loss per share attributable to Ocwen stockholders		
Basic	$(0.26)	$(0.90)
Diluted	$(0.26)	$(0.90)
Weighted average common shares outstanding		
Basic	124,014,928	124,093,339
Diluted	124,014,928	124,093,339

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

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

	For the Three Months Ended March 31,	
	2017	2016
Net loss	$(32,623)	$(111,201)
Other comprehensive income, net of income taxes:		
Reclassification adjustment for losses on cash flow hedges included in net income (1)	67	105
Comprehensive loss	(32,556)	(111,096)
Comprehensive income attributable to non-controlling interests	(101)	(130)
Comprehensive loss attributable to Ocwen stockholders	$(32,657)	$(111,226)

(1) 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

6

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(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, 2016	123,988,160	$1,240	$527,001	$126,167	$ (1,450)	$ 2,325	$655,283
Net income (loss)	—	—	—	(32,724)	—	101	(32,623)
Cumulative effect of adoption of FASB Accounting Standards Update No. 2016-09	—	—	284	(284)	—	—	—
Equity-based compensation and other	589,009	6	701	—	—	—	707
Other comprehensive income, net of income taxes	—	—	—	—	67	—	67
Balance at March 31, 2017	124,577,169	$1,246	$527,986	$93,159	$ (1,383)	$ 2,426	$623,434
Balance at December 31, 2015	124,774,516	$1,248	$526,148	$325,929	$ (1,763)	$ 3,076	$854,638
Net income (loss)	—	—	—	(111,331)	—	130	(111,201)
Repurchase of common stock	(991,985)	(10)	(5,880)	—	—	—	(5,890)
Exercise of common stock options	69,805	1	441	—	—	—	442
Equity-based compensation and other	1,347	—	1,513	—	—	—	1,513
Capital distribution to non-controlling interest	—	—	—	—	—	(1,139)	(1,139)
Other comprehensive income, net of income taxes	—	—	—	—	105	—	105
Balance at March 31, 2016	123,853,683	$1,239	$522,222	$214,598	$ (1,658)	$ 2,067	$738,468

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 Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities		
Net loss	$(32,623)	$(111,201)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of mortgage servicing rights	12,715	12,806
Loss on valuation of mortgage servicing rights, at fair value	26,335	29,293
Impairment of mortgage servicing rights	1,401	29,953
Gain on sale of mortgage servicing rights, net	(287)	(1,175)
Realized and unrealized (gains) losses on derivative financial instruments	(359)	1,496
Provision for bad debts	22,410	11,382
Depreciation	7,081	5,039
Amortization of debt issuance costs	673	3,277
Equity-based compensation expense	2,132	1,416
Net gain on valuation of mortgage loans held for investment and HMBS-related borrowings	(5,360)	(3,667)
Gain on loans held for sale, net	(15,306)	(15,216)
Origination and purchase of loans held for sale	(1,237,535)	(1,211,076)
Proceeds from sale and collections of loans held for sale	1,173,912	1,165,503
Changes in assets and liabilities:		
Decrease in advances and match funded assets	105,958	109,076
Decrease in receivables and other assets, net	84,857	84,512
Increase (decrease) in other liabilities	(62,423)	21,477
Other, net	2,089	7,997
Net cash provided by operating activities	85,670	140,892
Cash flows from investing activities		
Origination of loans held for investment	(347,080)	(304,058)
Principal payments received on loans held for investment	80,290	87,237
Purchase of mortgage servicing rights	(1,229)	(4,263)
Proceeds from sale of mortgage servicing rights	729	15,305
Proceeds from sale of advances	1,115	41,003
Issuance of automotive dealer financing notes	(39,100)	—
Collections of automotive dealer financing notes	37,129	—
Additions to premises and equipment	(5,258)	(19,800)
Other	(1,644)	1,624
Net cash used in investing activities	(275,048)	(182,952)
Cash flows from financing activities		
Repayment of match funded liabilities, net	(65,785)	(46,953)
Proceeds from mortgage loan warehouse facilities and other secured borrowings	2,224,774	1,902,472
Repayments of mortgage loan warehouse facilities and other secured borrowings	(2,263,685)	(2,014,474)
Payment of debt issuance costs	(841)	(2,242)
Proceeds from sale of reverse mortgages (HECM loans) accounted for as a financing (HMBS-related borrowings)	306,749	233,174
Repurchase of common stock	—	(5,890)

Other	(63)	(786)
Net cash provided by financing activities	201,149	65,301
Net increase in cash	11,771	23,241
Cash at beginning of year	256,549	257,272
Cash at end of period	$268,320	$280,513

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017
(Dollars in thousands, except per share data and unless otherwise indicated)

Note 1 – Organization, Business Environment 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, originates and services loans. We are headquartered in West Palm Beach, Florida with offices located throughout the United States (U.S.) and in the United States Virgin Islands (USVI) and with operations located 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 (OFSPL), 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 Administration (FHA) or Department of Veterans Affairs (VA)) forward and reverse mortgages. The GSEs or Ginnie Mae guarantee these mortgage securitizations.

We had a total of approximately 9,400 employees at March 31, 2017 of which approximately 6,000 were located in India and approximately 800 were based in the Philippines. Our operations in India and the Philippines provide internal support services, principally to our loan servicing business as well as to our corporate functions. Of our foreign-based employees, nearly 80% were engaged in supporting our loan servicing operations as of March 31, 2017.

Business Environment

We are facing certain challenges and uncertainties that could have significant adverse effects on our business, financial condition, liquidity and results of operations. The ability of management to appropriately address these challenges and uncertainties in a timely manner is critical to our ability to successfully operate and grow our business. In the current regulatory environment, we have faced and expect to continue to face, heightened regulatory and public scrutiny as an organization as well as stricter and more comprehensive regulation of the entire mortgage sector. Significant recent regulatory developments impacting our business include the following:

- On February 17, 2017, we entered into three consent orders (collectively, the 2017 CA Consent Order) with the California Department of Business Oversight (CA DBO) that terminated a 2015 consent order with the CA DBO, including terminating the engagement of an independent third-party auditor (the CA Auditor) and rescinding the prohibition on Ocwen acquiring mortgage servicing rights (MSRs) for loans secured in California.
- On March 27, 2017, we entered into a consent order with the New York Department of Financial Services (NY DFS) that provided for the termination of the engagement of the third-party operations monitor and for a determination on whether the restrictions on acquisition of MSRs should be eased following completion of a scheduled servicing examination.
- On April 20, 2017, the Consumer Financial Protection Bureau (CFPB) filed a lawsuit in the federal district court for the Southern District of Florida against Ocwen, OMS and OLS alleging violations of federal consumer financial laws

relating to our servicing business. The CFPB does not claim specific monetary damages, although it does seek consumer relief, disgorgement of allegedly improper gains and civil money penalties. We believe we have factual and legal defenses to the CFPB's allegations and intend to vigorously defend ourselves. We have asked the federal court to consider making an early ruling that the CFPB is unconstitutional and the enforcement action should be dismissed for that reason. We also informed the district court that the Department of Justice recently stated its official conclusion

that the CFPB is unconstitutionally structured, and so we asked the district court to invite the Department to participate in the legal briefing in our case.

- On April 20, 2017, the Florida Attorney General filed a lawsuit in the federal district court for the Southern District of Florida against Ocwen, OMS and OLS alleging violations of federal and state consumer financial laws relating to our servicing business. On April 28, 2017, the Massachusetts Attorney General filed an action against OLS in the Superior Court for the Commonwealth of Massachusetts alleging violations of state consumer financial laws relating to our servicing business. Ocwen strongly disputes the claims of these Attorneys General and intends to vigorously defend itself in these actions.
- Since April 20, 2017, thirty state mortgage and banking regulatory agencies have taken regulatory action against us alleging breaches of various laws, regulations and licensing requirements, including those related to escrow administration and proper licensing of business activities. We intend to vigorously defend against unfounded claims while continuing to work with these regulatory agencies to resolve their concerns. We have agreed with certain regulatory agencies, where necessary, to obtain delays or exceptions to the orders. Additionally, we have revised our operations, where necessary, so as to comply with the orders in the interim period while we attempt to negotiate resolutions. For example, in certain states we are arranging to release servicing on new originations, and we have paused our origination activities in two states. We have also paused foreclosure activity in two states, which currently impacts less than 150 mortgage loans. While we do not currently believe these limitations on our loan origination or servicing activities will have a material impact on our financial results if we can resolve these agencies' concerns on a timely basis, we do expect our loan origination volumes to decline until such time as we reach resolution. If we are unable to obtain timely resolutions in certain states, more serious consequences could result. For example, we could be required to transfer all of our mortgage servicing in Massachusetts and we could be required to cease mortgage servicing in Rhode Island.

To the extent we are unable to reach a timely resolution with some or all of the state regulatory agencies or attorneys general or should the number or scope of the regulatory actions against us increase or expand, our business, reputation, financial condition, liquidity and results of operations could be adversely affected. See Note 17 – Regulatory Requirements and Note 19 – Contingencies for further information regarding regulatory requirements, regulatory settlements and regulatory-related contingencies.

Among other impacts, the regulatory actions taken by the CFPB and the state mortgage regulators and attorneys general were a catalyst for actions taken by the rating agencies with respect to our corporate credit ratings and our servicer ratings or rankings (collectively, servicer ratings). Between April 20 and April 25, 2017, each of Standard & Poor's Rating Services (S&P), Moody's Investors Services, Inc. (Moody's), Fitch Ratings Inc. (Fitch), Morningstar, Inc. (Morningstar) and Kroll Bond Rating Agency (Kroll) took action with respect to our corporate credit ratings and servicer ratings as follows:

- S&P, Fitch and Kroll downgraded our corporate credit rating and S&P, Moody's, Fitch and Kroll changed the outlook for our corporate credit rating to on CreditWatch with Negative implications, on Review for Downgrade, on Rating Watch Negative and on Watch Downgrade status, respectively.
- Moody's, Fitch and Morningstar changed the outlook for our servicer ratings to on Review for Downgrade, to Negative and to On Alert, respectively. No changes were made to our actual servicer ratings. See Note 8 – Mortgage Servicing for further information.

These and any additional actions by rating agencies could have a material adverse impact on our business, financial condition and liquidity, including through adverse changes to the terms on which we may be able to fund our operations or borrow money or through adverse impacts on our dealings with counterparties and regulators, including our status as an approved seller/servicer with the GSEs. We are required under our agreements with New Residential Investment Corp. (NRZ) to maintain certain primary servicer ratings with S&P or Moody's. See Note 4 — Sales of Advances and MSRs for additional information.

We incurred a net loss in first quarter of 2017, which followed losses in each of the last three fiscal years. While these losses have eroded stockholders' equity and weakened our financial condition, it is important to note that we generated positive operating cash flow in each of these periods. We are reinvesting cash flows generated by our Servicing business to grow not only our residential mortgage lending business but also to grow other new business lines such as

our Automotive Capital Services (ACS) business to diversify our income profile and drive improved financial performance over time. We believe asset generation, through our lending businesses, will be Ocwen’s primary driver of growth for the future. We are also focused on improving our operations to enhance customer experiences and improve operating effectiveness, both of which we believe will drive stronger financial performance through lower overall costs and improved customer retention.

With regard to the current maturities of our borrowings, we have approximately $1.1 billion of debt coming due in the next 12 months, related to our servicing match funded liabilities and our mortgage loan warehouse facilities. Portions of our match funded liabilities and all of our mortgage loan warehouse facilities have 364-day terms consistent with market practice. We have historically renewed these facilities on or before their expiration in the ordinary course of financing our business. We

expect to renew, replace or extend all such borrowings to the extent necessary to finance our business on or prior to their respective maturities consistent with our historical experience.

Our debt agreements contain various qualitative and quantitative events of default provisions that include, among other things, noncompliance with covenants, breach of representations, or the occurrence of a material adverse change. Provisions of this type are commonly found in debt agreements such as ours. Certain of these 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. If a lender were to allege an event of default, whether as a result of recent events or otherwise, and we are unable to avoid, remedy or secure a waiver, we could be subject to adverse action by our lenders, including acceleration of outstanding obligations, enforcement of liens against the assets securing or otherwise supporting our obligations and other legal remedies, any of which could have a material adverse impact on us. See Note 11 – Borrowings for additional information.

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 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 months ended March 31, 2017 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2017. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2016.

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 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. Such estimates and assumptions include, but are not limited to, those that relate to fair value measurements, the amortization of mortgage servicing rights, income taxes, the provision for potential losses that may arise from litigation proceedings, representation and warranty and other indemnification obligations, and our going concern evaluation. In developing estimates and assumptions, management uses all available information; however, actual results could materially differ from those estimates and assumptions.

Reclassifications

As a result of our adoption on January 1, 2017 of FASB Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation: Improvements to Accounting for Employee Share-Based Payments, excess tax benefits have been classified along with other income tax cash flows as an operating activity in our unaudited consolidated statements of cash flows, rather than being separated from other income tax cash flows and classified as a financing activity. Additionally, cash paid by Ocwen when directly withholding shares for tax-withholding purposes has been classified as a financing activity in our unaudited consolidated statements of cash flows, rather than being classified as an operating activity.

Certain amounts in the unaudited consolidated statement of cash flows for the three months ended March 31, 2016 have been reclassified to conform to the current year presentation as follows:

- Within the operating activities section, we reclassified Net gain on valuation of mortgage loans held for investment and HMBS-related borrowings from Other to a new separate line item. In addition, we reclassified amounts related to reverse mortgages from Gain on loans held for sale, net to Other.
- Within the financing activities section, we reclassified Proceeds from exercise of stock options to Other.

These reclassifications had no impact on our consolidated cash flows from operating, investing or financing activities. Within the total assets section of the unaudited consolidated balance sheet at December 31, 2016, we reclassified Deferred tax assets, net to Other assets.

Recently Adopted Accounting Standard

Compensation - Stock Compensation: Improvements to Employee Shared-Based Payment Accounting (ASU 2016-09)
In addition to the reclassification matters discussed above, ASU 2016-09 requires excess tax benefits associated with employee share-based payments to be recognized through the income statement, regardless of whether the benefit reduces income taxes payable in the current period. Prior to our adoption of this standard, excess tax benefits were recognized in additional paid-in capital and were not recognized until the deduction reduced income taxes payable. Additionally, concurrent

with our adoption of ASU 2016-09, we made an accounting policy election to account for forfeitures when they occur, rather than estimating the number of awards that are expected to vest, as we had done prior to our adoption of this standard. Amendments requiring recognition of excess tax benefits in the income statement were adopted prospectively. Amendments related to the timing of when excess tax benefits are recognized and forfeitures were adopted using a modified retrospective transition method by means of cumulative-effect adjustments to equity as of January 1, 2017.

For the timing of the recognition of excess tax benefits, the cumulative-effect adjustment was to recognize an increase in retained earnings of $5.0 million and a deferred tax asset for the same amount. However, because we have determined that our US and USVI deferred tax assets are not considered to be more likely than not realizable, we established an offsetting full valuation allowance on the deferred tax asset through a reduction in retained earnings.

For the change in accounting for forfeitures, we recognized a cumulative-effect adjustment through a reduction of $0.3 million in retained earnings and an increase in additional paid-in capital for the same amount. We also recognized the tax effect of this adjustment through an increase in retained earnings of $0.1 million and a deferred tax asset for the same amount. However, we also fully reserved the resulting deferred tax asset as an offsetting reduction in retained earnings.

Recently Issued Accounting Standards

Business Combinations: Clarifying the Definition of a Business (ASU 2017-01)

In January 2017, the FASB issued ASU 2017-01 to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. This standard provides a more robust framework to use in determining when a set of assets and activities is a business and also provides more consistency in applying the guidance, reduces the costs of application, and makes the definition of a business more operable. This standard will be effective for us on January 1, 2018. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Receivables: Nonrefundable Fees and Other Costs (ASU 2017-08)

In March 2017, the FASB issued ASU 2017-08 to amend the amortization period for certain purchased callable debt securities held at a premium. This standard shortens the amortization period for the premium to the earliest call date, rather than generally amortizing the premium as an adjustment of yield over the contractual life of the instrument, as required by current GAAP. This standard will be effective for us on January 1, 2019. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

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 three groups: (1) securitizations of residential mortgage loans, (2) financings of advances on loans serviced for others and (3) financings of automotive dealer financing notes.

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 in 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:

	For the Three Months Ended March 31,	
	2017	2016
Proceeds received from securitizations	$1,001,997	$1,009,264
Servicing fees collected	10,108	3,124
Purchases of previously transferred assets, net of claims reimbursed	(987)	(13)
	$1,011,118	$1,012,375

In connection with these transfers, we retained MSRs of $8.1 million and $7.2 million during the three months ended March 31, 2017 and 2016, respectively.

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 UPB of the transferred loans at the dates indicated:

	March 31, 2017	December 31, 2016
Carrying value of assets:		
Mortgage servicing rights, at amortized cost	$98,342	$94,492
Mortgage servicing rights, at fair value	241	233
Advances and match funded advances	37,752	37,336
UPB of loans transferred	11,078,980	10,485,697
Maximum exposure to loss	$11,215,315	$10,617,758

At March 31, 2017 and December 31, 2016, 6.7% and 7.6%, respectively, of the transferred residential loans that we service were 60 days or more past due.

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 (HECM, 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 HECM loans do not qualify for sale accounting, and therefore, we account for these transfers as financings. Under this accounting treatment, the HECM loans 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 with respect to standard representations and warranties and our contractual obligation to service the HECM loans and the HMBS.

We measure the HECM loans and HMBS-related borrowings at fair value on a recurring basis. The changes in fair value of the HECM loans and HMBS-related borrowings are included in Other revenues in our unaudited consolidated statements of operations. Included in net fair value gains on the HECM loans and related HMBS borrowings are the interest income that we expect to be collected on the HECM loans and the interest expense that we expect to be paid on the HMBS-related borrowings. We report originations and collections of HECM loans in investing activities in the unaudited consolidated statements of cash flows. We report net fair value gains on HECM loans 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 HECM loans and payments on HMBS-related borrowings are included in financing activities in the unaudited consolidated statements of cash flows.

At March 31, 2017 and December 31, 2016, HMBS-related borrowings of $3.7 billion and $3.4 billion were outstanding. Loans held for investment, at fair value were $3.9 billion and $3.6 billion at March 31, 2017 and December 31, 2016,

respectively. At March 31, 2017 and December 31, 2016, Loans held for investment included $117.2 million and $81.3 million, respectively, of originated loans which had not yet been pledged as collateral. See Note 3 – Fair Value and Note 11 – Borrowings for additional information on HMBS-related borrowings and Loans held for investment - Reverse mortgages.

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 a component of Match funded assets 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 have recourse only to the assets of the SPE for satisfaction of the debt. 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.

Financings of Automotive Dealer Financing Notes

Match funded automotive dealer financing notes result from our transfers of short-term, inventory-secured loans to car dealers to an SPE in exchange for cash. We consolidate this SPE because we have determined that Ocwen is the primary beneficiary of the SPE. The SPE issues debt supported by collections on the transferred loans.

We make the transfers to the SPE under the terms of our automotive capital asset receivables financing facility agreements. We classify the transferred loans on our unaudited consolidated balance sheets as a component of Match funded assets and the related liabilities as Match funded liabilities. The SPE uses collections of the pledged loans to repay principal and interest and to pay the expenses of the SPE. Holders of the debt issued by the SPE have recourse only to the assets of the SPE for satisfaction of the debt. The assets and liabilities of the automotive capital asset receivables financing SPE are comprised solely of Match funded automotive dealer financing notes, 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	March 31, 2017		December 31, 2016	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					

Loans held for sale:					
Loans held for sale, at fair value (a)	2	$313,558	$313,558	$284,632	$284,632
Loans held for sale, at lower of cost or fair value (b)	3	25,595	25,595	29,374	29,374

	Level	March 31, 2017		December 31, 2016	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Total Loans held for sale		$339,153	$339,153	$314,006	$314,006
Loans held for investment (a)	3	$3,916,387	$3,916,387	$3,565,716	$3,565,716
Advances (including match funded) (c)	3	1,599,598	1,599,598	1,709,846	1,709,846
Automotive dealer financing notes (including match funded) (c)	3	28,364	28,244	33,224	33,147
Receivables, net (c)	3	212,781	212,781	265,720	265,720
Mortgage-backed securities, at fair value (a)	3	8,658	8,658	8,342	8,342
U.S. Treasury notes (a)	1	2,065	2,065	2,078	2078
Financial liabilities:					
Match funded liabilities (c)	3	$1,215,212	$1,208,789	$1,280,997	$1,275,059
Financing liabilities:					
HMBS-related borrowings, at fair value (a)	3	$3,739,265	$3,739,265	$3,433,781	$3,433,781
Financing liability - MSRs pledged, at fair value (a)	3	459,187	459,187	477,707	477,707
Other (c)	3	96,956	83,013	101,324	81,805
Total Financing liabilities		$4,295,408	$4,281,465	$4,012,812	$3,993,293
Other secured borrowings:					
Senior secured term loan (c) (d)	2	$320,131	$333,707	$323,514	$327,674
Other (c)	3	418,316	418,316	355,029	355,029
Total Other secured borrowings		$738,447	$752,023	$678,543	$682,703
Senior notes					
Senior unsecured notes (c) (d)	2	$3,097	$3,087	$3,094	$3,048
Senior secured notes (c) (d)	2	343,832	357,284	$343,695	352,255
Total Senior notes		$346,929	$360,371	$346,789	$355,303
Derivative financial instruments assets (liabilities), at fair value (a):					
Interest rate lock commitments	2	$7,765	$7,765	$6,507	$6,507
Forward mortgage-backed securities	1	(3,868)	(3,868)	(614)	(614)
Interest rate caps	3	2,262	2,262	1,836	1,836
Mortgage servicing rights:					
Mortgage servicing rights, at fair value (a)	3	$651,987	$651,987	$679,256	$679,256
Mortgage servicing rights, at amortized cost (c) (e)	3	358,531	462,289	363,722	467,911
Total Mortgage servicing rights		$1,010,518	$1,114,276	$1,042,978	$1,147,167

(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 carrying values are net of unamortized debt issuance costs and discount. See Note 11 – Borrowings for additional information.
(e) Balances include the impaired government-insured stratum of amortization method MSRs, which is measured at fair value on a non-recurring basis and reported net of the valuation allowance. Before applying the valuation allowance of $29.6 million, the carrying value of the impaired stratum at March 31, 2017 was $171.2 million. At December 31, 2016, the carrying value of this stratum was $172.9 million before applying the valuation allowance

of $28.2 million.

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:

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs	Total
Three months ended March 31, 2017							
Beginning balance	$3,565,716	$(3,433,781)	$ 8,342	$(477,707)	$ 1,836	$679,256	$343,662
Purchases, issuances, sales and settlements:							
Purchases	—	—	—	—	—	—	—
Issuances	347,080	(306,749)	—	—	—	(706)	39,625
Sales	—	—	—	—	—	(228)	(228)
Settlements (1)	(80,290)	75,099	—	16,999	—	—	11,808
	266,790	(231,650)	—	16,999	—	(934)	51,205
Total realized and unrealized gains and (losses) (2):							
Included in earnings	83,881	(73,834)	316	1,521	426	(26,335)	(14,025)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—
Ending balance	$3,916,387	$(3,739,265)	$ 8,658	$(459,187)	$ 2,262	$651,987	$380,842

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs	Total
Three months ended March 31, 2016							
Beginning balance	$2,488,253	$(2,391,362)	$ 7,985	$(541,704)	$ 2,042	$761,190	$326,404
Purchases, issuances, sales and settlements:							
Purchases	—	—	—	—	—	419	419
Issuances	304,058	(233,174)	—	—	—	—	70,884
Sales	—	—	—	—	—	(142)	(142)
Settlements (1)	(87,237)	39,654	—	18,201	(81)	—	(29,463)
	216,821	(193,520)	—	18,201	(81)	277	41,698
Total realized and unrealized gains and (losses):							
Included in earnings	66,168	(63,218)	401	—	(1,391)	(29,293)	(27,333)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—
Ending balance	$2,771,242	$(2,648,100)	$ 8,386	$(523,503)	$ 570	$732,174	$340,769

(1) Settlements for Loans held for investment - reverse mortgages consist chiefly of principal payments received, but also may include non-cash settlements of loans.

(2)

Total gains (losses) attributable to derivative financial instruments still held at March 31, 2017 and March 31, 2016 were $0.4 million and $(1.5) million for the three months ended March 31, 2017 and 2016, respectively. Total losses attributable to MSRs still held at March 31, 2017 and March 31, 2016 were $26.3 million and $29.1 million for the three months ended March 31, 2017 and 2016, respectively.

The methodologies that we use and key assumptions that we make to estimate the fair value of financial instruments and other assets and liabilities measured at fair value on a recurring or non-recurring basis and those disclosed, but not carried, at fair value are described below.

Loans Held for Sale

We originate and purchase residential mortgage loans that we intend to sell to the GSEs. We also own residential mortgage loans that are not eligible to be sold to the GSEs due to delinquency or other factors. Residential forward and reverse mortgage loans that we intend to sell to the GSEs are carried at fair value as a result of a fair value election. Such loans are subject to changes in fair value due to fluctuations in interest rates from the closing date through the date of the sale of the loan into the secondary market. These loans are classified within Level 2 of the valuation hierarchy because the primary component of the price is obtained from observable values of mortgage forwards for loans of similar terms and characteristics. We have the ability to access this market, and it is the market into which conventional and government-insured mortgage loans are typically sold.

We repurchase certain loans from Ginnie Mae guaranteed securitizations in connection with loan modifications and loan resolution activity as part of our contractual obligations as the servicer of the loans. These loans are classified as loans held for sale at the lower of cost or fair value, in the case of modified loans, as we expect to redeliver (sell) the loans to new Ginnie Mae guaranteed securitizations. The fair value of these loans is estimated using published forward Ginnie Mae prices. Loans repurchased in connection with loan resolution activities are modified or otherwise remediated through loss mitigation activities or are reclassified to receivables. Because these loans are insured or guaranteed by the FHA or VA, the fair value of these loans represents the net recovery value taking into consideration the insured or guaranteed claim.

For all other loans held for sale, which we report at the lower of cost or fair value, market illiquidity has reduced the availability of observable pricing data. When we enter into an agreement to sell a loan or pool of loans to an investor at a set price, we value the loan or loans at the commitment price. We base the fair value of uncommitted loans on the expected future cash flows discounted at a rate commensurate with the risk of the estimated cash flows.

Loans Held for Investment

We measure these loans at fair value. For transferred reverse mortgage loans that do not qualify as sales for accounting purposes, we base the fair value on the expected future cash flows discounted over the expected life of the loans at a rate commensurate with the risk of the estimated cash flows. Significant assumptions include expected prepayment and delinquency rates and cumulative loss curves. The discount rate assumption for these assets is primarily based on an assessment of current market yields on newly originated reverse mortgage loans, expected duration of the asset and current market interest rates.

The more significant assumptions included in the valuations consisted of the following at the dates indicated:

	March 31, 2017		December 31, 2016	
Life in years				
Range	5.5 to 8.5		5.5 to 8.7	
Weighted average	5.9		6.1	
Conditional repayment rate				
Range	5.3% to 53.8%		5.2% to 53.8%	
Weighted average	21.2	%	20.9	%
Discount rate	3.3	%	3.3	%

Significant increases or decreases in any of these assumptions in isolation could result in a significantly lower or higher fair value, respectively. The effects of changes in the assumptions used to value the loans held for investment are largely offset by the effects of changes in the assumptions used to value the HMBS-related borrowings that are associated with these loans.

Mortgage Servicing Rights

The significant components of the estimated future cash inflows for MSRs include servicing fees, late fees, float earnings and other ancillary fees. Significant cash outflows include the cost of servicing, the cost of financing servicing advances and compensating interest payments.

Third-party valuation experts generally utilize: (a) transactions involving instruments with similar collateral and risk profiles, adjusted as necessary based on specific characteristics of the asset or liability being valued; and/or (b) industry-standard modeling, such as a discounted cash flow model, in arriving at their estimate of fair value. The prices provided by the valuation experts reflect their observations and assumptions related to market activity, including risk premiums and liquidity

adjustments. The models and related assumptions used by the valuation experts are owned and managed by them and, in many cases, the significant inputs used in the valuation techniques are not reasonably available to us. However, we have an internal understanding of the processes and assumptions used to develop the prices based on our ongoing due diligence, which includes regular discussions with the valuation experts. We believe that the procedures executed by the valuation experts, supported by our internal verification and analytical procedures, provide reasonable assurance that the prices used in our unaudited consolidated financial statements comply with the accounting guidance for fair value measurements and disclosures and reflect the assumptions that a market participant would use.

We evaluate the reasonableness of our third-party experts' assumptions using historical experience adjusted for prevailing market conditions. Assumptions used in the valuation of MSRs include:

- Mortgage prepayment speeds
- Cost of servicing
- Discount rate
- Interest rate used for computing the cost of financing servicing advances
- Delinquency rates
- Interest rate used for computing float earnings
- Compensating interest expense
- Collection rate of other ancillary fees

Amortized Cost MSRs

We estimate the fair value of MSRs carried at amortized cost using a process that involves either actual sale prices obtained or the use of independent third-party valuation experts, supported by commercially available discounted cash flow models and analysis of current market data. To provide greater price transparency to investors, we disclose actual Ocwen sale prices for orderly transactions where available in lieu of third-party valuations.

The more significant assumptions used in the valuations consisted of the following at the dates indicated:

	March 31, 2017	December 31, 2016
Weighted average prepayment speed	8.8 %	8.9 %
Weighted average delinquency rate	10.9 %	11.1 %
Advance financing cost	5-year swap	5-year swap
Interest rate for computing float earnings	5-year swap	5-year swap
Weighted average discount rate	8.9 %	8.9 %
Weighted average cost to service (in dollars)	$ 107	$ 108

We perform an impairment analysis based on the difference between the carrying amount and fair value after grouping the underlying loans into the applicable strata. Our strata are defined as conventional and government-insured.

Fair Value MSRs

MSRs carried at fair value are classified within Level 3 of the valuation hierarchy. The fair value is equal to the mid-point of the range of prices provided by third-party valuation experts, without adjustment, except in the event we have a potential or completed Ocwen sale, including transactions where we have executed letters of intent, in which case the fair value of the MSRs is carried at the estimated sale price. Fair value reflects actual Ocwen sale prices for orderly transactions where available in lieu of independent third-party valuations. Our valuation process includes discussions of bid pricing with the third-party valuation experts and presumably are contemplated along with other market-based transactions in their model validation.

A change in the valuation inputs utilized by the valuation experts might result in a significantly higher or lower fair value measurement. Changes in market interest rates tend to impact the fair value for Agency MSRs via prepayment speeds by altering the borrower refinance incentive and the Non-Agency MSRs via a market rate indexed cost of advance funding. Other key assumptions used in the valuation of these MSRs include delinquency rates and discount rates.

The primary assumptions used in the valuations consisted of the following at the dates indicated:

	March 31, 2017		December 31, 2016	
	Agency	Non Agency	Agency	Non Agency
Weighted average prepayment speed	7.9 %	16.5 %	8.4 %	16.5 %
Weighted average delinquency rate	1.5 %	29.3 %	1.0 %	29.3 %
Advance financing cost	5-year swap	1-Month LIBOR (1ML) plus 3.5%	5-year swap	1-Month LIBOR (1ML) plus 3.5%
Interest rate for computing float earnings	5-year swap	1ML	5-year swap	1ML
Weighted average discount rate	9.0 %	12.8 %	9.0 %	14.9 %
Weighted average cost to service (in dollars)	$ 65	$ 308	$ 64	$ 307

Advances

We value advances at their net realizable value, which generally approximates fair value, because advances have no stated maturity, are generally realized within a relatively short period of time and do not bear interest.

Receivables

The carrying value of receivables generally approximates fair value because of the relatively short period of time between their origination and realization.

Automotive Dealer Financing Notes

We estimate the fair value of our automotive dealer financing notes using unobservable inputs within an internally developed cash flow model. Key inputs included projected repayments, interest and fee receipts, deferrals, delinquencies, recoveries and charge-offs of the notes within the portfolio. The projected cash flows are then discounted at a rate commensurate with the risk of the estimated cash flows to derive the fair value of the portfolio.

The more significant assumptions used in the valuation consisted of the following at the dates indicated:

	March 31, 2017	December 31, 2016
Weighted average life in months	2.7	2.7
Average note rate	8.3 %	8.3 %
Discount rate	10.0 %	10.0 %
Loan loss rate	26.7 %	11.3 %

Mortgage-Backed Securities (MBS)

Our subordinate and residual securities are not actively traded, and therefore, we estimate the fair value of these securities based on the present value of expected future cash flows from the underlying mortgage pools. We use our best estimate of the key assumptions we believe are used by market participants. We calibrate our internally developed discounted cash flow models for trading activity when appropriate to do so in light of market liquidity levels. Key inputs include expected prepayment rates, delinquency and cumulative loss curves and discount rates commensurate with the risks. Where possible, we use observable inputs in the valuation of our securities. However, the subordinate and residual securities in which we have invested trade infrequently and therefore have few or no observable inputs and little price transparency. Additionally, during periods of market dislocation, the observability of inputs is further reduced. Changes in the fair value of our investment in subordinate and residual securities are recognized in Other, net in the unaudited consolidated statements of operations.

Discount rates for the subordinate and residual securities are determined based upon an assessment of prevailing market conditions and prices for similar assets. We project the delinquency, loss and prepayment assumptions based on a comparison to actual historical performance curves adjusted for prevailing market conditions.

U.S. Treasury Notes

We base the fair value of U.S. Treasury notes on quoted prices in active markets to which we have access.

Match Funded Liabilities

For match funded liabilities that bear interest at a rate that is adjusted regularly based on a market index, the carrying value approximates fair value. For match funded liabilities that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. We estimate principal repayments of match funded advance liabilities during the amortization period based on our historical advance collection rates and taking into consideration any plans to refinance the notes.

Financing Liabilities

HMBS-Related Borrowings

We have elected to measure these borrowings at fair value. We recognize the proceeds from the transfer of reverse mortgages as a secured borrowing that we account for at fair value. These borrowings are not actively traded, and therefore, quoted market prices are not available. We determine fair value by discounting the future principal and interest repayments over the estimated life of the borrowing at a market rate commensurate with the risk of the estimated cash flows. Significant assumptions include prepayments, discount rate and borrower mortality rates for reverse mortgages. The discount rate assumption for these liabilities is based on an assessment of current market yields for newly issued HMBS, expected duration and current market interest rates.

The more significant assumptions used in the valuations consisted of the following at the dates indicated:

	March 31, 2017		December 31, 2016	
Life in years				
Range	4.5 to 8.5		4.5 to 8.7	
Weighted average	5.0		5.1	
Conditional repayment rate				
Range	5.3% to 53.8%		5.2% to 53.8%	
Weighted average	21.2	%	20.9	%
Discount rate	2.7	%	2.7	%

Significant increases or decreases in any of these assumptions in isolation would result in a significantly higher or lower fair value.

MSRs Pledged

We periodically sell the right to receive servicing fees, excluding ancillary income (other than net income on custodial and escrow accounts), relating to certain of our MSRs (Rights to MSRs) and the related servicing advances. Because we have retained legal title to the MSRs, the sales of Rights to MSRs are accounted for as financings. We initially establish the value of the Financing Liability - MSRs Pledged based on the price at which the Rights to MSRs are sold. Thereafter, the carrying value of the Financing Liability - MSRs pledged is adjusted to fair value at each reporting date. We determine fair value by applying the price of the underlying MSRs to the remaining principal balance related to the underlying MSRs. Since we have elected fair value for our portfolio of non-Agency MSRs, future fair value changes in the Financing Liability - MSRs Pledged will be largely offset by changes in the fair value of the related MSRs.

The more significant assumptions used in determination of the prices of the underlying MSRs consisted of the following at the dates indicated:

	March 31, 2017		December 31, 2016	
Weighted average prepayment speed	17.0	%	17.0	%
Weighted average delinquency rate	29.8	%	29.8	%
Advance financing cost	1ML plus 3.5%		1ML plus 3.5%	
Interest rate for computing float earnings	1ML		1ML	
Weighted average discount rate	13.7	%	14.9	%

Weighted average cost to service (in dollars)	$315	$ 313

20

Significant increases or decreases in these assumptions in isolation would result in a significantly higher or lower fair value.

Secured Notes

We issued Ocwen Asset Servicing Income Series (OASIS), Series 2014-1 Notes secured by Ocwen-owned MSRs relating to Freddie Mac mortgages. We accounted for this transaction as a financing. We determine the fair value based on bid prices provided by third parties involved in the issuance and placement of the notes.

Other Secured Borrowings

The carrying value of secured borrowings that bear interest at a rate that is adjusted regularly based on a market index approximates fair value. For other secured borrowings that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. For the SSTL, we based the fair value on quoted prices in a market with limited trading activity.

Senior Notes

We base the fair value on quoted prices in a market with limited trading activity.

Derivative Financial Instruments

Interest rate lock commitments (IRLCs) represent an agreement to purchase loans from a third-party originator or an agreement to extend credit to a mortgage applicant (locked pipeline), whereby the interest rate is set prior to funding. IRLCs are classified within Level 2 of the valuation hierarchy as the primary component of the price is obtained from observable values of mortgage forwards for loans of similar terms and characteristics. Fair value amounts of IRLCs are adjusted for expected “fallout” (locked pipeline loans not expected to close) using models that consider cumulative historical fallout rates and other factors.

We enter into forward MBS trades to provide an economic hedge against changes in the fair value of residential forward and reverse mortgage loans held for sale that we carry at fair value. Forward MBS trades are primarily used to fix the forward sales price that will be realized upon the sale of mortgage loans into the secondary market. Forward contracts are actively traded in the market and we obtain unadjusted market quotes for these derivatives, thus they are classified within Level 1 of the valuation hierarchy.

In addition, we may use interest rate caps to minimize future interest rate exposure on variable rate debt issued on servicing advance financing facilities from increases in one-month LIBOR interest rates. The fair value for interest rate caps is based on counterparty market prices and adjusted for counterparty credit risk.

Note 4 — Sales of Advances and MSRs

In order to efficiently finance our assets, streamline our operations and generate liquidity, we sell MSRs, Rights to MSRs and servicing advances to market participants. We may retain the right to subservice loans when we sell MSRs. In connection with sales of Rights to MSRs, we retain legal ownership of the MSRs and continue to service the related mortgage loans until such time as all necessary consents to a transfer of the MSRs are received.

During the three months ended March 31, 2017 and 2016, we sold MSRs relating to loans with a UPB of $52.2 million (Agency and non-Agency) and $34.5 million (non-Agency), respectively.

In 2012 and 2013, we sold Rights to MSRs with respect to certain non-Agency MSRs and the related servicing advances to Home Loan Servicing Solutions, Ltd. (HLSS). On April 6, 2015, HLSS closed on the sale of substantially all of its assets to NRZ. NRZ, through its subsidiaries, is the owner of the Rights to MSRs and has assumed HLSS’ rights and obligations under the associated agreements. We refer to the sale of Rights to MSRs and the related servicing advances as the NRZ/HLSS Transactions. As of March 31, 2017, these Rights to MSRs relate to approximately $114.3 billion in UPB of our non-Agency MSRs.

Pursuant to our agreements with NRZ, NRZ has assumed the obligation to fund new servicing advances with respect to the Rights to MSRs. We continue to service the loans for which the Rights to MSRs have been sold to NRZ. Accordingly, in the event NRZ was unable to fulfill its advance funding obligations, as the servicer under our servicing agreements with the residential mortgage backed securitization trusts, we would be contractually obligated to fund such advances under those servicing agreements. At March 31, 2017, NRZ had outstanding advances of approximately $3.7 billion in connection with the Rights to MSRs.

Under our agreements with NRZ, NRZ has certain rights to direct us to transfer the legal ownership of the MSRs and certain other rights under the servicing agreements underlying the Rights to MSRs as follows:

- To HLSS Holdings, LLC (Holdings), a subsidiary of NRZ, if or when Holdings obtains all required third-party consents and licenses. If and when such transfer of legal ownership occurs, OLS would subservice the loans pursuant to the existing subservicing agreement(s), as amended, with Holdings. The subservicing agreement would have a subservicing fee reset date described below.
- To a third party, other than Holdings, who can obtain all required third-party consents and licenses, provided that the transfer is subject to our continued right to be paid the servicing fees and other amounts payable under our agreements with NRZ as described below. To the extent Ocwen remained subservicer, new subservicing agreements would need to be executed.
- If a termination event occurs with respect to an affected servicing agreement, to a replacement servicer that obtains all required third-party consents and licenses. Upon any such transfer, we would no longer be entitled to receive future servicing fee revenue with respect to the transferred servicing agreement.

We are working toward an agreement with NRZ that would transfer legal ownership of MSRs underlying the Rights to MSRs to NRZ. The new agreement would extend our relationship with NRZ out to at least 2022, removing a level of uncertainty concerning NRZ’s future intentions and ability to move servicing without us retaining our rights to be paid the servicing fees and other amounts payable under our existing agreements. During our negotiations with NRZ, NRZ has informed us that its position is that a termination event has occurred under our agreements because our current Moody’s servicer rating (SQ3-) is allegedly below the contractual threshold. NRZ has also informed us that it does not intend to take any action to transfer servicing without us retaining our economics, although it has reserved its rights. As Ocwen has previously publicly stated, Ocwen does not consider any termination event to have occurred based on Ocwen’s current servicer ratings.

Under our existing agreements, the servicing fees payable under the servicing agreements underlying the Rights to MSRs are apportioned between NRZ and us as provided in our agreements with NRZ. NRZ retains a fee based on the UPB of the loans serviced, and OLS receives certain fees, including a performance fee based on servicing fees actually paid less an amount calculated based on the amount of servicing advances and cost of financing those advances. The apportionment of these fees with respect to each tranche of Rights to MSRs sold to NRZ is subject to negotiations required to be commenced by NRZ no later than six months prior to the servicing fee reset date. The servicing fee reset date is the earlier of April 30, 2020 or eight years after the closing date of the sale of each tranche of Rights to MSRs to NRZ, unless there is an uncured “termination event” with respect to an affected servicing agreement due to a servicer rating downgrade of OLS’s S&P or Moody’s residential primary servicer rating for subprime loans to Below Average (or lower) or SQ4 (or lower), respectively, on the sixth anniversary of the closing date of the particular tranche, in which case such six year anniversary shall be the fee reset date. If the parties are not able to agree on servicing fees prior to the fee reset date, NRZ is required to continue paying under the existing fee structure and the agreements between the parties will continue in effect with respect to each underlying servicing agreement unless and until NRZ directs the transfer of servicing under such servicing agreement to a third-party servicer with respect to which all required third-party consents and licenses have been obtained.

To the extent servicing agreements with residential mortgage backed securities (RMBS) trustees underlying Rights to MSRs are terminated as a result of a termination event, NRZ is entitled to payment of an amount equal to an amortized percentage of NRZ’s purchase price for the related Rights to MSRs.

Under our agreements with NRZ, we were required to compensate NRZ for certain increased costs associated with its servicing advance financing facilities. This compensation requirement ran for a period of 12 months and ended in the second quarter of 2016.

The Rights to MSRs transactions are accounted for as financings. If and when transfer of legal ownership of the underlying MSRs occurs (which would follow receipt of the necessary consents), we would derecognize the related MSRs and the related financing liability. Upon derecognition, any resulting gain or loss would be deferred and amortized over the life of the related subservicing agreement. Until derecognition, we will continue to recognize the full amount of servicing revenue and changes in the fair value of the MSRs.

The sales of advances in connection with MSR sales, including the NRZ/HLSS Transactions, meet the requirements for sale accounting, and the advances are derecognized from our consolidated financial statements at the servicing transfer date, or, in the case of advances sold in connection with the sale of Rights to MSRs, at the time of the sale.

Note 5 – Loans Held for Sale

Loans Held for Sale - Fair Value

The following table summarizes the activity in the balance:

	For the Three Months Ended March 31,	
	2017	2016
Beginning balance	$284,632	$309,054
Originations and purchases	840,999	789,180
Proceeds from sales	(817,033)	(783,187)
Principal collections	(744)	(3,280)
Gain (loss) on sale of loans	(396)	7,646
Increase in fair value of loans	5,628	1,785
Other	472	541
Ending balance (1)	$313,558	$321,739

(1) At March 31, 2017 and 2016, the balances include $10.5 million and $13.7 million, respectively, of fair value adjustments.

At March 31, 2017, loans held for sale, at fair value with a UPB of $231.9 million were pledged as collateral to warehouse lines of credit in our Lending segment.

Loans Held for Sale - Lower of Cost or Fair Value

The following table summarizes the activity in the net balance:

	For the Three Months Ended March 31,	
	2017	2016
Beginning balance	$29,374	$104,992
Purchases	396,536	421,896
Proceeds from sales	(354,285)	(372,583)
Principal collections	(1,850)	(6,453)
Transfers to accounts receivable	(48,752)	(61,212)
Transfers to real estate owned	(55)	(1,224)
Gain (loss) on sale of loans	(998)	5,010
Decrease (increase) in valuation allowance	4,429	(3,335)
Other	1,196	(21)
Ending balance (1)	$25,595	$87,070

(1) At March 31, 2017 and 2016, the balances include $20.0 million and $55.5 million, respectively, of loans that we were required to repurchase from Ginnie Mae guaranteed securitizations as part of our servicing obligations. Repurchased loans are modified or otherwise remediated through loss mitigation activities or are reclassified to receivables.

The changes in the valuation allowance are as follows:

	For the Three Months Ended March 31,	
	2017	2016
Beginning balance	$10,064	$14,658
Provision	364	2,597
Transfer from liability for indemnification obligations	255	1,030
Sales of loans	(5,045)	—
Other	(3)	(292)
Ending balance	$5,635	$17,993

At March 31, 2017, Loans held for sale, at lower of cost or fair value, with a UPB of $13.4 million were pledged as collateral to a warehouse line of credit in our Servicing segment.

Gain on Loans Held for Sale, Net

The following table summarizes the activity in Gain on loans held for sale, net:

	For the Three Months Ended March 31,	
	2017	2016
MSRs retained on transfers of forward loans	$8,126	$6,484
Fair value gains related to transfers of reverse mortgage loans, net	7,638	356
Gain (loss) on sale of repurchased Ginnie Mae loans	(998)	5,010
Other gains related to loans held for sale, net	2,146	6,089
Gain on sales of loans, net	16,912	17,939
Change in fair value of IRLCs	1,060	7,465
Change in fair value of loans held for sale	7,666	3,521
Loss on economic hedge instruments	(2,514)	(13,202)
Other	(180)	(151)
	$22,944	$15,572

Note 6 – Advances

Advances, net, which represent payments made on behalf of borrowers or on foreclosed properties, consisted of the following at the dates indicated:

	March 31, 2017	December 31, 2016
Principal and interest	$23,125	$ 31,334
Taxes and insurance	154,690	170,131
Foreclosures, bankruptcy and other	92,202	94,369
	270,017	295,834
Allowance for losses	(35,844)	(37,952)
	$234,173	$ 257,882

Advances at March 31, 2017 and December 31, 2016 include $25.0 million and $29.0 million, respectively, of previously sold advances in connection with sales of loans that did not qualify for sale accounting.

The following table summarizes the activity in net advances:

	For the Three Months Ended March 31,	
	2017	2016
Beginning balance	$257,882	$444,298
Sales of advances	(3)	(261)
Collections of advances, charge-offs and other, net	(25,814)	(126,067)
Decrease (increase) in allowance for losses	2,108	(622)
Ending balance	$234,173	$317,348

The changes in the allowance for losses are as follows:

	For the Three Months Ended March 31,	
	2017	2016
Beginning balance	$37,952	$41,901
Provision	3,421	3,483
Charge-offs, net and other	(5,529)	(2,861)
Ending balance	$35,844	$42,523

Note 7 – Match Funded Assets

Match funded assets are comprised of the following at the dates indicated:

	March 31, 2017	December 31, 2016
Advances:		
Principal and interest	$651,837	$ 711,272
Taxes and insurance	508,573	530,946
Foreclosures, bankruptcy, real estate and other	205,015	209,746
	1,365,425	1,451,964
Automotive dealer financing notes (1)	26,996	—
	$1,392,421	$ 1,451,964

(1) On February 24, 2017 and on March 17, 2017, we entered into loan agreements under a new automotive dealer loan financing facility to which these notes are pledged.

The following table summarizes the activity in match funded assets: