OCWEN FINANCIAL CORP
Form 10-Q
November 06, 2018

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 September 30, 2018
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 every Interactive Data File required to be submitted 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 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	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 October 31, 2018: 133,912,425 shares

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OCWEN FINANCIAL CORPORATION
FORM 10-Q
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FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact included in this report, including, without limitation, statements regarding our financial position, business strategy and other plans and objectives for our future operations, are forward-looking statements. These statements include declarations regarding our management’s beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could”, “intend,” “consider,” “expec “plan,” “anticipate,” “believe,” “estimate,” “predict” or “continue” or the negative of such terms or other comparable terminolo Forward-looking statements by their nature address matters that are, to different degrees, uncertain. 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 or referenced under Item 1A, Risk Factors 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 because 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 or others, including lenders, the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the GSEs) and the Government National Mortgage Association (Ginnie Mae);
- our ability to reach settlements with regulatory agencies and state attorneys general on reasonable terms and to comply with the terms of our settlements;
- 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;
- our ability to comply with our servicing agreements, including our ability to comply with our agreements with, and the requirements of, Fannie Mae, Freddie Mac and Ginnie Mae and maintain our seller/servicer and other statuses with them;
- 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 ability to invest excess liquidity at adequate risk-adjusted returns;
- limits on our ability to repurchase our own stock as a result of regulatory settlements and other conditions;
- 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;
- failure of our information technology and other security measures or breach of our privacy protections, including any failure to protect customers’ data;
- 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;
- 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;
- the dependence of our business on New Residential Investment Corp. (NRZ), our largest client and the source for a substantial portion of our advance funding for non-agency mortgage servicing rights;
- our ability to timely transfer mortgage servicing rights under our agreements with NRZ and our ability to maintain our long-term relationship with NRZ;
- our ability to successfully integrate PHH Corporation (PHH) and its business, and to realize the strategic objectives and other benefits of the acquisition at the time anticipated or at all, including our ability to integrate, maintain and enhance PHH’s servicing, subservicing and other business relationships, including its relationship with NRZ;

- our ability to transition to the PHH servicing technology platform within the time and cost parameters anticipated and without significant disruptions to our customers and operations;
- the loss of the services of our senior managers and our ability to execute effective chief executive and chief financial officer leadership transitions;
- 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, GSEs, Ginnie Mae and trustees regarding loan put-backs, penalties and legal actions;
- uncertainty related to the GSEs substantially curtailing or ceasing to purchase our conforming loan originations or the Federal Housing Administration (FHA) of the HUD or Department of Veterans Affairs (VA) 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 ability to adequately manage and maintain real estate owned (REO) properties and vacant properties collateralizing loans that we service;
- uncertainty related to our ability to continue to collect certain expedited payment or convenience fees and potential liability for charging such fees;
- uncertainty related to our reserves, valuations, provisions and anticipated realization of 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 realize anticipated future gains from future draws on existing loans in our reverse mortgage portfolio;
- 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, or agreed with, regulators or counterparties;
- our ability to protect and maintain our technology systems and our ability to adapt such systems for future operating environments; 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 our Annual Report on Form 10-K for the year ended December 31, 2017 and our Quarterly Reports on Form 10-Q and 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 because 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)

	September 30, 2018	December 31, 2017
Assets		
Cash	$254,843	$259,655
Mortgage servicing rights ($999,282 and $671,962 carried at fair value)	999,282	1,008,844
Advances, net	166,024	211,793
Match funded assets (related to variable interest entities (VIEs))	935,080	1,177,357
Loans held for sale ($145,417 and $214,262 carried at fair value)	217,436	238,358
Loans held for investment, at fair value (amounts related to VIEs of $28,373 and $0)	5,307,560	4,715,831
Receivables, net	155,937	199,529
Premises and equipment, net	25,873	37,006
Other assets ($7,826 and $8,900 carried at fair value)(amounts related to VIEs of $19,954 and $27,359)	399,002	554,791
Total assets	$8,461,037	$8,403,164
Liabilities and Equity		
Liabilities		
HMBS-related borrowings, at fair value	$5,184,227	$4,601,556
Match funded liabilities (related to VIEs)	714,246	998,618
Other financing liabilities ($646,842 and $508,291 carried at fair value)(amounts related to VIEs of $26,643 and $0)	719,319	593,518
Other secured borrowings, net	345,425	545,850
Senior notes, net	347,749	347,338
Other liabilities ($2,567 and $635 carried at fair value)	589,327	769,410
Total liabilities	7,900,293	7,856,290
Commitments and Contingencies (Notes 19 and 20)		
Equity		
Ocwen Financial Corporation (Ocwen) stockholders' equity		
Common stock, $.01 par value; 200,000,000 shares authorized; 133,912,425 and 131,484,058 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1,339	1,315
Additional paid-in capital	553,443	547,057
Retained earnings (accumulated deficit)	5,909	(2,083)
Accumulated other comprehensive loss, net of income taxes	(1,135)	(1,249)
Total Ocwen stockholders' equity	559,556	545,040
Non-controlling interest in subsidiaries	1,188	1,834
Total equity	560,744	546,874
Total liabilities and equity	$8,461,037	$8,403,164

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 September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue				
Servicing and subservicing fees	$213,730	$ 233,220	$658,095	$ 761,523
Gain on loans held for sale, net	16,942	25,777	61,135	76,976
Other	7,606	25,645	32,886	79,307
Total revenue	238,278	284,642	752,116	917,806
Expenses				
Compensation and benefits	63,307	90,538	211,220	272,750
Professional services	40,662	38,417	110,821	145,651
MSR valuation adjustments, net	41,448	33,426	91,695	115,446
Servicing and origination	31,758	52,246	91,452	128,061
Technology and communications	20,597	27,929	67,306	79,530
Occupancy and equipment	11,896	15,340	37,369	49,569
Other	7,858	15,583	19,814	39,335
Total expenses	217,526	273,479	629,677	830,342
Other income (expense)				
Interest income	3,963	4,099	10,018	12,101
Interest expense	(61,288)	(47,281)	(189,601)	(212,471)
Gain (loss) on sale of mortgage servicing rights, net	(733)	6,543	303	7,863
Other, net	(2,967)	(1,077)	(6,872)	6,384
Total other expense, net	(61,025)	(37,716)	(186,152)	(186,123)
Loss before income taxes	(40,273)	(26,553)	(63,713)	(98,659)
Income tax expense (benefit)	845	(20,418)	4,541	(15,465)
Net loss	(41,118)	(6,135)	(68,254)	(83,194)
Net income attributable to non-controlling interests	(29)	(117)	(176)	(289)
Net loss attributable to Ocwen stockholders	$(41,147)	$ (6,252)	$(68,430)	$ (83,483)
Loss per share attributable to Ocwen stockholders				
Basic	$(0.31)	$ (0.05)	$(0.51)	$ (0.66)
Diluted	$(0.31)	$ (0.05)	$(0.51)	$ (0.66)
Weighted average common shares outstanding				
Basic	133,912,425	128,744,152	133,632,905	125,797,777
Diluted	133,912,425	128,744,152	133,632,905	125,797,777

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$(41,118)	$(6,135)	$(68,254)	$(83,194)
Other comprehensive income, net of income taxes:				
Reclassification adjustment for losses on cash flow hedges included in net income (1)	36	45	114	157
Total other comprehensive income, net of income taxes	36	45	114	157
Comprehensive loss	(41,082)	(6,090)	(68,140)	(83,037)
Comprehensive income attributable to non-controlling interests	(29)	(117)	(176)	(289)
Comprehensive loss attributable to Ocwen stockholders	$(41,111)	$(6,207)	$(68,316)	$(83,326)

(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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Dollars in thousands)

	Ocwen Stockholders Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Non-controlling Interest in Subsidiaries	Total
Balance at December 31, 2017	131,484,058	$1,315	$547,057	$(2,083)	$(1,249)	$1,834	$546,874
Net income (loss)	—	—	—	(68,430)	—	176	(68,254)
Issuance of common stock	1,875,000	19	5,700	—	—	—	5,719
Cumulative effect of fair value election - Mortgage servicing rights	—	—	—	82,043	—	—	82,043
Cumulative effect of adoption of FASB Accounting Standards Update No. 2016-16	—	—	—	(5,621)	—	—	(5,621)
Capital distribution to non-controlling interest	—	—	—	—	—	(822)	(822)
Equity-based compensation and other	553,367	5	686	—	—	—	691
Other comprehensive income, net of income taxes	—	—	—	—	114	—	114
Balance at September 30, 2018	133,912,425	$1,339	$553,443	$5,909	$(1,135)	$1,188	$560,744
Balance at December 31, 2016	123,988,160	$1,240	$527,001	$126,167	$(1,450)	$2,325	$655,283
Net income (loss)	—	—	—	(83,483)	—	289	(83,194)
Cumulative effect of adoption of FASB Accounting Standards Update No. 2016-09	—	—	284	(284)	—	—	—
Issuance of common stock	6,075,510	61	13,852	—	—	—	13,913
Equity-based compensation and other	795,388	8	3,255	—	—	—	3,263
Other comprehensive income, net of income taxes	—	—	—	—	157	—	157
Balance at September 30, 2017	130,859,058	$1,309	$544,392	$42,400	$(1,293)	$2,614	$589,422

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

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

	For the Nine Months Ended September 30, 2018	2017
Cash flows from operating activities		
Net loss	$(68,254)	$(83,194)
Adjustments to reconcile net loss to net cash provided by operating activities:		
MSR valuation adjustments, net	91,695	115,446
Gain on sale of mortgage servicing rights, net	(303)	(7,863)
Provision for bad debts	40,269	57,274
Depreciation	18,199	20,430
Loss on write-off of fixed assets	—	6,834
Amortization of debt issuance costs	2,261	1,979
Equity-based compensation expense	1,244	4,489
Gain on valuation of financing liability	(11,323)	(27,024)
Net gain on valuation of mortgage loans held for investment and HMBS-related borrowings	(8,057)	(18,637)
Gain on loans held for sale, net	(24,265)	(39,542)
Origination and purchase of loans held for sale	(1,234,830)	(3,074,725)
Proceeds from sale and collections of loans held for sale	1,154,526	3,067,522
Changes in assets and liabilities:		
Decrease in advances and match funded assets	243,831	285,066
Decrease in receivables and other assets, net	126,829	160,169
Decrease in other liabilities	(46,767)	(66,321)
Other, net	6,478	3,466
Net cash provided by operating activities	291,533	405,369
Cash flows from investing activities		
Origination of loans held for investment	(711,035)	(961,642)
Principal payments received on loans held for investment	296,800	311,560
Purchase of mortgage servicing rights	(2,729)	(1,658)
Proceeds from sale of mortgage servicing rights	6,138	2,263
Proceeds from sale of advances	7,882	6,119
Issuance of automotive dealer financing notes	(19,642)	(129,471)
Collections of automotive dealer financing notes	52,598	119,389
Additions to premises and equipment	(7,326)	(7,365)
Other, net	5,446	1,480
Net cash used in investing activities	(371,868)	(659,325)
Cash flows from financing activities		
Repayment of match funded liabilities, net	(284,372)	(252,981)
Proceeds from mortgage loan warehouse facilities and other secured borrowings	2,211,606	5,810,591
Repayments of mortgage loan warehouse facilities and other secured borrowings	(2,585,286)	(6,016,169)
Proceeds from sale of mortgage servicing rights accounted for as a financing	279,586	54,601
Proceeds from sale of reverse mortgages (HECM loans) accounted for as a financing (HMBS-related borrowings)	728,745	981,730
Repayment of HMBS-related borrowings	(290,338)	(287,908)
Issuance of common stock	—	13,913

Capital distribution to non-controlling interest	(822)	—
Other, net	(991)	(2,321)
Net cash provided by financing activities	58,128	301,456
Net increase (decrease) in cash and restricted cash	(22,207)	47,500
Cash and restricted cash at beginning of year	302,560	302,398
Cash and restricted cash at end of period	$280,353	$349,898
Supplemental non-cash investing and financing activities		
Initial consolidation of mortgage-backed securitization trusts (VIEs):		
Loans held for investment	$28,373	$—
Other financing liabilities	26,643	—
Issuance of common stock in connection with litigation settlement	$5,719	$—

The following table provides a reconciliation of cash and restricted cash reported within the unaudited consolidated balance sheets that sums to the total of the same such amounts reported in the unaudited consolidated statements of cash flows:

	September 30, 2018	September 30, 2017
Cash	$254,843	$299,888
Restricted cash and equivalents included in Other assets:		
Debt service accounts	22,454	38,753
Other restricted cash	3,056	11,257
Total cash and restricted cash reported in the statements of cash flows	$280,353	$349,898

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(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 servicing activities on behalf of other servicers (subservicing), the largest being New Residential Investment Corp. (NRZ), and investors (primary and master servicing), 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 a subservicer or primary servicer, we may be required to make advances for certain property tax and insurance premium payments, default and property maintenance payments and principal and interest payments on behalf of delinquent borrowers to mortgage loan investors before recovering them from borrowers. Most, but not all, of our subservicing agreements provide for us to be reimbursed for any such advances by the owner of the servicing rights. Advances made by us as primary servicer are recovered from the borrower or the mortgage loan investor. 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, 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 mortgages. The GSEs or Ginnie Mae guarantee these mortgage securitizations. We originate Home Equity Conversion Mortgages (HECM, or reverse mortgages) that are insured by the FHA and are an approved issuer of Home Equity Conversion Mortgage-Backed Securities (HMBS) that are guaranteed by Ginnie Mae.

We had a total of approximately 6,400 employees at September 30, 2018 of which approximately 4,300 were located in India and approximately 500 were based in the Philippines. Our operations in India and the Philippines primarily provide internal support services, principally to our loan servicing business and our corporate functions. Of our foreign-based employees, more than 80% were engaged in supporting our loan servicing operations as of September 30, 2018.

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 operate our business successfully.

Losses in prior years have significantly eroded stockholders' equity and weakened our financial condition. In order to drive stronger financial performance, we are focusing our operations on mortgage servicing, on forward lending, primarily servicing portfolio recapture, and on our reverse mortgage business. We have significantly strengthened our cash position during 2018 through the receipt of a lump-sum fee payment of $279.6 million from NRZ in January 2018 in connection with our rights to mortgage servicing rights agreements. See Note 8 — Rights to MSRs for further information.

On October 4, 2018, we acquired PHH Corporation (PHH). We believe this acquisition will enable the following key strategic and financial benefits:

- Accelerate our transition to the Black Knight Financial Services, Inc. (Black Knight) LoanSphere MSP® servicing platform (Black Knight MSP);
- Reduce fixed costs, on a combined basis, through reductions in corporate overhead and other costs;
- Improve economies of scale; and,
- Provide a foundation to enable the combined servicing platform to resume new business and growth activities to offset portfolio runoff.

The approval of the New York Department of Financial Services (NY DFS) for the acquisition imposed certain post-closing requirements on Ocwen, including certain reporting obligations and certain record retention and other requirements relating to the planned transfer of New York loans onto the Black Knight MSP servicing platform as well as certain requirements with respect to the management of PHH Mortgage Corporation, a licensed subsidiary of PHH. In addition, the NY DFS modified its restriction on Ocwen's ability to acquire MSRs to allow certain acquisitions of MSRs that are boarded onto the Black Knight MSP servicing platform subject to annual portfolio growth limitations until such time as the NY DFS determines that all loans have been successfully migrated to the Black Knight MSP servicing platform and that Ocwen has developed a satisfactory infrastructure to board sizeable portfolios of MSRs. See Note 18 – Regulatory Requirements and Note 21 – Subsequent Events for additional information regarding the acquisition of PHH.

Now that we have consummated our acquisition of PHH, if we can execute on five key initiatives, we believe we will drive stronger financial performance. First, we must successfully execute on the integration of PHH's business with ours, including a smooth transition onto the Black Knight MSP servicing platform. Second, we must re-engineer our cost structure to go beyond eliminating redundant costs through the integration process. Third, we must fulfill our regulatory commitments and resolve our remaining legal and regulatory matters on satisfactory terms. Fourth, we must replenish our servicing portfolio through expanding our lending business and permissible MSR acquisitions that are prudent and well-executed with appropriate financial return targets. Finally, we must ensure that we continue to manage our balance sheet to provide a solid platform for executing on our growth and other initiatives.

Our business, operating results and financial condition have been significantly impacted in recent periods by regulatory actions against us and by significant litigation matters. Should the number or scope of regulatory or legal actions against us increase or expand or should we be unable to reach reasonable resolutions in existing regulatory and legal matters, our business, reputation, financial condition, liquidity and results of operations could be materially and adversely affected, even if we are successful in our ongoing efforts to drive stronger financial performance. See Note 18 – Regulatory Requirements and Note 20 – Contingencies for further information.

Regarding the current maturities of our borrowings, as of September 30, 2018 we have approximately $520.4 million of debt outstanding under facilities coming due in the next 12 months. Portions of our match funded facilities 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. If a lender were to allege an event of default and we are unable to avoid, remedy or secure a waiver of such alleged default, we could be subject to adverse actions by our lenders that could have a material adverse impact on us. In addition, OLS, Homeward and Liberty are parties to seller/servicer agreements and/or subject to guidelines and regulations (collectively, seller/servicer obligations) with one or more of the GSEs, the Department of Housing and Urban Development (HUD), FHA, VA and Ginnie Mae. To the extent these requirements are not met or waived, the applicable agency may, at its option, utilize a variety of remedies including requirements to provide certain information or take actions at the direction of the applicable agency, requirements to deposit funds as security for our obligations, sanctions, suspension or even termination of approved seller/servicer status, which would prohibit future originations or securitizations of forward or reverse mortgage loans or servicing for the applicable agency. Any of these actions could have a material adverse impact on us. See Note 11 – Borrowings, Note 18 – Regulatory Requirements and Note 20 – Contingencies for further 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 and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2018. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017.
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, income taxes, the provision for potential losses that may arise from litigation proceedings, 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

Within the expenses section of the unaudited statement of operations for the three and nine months ended September 30, 2017, we reclassified impairment charges and fair value gains and losses on mortgage servicing rights (MSRs), both previously included in the Servicing and origination line item, and Amortization of MSRs to a new line item titled MSR valuation adjustments, net.

As a result of our adoption on January 1, 2018 of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash, debt service accounts and other restricted cash which are included in Other assets on the consolidated balance sheets have been classified as Cash and restricted cash in our consolidated statements of cash flows. Our revision of the unaudited consolidated statement of cash flows for the nine months ended September 30, 2017 to conform to the new standard resulted in an increase in net cash provided by operating activities of $4.2 million (Decrease in receivables and other assets, net line item is higher as revised).

Certain amounts in the unaudited consolidated statement of cash flows for the nine months ended September 30, 2017 have been reclassified to conform to the current year presentation as follows:

- Within the operating activities section, we reclassified Amortization of MSRs, Loss on valuation of MSRs, at fair value, and Impairment of MSRs to a new line item (MSR valuation adjustments, net). In addition, we reclassified Realized and unrealized gains on derivative financial instruments to Other, net.
- Within the financing activities section, we reclassified Payment of debt issuance costs to Other, net.

These reclassifications had no impact on our consolidated cash flows from operating, investing or financing activities.

Recently Adopted Accounting Standards

Revenue from Contracts with Customers (Accounting Standards Update (ASU) 2014-09)

This ASU clarifies the principles for recognizing revenue and creates a common revenue standard. Under this ASU, an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity will recognize revenue through a five-step process. The guidance in this standard does not apply to financial instruments and other contractual rights or obligations within the scope of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 860, Transfers and Servicing, among other ASC topics. As a result, our adoption of this standard on a modified retrospective basis on January 1, 2018 did not have a material impact on our consolidated financial statements.

Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)

This ASU provides users with more useful information regarding the recognition, measurement, presentation, and disclosure of financial instruments and also improves the accounting model to better meet the requirements of today’s complex economic environment. Most changes in this ASU require the same information, but some changes revise the geography of that information on the financial statements. Our adoption of this standard on January 1, 2018 did not have a material impact on our consolidated financial statements.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15)

This ASU clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows under FASB ASC Topic 230, Statement of Cash Flows (ASC 230). Our adoption of this standard on January 1, 2018 did not have a material impact on our consolidated financial statements.

Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory (ASU 2016-16)

This ASU requires an entity to recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. Previously, recognition of current and deferred income taxes for an intra-entity transfer was prohibited until the asset had been sold to an outside party. We adopted this standard on a modified retrospective basis on January 1, 2018 by recording a cumulative-effect reduction of $5.6 million to retained earnings.

Statement of Cash Flows: Restricted Cash (ASU 2016-18)
This ASU clarifies how changes in restricted cash are classified and presented in the statement of cash flows under ASC 230. This standard requires that a statement of cash flows explain the change during the period in the total of cash, cash

equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Our adoption of this standard on January 1, 2018 did not have a material impact on our consolidated financial statements. The amendments in this update have been applied using a retrospective transition method to each period presented. We have revised the unaudited consolidated statement of cash flows for the nine months ended September 30, 2017 to conform to the new standard.

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

This ASU clarifies 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. Our adoption of this standard on January 1, 2018 did not have a material impact on our consolidated financial statements.

Compensation: Stock Compensation (ASU 2017-09)

This ASU reduces both diversity in practice as well as cost and complexity when applying the modification accounting guidance in FASB ASC Topic 718, Compensation -- Stock Compensation, to a change to the terms or conditions of a share-based payment award. Our adoption of this standard on January 1, 2018 did not have a material impact on our consolidated financial statements.

Financial Instruments: Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10) (ASU 2018-03)

This ASU provides clarification of areas in ASU 2016-01 by improving the measurement and reporting of certain financial assets and liabilities. Our adoption of this standard on July 1, 2018 did not have a material impact on our consolidated financial statements.

Income Taxes: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (ASU 2018-05)

This ASU adds various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Jobs Act (Tax Act) in the period of enactment. We adopted the now codified guidance in SAB 118 as of December 31, 2017 and continue to rely on the guidance in these interim financial statements.

Accounting Standards Issued but Not Yet Adopted

Leases (ASU 2016-02)

This ASU will require a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months, regardless of whether the lease is classified as a finance or operating lease. Additional disclosures of the amount, timing and uncertainty of cash flows arising from leases will be required. In July 2018, the FASB amended this guidance by issuing ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases (Topic 842): Targeted Improvements which provides clarification and further guidance on areas identified as potential implementation issues, as well as providing for an additional optional transition method to allow initial application of the new leasing guidance at the adoption date and recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

These standards will be effective for us on January 1, 2019, with early application permitted. At adoption, we expect to apply the new transition method provided for in ASU 2018-11. While we are continuing to evaluate the effects that this guidance will have on our financial statements, we have determined it will result in the recognition of certain operating leases as right-of-use assets and lease liabilities in the consolidated balance sheet, but we do not anticipate that the impact will be material.

Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13)

This ASU will require timelier recording of credit losses on loans and other financial instruments. This standard aligns the accounting with the economics of lending by requiring banks and other lending institutions to immediately record the full amount of credit losses that are expected in their loan portfolios. The new guidance requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This standard requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. Additionally, the new guidance amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. This standard will be effective for us on January 1, 2020, with early application permitted. We are currently evaluating the effect of adopting this standard.

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

This ASU amends 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. 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.

Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02)

This ASU provides entities with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. 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.

Codification Improvements (ASU 2018-09)

This ASU amends multiple codification Topics. The transition and effective date guidance is based on the facts and circumstances of each amendment. While some of the amendments in this ASU do not require transition guidance and were effective upon issuance of this ASU, many of the amendments in this ASU have transition guidance with an effective date of January 1, 2019. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13)

This ASU modifies the disclosure requirements on fair value measurements in FASB ASC Topic 820, Fair Value Measurement. The main provisions in this update include removal of the following disclosure requirements from this ASC: 1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, 2) the policy for timing of transfers between levels and 3) the valuation processes for Level 3 fair value measurements. This standard adds disclosure requirements to report the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and for certain unobservable inputs an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements.

This standard will be effective for us on January 1, 2020, with early application permitted on any removed or modified disclosures and to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption, and to allow a delayed adoption of the additional disclosures until the effective date. We are currently evaluating the effect of adopting this standard.

Intangibles - Goodwill and Other - Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15)

This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this ASU. The amendments in this ASU require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments in this ASU require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in this ASU also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of operations as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element.

This standard will be effective for us on January 1, 2020, with early adoption permitted, including adoption in any interim period. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently evaluating the effect of adopting this standard.

SEC Simplifies and Updates Disclosure Requirements (US 2018-21)

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, to eliminate, modify, or integrate into other SEC requirements certain disclosure rules. The amendments eliminate the following:

- Redundant and duplicative requirements, which require substantially similar disclosures as GAAP, IFRS, or other SEC disclosure requirements;

- Overlapping requirements, which are related to, but not the same as GAAP, IFRS, or other SEC disclosure requirements - including the elimination of the ratio of earnings to fixed charges;
- Outdated requirements, which have become obsolete as a result of the passage of time or changes in the regulatory, business, or technological environment; and
- Superseded requirements, which are inconsistent with recent legislation, more recently updated SEC disclosure requirements, or more recently updated GAAP.

In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule will become effective on November 5, 2018. We are currently evaluating the 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 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.

From time to time, we may acquire beneficial interests issued in connection with mortgage-backed securitizations where we may also be the master and or primary servicer. These beneficial interests consist of subordinate and residual interests acquired from third-parties in market transactions. We consolidate the VIE when we conclude we are the primary beneficiary.

Securitizations of Residential Mortgage Loans

We securitize forward and reverse residential mortgage loans involving the GSEs and loans insured by the FHA or VA through Ginnie Mae. To the extent we retain the right to service these loans, we 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 purchased from third parties, generally in the form of mortgage-backed securities guaranteed by the GSEs or Ginnie Mae. Securitization typically occurs within 30 days of loan closing or purchase. 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.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Proceeds received from securitizations	$282,507	$687,502	$998,204	$2,711,651
Servicing fees collected	9,808	10,300	30,233	30,250
Purchases of previously transferred assets, net of claims reimbursed	(1,507)	(1,234)	(4,336)	(3,958)
	$290,808	$696,568	$1,024,101	$2,737,943

In connection with these transfers, we retained MSRs of $1.4 million and $5.9 million, and $3.6 million and $18.6 million, during the three and nine months ended September 30, 2018 and 2017, respectively, which are reported in Gain on loans held for sale, net in the unaudited consolidated statements of operations. See Note 4 – Loans Held for Sale for additional information regarding gains or losses on the transfer of loans held for sale.

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.

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

	September 30, 2018	December 31, 2017
Carrying value of assets		
MSRs, at fair value	$ 111,586	$ 227
MSRs, at amortized cost	—	97,832
Advances and match funded advances	61,500	57,636
UPB of loans transferred	11,118,533	12,077,635
Maximum exposure to loss	$ 11,291,619	$ 12,233,330

At September 30, 2018 and December 31, 2017, 7.4% and 8.9%, respectively, of the transferred residential loans that we service were 60 days or more past due.

Transfers of Reverse Mortgages

We pool HECM loans into HMBS that we sell into the secondary market with servicing rights retained or we sell the loans to third parties with servicing rights released. 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, at fair value, on our unaudited consolidated balance sheets. 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.

At September 30, 2018 and December 31, 2017, Loans held for investment included $78.1 million and $83.8 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.

Financings of Advances

Match funded advances 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 transfers to these SPEs in accordance with the terms of our advance financing facility agreements. Debt service accounts require us to remit collections on pledged advances to the trustee within two days of receipt. Collected funds that are not applied to reduce the related match funded debt until the payment dates specified in the indenture are classified as debt service accounts within Other assets in our consolidated balance sheets. The balances also include amounts that have been set aside from the proceeds of our match funded advance facilities to provide for possible shortfalls in the funds available to pay certain expenses and interest, as well as amounts set aside as required by our warehouse facilities as security for our obligations under the related agreements. The funds are held in interest earning accounts and those amounts related to match funded facilities are held in the name of the SPE created in connection with the facility.

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.

Mortgage-Backed Securitizations

We have concluded we are the primary beneficiary of certain residential mortgage-backed securitizations as a result of beneficial interests consisting of residual securities, which expose us to the expected losses and residual returns of the trust, and our role as master servicer, where we have the ability to direct the activities that most significantly impact the performance of the trust.

The table below presents the carrying value and classification of the assets and liabilities of two consolidated mortgage-backed securitization trusts included in our unaudited consolidated balance sheet at September 30, 2018 as a result of residual securities issued by the trust that we acquired during the third quarter of 2018.

Loans held for investment, at fair value - Restricted for securitization investors	$28,373
Financing liability - Owed to securitization investors, at fair value	26,643

Upon consolidation of the securitization trusts, we elected to apply the measurement alternative to ASC Topic 820, Fair Value Measurement for collateralized financing entities. The measurement alternative requires a reporting entity to use the more observable of the fair value of the financial assets or the financial liabilities to measure both the financial assets and the financial liabilities of the entity. We determined that the fair value of the loans held by the trusts is more observable than the fair value of the debt certificates issued by the trusts. Through the application of the measurement alternative, the fair value of the financial liabilities of the trusts are measured as the difference between the fair value of the financial assets and the fair value of our investment in the residual securities of the trusts. Holders of the debt issued by these entities have recourse only to the assets of the SPE 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 securities of the trusts, our MSRs and related advances. At September 30, 2018, MSRs of $0.2 million and our $1.7 million investment in the residual securities of the trusts were eliminated in consolidation. Advances outstanding at September 30, 2018 were $1.2 million.

Financings of Automotive Dealer Financing Notes

Match funded automotive dealer financing notes resulted from our transfers of short-term, inventory-secured loans to car dealers to an SPE in exchange for cash. We consolidated this SPE because we determined that Ocwen is the primary beneficiary of the SPE. In January 2018, we decided to exit the independent used car dealer floor plan lending business conducted through Automotive Capital Services, Inc. (ACS). We made transfers to the SPE in accordance with the terms of the automotive capital asset receivables financing facility agreement, which we terminated in January 2018 in connection with our decision to exit the business. We classified the transferred loans on our consolidated balance sheets as a component of Match funded assets and the related liabilities as Match funded liabilities. Holders of the debt issued by the SPE had recourse only to the assets of the SPE for satisfaction of the debt.

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:

		September 30, 2018		December 31, 2017	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets					
Loans held for sale					
Loans held for sale, at fair value (a)	2	$145,417	$145,417	$214,262	$214,262
Loans held for sale, at lower of cost or fair value (b)	3	72,019	72,019	24,096	24,096
Total Loans held for sale		217,436	217,436	238,358	238,358

		September 30, 2018		December 31, 2017	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans held for investment, at fair value					
Loans held for investment - Reverse mortgages (a)	3	5,279,187	5,279,187	4,715,831	4,715,831
Loans held for investment - Restricted for securitization investors (a)	3	28,373	28,373	—	—
Total loans held for investment		5,307,560	5,307,560	4,715,831	4,715,831
Advances (including match funded) (c)	3	1,101,104	1,101,104	1,356,393	1,356,393
Automotive dealer financing notes (including match funded) (c)	3	—	—	32,757	32,590
Receivables, net (c)	3	155,937	155,937	199,529	199,529
Mortgage-backed securities, at fair value (a)	3	1,670	1,670	1,592	1,592
U.S. Treasury notes (a)	1	1,059	1,059	1,567	1,567
Financial liabilities:					
Match funded liabilities (c)	3	$714,246	$710,303	$998,618	$992,698
Financing liabilities:					
HMBS-related borrowings, at fair value (a)	3	5,184,227	5,184,227	4,601,556	4,601,556
Financing liability - MSRs pledged, at fair value (a)	3	620,199	620,199	508,291	508,291
Financing liability - Owed to securitization investors, at fair value (a)	3	26,643	26,643	—	—
Other (c)	3	72,477	57,984	85,227	65,202
Total Financing liabilities		$5,903,546	$5,889,053	$5,195,074	$5,175,049
Other secured borrowings:					
Senior secured term loan (c) (d)	2	230,295	236,866	290,068	299,741
Other (c)	3	115,130	115,130	255,782	255,782
Total Other secured borrowings		345,425	351,996	545,850	555,523
Senior notes:					
Senior unsecured notes (c) (d)	2	3,122	3,090	3,122	2,872
Senior secured notes (c) (d)	2	344,627	352,071	344,216	355,550
Total Senior notes		347,749	355,161	347,338	358,422
Derivative financial instrument assets (liabilities), at fair value (a)					
Interest rate lock commitments	2	2,816	2,816	3,283	3,283
Forward mortgage-backed securities	1	(1,873)	(1,873)	(545)	(545)
Interest rate caps	3	1,211	1,211	2,056	2,056
Mortgage servicing rights					
Mortgage servicing rights, at fair value (a)	3	$999,282	$999,282	$671,962	$671,962
Mortgage servicing rights, at amortized cost (c) (e)	3	—	—	336,882	418,745
Total Mortgage servicing rights		$999,282	$999,282	$1,008,844	$1,090,707

(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) Effective January 1, 2018, we elected fair value accounting for our MSRs previously accounted for using the amortization method, which included Agency MSRs and government-insured MSRs. The balance at December 31, 2017 includes the impaired government-

insured stratum of amortization method MSRs, which was measured at fair value on a non-recurring basis and reported net of the valuation allowance. At December 31, 2017, the carrying value of this stratum was $158.0 million before applying the valuation allowance of $24.8 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	Loans Held for Inv. - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs
Three months ended September 30, 2018								
Beginning balance	$5,143,758	$(5,040,983)	$—	$—	$ 1,732	$(672,619)	$ 1,657	$1,043,995
Purchases, issuances, sales and settlements								
Purchases	—	—	—	—	—	—	—	2,924
Issuances	223,563	(229,169)	—	—	—	—	—	1,930
Consolidation of mortgage-backed securitization trusts	—	—	28,373	(26,643)	—	—	—	—
Sales	—	—	—	—	—	—	—	(8,119)
Settlements	(110,584)	108,790	—	—	—	49,620	—	—
Transfers (to) from:								
Loans held for sale, at fair value	(253)	—	—	—	—	—	—	—
Other assets	(170)	—	—	—	—	—	—	—
Receivables, net	(20)	—	—	—	—	—	—	—
	112,536	(120,379)	28,373	(26,643)	—	49,620	—	(3,265)
Total realized and unrealized gains (losses) included in earnings								
Change in fair value	22,893	(22,865)	—	—	(62)	2,681	(446)	(41,448)
Calls and other	—	—	—	—	—	119	—	—
	22,893	(22,865)	—	—	(62)	2,800	(446)	(41,448)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—	—
Ending balance	$5,279,187	$(5,184,227)	$ 28,373	$(26,643)	$ 1,670	$(620,199)	$ 1,211	$999,282

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs
Three months ended September 30, 2017						
Beginning balance	$4,223,776	$(4,061,626)	$ 8,986	$(441,007)	$ 1,937	$625,650
Purchases, issuances, sales and settlements						
Purchases	—	—	—	—	655	—
Issuances	263,169	(317,277)	—	(54,601)	—	(715)
Sales	—	—	—	—	—	(311)
Settlements	(118,991)	111,677	—	19,770	(403)	—
Transfers (to) from:						
Other assets	88	—	—	—	—	—
	144,266	(205,600)	—	(34,831)	252	(1,026)
Total realized and unrealized gains (losses) included in earnings						
Change in fair value	91,718	(91,051)	341	27,024	(350)	(26,477)
Calls and other	—	—	—	971	—	—
	91,718	(91,051)	341	27,995	(350)	(26,477)
Transfers in and / or out of Level 3	—	—	—	—	—	—
Ending balance	$4,459,760	$(4,358,277)	$ 9,327	$(447,843)	$ 1,839	$598,147

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Loans Held for Inv. - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Mortgage-backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs
Nine months ended September 30, 2018								
Beginning balance	$4,715,831	$(4,601,556)	$—	$—	$ 1,592	$(508,291)	$ 2,056	$671,962
Purchases, issuances, sales and settlements								
Purchases	—	—	—	—	—	—	95	8,809
Issuances	711,035	(728,745)	—	—	—	(279,586)	—	(445)
Consolidation of mortgage-backed securitization trusts	—	—	28,373	(26,643)	—	—	—	—
Sales	—	—	—	—	—	—	—	(8,274)
Settlements	(296,800)	290,338	—	—	—	154,129	(371)	—
Transfers (to) from:								
MSRs carried at amortized cost, net of valuation allowance	—	—	—	—	—	—	—	418,925
Loans held for sale, at fair value	(694)	—	—	—	—	—	—	—
Other assets	(307)	—	—	—	—	—	—	—
Receivables, net	(92)	—	—	—	—	—	—	—
	413,142	(438,407)	28,373	(26,643)	—	(125,457)	(276)	419,015
Total realized and unrealized gains (losses) included in earnings								
Included in earnings:								
Change in fair value	150,214	(144,264)	—	—	78	11,323	(569)	(91,695)
Calls and other	—	—	—	—	—	2,226	—	—
	150,214	(144,264)	—	—	78	13,549	(569)	(91,695)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—	—
Ending Balance	$5,279,187	$(5,184,227)	$ 28,373	$(26,643)	$ 1,670	$(620,199)	$ 1,211	$999,282

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs
Nine months ended September 30, 2017						
Beginning balance	$3,565,716	$(3,433,781)	$ 8,342	$(477,707)	$ 1,836	$679,256
Purchases, issuances, sales and settlements						
Purchases	—	—	—	—	655	—
Issuances	961,642	(981,730)	—	(54,601)	—	(2,131)
Sales	—	—	—	—	—	(541)
Settlements	(311,560)	287,908	—	52,963	(445)	—
Transfers (to) from:						
Other assets	(1,335)	—	—	—	—	—
	648,747	(693,822)	—	(1,638)	210	(2,672)
Total realized and unrealized gains (losses) included in earnings						
Change in fair value	245,297	(230,674)	985	27,024	(207)	(78,437)
Calls and other	—	—	—	4,478	—	—
	245,297	(230,674)	985	31,502	(207)	(78,437)
Transfers in and / or out of Level 3	—	—	—	—	—	—
Ending balance	$4,459,760	$(4,358,277)	$ 9,327	$(447,843)	$ 1,839	$598,147

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

Residential forward and reverse mortgage loans that we intend to sell 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 loans for which we have no agreement to sell on the expected future cash flows discounted at a rate commensurate with the risk of the estimated cash flows.

Loans Held for Investment

Loans Held for Investment - Reverse Mortgages

We measure these loans at fair value based 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.

Significant valuation assumptions	September 30, 2018		December 31, 2017	
Life in years				
Range	2.8 to 7.6		4.4 to 8.1	
Weighted average	5.8		6.4	
Conditional repayment rate				
Range	6.3% to 41.3%		5.4% to 51.9%	
Weighted average	14.7	%	13.1	%
Discount rate	3.7	%	3.2	%

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.

Loans Held for Investment – Restricted for securitization investors

We have elected to measure loans held by consolidated mortgage-backed securitization trusts at fair value. The loans are secured by first liens on single family residential properties. Fair value is based on proprietary cash flow modeling processes for a third-party broker/dealer and a third-party valuation expert. Significant assumptions used in the valuation include projected monthly payments, projected prepayments and defaults, property liquidation values and discount rates.

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 understand 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 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

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 sale, including transactions where we have executed letters of intent, in which case the fair value of the MSRs is disclosed 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.

Significant valuation assumptions	September 30, 2018		December 31, 2017	
	Agency (1)	Non-Agency	Agency	Non-Agency
Weighted average prepayment speed	8.1 %	15.7 %	8.1 %	16.6 %
Weighted average delinquency rate	9.9 %	27.6 %	1.0 %	28.5 %
Advance financing cost	5-year swap	5-yr swap plus 2.75%	5-year swap	5-yr swap plus 2.75%
Interest rate for computing float earnings	5-year swap	5-yr swap minus 0.50%	5-year swap	5-yr swap minus 0.50%
Weighted average discount rate	9.0 %	12.7 %	9.0 %	13.0 %
Weighted average cost to service (in dollars)	$105	$ 301	$64	$ 305

(1) Valuation assumptions for Agency MSRs at September 30, 2018 include assumptions for MSRs we carried at amortized cost at December 31, 2017. Effective January 1, 2018, we elected fair value accounting for our remaining MSRs that we had previously carried at amortized cost.

Amortized Cost MSRs

Prior to our fair value election on January 1, 2018 for our remaining portfolio of MSRs carried at amortized cost, we estimated the fair value using a process that involved 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 disclosed actual Ocwen sale prices for orderly transactions where available in lieu of third-party valuations.

Significant valuation assumptions	December 31, 2017
Weighted average prepayment speed	8.8 %
Weighted average delinquency rate	10.9 %
Advance financing cost	5-year swap
Interest rate for computing float earnings	5-year swap
Weighted average discount rate	9.2 %
Weighted average cost to service (in dollars)	$ 108

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

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.

Mortgage-Backed Securities (MBS)

Our subordinate and residual securities are not actively traded, and therefore, we estimate the fair value of these securities using a process based upon the use of an independent third-party valuation expert. Where possible, we consider observable trading activity in the valuation of our securities. 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.

U.S. Treasury Notes

We classify U.S. Treasury notes as trading securities and account for them at fair value on a recurring basis. We base the fair value on quoted prices in active markets to which we have access. Changes in the fair value of our investment in U.S. Treasury notes are recognized in Other, net in the unaudited consolidated statements of operations.

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 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. These borrowings are not actively traded, and therefore, quoted market prices are not available. We determine fair value by discounting the projected recovery of principal, interest and advances 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. 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.

Significant valuation assumptions	September 30, 2018	December 31, 2017
Life in years		
Range	2.8 to 7.6	4.4 to 8.1
Weighted average	5.8	6.4
Conditional repayment rate		
Range	6.3% to 41.3%	5.4% to 51.9%
Weighted average	14.7 %	13.1 %
Discount rate	3.7 %	3.1 %

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

MSRs Pledged (Rights to MSRs)

We have elected to measure these borrowings at fair value. We recognize the proceeds received in connection with Rights to MSRs transactions as a secured borrowing that we account for at fair value. Fair value for the portion of the borrowing attributable to the MSRs underlying the Rights to MSRs is determined using the mid-point of the range of prices provided by third-party valuation experts. Fair value for the portion of the borrowing attributable to any lump sum payments received in connection with the transfer of MSRs underlying such Rights to MSRs to the extent such transfer is accounted for as a financing is determined by discounting the relevant future cash flows that were altered through such transfer using assumptions consistent with the mid-point of the range of prices provided by third-party valuation experts for the related MSR. Because we have elected fair value for our portfolio of non-Agency MSRs, fair value changes in the Financing Liability - MSRs Pledged are partially offset by changes in the fair value of the related MSRs. See Note 8 — Rights to MSRs for additional information.

Significant valuation assumptions	September 30, 2018	December 31, 2017
Weighted average prepayment speed	16.1 %	17.0 %
Weighted average delinquency rate	28.1 %	28.9 %
Advance financing cost	5-yr swap plus 2.75%	5-year swap plus 2.75%
Interest rate for computing float earnings		

	5-yr swap minus 0.50%	5-year swap minus 0.50%
Weighted average discount rate	13.7 %	13.7 %
Weighted average cost to service (in dollars)	$ 307	$ 311

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.

Financing Liability – Owed to Securitization Investors

Consists of securitization debt certificates due to third parties that represent beneficial ownership interests in mortgage-backed securitization trusts that we include in our consolidated financial statements. We determine fair value using the measurement alternative to ASC Topic 820, Fair Value Measurement as disclosed in Note 2 – Securitizations and Variable Interest Entities. In accordance with the measurement alternative, the fair value of the consolidated securitization debt certificates is measured as the fair value of the loans held by the trust less the fair value of the beneficial interests held by us in the form of residual securities.

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 Senior Secured Term Loan (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 or three-month Eurodollar rate (1ML or 3 ML, respectively) interest rates. The fair value for interest rate caps is based on counterparty market prices and adjusted for counterparty credit risk.

Note 4 – Loans Held for Sale

Loans Held for Sale - Fair Value	Nine Months Ended September 30,	
	2018	2017
Beginning balance	$214,262	$284,632
Originations and purchases	671,503	2,204,028
Proceeds from sales	(728,531)	(2,310,294)
Principal collections	(14,201)	(3,684)
Transfers from (to):		
Loans held for investment, at fair value	694	—
Loans held for sale - Lower of cost or fair value	(11,564)	—
Receivables, net	(1,165)	—
Real estate owned (Other assets)	(2,240)	—
Gain on sale of loans	25,525	22,131
Increase (decrease) in fair value of loans	(12,791)	1,836
Other	3,925	1,789
Ending balance (1)	$145,417	$200,438

(1) At September 30, 2018 and 2017, the balances include $(6.5) million and $6.7 million, respectively, of fair value adjustments.

At September 30, 2018, loans held for sale, at fair value with a UPB of $76.3 million were pledged as collateral to warehouse lines of credit in our Lending segment.

Loans Held for Sale - Lower of Cost or Fair Value	Nine Months Ended September 30,	
	2018	2017
Beginning balance	$24,096	$29,374
Purchases	563,327	870,697
Proceeds from sales	(400,693)	(746,999)
Principal collections	(11,101)	(6,545)
Transfers from (to):		
Receivables, net	(118,762)	(137,807)
Real estate owned (Other assets)	(1,681)	(711)
Loans held for sale - Fair value	11,564	—
Gain on sale of loans	2,180	8,332
(Increase) decrease in valuation allowance	(3,144)	1,566
Other	6,233	5,317
Ending balance (1)	$72,019	$23,224

(1) At September 30, 2018 and 2017, the balances include $53.0 million and $17.6 million, respectively, of loans that we repurchased from Ginnie Mae guaranteed securitizations pursuant to Ginnie Mae servicing guidelines. We may repurchase loans that have been modified, to facilitate loss reduction strategies, or as otherwise obligated as a Ginnie Mae servicer. Repurchased loans may be modified or otherwise remediated through loss mitigation activities, may be sold to a third party, or are reclassified to receivables.

Valuation Allowance - Loans Held for Sale at Lower of Cost or Fair Value	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$7,535	$6,491	$7,318	$10,064
Provision	2,755	906	3,036	1,761
Transfer from Liability for indemnification obligations (Other liabilities)	554	1,529	1,551	2,416
Sales of loans	(382)	(426)	(1,464)	(6,071)
Other	—	(2)	21	328
Ending balance	$10,462	$8,498	$10,462	$8,498

Gain on Loans Held for Sale, Net	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gain on sales of loans, net				
MSRs retained on transfers of forward loans	$1,427	$3,572	$5,880	$18,604
Fair value gains related to transfers of reverse mortgage loans, net	9,421	15,747	36,870	37,434
Gain on sale of repurchased Ginnie Mae loans	1,222	4,577	2,179	8,332
Other, net	4,459	6,730	24,028	19,635
	16,529	30,626	68,957	84,005
Change in fair value of IRLCs	26	(178)	137	(1,605)
Change in fair value of loans held for sale	365	(2,078)	(9,781)	3,735
Gain (loss) on economic hedge instruments	84	(2,420)	2,082	(8,604)
Other	(62)	(173)	(260)	(555)
	$16,942	$25,777	$61,135	$76,976

Note 5 – Advances

	September 30, 2018	December 31, 2017
Principal and interest	$ 16,385	$ 20,207
Taxes and insurance	105,633	144,454
Foreclosures, bankruptcy and other	59,759	63,597
	181,777	228,258
Allowance for losses	(15,753)	(16,465)
	$ 166,024	$ 211,793

Advances at September 30, 2018 and December 31, 2017 include $8.2 million and $18.1 million, respectively, of advances relating to sales of loans that did not qualify for sale accounting.

The following table summarizes the activity in net advances:

	Nine Months Ended September 30,	
	2018	2017
Beginning balance	$211,793	$257,882
Sales of advances	(4,777)	(399)
Collections of advances, charge-offs and other, net	(41,704)	(63,320)
Decrease in allowance for losses	712	3,790
Ending balance	$166,024	$197,953

Allowance for Losses	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$16,485	$20,328	$16,465	$37,952
Provision	2,696	13,756	6,197	17,054
Net (charge-offs) recoveries and other	(3,428)	78	(6,909)	(20,844)
Ending balance	$15,753	$34,162	$15,753	$34,162

Note 6 – Match Funded Assets

	September 30, 2018	December 31, 2017
Advances		
Principal and interest	$ 424,520	$523,248
Taxes and insurance	352,376	439,857
Foreclosures, bankruptcy, real estate and other	158,184	181,495
	935,080	1,144,600
Automotive dealer financing notes (1)	—	35,392
Allowance for losses	—	(2,635)
	—	32,757
	$ 935,080	$1,177,357

(1) In January 2018, we terminated our automotive dealer loan financing facility. Automotive dealer financing notes not pledged to our automotive dealer loan financing facility are reported as Other assets.

The following table summarizes the activity in match funded assets:

	Nine Months Ended September 30,			
	2018		2017	
	Advances	Automotive Dealer Financing Notes	Advances	Automotive Dealer Financing Notes
Beginning balance	$1,144,600	$ 32,757	$1,451,964	$ —
Transfer (to) from Other assets	—	(36,896)	—	25,180
Sales	—	—	(691)	—
New advances (collections), net	(209,520)	1,504	(243,410)	10,856
Decrease in allowance for losses (1)	—	2,635	—	—
Ending balance	$935,080	$ —	$1,207,863	$ 36,036

(1) The remaining allowance was charged off in connection with the exit from the ACS business.

Note 7 – Mortgage Servicing

Mortgage Servicing Rights – Amortization Method	Nine Months Ended September 30, 2018	2017
Beginning balance	$336,882	$363,722
Fair value election - transfer of MSRs carried at fair value (1)	(361,670)	—
Additions recognized in connection with asset acquisitions	—	1,658
Additions recognized on the sale of mortgage loans	—	18,604
Sales and other transfers	—	(814)
	(24,788)	383,170
Amortization (1)	—	(38,560)
Decrease in impairment valuation allowance (1) (2)	24,788	1,551
Ending balance	$—	$346,161
Estimated fair value at end of period	$—	$424,208

(1) Effective January 1, 2018, we elected fair value accounting for our MSRs previously accounted for using the amortization method, which included Agency MSRs and government-insured MSRs. This irrevocable election applies to all subsequently acquired or originated servicing assets and liabilities that have characteristics consistent with each of these classes. We recorded a cumulative-effect adjustment of $82.0 million to retained earnings as of January 1, 2018 to reflect the excess of the fair value of the Agency MSRs over their carrying amount. We also recognized the tax effect of this adjustment through an increase in retained earnings of $6.8 million and a deferred tax asset for the same amount. However, we established a full valuation allowance on the resulting deferred tax asset through a reduction in retained earnings. The government-insured MSRs were impaired by $24.8 million at December 31, 2017; therefore, these MSRs were already effectively carried at fair value.

(2) Impairment of MSRs is recognized in MSR valuation adjustments, net in the unaudited consolidated statements of operations for the nine months ended September 30, 2017. Impairment valuation allowance balance of $24.8 million was reclassified to reduce the carrying value of the related MSRs on January 1, 2018 in connection with our fair value election. See Note 3 – Fair Value for additional information regarding impairment and the valuation allowance.

Mortgage Servicing Rights – Fair Value Measurement Method	Nine Months Ended September 30, 2018			2017		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	$11,960	$ 660,002	$671,962	$13,357	$ 665,899	$679,256
Fair value election - transfer of MSRs carried at amortized cost, net of valuation allowance	336,882	—	336,882	—	—	—
Cumulative effect of fair value election	82,043	—	82,043	—	—	—
Sales and other transfers	(5,950)	(175)	(6,125)	—	(2,672)	(2,672)
Additions	8,809	—	8,809	—	—	—
Servicing transfers and adjustments	—	(2,594)	(2,594)	—	—	—
Changes in fair value (1):						
Changes in valuation inputs or other assumptions	19,217	(424)	18,793	(131)	2,303	2,172
Realization of expected future cash flows and other changes	(43,545)	(66,943)	(110,488)	(1,385)	(79,224)	(80,609)
Ending balance	$409,416	$ 589,866	$999,282	$11,841	$ 586,306	$598,147

(1) Changes in fair value are recognized in MSR valuation adjustments, net in the unaudited consolidated statements of operations.

Because the mortgages underlying these MSRs permit the borrowers to prepay the loans, the value of the MSRs generally tends to diminish in periods of declining interest rates, an improving housing market or expanded product availability (as

prepayments increase) and increase in periods of rising interest rates, a deteriorating housing market or reduced product availability (as prepayments decrease). The following table summarizes the estimated change in the value of the MSRs that we carry at fair value as of September 30, 2018 given hypothetical shifts in lifetime prepayments and yield assumptions:

	Adverse change in fair value	
	10%	20%
Weighted average prepayment speeds	$(92,659)	$(178,462)
Discount rate (option-adjusted spread)	(28,326)	(54,351)

The sensitivity analysis measures the potential impact on fair values based on hypothetical changes, which in the case of our portfolio at September 30, 2018 are increased prepayment speeds and a decrease in the yield assumption.

Portfolio of Assets Serviced

The following table presents the composition of our residential primary servicing and subservicing portfolios as measured by UPB, including foreclosed real estate and small-balance commercial loans. The servicing portfolio represents loans for which we own the servicing rights while subservicing represents all other loans. The UPB of assets serviced for others are not included on our unaudited consolidated balance sheets.

UPB at September 30, 2018	
Servicing	$68,076,254
Subservicing	1,387,641
NRZ (1)	91,532,579
	$160,996,474
UPB at December 31, 2017	
Servicing	$75,469,327
Subservicing	2,063,669
NRZ (1)	101,819,557
	$179,352,553
UPB at September 30, 2017	
Servicing	$78,254,463
Subservicing (2)	3,656,197
NRZ (1)	105,557,658
	$187,468,318

(1) UPB of loans serviced for which the Rights to MSRs have been sold to NRZ, including those subserviced for which third-party consents have been received and the MSRs have been transferred to NRZ.

(2) Excludes $9.8 million of large-balance commercial foreclosed real estate. During 2017, we sold or transferred servicing on the remaining managed assets.

During the nine months ended September 30, 2018 and 2017, we sold MSRs with a UPB of $580.0 million and $210.2 million, respectively.

A significant portion of the servicing agreements for our non-Agency servicing portfolio contain provisions where we could be terminated as servicer without compensation upon the failure of the serviced loans to meet certain portfolio delinquency or cumulative loss thresholds. As a result of the economic downturn beginning in 2007 - 2008, the portfolio delinquency and/or cumulative loss threshold provisions have been breached in many private-label securitizations in our non-Agency servicing portfolio. To date, terminations as servicer as a result of a breach of any of these provisions have been minimal.

At September 30, 2018, S&P Global Ratings' (S&P) servicer ratings outlook for Ocwen is stable. Fitch Ratings, Inc.'s (Fitch) servicer ratings outlook is Stable and Moody's Investors Service, Inc.'s (Moody's) servicer ratings are on Watch for Downgrade. Downgrades in servicer ratings could adversely affect our ability to sell or finance servicing advances and could impair our ability to consummate future servicing transactions or adversely affect our dealings with lenders, other contractual counterparties, and regulators, including our ability to maintain our status as an approved servicer by Fannie Mae and Freddie Mac. The servicer rating requirements of Fannie Mae do not necessarily require or imply immediate action, as Fannie Mae has discretion with respect to whether we are in compliance with their requirements and what actions it deems appropriate under the circumstances in the event that we fall below their desired servicer ratings.

Certain of our servicing agreements require that we maintain specified servicer ratings from rating agencies such as Moody's and S&P. At September 30, 2018, non-Agency servicing agreements with a UPB of $27.0 billion have minimum servicer ratings criteria. As a result of our current servicer ratings, termination rights have been triggered in non-Agency servicing agreements with a UPB of $8.4 billion, or approximately 9% of our total non-Agency servicing portfolio. To date, terminations as servicer as a result of a breach of any of these provisions have been minimal.

Servicing Revenue	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Loan servicing and subservicing fees				
Servicing	$52,610	$63,071	$167,389	$197,712
Subservicing	658	1,760	2,443	5,877
NRZ	120,593	129,228	374,322	420,151
	173,861	194,059	544,154	623,740
Late charges	14,839	14,958	44,743	47,352
Custodial accounts (float earnings)	10,241	7,489	25,965	18,322
Loan collection fees	4,916	5,663	14,700	17,918
Home Affordable Modification Program (HAMP) fees (1)	3,365	6,202	11,622	37,692
Other	6,508	4,849	16,911	16,499
	$213,730	$233,220	$658,095	$761,523

(1) The HAMP program expired on December 31, 2016. Borrowers who had requested assistance or to whom an offer of assistance had been extended as of that date had until September 30, 2017 to finalize their modification. We continue to earn HAMP success fees for HAMP modifications that remain less than 90 days delinquent at the first, second and third year anniversary of the start of the trial modification.

Float balances (balances in custodial accounts, which represent collections of principal and interest that we receive from borrowers) are held in escrow by an unaffiliated bank and are excluded from our unaudited consolidated balance sheets. Float balances amounted to $1.7 billion and $2.0 billion at September 30, 2018 and September 30, 2017, respectively.

Note 8 — Rights to MSRs

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), an indirect wholly-owned subsidiary of NRZ. While certain underlying economics of the MSRs were transferred, legal title was retained by Ocwen, causing the Rights to MSRs transactions to be accounted for as secured financings. We continue to recognize the MSRs and related financing liability on our unaudited consolidated balance sheet as well as the full amount of servicing revenue and changes in the fair value of the MSRs and related financing liability in our unaudited consolidated statements of operations.

Prior to the transfer of legal title under the Master Servicing Rights Purchase Agreement dated as of October 1, 2012, as amended, and certain Sale Supplements, as amended (collectively, the Original Rights to MSRs Agreements), Ocwen agreed to service the mortgage loans underlying the MSRs on the economic terms set forth in the Original Rights to MSRs Agreements. After the transfer of legal title as contemplated under the Original Rights to MSRs Agreements, Ocwen was to service the mortgage loans underlying the MSRs as subservicer on substantially the same economic terms.

On July 23, 2017 and January 18, 2018, we entered into a series of agreements with NRZ that collectively modify, supplement and supersede the arrangements among the parties as set forth in the Original Rights to MSRs Agreements. The July 23, 2017 agreements, as amended, include a Master Agreement, Transfer Agreement and Subservicing Agreement (collectively, the 2017 Agreements) pursuant to which the parties agreed, among other things, to undertake certain actions to facilitate the transfer from Ocwen to NRZ of Ocwen's legal title to the remaining MSRs, with a UPB of $109.6 billion as of June 30, 2017, that were subject to the Original Rights to MSRs Agreements and under which Ocwen will subservice mortgage loans underlying the MSRs for an initial term of five years (the Initial Term). While we continue the process of obtaining the third-party consents necessary to transfer the MSRs to NRZ, on January 18, 2018, the parties entered into new agreements (including a Servicing Addendum) regarding the Rights to MSRs related to MSRs that remained subject to the Original Rights to MSRs Agreements as of January 1, 2018 and amended the Transfer Agreement (collectively, New RMSR Agreements) to accelerate the implementation of certain parts of our arrangements in order to achieve the intent of the 2017 Agreements sooner. Ocwen will continue to service the related mortgage loans until the necessary third-party consents are obtained in order to transfer the applicable MSRs in accordance with the New RMSR Agreements. Upon receiving the required consents and transferring the MSRs, Ocwen will subservice the mortgage loans underlying the MSRs pursuant to the 2017 Agreements.

On August 17, 2018, Ocwen and NRZ entered into certain amendments to the New RMSR Agreements to include New Penn Financial, LLC dba Shellpoint Mortgage Servicing (Shellpoint), a subsidiary of NRZ, as a party and to conform the New RMSR Agreements to certain of the terms of the Shellpoint Subservicing Agreement, between Ocwen and Shellpoint.

The 2017 Agreements and New RMSR Agreements (as amended) provide for the conversion of the economics of the Original Rights to MSRs Agreements into a more traditional subservicing arrangement and involve upfront payments to Ocwen. Prior to the execution of the New RMSR Agreements, we received these payments upon obtaining the required third-party consents and the transfer of the MSRs. Upon execution of the New RMSR Agreements, we received the balance of these upfront payments. These upfront payments generally represent the net present value of the difference between the future revenue stream Ocwen would have received under the Original Rights to MSRs Agreements and the future revenue stream Ocwen expects to receive under the 2017 Agreements and the New RMSR Agreements. On September 1, 2017, pursuant to the 2017 Agreements, Ocwen successfully transferred MSRs with UPB of $15.9 billion to NRZ and received a lump-sum payment of $54.6 million. On January 18, 2018, Ocwen received a lump-sum payment of $279.6 million in accordance with the terms of the New RMSR Agreements.

Due to the length of the Initial Term of the Subservicing Agreement, the transactions in which MSRs are transferred as described above do not qualify as a sale and are accounted for as secured financings. A new liability is recognized in an amount equal to the fair value of any lump sum payments received in connection with the 2017 Agreements and New RMSR Agreements. Due diligence and consent-related costs are recorded in Professional services expense as incurred. Changes in the fair value of the financing liability are recognized in Interest expense.

In the event the required third-party consents are not obtained with respect to any dates specified in, and in accordance with the process set forth in, the New RMSR Agreements, such MSRs will either: (i) remain subject to the New RMSR Agreements at the option of NRZ, (ii) be acquired by Ocwen at a price determined in accordance with the terms of the New RMSR Agreements, or (iii) be sold to a third party in accordance with the terms of the New RMSR Agreements.

At any time during the Initial Term, NRZ may terminate the Subservicing Agreement and Servicing Addendum for convenience, subject to Ocwen’s right to receive a termination fee and proper notice. Following the Initial Term, NRZ may extend the term of the Subservicing Agreement and Servicing Addendum for additional three-month periods by providing proper notice. Following the Initial Term, the Subservicing Agreement and Servicing Addendum can be cancelled by Ocwen on an annual basis. NRZ and Ocwen have the ability to terminate the Subservicing Agreement and Servicing Addendum for cause if certain specified conditions occur.

Under the terms of the Subservicing Agreement and Servicing Addendum, in addition to a base servicing fee, Ocwen will continue to receive ancillary income, which primarily includes late fees, loan modification fees and Speedpay® fees. NRZ will receive all float earnings and deferred servicing fees related to delinquent borrower payments, as well as be entitled to receive certain real estate owned (REO) related income including REO referral commissions.

Prior to January 18, 2018, MSRs as to which necessary transfer consents had not yet been obtained continued to be subject to the terms of the agreements entered into in 2012 and 2013. Under the 2012 and 2013 agreements, the servicing fees payable under the servicing agreements underlying the Rights to MSRs were apportioned between NRZ and us. NRZ retained a fee based on the UPB of the loans serviced, and OLS received certain fees, including a performance fee based on servicing fees paid less an amount calculated based on the amount of servicing advances and the cost of financing those advances.

Interest expense related to financing liabilities recorded in connection with the NRZ transactions is indicated in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Servicing fees collected on behalf of NRZ	$120,593	$129,228	$374,322	$420,151
Less: Subservicing fee retained by Ocwen	33,335	68,536	101,997	226,483
Net servicing fees remitted to NRZ	87,258	60,692	272,325	193,668
Less: Reduction (increase) in financing liability				
Changes in fair value				
Original Rights to MSRs Agreements	4,844	(9,854)	(3,938)	(9,854)
2017 Agreements and New RMSR Agreements	(2,163)	36,878	15,261	36,878
Runoff, settlement and other				
Original Rights to MSRs Agreements	14,095	19,003	45,455	52,196
2017 Agreements and New RMSR Agreements	33,765	767	104,291	767
	$36,717	$13,898	$111,256	$113,681

In April 2015, Ocwen sold all economic beneficial rights to the "clean-up call rights" to which we were entitled pursuant to servicing agreements that underlie the Rights to MSRs to NRZ for a payment upon exercise of 0.50% of the UPB of all performing mortgage loans (mortgage loans that are current or 30 days or less delinquent) associated with such clean-up call. As a result of the 2017 Agreements and the New RMSR Agreements, Ocwen is no longer entitled to the 0.50% purchase price but will continue to be reimbursed for costs incurred with respect to such efforts and receives administrative fees. We received $0.8 million and $5.5 million during the three and nine months ended September 30, 2017, respectively, from NRZ in connection with such clean-up calls. The clean-up calls are recognized in Other, net in the unaudited consolidated statements of operations.

Note 9 – Receivables

	September 30, 2018	December 31, 2017
Servicing-related receivables:		
Government-insured loan claims, net	$100,786	$114,971
Reimbursable expenses	30,493	31,709
Due from custodial accounts	27,990	36,122
Due from NRZ	6,137	14,924
Other	9,048	11,959
	174,454	209,685
Income taxes receivable	35,153	36,831
Other receivables	11,153	19,600
	220,760	266,116
Allowance for losses	(64,823)	(66,587)
	$155,937	$199,529

At September 30, 2018 and December 31, 2017, the allowance for losses related to receivables of our Servicing business was $64.4 million and $66.3 million, respectively, and was primarily comprised of an allowance for losses related to defaulted FHA or VA insured loans repurchased from Ginnie Mae guaranteed securitizations (government-insured loan claims).

Allowance for Losses - Government-Insured Loan Claims	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$53,155	$46,577	$53,340	$53,258
Provision	10,180	9,162	29,214	31,848
Net charge-offs and other	(10,297)	(7,069)	(29,516)	(36,436)
Ending balance	$53,038	$48,670	$53,038	$48,670

Note 10 – Other Assets

	September 30, 2018	December 31, 2017
Contingent loan repurchase asset	$ 307,684	$ 431,492
Prepaid expenses	23,023	22,559
Debt service accounts (restricted cash)	22,454	33,726
Prepaid representation, warranty and indemnification claims - Agency MSR sale	15,173	20,173
Prepaid lender fees, net	6,290	9,496
Real estate	5,216	3,070
Derivatives, at fair value	4,721	5,429
Other restricted cash	3,056	9,179
Mortgage backed securities, at fair value	1,670	1,592
Interest-earning time deposits	1,629	4,739
Prepaid income taxes	—	5,621
Other	8,086	7,715
	$ 399,002	$ 554,791

Automotive dealer financing notes not pledged to our former automotive dealer loan financing facility are reported as Other assets. We ceased new lending and terminated this facility in January 2018. There were no remaining notes outstanding at September 30, 2018. At December 31, 2017, the balance of the notes was $0, net of an allowance of $7.7 million. Changes in the allowance are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$—	$9,586	$7,664	$4,371
Provision	—	(1,019)	(265)	4,196
Net charge-offs and other	—	—	(7,399)	—
Ending balance	$—	$8,567	$—	$8,567

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Note 11 – Borrowings

Match Funded Liabilities

Borrowing Type	Maturity (1)	Amortization Date (1)	Available Borrowing Capacity (2)	September 30, 2018 Weighted Average Interest Rate (3)	September 30, 2018 Balance	December 31, 2017 Weighted Average Interest Rate (3)	December 31, 2017 Balance
Advance Financing Facilities:							
Advance Receivables Backed Notes - Series 2014-VF4 (4)	Aug. 2048	Aug. 2018	$—	— %	$—	4.29%	$67,095
Advance Receivables Backed Notes - Series 2015-VF5 (4)	Dec. 2049	Dec. 2019	46,178	3.76	178,822	4.29	67,095
Advance Receivables Backed Notes - Series 2016-T1 (5)	Aug. 2048	Aug. 2018	—	—	—	2.77	265,000
Advance Receivables Backed Notes - Series 2016-T2 (5)	Aug. 2049	Aug. 2019	—	2.99	235,000	2.99	235,000
Advance Receivables Backed Notes - Series 2017-T1 (5)	Sep. 2048	Sep. 2018	—	—	—	2.64	250,000
Advance Receivables Backed Notes, Series 2018-T1 (5)	Aug. 2049	Aug. 2019	—	3.50	150,000	—	—
Advance Receivables Backed Notes, Series 2018-T2 (5)	Aug. 2050	Aug. 2020	—	3.81	150,000	—	—
Total Ocwen Master Advance Receivables Trust (OMART)			46,178	3.46	713,822	3.02	884,190
Ocwen Servicer Advance Receivables Trust III (OSART III) - Advance Receivables Backed Notes, Series 2014-VF1 (6)	Dec. 2048	Dec. 2018	54,626	5.49	374	4.63	33,768
Ocwen Freddie Advance Funding (OFAF) - Advance Receivables Backed Notes, Series 2015-VF1 (7)	Jun. 2049	Jun. 2019	64,950	4.83	50	4.52	56,078
Total Servicing Advance Financing Facilities			165,754	3.46%	714,246	3.16%	974,036
Automotive Capital Asset Receivables Trust (ACART) - Loan Series 2017-1 (8)	Feb. 2021	Feb. 2019	—	— %	—	6.77%	24,582
			$ 165,754	3.46%	$714,246	3.25%	$998,618

(1) The amortization date of our facilities is the date on which the revolving period ends under each advance facility note and repayment of the outstanding balance must begin if the note is not renewed or extended. The maturity date is the date on which all outstanding balances must be repaid. In all of our advance facilities, there are multiple notes outstanding. For each note, after the amortization date, all collections that represent the repayment of advances pledged to the facility must be applied to reduce the balance of the note outstanding, and any new advances are ineligible to be financed.

(2) Borrowing capacity is available to us provided that we have eligible collateral to pledge. Collateral may only be pledged to one facility. At September 30, 2018, $52.8 million of the available borrowing capacity of our advance financing notes could be used based on the amount of eligible collateral that had been pledged.

(3) 1ML was 2.26% and 1.56% at September 30, 2018 and December 31, 2017, respectively.

(4)

Effective January 1, 2018, the borrowing capacity of the Series 2014-VF4 and the Series 2015-VF5 variable rate notes were each reduced from $105.0 million to $70.0 million. The interest rate was based on 1ML, with a ceiling of 125 basis points (bps), plus a margin of 235 to 635 bps. On July 13, 2018, we increased the borrowing capacity of the Series 2015-VF5 variable notes to $225.0 million and extended the amortization date to December 15, 2019, with interest computed based on the lender's cost of funds plus a margin of 105 to 250 bps. The increased capacity was used on July 16, 2018 to redeem the Series 2016-T1 term notes with an outstanding balance of $265.0 million and an amortization date of August 15, 2018. We also voluntarily terminated the Series 2014-VF4 variable notes on July 16, 2018.

(5) Under the terms of the agreement, we must continue to borrow the full amount of the Series 2016-T2, 2018-T1 and 2018-T2 fixed-rate term notes until the amortization date. If there is insufficient eligible collateral to support the level of borrowing, the excess cash proceeds in an amount necessary to make up the deficit are not distributed to Ocwen but are held by the trustee, and interest expense continues to be based on the full amount of the outstanding notes. The Series 2016-T2, 2018-T1 and 2018-T2 term notes have a total combined borrowing capacity of $535.0 million. Rates on the individual classes of notes range from 2.72% to 4.53%. The Series 2016-T1 and Series 2017-T1 term notes were redeemed on July 16, 2018 and August 14, 2018, respectively. On August 15, 2018, we

issued two $150.0 million fixed-rate term notes (Series 2018 T-1 and Series 2018-T2) with amortization dates of August 15, 2019 and August 2020, respectively.

(6) The maximum borrowing capacity under this facility is $55.0 million. There is a ceiling of 300 bps for the 3ML in determining the interest rate for these variable rate notes. Rates on the individual notes are based on the lender's cost of funds plus a margin of 235 to 475 bps.

(7) On June 7, 2018, borrowing capacity was reduced from $110.0 million to $65.0 million with interest computed based on the lender's cost of funds plus a margin of 180 to 450 bps. There is a ceiling of 300 bps for 3ML in determining the interest rate for these variable rate notes.

(8) On January 23, 2018, we voluntarily terminated the Loan Series 2017-1 Notes.

Pursuant to the 2017 Agreements and New RMSR Agreements, NRZ is obligated to fund new servicing advances with respect to the MSRs underlying the Rights to MSRs. We are dependent upon NRZ for funding the servicing advance obligations for Rights to MSRs where we are the servicer. NRZ currently uses advance financing facilities in order to fund a substantial portion of the servicing advances that they are contractually obligated to purchase pursuant to our agreements with them. As of September 30, 2018, we were the servicer of Rights to MSRs sold to NRZ pertaining to $91.5 billion in UPB and the associated outstanding servicing advances as of such date were approximately $2.3 billion. Should NRZ's advance financing facilities fail to perform as envisaged or should NRZ otherwise be unable to meet its advance funding obligations, our liquidity, financial condition and business could be materially and adversely affected. As the servicer, we are contractually required under our servicing agreements to make the relevant servicing advances even if NRZ does not perform its contractual obligations to fund those advances. See Note 8 — Rights to MSRs for additional information.

In addition, although we are not an obligor or guarantor under NRZ's advance financing facilities, we are a party to certain of the facility documents as the servicer of the underlying loans on which advances are being financed. As the servicer, we make certain representations, warranties and covenants, including representations and warranties in connection with advances subsequently sold to, or reimbursed by, NRZ.

Financing Liabilities

Borrowing Type	Collateral	Interest Rate	Maturity	Outstanding Balance September 30, 2018	Outstanding Balance December 31, 2017
HMBS-Related Borrowings, at fair value (1)	Loans held for investment	1ML + 260 bps	(1)	$5,184,227	$4,601,556
Other Financing Liabilities					
MSRs pledged, at fair value:					
Original Rights to MSRs Agreements	MSRs	(2)	(2)	450,845	499,042
2017 Agreements and New RMSR Agreements	MSRs	(3)	(3)	169,354	9,249
				620,199	508,291
Secured Notes, Ocwen Asset Servicing Income Series, Series 2014-1 (4)	MSRs	(4)	Feb. 2028	67,194	72,575
Financing liability - Owed to securitization investors, at fair value:					
IndyMac Mortgage Loan Trust (INDX 2004-AR11) (5)	Loans held for investment	(5)	(5)	13,250	—
Residential Asset Securitization Trust 2003-A11 (RAST 2003-A11) (5)	Loans held for investment	(5)	(5)	13,393	—
				26,643	—
Advances pledged (6)	Advances on loans	(6)	(6)	5,283	12,652
				719,319	593,518
				$5,903,546	$5,195,074

(1) Represents amounts due to the holders of beneficial interests in Ginnie Mae guaranteed HMBS. The beneficial interests have no maturity dates, and the borrowings mature as the related loans are repaid.

(2) This financing liability has no contractual maturity or repayment schedule. The balance of the liability is adjusted each reporting period to its fair value based on the present value of the estimated future cash flows underlying the related MSRs.

(3) This financing liability arose in connection with lump sum payments received upon transfer of legal title of the MSRs related to the Rights to MSRs transactions to NRZ in September 2017. In connection with the execution of the New RMSR Agreements in January 2018, we received a lump sum payment of $279.6 million as compensation for foregoing certain payments under the Original Rights to MSRs Agreements. The balance of the liability is adjusted each reporting period to its fair value based on the present value of the estimated future cash flows. The expected maturity of the liability is April 30, 2020, the date through which we were scheduled to be the servicer on loans underlying the Rights to MSRs per the Original Rights to MSRs Agreements.

(4) OASIS noteholders are entitled to receive a monthly payment equal to the sum of: (a) 21 basis points of the UPB of the reference pool of Freddie Mac mortgages; (b) any termination payment amounts; (c) any excess refinance amounts; and (d) the note redemption amounts, each as defined in the indenture supplement for the notes. Monthly amortization of the liability is estimated using the proportion of monthly projected service fees on the underlying MSRs as a percentage of lifetime projected fees, adjusted for the term of the notes.

(5) Consists of securitization debt certificates due to third parties that represent beneficial interests in trusts that we include in our unaudited consolidated financial statements, as more fully described in Note 2 – Securitizations and Variable Interest Entities. The holders of these certificates have no recourse against the assets of Ocwen. The certificates in the INDX 2004-AR11 Trust pay interest based on variable rates which are generally based on weighted average net mortgage rates and which range between 3.29% and 3.62% at September 30, 2018. The certificates in the RAST 2003-A11 Trust pay interest based on fixed rates ranging between 4.25% and 5.75% and a variable rate based on 1ML plus 0.45%. The maturity of the certificates occurs upon maturity of the loans held by the trust. The remaining loans in the INDX 2004-AR11 Trust and RAST 2003-A11 Trust have maturity dates extending through November 2034 and October 2033, respectively.

(6) Certain sales of advances did not qualify for sales accounting treatment and were accounted for as a financing. This financing liability has no contractual maturity. The effective interest rate is based on 1ML plus a margin of 450 bps.

Other Secured Borrowings					Outstanding Balance	
Borrowing Type	Collateral	Interest Rate	Termination / Maturity	Available Borrowing Capacity (1)	September 30, 2018	December 31, 2017
SSTL (2)	(2)	1-Month Euro-dollar rate + 500 bps with a Eurodollar floor of 100 bps (2)	Dec. 2020	$ —	$ 235,687	$ 298,251
Mortgage loan warehouse facilities						
Repurchase agreement (3)	Loans held for sale (LHFS)	1ML + 200 - 345 bps	Sep. 2019	100,000	—	8,221
Participation agreements (4)	LHFS	N/A	(4)	—	64,798	161,433
Mortgage warehouse agreement (5)	LHFS (reverse mortgages)	1ML + 275 bps; 1ML floor of 350 bps	Aug. 2019	—	9,899	32,042
Master repurchase agreement (6)	LHFS (forward and reverse mortgages)	1ML + 225 bps forward; 1ML + 275 bps reverse	Dec. 2018	109,567	40,433	54,086
Master repurchase	LHFS (reverse mortgages)	Prime + 0.0% (4.0% floor)	Dec. 2018	—	—	—

agreement (7)			
	209,567	115,130	255,782
	$ 209,567	350,817	554,033
Unamortized debt issuance costs - SSTL		(3,573)	(5,423)
Discount - SSTL		(1,819)	(2,760)
		$ 345,425	$ 545,850
Weighted average interest rate		5.79 %	5.22 %

(1) Available borrowing capacity for our mortgage loan warehouse facilities does not consider the amount of the facility that the lender has extended on an uncommitted basis. Of the borrowing capacity extended on a committed basis, $100.0 million could be used at September 30, 2018 based on the amount of eligible collateral that could be pledged.

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(2) Under the terms of the Amended and Restated Senior Secured Term Loan Facility Agreement with an original borrowing capacity of $335.0 million, we may request increases to the loan amount of up to $100.0 million, with additional increases subject to certain limitations. We are required to make quarterly principal payments of $4.2 million on the SSTL, the first of which was paid on March 31, 2017.

The borrowings under the SSTL are secured by a first priority security interest in substantially all of the assets of Ocwen, OLS and the other guarantors thereunder, excluding among other things, 35% of the capital stock of foreign subsidiaries, securitization assets and equity interests of securitization entities, assets securing permitted funding indebtedness and non-recourse indebtedness, REO assets, servicing agreements where an acknowledgment from the GSE has not been obtained, as well as other customary carve-outs.

Borrowings bear interest, at the election of Ocwen, at a rate per annum equal to either (a) the base rate (the greatest of (i) the prime rate in effect on such day, (ii) the federal funds rate in effect on such day plus 0.50% and (iii) 1ML, plus a margin of 4.00% and subject to a base rate floor of 2.00% or (b) 1ML, plus a margin of 5.00% and subject to a 1ML floor of 1.00%. To date, we have elected option (b) to determine the interest rate.

(3) We primarily use this facility to fund the repurchase of 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. On September 28, 2018, we renewed this facility through September 27, 2019. In connection with the renewal, we increased the maximum borrowing amount from $137.5 million to $175.0 million, of which $100.0 million is available on a committed basis and the remainder is available at the discretion of the lender.

(4) Under these participation agreements, the lender provides financing for a combined total of $250.0 million at the discretion of the lender. The participation agreements allow the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing. The lender earns the stated interest rate of the underlying mortgage loans while the loans are financed under the participation agreement. On May 31, 2018, we renewed these facilities through April 30, 2019 ($175.0 million) and May 31, 2019 ($75.0 million).

(5) Under this participation agreement, the lender provides financing for $100.0 million at the discretion of the lender. The participation agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing. On August 15, 2018, we renewed these facilities through August 15, 2019.

(6) Under this agreement, the lender provides financing on a committed basis for up to $150.0 million. The agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing.

(7) Under this agreement, the lender provides financing for up to $50.0 million at the discretion of the lender.

Senior Notes	Interest Rate	Maturity	Outstanding Balance September 30, 2018	Outstanding Balance December 31, 2017
Senior unsecured notes (1)	6.625%	May 2019	$3,122	$ 3,122
Senior secured notes (2)	8.375%	Nov. 2022	346,878	346,878
			350,000	350,000
Unamortized debt issuance costs			(2,251)	(2,662)
			$347,749	$ 347,338

(1) Ocwen may redeem all or a part of the remaining Senior Unsecured Notes, upon not less than 30 nor more than 60 days' notice, at a redemption price (expressed as a percentage of principal amount) of 100.000% beginning May 15, 2018 plus accrued and unpaid interest and additional interest, if any.

(2) The Senior Secured Notes are guaranteed by Ocwen, OMS, Homeward Residential Holdings, Inc., Homeward and ACS (the Guarantors). The Senior Secured Notes are secured by second priority liens on the assets and properties of OLS and the Guarantors that secure the first priority obligations under the SSTL, excluding certain MSRs.

At any time, OLS may redeem all or a part of the Senior Secured Notes, upon not less than 30 nor more than 60 days' notice at a specified redemption price, plus accrued and unpaid interest to the date of redemption. Prior to November 15, 2018, the Senior Secured Notes may be redeemed at a redemption price equal to 100.0% of the principal amount of the Senior Secured Notes redeemed, plus the applicable make whole premium (as defined in the Indenture). On or after November 15, 2018, OLS may redeem all or a part of the Senior Secured Notes at the redemption prices (expressed as percentages of principal amount) specified in the Indenture. The redemption prices during the twelve-month periods beginning on November 15th of each year are as follows:

Year	Redemption Price
2018	106.281%
2019	104.188%
2020	102.094%
2021 and thereafter	100.000%

At any time, on or prior to November 15, 2018, OLS may, at its option, use the net cash proceeds of one or more equity offerings (as defined in the Indenture) to redeem up to 35.0% of the principal amount of all Senior Secured Notes issued at a redemption price equal to 108.375% of the principal amount of the Senior Secured Notes redeemed plus accrued and unpaid interest to the date of redemption, provided that: (i) at least 65.0% of the principal amount of all Senior Secured Notes issued under the Indenture (including any additional Senior Secured Notes) remains outstanding immediately after any such redemption; and (ii) OLS makes such redemption not more than 120 days after the consummation of any such equity offering.

Upon a change of control (as defined in the Indenture), OLS is required to make an offer to the holders of the Senior Secured Notes to repurchase all or a portion of each holder's Senior Secured Notes at a purchase price equal to 101.0% of the principal amount of the Senior Secured Notes purchased plus accrued and unpaid interest to the date of purchase.

Credit Ratings

Credit ratings are intended to be an indicator of the creditworthiness of a particular company, security or obligation. As of September 30, 2018, the S&P long-term corporate rating was "B-". On September 14, 2018, Moody's affirmed the long-term corporate rating of "Caa1" and revised the outlook to stable from negative. On July 25, 2018, Fitch affirmed the long-term issuer default rating of "B-" and withdrew all corporate ratings. It is possible that additional actions by credit rating agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Covenants

Under the terms of our debt agreements, we are subject to various qualitative and quantitative covenants. Collectively, these covenants include:

- Financial covenants;
- Covenants to operate in material compliance with applicable laws;
- Restrictions on our ability to engage in various activities, including but not limited to incurring additional debt, paying dividends or making distributions on or purchasing equity interests of Ocwen, repurchasing or redeeming capital stock or junior capital, repurchasing or redeeming subordinated debt prior to maturity, issuing preferred stock, selling or transferring assets or making loans or investments or acquisitions or other restricted payments, entering into mergers or consolidations or sales of all or substantially all of the assets of Ocwen and its subsidiaries, creating liens on assets to secure debt of OLS or any Guarantor and entering into transactions with affiliates;
- Monitoring and reporting of various specified transactions or events, including specific reporting on defined events affecting collateral underlying certain debt agreements; and
- Requirements to provide audited financial statements within specified timeframes, including requirements that Ocwen's financial statements and the related audit report be unqualified as to going concern.

Many of the restrictive covenants arising from the indenture for the Senior Secured Notes will be suspended if the Senior Secured Notes achieve an investment-grade rating from both Moody's and S&P and if no default or event of default has occurred and is continuing.

Financial covenants in certain of our debt agreements require that we maintain, among other things:

- a 40% loan to collateral value ratio, as defined under our SSTL, as of the last date of any fiscal quarter; and
- specified levels of tangible net worth and liquidity at the OLS level.

As of September 30, 2018, the most restrictive consolidated tangible net worth requirements contained in our debt agreements were for a minimum of $1.1 billion in consolidated tangible net worth, as defined, at OLS under our match funded debt and certain of our other debt agreements.

As a result of the covenants to which we are subject, we may be limited in the manner in which we conduct our business and may be limited in our ability to engage in favorable business activities or raise additional capital to finance future operations or satisfy future liquidity needs. In addition, breaches or events that may result in a default under our debt agreements include, among other things, nonpayment of principal or interest, noncompliance with our covenants, breach of representations, the occurrence of a material adverse change, insolvency, bankruptcy, certain material judgments and changes of control.

Covenants and default provisions of this type are commonly found in debt agreements such as ours. Certain of these covenants and default provisions are open to subjective interpretation and, if our interpretation was contested by a lender, a court may ultimately be required to determine compliance or lack thereof. In addition, our debt agreements generally include cross default provisions such that a default under one agreement could trigger defaults under other agreements. If we fail to comply with our debt agreements and are unable to avoid, remedy or secure a waiver of any resulting default, we may be subject to adverse action by our lenders, including termination of further funding, acceleration of outstanding obligations, enforcement of liens against the assets securing or otherwise supporting our obligations and other legal remedies. Our lenders can waive their contractual rights in the event of a default.

We believe that we are in compliance with all of the qualitative and quantitative covenants in our debt agreements as of the date of these financial statements.

Note 12 – Other Liabilities

	September 30, 2018	December 31, 2017
Contingent loan repurchase liability	$ 307,684	$ 431,492
Other accrued expenses	60,238	75,088
Accrued legal fees and settlements	53,380	51,057
Due to NRZ	46,550	98,493
Servicing-related obligations	30,958	35,239
Checks held for escheat	20,686	19,306
Liability for indemnification obligations	20,543	23,117
Accrued interest payable	15,069	5,172
Liability for mortgage insurance contingency	6,820	6,820
Deferred revenue	4,836	3,463
Liability for uncertain tax positions	3,306	3,252
Derivatives, at fair value	2,567	635
Amounts due in connection with MSR sales	403	8,291
Other	16,287	7,985
	$ 589,327	$ 769,410

We establish a liability for legal settlements, including fines and penalties, judgments on appeal and filed and/or threatened claims for which we believe it is probable that a loss has been or will be incurred and the amount can be reasonably estimated. See Note 20 – Contingencies for additional information.

Accrued Legal Fees and Settlements	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$54,295	$117,020	$51,057	$93,797
Accrual for probable losses (1)	995	2,500	10,777	80,815
Payments (2)	(460)	(55,188)	(8,103)	(120,441)
Issuance of common stock in settlement of litigation (3)	—	—	(5,719)	—
Net increase (decrease) in accrued legal fees	(1,450)	(4,389)	3,282	3,229
Other	—	—	2,086	2,543
Ending balance	$53,380	$59,943	$53,380	$59,943

(1) Consists of amounts accrued for probable losses in connection with legal and regulatory settlements and judgments. Such amounts are reported in Professional services expense in the unaudited consolidated statements of operations.

(2) Includes cash payments made in connection with resolved legal and regulatory matters.

(3) In January 2018, Ocwen issued 1,875,000 shares of common stock in connection with a previously approved securities litigation settlement.

Note 13 – Derivative Financial Instruments and Hedging Activities

The following table summarizes derivative activity, including the derivatives used in each of our identified hedging programs. The notional amount of our contracts does not represent our exposure to credit loss. None of the derivatives was designated as a hedge for accounting purposes at September 30, 2018:

	Interest Rate Risk		
	IRLCs and Loans Held for Sale		Borrowings
	IRLCs	Forward MBS Trades	Interest Rate Caps
Notional balance at December 31, 2017	$96,339	$240,823	$ 375,000
Additions	927,700	386,311	154,583
Amortization	—	—	(208,750)
Maturities	(746,615)	(407,759)	—
Terminations	(164,978)	—	—
Notional balance at September 30, 2018	$112,446	$219,375	$ 320,833
Maturity	Oct. 2018 - Nov. 2018	Dec. 2018	May 2019 - May 2020
Fair value of derivative assets (liabilities) (1) at:			
September 30, 2018	$2,816	$(1,873)	$ 1,211
December 31, 2017	3,283	(545)	2,056
Gains (losses) on derivatives during the nine months ended:	Gain on Loans Held for Sale, Net		Other, Net
September 30, 2018	$137	$2,082	$ (308)
September 30, 2017	(1,605)	(8,604)	(207)

(1)

Derivatives are reported at fair value in Other assets or in Other liabilities on our unaudited consolidated balance sheets.

As loans are originated and sold or as loan commitments expire, our forward MBS trade positions mature and are replaced by new positions based upon new loan originations and commitments and expected time to sell.

Foreign Currency Exchange Rate Risk

Our operations in India and the Philippines expose us to foreign currency exchange rate risk to the extent that our foreign exchange positions remain unhedged. We have not entered into any forward exchange contracts during the reported periods to hedge against the effect of changes in the value of the India Rupee or Philippine Peso. Foreign currency remeasurement exchange gains (losses) were $(2.0) million and $(4.7) million, and $(0.7) million and $0.7 million, during the three and nine months ended September 30, 2018 and 2017, respectively, and are reported in Other, net in the unaudited consolidated statements of operations. The losses in 2018 are primarily attributed to depreciation of the India Rupee against the U.S. Dollar.

Interest Rate Risk

Interest Rate Lock Commitments

A loan commitment binds us (subject to the loan approval process) to fund the loan at the specified rate, regardless of whether interest rates have changed between the commitment date and the loan funding date. As such, outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of the commitment through the loan funding date or expiration date. The borrower is not obligated to obtain the loan; thus, we are subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. Our interest rate exposure on these derivative loan commitments is hedged with freestanding derivatives such as forward contracts. We enter into forward contracts with respect to both fixed and variable rate loan commitments.

Loans Held for Sale, at Fair Value

Mortgage loans held for sale that we carry at fair value are subject to interest rate and price risk from the loan funding date until the date the loan is sold into the secondary market. Generally, the fair value of a loan will decline in value when interest rates increase and will rise in value when interest rates decrease. To mitigate this risk, we enter into forward MBS trades to provide an economic hedge against those changes in fair value on mortgage loans held for sale. 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.

Match Funded Liabilities

As required by certain of our advance financing arrangements, we have purchased interest rate caps to minimize future interest rate exposure from increases in the interest on our variable rate debt as a result of increases in the index, such as 1ML, which is used in determining the interest rate on the debt. We currently do not hedge our fixed rate debt.

Accumulated Other Comprehensive Loss (AOCL)

Included in AOCL at September 30, 2018 and 2017, were $1.1 million and $1.3 million of deferred unrealized losses, before taxes of $0.1 million and $0.1 million, respectively, on interest rate swaps that we had designated as cash flow hedges.

Note 14 – Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Financing liabilities				
NRZ	$36,717	$13,898	$111,256	$113,681
Other financing liabilities	1,305	1,419	3,849	4,898
	38,022	15,317	115,105	118,579
Match funded liabilities	7,229	11,981	24,491	37,499
Other secured borrowings	6,958	10,990	23,190	30,174
Senior notes	7,452	7,452	22,355	22,355
Other	1,627	1,541	4,460	3,864
	$61,288	$47,281	$189,601	$212,471

Note 15 - Income Taxes

Our effective tax rate for the nine months ended September 30, 2018 and 2017 was (7.1)% and 15.7%, respectively. For the nine months ended September 30, 2018 and 2017, we recorded income tax expense (benefit) of $4.5 million and $(15.5) million on loss before income taxes of $63.7 million and $98.7 million, respectively. The change in the effective tax rate for the nine months ended September 30, 2018, compared with the same period in 2017, was primarily due to the $22.7 million income tax benefit recognized in the third quarter of 2017 related to the reversal of an uncertain tax position liability upon expiration of the statute of limitations. The most significant potential benefit of the Tax Act, the reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018, did not have an impact on our effective tax rate as we are currently generating losses in the U.S. for which a tax benefit has not been recorded as we have recognized a full valuation allowance on our U.S. deferred tax assets. We recognized incremental income tax expense of $2.8 million for the Base Erosion and Anti-Abuse Tax (BEAT) provision of the Tax Act in the nine months ended September 30, 2018. This increase in income tax expense related to implementing provisions of the Tax Act that were effective January 1, 2018 was offset by a reduction in income tax expense as a result of our adoption of ASU 2016-16 on January 1, 2018, as the deferred tax effects of intra-entity transfers of assets recognized as prepaid income taxes are no longer amortized to income tax expense over the life of the asset. Income tax expense related to uncertain tax positions increased in the nine months ended September 30, 2018 as compared to the same period of 2017, due to the $22.7 million reversal recognized in the third quarter of 2017 as disclosed above.

The reduction in the statutory U.S. federal rate is expected to positively impact our future U.S. after-tax earnings. However, the ultimate impact is subject to the effect of other complex provisions in the Tax Act (including BEAT, Global Intangible Low-Taxed Income (GILTI) and revised interest deductibility limitations) which we are currently reviewing. It is possible that any impact of these provisions could significantly reduce the benefit of the reduction in the statutory U.S. federal rate. Due to the uncertain practical and technical application of many of these provisions in the Tax Act, at this time, we are unable to make a final determination of the precise impact on our future earnings, and our accounting for the Tax Act remains incomplete. Ocwen will continue to gather additional information and evaluate the impact within the measurement period allowed, which will be completed no later than the fourth quarter of calendar year 2018.

At December 31, 2017 we were able to reasonably estimate certain effects and, therefore, recorded provisional adjustments associated with the deemed repatriation transition tax and the reduction in the statutory U.S. federal tax rate. We have not recorded any additional measurement-period adjustments related to the transition tax or the reduction in the U.S. federal tax rate during the nine months ended September 30, 2018. We are continuing to gather additional information and expect to complete our accounting for the transition tax within the prescribed measurement period.

At September 30, 2018 we were not yet able to reasonably estimate the effects of certain elements of the Tax Act, such as BEAT, GILTI and revised interest deductibility limitations. Therefore, no provisional adjustments were recorded.

Because of the complexity of the new GILTI tax rules, we are continuing to evaluate this provision of the Tax Act and the application of ASC 740. Under U.S. GAAP, we are permitted to make an accounting policy election of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into a company’s measurement of its deferred taxes (the “deferred method”). Our selection of an accounting policy related to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on a number of different aspects of our estimated future results of global operations, and as a result, we are not yet able to reasonably estimate the long-term effects of this provision of the Tax Act. Therefore, we have not recorded any deferred tax effects related to GILTI in our financial statements and have not made a policy election regarding whether to record deferred taxes on GILTI or to apply the period cost method as of September 30, 2018. We have, however, included an estimate of the 2018 current GILTI impact in the calculation of our annualized effective tax rate for 2018. In addition, we have included an estimate of the 2018 current BEAT impact in the calculation of our annualized effective tax rate for 2018. We expect to complete our accounting within the prescribed measurement period.

Note 16 – Basic and Diluted Earnings (Loss) per Share

Basic earnings or loss per share excludes common stock equivalents and is calculated by dividing net income or loss attributable to Ocwen common stockholders by the weighted average number of common shares outstanding during the period. We calculate diluted earnings or loss per share by dividing net income or loss attributable to Ocwen by the weighted average number of common shares outstanding including the potential dilutive common shares related to outstanding stock options and restricted stock awards. For the three and nine months ended September 30, 2018 and 2017, we have excluded the effect of all stock options and common stock awards from the computation of diluted loss per share because of the anti-dilutive effect of our reported net loss.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic loss per share				
Net loss attributable to Ocwen stockholders	$(41,147)	$ (6,252)	$(68,430)	$ (83,483)
Weighted average shares of common stock	133,912,425	128,744,152	133,632,905	125,797,777
Basic loss per share	$(0.31)	$ (0.05)	$(0.51)	$ (0.66)
Diluted loss per share				
Net loss attributable to Ocwen stockholders	$(41,147)	$ (6,252)	$(68,430)	$ (83,483)
Weighted average shares of common stock	133,912,425	128,744,152	133,632,905	125,797,777
Effect of dilutive elements				
Stock option awards	—	—	—	—
Common stock awards	—	—	—	—
Dilutive weighted average shares of common stock	133,912,425	128,744,152	133,632,905	125,797,777
Diluted loss per share	$(0.31)	$ (0.05)	$(0.51)	$ (0.66)
Stock options and common stock awards excluded from the computation of diluted earnings per share				
Anti-dilutive (1)	4,057,937	6,600,164	5,684,663	5,121,844
Market-based (2)	645,984	862,446	645,984	862,446

(1) Stock options were anti-dilutive because their exercise price was greater than the average market price of Ocwen's stock.

(2) Shares that are issuable upon the achievement of certain market-based performance criteria related to Ocwen's stock price.

Note 17 – Business Segment Reporting

Our business segments reflect the internal reporting that we use to evaluate operating performance of services and to assess the allocation of our resources. A brief description of our current business segments is as follows:

Servicing. This segment is primarily comprised of our core residential servicing business. We provide residential and commercial mortgage loan servicing, special servicing and asset management services. We earn fees for providing these services to owners of the mortgage loans and foreclosed real estate. In most cases, we provide these services either because we purchased the MSRs from the owner of the mortgage, retained the MSRs on the sale of residential mortgage loans or because we entered into a subservicing or special servicing agreement with the entity that owns the MSR. Our residential servicing portfolio includes conventional, government-insured and non-Agency loans. Non-Agency loans include subprime loans, which represent residential loans that generally did not qualify under GSE guidelines or have subsequently become delinquent.

Lending. The Lending segment originates conventional and government-insured residential forward and reverse mortgage loans. The loans are typically sold shortly after origination into a liquid market on a servicing retained (securitization) or servicing released (sale to a third party) basis. We originate loans directly with customers (retail channel) in forward lending as well as through our correspondent lending arrangements, broker relationships (wholesale) and retail channels of reverse mortgage lending. In 2017, we closed our forward correspondent lending channel and exited the forward wholesale lending business due to higher liquidity and capital requirements which in turn resulted in these channels being less profitable.

Corporate Items and Other. Corporate Items and Other includes revenues and expenses of CR Limited (CRL), our wholly-owned captive reinsurance subsidiary, and our other business activities that are individually insignificant, revenues and expenses that are not directly related to other reportable segments, interest income on short-term investments of cash, interest expense on corporate debt and certain corporate expenses. Our cash balances are included in Corporate Items and Other. CRL provides re-insurance related to coverage on foreclosed real estate properties owned or serviced by us. In January 2018, we decided to exit the ACS business and have liquidated the majority of our portfolio of inventory-secured loans to independent used car dealers.

We allocate a portion of interest income to each business segment, including interest earned on cash balances and short-term investments. We also allocate expenses incurred by corporate support services to each business segment. Financial information for our segments is as follows:

	Three Months Ended September 30, 2018				
Results of Operations	Servicing	Lending	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
Revenue	$217,630	$16,917	$3,731	$ —	$ 238,278
Expenses (1)	185,077	18,954	13,495	—	217,526
Other income (expense):					
Interest income	2,242	1,255	466	—	3,963
Interest expense	(47,359)	(1,437)	(12,492)	—	(61,288)
Gain on sale of mortgage servicing rights, net	(733)	—	—	—	(733)
Other	(602)	154	(2,519)	—	(2,967)
Other expense, net	(46,452)	(28)	(14,545)	—	(61,025)
Loss before income taxes	$(13,899)	$(2,065)	$(24,309)	$ —	$ (40,273)

	Three Months Ended September 30, 2017				
Results of Operations	Servicing	Lending	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
Revenue	$246,545	$31,935	$6,162	$ —	$ 284,642
Expenses	218,565	38,412	16,502	—	273,479
Other income (expense):					
Interest income	144	2,857	1,098	—	4,099
Interest expense	(28,568)	(4,504)	(14,209)	—	(47,281)
Gain on sale of mortgage servicing rights, net	6,543	—	—	—	6,543
Other	(418)	555	(1,214)	—	(1,077)
Other expense, net	(22,299)	(1,092)	(14,325)	—	(37,716)
Income (loss) before income taxes	$5,681	$(7,569)	$(24,665)	$ —	$ (26,553)

	Nine months ended September 30, 2018				
Revenue	$674,233	$65,116	$12,767	$—	$752,116
Expenses (1)	523,061	57,036	49,580	—	629,677
Other income (expense):					
Interest income	4,136	4,107	1,775	—	10,018
Interest expense	(144,551)	(4,855)	(40,195)	—	(189,601)
Gain on sale of mortgage servicing rights, net	303	—	—	—	303
Other	(2,392)	774	(5,254)	—	(6,872)
Other income (expense), net	(142,504)	26	(43,674)	—	(186,152)
Income (loss) before income taxes	$8,668	$8,106	$(80,487)	$—	$(63,713)
	Nine months ended September 30, 2017				
Revenue	$802,347	$95,457	$20,002	$—	$917,806
Expenses	637,406	100,628	92,308	—	830,342
Other income (expense):					
Interest income	406	8,612	3,083	—	12,101
Interest expense	(159,822)	(11,171)	(41,478)	—	(212,471)
Gain on sale of mortgage servicing rights, net	7,863	—	—	—	7,863
Other	4,642	658	1,084	—	6,384
Other expense, net	(146,911)	(1,901)	(37,311)	—	(186,123)
Income (loss) before income taxes	$18,030	$(7,072)	$(109,617)	$—	$(98,659)

Total Assets	Servicing	Lending	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
September 30, 2018	$2,726,905	$5,385,437	$348,695	$ —	$ 8,461,037
December 31, 2017	$3,033,243	$4,945,456	$424,465	$ —	$ 8,403,164
September 30, 2017	$2,905,817	$4,679,641	$512,147	$ —	$ 8,097,605

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Depreciation and Amortization Expense	Servicing	Lending	Corporate Items and Other	Business Segments Consolidated
Three months ended September 30, 2018				
Depreciation expense	$ 1,035	$ 23	$ 4,500	$ 5,558
Amortization of debt discount	—	—	235	235
Amortization of debt issuance costs	—	—	599	599
Three months ended September 30, 2017				
Depreciation expense	$ 1,525	$ 57	$ 5,408	$ 6,990
Amortization of mortgage servicing rights	13,081	67	—	13,148
Amortization of debt discount	—	—	258	258
Amortization of debt issuance costs	—	—	644	644
Nine months ended September 30, 2018				
Depreciation expense	$ 3,647	$ 77	$ 14,475	$ 18,199
Amortization of debt discount	—	—	941	941
Amortization of debt issuance costs	—	—	2,261	2,261
Nine months ended September 30, 2017				
Depreciation expense	$ 4,393	$ 162	$ 15,875	$ 20,430
Amortization of mortgage servicing rights	38,351	209	—	38,560
Amortization of debt discount	—	—	797	797
Amortization of debt issuance costs	—	—	1,979	1,979

(1) Expenses in the Corporate Items and Other segment for the nine months ended September 30, 2018 includes $7.5 million of severance expense attributable to headcount reductions in connection with our strategic initiatives to exit the ACS business and the forward lending correspondent and wholesale channels, as well as our overall efforts to reduce costs.

Note 18 – Regulatory Requirements

Our business is subject to extensive regulation by federal, state and local governmental authorities, including the Consumer Financial Protection Bureau (CFPB), HUD, the SEC and various state agencies that license and conduct examinations of our servicing and lending activities. In addition, we operate under a number of regulatory settlements that subject us to ongoing reporting and other obligations. From time to time, we also receive requests (including requests in the form of subpoenas and civil investigative demands) from federal, state and local agencies for records, documents and information relating to our servicing and lending activities. The GSEs (and their conservator, the Federal Housing Finance Authority (FHFA)), Ginnie Mae, the United States Treasury Department, various investors, non-Agency securitization trustees and others also subject us to periodic reviews and audits.

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. We continue to work diligently to assess and understand the implications of the evolving regulatory environment in which we operate and to meet its requirements. We devote substantial resources to regulatory compliance, while, at the same time, striving to meet the needs and expectations of our customers, clients and other stakeholders. Our failure to comply with applicable federal, state and local laws, regulations and licensing requirements could lead to (i) administrative fines and penalties and litigation, (ii) loss of our licenses and approvals to engage in our servicing and lending businesses, (iii) governmental investigations and enforcement actions, (iv) civil and criminal liability, including class action lawsuits and actions to recover incentive and other payments made by governmental entities, (v) breaches of covenants and representations under our servicing, debt or other agreements, (vi) damage to our reputation, (vii) inability to raise capital or otherwise fund our operations and (viii) inability to execute on our business strategy. In addition to amounts paid to resolve regulatory matters, we could incur costs to comply with the terms of such resolutions, including, but not limited to, the costs of audits, reviews and third-party firms to monitor our compliance with such resolutions.

We must comply with a large number of federal, state and local consumer protection and other laws and regulations, including, among others, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the

Telephone Consumer Protection Act, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, the Real Estate Settlement Procedures Act (RESPA), the Truth in Lending Act (TILA), the Servicemembers Civil Relief Act, the Homeowners Protection Act, the Federal Trade Commission Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, as well as individual state licensing and foreclosure laws, individual state and local laws relating to registration of vacant or foreclosed properties, and federal and local bankruptcy rules. These laws and regulations apply to many facets of our business, including loan origination, default servicing and collections, use of credit reports, safeguarding of non-public personally identifiable information about our customers, foreclosure and claims handling, investment of, and interest payments on, escrow balances and escrow payment features and fees assessed on borrowers, and they mandate certain disclosures and notices to borrowers. These requirements can and do change as laws and regulations are enacted, promulgated, amended, interpreted and enforced, including through CFPB interpretive bulletins and other regulatory pronouncements. In addition, the actions of legislative bodies and regulatory agencies relating to a particular matter or business practice may or may not be coordinated or consistent. As a result, ensuring ongoing compliance with applicable legal and regulatory requirements can be challenging. Over the past decade, the general trend among federal, state and local legislative bodies and regulatory agencies as well as state attorneys general has been toward increasing laws, regulations, investigative proceedings and enforcement actions with regard to residential real estate lenders and servicers. New regulatory and legislative measures, or changes in enforcement practices, including those related to the technology we use, could, either individually or in the aggregate, require significant changes to our business practices, impose additional costs on us, limit our product offerings, limit our ability to efficiently pursue business opportunities, negatively impact asset values or reduce our revenues. Accordingly, they could materially and adversely affect our business and our financial condition, liquidity and results of operations.

As further described below and in Note 20 – Contingencies, in recent years Ocwen has entered into a number of significant settlements with federal and state regulators and state attorneys general that have imposed additional requirements on our business. For example, we have made various commitments relating to the process of moving loans off the REALServicing® servicing system and onto the Black Knight MSP servicing system, we have engaged a third-party auditor to perform an analysis with respect to our compliance with certain federal and state laws relating to the escrow of mortgage loan payments, we have revised various aspects of our complaint handling processes and we have extensive review and reporting obligations to various regulatory bodies with respect to various matters, including our financial condition. We devote significant management time and resources to compliance with these additional requirements. These requirements are generally unique to Ocwen and, while certain of our competitors may have entered into regulatory-related settlements of their own, our competitors are generally not subject to either the same specific or the same breadth of additional requirements to which we are subject.

Ocwen has various subsidiaries that are licensed to originate and/or service forward and reverse mortgage loans in those jurisdictions in which they operate and which require licensing. Our licensed entities are required to renew their licenses, typically on an annual basis, and to do so they must satisfy the license renewal requirements of each jurisdiction, which generally include financial requirements such as providing audited financial statements and satisfying minimum net worth requirements and non-financial requirements such as satisfactory completion of examinations relating to the licensee’s compliance with applicable laws and regulations. Failure to satisfy any of the requirements to which our licensed entities are subject could result in a variety of regulatory actions ranging from a fine, a directive requiring a certain step to be taken, entry into a consent order, a suspension or, ultimately, a revocation of a license, any of which could have a material adverse impact on our business, reputation, results of operations and financial condition. The minimum net worth requirements to which our licensed entities are subject are unique to each state and type of license. We believe our licensed entities were in compliance with all of their minimum net worth requirements at September 30, 2018.

OLS, Homeward and Liberty are also subject to seller/servicer obligations under agreements with one or more of the GSEs, HUD, FHA, VA and Ginnie Mae. These seller/servicer obligations contain financial requirements, including capital requirements related to tangible net worth, as defined by the applicable agency, an obligation to provide audited consolidated financial statements within 90 days of the applicable entity’s fiscal year end as well as extensive requirements regarding servicing, selling and other matters. To the extent that these requirements are not met or waived, the applicable agency may, at its option, utilize a variety of remedies including requirements to provide certain information or take actions at the direction of the applicable agency, requirements to deposit funds as security for our obligations, sanctions, suspension or even termination of approved seller/servicer status, which would prohibit future originations or securitizations of forward or reverse mortgage loans or servicing for the applicable agency. Any of these actions could have a material adverse impact on us. To date, none of these counterparties has communicated any material sanction, suspension or prohibition in connection with our seller/servicer obligations. See Note 20 – Contingencies for additional information relating to our recent interactions with Ginnie Mae as a result of the state regulatory actions discussed in that note. We believe we were in compliance with applicable net worth requirements at September 30, 2018. Our non-Agency servicing agreements also contain requirements regarding servicing practices and other matters, and a failure to comply with these requirements could have a material adverse impact on our business.

The most restrictive of the various net worth requirements referenced above is based on the total assets of OLS, and the required net worth was $174.5 million at September 30, 2018.

In addition, a number of foreign laws and regulations apply to our operations outside of the U.S., including laws and regulations that govern licensing, employment, safety, taxes and insurance and laws and regulations that govern the creation, continuation and the winding up of companies as well as the relationships between shareholders, our corporate entities, the public and the government in these countries. Non-compliance with these laws and regulations could result in adverse actions against us, including (i) restrictions on our operations in these countries, (ii) fines, penalties or sanctions or (iii) reputational damage.

New York Department of Financial Services. In December 2014, we entered into a consent order (the 2014 NY Consent Order) with the NY DFS as a result of an investigation relating to Ocwen's servicing of residential mortgages. In March 2017, we entered into another consent order with the NY DFS (the 2017 NY Consent Order) that provided for the termination of the engagement of the monitor appointed pursuant to the 2014 NY Consent Order and for us to comply with certain reporting and other obligations.

The 2017 NY Consent Order requires us to update the NY DFS quarterly on our implementation of certain operational enhancements that we and the NY DFS agreed should be made. We made what we believe to be our final required report to the NY DFS in December 2017. Our updates to date show that all agreed upon enhancements are being implemented. Pursuant to the 2017 NY Consent Order, the NY DFS has the right to examine Ocwen to assess our implementation of such enhancements and the general safety and soundness of our servicing operations. As a result of such examination, if the NY DFS concludes that we have materially failed to implement such enhancements or otherwise finds that our servicing operations are materially deficient, the NY DFS may require Ocwen to hire an independent consultant to review and issue additional recommendations on our servicing operations. The 2017 NY Consent Order grants the NY DFS the additional right to conduct an on-site examination of Ocwen's servicing practices in order to determine whether to approve Ocwen's request to ease the restrictions on its ability to acquire new MSRs. To the extent that the NY DFS servicing examination results in adverse findings against Ocwen, the 2017 NY Consent Order provides that the NY DFS could determine not to ease restrictions on our acquiring MSRs or to take other regulatory actions against us, including imposing fines or penalties or otherwise restricting our business activities. Any such actions could have a material adverse impact on our business, financial condition liquidity and results of operations. However, as set forth below, the NY DFS has since modified its restriction on Ocwen's ability to acquire MSRs in connection with its conditional approval of Ocwen's acquisition of PHH.

The approval of the NY DFS for the acquisition imposed certain post-closing requirements on Ocwen, including reporting obligations and record retention and other requirements relating to the planned transfer of loans collateralized by New York property (New York loans) onto the Black Knight MSP and certain requirements with respect to the evaluation and supervision of management of both Ocwen Financial Corporation and PHH Mortgage Corporation. In addition, the conditions under which the NY DFS approved the acquisition prohibit Ocwen from boarding any additional loans to the REALServicing ® platform and require that all New York loans be transferred from the REALServicing ® platform by April 30, 2020. With respect to the pre-existing restriction on our ability to acquire MSRs, the conditional approval modifies this restriction to apply only to New York loans and, with respect to New York loans, provides that Ocwen may not increase its aggregate portfolio of New York loans serviced or subserviced by Ocwen by more than 2% per year (based on the unpaid principal balance of loans serviced at the prior calendar year-end). This restriction will remain in place until the NY DFS determines that all loans serviced on the REALServicing ® platform have been successfully migrated to the Black Knight MSP and that Ocwen has developed a satisfactory infrastructure to board sizable portfolios of MSRs.

California Department of Business Oversight. In January 2015, OLS entered into a consent order (the 2015 CA Consent Order) with the CA DBO relating to our alleged failure to produce certain information and documents during a routine licensing examination. In February 2017, we entered into another consent order with the CA DBO (the 2017 CA Consent Order) that terminated the 2015 CA Consent Order and resolved open matters between us and the CA DBO. We believe that we have completed those obligations of the 2017 CA Consent Order that have already come due, and we have so notified the CA DBO. We have certain remaining reporting and other obligations under the 2017 CA Consent Order. Pursuant to the 2017 CA Consent Order, the CA DBO has engaged a third-party administrator who, at the expense of the CA DBO, has commenced work to confirm that Ocwen has completed certain commitments under the 2017 CA Consent Order. If the CA DBO were to allege that we failed to comply with these or other obligations under the 2017 CA Consent Order or that we otherwise were in breach of applicable laws, regulations or licensing requirements, the CA DBO could take regulatory actions against us, including imposing fines or penalties or otherwise restricting our business activities. Any such actions could have a material adverse impact on our business, financial condition liquidity and results of operations.

Separately, in June 2018, we entered into a consent order with the CA DBO in order to resolve a finding stemming from a lending examination of Homeward. Pursuant to the consent order, we consented to a finding that certain records maintained by Homeward were not in compliance with certain California statutory requirements. Homeward cooperated in the examination, timely produced requested documents and records, and confirmed that no borrowers were overcharged as a result. No fines or penalties were payable under the consent order.

Note 19 — Commitments

Unfunded Lending Commitments

We have originated floating-rate reverse mortgage loans under which the borrowers have additional borrowing capacity of $1.5 billion at September 30, 2018. This additional borrowing capacity is available on a scheduled or unscheduled payment basis. We also had short-term commitments to lend $91.1 million and $21.3 million in connection with our forward and reverse mortgage loan IRLCs, respectively, outstanding at September 30, 2018. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, commonly referred to as warehouse lines.

Long Term Contracts

Our business is currently dependent on many of the services and products provided by a subsidiary of Altisource Portfolio Solutions, S.A. (Altisource) under long-term agreements, many of which include renewal provisions.

Each of Ocwen and OMS are parties to a Services Agreement, a Technology Products Services Agreement, an Intellectual Property Agreement and a Data Center and Disaster Recovery Services Agreement with Altisource. Under the Services Agreements, Altisource provides various business process outsourcing services, such as valuation services and property preservation and inspection services, among other things. Altisource provides certain technology products and support services under the Technology Products Services Agreements and the Data Center and Disaster Recovery Services Agreements. These agreements expire August 31, 2025. Ocwen and Altisource have also entered into a Master Services Agreement pursuant to which Altisource currently provides title services to Liberty. Ocwen also has a General Referral Fee Agreement with Altisource pursuant to which Ocwen receives referral fees which are paid out of the commission that would otherwise be paid to Altisource as the selling broker in connection with real estate sales services provided by Altisource. However, for MSRs that transferred to NRZ in September 2017, as well as those subject to the New RMSR Agreements we entered into in January 2018, we are not entitled to REO referral commissions.

Our servicing system runs on an information technology system that we license from Altisource pursuant to a statement of work under the Technology Products Services Agreements. If Altisource were to fail to fulfill its contractual obligations to us, including through a failure to provide services at the required level to maintain and support our systems, or if Altisource were to become unable to fulfill such obligations, our business and operations would suffer. In addition, if Altisource fails to develop and maintain its technology so as to provide us with a competitive platform, our business could suffer. We are currently in the process of transitioning to a new servicing system and have entered into agreements with certain subsidiaries of Black Knight, pursuant to which we plan to transition to the Black Knight MSP. We originally anticipated an 18 to 24-month timeline to complete our transition onto the new servicing system; however, the PHH merger will likely accelerate that timeline because PHH utilizes the Black Knight MSP as its servicing system. Based on substantive discussions with Altisource prior to entering into our agreements with Black Knight, Ocwen expects to enter into mutually acceptable agreements that provide for Ocwen’s transition to the Black Knight MSP and the termination of the statement of work for the use of the REALServicing ® system. Our discussions with Altisource regarding finalizing such agreements are ongoing.

Certain services provided by Altisource under these agreements are charged to the borrower and/or mortgage loan investor. Accordingly, such services, while derived from our loan servicing portfolio, are not reported as expenses by Ocwen. These services include residential property valuation, residential property preservation and inspection services, title services and real estate sales-related services. Similar to other vendors, in the event that Altisource’s activities do not comply with the applicable servicing criteria, we could be exposed to liability as the servicer and it could negatively impact our relationships with our servicing clients, borrowers or regulators, among others. Under certain circumstances, we would have recourse under our contractual agreements with Altisource if we were to experience adverse consequences as a result of Altisource’s non-compliance with applicable servicing criteria.

Note 20 – Contingencies

When we become aware of a matter involving uncertainty for which we may incur a loss, we assess the likelihood of any loss. If a loss contingency is probable and the amount of the loss can be reasonably estimated, we record an accrual for the loss. In such cases, there may be an exposure to potential loss in excess of the amount accrued. Where a loss is not probable but is reasonably possible or where a loss in excess of the amount accrued is reasonably possible, we disclose an estimate of the amount of the loss or range of possible losses for the claim if a reasonable estimate can be made, unless the amount of such reasonably possible loss is not material to our financial position, results of operations or cash flows. If a reasonable estimate of loss cannot be made, we do not accrue for any loss or disclose any estimate of exposure to potential loss even if the potential loss could be material and adverse to our business, reputation, financial condition and results of operations. An assessment regarding the ultimate outcome of any such matter involves judgments about future events, actions and circumstances that are inherently uncertain. The actual outcome could differ materially. Where we have retained external legal counsel or other professional advisers, such advisers assist us in making such assessments.

Litigation

In the ordinary course of business, we are a defendant in, or a party or potential party to, many threatened and pending legal proceedings, including proceedings brought by regulatory agencies (discussed further under "Regulatory" below), those brought on behalf of various classes of claimants, and those brought derivatively on behalf of Ocwen against certain current or former officers and directors or others.

The majority of these proceedings are based on alleged violations of federal, state and local laws and regulations governing our mortgage servicing and lending activities, including, among others, the Dodd-Frank Act, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act (FDCPA), the Real Estate Settlement Procedures Act, the Truth in Lending Act, the Fair Credit Reporting Act, the Servicemembers Civil Relief Act, the Homeowners Protection Act, the Federal Trade Commission Act, the Telephone Consumer Protection Act (TCPA), the Equal Credit Opportunity Act, as well as individual state licensing and foreclosure laws and federal and local bankruptcy rules. Such proceedings include wrongful foreclosure and eviction actions, allegations of wrongdoing in connection with lender-placed insurance arrangements, claims relating to our property preservation activities, claims related to REO management, claims relating to our written and telephonic communications with our borrowers such as claims under the TCPA, claims related to our payment, escrow and other processing operations, claims relating to fees imposed on borrowers relating to payment processing, payment facilitation, or payment convenience, claims related to ancillary products marketed and sold to borrowers, and claims regarding certifications of our legal compliance related to our participation in certain government programs. In some of these proceedings, claims for substantial monetary damages are asserted against us. For example, we are a defendant in various class action matters alleging that (1) certain fees we assess on borrowers are marked up improperly in violation of applicable state and federal law; and (2) the solicitation and marketing to borrowers of certain ancillary products was unfair and deceptive.

In view of the inherent difficulty of predicting the outcome of any threatened or pending legal proceedings, particularly where the claimants seek very large or indeterminate damages or where the matters present novel legal theories or involve a large number of parties, we generally cannot predict what the eventual outcome of such proceedings will be, what the timing of the ultimate resolution will be, or what the eventual loss, if any, will be. Any material adverse resolution could materially and adversely affect our business, reputation, financial condition and results of operations.

Where we determine that a loss contingency is probable in connection with a pending or threatened legal proceeding and the amount of our loss can be reasonably estimated, we record an accrual for the loss. We have accrued for losses relating to threatened and pending litigation that we believe are probable and reasonably estimable based on current information regarding these matters. Where we determine that a loss is not probable but is reasonably possible or where a loss in excess of the amount accrued is reasonably possible, we disclose an estimate of the amount of the loss or range of possible losses for the claim if a reasonable estimate can be made, unless the amount of such reasonably possible loss is not material to our financial position, results of operations or cash flows. It is possible that we will incur losses relating to threatened and pending litigation that materially exceed the amount accrued. Our accrual for probable and estimable legal and regulatory matters, including accrued legal fees, was $53.4 million at September 30, 2018. We cannot currently estimate the amount, if any, of reasonably possible losses above amounts that have been recorded at September 30, 2018.

In 2014, plaintiffs filed a putative class action against Ocwen in the United States District Court for the Northern District of Alabama, alleging that Ocwen violated the FDCPA by charging borrowers a convenience fee for making certain loan payments. See McWhorter et al. v. Ocwen Loan Servicing, LLC, 2:15-cv-01831 (N.D. Ala.). The plaintiffs are seeking statutory damages under the FDCPA, compensatory damages and injunctive relief. The presiding court previously ruled on Ocwen's motions to dismiss, and Ocwen answered the operative complaint. Ocwen subsequently entered into an agreement in principle to resolve this matter, and the presiding court is considering motions to approve the settlement. While Ocwen believes that it has sound legal and factual defenses, Ocwen has agreed to this settlement in principle in order to avoid the uncertain outcome of litigation and the additional expense and demands on the time of its senior management that such litigation would involve. There can be no assurance that the court will finally approve the settlement. In the event the settlement is not finally approved, the litigation would continue, and we would vigorously defend the allegations made against Ocwen. Our accrual with respect to this matter is included in the $53.4 million legal and regulatory accrual referenced above. We cannot currently estimate the amount, if any, of reasonably possible loss above the amount accrued.

Ocwen has been named in putative class actions and individual actions related to its compliance with the TCPA. Generally, plaintiffs in these actions allege that Ocwen knowingly and willfully violated the TCPA by using an automated telephone dialing system to call class members' cell phones without their consent. On July 28, 2017, Ocwen entered into an agreement in principle to resolve two such putative class actions, which have been consolidated in the United States District Court for the Northern District of Illinois. See Snyder v. Ocwen Loan Servicing, LLC, 1:14-cv-08461-MFK (N.D. Ill.); Beecroft v. Ocwen Loan Servicing, LLC, 1:16-cv-08677-MFK (N.D. Ill.). Subject to final approval by the court, the settlement will include the establishment of a settlement fund to be distributed to impacted borrowers that submit claims for settlement benefits pursuant to a claims administration process.

While Ocwen believes that it has sound legal and factual defenses, Ocwen agreed to this settlement in principle in order to avoid the uncertain outcome of litigation and the additional expense and demands on the time of its senior management that such litigation would involve. In October 2017, the court preliminarily approved the settlement and, thereafter, we paid the settlement amount into an escrow account held by the settlement administrator. However, on September 28, 2018, the Court denied the motion for final approval. On October 9, 2018, the parties advised the Court of their intention to further mediate the dispute, in an effort to address certain issues raised by the Court. There can be no assurance that the Court will finally approve the settlement or any revisions to it to which the parties may agree. In the event the settlement or any agreed upon revisions are not finally approved, the litigation would continue, and we would vigorously defend the allegations made against Ocwen. Additional lawsuits may be filed against us in relation to these matters. At this time, Ocwen is unable to predict the outcome of these existing lawsuits or any additional lawsuits that may be filed, the possible loss or range of loss, if any, associated with the resolution of such lawsuits or the potential impact such lawsuits may have on us or our operations. Ocwen intends to vigorously defend against these lawsuits. If our efforts to defend these lawsuits are not successful, our business, financial condition liquidity and results of operations could be materially and adversely affected.
We have previously disclosed the settlement of the consolidated securities fraud class action lawsuit that contained allegations in connection with the restatements of our 2013 and first quarter 2014 financial statements, among other matters, in the United States District Court for the Southern District of Florida captioned In re Ocwen Financial Corporation Securities Litigation, 9:14-cv-81057-WPD (S.D. Fla.) (such consolidated lawsuit, the Securities Class Action). In March 2018 and April 2018, respectively, Ocwen was named as a defendant in two separate “opt-out” securities fraud actions brought on behalf of certain putative shareholders of Ocwen based on similar allegations to those contained in the Securities Class Action. See Brahman Partners et al. v. Ocwen Financial Corporation et al., 9:18-cv-80359-DMM (S.D. Fla.) and Owl Creek et al. v. Ocwen Financial Corporation et al., 9:18-cv-80506-BB (S.D. Fla.). Our accrual with respect to these matters is included in the $53.4 million legal and regulatory accrual referenced above. We cannot currently estimate the amount, if any, of reasonably possible loss above the amount accrued. Ocwen and the other defendants intend to vigorously defend against these lawsuits. If our efforts to defend these lawsuits are not successful, our business, financial condition, liquidity and results of operations could be materially and adversely affected.
We have previously disclosed that as a result of the April 2017 federal and state regulatory actions described below under “Regulatory”, and the impact on our stock price, several putative securities fraud class action lawsuits were filed against Ocwen and certain of its officers that contain allegations in connection with Ocwen’s statements concerning its efforts to satisfy the evolving regulatory environment, and the resources it devoted to regulatory compliance, among other matters. Those lawsuits were consolidated in the United States District Court for the Southern District of Florida in the matter captioned Carvelli v. Ocwen Financial Corporation et al., 9:14-cv-9:17-cv-80500-RLR (S.D. Fla.). On April 27, 2018, the court in Carvelli granted our motion to dismiss, and dismissed the consolidated case with prejudice. Plaintiffs thereafter filed a notice of appeal, and that appeal remains pending. Ocwen and the other defendants intend to defend themselves vigorously. Additional lawsuits may be filed against us in relation to these matters. At this time, Ocwen is unable to predict the outcome of this existing lawsuit or any additional lawsuits that may be filed, the possible loss or range of loss, if any, associated with the resolution of such lawsuits or the potential impact such lawsuits may have on us or our operations. If additional lawsuits are filed, Ocwen intends to vigorously defend itself against such lawsuits. If our efforts to defend the existing lawsuit or any future lawsuit are not successful, our business, financial condition, liquidity and results of operations could be materially and adversely affected.
In several recent court actions, mortgage loan sellers against whom repurchase claims have been asserted based on alleged breaches of representations and warranties are defending on various grounds including the expiration of statutes of limitation, lack of notice and opportunity to cure, and vitiation of the obligation to repurchase as a result of foreclosure or charge-off of the loan. We have entered into tolling agreements with respect to our role as servicer for a small number of securitizations relating to our performance under the servicing agreements for those securitizations and may enter into additional tolling agreements in the future. Other court actions have been filed against certain RMBS trustees alleging that the trustees breached their contractual and statutory duties by, among other things, failing to require the loan servicers to abide by the servicers’ obligations and failing to declare that certain alleged servicing

events of default under the applicable contracts occurred.

Ocwen is a party in certain of these actions, is the servicer for certain securitizations involved in other such actions and is the servicer for other securitizations as to which actions have been threatened by certificate holders. We intend to vigorously defend ourselves in the lawsuits to which we have been named a party. Should Ocwen be made a party to other similar actions or should Ocwen be asked to indemnify any parties to such actions, we may need to defend ourselves against allegations that we failed to service loans in accordance with applicable agreements and that such failures prejudiced the rights of repurchase claimants against loan sellers or otherwise diminished the value of the trust collateral. At this time, we are unable to predict the ultimate outcome of these lawsuits, the possible loss or range of loss, if any, associated with the resolution of these lawsuits or any potential impact they may have on us or our operations. If, however, we were required to compensate claimants for losses related to the alleged loan servicing breaches, then our business, liquidity, financial condition and results of operations could be adversely affected.

In addition, a number of RMBS trustees have received notices of default alleging material failures by servicers to comply with applicable servicing agreements. Although Ocwen has not yet been sued by an RMBS trustee in response to a notice of default, there is a risk that Ocwen could be replaced as servicer as a result of said notices, that the trustees could take legal action on behalf of the trust certificateholders, or, under certain circumstances, that the RMBS investors who issue notices of default could seek to press their allegations against Ocwen, independent of the trustees. Previously, one such group of affiliated RMBS investors sought to direct one trustee to bring suit against Ocwen. The trustee declined to bring suit, and the RMBS investors instead brought suit against Ocwen directly. The court dismissed the RMBS investors' suit without prejudice on October 4, 2017, and the RMBS investors subsequently filed an amended complaint. On January 23, 2018, the court dismissed the RMBS investors' amended suit with prejudice. The RMBS investors thereafter appealed the district court's dismissal, and that appeal remains pending. Ocwen is vigorously defending itself. We are unable at this time to predict what, if any, actions any trustee will take in response to a notice of default, nor can we predict at this time the potential loss or range of loss, if any, associated with the resolution of any notices of default or the potential impact on our operations. If Ocwen were to be terminated as servicer, or other related legal actions were pursued against Ocwen, it could have an adverse effect on Ocwen's business, financing activities, financial condition and results of operations.

Regulatory

We are subject to a number of ongoing federal and state regulatory examinations, cease and desist orders, consent orders, inquiries, subpoenas, civil investigative demands, requests for information and other actions. Where we determine that a loss contingency is probable in connection with a regulatory matter and the amount of our loss can be reasonably estimated, we record an accrual for the loss. Where we determine that a loss is not probable but is reasonably possible or where a loss in excess of the amount accrued is reasonably possible, we disclose an estimate of the amount of the loss or range of possible losses for the claim if a reasonable estimate can be made, unless the amount of such reasonably possible loss is not material to our financial position, results of operations or cash flows. It is possible that we will incur losses relating to regulatory matters that materially exceed any accrued amount. Predicting the outcome of any regulatory matter is inherently difficult and we generally cannot predict the eventual outcome of any regulatory matter or the eventual loss, if any, associated with the outcome.

To the extent that an examination, audit or other regulatory engagement results in an alleged failure by us to comply with applicable laws, regulations or licensing requirements, or if allegations are made that we have failed to comply with applicable laws, regulations or licensing requirements or the commitments we have made in connection with our regulatory settlements (whether such allegations are made through administrative actions such as cease and desist orders, through legal proceedings or otherwise) or if other regulatory actions of a similar or different nature are taken in the future against us, this could lead to (i) administrative fines and penalties and litigation, (ii) loss of our licenses and approvals to engage in our servicing and lending businesses, (iii) governmental investigations and enforcement actions, (iv) civil and criminal liability, including class action lawsuits and actions to recover incentive and other payments made by governmental entities, (v) breaches of covenants and representations under our servicing, debt or other agreements, (vi) damage to our reputation, (vii) inability to raise capital or otherwise fund our operations and (viii) inability to execute on our business strategy. Any of these occurrences could increase our operating expenses and reduce our revenues, hamper our ability to grow or otherwise materially and adversely affect our business, reputation, financial condition, liquidity and results of operations.

CFPB

On April 20, 2017, the 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 dating back to 2014. The CFPB's claims include allegations regarding (1) the adequacy of Ocwen's servicing system and integrity of Ocwen's mortgage servicing data, (2) Ocwen's foreclosure practices and (3) various purported servicer errors with respect to borrower escrow accounts, hazard insurance policies, timely cancellation of private mortgage insurance, handling of customer complaints, and marketing of optional products. The CFPB alleges violations of unfair, deceptive acts or abusive practices, as well as violations of specific laws or regulations. 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 are vigorously defending ourselves. Prior to the initiation of legal proceedings, we had been engaged with the CFPB in efforts to resolve the matter and recorded $12.5 million as of December 31, 2016 as a result of these discussions. Our accrual with respect to this matter is included in the $53.4 million legal and regulatory accrual referenced above. The outcome of the matters raised by the CFPB, whether through negotiated settlements, court rulings or otherwise, could have a material adverse impact on our business, reputation, financial condition, liquidity and results of operations.

State Licensing, State Attorneys General and Other Matters

Our licensed entities are required to renew their licenses, typically on an annual basis, and to do so they must satisfy the license renewal requirements of each jurisdiction, which generally include financial requirements such as providing audited financial statements or satisfying minimum net worth requirements and non-financial requirements such as satisfactorily completing examinations as to the licensee's compliance with applicable laws and regulations. Failure to satisfy any of the requirements to which our licensed entities are subject could result in a variety of regulatory actions ranging from a fine, a directive requiring a certain step to be taken, entry into a consent order, a suspension or ultimately a revocation of a license, any of which could have a material adverse impact on our results of operations and financial condition. In addition, we receive information requests and other inquiries, both formal and informal in nature, from our state financial regulators as part of their general regulatory oversight of our servicing and lending businesses. We also regularly engage with state attorneys general and the CFPB and, on occasion, we engage with other federal agencies, including the Department of Justice and various inspectors general on various matters, including responding to information requests and other inquiries. Many of our regulatory engagements arise from a complaint that the entity is investigating, although some are formal investigations or proceedings. The GSEs (and their conservator, FHFA), HUD, FHA, VA, Ginnie Mae, the United States Treasury Department, and others also subject us to periodic reviews and audits. We have in the past resolved, and may in the future resolve, matters via consent orders, payments of monetary amounts and other agreements in order to settle issues identified in connection with examinations or other oversight activities, and such resolutions could have material and adverse effects on our business, reputation, operations, results of operations and financial condition.

On April 20, 2017 and shortly thereafter, mortgage and banking regulatory agencies from 29 states and the District of Columbia took regulatory actions against OLS and certain other Ocwen companies that alleged deficiencies in our compliance with laws and regulations relating to our servicing and lending activities. An additional state regulator brought legal action together with that state's attorney general, as described below. In general, the regulatory actions took the form of orders styled as "cease and desist orders," and we use that term to refer to all of the orders for ease of reference; for ease of reference we also include the District of Columbia as a state when we reference states below. All of the cease and desist orders were applicable to OLS, but additional Ocwen entities were named in some orders, including Ocwen Financial Corporation, OMS, Homeward, Liberty, OFSPL and Ocwen Business Solutions, Inc. (OBS).

We have entered into agreements with all 30 states to resolve these regulatory actions. These agreements generally contain the following key terms (the Multi-State Common Settlement Terms):

- Ocwen would not acquire any new residential mortgage servicing rights until April 30, 2018.
- Ocwen will develop a plan of action and milestones regarding its transition from the servicing system we currently use, REALServicing®, to an alternate servicing system and, with certain exceptions, will not board any new loans onto the REALServicing ® system.
- In the event that Ocwen chooses to merge with or acquire an unaffiliated company or its assets in order to effectuate a transfer of loans from the REALServicing ® system, Ocwen must give the applicable regulatory agency prior notice to the signing of any final agreement and the opportunity to object (which prior notice requirement is independent of, and in addition to, applicable state law notice and consent requirements relating to change of control transactions). If no objection is received, the provisions of the first bullet point above shall not prohibit the transaction or limit the transfer of loans from the REALServicing ® system onto the merged or acquired company's alternate servicing system. In the event that an unaffiliated company merges with or acquires Ocwen or Ocwen's assets, the provisions of the first bullet point above shall not prohibit the transaction or limit the transfer of loans from the REALServicing ® system onto the merging or acquiring company's alternate servicing system.
- Ocwen will engage a third-party auditor to perform an analysis with respect to our compliance with certain federal and state laws relating to escrow by testing approximately 9,000 loan files relating to residential real property in various states, and Ocwen must develop corrective action plans for any errors that are identified by the third-party auditor.
- Ocwen will develop and submit for review a plan to enhance our consumer complaint handling processes.
- Ocwen will provide financial condition reporting on a confidential basis as part of each state's supervisory framework through September 2020.

In addition to the terms described above, Ocwen entered into settlements with certain states on different or additional terms, which include making additional communications with and for borrowers, certain review, reporting and remediation obligations, and the following additional terms:

- Ocwen agreed with the Connecticut regulatory agency to pay certain amounts only in the event we fail to comply with certain requirements under our agreement with Connecticut.
- In its agreement with the Maryland regulatory agency, Ocwen agreed to complete an independent management assessment and enterprise risk assessment and to a prohibition, with certain de minimis exceptions, on repurchases of our stock until December 7, 2018. Ocwen also agreed to make certain payments to Maryland, to provide remediation to certain borrowers in the form of cash payments or credits and to pay certain amounts only in the event we fail to comply with certain requirements under our agreement with Maryland.
- Ocwen agreed with the Massachusetts regulatory agency to pay $1.0 million to the Commonwealth of Massachusetts Mortgage Education Trust. Ocwen and the Massachusetts regulatory agency also agreed on a schedule pursuant to which we will regain eligibility to acquire residential MSRs on Massachusetts loans (including loans originated by Ocwen) as

it meets certain thresholds in its transition to a new servicing platform. All restrictions on Massachusetts MSR acquisitions will be lifted when Ocwen completes the second phase of a three-phase data integrity audit which will be conducted by an independent third-party following completion of Ocwen's servicing platform transition.
Accordingly, we have now resolved all of the administrative actions (but not all of the legal actions, which are described below) taken by state regulators on April 20, 2017 and shortly thereafter.

We have taken substantial steps toward fulfilling our commitments under the agreements described above, including, developing and providing periodic updates regarding our plan to transition to an alternate loan servicing system (which our acquisition of PHH could help to accelerate), developing and implementing certain enhancements to our consumer complaint process, engaging a third-party auditor who is currently performing escrow-related testing, and complying with our other information sharing and reporting obligations.

In April 2017, and concurrent with the issuance of the cease and desist orders and the filing of the CFPB lawsuit discussed above, two state attorneys general took actions against us relating to our servicing practices. The Florida Attorney General, together with the Florida Office of Financial Regulation, 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. These claims are similar to the claims made by the CFPB. The Florida lawsuit seeks injunctive and equitable relief, costs, and civil money penalties in excess of $10,000 per confirmed violation of the applicable statute.

The Massachusetts Attorney General filed a lawsuit against OLS in the Superior Court for the Commonwealth of Massachusetts alleging violations of state consumer financial laws relating to our servicing business, including with respect to our activities relating to lender-placed insurance and property preservation fees. Previously, the Massachusetts Attorney General had sent us a civil investigative demand requesting information relating to various aspects of our servicing practices, including lender-placed insurance and property preservation fees. The Massachusetts Attorney General's lawsuit seeks injunctive and equitable relief, costs, and civil money penalties of $5,000 per confirmed violation of the applicable statute.

While we endeavor to negotiate appropriate resolutions in these two matters, we are vigorously defending ourselves, as we believe we have valid defenses to the claims made in both lawsuits. The outcome of these two lawsuits, whether through negotiated settlements, court rulings or otherwise, could potentially involve monetary fines or penalties or additional restrictions on our business and could be materially adverse to our business, reputation, financial condition, liquidity and results of operations. We cannot currently estimate the amount, if any, of reasonably possible loss related to these matters above amounts currently accrued.

Our accrual with respect to the administrative and legal actions initiated on April 20, 2017 and shortly thereafter is included in the $53.4 million litigation and regulatory matters accrual referenced above. We will also incur costs complying with the terms of the settlements we have entered into, including in connection with the escrow review and transition to a new servicing system. For example, with respect to the escrow review, which is currently underway, we will incur remediation costs to the extent that errors are identified which require remediation. If we fail to comply with the terms of our settlements, additional administrative or legal regulatory actions could be taken against us. Such actions could have a materially adverse impact on our business, reputation, financial condition, liquidity and results of operations.

Certain of the state regulators' cease and desist orders reference a confidential supervisory memorandum of understanding (MOU) that we entered into with the Multistate Mortgage Committee (MMC), a multistate coalition of various mortgage banking regulators, and six states relating to a servicing examination from 2013 to 2015. The MOU contained various provisions relating to servicing practices and safety and soundness aspects of the regulatory review, as a step toward closing the 2013-2015 examination. There were no monetary or other penalties under the MOU. Ocwen responded to the MOU items and continues to provide certain reports and other information pursuant to the MOU.

On occasion, we engage with agencies of the federal government on various matters. For example, OLS received a letter from the Department of Justice, Civil Rights Division, notifying OLS that the Department of Justice had initiated a general investigation into OLS's policies and procedures to determine whether violations of the Servicemembers Civil Relief Act by OLS might exist. We continue to provide information to the Department of

Justice and we are engaged in ongoing discussions with the Department of Justice relating to this inquiry. In addition, Ocwen was named as a defendant in a HUD administrative complaint filed by a non-profit organization alleging discrimination in the manner in which the company maintains REO properties in minority communities. In February 2018, this matter was administratively closed, and similar claims were filed in federal court. We believe these claims are without merit and intend to vigorously defend ourselves.

In April 2017, Ocwen received a subpoena from the Office of Inspector General of HUD requesting the production of documentation related to lender-placed insurance arrangements with a mortgage insurer and the amounts paid for such insurance. We understand that other servicers in the industry have received similar subpoenas. In May 2016, Ocwen received a subpoena from the Office of Inspector General of HUD requesting the production of documentation related to HECM loans originated by Liberty. We understand that other lenders in the industry have received similar subpoenas. In May 2017, Ocwen received a subpoena from the Office of the Special Inspector General for the Troubled Asset Relief Program requesting documents and information related to Ocwen's participation from 2009 to the present in the Treasury Department's Making Home Affordable Program and its Home Affordable Modification Program. We have been providing documents and information in response to these subpoenas.

In July 2017, we received a letter from Ginnie Mae in which Ginnie Mae informed us that the state regulators' cease and desist orders discussed above create a material change in Ocwen's business status under Chapter 3 of the Ginnie Mae MBS Guide, and that Ginnie Mae had accordingly declared an event of default under Guaranty Agreements between Ocwen and Ginnie Mae. In the letter, Ginnie Mae notified Ocwen that it would forbear from immediately exercising any rights relating to this matter. In a letter dated August 1, 2018, Ginnie Mae informed us that, based on Ocwen's progress resolving its state regulatory matters, Ginnie Mae considered the matter satisfied, subject to our compliance with ongoing reporting requirements relating to our state regulatory settlements and transition to the Black Knight MSP.

Adverse actions by Ginnie Mae could materially and adversely impact our business, reputation, financial condition, liquidity and results of operations, including if Ginnie Mae were to terminate us as an issuer or servicer of Ginnie Mae securities or otherwise take action indicating that such a termination was planned. For example, such actions could make financing our business more difficult, including by making future financing more expensive or if a lender were to allege a default under our debt agreements, which could trigger cross-defaults under all of our other material debt agreements.

Loan Put-Back and Related Contingencies

Our contracts with purchasers of originated loans contain provisions that require indemnification or repurchase of the related loans under certain circumstances. While the language in the purchase contracts varies, they contain provisions that require us to indemnify purchasers of related loans or repurchase such loans if:

- representations and warranties concerning loan quality, contents of the loan file or loan underwriting circumstances are inaccurate;
- adequate mortgage insurance is not secured within a certain period after closing;
- a mortgage insurance provider denies coverage; or
- there is a failure to comply, at the individual loan level or otherwise, with regulatory requirements.

We received origination representations and warranties from our network of approved originators in connection with loans we purchased through our correspondent lending channel. To the extent that we have recourse against a third-party originator, we may recover part or all of any loss we incur.

We believe that, as a result of the current market environment, many purchasers of residential mortgage loans are particularly aware of the conditions under which originators must indemnify or repurchase loans and under which such purchasers would benefit from enforcing any indemnification rights and repurchase remedies they may have.

In our lending business, we have exposure to indemnification risks and repurchase requests. If home values were to decrease, our realized loan losses from loan repurchases and indemnifications may increase as well. As a result, our liability for repurchases may increase beyond our current expectations. If we are required to indemnify or repurchase loans that we originate and sell, or where we have assumed this risk on loans that we service, as discussed above, in either case resulting in losses that exceed our related liability, our business, financial condition and results of operations could be adversely affected.

We have exposure to origination representation, warranty and indemnification obligations because of our lending, sales and securitization activities and in connection with our servicing practices. We initially recognize these obligations at fair value. Thereafter, the estimation of the liability considers probable future obligations based on industry data of loans of similar type segregated by year of origination, to the extent applicable, and estimated loss severity based on current loss rates for similar loans, our historical rescission rates and the current pipeline of unresolved demands. Our historical loss severity considers the historical loss experience that we incur upon sale or liquidation of a repurchased loan as well as current market conditions. We monitor the adequacy of the overall liability and make adjustments, as necessary, after consideration of other qualitative factors including ongoing dialogue and experience with our counterparties.

At September 30, 2018 and September 30, 2017, we had outstanding representation and warranty repurchase demands of $26.5 million UPB (160 loans) and $40.2 million UPB (213 loans), respectively. We review each demand and monitor through resolution, primarily through rescission, loan repurchase or make-whole payment.

The following table presents the changes in our liability for representation and warranty obligations, compensatory fees for foreclosures that may ultimately exceed investor timelines and similar indemnification obligations:

	Nine Months Ended September 30,	
	2018	2017
Beginning balance	$19,229	$24,285
Provision for representation and warranty obligations	4,443	(3,285)
New production reserves	259	554
Charge-offs and other (1)	(6,824)	(3,036)
Ending balance	$17,107	$18,518

(1) Includes principal and interest losses realized in connection with repurchased loans, make-whole, indemnification and fee payments and settlements net of recoveries, if any.

We believe that it is reasonably possible that losses beyond amounts currently recorded for potential representation and warranty obligations and other claims described above could occur, and such losses could have an adverse impact on our results of operations, financial condition or cash flows. However, based on currently available information, we are unable to estimate a range of reasonably possible losses above amounts that have been recorded at September 30, 2018.

Other

OLS, on its own behalf and on behalf of various investors, has been engaged in a variety of activities to seek payments from mortgage insurers for unpaid claims, including claims where the mortgage insurers paid less than the full claim amount. Ocwen believes that many of the actions by mortgage insurers were in violation of the applicable insurance policies and insurance law. In some cases, Ocwen has entered into tolling agreements, initiated arbitration or litigation, engaged in settlement discussions, or taken other similar actions. To date, Ocwen has settled with three mortgage insurers, and expects the ultimate outcome to result in recovery of additional unpaid claims, although we cannot quantify the likely amount at this time.

We may, from time to time, have affirmative indemnification claims against parties from whom we acquired MSRs or other assets. Although we pursue these claims, we cannot currently estimate the amount, if any, of further recoveries.

Note 21 – Subsequent Events

PHH Acquisition

On October 4, 2018, Ocwen completed its acquisition of PHH, a non-bank servicer with established servicing and origination recapture capabilities. We believe this acquisition will enable us to obtain the following key strategic and financial benefits: (i) accelerate Ocwen’s transition to the Black Knight MSP servicing platform; (ii) reduce fixed costs, on a combined basis, through reductions in corporate overhead and other costs and improved economies of scale; and (iii) provide a foundation to enable the combined servicing platform to resume new business and growth activities to offset portfolio runoff. The results of PHH operations will be included in Ocwen’s consolidated statement of operations from the date of acquisition. Assets acquired and liabilities assumed will be recorded at their fair value as of the date of acquisition based on management’s estimates using currently available information. The acquisition will be accounted for under the acquisition method of accounting pursuant to ASC 805, Business Combinations.

The aggregate consideration paid to the former holders of PHH common stock was $358.4 million in cash, with $325.0 million from PHH and $33.4 million from Ocwen. We expect to recognize a bargain purchase gain, net of tax, in connection with the acquisition. The anticipated bargain purchase gain results from the losses we expect PHH to incur in the future that were contemplated as part of the purchase price. To the extent those losses are realized, they will be included in our consolidated statements of operations. Due to the timing of the acquisition, the initial accounting for the acquisition is incomplete as of the filing date and therefore the amount of the actual bargain purchase gain has not yet been determined.

As part of the acquisition Ocwen assumed certain contingent liabilities, including contingent liabilities relating to pending and threatened legal and regulatory proceedings. Similar to Ocwen and other mortgage loan servicers and lenders, PHH and its subsidiaries are routinely, and currently, defendants in various legal proceedings that arise in the ordinary course of PHH's business, including class action proceedings. These proceedings are generally based on alleged violations of federal, state and local laws and regulations governing mortgage servicing and lending activities, and contractual obligations. Similar to Ocwen and other mortgage loan servicers and lenders, PHH and its subsidiaries are also routinely, and currently, subject to government and regulatory examinations, investigations and inquiries or other requests for information. The resolution of these various legal and regulatory matters may result in adverse judgments, fines, penalties, injunctions and other relief against PHH as well as monetary payments or other agreements and obligations. In particular, legal proceedings brought under RESPA or other federal or state consumer protection laws that are ongoing, or may arise from time to time, may include the award of treble and other damages substantially in excess of actual losses, attorneys' fees and expenses, injunctive relief and remediation or other consumer relief. These proceedings and matters are at varying procedural stages and PHH may engage in settlement discussions on certain matters in order to avoid the additional costs of engaging in litigation. The outcome of any legal or regulatory matter is inherently difficult to predict or estimate and the ultimate time to resolve any such matter may be protracted. In addition, the outcome in one or more legal or regulatory matters may affect the outcome of other pending or threatened legal or regulatory matters. The ultimate resolution of any particular legal or regulatory matter, whether through negotiated settlement, court rulings or otherwise, could be material to Ocwen’s business, reputation, financial condition, liquidity and results of operations.

Costs incurred in connection with the transaction are expensed as incurred and are reported in Professional services in the unaudited consolidated statements of operations. Such costs were $1.7 million and $6.6 million during the three and nine months ended September 30, 2018, respectively.

Due to the timing of the acquisition occurring subsequent to the end of the third quarter of 2018, the initial accounting for the business combination is incomplete as of the filing date as disclosed above, and certain disclosures, including the supplemental pro forma financial information, have been omitted from these unaudited consolidated financial statements. We will include the disclosures required by ASC 805, Business Combinations, in our 2018 Annual Report on Form 10-K. We are currently evaluating the impact of this acquisition on our reportable segments.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousands, except per share amounts and unless otherwise indicated)

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations, as well as other portions of this Form 10-Q, may contain certain statements that constitute forward-looking statements within the meaning of the federal securities laws. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “intend,” “consider,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict” negative of such terms or other comparable terminology. 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 risks and uncertainties. You 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. You should consider all uncertainties and risks discussed or referenced in this report, including those under “Forward-Looking Statements” and Item 1A, Risk Factors, as well as those discussed in our other reports and filings with the SEC, including those in our Annual Report on Form 10-K for the year ended December 31, 2017 and any subsequent SEC filings.

OVERVIEW

General

We are a financial services company that services and originates loans.

The majority of our revenues are generated from our residential mortgage servicing business. Regulatory restrictions on acquisitions of MSRs and portfolio runoff continue to negatively impact the size of, and revenues from, our servicing portfolio. While we have made progress, we have not been able to reduce our overall expenses by a comparative amount, in part because of the relatively fixed nature of certain aspects of our corporate overhead. In addition, continuing regulatory and legal matters have negatively impacted our results. We have incurred a net loss in each of the last four fiscal years and for the nine months ended September 30, 2018, which has significantly eroded stockholders’ equity and weakened our financial condition.

Earlier this year, we entered into an agreement to acquire PHH because we believed that we would need to grow our revenues in order to drive stronger financial performance. On October 4, 2018, we completed our acquisition of PHH, which became a wholly owned subsidiary of Ocwen. On a combined basis as of September 30, 2018, Ocwen and PHH serviced 1.7 million loans with a UPB of $287.0 billion. In 2017, on a combined basis Ocwen and PHH originated more than $3.0 billion UPB in residential mortgage loans, including reverse mortgages and excluding forward lending correspondent and wholesale channels which Ocwen exited during 2017.

We believe this acquisition will enable us to obtain the following key strategic and financial benefits:

- Accelerate Ocwen’s transition to the Black Knight MSP servicing platform;
- Reduce fixed costs, on a combined basis, through reductions in corporate overhead and other costs;
- Improve economies of scale; and,
- Provide a foundation to enable the combined servicing platform to resume new business and growth activities to offset portfolio runoff.

We expect to recognize a bargain purchase gain, net of tax, in connection with the acquisition of PHH. The anticipated bargain purchase gain results from the fair value of PHH’s net assets exceeding the purchase price we paid. The purchase price we negotiated contemplated that PHH may incur losses after the acquisition date. To the extent those losses are realized, they will be included in our consolidated statements of operations. In addition, there can be no assurances that the desired strategic and financial benefits of the acquisition will be realized.

The approval of NY DFS for the acquisition imposed certain post-closing requirements on Ocwen, including certain reporting obligations and certain record retention and other requirements relating to the planned transfer of New York loans onto the Black Knight MSP servicing platform as well as certain requirements with respect to the management of PHH Mortgage Corporation (PMC), a licensed subsidiary of PHH. In addition, the NY DFS modified its restriction on Ocwen’s ability to acquire MSRs to allow certain acquisitions of MSRs that are boarded onto the Black Knight MSP servicing platform subject to annual portfolio growth limitations until such time as the NY DFS determines that all loans have been successfully migrated to the Black Knight MSP servicing platform and that Ocwen has developed a satisfactory infrastructure to board sizeable portfolios of MSRs.

Now that we have consummated our acquisition of PHH, if we can execute on five key initiatives, we believe we will drive stronger financial performance. First, we must successfully execute on the integration of PHH’s business with ours, including a smooth transition onto the Black Knight MSP servicing platform. Second, we must re-engineer our cost structure to go beyond eliminating redundant costs through the integration process. Third, we must fulfill our regulatory commitments and resolve our remaining legal and regulatory matters on satisfactory terms. Fourth, we must replenish our servicing portfolio through expanding our lending business and permissible MSR acquisitions that are prudent and well-executed with appropriate financial return targets. Finally, we must ensure that we continue to manage our balance sheet to provide a solid platform for executing on our growth and other initiatives.

We have significantly strengthened our cash position through the receipt of aggregate lump-sum payments of $334.2 million in connection with our 2017 Agreements and the New RMSR Agreements with NRZ. However, these upfront payments generally represent the net present value of the difference between the future revenue stream Ocwen would have received under the Original Rights to MSRs Agreements and the future revenue stream Ocwen expects to receive under the 2017 Agreements. Accordingly, the new agreements provide for a larger portion of future servicing compensation to be retained by NRZ.

We continue to invest cash amounts that are excess to our immediate business needs to achieve targeted investment returns within our risk appetite and we have also deployed excess cash to reduce secured borrowings. We continue to evaluate options to grow our revenues through select investments. There can be no assurances we will be able to execute on our plans or that the returns on such investments will ultimately meet our targets.

Our business, operating results and financial condition have been significantly impacted in recent periods by regulatory actions against us and by significant litigation matters. Should the number or scope of regulatory or legal actions against us increase or expand or should we be unable to reach reasonable resolutions in existing regulatory and legal matters, our business, reputation, financial condition, liquidity and results of operations could be materially and adversely affected, even if we are otherwise successful in our ongoing efforts to drive stronger financial performance.

Results of Operations and Financial Condition

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our unaudited consolidated financial statements and the related notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and notes thereto and management’s discussion and analysis of financial condition and results of operations appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Results of Operations Summary	Three Months Ended September 30, 2018	2017	% Change	Nine Months Ended September 30, 2018	2017	% Change
Revenue						
Servicing and subservicing fees	$213,730	$233,220	(8)%	$658,095	$761,523	(14)%
Gain on loans held for sale, net	16,942	25,777	(34)	61,135	76,976	(21)
Other	7,606	25,645	(70)	32,886	79,307	(59)
Total revenue	238,278	284,642	(16)	752,116	917,806	(18)
Expenses						
Compensation and benefits	63,307	90,538	(30)	211,220	272,750	(23)
Professional services	40,662	38,417	6	110,821	145,651	(24)
MSR valuation adjustments, net	41,448	33,426	24	91,695	115,446	(21)
Servicing and origination	31,758	52,246	(39)	91,452	128,061	(29)
Technology and communications	20,597	27,929	(26)	67,306	79,530	(15)
Occupancy and equipment	11,896	15,340	(22)	37,369	49,569	(25)
Other	7,858	15,583	(50)	19,814	39,335	(50)
Total expenses	217,526	273,479	(20)	629,677	830,342	(24)
Other income (expense)						
Interest income	3,963	4,099	(3)	10,018	12,101	(17)
Interest expense	(61,288)	(47,281)	30	(189,601)	(212,471)	(11)
Gain (loss) on sale of mortgage servicing rights, net	(733)	6,543	(111)	303	7,863	(96)
Other, net	(2,967)	(1,077)	175	(6,872)	6,384	(208)
Total other expense, net	(61,025)	(37,716)	61	(186,152)	(186,123)	(1)
Loss before income taxes	(40,273)	(26,553)	51	(63,713)	(98,659)	(38)
Income tax expense (benefit)	845	(20,418)	(104)	4,541	(15,465)	(129)
Net loss	(41,118)	(6,135)	568	(68,254)	(83,194)	(20)
Net income attributable to non-controlling interests	(29)	(117)	(75)	(176)	(289)	(39)
Net loss attributable to Ocwen stockholders	$(41,147)	$(6,252)	556 %	$(68,430)	$(83,483)	(21)%
Segment income (loss) before income taxes						
Servicing	$(13,899)	$5,681	(345)%	$8,668	$18,030	(52)%
Lending	(2,065)	(7,569)	(73)	8,106	(7,072)	(215)
Corporate Items and Other	(24,309)	(24,665)	(1)	(80,487)	(109,617)	(27)
	$(40,273)	$(26,553)	52 %	$(63,713)	$(98,659)	(35)%

n/m: not meaningful

Three Months Ended September 30, 2018 versus 2017

Servicing and subservicing fees were $19.5 million, or 8%, lower than the third quarter of 2017, primarily due to portfolio runoff, consistent with the 14% and 13% decline in our residential portfolio average UPB and loan count, respectively. The number of completed modifications increased for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 as our non-HAMP modification programs replace the HAMP program which expired on December 31, 2016. Revenue recognized in connection with loan modifications was $14.4 million and $14.5 million for the third quarter of 2018 and 2017, respectively.

The $8.8 million, or 34%, decline in Gains on loans held for sale, net in the third quarter of 2018 is primarily due to a decrease in total loan production offset in part by higher margins. Forward lending originations declined as a result of our exit from the forward lending correspondent and wholesale channels and rising interest rates which reduced refinance volume. Changes to the FHA HECM program for originations after October 1, 2017 have negatively impacted reverse lending origination volume.

Other revenue for the third quarter of 2018 declined $18.0 million, or 70%, largely due to a $7.0 million decline in REO referral commissions in connection with the transfer of the rights to such commissions to NRZ effective with the New RMSR Agreements, and a $7.1 million unfavorable net change in the fair values of our HECM reverse mortgage loans and the related HMBS financing liability. Rising interest rates reduce the average life of our HECM reverse mortgage loans as Adjustable Rate Mortgage (ARM) borrowers reach their maximum loan amount faster, reducing projected service fees, net of subservicing fees, and available future draws, and accelerating loan resolutions. CRL premium revenue declined $1.6 million consistent with the decline in the number of foreclosed real estate properties in the servicing portfolio, and loan origination fees were lower on lower lending segment production volumes.

MSR valuation adjustments, net, increased $8.0 million, or 24%, as compared to the third quarter of 2017, primarily due to higher interest rates in the third quarter of 2018 and a resulting increase in advance funding costs related to our non-Agency MSRs, with no offsetting favorable impact to our Agency MSRs based on our third quarter benchmarking review. MSR valuation adjustments for the third quarter of 2017 include the impact of a favorable benchmarking update to modeled losses on certain financed FHA and VA MSRs.

Excluding MSR valuation adjustments, net, expenses were $64.0 million, or 27%, lower as compared to the third quarter of 2017.

Compensation and benefits expense for the third quarter of 2018 declined $27.2 million, or 30%, as average headcount declined by 24%, including a 31% reduction in U.S.-based headcount, consistent with our efforts to reduce servicing operations costs and corporate overhead in line with the runoff of our servicing portfolio and consistent with our strategic decisions to exit the ACS business and the forward lending correspondent and wholesale channels.

Servicing and origination expense decreased $20.5 million, or 39%, as compared to the third quarter of 2017 primarily due to a $15.0 million reduction in government-insured claim loss provisions and a $5.4 million reduction in losses related to non-recoverable advances and receivables. We recorded additional reserves in the prior year on reinstated or modified government-insured claims.

Declines of $7.3 million and $3.4 million in Technology and communication and Occupancy and equipment expenses, respectively, as compared to the third quarter of 2017, are largely a result of our cost reduction efforts that include bringing technology services in-house and closing and consolidating certain facilities.

Other expenses were $7.7 million, or 50%, lower in the third quarter of 2018 as the three months ended September 30, 2017 includes a $6.8 million charge to write-off the carrying value of internally-developed software used in our wholesale forward lending business in connection with our decision to exit that channel and sell the furniture, fixtures and equipment located at our Westborough, Massachusetts facility. Advertising expense declined $1.9 million as a result of our exit from the forward lending correspondent and wholesale channels.

Interest expense for the third quarter of 2018 increased $14.0 million, or 30%, as compared to the third quarter of 2017, primarily due to the $22.8 million increase in interest expense on the NRZ financing liabilities, which we account for at fair value, offset by a $4.8 million decrease in interest on match funded liabilities, consistent with the decline in servicing advances, and a $3.1 million decrease in interest on borrowings under our mortgage loan warehouse facilities due to lower forward lending production volumes.

The increase in interest expense on the NRZ financing liabilities is primarily the result of the $37.6 million favorable fair value adjustment recorded in the third quarter of 2017 in connection with the $54.6 million lump sum payment we received from NRZ on execution of the 2017 Agreements on July 23, 2017, offset in part by runoff of the NRZ servicing portfolio.

Nine Months Ended September 30, 2018 versus 2017

Servicing and subservicing fees declined $103.4 million, or 14%, in the nine months ended September 30, 2018 as compared to the same period in 2017, primarily due to portfolio runoff and a reduction in completed modifications. The average UPB and loan count in our residential portfolio declined 14% and 13%, respectively, as compared to the nine months ended September 30, 2017.

Gains on loans held for sale, net declined $15.8 million, or 21%, as compared to the nine months ended September 30, 2017 primarily due to lower forward and reverse loan production volumes partially offset by higher margins.

The $46.4 million, or 59% decline in Other revenue as compared to the nine months ended September 30, 2017 is primarily due to a $24.7 million decline in REO referral commissions, a $5.0 million decline in CRL premiums and a $10.6 million unfavorable net change in the fair values of our HECM loans and the related HMBS financing liability. Loan origination fees also declined on significantly lower correspondent loan production as a result of our exit from this channel in 2017.

MSR valuation adjustments, net, decreased $23.8 million, or 21%, as compared to the nine months ended September 30, 2017, primarily driven by a net favorable impact of higher interest rates, with the favorable impact of slower projected Agency prepayment speeds more than offsetting the unfavorable impact of higher non-Agency advance funding costs, and a favorable impact of slower actual runoff in the non-Agency MSRs in 2018.

Excluding MSR valuation adjustments, net, expenses were $176.9 million, or 25%, lower as compared to the nine months ended September 30, 2017.

Compensation and benefits expense for the nine months ended September 30, 2018 declined $61.5 million, or 23%, as average headcount declined by 23%, including a 29% reduction in U.S.-based headcount. These declines are the result of our efforts to reduce costs of our servicing operations and corporate overhead, as well as our strategic decisions to exit the ACS business and the forward lending correspondent and wholesale channels. The reduction in Compensation and benefits expense resulting from the decline in headcount was offset in part by a $4.6 million increase in related severance expense for the nine months ended September 30, 2018.

Servicing and origination expense decreased $36.6 million, or 29%, as compared to the nine months ended September 30, 2017 primarily due to a $22.6 million decrease in government-insured claim loss provisions recorded in the prior year on reinstated or modified loans along with a decline in claims, an $8.1 million reduction in losses related to non-recoverable advances and receivables, a $2.9 million reduction in CRL reinsurance commissions due to the decline in foreclosed real estate properties, and a general decline in other expenses resulting from the declines in our servicing portfolio and loan production volume.

Professional services expense was $34.8 million, or 24%, lower for the nine months ended September 30, 2018 as compared to same period of 2017 primarily due to a $29.3 million decline in legal expenses, a $6.4 million decrease in monitor expenses and a $1.7 million reduction in fees incurred in connection with our conversion of NRZ's Rights to MSRs to fully-owned MSRs, offset in part by $6.6 million of fees related to the PHH Merger Agreement incurred during the nine months ended September 30, 2018. The CA Auditor appointment and the NY Operations Monitor appointment were terminated in 2017. We are not currently incurring any expenses related to regulatory monitors.

As disclosed above, cost reduction efforts and the decline in the size of our servicing portfolio drove declines in Occupancy and equipment expense ($12.2 million) and Technology and communication expense ($12.2 million) as compared to the nine months ended September 30, 2017.

The $19.5 million, or 50%, decrease in Other expenses as compared to the nine months ended September 30, 2017 is due in large part to the $6.8 million charge recognized in the third quarter of 2017 to write-off the carrying value of internally-developed software used in our wholesale forward lending business, a $4.9 million reduction in advertising expenses, a $4.5 million decline in the provision for losses on ACS automotive dealer financing notes as we exited the ACS business in the first quarter of 2018 and a $2.4 million decline in bank charges.

Interest expense for the nine months ended September 30, 2018 declined $22.9 million, or 11%, as compared to the same period of 2017 primarily because of a $13.0 million decrease in interest on match funded liabilities, a $6.3 million decrease in interest on borrowings under our mortgage loan warehouse facilities and a $2.4 million decline in interest expense on the NRZ financing liabilities.

The decline in interest expense on the NRZ financing liabilities was due to runoff of the NRZ servicing portfolio offset by a $15.7 million reduction in net favorable fair value adjustments as compared to the nine months ended September 30, 2017. Interest expense for the third quarter of 2017 included a $37.6 million favorable fair value adjustment on the NRZ financing liability in connection with the transfer of MSRs, as discussed above, while the first quarter of 2018 included a $16.6 million favorable fair value adjustment related to the $279.6 million lump-sum upfront payment we received in January 2018 in accordance with the terms of the New RMSR Agreements.

Although we incurred a pre-tax loss of $63.7 million for the nine months ended September 30, 2018, we recorded income tax expense of $4.5 million due to the mix of earnings among different tax jurisdictions with different statutory tax rates, which impacts the amount of the tax benefit or expense recorded. Income tax expense for the nine months ended September 30, 2018 includes additional expense related to the Tax Act that was partially offset by a reduction in expense related to the tax effects of intra-entity asset transfers that are no longer recognized effective with our adoption of ASU 2016-16 on January 1, 2018. We recognized a $22.7 million income tax benefit in the third quarter of 2017 related to the reversal of an uncertain tax position liability upon expiration of the statute of limitations. The overall effective tax rate for the nine months ended September 30, 2018 and 2017 is (7.1)% and 15.7%, respectively.

Financial Condition Summary	September 30, 2018	December 31, 2017	% Change
Cash	$ 254,843	$ 259,655	(2)%
Mortgage servicing rights	999,282	1,008,844	(1)
Advances and match funded assets	1,101,104	1,389,150	(21)
Loans held for sale	217,436	238,358	(9)
Loans held for investment, at fair value	5,307,560	4,715,831	13
Other	580,812	791,326	(27)
Total assets	$ 8,461,037	$ 8,403,164	1 %
Total Assets by Segment			
Servicing	$ 2,726,905	$ 3,033,243	(10)%
Lending	5,385,437	4,945,456	9
Corporate Items and Other	348,695	424,465	(18)
	$ 8,461,037	$ 8,403,164	1 %
HMBS-related borrowings, at fair value	$ 5,184,227	$ 4,601,556	13 %
Other financing liabilities	719,319	593,518	21
Match funded liabilities	714,246	998,618	(28)
SSTL and other secured borrowings, net	345,425	545,850	(37)
Senior notes, net	347,749	347,338	—
Other	589,327	769,410	(23)
Total liabilities	$ 7,900,293	$ 7,856,290	1 %
Total Ocwen stockholders' equity	559,556	545,040	3
Non-controlling interest in subsidiaries	1,188	1,834	(35)
Total equity	560,744	546,874	3
Total liabilities and equity	$ 8,461,037	$ 8,403,164	1 %
Total Liabilities by Segment			
Servicing	$ 1,912,480	$ 2,233,431	(14)%
Lending	5,314,692	4,861,928	9
Corporate Items and Other	673,121	760,931	(12)
	$ 7,900,293	$ 7,856,290	1 %

Changes in the composition and balance of our assets and liabilities during the nine months ended September 30, 2018 are principally attributable to Loans held for investment and Financing liabilities, which increased because of our reverse mortgage securitizations which are accounted for as secured financings. Match funded liabilities declined consistent with lower advances and match funded advances on a declining servicing portfolio. Total equity increased as a result of the effect of our fair value election for MSRs previously accounted for using the amortization method less the net loss recognized for the nine months ended September 30, 2018. Our fair value election for these MSRs resulted in an $82.0 million increase in retained earnings recorded as of January 1, 2018 to reflect the excess of the fair value of the MSRs over their carrying amount on the election date.

SEGMENT RESULTS OF OPERATIONS

Our activities are organized into two reportable business segments that reflect our primary lines of business - Servicing and Lending - as well as a Corporate Items and Other segment.

Servicing

We earn contractual monthly servicing fees pursuant to servicing agreements (which are typically payable as a percentage of UPB) as well as ancillary fees, including late fees, HAMP fees, REO referral commissions, float earnings and Speedpay® fees relating to owned MSRs. We also earn fees under both subservicing and special servicing arrangements with banks and other institutions that own the MSRs. We typically earn these fees either as a percentage of UPB or on a per loan basis. Per loan fees typically vary based on delinquency status. As of September 30, 2018, we serviced 1.1 million loans with an aggregate UPB of $161.0 billion.

Prior to January 18, 2018, for loans underlying Rights to MSRs, the servicing fees were apportioned between NRZ and us such that NRZ retained a fee based on the UPB of the loans serviced, and OLS received certain fees, including a performance fee based on servicing fees paid less an amount calculated based on the amount of servicing advances and the cost of financing those advances as well as ancillary fees (other than float earnings). From January 18, 2018 going forward, in addition to a base servicing fee, Ocwen will continue to receive certain ancillary fees, primarily late fees, loan modification fees and Speedpay® fees, while NRZ will receive all float earnings, servicing fees in excess of the base fee paid to OLS and certain REO-related income including REO referral commissions. OLS may also receive certain incentive fees or pay penalties tied to various contractual performance metrics.

Effective January 1, 2018, our entire portfolio of MSRs is carried at fair value. Prior to that date, conforming and government insured MSR classes were carried at amortized cost. We are reporting changes in fair value, amortization and impairments related to our MSRs in MSR valuation changes, net on our unaudited consolidated statements of operations. The value of our MSRs are typically correlated to changes in interest rates; as interest rates rise the value of the servicing portfolio typically rises as a result of lower anticipated prepayment speeds. Valuation is also impacted by loan delinquency rates whereby as delinquency rates decline, the value of the servicing portfolio rises. While we do not hedge changes in the fair value of our MSRs, changes in fair value of any fair value elected financing liabilities, which are recorded in interest expense in our unaudited consolidated statements of operations, will partially offset the changes in fair value of the related MSRs.

We recognize the proceeds received in connection with Rights to MSRs transactions as a financing liability that we elected to account for at fair value. Fair value for the portion of the borrowing attributable to the MSRs underlying the Rights to MSRs is determined using the mid-point of the range of prices provided by third-party valuation experts. Fair value for the portion of the borrowing attributable to any lump sum payments received in connection with the transfer of MSRs underlying such Rights to MSRs to the extent such transfer is accounted for as a financing is determined by discounting the relevant future cash flows that were altered through such transfer using assumptions consistent with the mid-point of the range of prices provided by third-party valuation experts for the related MSR. Since we have elected fair value for our portfolio of non-Agency MSRs, future fair value changes in the Financing Liability - MSRs Pledged will offset changes in the fair value of the related MSRs. See Note 8 — Rights to MSRs for additional information.

Third-Party Servicer Ratings

Like other servicers, we are the subject of mortgage servicer ratings or rankings (collectively, ratings) issued and revised from time to time by rating agencies including Moody’s, S&P and Fitch. Favorable ratings from these agencies are important to the conduct of our loan servicing and lending businesses, and downgrades in these ratings could adversely impact them.

The following table summarizes our key servicer ratings by these rating agencies:

	Moody's	S&P	Fitch
Residential Prime Servicer	SQ3-	Average	RPS3-
Residential Subprime Servicer	SQ3-	Average	RPS3-
Residential Special Servicer	SQ3-	Average	RSS3-
Residential Second/Subordinate Lien Servicer	SQ3-	Average	RPS3-
Residential Home Equity Servicer	—	—	RPS3-
Residential Alt-A Servicer	—	—	RPS3-
Master Servicing	SQ3	Average	RMS3-
Ratings Outlook (1)	N/A	Stable	Stable
Date of last action	April 24, 2017	February 26, 2018	April 25, 2017

(1) Moody's placed the servicer ratings on Watch for Downgrade on April 24, 2017.

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The following table presents selected results of operations of our Servicing segment. The amounts presented are before the elimination of balances and transactions with our other segments:

Periods ended September 30,	Three Months 2018	Three Months 2017	% Change	Nine Months 2018	Nine Months 2017	% Change
Revenue						
Servicing and subservicing fees						
Residential	$213,377	$231,272	(8)%	$655,602	$756,119	(13)%
Commercial	1,050	2,314	(55)	4,301	6,209	(31)
	214,427	233,586	(8)	659,903	762,328	(13)
Gain on loans held for sale, net	1,334	4,054	(67)	7,914	8,767	(10)
Other	1,869	8,905	(79)	6,416	31,252	(79)
Total revenue	217,630	246,545	(12)	674,233	802,347	(16)
Expenses						
Compensation and benefits	32,130	40,312	(20)	103,365	121,678	(15)
MSR valuation adjustments, net	41,289	33,359	24	91,307	115,237	(21)
Servicing and origination	27,883	46,684	(40)	80,303	110,650	(27)
Professional services	13,605	14,148	(4)	38,422	49,076	(22)
Technology and communications	9,850	11,970	(18)	30,838	35,779	(14)
Occupancy and equipment	8,475	11,098	(24)	28,335	35,431	(20)
Corporate overhead allocations	48,845	59,211	(18)	145,710	168,345	(13)
Other	3,000	1,783	68	4,781	1,210	295
Total expenses	185,077	218,565	(15)	523,061	637,406	(18)
Other income (expense)						
Interest income	2,242	144	n/m	4,136	406	919
Interest expense	(47,359)	(28,568)	66	(144,551)	(159,822)	(10)
Gain (loss) on sale of mortgage servicing rights, net	(733)	6,543	(111)	303	7,863	(96)
Other, net	(602)	(418)	44	(2,392)	4,642	(152)
Total other expense, net	(46,452)	(22,299)	108	(142,504)	(146,911)	(3)
Income before income taxes	$(13,899)	$5,681	(345)%	$8,668	$18,030	(52)%

n/m: not meaningful

The following tables provide selected operating statistics:

At September 30,	2018	2017	% Change
Residential Assets Serviced			
Unpaid principal balance (UPB):			
Performing loans (1)	$148,440,800	$169,840,643	(13)%
Non-performing loans	10,174,351	14,230,148	(29)
Non-performing real estate	2,381,323	3,397,527	(30)
Total	$160,996,474	$187,468,318	(14)%
Conventional loans (2)	$42,845,089	$53,202,003	(19)%
Government-insured loans	19,855,900	21,727,342	(9)
Non-Agency loans	98,295,485	112,538,973	(13)
Total	$160,996,474	$187,468,318	(14)%
Percent of total UPB:			
Servicing portfolio	42 %	42 %	— %
Subservicing portfolio	1	2	(50)
NRZ (3)	57	56	2
Non-performing residential assets serviced	8	9	(11)
Number:			
Performing loans (1)	1,045,029	1,178,537	(11)%
Non-performing loans	49,982	72,213	(31)
Non-performing real estate	11,811	16,803	(30)
Total	1,106,822	1,267,553	(13)%
Conventional loans (2)	262,968	317,588	(17)%
Government-insured loans	145,233	159,439	(9)
Non-Agency loans	698,621	790,526	(12)
Total	1,106,822	1,267,553	(13)%
Percent of total number:			
Servicing portfolio	40 %	40 %	— %
Subservicing portfolio	1	2	(50)
NRZ (3)	59	58	2
Non-performing residential assets serviced	6	7	(14)

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	Three Months			Nine Months		
Periods ended September 30,	2018	2017	% Change	2018	2017	% Change
Residential Assets Serviced						
Average UPB:						
Servicing portfolio	$69,502,586	$79,836,441	(13)%	$71,985,417	$82,257,200	(12)%
Subservicing portfolio	1,498,324	3,672,537	(59)	1,655,913	4,018,896	(59)
NRZ (3)	93,097,665	107,589,331	(13)	96,575,894	112,279,580	(14)
Total	$164,098,575	$191,098,309	(14)%	$170,217,224	$198,555,676	(14)%
Prepayment speed (average CPR)	14 %	15 %	(7)%	14 %	15 %	(7)%
% Voluntary	82	82	—	82	81	1
% Involuntary	18	18	—	18	19	(5)
% CPR due to principal modification	1	1	—	1	1	—
Average number:						
Servicing portfolio	447,598	510,455	(12)%	463,533	524,337	(12)%
Subservicing portfolio	15,039	27,994	(46)	16,737	29,774	(44)
NRZ (3)	663,587	750,078	(12)	684,769	777,821	(12)
	1,126,224	1,288,527	(13)%	1,165,039	1,331,932	(13)%
Residential Servicing and Subservicing Fees						
Loan servicing and subservicing fees:						
Servicing	$52,541	$62,465	(16)%	$166,700	$195,683	(15)%
Subservicing	657	1,760	(63)	2,443	5,792	(58)
NRZ	120,593	129,228	(7)	374,322	420,151	(11)
	173,791	193,453	(10)	543,465	621,626	(13)
Late charges	14,773	14,878	(1)	44,516	47,120	(6)
Custodial accounts (float earnings)	10,351	7,380	40	26,156	18,027	45
Loan collection fees	4,907	5,654	(13)	14,666	17,889	(18)
HAMP fees	3,365	6,202	(46)	11,622	37,662	(69)
Other	6,190	3,705	67	15,177	13,795	10
	$213,377	$231,272	(8)%	$655,602	$756,119	(13)%

	Three Months			Nine Months		
Periods ended September 30,	2018	2017	% Change	2018	2017	% Change
Interest Expense on NRZ Financing Liability (4)						
Servicing fees collected on behalf of NRZ	$120,593	$129,228	(7)%	$374,322	$420,151	(11)%
Less: Subservicing fee retained by Ocwen	33,335	68,536	(51)	101,997	226,483	(55)
Net servicing fees remitted to NRZ	87,258	60,692	44	272,325	193,668	41
Less: Reduction (increase) in financing liability						
Changes in fair value						
Original Rights to MSRs Agreements	4,844	(9,854)	(149)	(3,938)	(9,854)	(60)
2017 Agreements and New RMSR Agreements	(2,163)	36,878	(106)	15,261	36,878	(59)
Runoff, settlements and other						
Original Rights to MSRs Agreements	14,095	19,003	(26)	45,455	52,196	(13)
2017 Agreements and New RMSR Agreements	33,765	767	n/m	104,291	767	n/m
	$36,717	$13,898	164 %	$111,256	$113,681	(2)%
Number of Completed Modifications						
HAMP	316	620	(49)%	987	12,249	(92)%
Non-HAMP	8,863	5,924	50	30,542	23,719	29
Total	9,179	6,544	40 %	31,529	35,968	(12)%
Financing Costs						
Average balance of advances and match funded advances	$1,145,026	$1,441,798	(21)%	$1,227,819	$1,544,824	(21)%
Average borrowings						
Match funded liabilities	702,679	1,046,772	(33)	753,805	1,146,096	(34)
Financing liabilities	729,049	525,806	39	760,491	546,324	39
Other secured borrowings	1,753	17,711	(90)	2,404	21,999	(89)
Interest expense on borrowings						
Match funded liabilities	7,229	11,196	(35)	23,323	36,015	(35)
Financing liabilities	38,259	15,317	150	115,625	118,579	(2)
Other secured borrowings	244	513	(52)	1,144	1,371	(17)
Effective average interest rate						
Match funded liabilities	4.12 %	4.28 %	(4)	4.13 %	4.19 %	(1)
Financing liabilities (4)	20.99	11.65	80	20.27	28.94	(30)
Other secured borrowings	55.68	11.59	380	63.45	8.31	664
Facility costs included in interest expense	$1,183	$2,305	(49)	$4,185	$5,724	(27)
Average 1ML	2.11 %	1.23 %	72	1.91 %	1.02 %	87

	Three Months			Nine Months		
Periods ended September 30,	2018	2017	% Change	2018	2017	% Change
Average Employment						
India and other	3,981	4,927	(19)%	4,192	5,251	(20)%
U.S.	938	1,173	(20)	1,008	1,215	(17)
Total	4,919	6,100	(19)%	5,200	6,466	(20)%
Collections on loans serviced for others	$7,830,901	$9,196,616	(15)%	$23,746,463	$28,063,649	(15)%

n/m: not meaningful

(1) Performing loans include those loans that are current (less than 90 days past due) and those loans for which borrowers are making scheduled payments under loan modification, forbearance or bankruptcy plans. We consider all other loans to be non-performing.

(2) Conventional loans include 119,974 and 144,461 prime loans with a UPB of $20.6 billion and $25.7 billion at September 30, 2018 and September 30, 2017, respectively, which we service or subservice.

(3) Loans serviced by Ocwen for which the Rights to MSRs have been sold to NRZ, including loans that have been converted to fully-owned MSRs.

(4) The effective average interest rate on the financing liability that we recognized in connection with the sales of Rights to MSRs to NRZ is 22.41% and 12.79% for the three months ended September 30, 2018 and 2017, respectively, and 21.72% and 33.58% for the nine months ended September 30, 2018 and 2017, respectively.

The following table provides information regarding the changes in our portfolio of residential assets serviced or subserviced:

	Amount of UPB		Count	
	2018	2017	2018	2017
Portfolio at January 1	$179,352,554	$209,092,130	1,221,695	1,393,766
Additions	546,619	1,403,213	2,694	6,675
Sales	(3,292)	(52,162)	(39)	(260)
Servicing transfers	(302,120)	(220,169)	(1,840)	(1,253)
Runoff	(6,204,885)	(7,853,998)	(36,598)	(44,972)
Portfolio at March 31	$173,388,876	$202,369,014	1,185,912	1,353,956
Additions	655,943	1,152,541	2,906	5,434
Sales	(6,459)	(82,571)	(43)	(410)
Servicing transfers	(218,871)	(484,530)	(2,467)	(2,015)
Runoff	(6,692,475)	(8,156,030)	(40,219)	(46,855)
Portfolio at June 30	$167,127,014	$194,798,424	1,146,089	1,310,110
Additions	641,286	731,276	2,808	3,171
Sales	(572,129)	(28,825)	(3,228)	(221)
Servicing transfers	(31,375)	(212,908)	(3,465)	(1,332)
Runoff	(6,168,322)	(7,819,649)	(35,382)	(44,175)
Portfolio at September 30	$160,996,474	$187,468,318	1,106,822	1,267,553

The key drivers of our servicing segment operating results for the three and nine months ended September 30, 2018, as compared to the same periods of 2017, are portfolio runoff, the effects of cost improvements achieved in aligning our servicing operations more appropriately to the size of our servicing portfolio and expiration of the HAMP modification program on December 31, 2016. Borrowers who had requested assistance or to whom an offer of assistance had been extended as of that date had until September 30, 2017 to finalize their modification. We continue to earn HAMP success fees for HAMP modifications that remain less than 90 days delinquent at the first, second and third year anniversary of the start of the trial modification.

Three Months Ended September 30, 2018 versus 2017

Servicing and subservicing fee revenue declined by $19.2 million, or 8%, compared to the third quarter of 2017 as the average UPB and loan count in our residential portfolio declined by 14% and 13%, respectively, due to portfolio runoff. Total completed loan modifications increased 40% as compared to the third quarter of 2017, despite a 49% decline in HAMP modifications, due to an increase in non-HAMP modifications. Revenue recognized in connection with loan modifications was $14.4 million and $14.5 million for the third quarter of 2018 and 2017, respectively.

Other revenue declined $7.0 million, or 79%, due to a $7.0 million decline in REO referral commissions primarily due to the transfer of the rights to such commissions to NRZ effective with the New RMSR Agreements.

MSR valuation adjustments, net, increased $7.9 million, or 24%, compared to the third quarter of 2017 primarily due to higher interest rates in the third quarter of 2018 and a resulting increase in advance funding costs related to our non-Agency MSRs, with no offsetting favorable impact to our Agency MSRs based on our third quarter benchmarking review. MSR valuation adjustments for the third quarter of 2017 include the impact of a favorable benchmarking update to modeled losses on certain financed FHA and VA MSRs.

Expenses, excluding MSR valuation adjustments, net, were $41.4 million, or 22%, lower as compared to the third quarter of 2017.

Compensation and benefits, Occupancy and equipment, and Technology and communications expenses declined principally as a result of headcount reductions and other initiatives aimed at reducing the costs of our servicing operations to more appropriately align with the declining size of our servicing portfolio. Total average headcount of the servicing segment decreased 19% as compared to the third quarter of 2017, which drove an $8.2 million, or 20%, decline in Compensation and benefits expense. Corporate overhead allocations declined $10.4 million due to corporate headcount reductions and other actions we have taken to reduce costs.

Servicing and origination expense declined $18.8 million, or 40%, as compared to the third quarter of 2017 primarily due to a $15.0 million decrease in government-insured claim loss provisions in connection with reinstated or modified loans and a $4.5 million reduction in losses related to non-recoverable advances and receivables.

Interest expense increased by $18.8 million, or 66%, compared to the third quarter of 2017. The $22.8 million increase in interest expense on the fair value elected NRZ financing liabilities was partially offset by a $4.0 million decrease in interest on match funded liabilities, consistent with the decline in servicing advances.

The increase in interest expense on the NRZ financing liabilities is primarily the result of the $37.6 million favorable fair value adjustment recorded in the third quarter of 2017 in connection with the $54.6 million lump sum payment we received from NRZ on execution of the 2017 Agreements on July 23, 2017, offset in part by runoff of the NRZ servicing portfolio.

Nine Months Ended September 30, 2018 versus 2017

Servicing and subservicing fee revenue declined by $102.4 million, or 13%, as the average UPB and loan count in our residential servicing and subservicing portfolio declined by 14% and 13%, respectively, due to portfolio runoff. Revenue recognized in connection with loan modifications declined 40% to $47.1 million for the nine months ended September 30, 2018 as compared to $78.8 million for the same period in 2017 due primarily to the expiration of the HAMP program on December 31, 2016 which resulted in a 92% decline in completed HAMP modifications.

Other revenue declined $24.8 million, or 79%, due to a $24.7 million decline in REO referral commissions primarily due to the transfer of the rights to such commissions to NRZ effective with the New RMSR Agreements.

MSR valuation adjustments, net, decreased $23.9 million, or 21%, compared to the nine months ended September 30, 2017 primarily driven by a net favorable impact of higher interest rates, with the favorable impact of slower projected Agency prepayment speeds more than offsetting the unfavorable impact of higher non-Agency advance funding costs, and a favorable impact of slower actual runoff in the non-Agency MSRs in 2018.

Expenses, excluding MSR valuation adjustments, net, were $90.4 million, or 17%, lower as compared to the nine months ended September 30, 2017.

Declines in Compensation and benefits, Occupancy and equipment, and Technology and communications expenses reflect a 20% reduction in average servicing headcount and the effects of other cost improvements. Compensation and benefits expense declined $18.3 million, or 15%. Corporate overhead allocations declined $22.6 million due to headcount reductions and other actions we have taken to reduce corporate expenses.

The $10.7 million, or 22% decline in Professional services expense is primarily due to an $8.2 million decline in legal expenses and a $1.7 million reduction in fees incurred in connection with the conversion of NRZ's Rights to MSRs to fully-owned MSRs.

Servicing and origination expense declined $30.3 million, or 27%, as compared to the nine months ended September 30, 2017 primarily due to a $22.6 million decrease in government-insured claim loss provisions due to additional reserves recorded in the prior year on reinstated or modified loans along with a decline in the volume of claims and a $5.9 million reduction in losses related to non-recoverable advances and receivables.

Interest expense declined by $15.3 million, or 10%, compared to the nine months ended September 30, 2017 primarily due to a $12.7 million decrease in interest on match funded liabilities, consistent with the decline in servicing advances. Interest expense on the fair value elected NRZ financing liabilities declined $2.4 million.

The decline in interest expense related to the NRZ financing liabilities was due to runoff of the NRZ servicing portfolio offset by a $15.7 million reduction in net favorable fair value adjustments as compared to the nine months ended September 30, 2017. Interest expense for the third quarter of 2017 includes the $37.6 million favorable fair value adjustment on the NRZ financing liability recognized in connection with the transfer of MSRs, as discussed above, while the first quarter of 2018 includes a $16.6 million favorable fair value adjustment related to the $279.6 million lump-sum upfront payment we received in January 2018 in accordance with the terms of the New RMSR Agreements.

Lending

Our lending business is focused on our retail forward lending channel, primarily through retail lending recapture, and on our reverse mortgage business.

Given the 2017 strategic shift in our forward lending activities, our efforts are principally focused on targeting existing Ocwen customers by offering them competitive mortgage refinance opportunities (i.e., portfolio recapture), where permitted by the governing servicing and pooling agreement. In doing so, we generate revenues for our forward lending business and protect the servicing portfolio by retaining these customers. Under the terms of the 2017 Agreements and New RMSR Agreements, to the extent we refinance a loan underlying the MSRs subject to these agreements, we are obligated to transfer such recaptured MSR to NRZ under the terms of a separate subservicing agreement.

We originate and purchase reverse mortgages under the guidelines of the HECM reverse mortgage insurance program of HUD. Loans originated under this program are guaranteed by the FHA, which provides investors with protection against risk of borrower default. We retain the servicing rights to reverse loans securitized through the Ginnie Mae HMBS program.

The following table presents the results of operations of our Lending segment. The amounts presented are before the elimination of balances and transactions with our other segments:

	Three Months			Nine Months		
Periods ended September 30,	2018	2017	% Change	2018	2017	% Change
Revenue						
Gain on loans held for sale, net						
Forward loans	$6,954	$10,268	(32)%	$20,802	$30,889	(33)%
Reverse loans	8,654	11,454	(24)	32,419	37,182	(13)
	15,608	21,722	(28)	53,221	68,071	(22)
Other	1,309	10,213	(87)	11,895	27,386	(57)
Total revenue	16,917	31,935	(47)	65,116	95,457	(32)
Expenses						
Compensation and benefits	9,959	18,666	(47)	32,138	57,657	(44)
Servicing and origination	3,606	4,583	(21)	11,302	13,669	(17)
Occupancy and equipment	1,361	1,120	22	3,773	3,817	(1)
Technology and communications	519	652	(20)	1,355	2,001	(32)
Professional services	308	1,124	(73)	1,003	2,107	(52)
MSR valuation adjustments, net	159	67	137	388	209	86
Corporate overhead allocations	935	960	(3)	2,554	2,861	(11)
Other	2,107	11,240	(81)	4,523	18,307	(75)
Total expenses	18,954	38,412	(51)	57,036	100,628	(43)
Other income (expense)						
Interest income	1,255	2,857	(56)	4,107	8,612	(52)
Interest expense	(1,437)	(4,504)	(68)	(4,855)	(11,171)	(57)
Other, net	154	555	(72)	774	658	18
Total other income (expense), net	(28)	(1,092)	(97)	26	(1,901)	(101)
Income (loss) before income taxes	$(2,065)	$(7,569)	(73)%	$8,106	$(7,072)	(215)%

n/m: not meaningful

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The following table provides selected operating statistics for our Lending segment:

	September 30,		
	2018	2017	% Change
Short-term loan funding commitments			
Forward loans	$91,134	$189,501	(52)%
Reverse loans	21,312	17,290	23
Future draw commitment (UPB) (1)	1,460,642	1,363,300	7 %
Future Value (2)	69,250	68,429	1 %

	Three Months			Nine Months		
Periods ended September 30,	2018	2017	% Change	2018	2017	% Change
Loan Production by Channel						
Forward loans						
Correspondent	$—	$16,086	(100)%	$408	$472,890	(100)%
Wholesale	—	296,869	(100)	1,750	1,014,318	(100)
Retail	172,302	228,246	(25)	602,338	594,022	1
	$172,302	$541,201	(68)%	$604,496	$2,081,230	(71)%
% HARP production	6 %	9 %	(33)%	8 %	7 %	14 %
% Purchase production	—	32	(100)	—	36	(100)
% Refinance production	100	68	47	100	64	56
Reverse loans						
Correspondent	$94,631	$86,133	10 %	$278,681	$395,372	(30)%
Wholesale	38,414	101,728	(62)	136,086	267,681	(49)
Retail	14,471	39,947	(64)	50,153	113,279	(56)
	$147,516	$227,808	(35)%	$464,920	$776,332	(40)%
Average Employment						
U.S.	363	711	(49)%	390	745	(48)%
India and other	125	252	(50)	128	258	(50)
Total	488	963	(49)%	518	1,003	(48)%

(1) We do not incur any substantive underwriting, marketing or compensation costs in connection with any future draws. We recognize this Future Value over time as future draws are securitized or sold.

(2) Future Value represents the net present value of estimated future cash flows from customer draws of the loans and projected performance assumptions based on historical experience and industry benchmarks discounted at 12%.

Our Lending segment results for the three and nine months ended September 30, 2018, as compared to the same periods of 2017, were primarily driven by our strategic decision to exit the forward lending correspondent and wholesale channels, rising interest rates and reverse lending HECM program changes and the related impacts on loan production, revenue and expenses. Average headcount decreased in line with lower production and the focus on our retail channel, resulting in lower Compensation and benefits expense. Rising interest rates in 2018 have negatively impacted our forward retail business with industry refinance volumes down 32% for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 according to the Fannie Mae Housing Forecast Report. Changes to the FHA HECM program for originations after October 1, 2017 have negatively impacted industry, and Ocwen, originations. According to the HUD HECM Endorsement Summary Report, industry endorsements, or the number of new HECM loans insured by the FHA during the reporting period, totaled 8,985 and

34,341, and 13,773 and 42,868, for the three and nine months ended September 30, 2018 and 2017, respectively. This represents a decline of 35% and 20% for the three and nine months ended September 30, 2018, respectively, as compared to the same periods of 2017.

Three Months Ended September 30, 2018 versus 2017

Total revenue decreased by $15.0 million, or 47%, in the third quarter of 2018 on a $449.2 million, or 58%, decrease in total loan production. Our exit from the forward lending correspondent and wholesale channels, while resulting in a 68% decline in forward loan production as compared to the third quarter of 2017, only resulted in a $3.3 million, or 32%, reduction in gain on loans held for sale because margins are generally lower in these channels. In our reverse lending business, gain on loans held for sale declined $2.8 million, or 24%, as total loan production declined 35% driven in part by the HECM program changes and offset in part by improved margins. Other revenue decreased primarily because of a $7.1 million decrease in the excess of changes in the fair value of our HECM reverse mortgage loans over changes in the fair value of the HMBS financing liability. Rising interest rates reduce the average life of our HECM reverse mortgage loans as ARM borrowers reach their maximum loan amount faster, reducing projected service fees, net of subservicing fees, and available future draws, and accelerating loan resolutions. Origination fees declined due to lower lending segment volumes.

Total expenses decreased $19.5 million, or 51%, as compared to the third quarter of 2017. Compensation and benefits expense decreased $8.7 million, or 47%, due to a reduction in headcount and a decline in commissions on lower forward and reverse lending origination volume. Total average headcount of the Lending segment decreased 49% as compared to the third quarter of 2017, reflecting the strategic shift in our forward lending activities and lower origination volume in the reverse lending channels. Other expenses are $9.1 million lower in the third quarter of 2018 primarily because of a $6.8 million charge we recognized in the third quarter of 2017 to write-off the carrying value of internally-developed Loan Operating System (LOS) software used in our wholesale forward lending business. In addition, advertising expense declined by $1.8 million.

Interest income and expense both declined in the third quarter of 2018, consistent with lower origination volume.

Nine Months Ended September 30, 2018 versus 2017

Total revenue for the nine months ended September 30, 2018 decreased $30.3 million, or 32%, as total loan production dropped $1.8 billion, or 63%, driven primarily by our exit from the forward lending correspondent and wholesale channels. The resulting $10.1 million, or 33%, decline in forward lending gain on loans held for sale was offset in part by slightly higher production and margins in our retail channel. Reverse lending gain on loans held for sale declined by $4.8 million, or 13%, due to a 40% decline in loan production which was lower across all channels, offset in large part by higher margins. Other revenue declined due to a $10.6 million reduction in the net change in the fair values of HECM reverse mortgage loans and the related HMBS financing liability driven by higher interest rates, as disclosed above, and due to a decline in origination fees on lower lending segment volumes.

Total expenses for the nine months ended September 30, 2018 decreased $43.6 million, or 43%. The $25.5 million, or 44% decrease in Compensation and benefits expense is due to a 48% decrease in headcount and a decline in commissions resulting from the reduction in lending segment production. The $13.8 million decline in Other expenses is primarily attributable to the $6.8 million write-off in the third quarter of 2017 of the LOS software used in our wholesale forward lending business, a $4.6 million decline in advertising expense and a $1.3 million decline in the provision for indemnification.

The decline in interest income and expense as compared to the nine months ended September 30, 2017 is primarily the result of the overall decline in loan production.

Corporate Items and Other

Corporate Items and Other includes revenues and expenses of CRL, ACS and our other business activities that are currently individually insignificant, revenues and expenses that are not directly related to other reportable segments, interest income on short-term investments of cash, interest expense on corporate debt and certain corporate expenses. Our cash balances are included in Corporate Items and Other.

Certain expenses incurred by corporate support services are allocated to the Servicing and Lending segments.

The following table presents selected results of operations of Corporate Items and Other. The amounts presented are before the elimination of balances and transactions with our other segments:

	Three Months			Nine Months		
Periods ended September 30,	2018	2017	% Change	2018	2017	% Change
Revenue						
Premiums (CRL)	$3,884	$5,455	(29)%	$12,795	$17,827	(28)%
Other	(153)	707	(122)	(28)	2,175	(101)
Total revenue	3,731	6,162	(39)	12,767	20,002	(36)
Expenses						
Compensation and benefits	21,218	31,560	(33)	75,717	93,415	(19)
Professional services	26,749	23,145	16	71,396	94,468	(24)
Technology and communications	10,228	15,307	(33)	35,113	41,750	(16)
Occupancy and equipment	2,060	3,122	(34)	5,261	10,321	(49)
Servicing and origination	269	979	(73)	(153)	3,742	(104)
Other	2,751	2,560	7	10,510	19,818	(47)
Total expenses before corporate overhead allocations	63,275	76,673	(17)	197,844	263,514	(25)
Corporate overhead allocations						
Servicing segment	(48,845)	(59,211)	(18)	(145,710)	(168,345)	(13)
Lending segment	(935)	(960)	(3)	(2,554)	(2,861)	(11)
Total expenses	13,495	16,502	(18)	49,580	92,308	(46)
Other income (expense), net						
Interest income	466	1,098	(58)	1,775	3,083	(42)
Interest expense	(12,492)	(14,209)	(12)	(40,195)	(41,478)	(3)
Other, net	(2,519)	(1,214)	107	(5,254)	1,084	(585)
Total other expense, net	(14,545)	(14,325)	2	(43,674)	(37,311)	17
Loss before income taxes	$(24,309)	$(24,665)	(1)%	$(80,487)	$(109,617)	(27)%

Three Months Ended September 30, 2018 versus 2017

The 29% decrease in CRL premium revenue as compared to the three months ended September 30, 2017 is primarily driven by a 30% decline in the average number of foreclosed real estate properties in our servicing portfolio.

Expenses before allocations declined $13.4 million, or 17%, as compared to the third quarter of 2017.

Declines in Compensation and benefits, Technology and communications and Occupancy and equipment expenses as compared to the third quarter of 2017 are primarily attributable to headcount reductions and other actions we have taken to reduce our costs, including bringing technology services in-house, closing and consolidating certain facilities, and our exit from the ACS business. The $10.3 million, or 33%, reduction in Compensation and benefits expense primarily resulted from a 27% decline in average headcount.

The $3.6 million, or 16%, increase in Professional services primarily reflects a $3.3 million increase in legal fees and settlements. Legal fees for the third quarter of 2018 include $4.6 million of fees incurred in connection with third-party escrow-related testing on certain loans we service. See Note 20 – Contingencies for additional information regarding our obligations under the agreements we entered into with all 30 states to resolve certain regulatory actions. Fees of $1.7 million incurred in the third quarter of 2018 related to the PHH Merger Agreement were offset by $1.6 million of regulatory monitor expenses in the third quarter of 2017.

Other, net includes foreign currency remeasurement exchange losses of $2.0 million and $0.7 million during the three months ended September 30, 2018 and 2017, respectively. The higher losses in 2018 are primarily attributed to depreciation of the India Rupee against the U.S. Dollar.

Nine Months Ended September 30, 2018 versus 2017

CRL premium revenue decreased 28% as compared to the nine months ended September 30, 2017 as a result a 29% decline in the average number of foreclosed real estate properties in our servicing portfolio.

Expenses before allocations declined $65.7 million, or 25%, as compared to the nine months ended September 30, 2017.

Professional services expense declined $23.1 million, or 24%, as compared to the nine months ended September 30, 2017 primarily due to a $20.7 million decrease in legal fees and settlements. Professional services expense for the nine months ended September 30, 2017 included significant litigation settlement related costs incurred in connection with a securities law matter and a TCPA matter. A $6.4 million decrease in monitor expenses, due to the termination of the CA Auditor and NY Operations Monitor engagements in 2017, was offset by $6.6 million of costs incurred during the nine months ended September 30, 2018 related to the PHH Merger Agreement.

As disclosed above, the declines in Compensation and benefits, Technology and communications and Occupancy and equipment are primarily attributable to headcount reductions and other actions we have taken to reduce our costs, as well as our exit from the ACS business. A 24% decline in average headcount drove the $17.7 million, or 19% reduction, in Compensation and benefits expense as compared to the nine months ended September 30, 2017. Lower salaries and benefits attributed to the reduction in headcount was offset in part by a $4.5 million increase in related severance expense for the nine months ended September 30, 2018.

The $3.9 million decrease in Servicing and origination expense is the result of lower reinsurance commissions incurred by CRL during the nine months ended September 30, 2018 in line with the declines in the covered portfolio.

Other operating expenses declined $9.3 million, or 47%, primarily due to a $4.5 million decline in the provision for losses on ACS automotive dealer financing notes, as we exited the ACS business in the first quarter of 2018, and a $2.5 million decline in the provision for indemnification.

The decline in Other, net for the nine months ended September 30, 2018 is primarily due to a $5.4 million increase in foreign currency remeasurement exchange losses that is primarily due to depreciation in value of the India Rupee against the U.S. Dollar. Foreign currency exchange gains (losses) for the nine months ended September 30, 2018 and 2017 were $(4.7) million and $0.7 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Overview

At September 30, 2018, our cash position was $254.8 million compared to $259.7 million at December 31, 2017. We invest cash in excess of our immediate operating needs primarily in money market deposit accounts. Our main priorities for deployment of excess cash are: (1) supporting our core servicing and lending businesses and investing in these core assets, (2) reducing revolving lines of credit in order to reduce interest expense, (3) reducing corporate leverage and (4) expanding into similar or complementary businesses that meet our return on capital requirements.

Sources of Funds

Our primary sources of funds for near-term liquidity are:

- Collections of servicing fees and ancillary revenues;
- Proceeds from match funded advance financing facilities;
- Proceeds from other borrowings, including warehouse facilities; and
- Proceeds from sales and securitizations of originated loans and repurchased loans.

On September 1, 2017, pursuant to the 2017 Agreements, we successfully transferred MSRs with UPB of $15.9 billion to NRZ and received a lump-sum payment of $54.6 million. On January 18, 2018, we received a lump-sum payment of $279.6 million in accordance with the terms of the New RMSR Agreements.

Servicing advances are an important component of our business and represent amounts that we, as servicer, are required to advance to, or on behalf of, our servicing clients if we do not receive such amounts from borrowers. Our ability to finance servicing advances is a significant factor that affects our liquidity. Our use of advance financing facilities is integral to our servicing advance financing strategy. Revolving variable funding notes issued by our advance financing facilities to large global financial institutions generally have a 364-day revolving period. Term notes are generally issued to institutional investors with one-, two- or three-year maturities.

Borrowings under our advance financing facilities are incurred by special purpose entities (SPEs) that we consolidate because we have determined that Ocwen is the primary beneficiary of the SPE. We transfer the financed advances to the SPEs, and the SPEs issue debt supported by collections on the transferred advances. Holders of the debt issued by the SPEs have recourse only to the assets of the SPEs for satisfaction of the debt. In connection with our sale of servicing advances to these advance financing SPEs and to NRZ relating to the Rights to MSRs, we make certain representations, warranties and covenants primarily related to the nature of the transferred advance receivables, our financial condition and our servicing practices.

Advances and match funded advances comprised 13% of total assets at September 30, 2018. Our borrowings under our advance financing facilities are secured by pledges of servicing advances that are sold to the related SPE and by cash held in debt service accounts.

The available borrowing capacity under our advance financing facilities has increased by $14.8 million to $165.8 million at September 30, 2018. While we reduced our maximum borrowing capacity by $245.0 million to better align with our anticipated future usage, the $259.8 million decline in outstanding borrowings drove the net increase in available capacity. Our ability to continue to pledge collateral under our advance financing facilities depends on the performance of the advances, among other factors. At September 30, 2018, $52.8 million of the available borrowing capacity could be used based on the amount of eligible collateral that had been pledged.

We use mortgage loan warehouse facilities to fund newly originated loans on a short-term basis until they are sold to secondary market investors, including GSEs or other third-party investors. These warehouse facilities are structured as repurchase or participation agreements under which ownership of the loans is temporarily transferred to the lender. The loans are transferred at a discount, or haircut, which serves as the primary credit enhancement for the lender. Currently, our master repurchase and participation agreements generally have maximum terms of 364-days. The funds are typically repaid using the proceeds from the sale of the loans to the secondary market investors, usually within 30 days. At September 30, 2018, we had maximum borrowing capacity under our warehouse facilities of $725.0 million. Of the borrowing capacity extended on a committed basis, $209.6 million was available at September 30, 2018, and $100.0 million of the available borrowing capacity could be used based on the amount of eligible collateral that had been pledged. $400.3 million of available uncommitted amounts at September 30, 2018 can be advanced solely at the discretion of the lender, and there can be no assurance that any uncommitted amounts will be available to us at any particular time.

We also rely on the secondary mortgage market as a source of long-term capital to support our lending operations. Substantially all of the mortgage loans that we originate or purchase are sold or securitized in the secondary mortgage market in the form of residential mortgage backed securities guaranteed by Fannie Mae or Freddie Mac and, in the case of mortgage backed securities guaranteed by Ginnie Mae, are mortgage loans insured or guaranteed by the FHA or VA.

Our debt agreements contain various qualitative and quantitative covenants including financial covenants, covenants to operate in material compliance with applicable laws, monitoring and reporting obligations and restrictions on our ability to engage in various activities, including but not limited to incurring additional debt, paying dividends, repurchasing or redeeming capital stock, transferring assets or making loans, investments or acquisitions. Because of the covenants to which we are subject, we may be limited in the manner in which we conduct our business and may be limited in our ability to engage in favorable business activities or raise additional capital to finance future operations or satisfy future liquidity needs. In addition, breaches or events that may result in a default under our debt agreements include, among other things, nonpayment of principal or interest, noncompliance with our covenants, breach of representations, the occurrence of a material adverse change, insolvency, bankruptcy, certain material judgments and litigation and changes of control.

Covenants and default provisions of this type are commonly found in debt agreements such as ours. Certain of these covenants and default provisions are open to subjective interpretation and, if our interpretation were contested by a lender, a court may ultimately be required to determine compliance or lack thereof. In addition, our debt agreements generally include cross default provisions such that a default under one agreement could trigger defaults under other agreements. If we fail to comply with our debt agreements and are unable to avoid, remedy or secure a waiver of any resulting default, we may be subject to adverse action by our lenders, including termination of further funding, acceleration of outstanding obligations, enforcement of liens against the assets securing or otherwise supporting our obligations, and other legal remedies, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations. We believe that we are in compliance with the qualitative and quantitative covenants in our debt agreements as of the date this Quarterly Report on Form 10-Q is filed with the SEC.

Use of Funds

Our primary uses of funds are:

- Payments for advances in excess of collections on existing servicing portfolios;
- Payment of interest and operating costs;
- Funding of originated and repurchased loans;

- Repayments of borrowings, including match funded liabilities and warehouse facilities; and
- Working capital and other general corporate purposes.

Under the terms of our SSTL facility agreement, subject to certain exceptions, we are required to prepay the SSTL with 100% of the net cash proceeds from certain permitted asset sales, subject to our ability to reinvest such proceeds in our business within 270 days of receipt. During the second quarter of 2018, we voluntarily prepaid $50.0 million of the SSTL balance for the purpose of reducing interest costs.

We continue to invest cash amounts that are in excess of our immediate business needs to achieve targeted investment returns within our risk appetite and we have also deployed excess cash to reduce secured borrowings. We continue to evaluate the best uses for such cash, which could involve investments in new assets or businesses and reductions in debt, among other options.

Outlook

We closely monitor our liquidity position and ongoing funding requirements, and we regularly monitor and project cash flow by period to mitigate liquidity risk.

In assessing our liquidity outlook, our primary focus is on six measures:

- Business financial projections for revenues, costs and net income;
- Requirements for maturing liabilities compared to amounts generated from maturing assets and operating cash flow;
- Any projected future sales of MSRs, interests in MSRs or other assets and any reimbursement of servicing advances that may be related to any such sales;
- The change in advances and match funded advances compared to the change in match funded liabilities and available borrowing capacity;
- Projected future originations and purchases of forward and reverse mortgage loans; and
- Projected funding requirements of new investment and business initiatives.

We have considered the impact of financial projections on our liquidity analysis and have evaluated the appropriateness of the key assumptions in our forecast such as revenues, expenses, our assessment of the likely impact of recent regulatory actions, recurring and nonrecurring costs and sales of MSRs and other assets. We have analyzed our cash requirements and financial obligations. Based upon these evaluations and analysis, we believe that we have sufficient liquidity to meet our obligations and fund our operations for the next twelve months.

We are required to maintain certain minimum levels of cash under our debt agreements and portions of our cash balances are held in our non-U.S. subsidiaries. We would have to repatriate the cash held by our non-U.S. subsidiaries, potentially with tax consequences and in compliance with applicable laws, should we wish to utilize that cash in the U.S.

As of September 30, 2018, the revolving periods of our advance financing facilities for variable funding notes with a total borrowing capacity of $55.0 million were scheduled to end during 2018, subject to renewal, replacement or extension. Total borrowings outstanding on these notes were only $0.4 million at September 30, 2018. In the event we are unable to renew, replace or extend the revolving period of one or more of these advance financing facilities, monthly amortization of the outstanding balance must generally begin at the end of the respective revolving period.

Our master repurchase and participation agreements for financing new loan originations generally have 364-day terms. At September 30, 2018, we had $40.4 million outstanding under these financing arrangements that mature in 2018.

Despite the heightened regulatory and public scrutiny we have faced, including regulatory actions and settlements, we continue to access capital markets to fund our business operations. We believe that we will be able to renew, replace or extend our debt agreements to the extent necessary to finance our business before or as they become due, consistent with our historical experience.

We are actively engaged with our lenders and as a result, have successfully completed the following with respect to our current and anticipated financing needs:

- Effective January 1, 2018, we reduced the borrowing capacity of our Ocwen Master Advance Receivables Trust (OMART) Series 2015-VF5 variable rate notes from $105.0 million to $70.0 million. Additionally, effective January 1, 2018, we converted the OMART Series 2014-VF4 variable notes into a single class Series 2014-VF4 Note and reduced the maximum borrowing capacity from $105.0 million to $70.0 million. The prior senior and subordinate margins by class have been replaced by an all-in margin of 3.00%.

- On January 23, 2018, we voluntarily terminated our Automotive Capital Asset Receivables Trust (ACART) Loan Series 2017-1 automotive dealer floor plan loan agreement pursuant to our exit of the ACS line of business.
- On May 31, 2018, we extended to April 30, 2019 and May 31, 2019 the maturity of two warehouse facilities with a combined uncommitted borrowing capacity of $250.0 million.

- Effective June 7, 2018, we reduced the borrowing capacity of the Ocwen Freddie Advance Funding (OFAF) Series 2015-VF1 variable rate notes from $110.0 million to $65.0 million with interest computed based on the lender's cost of funds plus a margin of 180 to 450 bps.
- On July 13, 2018, we increased the borrowing capacity of the OMART Series 2015-VF5 variable notes from $70.0 million to $225.0 million and extended the amortization date to December 15, 2019, with interest computed based on the lender's cost of funds plus a margin of 105 to 250 bps. The increased capacity was used on July 16, 2018 to redeem the OMART Series 2016-T1 fixed-rate term notes with an outstanding balance of $265.0 million and an amortization date of August 15, 2018. We also voluntarily terminated the OMART Series 2014-VF4 variable note on such date, due to reductions in outstanding advances.
- On August 15, 2018, we issued two $150.0 million fixed-rate term notes (OMART Series 2018 T-1 and Series 2018-T2) with amortization dates of August 15, 2019 and August 2020, respectively.
- On August 15, 2018, we renewed a mortgage warehouse agreement facility through August 15, 2019. This agreement provides financing for up to $100.0 million at the discretion of the lender.
- On September 28. 2018, we renewed a repurchase agreement through September 27, 2019 and increased the committed borrowing capacity to $100.0 million and uncommitted borrowing capacity to $75.0 million.

Our liquidity forecast requires management to use judgment and estimates and includes factors that may be beyond our control. Additionally, our business has been undergoing substantial change, which has magnified the uncertainties that are inherent in the forecasting process. Our actual results could differ materially from our estimates. If we were to default under any of our debt agreements, it could become very difficult for us to renew, replace or extend some or all of our debt agreements. Challenges to our liquidity position could have a material adverse effect on our operating results and financial condition and could cause us to take actions that would be outside the normal course of our operations to generate additional liquidity.

Acquisition of PHH

On October 4, 2018, we completed the acquisition of PHH, with PHH becoming a wholly owned subsidiary of Ocwen. We expect our operations, financial position and cash flows to be significantly impacted following the closing of this transaction. The merger consideration paid in connection with the acquisition was $358.4 million and was funded by a combination of PHH's cash on hand and Ocwen's cash on hand. The portion funded by Ocwen's cash on hand was $37.4 million, which included the payment of $4.0 million of certain transaction expenses at closing.

Upon the closing of the transaction, Ocwen assumed debt, at the subsidiary level, in the form of PHH's outstanding senior unsecured notes. The aggregate principal amount of these notes is $120.0 million, representing $98.0 million of PHH's 7.375% Senior Notes due 2019 and $22.0 million of PHH's 6.375% Senior Notes due 2021. Ocwen also assumed a mortgage repurchase facility with maximum borrowing of $200.0 million on an uncommitted basis.

We have not recognized certain expenses that were contingent on completion of the acquisition in our unaudited consolidated statement of operations. These expenses include financial advisory fees and certain insurance fees. We also expect cash payments for integration costs and other transaction-related costs following the closing of the transaction. Most of the contingent expenses will be recognized in our consolidated financial statements in the fourth quarter of 2018, the quarter in which we completed the acquisition, with the remainder recognized thereafter. The final amount of compensation expense to be recognized is partially dependent upon personnel decisions that will be made as part of integration planning. These amounts may be material.

Credit Ratings

Credit ratings are intended to be an indicator of the creditworthiness of a company, security or obligation. Lower ratings generally result in higher borrowing costs and reduced access to capital markets. The following table summarizes our current ratings and outlook by the respective nationally recognized rating agencies. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Rating Agency	Long-term Corporate Rating	Review Status / Outlook	Date of last action
Moody's	Caa1	Stable	September 14, 2018
S&P	B –	Negative	June 18, 2018
Fitch	Withdrew (1)	Withdrew (1)	July 25, 2018

(1)

Withdrawn as a result of our decision to allow our annual contract with Fitch for corporate ratings to expire as part of our ongoing efforts to reduce costs.

On June 18, 2018, S&P affirmed our long-term corporate rating of “B-” and a Negative Outlook. On September 14, 2018, Moody’s affirmed our long-term corporate rating at “Caa1” and upgraded the outlook to Stable from a Negative Outlook. On

July 25, 2018, Fitch affirmed the long-term issuer default rating of “B-” and withdrew all corporate ratings, as disclosed above. It is possible that additional actions by credit rating agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Cash Flows

Our operating cash flow is primarily impacted by operating results, changes in our servicing advance balances, the level of mortgage loan production and the timing of sales and securitizations of mortgage loans. We classify proceeds from the sale of servicing advances, including advances sold in connection with the sale of MSRs, as investing activity. We classify changes in HECM loans held for investment as investing activity and changes in the related HMBS secured financing as financing activity.

Cash flows for the nine months ended September 30, 2018

Our operating activities provided $291.5 million of cash largely due to $243.8 million of net collections of servicing advances. Net cash paid on loans held for sale was $80.3 million for the nine months ended September 30, 2018.

Our investing activities used $371.9 million of cash. The primary uses of cash in our investing activities were net cash outflows in connection with our HECM reverse mortgages of $414.2 million. Cash inflows include net proceeds of $33.0 million in connection with the ACS business, which we decided to exit in January 2018, and the receipt of $14.0 million of net proceeds from the sale of MSRs and related advances.

Our financing activities provided $58.1 million of cash. Cash inflows include $728.7 million received in connection with our reverse mortgage securitizations, which are accounted for as secured financings, less repayments on the related financing liability of $290.3 million. In January 2018, Ocwen received a lump-sum payment of $279.6 million in accordance with the terms of the New RMSR Agreements. Cash outflows include $284.4 million of net repayments on match funded liabilities as a result of advance recoveries, $154.1 million of net payments on the financing liability related to MSRs pledged and $62.6 million of repayments on the SSTL. In addition, we reduced borrowings under our mortgage loan warehouse facilities by $140.7 million.

Cash flows for the nine months ended September 30, 2017

Our operating activities provided $405.4 million of cash largely due to $285.1 million of net collections of servicing advances. Net cash paid on loans held for sale during the nine months ended September 30, 2017 was $7.2 million.

Our investing activities used $659.3 million of cash. The primary uses of cash in our investing activities include net cash outflows in connection with our HECM reverse mortgages of $650.1 million, net cash outflows of $10.1 million in connection with the ACS business and additions to premises and equipment of $7.4 million. Cash inflows for the nine months ended September 30, 2017 include the receipt of $8.4 million of net proceeds from the sale of MSRs and related advances.

Our financing activities provided $301.5 million of cash. Cash inflows include $981.7 million received in connection with our reverse mortgage securitizations, less repayments on the related financing liability of $287.9 million. Cash outflows include $253.0 million of net repayments on match funded liabilities as a result of advance recoveries and $12.6 million of repayments on the SSTL. In addition, we reduced borrowings under our mortgage loan warehouse facilities by $123.8 million.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

Contractual Obligations

We believe that we have adequate resources to fund all unfunded commitments to the extent required and meet all contractual obligations as they come due. At September 30, 2018, such contractual obligations were primarily comprised of secured and unsecured borrowings, interest payments, operating leases and commitments to originate or purchase loans, including equity draws on reverse mortgages. There were no material changes to the table of specified contractual obligations contained in our Annual Report on Form 10-K during the nine months ended September 30, 2018, except that we terminated our match funded lending agreement to finance automotive dealer loans made by the ACS business, reduced the total maximum borrowing capacity of match funded advance financing facilities and renewed maturing mortgage warehouse lines. See Note 11 – Borrowings to the Unaudited Consolidated Financial Statements for additional information.

Upon the closing of the PHH acquisition on October 4, 2018, Ocwen assumed PHH’s outstanding senior unsecured notes with an aggregate principal amount of $120.0 million, representing $98.0 million of 7.375% Senior Notes due

2019 and $22.0 million of 6.375% Senior Notes due 2021.

Our forecasting with respect to our ability to satisfy our contractual obligations requires management to use judgment and estimates and includes factors that may be beyond our control. Additionally, our business has been undergoing substantial change, which has magnified the uncertainties that are inherent in the forecasting process. Our actual results could differ materially from our estimates, and if this were to occur, it could have a material adverse effect on our business, financial condition, liquidity and results of operations.

Off-Balance Sheet Arrangements

In the normal course of business, we engage in transactions with a variety of financial institutions and other companies that are not reflected on our balance sheet. We are subject to potential financial loss if the counterparties to our off-balance sheet transactions are unable to complete an agreed upon transaction. We manage counterparty credit risk by entering into financial instrument transactions through national exchanges, primary dealers or approved counterparties and through the use of mutual margining agreements whenever possible to limit potential exposure. We regularly evaluate the financial position and creditworthiness of our counterparties. Our off-balance sheet arrangements include mortgage loan repurchase and indemnification obligations, unconsolidated SPEs (a type of VIE) and notional amounts of our derivatives. We have also entered into non-cancelable operating leases principally for our office facilities.

Mortgage Loan Repurchase and Indemnification Liabilities. We have exposure to representation, warranty and indemnification obligations in our capacity as a loan originator and servicer. We recognize the fair value of representation and warranty obligations in connection with originations upon sale of the loan or upon completion of an acquisition. Thereafter, the estimation of the liability considers probable future obligations based on industry data of loans of similar type segregated by year of origination and estimated loss severity based on current loss rates for similar loans. Our historical loss severity considers the historical loss experience that we incur upon sale or liquidation of a repurchased loan as well as current market conditions. See Note 2 – Securitizations and Variable Interest Entities, Note 12 – Other Liabilities and Note 20 – Contingencies to the Unaudited Consolidated Financial Statements for additional information.

Involvement with VIEs. We use SPEs and VIEs for a variety of purposes but principally in the financing of our servicing advances and in the securitization of mortgage loans. We include VIEs in our unaudited consolidated financial statements if we determine we are the primary beneficiary. See Note 2 – Securitizations and Variable Interest Entities to the Unaudited Consolidated Financial Statements for additional information.

We generally use match funded securitization facilities to finance our servicing advances. The SPEs to which the receivables for servicing advances are transferred in the securitization transaction are included in our consolidated financial statements either because we have the majority equity interest in the SPE or because we are the primary beneficiary where the SPE is a VIE. Holders of the debt issued by the SPEs have recourse only to the assets of the SPEs for satisfaction of the debt.

Derivatives. We record all derivatives at fair value on our consolidated balance sheets. We use these derivatives primarily to manage our interest rate risk. The notional amounts of our derivative contracts do not reflect our exposure to credit loss. See Note 13 – Derivative Financial Instruments and Hedging Activities to the Unaudited Consolidated Financial Statements for additional information.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our ability to measure and report our financial position and operating results is influenced by the need to estimate the impact or outcome of future events based on information available at the date of the financial statements. An accounting estimate is considered critical if it requires that management make assumptions about matters that were highly uncertain at the time the accounting estimate was made. If actual results differ from our judgments and assumptions, then it may have an adverse impact on the results of operations and cash flows. We have processes in place to monitor these judgments and assumptions, and management is required to review critical accounting policies and estimates with the Audit Committee of the Board of Directors. Our significant accounting policies and critical accounting estimates are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017 in Note 1 to the Consolidated Financial Statements and in Management’s Discussion and Analysis of Financial Condition and Results of Operations under “Critical Accounting Policies and Estimates.”

Fair Value Measurements

We use fair value measurements to record fair value adjustments to certain instruments and to determine fair value disclosures. Refer to Note 3 – Fair Value to the Unaudited Consolidated Financial Statements for the fair value hierarchy, descriptions of valuation methodologies used to measure significant assets and liabilities at fair value and details of the valuation models, key inputs to those models, and significant assumptions utilized. We follow the fair value hierarchy to prioritize the inputs utilized to measure fair value. We review and modify, as necessary, our fair value hierarchy classifications on a quarterly basis. As such, there may be reclassifications between hierarchy levels.

The following table summarizes assets and liabilities measured at fair value on a recurring and nonrecurring basis and the amounts measured using Level 3 inputs:

	September 30, 2018	December 31, 2017
Loans held for sale	$217,436	$238,358
Loans held for investment	5,307,560	4,715,831
MSRs - recurring basis	999,282	671,962
MSRs - nonrecurring basis, net (1)	—	133,227
Derivative assets	4,721	5,429
Mortgage-backed securities	1,670	1,592
U.S. Treasury notes	1,059	1,567
Assets at fair value	$6,531,728	$5,767,966
As a percentage of total assets	77 %	69 %
Financing liabilities		
HMBS-related borrowings	5,184,227	4,601,556
Financing liability - MSRs pledged	620,199	508,291
Financing liability - Owed to securitization investors	26,643	—
Total financing liabilities	5,831,069	5,109,847
Derivative liabilities	2,567	635
Liabilities at fair value	$5,833,636	$5,110,482
As a percentage of total liabilities	74 %	65 %
Assets at fair value using Level 3 inputs	$6,381,742	$5,548,764
As a percentage of assets at fair value	98 %	96 %
Liabilities at fair value using Level 3 inputs	$5,831,069	$5,109,847
As a percentage of liabilities at fair value	100 %	100 %

(1) The balance represents our impaired government-insured stratum of MSRs previously accounted for using the amortization method, which were measured at fair value on a nonrecurring basis. The carrying value of this stratum is net of a valuation allowance of $24.8 million at December 31, 2017.

Assets at fair value using Level 3 inputs increased during the nine months ended September 30, 2018 primarily due to reverse mortgage originations and the fair value election on our remaining portfolio of amortization method MSRs. Liabilities at fair value using Level 3 inputs increased primarily in connection with reverse mortgage securitizations, which we account for as secured financings. Our net economic exposure to Loans held for investment - Reverse mortgages and the related Financing liabilities (HMBS-related borrowings) is limited to the residual value we retain. Changes in inputs used to value the loans held for investment are largely offset by changes in the value of the related secured financing.

We have various internal controls in place to ensure the appropriateness of fair value measurements. Significant fair value measures are subject to analysis and management review and approval. Additionally, we utilize a number of operational controls to ensure the results are reasonable, including comparison, or “back testing,” of model results against actual performance and monitoring the market for recent trades, including our own price discovery in connection with potential and completed sales, and other market information that can be used to benchmark inputs or outputs. Considerable judgment is used in forming conclusions about Level 3 inputs such as interest rate movements, prepayment speeds, delinquencies, credit losses and discount rates. Changes to these inputs could have a significant effect on fair value measurements.

Valuation and Amortization of MSRs

MSRs are assets that represent the right to service a portfolio of mortgage loans. We originate MSRs from our lending activities and obtain MSRs through asset acquisitions or business combinations. For initial measurement, acquired and originated MSRs are initially measured at fair value. Subsequent to acquisition or origination, we elect to account for MSRs using either the amortization method or the fair value measurement method. For MSRs accounted for using the amortization measurement method, we assess servicing assets or liabilities for impairment or increased obligation based on fair value on a quarterly basis. We group our MSRs by stratum for impairment testing based on the predominant risk characteristics of the underlying mortgage loans. Historically, our strata had been defined as conventional loans (i.e. conforming to the underwriting standards of Fannie Mae or Freddie Mac), government-insured loans (insured by FHA or VA) and non-Agency loans (i.e. all private label primary and master serviced).

Effective January 1, 2018, we elected fair value accounting for our MSRs previously accounted for using the amortization method, which included Agency MSRs and government-insured MSRs. Effective with this election, our entire portfolio of MSRs is accounted for using the fair measurement method. This irrevocable election applies to all subsequently acquired or originated servicing assets and liabilities that have characteristics consistent with each of these classes. We recorded a cumulative-effect adjustment of $82.0 million to retained earnings as of January 1, 2018 to reflect the excess of the fair value of the Agency MSRs over their carrying amount. The government-insured MSRs were impaired by $24.8 million at December 31, 2017; therefore, these MSRs are already effectively carried at fair value. At December 31, 2017, the UPB and net carrying value of Agency MSRs for which the fair value election was made was $40.9 billion and $336.9 million, respectively. At December 31, 2017, the UPB and net carrying value of government-insured MSRs for which the fair value election was made was $16.9 billion and $133.2 million, respectively.

The determination of the fair value of MSRs requires management judgment due to the number of assumptions that underlie the valuation. We estimate the fair value of our MSRs using a process based upon the use of independent third-party valuation experts and supported by commercially available discounted cash flow models and analysis of current market data. The key assumptions used in the valuation of these MSRs include prepayment speeds, loan delinquency, cost to service and discount rates.

Income Taxes

In December 2017, the Securities and Exchange Commission Staff issued Staff Accounting Bulletin (SAB) 118, which provides guidance on accounting for the income tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date of December 22, 2017 for companies to complete the accounting under ASC 740, Income Taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements and should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. We adopted the guidance of SAB 118 as of December 31, 2017. See Note 15 - Income Taxes for additional information on the Tax Act and the impact on our consolidated financial statements.

We record a tax provision for the anticipated tax consequences of the reported results of operations. We compute the provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. We measure deferred tax assets and liabilities using the currently enacted tax rates in each jurisdiction that applies to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We record a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

We conduct periodic evaluations of positive and negative evidence to determine whether it is more likely than not that the deferred tax asset can be realized in future periods. In these evaluations, we gave more significant weight to objective evidence, such as our actual financial condition and historical results of operations, as compared to subjective evidence, such as projections of future taxable income or losses.

For the three-year periods ended December 31, 2017 and 2016, the USVI filing jurisdiction was in a material cumulative loss position. The U.S. jurisdiction was also in a three-year cumulative loss position as of December 31, 2017 and 2016. We recognize that cumulative losses in recent years is an objective form of negative evidence in assessing the need for a valuation allowance and that such negative evidence is difficult to overcome. Other factors considered in these evaluations are estimates of future taxable income, future reversals of temporary differences, tax character and the impact of tax planning strategies that may be implemented, if warranted.

As a result of these evaluations, we recognized a full valuation allowance of $62.9 million on our U.S. deferred tax assets and $43.9 million on our USVI deferred tax assets. The U.S. and USVI jurisdictional deferred tax assets are not considered to be more likely than not realizable based on all available positive and negative evidence. We intend to continue maintaining a full valuation allowance on our deferred tax assets in both the U.S. and USVI until there is sufficient evidence to support the reversal of all or some portion of these allowances. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period in which the release is recorded. However, the exact timing and amount of the valuation allowance release is subject to change based on the profitability that we achieve.

Net operating loss (NOL) carryforwards may be subject to annual limitations under Internal Revenue Code Section 382 (Section 382) (or comparable provisions of foreign or state law) in the event that certain changes in ownership were to occur. We periodically evaluate our NOL carryforwards and whether certain changes in ownership have occurred as measured under Section 382 that would limit our ability to utilize a portion of our NOL carryforwards. If it is determined that an ownership change(s) has occurred, there may be annual limitations on the use of these NOL carryforwards under Section 382 (or comparable provisions of foreign or state law).

We are currently in the process of evaluating whether we experienced an ownership change as measured under Section 382, and during 2017 identified risk that an ownership change may have occurred in the U.S. jurisdiction, which would also result in an ownership change under Section 382 in the USVI jurisdiction. As part of this evaluation, Ocwen is seeking additional information pertaining to certain identified 5% shareholders, and their economic ownership for Section 382 purposes. To the extent an ownership change is ultimately determined to have occurred, the annual utilization of our NOLs may be subject to certain limitations under Section 382 and other limitations under state tax laws.

Any reduction to our NOL deferred tax assets due to an annual Section 382 limitation and the NOL carryforward period is expected to result in an offsetting reduction in valuation allowance related to the NOL deferred tax assets. In addition, any limitation on the utilization of our NOL carryforwards could result in Ocwen incurring a current tax liability. At this time, we anticipate that any limitation would not have a material impact on our consolidated statements of operations. However, as we are still in the process of evaluating whether and when we experienced an ownership change and are seeking additional information from shareholders, the final impact of Section 382 limitations has not been determined.

In September 2018, Ocwen filed a Definitive Proxy Statement with the SEC calling for a Special Stockholders Meeting scheduled for November 16, 2018, to allow shareholders to vote on a proposed amendment to Ocwen’s Amended and Restated Articles of Incorporation. The proposed amendment would restrict certain transfers of Ocwen’s common stock. Such protective amendment (the "Protective Amendment") is designed to help preserve the value of certain tax benefits associated with NOL carryforwards. As of September 30, 2018, we had total net operating loss carryforwards of approximately $334.0 million in the United States and United States Virgin Islands jurisdictions, which we estimated to be worth approximately $43.0 million in potential tax savings under assumptions related to our various relevant jurisdictional tax rates (which assumptions reflect a significant degree of uncertainty). If approved, the Protective Amendment generally will restrict any direct or indirect transfer of our common stock (such as transfers of our securities that result from the transfer of interests in other entities that own our common stock) if the effect would be to (1) increase the direct or indirect ownership of our common stock by any person or group from less than 4.99% to 4.99% or more of our common stock or (2) increase the percentage of our common stock owned directly or indirectly by any person or group owning or deemed to own 4.99% or more of our common stock. The Protective Amendment, if approved, may not offer a complete solution for the preservation of our NOL carryforwards and a future ownership change may still occur. Further, we cannot assure that the Protective Amendment's restriction on acquisitions of our common stock would be enforceable against all our stockholders, and the restriction may be subject to challenge.

Litigation

We monitor our litigation matters, including advice from external legal counsel, and regularly perform assessments of these matters for potential loss accrual and disclosure. We establish liabilities for settlements, judgments on appeal and filed and/or threatened claims for which we believe it is probable that a loss has been or will be incurred and the amount can be reasonably estimated.

Going Concern

In accordance with ASC 205-40, Presentation of Financial Statements - Going Concern, we evaluate whether there are conditions that are known or reasonably knowable that raise substantial doubt about our ability to continue as a going concern within one year after the date that our financial statements are issued. We perform a detailed review and analysis of relevant quantitative and qualitative information from across our organization in connection with this evaluation. To support this effort, senior management from key business units reviews and assesses the following information:

- our current financial condition, including liquidity sources at the date that the financial statements are issued (e.g., available liquid funds and available access to credit, including covenant compliance);
- our conditional and unconditional obligations due or anticipated within one year after the date that the financial statements are issued (regardless of whether those obligations are recognized in our financial statements);
- funds necessary to maintain operations considering our current financial condition, obligations and other expected cash flows within one year after the date that the financial statements are issued (i.e., financial forecasting); and
- other conditions and events, when considered in conjunction with the above items, that may adversely affect our ability to meet obligations within one year after the date that the financial statements are issued (e.g., negative

financial trends, indications of possible financial difficulties, internal matters such as a need to significantly revise operations and external matters such as adverse regulatory/legal proceedings or rating agency decisions).
If such conditions exist, management evaluates its plans that when implemented would mitigate the condition(s) and alleviate the substantial doubt about our ability to continue as a going concern. Such plans are considered only if information available as of the date that the financial statements are issued indicates both of the following are true:
- it is probable management’s plans will be implemented within the evaluation period; and
- it is probable management’s plans, when implemented individually or in the aggregate, will mitigate the condition(s) that raise substantial doubt about our ability to continue as a going concern in the evaluation period.

Our evaluation of whether it is probable that management’s plans will be effectively implemented within the evaluation period is based on the feasibility of implementation of management’s plans in light of our specific facts and circumstances.
Our evaluation of whether it is probable that our plans, individually or in the aggregate, will be implemented in the evaluation period involves a degree of judgment, including about matters that are, to different degrees, uncertain.
RECENT ACCOUNTING DEVELOPMENTS
Recent Accounting Pronouncements
Listed below are recent Accounting Standards Update (ASU) that we adopted in 2018. We adopted ASU 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory on a modified retrospective basis by recording a cumulative-effect reduction of $5.6 million to retained earnings. Our adoption of the other standards listed below did not have a material impact on our unaudited consolidated financial statements.
- ASU 2014-09: Revenue from Contracts with Customers
- ASU 2016-01: Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities
- ASU 2016-15: Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments
- ASU 2016-18: Statement of Cash Flows: Restricted Cash
- ASU 2017-01: Business Combinations: Clarifying the Definition of a Business
- ASU 2017-09: Compensation: Stock Compensation
- ASU 2018-03: Financial Instruments: Technical Corrections and Improvements to Financial Instruments

We are also evaluating the impact of recently issued ASUs not yet adopted that are not effective for us until on or after January 1, 2019. While we do not anticipate that our adoption of most of these ASUs will have a material impact on our consolidated financial statements, we are currently evaluating the effect of adopting certain ASUs. See Note 1 – Organization, Business Environment and Basis of Presentation to the Unaudited Consolidated Financial Statements for additional information.
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Dollars in thousands unless otherwise indicated)
Our principal market exposure is to interest rate risk due to the impact on our mortgage-related assets and commitments, including mortgage loans held for sale, IRLCs and MSRs. Changes in interest rates could materially and adversely affect our volume of mortgage loan originations or reduce the value of our MSRs. We also have exposure to the effects of changes in interest rates on our borrowings, including advance financing facilities.
Interest rate risk is a function of (i) the timing of re-pricing and (ii) the dollar amount of assets and liabilities that re-price at various times. We are exposed to interest rate risk to the extent that our interest rate sensitive liabilities mature or re-price at different speeds, or on different bases, than interest-earning assets.
Our management-level Credit and Market Risk Committee establishes and maintains policies that govern our hedging program, including such factors as our target hedge ratio, the hedge instruments that we are permitted to use in our hedging activities and the counterparties with whom we are permitted to enter into hedging transactions. See Note 13 – Derivative Financial Instruments and Hedging Activities to the Unaudited Consolidated Financial Statements for additional information regarding our use of derivatives.
Match Funded Liabilities
We monitor the effect of increases in interest rates on the interest paid on our variable rate advance financing debt. Earnings on cash and float balances are a partial offset to our exposure to changes in interest expense. Based on the extent to which the projected excess of our interest expense on variable rate debt exceeds interest income on our cash

and float balances, we would consider hedging this exposure with interest rate swaps or other derivative instruments. We may purchase interest rate caps as economic hedges (not designated as a hedge for accounting purposes) as required by certain of our advance financing arrangements.

IRLCs and Loans Held for Sale
IRLCs represent an agreement to purchase loans from a third-party originator or an agreement to extend credit to a mortgage loan applicant, whereby the interest rate on the loan is set prior to funding. In our lending business, mortgage loans held for sale and IRLCs are subject to the effects of changes in mortgage interest rates from the date of the commitment through the sale of the loan into the secondary market. As a result, we are exposed to interest rate risk and related price risk during the period from the date of the lock commitment through (i) the lock commitment cancellation or expiration date or (ii) through the date of sale of the resulting loan into the secondary mortgage market. Loan commitments for forward loans range from 5 to 90 days, but the majority of our commitments are for 60 days. Our holding period for forward mortgage loans from funding to sale is typically less than 30 days. Loan commitments for reverse loans range from 10 to 30 days. The majority of our reverse loans are variable rate loan commitments. Our interest rate exposure on these derivative loan commitments is hedged with freestanding derivatives such as forward contracts. We enter into forward contracts with respect to both fixed and variable rate loan commitments.
For loans held for sale that we have elected to carry at fair value, we manage the associated interest rate risk through an active hedging program overseen by our management's Credit and Market Risk Committee. Our hedging policy determines the hedging instruments to be used in the mortgage loan hedging program, which include forward sales of agency "to be announced" securities (TBAs), whole loan forward sales, Eurodollar futures and interest rate options. 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. Our hedging policy also stipulates the hedge ratio we must maintain in managing this interest rate risk, which is also monitored by management's Credit and Market Risk Committee.
Fair Value MSRs
Effective January 1, 2018, we elected fair value accounting for our MSRs previously accounted for using the amortization method, which included Agency MSRs and government-insured MSRs. Effective with this election, our entire portfolio of MSRs is accounted for using the fair measurement method.
Interest Rate Sensitive Financial Instruments
The tables below present the notional amounts of our financial instruments that are sensitive to changes in interest rates and the related fair value of these instruments at the dates indicated. We use certain assumptions to estimate the fair value of these instruments. See Note 3 – Fair Value to the Unaudited Consolidated Financial Statements for additional information regarding fair value of financial instruments.

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Rate-Sensitive Assets:				
Interest-earning cash	$112,521	$112,521	$99,627	$99,627
Loans held for sale, at fair value	145,417	145,417	214,262	214,262
Loans held for sale, at lower of cost or fair value (1)	72,019	72,019	24,096	24,096
Loans held for investment - Reverse mortgages, at fair value	5,279,187	5,279,187	4,715,831	4,715,831
Automotive dealer financing notes (including match funded)	—	—	32,757	32,590
U.S. Treasury notes	1,059	1,059	1,567	1,567
Debt service accounts and interest-earning time deposits	24,083	24,083	38,465	38,465
Total rate-sensitive assets	$5,634,286	$5,634,286	$5,126,605	$5,126,438
Rate-Sensitive Liabilities:				
Match funded liabilities	$714,246	$710,303	$998,618	$992,698
HMBS-related borrowings, at fair value	5,184,227	5,184,227	4,601,556	4,601,556
Other secured borrowings (2)	345,425	351,996	545,850	555,523
Senior notes (2)	347,749	355,161	347,338	358,422
Total rate-sensitive liabilities	$6,591,647	$6,601,687	$6,493,362	$6,508,199

	September 30, 2018		December 31, 2017	
	Notional Balance	Fair Value	Notional Balance	Fair Value
Rate-Sensitive Derivative Financial Instruments:				
Derivative assets (liabilities):				
Interest rate caps	$320,833	$1,211	$375,000	$2,056
IRLCs	112,446	2,816	96,339	3,283
Forward MBS trades	219,375	(1,873)	240,823	(545)
Derivatives, net		$2,154		$4,794

(1) Net of market valuation allowances and including non-performing loans.
(2) Carrying values are net of unamortized debt issuance costs and discount.

Sensitivity Analysis

Fair Value MSRs, Loans Held for Sale and Related Derivatives

The following table summarizes the estimated change in the fair value of our MSRs and loans held for sale that we have elected to carry at fair value as well as any related derivatives at September 30, 2018, given hypothetical instantaneous parallel shifts in the yield curve. We used September 30, 2018 market rates to perform the sensitivity analysis. The estimates are based on the market risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves. These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship to the change in fair value may not be linear.

	Change in Fair Value	
	Down 25 bps	Up 25 bps
Loans held for sale	$1,440	$(1,636)
Forward MBS trades	(1,349)	1,503
Total loans held for sale and related derivatives	91	(133)
Fair value MSRs (1)	456	(456)
MSRs, embedded in pipeline	(39)	39
Total fair value MSRs	417	(417)
Total, net	$508	$(550)

(1) Primarily reflects the impact of market rate changes on projected prepayments on the Agency MSR portfolio and on advance funding costs on the non-Agency MSR portfolio.

Borrowings

The debt used to finance much of our operations is exposed to interest rate fluctuations. We may purchase interest rate swaps and interest rate caps to minimize future interest rate exposure from increases in 1ML interest rates.

Based on September 30, 2018 balances, if interest rates were to increase by 1% on our variable rate debt and interest earning cash and float balances, we estimate a net positive impact of approximately $8.4 million resulting from an increase of $19.5 million in annual interest income and an increase of $11.1 million in annual interest expense. The increase in interest expense reflects the effect of our hedging activities, which would offset $2.4 million of the increase in interest on our variable rate debt.

ITEM 4. CONTROLS AND PROCEDURES

Our management, under the supervision of and with the participation of our chief executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), as of

September 30, 2018.

Based on such evaluation, management concluded that our disclosure controls and procedures as of September 30, 2018 were (1) designed and functioning effectively to ensure that material information relating to Ocwen, including its consolidated subsidiaries, is made known to our principal executive officer and principal financial officer by others within those entities,

particularly during the period in which this report was being prepared and (2) operating effectively in that they provided reasonable assurance that information required to be disclosed by Ocwen in the reports that it files or submits under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to management, including our principal executive officer or principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.
There have not been any changes in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 18 – Regulatory Requirements and Note 20 – Contingencies to the Unaudited Consolidated Financial Statements. That information is incorporated into this item by reference.

ITEM 1A. RISK FACTORS

An investment in our common stock involves significant risk. We describe the most significant risks that management believes affect or could affect us under Part I of our Annual Report on Form 10-K for the year ended December 31, 2017. Understanding these risks is important to understanding any statement in such Annual Report and in our subsequent SEC filings (including this Form 10-Q) and to evaluating an investment in our common stock. You should carefully read and consider the risks and uncertainties described therein together with all the other information included or incorporated by reference in such Annual Report and in our subsequent SEC filings before you make any decision regarding an investment in our common stock. You should also consider the information set forth above under “Forward-Looking Statements.” If any of the risks actually occur, our business, financial condition, liquidity and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could significantly decline, and you could lose some or all of your investment.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 6. EXHIBITS

2.1†	Agreement and Plan of Merger, dated as of February 27, 2018, by and among Ocwen Financial Corporation, POMS Corp and PHH Corporation (1)
3.1	Amended and Restated Articles of Incorporation, as amended (2)
3.2	Amended and Restated Bylaws of Ocwen Financial Corporation (3)
4.1	First Supplemental Indenture, dated as of October 4, 2018, among PHH Corporation, PHH Mortgage Corporation and Wilmington Trust, National Association (4)
4.2	Indenture, dated as of January 17, 2012, between PHH Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (5)
4.3	Second Supplemental Indenture, dated August 23, 2012, between PHH Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (6)
4.4	Third Supplemental Indenture, dated August 20, 2013, between PHH Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (7)
4.5	Fourth Supplemental Indenture, dated as of July 3, 2017, among PHH Corporation, as issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (8)
4.6	Fifth Supplemental Indenture, dated as of July 3, 2017, among PHH Corporation, as issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (8)
10.1	Counterpart Agreement, dated as of October 4, 2018, executed by PHH Corporation and PHH Mortgage Corporation and acknowledged and agreed to by Barclays Bank PLC, as administrative agent and collateral agent (4)
10.2*	Ocwen Financial Corporation United States Basic Severance Plan (9)
10.3*	Ocwen Financial Corporation United States Change in Control Severance Plan (9)
10.4*	Form of Restricted Stock Unit Agreement (filed herewith)
10.5*	Form of Stock Option Agreement (filed herewith)
10.6††	Amendment No. 1 to Subservicing Agreement dated as of August 17, 2018 between New Residential Mortgage LLC and Ocwen Loan Servicing, LLC (filed herewith)
10.7††	Amendment No. 1 to New RMSR Agreement dated as of August 17, 2018 among New Residential Mortgage LLC, Ocwen Loan Servicing, LLC and the other parties thereto (filed herewith)
10.8††	Subservicing Agreement dated as of August 17, 2018 between New Penn Financial, LLC and Ocwen Loan Servicing, LLC (filed herewith)
31.1	Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of the principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of the principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
99.1	Audited Consolidated Balance Sheet as of December 31, 2017, and the audited Consolidated Statement of Operations, audited Consolidated Statement of Comprehensive Income, audited Consolidated Statement of Changes in Equity, and audited Consolidated Statement of Cash Flows for the year ended December 31, 2017, including the related notes thereto, of PHH Corporation (10)
99.2	Unaudited Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2018 and June 30, 2017, and unaudited Condensed Consolidated Statements of Changes in Equity and unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and June 30, 2017, including the related notes thereto, of PHH Corporation (11)
101.INS	XBRL Instance Document (filed herewith)

101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

† Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. Ocwen agrees to furnish a copy of any omitted schedule to the SEC upon request.

†† Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Omitted information has been filed separately with the SEC.

* Management contract or compensatory plan or agreement.

(1) Incorporated by reference to the similarly described exhibit to the Registrant's Form 8-K filed on February 28, 2018.

(2) Incorporated by reference to the similarly described exhibit to the Registrant's Form 10-Q for the quarter ended June 30, 2017 filed on August 3, 2017.

(3) Incorporated by reference to the similarly described exhibit to the Registrant's Form 8-K filed on February 19, 2016.

(4) Incorporated by reference to the similarly described exhibit to the Registrant's Form 8-K filed on October 4, 2018.

(5) Incorporated by reference to the similarly described exhibit to PHH Corporation's Form 8-K filed on January 17, 2012.

(6) Incorporated by reference to the similarly described exhibit to PHH Corporation's Form 8-K filed on August 23, 2012.

(7) Incorporated by reference to the similarly described exhibit to PHH Corporation's Form 8-K filed on August 20, 2013.

(8) Incorporated by reference to the similarly described exhibit to PHH Corporation's Form 8-K filed on July 5, 2017.

(9) Incorporated by reference to the similarly described exhibit to the Registrant's Form 8-K filed on July 2, 2018.

(10) Incorporated herein by reference to PHH Corporation's Form 10-K for the year ended December 31, 2017 filed on March 1, 2018.

(11) Incorporated herein by reference to PHH Corporation's Form 10-Q for the quarter ended June 30, 2018 filed on August 3, 2018.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Ocwen Financial Corporation

By: /s/ Catherine M. Dondzila

Senior Vice President and Chief Accounting Officer
(On behalf of the Registrant and as its principal financial officer)

Date: November 5, 2018