

OCWEN FINANCIAL CORP
Form 10-Q
October 27, 2016

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

(Mark one)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from: _____ to _____

Commission File 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

33409

West Palm Beach, Florida

(Zip Code)

(Address of principal executive office)

(561) 682-8000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

Number of shares of common stock outstanding as of October 25, 2016: 123,989,954 shares

OCWEN FINANCIAL CORPORATION
 FORM 10-Q
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FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact included in this report, including, without limitation, statements regarding our financial position, business strategy and other plans and objectives for our future operations, are forward-looking statements. These statements include declarations regarding our management’s beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could”, “intend,” “consider,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict” or “continue” or the 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 uncertainties. Readers should bear these factors in mind when considering such statements and should not place undue reliance on such statements. Forward-looking statements involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those suggested by such statements. In the past, actual results have differed from those suggested by forward-looking statements and this may happen again. Important factors that could cause actual results to differ include, but are not limited to, the risks discussed in “Risk Factors” in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2015 and the following:

- uncertainty related to claims, litigation 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 and settlements with state regulators, the Consumer Financial Protection Bureau (CFPB), State Attorneys General, the Securities and Exchange Commission (SEC), the Department of Justice or the Department of Housing and Urban Development (HUD) and actions brought under the False Claims Act by private parties on behalf of the United States of America regarding incentive and other payments made by governmental entities;
- adverse effects on our business as a result of regulatory investigations or settlements;
- reactions to the announcement of such investigations or settlements by key counterparties;
- increased regulatory scrutiny and media attention;
- any adverse developments in existing legal proceedings or the initiation of new legal proceedings;
- our ability to effectively manage our regulatory and contractual compliance obligations;
- the adequacy of our financial resources, including our sources of liquidity and ability to sell, fund and recover advances, repay borrowings and comply with our debt agreements, including the financial and other covenants contained in them;
- our servicer and credit ratings as well as other actions from various rating agencies, including the impact of prior or future downgrades of our servicer and credit ratings;
- volatility in our stock price;
- the characteristics of our servicing portfolio, including prepayment speeds along with delinquency and advance rates;
- our ability to contain and reduce our operating costs, including our ability to successfully execute on our cost improvement initiative;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;
- uncertainty related to legislation, regulations, regulatory agency actions, regulatory examinations, government programs and policies, industry initiatives and evolving best servicing practices;
- our dependence on New Residential Investment Corp. (NRZ) for a substantial portion of our advance funding for non-Agency mortgage servicing rights;
- uncertainties related to our long-term relationship with NRZ;
- the loss of the services of our senior managers;
- uncertainty related to general economic and market conditions, delinquency rates, home prices and disposition timelines on foreclosed properties;
- uncertainty related to the actions of loan owners and guarantors, including mortgage-backed securities investors, the Government National Mortgage Association (Ginnie Mae), trustees and government sponsored entities (GSEs), regarding loan put-backs, penalties and legal actions;

our ability to comply with our servicing agreements, including our ability to comply with our seller/servicer agreements with GSEs and maintain our status as an approved seller/servicer;
uncertainty related to the GSEs substantially curtailing or ceasing to purchase our conforming loan originations or the Federal Housing Administration of the Department of Housing or Department of Veterans Affairs ceasing to provide insurance;
uncertainty with respect to the Home Affordable Modification Program (HAMP) and the Home Affordable Refinance Program (HARP), which have been significant drivers of our servicing and origination revenue and which are scheduled to expire on December 31, 2016 and September 30, 2017, respectively, unless extended;

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uncertainty related to the processes for judicial and non-judicial foreclosure proceedings, including potential additional costs or delays or moratoria in the future or claims pertaining to past practices;

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

uncertainty related to the ability of third-party obligors and financing sources to fund servicing advances on a timely basis on loans serviced by us;

uncertainty related to the ability of our technology vendors to adequately maintain and support our systems, including our servicing systems, loan originations and financial reporting systems;

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

uncertainty related to our ability to adapt and grow our business, including our new business initiatives;

our ability to protect and maintain our technology systems and our ability to adapt such systems for future operating environments;

failure of our internal information technology and other security measures or breach of our privacy protections; and

uncertainty related to the political or economic stability of foreign countries in which we have operations.

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the SEC including our Annual Report on Form 10-K for the year ended December 31, 2015 and our Quarterly and Current Reports on Form 10-Q and Form 8-K, respectively, since such date. Forward-looking statements speak only as of the date they were made and we disclaim any obligation to update or revise forward-looking statements whether as a result of new information, future events or otherwise.

PART I – FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	September 30, 2016	December 31, 2015
Assets		
Cash	\$263,534	\$257,272
Mortgage servicing rights (\$696,108 and \$761,190 carried at fair value)	1,036,669	1,138,569
Advances, net	289,014	444,298
Match funded advances	1,534,322	1,706,768
Loans held for sale (\$302,114 and \$309,054 carried at fair value)	339,765	414,046
Loans held for investment - Reverse mortgages, at fair value	3,339,641	2,488,253
Receivables, net	279,883	286,981
Premises and equipment, net	62,701	57,626
Other assets (\$20,660 and \$14,352 carried at fair value)	439,921	586,495
Total assets	\$7,585,450	\$7,380,308
Liabilities and Equity		
Liabilities		
Match funded liabilities	\$1,365,532	\$1,584,049
Financing liabilities (\$3,719,142 and \$2,933,066 carried at fair value)	3,828,019	3,089,255
Other secured borrowings, net	663,170	762,411
Senior unsecured notes, net	346,511	345,511
Other liabilities	718,831	744,444
Total liabilities	6,922,063	6,525,670
Commitments and Contingencies (Notes 18 and 19)		
Equity		
Ocwen Financial Corporation (Ocwen) stockholders' equity		
Common stock, \$.01 par value; 200,000,000 shares authorized; 123,989,954 and 124,774,516 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	1,240	1,248
Additional paid-in capital	524,725	526,148
Retained earnings	136,611	325,929
Accumulated other comprehensive loss, net of income taxes	(1,500)	(1,763)
Total Ocwen stockholders' equity	661,076	851,562
Non-controlling interest in subsidiaries	2,311	3,076
Total equity	663,387	854,638
Total liabilities and equity	\$7,585,450	\$7,380,308

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,	
	2016	2015	2016	2015
Revenue				
Servicing and subservicing fees	\$ 302,235	\$ 360,017	\$ 906,993	\$ 1,203,541
Gain on loans held for sale, net	25,645	27,298	69,074	116,934
Other revenues	31,568	17,631	87,192	58,166
Total revenue	359,448	404,946	1,063,259	1,378,641
Expenses				
Compensation and benefits	92,942	102,612	287,613	313,599
Amortization of mortgage servicing rights	(2,558)	18,108	18,595	88,188
Servicing and origination	63,551	101,545	249,230	255,905
Technology and communications	25,941	37,182	85,519	117,793
Professional services	65,489	62,428	257,795	191,728
Occupancy and equipment	16,760	31,043	62,213	85,530
Other	9,553	34,808	24,388	65,593
Total expenses	271,678	387,726	985,353	1,118,336
Other income (expense)				
Interest income	5,158	5,693	14,488	16,306
Interest expense	(110,961)	(118,313)	(308,083)	(362,606)
Gain on sale of mortgage servicing rights, net	5,661	41,246	7,689	97,958
Other, net	14,736	(1,764)	11,841	(12,552)
Total other expense, net	(85,406)	(73,138)	(274,065)	(260,894)
Income (loss) before income taxes	2,364	(55,918)	(196,159)	(589)
Income tax expense (benefit)	(7,110)	10,832	(7,214)	21,866
Net income (loss)	9,474	(66,750)	(188,945)	(22,455)
Net income attributable to non-controlling interests	(83)	(119)	(373)	(321)
Net income (loss) attributable to Ocwen stockholders	\$ 9,391	\$ (66,869)	\$ (189,318)	\$ (22,776)
Income (loss) per share attributable to Ocwen stockholders				
Basic	\$ 0.08	\$ (0.53)	\$ (1.53)	\$ (0.18)
Diluted	\$ 0.08	\$ (0.53)	\$ (1.53)	\$ (0.18)
Weighted average common shares outstanding				
Basic	123,986,987	125,383,639	123,991,343	125,322,742
Diluted	124,134,507	125,383,639	123,991,343	125,322,742

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$9,474	\$(66,750)	\$(188,945)	\$(22,455)
Other comprehensive income, net of income taxes:				
Reclassification adjustment for losses on cash flow hedges included in net income (1)(2)	89	494	263	6,527
Comprehensive income (loss)	9,563	(66,256)	(188,682)	(15,928)
Comprehensive income attributable to non-controlling interests	(83)	(119)	(373)	(321)
Comprehensive income (loss) attributable to Ocwen stockholders	\$9,480	\$(66,375)	\$(189,055)	\$(16,249)

(1) These losses are reclassified to Other, net in the Unaudited Consolidated Statements of Operations.

(2) Net of tax expense of \$0.4 million for the nine months ended September 30, 2015.

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, 2016 AND 2015
 (Dollars in thousands)

	Ocwen Stockholders Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Non-controlling Interest in Subsidiaries	Total
	Shares	Amount	Additional Paid-in Capital				
Balance at December 31, 2015	124,774,516	\$ 1,248	\$ 526,148	\$ 325,929	\$ (1,763)	\$ 3,076	\$ 854,638
Net income (loss)	—	—	—	(189,318)	—	373	(188,945)
Repurchase of common stock (991,985)	(10)	(5,880)	—	—	—	—	(5,890)
Exercise of common stock options	69,805	1	441	—	—	—	442
Equity-based compensation and other	137,618	1	4,016	—	—	—	4,017
Capital distribution to non-controlling interest	—	—	—	—	—	(1,138)	(1,138)
Other comprehensive income, net of income taxes	—	—	—	—	263	—	263
Balance at September 30, 2016	123,989,954	\$ 1,240	\$ 524,725	\$ 136,611	\$ (1,500)	\$ 2,311	\$ 663,387
Balance at December 31, 2014	125,215,615	\$ 1,252	\$ 515,194	\$ 530,361	\$ (8,413)	\$ 2,771	\$ 1,041,165
Net income (loss)	—	—	—	(22,776)	—	321	(22,455)
Cumulative effect of fair value election - Mortgage servicing rights, net of income taxes	—	—	—	42,788	—	—	42,788
Exercise of common stock options	85,173	1	508	—	—	—	509
Equity-based compensation and other	89,694	1	11,920	—	—	—	11,921
Other comprehensive income, net of income taxes	—	—	—	—	6,527	—	6,527
Balance at September 30, 2015	125,390,482	\$ 1,254	\$ 527,622	\$ 550,373	\$ (1,886)	\$ 3,092	\$ 1,080,455

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	For the Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net loss	\$(188,945)	\$(22,455)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of mortgage servicing rights	18,595	88,188
Loss on valuation of mortgage servicing rights, at fair value	63,609	73,257
Impairment of mortgage servicing rights	37,164	25,052
Gain on sale of mortgage servicing rights	(7,689)	(97,958)
Realized and unrealized losses on derivative financial instruments	2,213	8,529
Provision for bad debts	61,191	25,272
Depreciation	18,277	13,467
Amortization of debt issuance costs	10,475	10,385
Gain on sale of fixed assets	—	(1,095)
Increase in deferred tax assets	—	5,700
Equity-based compensation expense	4,000	5,130
Gain on loans held for sale, net	(69,074)	(116,934)
Origination and purchase of loans held for sale	(4,575,264)	(3,713,311)
Proceeds from sale and collections of loans held for sale	4,493,887	3,935,420
Changes in assets and liabilities:		
Decrease in advances and match funded advances	343,129	491,654
Decrease (increase) in receivables and other assets, net	122,305	(1,899)
Increase in other liabilities	4,745	30,726
Other, net	11,802	14,866
Net cash provided by operating activities	350,420	773,994
Cash flows from investing activities		
Origination of loans held for investment – reverse mortgages	(1,185,565)	(781,002)
Principal payments received on loans held for investment - reverse mortgages	528,263	105,520
Purchase of mortgage servicing rights, net	(15,969)	(10,055)
Proceeds from sale of mortgage servicing rights	45,254	598,059
Proceeds from sale of advances and match funded advances	74,982	285,938
Additions to premises and equipment	(28,649)	(18,335)
Proceeds from sale of premises and equipment	—	4,758
Other	9,483	4,082
Net cash provided by (used in) investing activities	(572,201)	188,965
Cash flows from financing activities		
Repayment of match funded liabilities	(218,517)	(500,401)
Proceeds from other secured borrowings	6,632,059	5,647,016
Repayments of other secured borrowings	(6,996,715)	(6,572,601)
Payment of debt issuance costs	(2,242)	(18,610)
Proceeds from sale of loans accounted for as a financing	820,438	803,924
Repurchase of common stock	(5,890)	—

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Proceeds from exercise of common stock options	406	413
Other	(1,496) 6,501
Net cash provided by (used in) financing activities	228,043	(633,758)
Net increase in cash	6,262	329,201
Cash at beginning of year	257,272	129,473
Cash at end of period	\$263,534	\$458,674

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

(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 operations in India and the Philippines. Ocwen is a Florida corporation organized in February 1988.

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

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

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

Business, Liquidity, Financing Activities and Management's Plans

We are facing certain challenges and uncertainties that could have significant adverse effects on our business, liquidity and financing activities.

We have faced, and expect to continue to face, increased regulatory and public scrutiny as well as stricter and more comprehensive regulation of our business. We have entered into a number of regulatory settlements, which subject us to ongoing monitoring or reporting and which have significantly impacted our ability to grow our servicing portfolio. See Note 17 – Regulatory Requirements and Note 19 – Contingencies for further information regarding regulatory requirements, regulatory settlements and regulatory-related contingencies.

We have made significant investments in our risk and compliance infrastructure and we are intensely focused on improving our operations to enhance borrower experiences and improve efficiencies. On August 9, 2016, Standard & Poor's Rating Services upgraded our servicer rating from "Below Average" to "Average" and cited improvements in our risk and compliance areas and internal control environment, among other factors, as reasons for the upgrade. To the extent that an examination, monitorship, audit or other regulatory engagement results in an alleged failure by us to comply with applicable law, regulation or licensing requirement, or if allegations are made that we have failed to comply with the commitments we have made in connection with our regulatory settlements, or if other regulatory actions are taken in the future against us of a similar or different nature, this could lead to (i) loss of our licenses and approvals to engage in our servicing and lending businesses, (ii) governmental investigations and enforcement actions, (iii) administrative fines and penalties and litigation, (iv) civil and criminal liability, including class action lawsuits, (v) breaches of covenants and representations under our servicing, debt or other agreements, (vi) inability to raise capital and (vii) 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 and results of operations.

While we are reporting quarterly net income this quarter, marking our first quarterly profit since the second quarter of 2015, we are reporting a net loss for the nine months ended September 30, 2016. In order for us to be profitable over the long term, we will need to continue to reduce our expenses so that they align with our reduced revenue profile. Pursuant to the cost improvement initiative that we announced in 2015, we are focused on reducing servicing costs, rationalization of our U.S. based headcount, reducing our reliance on third-party service providers for facilities management, technology infrastructure

management and support services and continuing optimization of our purchased services spend. We are also seeking to increase our revenue through growing our lending business and investments in adjacent markets where we perceive market opportunities consistent with our strategic goals. We believe that our Automotive Capital Services (ACS) business has the potential to provide long-term growth to Ocwen and, accordingly, we are investing in this business in order to fuel our growth. There can be no assurance that we will be successful in returning to sustained profitability. Our success will depend on market conditions and other factors outside of our control as well as successful operational execution. If we continue to experience losses, our share price, business, reputation, financial condition and results of operations could be materially and adversely affected.

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 terminations 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 project we will be in compliance with our financial covenants during the remainder of 2016. In order to avoid an event of default arising from a covenant breach, we could repay or refinance debt, among other actions. See Note 11 – Borrowings for further information regarding our debt agreements.

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, 2016 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2016. 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, 2015.

Reclassifications

As a result of our retrospective adoption on January 1, 2016 of FASB Accounting Standards Update (ASU) 2015-03, Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs, and ASU 2015-15, Interest—Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting, unamortized debt issuance costs that are not related to revolving line-of-credit arrangements have been reclassified from other assets to other secured borrowings and senior unsecured notes on the consolidated balance sheets, resulting in a reduction to Ocwen's assets and liabilities of \$16.3 million and \$24.5 million at September 30, 2016 and December 31, 2015, respectively.

Use of Estimates and Assumptions

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

Recently Issued Accounting Standards

Presentation of Financial Statements—Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15)

In August 2014, the FASB issued ASU 2014-15 to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are

intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes.

In connection with preparing financial statements for each reporting period, an organization's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the organization's ability to continue as a going concern within one year after the date that the financial statements are issued (or are available to be issued, when applicable), based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued (or are available to be issued, when applicable).

ASU 2014-15 will be effective for the annual period ending on December 31, 2016 and for interim periods beginning in 2017. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Leases (ASU 2016-02)

In February 2016, the FASB issued ASU 2016-02 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key qualitative and quantitative information about leasing arrangements. A lessee will be required 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 will help investors and financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 will be effective for us on January 1, 2019, with early application permitted. We are currently evaluating the effect of adopting this standard.

Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (ASU 2016-05)

In March 2016, the FASB issued ASU 2016-05 to clarify that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under FASB Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging, does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-05 will be effective for us on January 1, 2017, with early adoption permitted, including adoption in an interim period. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments (ASU 2016-06)

In March 2016, the FASB issued ASU 2016-06 to clarify that in assessing whether embedded contingent put or call options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts, an entity is required to apply only the four-step decision sequence in FASB ASC 815-15-25-42 (as amended by this ASU). An entity does not have to separately assess whether the event that triggers its ability to exercise the contingent option is itself indexed only to interest rates or credit risk. ASU 2016-06 will be effective for us on January 1, 2017, with early adoption permitted, including adoption in an interim period. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting (ASU 2016-07)

In March 2016, the FASB issued ASU 2016-07 to simplify the transition to the equity method of accounting as part of its simplification initiative to reduce cost and complexity in accounting standards while maintaining or improving the usefulness of the information provided to the users of financial statements. This standard requires that an equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment qualifies for equity method accounting, rather than adjusting the investment retroactively. This standard also requires that an entity that has an available-for-sale equity security that qualifies for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment qualifies for use of the equity method. ASU 2016-07 will be effective for us on January 1, 2017, with early application permitted. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Revenue from Contracts with Customers: Principal versus Agent Considerations (ASU 2016-08)

In March 2016, the FASB issued ASU 2016-08 to clarify the implementation guidance included in FASB ASC Topic 606, Revenue from Contracts with Customers, related to principal versus agent considerations and add illustrative examples to assist in the application of the guidance. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is that of a principal -- providing the specified good or service itself, or that of an agent -- arranging for that good or service to be provided by the other party. An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. ASU 2016-08 will be effective for us on January 1, 2018, with early application permitted. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Compensation - Stock Compensation: Improvements to Employee Shared-Based Payment Accounting (ASU 2016-09)
In March 2016, the FASB issued ASU 2016-09 to improve the accounting for employee share-based payments. This standard simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, as part of

FASB's simplification initiative to reduce cost and complexity in accounting standards while maintaining or improving the usefulness of the information provided to the users of financial statements. ASU 2016-09 will be effective for us on January 1, 2017, with early adoption permitted. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients (ASU 2016-12)
In May 2016, the FASB issued ASU 2016-12 to amend guidance in FASB ASC Topic 606, Revenue from Contracts with Customers, related to collectability, noncash consideration, presentation of sales tax, completed contracts and transition. The amendments are intended to address implementation issues that were raised by stakeholders and to provide additional practical expedients. These amendments are intended to reduce the risk of diversity in practice and the cost and complexity of applying certain aspects of the revenue standard. ASU 2016-12 will be effective for us on January 1, 2018, with early application permitted. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13)
In June 2016, the FASB issued ASU 2016-13 to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. 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, providing investors with better information about those losses on a more timely basis. 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 to help investors and other financial statement users better understand 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. ASU 2016-13 will be effective for us on January 1, 2020, with early application permitted. We are currently evaluating the effect of adopting this standard.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15)
In August 2016, the FASB issued ASU 2016-15 to clarify 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. This standard addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 will be effective for us on January 1, 2018, with early adoption permitted. We are currently evaluating the effect of adopting this standard.

Note 2 – Securitizations and Variable Interest Entities

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

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

Securitizations of Residential Mortgage Loans

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

Transfers of Forward Loans

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

We report the gain or loss on the transfer of the loans held for sale in Gain on loans held for sale, net in the Unaudited Consolidated Statements of Operations along with the changes in fair value of the loans and the gain or loss on any related derivatives.

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

	Three Months		Nine Months	
	2016	2015	2016	2015
Proceeds received from securitizations	\$1,511,991	\$1,478,142	\$3,878,461	\$3,964,866
Servicing fees collected	3,768	5,973	10,441	25,066
Purchases of previously transferred assets, net of claims reimbursed	(271) 1,512	(1,051) 2,408
	\$1,515,488	\$1,485,627	\$3,887,851	\$3,992,340

In connection with these transfers, we retained MSR of \$9.8 million and \$26.5 million during the three and nine months ended September 30, 2016, respectively, and \$9.5 million and \$27.8 million during the three and nine months ended September 30, 2015, respectively.

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

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

	September 30, 2016	December 31, 2015
Carrying value of assets:		
Mortgage servicing rights, at amortized cost	\$ 75,804	\$ 54,729
Mortgage servicing rights, at fair value	164	236
Advances and match funded advances	30,841	26,968
UPB of loans transferred	9,768,852	7,471,025
Maximum exposure to loss	\$ 9,875,661	\$ 7,552,958

At September 30, 2016 and December 31, 2015, 7.3% and 8.2%, respectively, of the transferred residential loans that we service were 60 days or more past due.

Transfers of Reverse Mortgages

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

We measure the HECM loans and HMBS-related borrowings at fair value on a recurring basis. The changes in fair value of the HECM loans and HMBS-related borrowings are included in Other revenues in our Unaudited Consolidated Statements of Operations. Included in net fair value gains on the HECM loans and related HMBS borrowings are the interest income that we expect to be collected on the HECM loans and the interest expense that we expect to be paid on the HMBS-related borrowings.

At September 30, 2016, HMBS-related borrowings of \$3.2 billion were outstanding. The amount of HECM loans pledged as collateral to the pools was \$3.3 billion at September 30, 2016. At September 30, 2016, Loans held for investment - Reverse mortgages, at fair value of \$3.3 billion included \$73.6 million of originated loans which had not

yet been pledged as collateral. See Note 3 – Fair Value and Note 11 – Borrowings for additional information on HMBS-related borrowings and Loans held for investment - Reverse mortgages.

Financings of Advances on Loans Serviced for Others

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

We make the transfers to these SPEs under the terms of our advance financing facility agreements. We classify the transferred advances on our Unaudited Consolidated Balance Sheets as Match funded advances and the related liabilities as Match funded liabilities. The SPEs use collections of the pledged advances to repay principal and interest and to pay the expenses of the SPE. Holders of the debt issued by these entities 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.

Note 3 – Fair Value

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

We classify assets in their entirety based on the lowest level of input that is significant to the fair value measurement. The carrying amounts and the estimated fair values of our financial instruments and certain of our nonfinancial assets measured at fair value on a recurring or non-recurring basis or disclosed, but not carried, at fair value are as follows at the dates indicated:

	Level	September 30, 2016		December 31, 2015	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Loans held for sale:					
Loans held for sale, at fair value (a)	2	\$302,114	\$302,114	\$309,054	\$309,054
Loans held for sale, at lower of cost or fair value (b)	3	37,651	37,651	104,992	104,992
Total Loans held for sale		\$339,765	\$339,765	\$414,046	\$414,046
Loans held for investment - Reverse mortgages, at fair value (a)	3	\$3,339,641	\$3,339,641	\$2,488,253	\$2,488,253
Advances and match funded advances (c)	3	1,823,336	1,823,336	2,151,066	2,151,066
Receivables, net (c)	3	279,883	279,883	286,981	286,981
Mortgage-backed securities, at fair value (a)	3	9,040	9,040	7,985	7,985

	Level	September 30, 2016		December 31, 2015	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities:					
Match funded liabilities (c)	3	\$1,365,532	\$1,364,988	\$1,584,049	\$1,581,786
Financing liabilities:					
HMBS-related borrowings, at fair value (a)	3	\$3,224,610	\$3,224,610	\$2,391,362	\$2,391,362
Financing liability - MSRs pledged (a)	3	494,532	494,532	541,704	541,704
Other (c)	3	108,877	83,026	156,189	131,940
Total Financing liabilities		\$3,828,019	\$3,802,168	\$3,089,255	\$3,065,006
Other secured borrowings:					
Senior secured term loan (c)(d)	2	\$310,278	\$321,365	\$377,091	\$397,956
Other (c)	3	352,892	352,892	385,320	385,320
Total Other secured borrowings		\$663,170	\$674,257	\$762,411	\$783,276
Senior unsecured notes (c)(d)	2	\$346,511	\$312,946	\$345,511	\$318,063
Derivative financial instruments assets (liabilities) (a):					
Interest rate lock commitments	2	\$10,827	\$10,827	\$6,080	\$6,080
Forward mortgage-backed securities trades	1	(2,525)	(2,525)	295	295
Interest rate caps	3	793	793	2,042	2,042
Mortgage servicing rights:					
Mortgage servicing rights, at fair value (a)	3	\$696,108	\$696,108	\$761,190	\$761,190
Mortgage servicing rights, at amortized cost (c)(e)	3	340,561	357,817	377,379	461,555
Total Mortgage servicing rights		\$1,036,669	\$1,053,925	\$1,138,569	\$1,222,745

(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) The net carrying value at September 30, 2016 and December 31, 2015 is net of the valuation allowance on the impaired government-insured stratum of our amortization method MSRs, which is measured at fair value on a non-recurring basis. Before applying the valuation allowance of \$54.5 million, the carrying value of this stratum at September 30, 2016 was \$172.4 million. At December 31, 2015, the carrying value of this stratum was \$146.5 million before applying the valuation allowance of \$17.3 million.

The following tables present a reconciliation of the changes in fair value of Level 3 assets and liabilities that we measure at fair value on a recurring basis:

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs	Total
Three months ended September 30, 2016							
Beginning balance	\$ 3,057,564	\$ (2,935,928)	\$ 9,063	\$(495,126)	\$ 200	\$ 700,668	\$ 336,441
Purchases, issuances, sales and settlements:							
Purchases	—	—	—	—	638	—	638
Issuances	509,900	(297,457)	—	—	—	(50)	212,393
Sales	—	—	—	—	—	(5)	(5)
Settlements	(289,428)	63,119	—	594	—	—	(225,715)
	220,472	(234,338)	—	594	638	(55)	(12,689)
Total realized and unrealized gains and (losses):							
Included in earnings	61,605	(54,344)	(23)	—	(45)	(4,505)	2,688
Transfers in and / or out of Level 3	—	—	—	—	—	—	—
Ending balance	\$ 3,339,641	\$ (3,224,610)	\$ 9,040	\$(494,532)	\$ 793	\$ 696,108	\$ 326,440
Three months ended September 30, 2015							
Beginning balance	\$ 2,097,192	\$ (1,987,998)	\$ 8,157	\$(581,219)	\$ 155	\$ 814,450	\$ 350,737
Purchases, issuances, sales and settlements:							
Purchases	—	—	—	—	2,084	—	2,084
Issuances	250,600	(271,068)	—	—	—	—	(20,468)
Sales	—	—	—	—	—	(2,329)	(2,329)
Settlements	(41,582)	43,725	—	21,160	—	—	23,303
	209,018	(227,343)	—	21,160	2,084	(2,329)	2,590
Total realized and unrealized gains and (losses):							
Included in earnings	13,305	(14,263)	384	—	(738)	(24,777)	(26,089)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—
Ending balance	\$ 2,319,515	\$ (2,229,604)	\$ 8,541	\$(560,059)	\$ 1,501	\$ 787,344	\$ 327,238

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	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs	Total
Nine months ended September 30, 2016							
Beginning balance	\$2,488,253	\$(2,391,362)	\$ 7,985	\$(541,704)	\$ 2,042	\$761,190	\$326,404
Purchases, issuances, sales and settlements:							
Purchases	—	—	—	—	782	—	782
Issuances	1,185,565	(820,438)	—	—	—	(1,325)	363,802
Sales	—	—	—	—	—	(148)	(148)
Settlements	(528,263)	161,995	—	47,172	(81)	—	(319,177)
	657,302	(658,443)	—	47,172	701	(1,473)	45,259
Total realized and unrealized gains and (losses): (2)							
Included in earnings	194,086	(174,805)	1,055	—	(1,950)	(63,609)	(45,223)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—
Ending Balance	\$3,339,641	\$(3,224,610)	\$ 9,040	\$(494,532)	\$ 793	\$696,108	\$326,440

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-backed Securities	Financing Liability - MSRs Pledged (1)	Derivatives	MSRs	Total
Nine months ended September 30, 2015							
Beginning balance	\$1,550,141	\$(1,444,252)	\$ 7,335	\$(614,441)	\$ 567	\$93,901	\$(406,749)
Purchases, issuances, sales and settlements:							
Purchases	—	—	—	—	2,201	—	2,201
Issuances	781,002	(803,924)	—	—	—	(1,139)	(24,061)
Transfer from MSRs, at amortized cost	—	—	—	—	—	839,157	839,157
Sales	—	—	—	—	—	(71,318)	(71,318)
Settlements	(105,505)	107,522	—	54,382	346	—	56,745
	675,497	(696,402)	—	54,382	2,547	766,700	802,724
Total realized and unrealized gains and (losses) (2):							
Included in earnings	93,877	(88,950)	1,206	—	(1,613)	(73,257)	(68,737)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—
Ending balance	\$2,319,515	\$(2,229,604)	\$ 8,541	\$(560,059)	\$ 1,501	\$787,344	\$327,238

In the event of a transfer to another party of servicing related to Rights to MSRs, we are required to reimburse NRZ at predetermined contractual rates for the loss of servicing revenues. Settlements for Financing liability - MSRs (1) pledged for the nine months ended September 30, 2015 include \$2.2 million of such reimbursements. There have been no such payments in 2016.

(2)

Total losses attributable to derivative financial instruments still held at September 30, 2016 and September 30, 2015 were \$0.5 million and \$1.3 million for the nine months ended September 30, 2016 and 2015, respectively. Total losses attributable to MSR's still held at September 30, 2016 and September 30, 2015 were \$62.4 million and \$65.1 million for the nine months ended September 30, 2016 and 2015, respectively.

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

Loans Held for Sale

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

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

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

Loans Held for Investment – Reverse Mortgages

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

The more significant assumptions used in the September 30, 2016 valuation include:

- Life in years ranging from 5.69 to 9.02 (weighted average of 6.37);
- Conditional repayment rate ranging from 5.01% to 53.75% (weighted average of 20.05%); and
- Discount rate of 2.53%.

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

Mortgage Servicing Rights

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

Third-party valuation experts generally utilize: (a) transactions involving instruments with similar collateral and risk profiles, adjusted as necessary based on specific characteristics of the asset or liability being valued; and/or (b) industry-standard modeling, such as a discounted cash flow model, in arriving at their estimate of fair value. The prices provided by the valuation experts reflect their observations and assumptions related to market activity, including risk premiums and liquidity adjustments. The models and related assumptions used by the valuation experts are owned and managed by them and, in many cases, the significant inputs used in the valuation techniques are not reasonably available to us. However, we have an internal understanding of the processes and assumptions used to develop the prices based on our ongoing due diligence, which includes regular discussions with the valuation experts. We believe that the procedures executed by the valuation experts, supported by our internal verification and analytical

procedures, provide reasonable assurance that the prices used in our Unaudited Consolidated Financial Statements comply with the accounting guidance for fair value measurements and disclosures and reflect the assumptions that a market participant would use.

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

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

Amortized Cost MSRs

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

The more significant assumptions used in the September 30, 2016 valuation include:

Weighted average prepayment speed	13.89 %
Weighted average delinquency rate	11.60 %
Advance financing cost	5-year swap
Interest rate for computing float earnings	5-year swap
Weighted average discount rate	8.85 %
Weighted average cost to service (in dollars)	\$ 108

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

Fair Value MSRs

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

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

The primary assumptions used in the September 30, 2016 valuation include:

	Agency	Non Agency
Weighted average prepayment speed	16.86%	16.58 %
Weighted average delinquency rate	1.06 %	29.35 %
Advance financing cost	5-year swap	1-Month LIBOR (1ML) plus 3.5%
Interest rate for computing float earnings	5-year swap	1ML
Weighted average discount rate	9.00 %	15.08 %
Weighted average cost to service (in dollars)	\$ 75	\$ 308

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.

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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 based on the present value of expected future cash flows from the underlying mortgage pools. We use our best estimate of the key assumptions we believe are used by market participants. We calibrate our internally developed discounted cash flow models for trading activity when appropriate to do so in light of market liquidity levels. Key inputs include expected prepayment rates, delinquency and cumulative loss curves and discount rates commensurate with the risks. Where possible, we use observable inputs in the valuation of our securities. However, the subordinate and residual securities in which we have invested trade infrequently and therefore have few or no observable inputs and little price transparency. Additionally, during periods of market dislocation, the observability of inputs is further reduced. Changes in the fair value of our investment in subordinate and residual securities are recognized in Other, net in the Unaudited Consolidated Statements of Operations.

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

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

The more significant assumptions used in the September 30, 2016 valuation include:

• Life in years ranging from 4.67 to 9.02 (weighted average of 5.30);

• Conditional repayment rate ranging from 5.01% to 53.75% (weighted average of 20.05%); and

• Discount rate of 1.97%.

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

MSRs Pledged

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

The more significant assumptions used in determination of the price of the underlying MSR's at September 30, 2016 include:

Weighted average prepayment speed	17.09 %
Weighted average delinquency rate	29.81 %
	1ML
Advance financing cost	plus
	3.5%
Interest rate for computing float earnings	1ML
Weighted average discount rate	15.03 %
Weighted average cost to service (in dollars)	\$ 314

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 MSR's relating to Freddie Mac mortgages. We accounted for this transaction as a financing. We determine the fair value based on bid prices provided by third parties involved in the issuance and placement of the notes.

Other Secured Borrowings

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

Senior Unsecured Notes

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

Derivative Financial Instruments

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

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

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

Note 4 — Sales of Advances and MSR's

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

The following table provides a summary of the MSR and advances sold during the nine months ended September 30:

	2016		2015	
	MSRs	Advances and Match Funded Advances	MSRs	Advances and Match Funded Advances
Sales price of assets sold and adjustments:				
Accounted for as a sale (1)	\$28,126	\$30,370	\$780,410	\$321,164
Amount due from purchaser at September 30 (2)	—	(2,128)	(98,545)	(35,226)
Amounts paid to purchaser for estimated representation and warranty obligations, compensatory fees and related indemnification obligations	(1,320)	—	(83,806)	—
Amounts received from purchaser for items outstanding at the end of the previous year	18,448	46,740	—	—
Total net cash received	\$45,254	\$74,982	\$598,059	\$285,938

(1) During the nine months ended September 30, 2016 and 2015, we sold MSRs relating to loans with a UPB of \$3.6 billion (Agency and non-Agency) and \$86.4 billion (Agency), respectively.

(2) At September 30, 2016, the total amount due from sales of MSRs and advances, which is reported in Receivables, net, is \$31.6 million and consists principally of amounts related to sales completed in 2015.

In 2012 and 2013, we sold Rights to MSRs and the related servicing advances to Home Loan Servicing Solutions, Ltd. (HLSS). On April 6, 2015, HLSS closed on the sale of substantially all of its assets to NRZ. References to NRZ in these unaudited consolidated financial statements include HLSS for periods prior to April 6, 2015 because, following HLSS' sale of substantially all of its assets on April 6, 2015, NRZ, through its subsidiaries, is the owner of the Rights to MSRs and has assumed all rights and obligations under the associated agreements. We refer to the sale of Rights to MSRs and the related servicing advances as the NRZ/HLSS Transactions. As of September 30, 2016, these Rights to MSRs relate to approximately \$123.2 billion in UPB of our non-Agency MSRs.

Pursuant to our agreements with NRZ, NRZ has assumed the obligation to fund new servicing advances with respect to the Rights to MSRs. We continue to service the loans for which the Rights to MSRs have been sold to NRZ.

Accordingly, in the event NRZ were unable to fulfill its advance funding obligations, as the servicer under our servicing agreements with the residential mortgage backed securitization trusts, we would be contractually obligated to fund such advances under those servicing agreements. At September 30, 2016, NRZ had outstanding advances of approximately \$4.3 billion in connection with the Rights to MSRs.

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

Beginning April 7, 2017, we are obligated to transfer legal ownership of the MSRs to NRZ if and when NRZ obtains all required third-party consents and licenses. If and when such transfer of legal ownership occurs, OLS will subservice the loans pursuant to a subservicing agreement, as amended, with NRZ and the subservicing agreement

will have a subservicing fee reset date comparable to the servicing fee reset date described above. NRZ has agreed not to direct our replacement as servicer before April 6, 2017 except under certain limited circumstances. Beginning April 7, 2017, NRZ will have a general right to direct us to transfer servicing of the servicing agreements underlying the Rights to MSRs to a third party that can obtain all required third-party consents provided that the transfer is subject to our continued right to be paid the servicing fees and other amounts payable under our agreements.

Under our agreements with NRZ, NRZ has the right to direct the transfer of any affected servicing agreement to a successor servicer if certain specified termination events occur. One of those termination events requires us to maintain certain minimum residential primary servicer ratings. Following a “standstill” period that extends through April 6, 2017, if a termination event related to a servicer rating has occurred and exists with respect to any servicing agreement, NRZ will have the right to direct the transfer of servicing with respect to any affected servicing agreement to a replacement servicer that obtains all required third-party consents and licenses. Following any such transfer of an affected servicing agreement, we would no longer be entitled to receive future servicing fee revenue with respect to the transferred servicing agreement.

To the extent servicing agreements underlying Rights to MSR are terminated as a result of a termination event, NRZ is entitled to payment of an amount equal to an amortized percentage of NRZ’s purchase price for the related Rights to MSR. We paid NRZ \$2.2 million during the nine months ended September 30, 2015 in connection with the termination of four servicing agreements underlying the Rights to MSR due to servicer rating downgrades.

Under our agreements with NRZ, if S&P downgraded our servicer rating to below “Average” (which it did in 2015), we agreed to compensate NRZ for certain increased costs associated with its servicing advance financing facilities. This compensation requirement continued for a period of 12 months (through June 2016). We incurred \$10.5 million in 2016 and \$8.5 million during the nine months ended September 30, 2015 in connection with this compensation requirement.

The NRZ/HLSS Transactions are accounted for as financings. If and when transfer of legal ownership of the underlying MSR occurs upon receipt of third-party consents, we would derecognize the related MSR. Upon derecognition, any resulting gain or loss is deferred and amortized over the expected life of the related subservicing agreement. Until derecognition, we continue to recognize the full amount of servicing revenue and amortization of the MSR.

The sales of advances in connection with MSR sales, including the NRZ/HLSS Transactions, meet the requirements for sale accounting, and the advances are derecognized from our consolidated financial statements at the servicing transfer date, or, in the case of advances sold in connection with the sale of Rights to MSR, at the time of the sale. In 2014, Ocwen sold advances related to certain FHA-insured mortgage loans to subsidiaries of NRZ. These advance sales did not qualify for sales treatment and were accounted for as financings (Financing liability - Advances pledged).

Note 5 – Loans Held for Sale

Loans Held for Sale - Fair Value

Loans held for sale, at fair value, represent residential mortgage loans originated or purchased and held until sold to secondary market investors, such as the GSEs or other third parties. The following table summarizes the activity in the balance during the nine months ended September 30:

	2016	2015
Beginning balance	\$309,054	\$401,120
Originations and purchases	3,141,205	3,119,457
Proceeds from sales	(3,167,640)	(3,306,180)
Principal collections	(10,995)	(6,512)
Gain on sale of loans	23,627	37,580
Other (1)	6,863	(9,556)
Ending balance	\$302,114	\$235,909

(1) Other includes the increase (decrease) in fair value of \$1.0 million and \$(9.9) million for the nine months ended September 30, 2016 and 2015, respectively.

At September 30, 2016, loans held for sale, at fair value with a UPB of \$288.4 million were pledged to secure warehouse lines of credit in our Lending segment.

Loans Held for Sale - Lower of Cost or Fair Value

Loans held for sale, at lower of cost or fair value, include residential loans that we do not intend to hold to maturity. The following table summarizes the activity in the net balance during the nine months ended September 30:

	2016	2015
Beginning balance	\$104,992	\$87,492
Purchases	1,434,059	769,631
Proceeds from sales	(1,295,101)	(577,591)
Principal collections	(20,151)	(45,137)
Transfers to accounts receivable	(199,047)	(4,811)
Transfers to real estate owned	(6,434)	(18,479)
Gain on sale of loans	18,259	38,327
Decrease in valuation allowance	4,637	37,998
Other	(3,563)	3,633
Ending balance (1)	\$37,651	\$291,063

At September 30, 2016 and September 30, 2015, the balances include \$28.1 million and \$98.7 million, respectively, of loans that we were required to repurchase from Ginnie Mae guaranteed securitizations as part of our servicing obligations. Repurchased loans are modified or otherwise remediated through loss mitigation activities or are reclassified to receivables.

The change in the valuation allowance during the nine months ended September 30 is as follows:

	2016	2015
Beginning balance	\$14,658	\$49,676
Provision	2,100	542
Transfer from liability for indemnification obligations	2,306	1,140
Sales of loans	(8,699)	(37,776)
Other	(344)	1,796
Ending balance	\$10,021	\$15,378

At September 30, 2016, Loans held for sale, at lower of cost or fair value with a UPB of \$14.5 million were pledged to secure a warehouse line of credit in our Servicing segment.

In March 2015, we recognized a gain of \$12.9 million on sales of loans with a total UPB of \$42.7 million to an unrelated third party. In May 2015, we recognized a gain of \$7.2 million on sales of a second group of loans with a total UPB of \$33.0 million to an unrelated third party. We had repurchased these loans under the representation and warranty provisions of our contractual obligations to the GSEs as primary servicer of the loans.

Gain on Loans Held for Sale, Net

The following table summarizes the activity in Gain on loans held for sale, net, during the periods ended September 30:

	Three Months		Nine Months	
	2016	2015	2016	2015
Gain on sales of loans	\$40,707	\$34,038	\$77,732	\$130,425
Change in fair value of IRLCs	(2,523)	4,956	4,148	3,944
Change in fair value of loans held for sale	(8,226)	915	13,486	(5,893)
Loss on economic hedge instruments	(4,051)	(12,416)	(25,677)	(10,878)
Other	(262)	(195)	(615)	(664)
	\$25,645	\$27,298	\$69,074	\$116,934

Gains on loans held for sale, net include \$9.8 million and \$25.3 million for the three and nine months ended September 30, 2016, respectively, representing the value assigned to MSR retained on transfers of forward loans. For the three and nine months ended September 30, 2015, gains attributable to retained MSR were \$9.5 million and \$27.8 million, respectively.

Also included in Gains on loans held for sale, net are gains of \$6.9 million and \$19.9 million recorded during the three and nine months ended September 30, 2016, respectively, on sales of repurchased Ginnie Mae loans, which are carried

at the lower

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of cost or fair value. For the three and nine months ended September 30, 2015, gains on sales of repurchased Ginnie Mae loans were \$5.3 million and \$18.3 million, respectively.

Fair value gains recognized in connection with transfers of reverse mortgages into Ginnie Mae guaranteed securitizations are also included in Gains on loans held for sale, net and amounted to \$37.8 million and \$90.3 million for the three and nine months ended September 30, 2016, respectively. Fair value gains for the three and nine months ended September 30, 2015 were \$30.1 million and \$91.1 million, respectively.

Note 6 – Advances

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

	September 30, December 31,	
	2016	2015
Principal and interest	\$ 47,624	\$ 81,681
Taxes and insurance	170,215	278,487
Foreclosures, bankruptcy and other	118,087	126,031
	335,926	486,199
Allowance for losses	(46,912)	(41,901)
	\$ 289,014	\$ 444,298

Advances at September 30, 2016 include \$34.6 million of previously sold advances that did not qualify for sale accounting.

The following table summarizes the activity in net advances for the nine months ended September 30:

	2016	2015
Beginning balance	\$444,298	\$893,914
Sales of advances	(24,572)	(224,756)
Collections of advances, charge-offs and other, net	(125,701)	(161,378)
Decrease (increase) in allowance for losses	(5,011)	9,598
Ending balance	\$289,014	\$517,378

The change in the allowance for losses for the periods ended September 30 is as follows:

	Three Months		Nine Months	
	2016	2015	2016	2015
Beginning balance	\$39,441	\$59,545	\$41,901	\$70,034
Provision	(6,865)	21,856	581	42,358
Recoveries (charge-offs), net and other	14,336	(20,965)	4,430	(51,956)
Ending balance	\$46,912	\$60,436	\$46,912	\$60,436

Note 7 – Match Funded Advances

Match funded advances on residential loans we service for others are comprised of the following at the dates indicated:

	September 30, December 31,	
	2016	2015
Principal and interest	\$ 783,797	\$ 948,376
Taxes and insurance	540,277	608,404
Foreclosures, bankruptcy, real estate and other	210,248	149,988
	\$ 1,534,322	\$ 1,706,768

The following table summarizes the activity in match funded advances for the nine months ended September 30:

	2016	2015
Beginning balance	\$1,706,768	\$2,409,442
Sales of advances	(7,757)	(96,408)
Collections of pledged advances, net	(164,689)	(357,416)
Ending balance	\$1,534,322	\$1,955,618

Note 8 – Mortgage Servicing

Mortgage Servicing Rights – Amortization Method

The following table summarizes changes in the net carrying value of servicing assets that we account for using the amortization method for the nine months ended September 30:

	2016	2015
Beginning balance	\$377,379	\$1,820,091
Fair value election - transfer of MSR's carried at fair value (1)	—	(787,142)
Additions recognized in connection with asset acquisitions	15,968	10,055
Additions recognized on the sale of mortgage loans	26,494	27,791
Sales	(23,521)	(591,605)
	396,320	479,190
Amortization (2)	(18,595)	(88,188)
Increase in impairment valuation allowance (3)	(37,164)	(25,051)
Ending balance	\$340,561	\$365,951

Estimated fair value at end of period \$357,817 \$404,533

Effective January 1, 2015, we elected fair value accounting for a newly-created class of non-Agency MSR's, which were previously accounted for using the amortization method, based on a different strategy for managing the risks of the underlying portfolio compared to our other MSR classes. This irrevocable election applies to all subsequently acquired or originated servicing assets and liabilities that have characteristics consistent with this class. We recorded a cumulative-effect adjustment of \$52.0 million (before deferred income taxes of \$9.2 million) to retained earnings as of January 1, 2015 to reflect the excess of the fair value of these MSR's over their carrying amount. At December 31, 2014, the UPB of the loans related to the non-Agency MSR's for which the fair value election was made was \$195.3 billion.

During 2016, principally in the third quarter, we participated in HUD's Aged Delinquent Portfolio Loan Sale (ADPLS) program, which accelerates FHA insurance claims for a population of significantly delinquent FHA loans. The expedited claim filing process allows a servicer to reduce significantly its standard claim losses on accepted loans by shortening the servicing timeline and related expenses, some of which are not reimbursed by FHA insurance. Our participation required that we recognize \$23.1 million of life-to-date losses on the claims filed in the third quarter. This loss is reported in Servicing and origination expense in the Unaudited Consolidated Statements of Operations. Because the MSR's related to the loans that were assigned to HUD had negative carrying values, our recognition of the losses on the loans reduced the negative carrying value of the MSR's thereby generating negative amortization expense for this population of MSR's. In the third quarter, this ADPLS-related negative amortization expense of \$18.1 million exceeded the positive amortization expense on the remaining MSR's, generating net negative amortization for the quarter.

Impairment of MSR's is recognized in Servicing and origination expense. See Note 3 – Fair Value for additional information regarding impairment and the valuation allowance.

Mortgage Servicing Rights – Fair Value Measurement Method

The following table summarizes changes in the fair value of servicing assets that we account for at fair value on a recurring basis for the nine months ended September 30:

	2016			2015		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	\$15,071	\$746,119	\$761,190	\$93,901	\$—	\$93,901
Fair value election - transfer of MSR's carried at amortized cost	—	—	—	—	787,142	787,142
Cumulative effect of fair value election	—	—	—	—	52,015	52,015
Sales	(3)	(145)	(148)	(70,084)	(1,234)	(71,318)
Servicing transfers and adjustments	—	(1,326)	(1,326)	—	(1,139)	(1,139)
Changes in fair value (1):						
Changes in valuation inputs or other assumptions	(4,654)	—	(4,654)	(2,592)	12,031	9,439
Realization of expected future cash flows and other changes	(1,399)	(57,555)	(58,954)	(6,808)	(75,888)	(82,696)
Ending balance	\$9,015	\$687,093	\$696,108	\$14,417	\$772,927	\$787,344

(1) Changes in fair value are recognized in Servicing and origination expense in the Unaudited Consolidated Statements of Operations.

Because the mortgages underlying these MSR's permit the borrowers to prepay the loans, the value of the MSR's 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 MSR's that we carry at fair value as of September 30, 2016 given hypothetical shifts in lifetime prepayments and yield assumptions:

	Adverse change in fair value	
	10%	20%
Weighted average prepayment speeds	\$(66,764)	\$(135,780)
Discount rate (option-adjusted spread)	\$(18,758)	\$(34,142)

The sensitivity analysis measures the potential impact on fair values based on hypothetical changes, which in the case of our portfolio at September 30, 2016 are increased prepayment speeds and a decrease in the yield assumption.

Portfolio of Assets Serviced

The following table presents the composition of our primary servicing and subservicing portfolios by type of property serviced as measured by UPB. 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.

	Residential	Commercial	Total
UPB at September 30, 2016			
Servicing	\$206,615,310	\$ —	\$206,615,310
Subservicing	10,276,692	151,432	10,428,124
	\$216,892,002	\$ 151,432	\$217,043,434
UPB at December 31, 2015			
Servicing	\$230,132,729	\$ —	\$230,132,729
Subservicing	20,833,383	105,268	20,938,651
	\$250,966,112	\$ 105,268	\$251,071,380
UPB at September 30, 2015			
Servicing	\$238,108,447	\$ —	\$238,108,447
Subservicing	49,960,702	180,877	50,141,579
	\$288,069,149	\$ 180,877	\$288,250,026

UPB serviced at September 30, 2016, December 31, 2015 and September 30, 2015 includes \$123.2 billion, \$137.1 billion and \$146.0 billion, respectively, for which the Rights to MSR's have been sold to NRZ.

Residential assets serviced includes foreclosed real estate. Residential assets serviced also includes small-balance commercial assets with a UPB of \$1.5 billion, \$1.8 billion and \$1.9 billion at September 30, 2016, December 31, 2015 and September 30, 2015, respectively. Commercial assets consist of large-balance foreclosed real estate.

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 by 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.

Certain of our servicing agreements require that we maintain specified servicer ratings from rating agencies such as Moody's and S&P. Out of 3,840 non-Agency servicing agreements, 729 with approximately \$35.8 billion of UPB as of September 30, 2016 have minimum servicer ratings criteria. As a result of our current servicer ratings, termination rights have been triggered in 180 of these non-Agency servicing agreements. This represents approximately \$11.5 billion in UPB as of September 30, 2016, or approximately 6.9% of our total non-Agency servicing portfolio.

In early 2015, we received notices terminating us as the servicer under four of our non-Agency servicing agreements due to rating downgrades. Pursuant to our servicing agreements, generally we are entitled to payment of accrued and unpaid servicing fees through termination as well as all advances and certain other previously unreimbursed amounts, although we lose the future servicing fee revenue. While the financial impact of the termination of servicing under these four servicing agreements was immaterial to our overall financial condition, as it represented only 0.17% of our overall servicing portfolio as of the time of transfer of servicing, we could be subject to further terminations either as a result of servicer ratings downgrades or future adverse actions by ratings agencies, which could have an adverse effect on our business, financing activities, financial condition and results of operations.

Downgrades in servicer ratings could adversely affect our ability to finance servicing advances and 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.

Servicing Revenue

The following table presents the components of servicing and subservicing fees for the periods ended September 30:

	Three Months		Nine Months	
	2016	2015	2016	2015
Loan servicing and subservicing fees:				
Servicing	\$232,013	\$274,089	\$706,194	\$904,062
Subservicing	5,000	14,354	17,494	48,004
	237,013	288,443	723,688	952,066
Home Affordable Modification Program (HAMP) fees	32,029	32,318	88,141	108,698
Late charges	15,225	19,162	51,301	63,557
Loan collection fees	6,746	6,682	20,860	25,176
Other	11,222	13,412	23,003	54,044
	\$302,235	\$360,017	\$906,993	\$1,203,541

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 \$2.6 billion and \$3.1 billion at September 30, 2016 and September 30, 2015, respectively.

In addition to mortgage servicing and subservicing fees, in the third quarter of 2016, we executed clean-up calls on four, small-balance commercial mortgage securitization trusts, which resulted in our recognizing income of \$12.8 million related to the value of the underlying collateral held by the trusts, including amounts on deposit in spread accounts (a form of cash collateral account). We reported this income in Other, net, (a component of Other income (expense)) in the Unaudited Consolidated Statements of Operations. Simultaneously with the execution of the clean-up call, we entered into a mortgage loan purchase agreement to sell the acquired commercial loans and foreclosed properties to a third party. The proceeds from the sale were used to fund the required payments to the holders of the debt securities issued by the trusts. The sales price of the loans represented a discount to the repurchase price of \$2.5 million, which we reported in Gain on loans held for sale, net.

Note 9 – Receivables

Receivables, net consisted of the following at the dates indicated:

	September 30, 2016	December 31, 2015
Servicing:		
Government-insured loan claims (1)	\$110,487	\$71,405
Reimbursable expenses	38,027	29,856
Due from custodial accounts	32,432	13,800
Amount due on sales of mortgage servicing rights and advances	31,569	94,629
Other servicing receivables	46,612	32,879
	259,127	242,569
Income taxes receivable	59,440	53,519
Other receivables	24,544	29,818
	343,111	325,906
Allowance for losses (1)	(63,228)	(38,925)
	\$279,883	\$286,981

At September 30, 2016 and December 31, 2015, the allowance for losses related entirely to receivables of our Servicing business. Allowance for losses related to defaulted FHA or VA insured loans repurchased from Ginnie Mae guaranteed securitizations (government-insured loan claims) at September 30, 2016 and December 31, 2015 were \$46.4 million and \$20.6 million, respectively.

Note 10 – Other Assets

Other assets consisted of the following at the dates indicated:

	September 30, December 31,	
	2016	2015
Contingent loan repurchase asset (1)	\$ 261,589	\$ 346,984
Prepaid expenses (2)	54,755	69,805
Debt service accounts (3)	40,020	87,328
Automotive dealer financing notes, net (4)	24,965	2,538
Derivatives, at fair value	11,620	6,367
Prepaid income taxes	9,232	11,749
Mortgage backed securities, at fair value	9,040	7,985
Prepaid lender fees and debt issuance costs, net	8,807	19,496
Real estate	4,388	20,489
Other	15,505	13,754
	\$ 439,921	\$ 586,495

In connection with the Ginnie Mae early buy-out (EBO) program, our agreements provide either that: (a) we have the right, but not the obligation, to repurchase previously transferred mortgage loans under certain conditions, including the mortgage loans becoming eligible for pooling under a program sponsored by Ginnie Mae; or (b) we have the obligation to repurchase previously transferred mortgage loans that have been subject to a successful trial modification before any permanent modification is made. Once these conditions are met, we have effectively regained control over the mortgage loan(s), and under GAAP, must re-recognize the loans on our consolidated balance sheets and establish a corresponding repurchase liability. With respect to those loans that we have the right, but not the obligation, to repurchase under the applicable agreement, this requirement applies regardless of whether we have any intention to repurchase the loan. We re-recognize the loans in Other assets and a corresponding liability in Other liabilities.

In connection with the sale of Agency MSRs in 2015, we placed \$52.9 million in escrow for the payment of representation, warranty and indemnification claims associated with the underlying loans. Prepaid expenses at September 30, 2016 and December 31, 2015 includes the remaining balance of \$35.9 million and \$41.3 million, respectively.

Under our advance funding financing facilities, we are contractually required to remit collections on pledged advances to the trustee within two days of receipt. The collected funds are not applied to reduce the related match funded debt until the payment dates specified in the indenture. 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.

Automotive dealer financing notes are net of an allowance of \$0.3 million at September 30, 2016. These notes represent short-term inventory-secured floor plan loans provided to independent used car dealerships through our ACS venture.

Note 11 – Borrowings

Match Funded Liabilities

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

Borrowing Type	Interest Rate	Maturity (1)	Amortization Date (1)	Available Borrowing Capacity (2)	September 30/December 31,	
					2016	2015
Advance Receivables Backed Notes - Series 2014-VF3,	1ML (3) + 185 bps	Aug. 2047	Aug. 2017	\$ 35,768	\$ 77,411	\$ 132,651

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Class A (4) Advance Receivables Backed Notes - Series 2014-VF3, Class B (4)	1ML + 250 bps	Aug. 2047	Aug. 2017	1,634	3,703	6,330
Advance Receivables Backed Notes - Series 2014-VF3, Class C (4)	1ML + 380 bps	Aug. 2047	Aug. 2017	1,808	4,097	6,977
Advance Receivables Backed Notes - Series 2014-VF3, Class D (4)	1ML + 545 bps	Aug. 2047	Aug. 2017	4,733	10,846	18,427

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Borrowing Type	Interest Rate	Maturity (1)	Amortization Date (1)	Available		
				Borrowing Capacity (2)	September 2016	December 31, 2015
Advance Receivables Backed Notes - Series 2014-VF4, Class A (4)	1ML + 185 bps	Aug. 2047	Aug. 2017	35,768	77,411	132,651
Advance Receivables Backed Notes - Series 2014-VF4, Class B (4)	1ML + 250 bps	Aug. 2047	Aug. 2017	1,634	3,703	6,330
Advance Receivables Backed Notes - Series 2014-VF4, Class C (4)	1ML + 380 bps	Aug. 2047	Aug. 2017	1,808	4,097	6,977
Advance Receivables Backed Notes - Series 2014-VF4, Class D (4)	1ML + 545 bps					