OCWEN FINANCIAL CORP
Form 10-Q
August 18, 2014

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

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014

OR

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

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

| | |
|---|---|
| Florida | 65-0039856 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 2002 Summit Boulevard, 6th Floor<br>Atlanta, Georgia | 30319 |
| (Address of principal executive office) | (Zip Code) |

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes o No T
Number of shares of common stock outstanding as of August 8, 2014: 130,817,914 shares

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OCWEN FINANCIAL CORPORATION
FORM 10-Q
TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact included in this report, including, without limitation, statements regarding our financial position, business strategy and other plans and objectives for our future operations, are forward-looking statements. These statements include declarations regarding our management's beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could", "intend," "consider," "expec "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such terms or other comparable terminolo Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Forward looking statements involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those suggested by such statements. Accordingly, you should not place undue reliance on any forward-looking statement. Important factors that could cause actual results to differ include, but are not limited to, the risks discussed in "Risk Factors" in Amendment No.1 to our Annual Report on Form 10-K for the year ended December 31, 2013 and the following:

- uncertainty related to legislation, regulations, regulatory agency actions, government programs and policies, industry initiatives and evolving best servicing practices;
- uncertainty related to claims, litigation and investigations brought by government agencies and private parties regarding our servicing, foreclosure, modification and other practices;
- the characteristics of our servicing portfolio, including prepayment speeds along with delinquency and advance rates;
- our ability to grow and adapt our business, including the availability of new loan servicing and other accretive business opportunities;
- uncertainty related to acquisitions, including our ability to close acquisitions and to integrate the systems, procedures and personnel of acquired assets and businesses;
- our ability to contain and reduce our operating costs;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;
- 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 fund and recover advances, repay borrowings and comply with debt covenants;
- 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, including mortgage-backed securities investors and government sponsored entities, regarding loan put-backs, penalties and legal actions;
- uncertainty related to the processes for judicial and non-judicial foreclosure proceedings, including potential additional costs or delays or moratoria in the future or claims pertaining to past practices;
- our reserves, valuations, provisions and anticipated realization on assets;
- our ability to effectively manage our exposure to interest rate changes and foreign exchange fluctuations;
- our credit and servicer ratings and other actions from various rating agencies;
- our ability to maintain our technology systems and our ability to adapt such systems for future operating environments;
- failure of our internal security measures or breach of our privacy protections; and
- uncertainty related to the political or economic stability of foreign countries in which we have operations.

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the Securities and Exchange Commission (SEC) including Amendment No.1 to our Annual Report on Form 10-K for the year ended December 31, 2013, Amendment No.1 to our Quarterly Report on Form 10-Q for the three months ended March 31, 2014 and our Current Reports on Form 8-K. Forward-looking statements speak only as of the date they were made and except for our ongoing obligations under the U.S. federal securities laws, we undertake no obligation to update or revise forward-looking statements whether as a result of new information, future events or otherwise.

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

| | June 30, 2014 | December 31, 2013 (As Restated) |
|---|---|---|
| Assets | | |
| Cash | $259,471 | $178,512 |
| Mortgage servicing rights ($104,220 and $116,029 carried at fair value) | 2,001,720 | 2,069,381 |
| Advances | 945,809 | 890,832 |
| Match funded advances | 2,517,577 | 2,552,383 |
| Loans held for sale ($410,335 and $503,753 carried at fair value) | 501,843 | 566,660 |
| Loans held for investment - reverse mortgages, at fair value | 1,107,626 | 618,018 |
| Goodwill | 420,201 | 420,201 |
| Receivables, net | 239,748 | 152,516 |
| Deferred tax assets, net | 98,831 | 115,571 |
| Premises and equipment, net | 47,990 | 53,786 |
| Other assets | 224,086 | 309,143 |
| Total assets | $8,364,902 | $7,927,003 |
| | | |
| Liabilities, Mezzanine Equity and Equity | | |
| Liabilities | | |
| Match funded liabilities | $2,072,517 | $2,364,814 |
| Financing liabilities ($1,033,712 and $615,576 carried at fair value) | 1,863,576 | 1,266,973 |
| Other secured borrowings | 1,685,746 | 1,777,669 |
| Senior unsecured notes | 350,000 | — |
| Other liabilities | 474,984 | 644,595 |
| Total liabilities | 6,446,823 | 6,054,051 |
| | | |
| Commitments and Contingencies (Note 20) | | |
| | | |
| Mezzanine Equity | | |
| Series A Perpetual Convertible Preferred stock, $.01 par value; 200,000 shares authorized; 62,000 shares issued and outstanding at June 30, 2014 and December 31, 2013; redemption value $62,000 plus accrued and unpaid dividends | 61,192 | 60,361 |
| | | |
| Equity | | |
| Ocwen Financial Corporation (Ocwen) stockholders' equity | | |
| Common stock, $.01 par value; 200,000,000 shares authorized; 132,771,321 and 135,176,271 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively | 1,328 | 1,352 |
| Additional paid-in capital | 733,737 | 818,427 |
| Retained earnings | 1,128,425 | 1,002,963 |
| Accumulated other comprehensive loss, net of income taxes | (9,171) | (10,151) |
| Total Ocwen stockholders' equity | 1,854,319 | 1,812,591 |
| Non-controlling interest in subsidiaries | 2,568 | — |

| | | |
|---|---|---|
| Total equity | 1,856,887 | 1,812,591 |
| Total liabilities, mezzanine equity and equity | $8,364,902 | $7,927,003 |

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

3

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 (As Restated) | 2014 | 2013 (As Restated) |
| Revenue | | | | |
| Servicing and subservicing fees | $491,673 | $482,632 | $982,132 | $850,125 |
| Gain on loans held for sale, net | 38,836 | 36,478 | 82,823 | 44,650 |
| Other revenues | 22,565 | 25,702 | 39,380 | 56,303 |
| Total revenue | 553,074 | 544,812 | 1,104,335 | 951,078 |
| | | | | |
| Operating expenses | | | | |
| Compensation and benefits | 110,602 | 117,999 | 216,239 | 212,625 |
| Amortization of mortgage servicing rights | 63,198 | 70,369 | 125,292 | 118,252 |
| Servicing and origination | 35,787 | 31,888 | 79,734 | 55,504 |
| Technology and communications | 39,997 | 33,877 | 76,973 | 63,889 |
| Professional services | 30,643 | 66,652 | 52,041 | 80,138 |
| Occupancy and equipment | 25,756 | 25,596 | 57,807 | 43,845 |
| Other operating expenses | 39,480 | 28,415 | 86,571 | 44,177 |
| Total operating expenses | 345,463 | 374,796 | 694,657 | 618,430 |
| | | | | |
| Income from operations | 207,611 | 170,016 | 409,678 | 332,648 |
| | | | | |
| Other income (expense) | | | | |
| Interest expense | (136,207) | (113,220) | (276,080) | (202,679) |
| Gain (loss) on debt redemption | 356 | 3,192 | 2,609 | (13,838) |
| Other, net | 5,417 | 14,170 | 12,673 | 13,319 |
| Total other expense, net | (130,434) | (95,858) | (260,798) | (203,198) |
| | | | | |
| Income before income taxes | 77,177 | 74,158 | 148,880 | 129,450 |
| Income tax expense | 10,165 | 8,496 | 21,382 | 14,879 |
| Net income | 67,012 | 65,662 | 127,498 | 114,571 |
| Net income attributable to non-controlling interests | (57) | — | (42) | — |
| Net income attributable to Ocwen stockholders | 66,955 | 65,662 | 127,456 | 114,571 |
| Preferred stock dividends | (582) | (1,519) | (1,163) | (3,004) |
| Deemed dividends related to beneficial conversion feature of preferred stock | (415) | (1,086) | (831) | (2,172) |
| Net income attributable to Ocwen common stockholders | $65,958 | $63,057 | $125,462 | $109,395 |
| | | | | |
| Earnings per share attributable to Ocwen common stockholders | | | | |
| Basic | $0.49 | $0.46 | $0.93 | $0.81 |
| Diluted | $0.48 | $0.45 | $0.91 | $0.78 |
| | | | | |
| Weighted average common shares outstanding | | | | |
| Basic | 134,221,668 | 135,690,264 | 134,724,905 | 135,664,242 |

| | | | | |
|---|---|---|---|---|
| Diluted | 137,705,793 | 144,721,047 | 138,423,012 | 139,591,958 |

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

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 (As Restated) | 2014 | 2013 (As Restated) |
| Net income | $67,012 | $65,662 | $127,498 | $114,571 |
| Other comprehensive income (loss), net of income taxes: | | | | |
| Change in deferred loss on cash flow hedges arising during the year (1) | — | (3,351) | — | (7,473) |
| Reclassification adjustment for losses on cash flow hedges included in net income (2) | 370 | 1,016 | 978 | 1,420 |
| Net change in deferred loss on cash flow hedges | 370 | (2,335) | 978 | (6,053) |
| Other | — | 641 | 2 | 680 |
| Total other comprehensive income (loss), net of income taxes | 370 | (1,694) | 980 | (5,373) |
| Comprehensive income | 67,382 | 63,968 | 128,478 | 109,198 |
| Comprehensive income attributable to non-controlling interests | (57) | — | (42) | — |
| Comprehensive income attributable to Ocwen stockholders | $67,325 | $63,968 | $128,436 | $109,198 |

(1) Net of tax benefit of $2.1 million and $4.9 million for the three and six months ended June 30, 2013, respectively.

(2) Net of tax expense of $0.6 million for the three months ended June 30, 2013 and $0.2 million and $0.9 million for the six months ended June 30, 2014 and 2013, respectively. These losses are reclassified to Other, net in the unaudited Consolidated Statements of Operations. See Note 14 – Derivative Financial Instruments and Hedging Activities for additional information.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(Dollars in thousands)

| | Ocwen Stockholders Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Taxes | Non-controlling Interest in Subsidiaries | Total |
| Balance at December 31, 2013 (As Restated) | 135,176,271 | $1,352 | $818,427 | $1,002,963 | $ (10,151 ) | $ — | $1,812,591 |
| Net income | — | — | — | 127,456 | — | 42 | 127,498 |
| Preferred stock dividends ($18.75 per share) | — | — | — | (1,163 ) | — | — | (1,163 ) |
| Deemed dividend related to beneficial conversion feature of preferred stock | — | — | — | (831 ) | — | — | (831 ) |
| Repurchase of common stock | (2,663,334 ) | (27 ) | (94,580 ) | — | — | — | (94,607 ) |
| Exercise of common stock options | 244,000 | 3 | 1,036 | — | — | — | 1,039 |
| Equity-based compensation and other | 14,384 | — | 8,854 | — | — | — | 8,854 |
| Non-controlling interest in connection with the acquisition of a controlling interest in Ocwen Structured Investments, LLC | — | — | — | — | — | 2,526 | 2,526 |
| Other comprehensive income, net of income taxes | — | — | — | — | 980 | — | 980 |
| Balance at June 30, 2014 | 132,771,321 | $1,328 | $733,737 | $1,128,425 | $ (9,171 ) | $ 2,568 | $1,856,887 |
| | | | | | | | |
| Balance at December 31, 2012 | 135,637,932 | $1,356 | $911,942 | $704,565 | $ (6,441 ) | $ — | $1,611,422 |
| Net income (As Restated) | — | — | — | 114,571 | — | — | 114,571 |
| Preferred stock dividends ($18.54 per share) | — | — | — | (3,004 ) | — | — | (3,004 ) |
| Deemed dividend related to beneficial conversion feature of preferred stock | — | — | — | (2,172 ) | — | — | (2,172 ) |
| Exercise of common stock options | 105,029 | 2 | 569 | — | — | — | 571 |
| Equity-based compensation and other | 12,031 | — | 2,886 | — | — | — | 2,886 |
| | — | — | — | — | (5,373 ) | — | (5,373 ) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Other comprehensive loss, net of income taxes | | | | | | | |
| Balance at June 30, 2013 (As Restated) | 135,754,992 | $1,358 | $915,397 | $813,960 | $ (11,814 ) | $ — | $1,718,901 |

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

6

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

| For the Six Months Ended June 30, | 2014 | | 2013 (As Restated) | |
|---|---|---|---|---|
| Cash flows from operating activities | | | | |
| Net income | $127,498 | | $114,571 | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Amortization of mortgage servicing rights | 125,292 | | 118,252 | |
| Depreciation | 10,846 | | 10,455 | |
| Provision for bad debts | 52,564 | | 12,756 | |
| Gain on sale of loans | (82,823 | ) | (44,650 | ) |
| Realized and unrealized losses on derivative financial instruments | 1,539 | | 3,723 | |
| (Gain) loss on extinguishment of debt | (2,609 | ) | 13,838 | |
| Loss (gain) on valuation of mortgage servicing rights, at fair value | 11,809 | | (11,950 | ) |
| Decrease (increase) in deferred tax assets, net | 16,547 | | (1,968 | ) |
| Origination and purchase of loans held for sale | (4,501,731 | ) | (5,019,833 | ) |
| Proceeds from sale and collections of loans held for sale | 4,422,560 | | 5,095,388 | |
| Changes in assets and liabilities: | | | | |
| Decrease in advances and match funded advances | 123,299 | | 429,151 | |
| (Increase) decrease in receivables and other assets, net | (1,022 | ) | 112,113 | |
| (Decrease) increase in other liabilities | (116,971 | ) | 45,130 | |
| Other, net | 23,225 | | (9,344 | ) |
| Net cash provided by operating activities | 210,023 | | 867,632 | |
| | | | | |
| Cash flows from investing activities | | | | |
| Cash paid to acquire ResCap Servicing Operations (a component of Residential Capital, LLC) | (54,220 | ) | (2,097,821 | ) |
| Net cash paid to acquire controlling interest in Ocwen Structured Investments, LLC | (7,833 | ) | — | |
| Net cash paid to acquire Liberty Home Equity Solutions, Inc. | — | | (26,568 | ) |
| Net cash acquired in acquisition of Correspondent One S.A. | — | | 22,108 | |
| Distributions of capital from unconsolidated entities | 6,572 | | 1,300 | |
| Purchase of mortgage servicing rights, net | (9,749 | ) | (543,621 | ) |
| Acquisition of advances in connection with the purchase of mortgage servicing rights | (84,373 | ) | (73,523 | ) |
| Acquisition of advances in connection with the purchase of loans | (60,482 | ) | — | |
| Proceeds from sale of advances and match funded advances | — | | 1,079,777 | |
| Net proceeds from sale of diversified fee-based businesses to Altisource Portfolio Solutions, SA | — | | 215,700 | |
| Origination of loans held for investment – reverse mortgages | (357,104 | ) | (63,029 | ) |
| Principal payments received on loans held for investment - reverse mortgages | 28,601 | | 871 | |
| Additions to premises and equipment | (5,092 | ) | (19,413 | ) |
| Other | 1,481 | | 478 | |
| Net cash used in investing activities | (542,199 | ) | (1,503,741 | ) |
| | | | | |
| | | | (As Restated) | |
| Cash flows from financing activities | | | | |
| Repayment of match funded liabilities | (292,297 | ) | (140,913 | ) |
| Proceeds from other secured borrowings | 3,007,709 | | 6,342,432 | |
| Repayments of other secured borrowings | (3,139,093 | ) | (5,546,410 | ) |

| | | |
|---|---|---|
| Proceeds from issuance of senior unsecured notes | 350,000 | — |
| Payment of debt issuance costs | (6,417) | (24,931) |
| Proceeds from sale of mortgage servicing rights accounted for as a financing | 123,551 | 162,434 |
| Proceeds from sale of loans accounted for as a financing | 381,579 | 65,938 |
| Proceeds from sale of advances accounted for as a financing | 81,828 | — |
| Repurchase of common stock | (94,607) | — |
| Payment of preferred stock dividends | (1,163) | (3,088) |
| Other | 2,045 | 264 |
| Net cash provided by financing activities | 413,135 | 855,726 |
| | | |
| Net increase in cash | 80,959 | 219,617 |
| Cash at beginning of year | 178,512 | 220,130 |
| Cash at end of period | $259,471 | $439,747 |
| | | |
| Supplemental business acquisition information - ResCap (1) | | |
| Fair value of assets acquired | | |
| Advances | $— | $(1,786,409) |
| Mortgage servicing rights | — | (401,314) |
| Deferred tax assets | — | — |
| Premises and equipment | — | (16,423) |
| Goodwill | — | (211,419) |
| Debt service accounts | — | — |
| Receivables and other assets | — | (2,989) |
| | — | (2,418,554) |
| Fair value of liabilities assumed | | |
| Accrued expenses and other liabilities | — | 74,625 |
| Total consideration | — | (2,343,929) |
| Amount due to seller (2) | — | 246,108 |
| Cash paid | $— | $(2,097,821) |

(1) See Note 3 – Business Acquisitions for information regarding the acquisitions of Ocwen Structured Investments, LLC and Correspondent One S.A. during the three months ended March 31, 2014 and 2013, respectively.

(2) Amount due to seller includes $54.2 million paid in 2014 for certain mortgage servicing rights and related servicing advances which we were obligated to acquire that were not settled as part of the initial closing.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014
(Dollars in thousands, except per share data and unless otherwise indicated)

## Note 1 – Description of Business and Basis of Presentation

### Organization

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

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

In 2013, we completed acquisitions of mortgage servicing rights (MSRs) and servicing advances from, among others, OneWest Bank, FSB (OneWest MSR Transaction) and Ally Bank, a wholly-owned subsidiary of Ally Financial Inc. (Ally), the indirect parent of Residential Capital, LLC (ResCap) (Ally MSR Transaction), and acquisitions of servicing and origination platforms, including Liberty Home Equity Solutions, Inc. (Liberty) through a stock purchase agreement (Liberty Acquisition) and certain assets and operations of ResCap pursuant to a plan under Chapter 11 of the Bankruptcy Code (ResCap Acquisition). See Note 3 – Business Acquisitions and Note 8 – Mortgage Servicing for additional information.

### Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions of the Securities and Exchange Commission (SEC) to Form 10-Q and SEC Regulation S-X, Article 10, Rule 10-01 for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation. The results of operations and other data for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2014. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Amendment 1 to our Annual Report on Form 10-K for the year ended December 31, 2013.

### Reclassifications

Within the Assets section of the Consolidated Balance sheet at December 31, 2013, we reclassified Debt service accounts of $129.9 million to Other assets to conform to the current year presentation.

Within the Operating expenses section of the unaudited Consolidated Statements of Operations for the three and six months ended June 30, 2013, we reclassified certain expenses related to loans held for sale of $20.1 million and $21.1 million, respectively, from Other operating expenses to Servicing and origination expenses to conform to the current year presentation.

Certain insignificant amounts in the unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2013 have been reclassified to conform to the current year presentation. These reclassifications had no impact on our consolidated cash flows.

### 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, representation and warranty and other indemnification obligations and the valuation of goodwill. In developing estimates and assumptions, management uses all available information; however, actual results could materially differ because of uncertainties associated with estimating the amounts, timing and likelihood of possible outcomes.

Change in Accounting Estimate

For servicing assets or liabilities that we account for using the amortization method, we amortize the balances in proportion to, and over the period of, estimated net servicing income (if servicing revenues exceed servicing costs) or net servicing loss (if servicing costs exceed servicing revenues). We determine estimated net servicing income using the estimated future balance of the underlying mortgage loan portfolio, which, absent new purchases, declines over time from prepayments and scheduled loan amortization. We adjust MSR amortization prospectively in response to changes in estimated projections of future cash flows. As a result of the significant growth and change in composition of our servicing portfolio, we determined that the estimated net servicing income has increased, primarily as a result of lower actual prepayment speeds. We accounted for this change in MSR amortization as a change in an accounting estimate beginning January 1, 2014. This change had the effect of reducing amortization expense and increasing both net income and earnings per share in our unaudited Consolidated Statements of Operations for the three and six months ended June 30, 2014 as follows:

| | Three Months | Six Months |
|---|---|---|
| Reduction in Amortization of mortgage servicing rights | $(21,937) | $(47,935) |
| Increase in Net income attributable to Ocwen common stockholders | $19,205 | $41,960 |
| Increase in Earnings per share attributable to Ocwen common stockholders: | | |
| Basic | $0.14 | $0.31 |
| Diluted | $0.14 | $0.30 |

Recently Issued Accounting Standards

Accounting for Investments in Qualified Affordable Housing Projects (ASU 2014-01)

In January 2014, the FASB issued ASU 2014-01. The amendments in this ASU permit an entity to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method, if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and while recognizing the net investment performance in the statement of operations as a component of income tax expense (benefit).

ASU 2014-01 will be effective for us on January 1, 2015 with early adoption permitted. We are currently evaluating the effect of adopting this standard effective January 1, 2015, but we do not anticipate that our adoption will have a material impact on our consolidated financial condition or results of operations.

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (ASU 2014-04)

In January 2014, the FASB issued ASU 2014-04. This ASU clarifies when an in substance repossession or foreclosure occurs such that the loan receivable should be derecognized and the real estate property recognized. An in substance repossession or foreclosure occurs upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

ASU 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction.

ASU 2014-04 will be effective for us on January 1, 2015 with early adoption permitted. An entity can elect to adopt the amendments using either a modified retrospective transition method or a prospective transition method. We are currently evaluating the effect of adopting this standard effective January 1, 2015, but we do not anticipate that our adoption will have a material impact on our consolidated financial condition or results of operations.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08)

In April 2014, the FASB issued ASU 2014-08. ASU 2014-08 changes the criteria for reporting discontinued operations. Under this ASU, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. A strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment, or (iv) other major parts of an entity. A business activity that upon acquisition qualifies as held for sale will also be a discontinued operation. The new standard no longer precludes presentation as a discontinued operation if (i) there are operations and cash flows of the component that have not been eliminated from the reporting entity’s ongoing operations, or (ii) there is significant continuing involvement with a component after its disposal.

New disclosures under this ASU include the requirement to present in the statement of cash flows or disclose in a note either (i) total operating and investing cash flows for discontinued operations, or (ii) depreciation, amortization, capital expenditures, and significant operating and investing noncash items related to discontinued operations. Assets and liabilities of a discontinued operation that are classified as held for sale or disposed of in the current period must be reclassified for the comparative periods presented in the balance sheet.

ASU 2014-08 will be effective for us on January 1, 2015. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. We are currently evaluating the effect of adopting this standard effective January 1, 2015, but we do not anticipate that our adoption will have a material impact on our consolidated financial condition or results of operations.

Revenue from Contracts with Customers (ASU 2014-09)

In May 2014, the FASB issued ASU 2014-09 to clarify the principles for recognizing revenue and to develop a common revenue standard. Under this new standard, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue through the following five-step process:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

This standard will also require enhanced disclosures. Qualitative and quantitative information is required regarding (i) contracts with customers-including revenue and impairments recognized, disaggregation of revenue, and information about contract balances and performance obligations, (ii) significant judgments and changes in judgments-determining the timing of satisfaction of performance obligations and determining the transaction price and amounts allocated to performance obligations and (iii) assets recognized from the costs to obtain or fulfill a contract.

ASU 2014-09 will be effective for us on January 1, 2017. Early application is not permitted. An entity should apply the amendments in this ASU either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect recognized at the date of initial application.

The guidance in this standard does not apply to financial instruments and other contractual rights or obligations within the scope of ASC 860, Transfers and Servicing. We are currently evaluating the effect of adopting this standard.

Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures (ASU 2014-11)

In June 2014, the FASB issued ASU 2014-11. The amendments in this ASU require changes in the accounting for repurchase-to-maturity transactions and repurchase to financing arrangements. A repurchase-to-maturity transaction (repurchase agreement that matures at the same time as the transferred financial asset) will now be accounted for as a secured borrowing. For a repurchase financing arrangement (a type of repurchase agreement), a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty will be accounted for separately, which will result in secured borrowing accounting for the repurchase agreement. Transferors will no longer apply the “linked” accounting model.

The amendments in this ASU also include enhanced disclosure requirements. An entity will be required to disclose information about certain transactions accounted for as a sale in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets through an agreement with the same counterparty. An entity also will be required to disclose information about repurchase agreements, securities lending transactions and repurchase-to-maturity transactions that are accounted for as secured borrowings.

The accounting changes in ASU 2014-11 will be effective for us on January 1, 2015. The disclosure requirements for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning January 1, 2015, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning January 1, 2015, and for interim periods beginning after April 1, 2015. Early application for a public business entity is prohibited. We are currently evaluating the effect of adopting this standard, but we do not anticipate

that our adoption will have a material impact on our consolidated financial condition or results of operations.
Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (ASU 2014-12)
In June 2014, the FASB issued ASU 2014-12 to codify a final consensus reached by the EITF at its March 2014 meeting that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition rather than a condition that affects the grant-date fair value.

The provisions of ASU 2014-12 will be effective for us on January 1, 2015 with early adoption permitted. Entities may apply the amendments in this ASU either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. We are currently evaluating the effect of adopting this standard effective January 1, 2015. We currently do not have any share-based payment awards outstanding that contain performance targets, and therefore we anticipate that our adoption will not have an impact on our consolidated financial condition or results of operations.

Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (ASU 2014-13)

In August 2014, the FASB issued ASU 2014-013. When a reporting entity elects the measurement alternative included in this ASU for a consolidated collateralized financing entity, the reporting entity should measure both the financial assets and the financial liabilities of that collateralized financing entity in its consolidated financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. A collateralized financing entity is a variable interest entity with no more than nominal equity that holds financial assets and issues beneficial interests in those financial assets; the beneficial interests have contractual recourse only to the related assets of the collateralized financing entity and are classified as financial liabilities.

ASU 2014-13 will be effective for us on January 1, 2016, with early adoption permitted at the beginning of an annual period. An entity can elect to adopt the amendments using either a modified retrospective approach or retrospectively to all relevant prior periods. We are currently evaluating the effect of adopting this standard.

Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (ASU 2014-14)

In August 2014, the FASB issued ASU 2014-014. The amendments in this ASU require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met:

1. The loan has a government guarantee that is not separable from the loan before foreclosure.
2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.
3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor.

ASU 2014-14 will be effective for us on January 1, 2015. An entity should adopt the amendments using either a prospective transition method or a modified retrospective transition method. We are currently evaluating the effect of adopting this standard.

Note 1A — Restatement of Previously Issued Consolidated Financial Statements

Restatement

Subsequent to the issuance of our Original Form 10-K for the year ended December 31, 2013 and our Original Form 10-Q for the quarter ended March 31, 2014, we determined there was an error in the application of the interest method used to calculate the appropriate allocation between principal and interest in connection with the accounting for a financing liability related to the Rights to MSRs sold to HLSS. The error relates to the subsequent accounting for the financing liability and does not impact the initial accounting for the sale of Rights to MSRs to HLSS. As a result, the financial amounts noted below have been restated from amounts previously reported.

Other

In the unaudited Consolidated Statements of Operations for the three and six months ended June 30, 2013, we revised Gains on loans held for sale, net within the Revenue section and Other, net within the Other income (expense) section from the amounts previously reported to correctly report gains on the sale of certain loans. As a result, certain As Reported amounts noted below have been revised from amounts previously reported.

The following tables summarize the effect of these restatements on our previously reported amounts.

| | Consolidated Balance Sheet as of December 31, 2013 | | |
|---|---|---|---|
| | As Reported | Restatement | As Restated |
| Deferred tax assets, net | $116,558 | $(987) | $115,571 |
| Financing liabilities | 1,284,229 | (17,256) | 1,266,973 |
| Retained earnings | 986,694 | 16,269 | 1,002,963 |
| Total stockholders' equity | 1,796,322 | 16,269 | 1,812,591 |

| | Consolidated Statement of Operations for the Three Months Ended June 30, 2013 | | |
|---|---|---|---|
| | As Reported | Restatement | As Restated |
| Interest expense | $(99,868) | $(13,352) | $(113,220) |
| Total other expense, net (1) | (67,659) | (28,199) | (95,858) |
| Income before income taxes | 87,510 | (13,352) | 74,158 |
| Income tax expense | 10,789 | (2,293) | 8,496 |
| Net income | 76,721 | (11,059) | 65,662 |
| Net income attributable to Ocwen stockholders | 76,721 | (11,059) | 65,662 |
| Net income attributable to Ocwen common stockholders | 74,116 | (11,059) | 63,057 |
| Earnings per share attributable to Ocwen common stockholders | | | |
| Basic | $0.55 | $(0.09) | $0.46 |
| Diluted | $0.53 | $(0.08) | $0.45 |

| | Consolidated Statement of Operations for the Six Months Ended June 30, 2013 | | |
|---|---|---|---|
| | As Reported | Restatement | As Restated |
| Interest expense | $(193,284) | $(9,395) | $(202,679) |
| Total other expense, net (1) | (177,533) | (25,665) | (203,198) |
| Income before income taxes | 138,845 | (9,395) | 129,450 |
| Income tax expense | 16,977 | (2,098) | 14,879 |
| Net income | 121,868 | (7,297) | 114,571 |
| Net income attributable to Ocwen stockholders | 121,868 | (7,297) | 114,571 |
| Net income attributable to Ocwen common stockholders | 116,692 | (7,297) | 109,395 |
| Earnings per share attributable to Ocwen common stockholders | | | |
| Basic | $0.86 | $(0.05) | $0.81 |
| Diluted | $0.84 | $(0.06) | $0.78 |

(1) In the unaudited Consolidated Statements of Operations for the three and six months ended June 30, 2013, we revised Gains on loans held for sale, net within the Revenue section and Other, net within the Other income (expense) section from the amounts previously reported to correctly report gains on the sale of certain loans. These revisions increased Gains on loans held for sale, net by $14.8 million and $16.3 million for the three and six months ended June 30, 2013, respectively, with a corresponding decrease to Other, net. These revisions did not impact the As Reported Income before income tax or Net income for the periods presented.

| | Consolidated Statement of Comprehensive Income for the Three Months Ended June 30, 2013 | | |
|---|---|---|---|
| | As Reported | Restatement | As Restated |
| Net Income | $76,721 | $(11,059) | $65,662 |
| Comprehensive income | 75,027 | (11,059) | 63,968 |
| Comprehensive income attributable to Ocwen stockholders | 75,027 | (11,059) | 63,968 |

| | Consolidated Statement of Comprehensive Income for the Six Months Ended June 30, 2013 | | |
|---|---|---|---|
| | As Reported | Restatement | As Restated |
| Net Income | $121,868 | $(7,297) | $114,571 |
| Comprehensive income | 116,495 | (7,297) | 109,198 |
| Comprehensive income attributable to Ocwen stockholders | 116,495 | (7,297) | 109,198 |

| | Consolidated Statement of Changes in Equity for the Six Months Ended June 30, 2013 | | |
|---|---|---|---|
| | As Reported | Restatement | As Restated |
| Net Income | $121,868 | $(7,297) | $114,571 |

| | Consolidated Statement of Cash Flows for the Six Months Ended June 30, 2013 | | |
|---|---|---|---|
| | As Reported | Restatement | As Restated |
| Net income | $121,868 | $(7,297) | $114,571 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Decrease in deferred tax assets, net | 130 | (2,098) | (1,968) |
| Net cash provided by operating activities | 877,027 | (9,395) | 867,632 |
| Repayments of other secured borrowings | (5,555,805) | 9,395 | (5,546,410) |
| Net cash provided by financing activities | 846,331 | 9,395 | 855,726 |

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) of which we are the primary beneficiary.

Securitizations of Residential Mortgage Loans

Currently, we securitize forward and reverse residential mortgage loans involving the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively the GSEs) and loans insured by the Federal Housing Authority (FHA) or Department of Veterans Affairs (VA). We retain the right to service these loans and receive servicing fees based upon the securitized loan balances and certain ancillary fees, all of which are reported in Servicing and subservicing fees on the unaudited Consolidated Statements of Operations.

Transfers of Forward Loans

We sell or securitize forward loans that we originate or that we purchase from third parties, generally in the form of mortgage-backed securities guaranteed by the GSEs or the Government National Mortgage Association (Ginnie Mae). Securitization usually occurs within 30 days of loan closing or purchase. We retain 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 changes in fair value of the loans and the gain or loss on the related derivatives. See Note 14 – Derivative Financial Instruments and Hedging Activities for information on these derivative financial instruments. We include all changes in loans held for sale and related derivative balances in operating activities in the unaudited Consolidated Statements of Cash Flows.
The following table presents a summary of cash flows received from and paid to securitization trusts related to transfers accounted for as sales that were outstanding during the three and six months ended June 30:

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Proceeds received from securitizations | $1,443,272 | $1,887,359 | $2,977,523 | $4,464,151 |
| Servicing fees collected | 9,140 | 5,290 | 14,334 | 6,807 |
| | $1,452,412 | $1,892,649 | $2,991,857 | $4,470,958 |

In connection with these transfers, we retained MSRs of $9.8 million and $21.4 million and $18.2 million and $46.9 million during the three and six months ended June 30, 2014 and 2013, respectively. We initially record the MSRs at fair value and subsequently account for them at amortized cost. See Note 8 – Mortgage Servicing for information relating to MSRs.
Certain obligations arise from 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. See Note 12 – Other Liabilities for further information.
The following table presents the carrying amounts of our assets that relate to our continuing involvement with forward loans that we have transferred with servicing rights retained as well as our maximum exposure to loss including the unpaid principal balance (UPB) of the transferred loans at the dates indicated:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Carrying value of assets: | | |
| Mortgage servicing rights, at amortized cost | $70,811 | $44,615 |
| Mortgage servicing rights, at fair value | 2,987 | 3,075 |
| Advances and match funded advances | 13,262 | 15,888 |
| Unpaid principal balance of loans transferred (1) | 7,819,131 | 5,641,277 |
| Maximum exposure to loss | $7,906,191 | $5,704,855 |

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

At June 30, 2014 and December 31, 2013, 3.6% and 2.6%, respectively, of the transferred residential loans that we serviced were 60 days or more past due. During the three and six months ended June 30, 2014, there were no charge-offs, net of recoveries, associated with these transferred loans.
Transfers of Reverse Mortgages
We are an approved issuer of Ginnie Mae Home Equity Conversion Mortgage-Backed Securities (HMBS) that are guaranteed by Ginnie Mae. We originate Home Equity Conversion Mortgages (HECMs, or reverse mortgages) that are insured by the FHA. We then pool the loans into HMBS that we sell into the secondary market with servicing rights retained. We have determined that loan transfers in the HMBS program do not meet the definition of a participating interest because of the servicing requirements in the product that require the issuer/servicer to absorb some level of interest rate risk, cash flow timing risk and incidental credit risk. As a result, the transfers of the HECMs do not qualify for sale accounting, and we, therefore, account for these transfers as financings. Under this accounting treatment, the HECMs are classified as Loans held for investment - reverse mortgages, at fair value, on our unaudited Consolidated Balance Sheets. We record the proceeds from the transfer of assets as secured borrowings (HMBS-related borrowings) in Financing liabilities and recognize no gain or loss on the transfer. Holders of participating interests in the HMBS have no recourse against the assets of Ocwen, except for standard representations

and warranties and our contractual obligation to service the HECMs and the HMBS.

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

At June 30, 2014 and December 31, 2013, we had HMBS-related borrowings of $1.0 billion and $615.6 million and HECMs pledged as collateral to the pools of $1.1 billion and $618.0 million, respectively. See Note 4 – Fair Value for a reconciliation of the changes in fair value of HECMs and HMBS-related borrowings.

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 Ocwen is the primary beneficiary of the SPE. These SPEs issue debt supported by collections on the transferred advances.

We make these transfers under the terms of our advance facility agreements. We classify the transferred advances on our unaudited Consolidated Balance Sheets as Match funded advances and the related liabilities as Match funded liabilities. The SPEs use collections of the pledged advances to repay principal and interest and to pay the expenses of the SPE. Holders of the debt issued by these entities can look only to the assets of the SPE for satisfaction of the debt and have no recourse against Ocwen. However, Ocwen and OLS have guaranteed the payment of the obligations under the securitization documents of one of the entities. The maximum amount payable under the guarantee is limited to 10% of the notes outstanding at the end of the facility’s revolving period in December 2014. The entity to which this guarantee applies had $17.7 million of notes outstanding at June 30, 2014. 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.

See Note 7 – Match Funded Advances, Note 10 – Other Assets and Note 11 – Borrowings for additional information.

Note 3 – Business Acquisitions

We account for business acquisitions using the acquisition method which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The initial allocation of the purchase price is considered preliminary and therefore subject to change until the end of the measurement period (up to one year from the acquisition date). Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the expected revenue and cost synergies of the combined business. Measurement period adjustments are applied retrospectively to the period of acquisition.

The purchase price allocations provided below for our business acquisitions are based on the estimated fair value of the acquired receivables, loans, advances, MSRs and the assumed debt in a manner consistent with the methodology described in Note 4 – Fair Value. Premises and equipment were initially valued based on the “in-use” valuation premise, where the fair value of an asset is based on the highest and best use of the asset that would provide maximum value to market participants principally through its use with other assets as a group. Other assets and liabilities expected to have a short life were valued at the face value of the specific assets and liabilities purchased, including receivables, prepaid expenses, accounts payable and accrued expenses.

The unaudited pro forma consolidated results presented below for the ResCap Acquisition are not indicative of what Ocwen’s consolidated net earnings would have been had we completed the acquisition on the date indicated because of differences in servicing practices and cost structure between Ocwen and ResCap. In addition, the unaudited pro forma consolidated results do not purport to project our combined future results nor do they reflect the expected realization of any cost savings associated with the acquisition.

The acquisition of Liberty was treated as stock purchases for U.S. tax purposes. The ResCap Acquisition was treated as an asset acquisition for U.S. tax purposes. We expect the opening tax basis for the acquired assets and liabilities to be the fair values as shown in the purchase price allocation table below. We expect MSRs and goodwill to be treated as intangible assets acquired in connection with the purchase of a trade or business and, as such, amortized over 15 years for tax purposes.

Purchase Price Allocation

The following table summarizes the fair values of assets acquired and liabilities assumed as part of the ResCap Acquisition:

| Purchase Price Allocation | February 15, 2013 | Adjustments | Final |
|---|---|---|---|
| MSRs (1) | $393,891 | $7,423 | $401,314 |
| Advances and match funded advances (1) | 1,622,348 | 164,061 | 1,786,409 |
| Deferred tax assets | — | — | — |
| Premises and equipment | 22,398 | (5,975) | 16,423 |
| Receivables and other assets | 2,989 | — | 2,989 |
| Other liabilities: | | | |
| Liability for indemnification obligations | (49,500) | — | (49,500) |
| Other | (24,840) | (285) | (25,125) |
| Total identifiable net assets | 1,967,286 | 165,224 | 2,132,510 |
| Goodwill | 204,743 | 6,676 | 211,419 |
| Total consideration | $2,172,029 | $171,900 | $2,343,929 |

(1) As of the acquisition date, the purchase of certain MSRs from ResCap was not complete pending the receipt of certain consents and court approvals. Subsequent to the acquisition, we obtained the required consents and approvals for a portion of these MSRs and paid an additional purchase price of $174.6 million to acquire the MSRs and related advances, including $54.2 million in 2014. The purchase price allocation has been revised to include the resulting adjustments to MSRs, advances and goodwill.

ResCap Acquisition

We completed the ResCap Acquisition on February 15, 2013. We acquired MSRs related to conventional (i.e., conforming to the underwriting standards of Fannie Mae or Freddie Mac; collectively referred to as Agency loans), government insured (loans insured by FHA or VA) and non-Agency residential forward mortgage loans (commonly referred to as non-prime, subprime or private-label loans) with a UPB of $111.2 billion and master servicing agreements with a UPB of $44.9 billion. The ResCap Acquisition included advances and elements of the servicing platform related to the acquired MSRs, as well as certain diversified fee-based business operations that included recovery, title and closing services. We also assumed subservicing contracts with a UPB of $27.0 billion. Under the terms of the ResCap Acquisition, we were obligated to acquire certain servicing rights and subservicing agreements that were not settled as part of the initial closing on February 15, 2013 as a result of objections raised in connection with the sale. We purchased these MSRs and assumed the subservicing contracts from ResCap when such consents and approvals were obtained. We completed subsequent settlements and purchased additional MSRs, as objections were resolved.

To finance the ResCap Acquisition, we deployed $840.0 million from the proceeds of a new $1.3 billion senior secured term loan (SSTL) facility and borrowed an additional $1.2 billion pursuant to two new servicing advance facilities and one existing facility. We settled the subsequent closings with cash. Ocwen assumed certain limited liabilities as part of the transaction, including certain employee liabilities and certain business payables outstanding at the closing date. Under the agreement with ResCap, Ocwen generally did not assume any contingent obligations, including pending or threatened litigation, financial obligations in connection with any settlements, orders or similar agreements entered into by ResCap or obligations in connection with any representations or warranties associated with loans previously sold by ResCap except for litigation that may arise in the ordinary course of servicing mortgage loans relating to servicing agreements assumed by Ocwen. Ocwen assumed all liabilities related to servicing loans that are guaranteed by Ginnie Mae, whether arising prior to or after the closing date.

Post-Acquisition Results of Operations

The following table presents the revenue and earnings of the ResCap operations that are included in our unaudited Consolidated Statements of Operations for the three and six months ended June 30, 2013 (from the acquisition date of February 15, 2013):

| | Three Months | Six Months |
|---|---|---|

| | | |
|---|---|---|
| Revenues | $193,596 | $266,636 |
| Net income | $43,646 | $58,525 |

16

Pro Forma Results of Operations

The following table presents unaudited supplemental pro forma information for Ocwen for the six months ended June 30, 2013 as if the ResCap Acquisition occurred on January 1, 2012. Pro forma adjustments include:

- conforming servicing revenues to the revenue recognition policies followed by Ocwen;
- conforming the accounting for MSRs to the valuation and amortization policies of Ocwen;
- adjusting interest expense to eliminate the pre-acquisition interest expense of ResCap and to recognize interest expense as if the acquisition-related debt of Ocwen had been outstanding at January 1, 2012; and
- reporting acquisition-related charges for professional services as if they had been incurred in 2012 rather than 2013.

| | |
|---|---|
| Revenues | $987,623 |
| Net income | $106,649 |

Other Acquisitions

Correspondent One S.A. (Correspondent One)

On March 31, 2013, we increased our ownership in Correspondent One, an entity formed with Altisource in March 2011, from 49% to 100%. Correspondent One facilitated the purchase of conventional and government insured residential mortgages from approved mortgage originators and resold the mortgages to secondary market investors. We acquired the shares of Correspondent One held by Altisource (49% interest) for $12.6 million and acquired the remaining shares held by an unrelated entity for $0.9 million. We accounted for this transaction as an acquisition and recognized the assets acquired and liabilities assumed at their fair values as of the acquisition date. The acquired net assets were $26.3 million and consisted primarily of cash ($23.0 million) and residential mortgage loans ($1.1 million). We remeasured our previously held investment, which we accounted for using the equity method, at fair value and recognized a loss of $0.4 million. We did not recognize goodwill in connection with this acquisition. Correspondent One is not material to our financial condition, results of operations or cash flows.

Liberty

On April 1, 2013, we completed the Liberty Acquisition for $22.0 million in cash. In addition, and as part of the closing, Ocwen repaid Liberty’s $9.1 million existing outstanding debt to the sellers. Liberty is engaged in the origination, purchase, sale and securitization of reverse mortgage loans, both retail and wholesale. We acquired Liberty’s reverse mortgage origination platform, including reverse mortgage loans with a UPB of $55.2 million. The acquired net assets were $31.1 million and consisted primarily of residential reverse mortgage loans ($60.0 million), receivables ($11.2 million), loans held for investment ($10.3 million) and cash ($4.6 million) less amounts due under warehouse facilities ($46.3 million) and HMBS-related borrowings ($10.2 million). We recognized $3.0 million of goodwill in connection with this acquisition. The acquisition of Liberty did not have a material impact on our financial condition, results of operations or cash flows.

Ocwen Structured Investments, LLC (OSI)

On January 31, 2014, we increased our ownership in OSI from 26.00% to 87.35%. OSI invests primarily in residential MSRs and the related lower tranches and residuals of mortgage-backed securities. We acquired the additional interests in OSI for $11.0 million. We accounted for this transaction as an acquisition and recognized 100% of the assets acquired and liabilities assumed at their fair values as of the acquisition date. We recognized in equity a noncontrolling interest at its proportionate 12.65% share of the net assets acquired. The acquired net assets were $20.0 million and consisted primarily of MSRs ($9.0 million), mortgage-backed securities ($7.7 million) and cash ($3.2 million). The acquisition of OSI did not have a material impact on our financial condition, results of operations or cash flows.

Facility Closure Costs

We have incurred employee termination benefits, primarily consisting of severance and Worker Adjustment and Retraining Notification Act compensation, and lease termination costs for the closure of leased facilities in connection with our business acquisitions. The following table provides a reconciliation of the beginning and ending liability balances for these termination costs for the six months ended June 30, 2014:

| | Employee termination benefits | Lease termination costs | Total |
|---|---|---|---|
| Liability balance as at December 31, 2013 | $4,816 | $2,454 | $7,270 |
| Additions charged to operations (1) | 15,039 | 713 | 15,752 |
| Amortization of discount | — | 77 | 77 |
| Payments | (17,215) | (682) | (17,897) |
| Liability balance as at June 30, 2014 (2) | $2,640 | $2,562 | $5,202 |

(1) Of the additions charged to operations during the period, $14.6 million was recognized in the Servicing segment, $(0.1) million was recognized in the Lending segment and the remaining $1.3 million was recognized in the Corporate Items and Other segment. Charges related to employee termination benefits and lease termination benefits are reported in Compensation and benefits expense and Occupancy and equipment expense, respectively, in the unaudited Consolidated Statements of Operations. The liabilities are included in Other liabilities in the unaudited Consolidated Balance Sheet.

(2) We expect the remaining liability for employee termination benefits at June 30, 2014 to be settled in late 2014 or early 2015.

Note 4 – 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 our nonfinancial assets measured at fair value on a recurring or non-recurring basis are as follows at the dates indicated:

| | Level | June 30, 2014 Carrying Value | June 30, 2014 Fair Value | December 31, 2013 Carrying Value | December 31, 2013 Fair Value |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Loans held for sale: | | | | | |
| Loans held for sale, at fair value (a) | 2 | $410,335 | $410,335 | $503,753 | $503,753 |
| Loans held for sale, at lower of cost or fair value (b) | 3 | 91,508 | 91,508 | 62,907 | 62,907 |
| Total Loans held for sale | | $501,843 | $501,843 | $566,660 | $566,660 |
| Loans held for investment - Reverse mortgages, at fair value (a) | 3 | $1,107,626 | $1,107,626 | $618,018 | $618,018 |
| Advances and match funded advances (c) | 3 | 3,463,386 | 3,463,386 | 3,443,215 | 3,443,215 |
| Receivables, net (c) | 3 | 239,748 | 239,748 | 152,516 | 152,516 |
| Financial liabilities: | | | | | |
| Match funded liabilities (c) | 3 | $2,072,517 | $2,072,517 | $2,364,814 | $2,364,814 |
| Financing liabilities: | | | | | |
| HMBS-related borrowings, at fair value (a) | 3 | $1,033,712 | $1,033,712 | $615,576 | $615,576 |
| Other (c) | 3 | 829,864 | 834,657 | 651,397 | 651,397 |
| Total Financing liabilities | | $1,863,576 | $1,868,369 | $1,266,973 | $1,266,973 |
| Other secured borrowings: | | | | | |
| Senior secured term loan (c) | 3 | $1,279,062 | $1,269,171 | $1,284,901 | $1,270,108 |
| Other (c) | 3 | 406,684 | 406,684 | 492,768 | 492,768 |
| Total Other secured borrowings | | $1,685,746 | $1,675,855 | $1,777,669 | $1,762,876 |
| Senior unsecured notes | 2 | $350,000 | $361,375 | $— | $— |
| Derivative financial instruments (a): | | | | | |
| IRLCs | 2 | $10,307 | $10,307 | $8,433 | $8,433 |
| Forward MBS trades | 1 | (5,710) | (5,710) | 6,905 | 6,905 |
| Interest rate caps | 3 | 97 | 97 | 442 | 442 |
| MSRs: | | | | | |
| MSRs, at fair value (a) | 3 | $104,220 | $104,220 | $116,029 | $116,029 |
| MSRs, at amortized cost (c) | 3 | 1,897,500 | 2,391,873 | 1,953,352 | 2,441,719 |
| Total MSRs | | $2,001,720 | $2,496,093 | $2,069,381 | $2,557,748 |

(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.

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 | Derivative Financial Instruments, net | MSRs | Total |
|---|---|---|---|---|---|
| For the three months ended June 30, 2014 | | | | | |
| Fair value at April 1, 2014 | $923,464 | $ (870,462 ) | $324 | $110,826 | $164,152 |
| Purchases, issuances, sales and settlements: | | | | | |
| Purchases | — | — | — | — | — |
| Issuances | 180,445 | (154,952 ) | — | — | 25,493 |
| Transfer from loans held for sale, at fair value | — | — | — | — | — |
| Sales | — | — | — | — | — |
| Settlements | (14,572 ) | 7,648 | — | — | (6,924 ) |
| | 165,873 | (147,304 ) | — | — | 18,569 |
| Total realized and unrealized gains and (losses): (1) | | | | | |
| Included in earnings | 18,289 | (15,946 ) | (227 ) | (6,606 ) | (4,490 ) |
| Included in Other comprehensive income (loss) | — | — | — | — | — |
| | 18,289 | (15,946 ) | (227 ) | (6,606 ) | (4,490 ) |
| Transfers in and / or out of Level 3 | — | — | — | — | — |
| Fair value at June 30, 2014 | $1,107,626 | $ (1,033,712 ) | $97 | $104,220 | $178,231 |

| | Loans Held for Investment - Reverse Mortgages | HMBS-Related Borrowings | Derivative Financial Instruments, net | MSRs | Total |
|---|---|---|---|---|---|
| For the three months ended June 30, 2013 | | | | | |
| Fair value at April 1, 2013 | $— | $ — | $(18,635 ) | $84,534 | $65,899 |
| Purchases, issuances, sales and settlements: | | | | | |
| Purchases | 10,251 | (10,179 ) | — | — | 72 |
| Issuances | 63,029 | (65,938 ) | — | — | (2,909 ) |
| Sales | — | — | 24,156 | — | 24,156 |
| Settlements | (871 ) | 867 | (1,375 ) | — | (1,379 ) |
| | 72,409 | (75,250 ) | 22,781 | — | 19,940 |
| Total realized and unrealized gains and (losses): (1) | | | | | |
| Included in earnings | 4,240 | 1,609 | 1,469 | 12,629 | 19,947 |
| Included in Other comprehensive income (loss) | — | — | (5,439 ) | — | (5,439 ) |
| | 4,240 | 1,609 | (3,970 ) | 12,629 | 14,508 |
| Transfers in and / or out of Level 3 | — | — | — | — | — |
| Fair value at June 30, 2013 | $76,649 | $ (73,641 ) | $176 | $97,163 | $100,347 |

(1) Total net gains (losses) attributable to derivative financial instruments still held at June 30, 2014 and June 30, 2013 were $(0.2) million and $0.1 million, respectively, for the three months ended June 30, 2014 and 2013.

| | Loans Held for Investment - Reverse Mortgages | HMBS-Related Borrowings | Derivative Financial Instruments, net | MSRs | Total |
|---|---|---|---|---|---|
| For the six months ended June 30, 2014 | | | | | |
| Fair value at January 1, 2014 | $618,018 | $ (615,576 ) | $442 | $116,029 | $118,913 |
| Purchases, issuances, sales and settlements: | | | | | |
| Purchases | — | — | 23 | — | 23 |
| Issuances | 357,104 | (381,579 ) | — | — | (24,475 ) |
| Transfer from loans held for sale, at fair value | 110,874 | — | — | — | 110,874 |
| Sales | — | — | — | — | — |
| Settlements | (28,601 ) | 13,035 | — | — | (15,566 ) |
| | 439,377 | (368,544 ) | 23 | — | 70,856 |
| Total realized and unrealized gains and (losses): (2) | | | | | |
| Included in earnings | 50,231 | (49,592 ) | (368 ) | (11,809 ) | (11,538 ) |
| Included in Other comprehensive income (loss) | — | — | — | — | — |
| | 50,231 | (49,592 ) | (368 ) | (11,809 ) | (11,538 ) |
| Transfers in and / or out of Level 3 | — | — | — | — | — |
| Fair value at June 30, 2014 | $1,107,626 | $ (1,033,712 ) | $97 | $104,220 | $178,231 |

| | Loans Held for Investment - Reverse Mortgages | HMBS-Related Borrowings | Derivative Financial Instruments, net | MSRs | Total |
|---|---|---|---|---|---|
| For the six months ended June 30, 2013 | | | | | |
| Fair value at January 1, 2013 | $— | $ — | $(10,668 ) | $85,213 | $74,545 |
| Purchases, issuances, sales and settlements: | | | | | |
| Purchases | 10,251 | (10,179 ) | — | — | 72 |
| Issuances | 63,029 | (65,938 ) | — | — | (2,909 ) |
| Sales | — | — | 24,156 | — | 24,156 |
| Settlements | (871 ) | 867 | (1,066 ) | — | (1,070 ) |
| | 72,409 | (75,250 ) | 23,090 | — | 20,249 |
| Total realized and unrealized gains and (losses): | | | | | |
| Included in earnings | 4,240 | 1,609 | 117 | 11,950 | 17,916 |
| Included in Other comprehensive income (loss) | — | — | (12,363 ) | — | (12,363 ) |
| | 4,240 | 1,609 | (12,246 ) | 11,950 | 5,553 |
| Transfers in and / or out of Level 3 | — | — | — | — | — |
| Fair value at June 30, 2013 | $76,649 | $ (73,641 ) | $176 | $97,163 | $100,347 |

(2) Total losses attributable to derivative financial instruments still held at June 30, 2014 were $0.4 million for the six months ended June 30, 2014.

The methodologies that we use and key assumptions that we make to estimate the fair value of 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 forward and reverse 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

21

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 servicing obligations. These 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 have elected to 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 June 30, 2014 valuation include:

- Life in years ranging from 6.71 to 10.55 (weighted average of 6.92);
- Conditional repayment rate ranging from 4.80% to 53.75% (weighted average of 19.21%); and
- Discount rate of 3.29%.

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

Mortgage Servicing Rights

Amortized Cost MSRs

We estimate the fair value of MSRs carried at amortized cost using a combination of internal models and data provided by third-party valuation experts. The most significant assumptions used in our internal valuation are the speed at which mortgages prepay and delinquency experience. Other assumptions typically used in the internal valuation are:

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

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.

We estimate fair value using internal models and with the assistance of third-party valuation experts. Our internal models calculate the present value of expected future cash flows utilizing assumptions that we believe are used by market participants. We derive prepayment speeds and delinquency assumptions from historical experience adjusted for prevailing market conditions. We utilize a discount rate provided by third-party valuation experts, and we consider external market-based assumptions in determining the interest rate for the cost of financing advances, the interest rate for float earnings and the cost of servicing.

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 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, combined with our internal verification and analytical procedures, provide 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.

The more significant assumptions used in the June 30, 2014 valuation of our MSRs carried at amortized cost include:

- Prepayment speeds ranging from 7.00% to 18.37% (weighted average of 13.83%) depending on loan type;
- Delinquency rates ranging from 7.97% to 32.30% (weighted average of 16.89%) depending on loan type;
- Interest rate of 1-month LIBOR plus a range of 0.00% to 3.50% for computing the cost of financing servicing advances;
- Interest rate of 1-month LIBOR for computing float earnings; and
- Discount rates ranging from 9.42% to 15.27% (weighted average of 10.92%).

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. In response to the significant change in the composition of our MSR portfolio as a result of recent acquisitions, our stratum are defined as conventional, government insured and non-Agency (i.e. all private label primary and master serviced loans).

Fair Value MSRs

MSRs carried at fair value are classified within Level 3 of the valuation hierarchy due to the use of third party valuation expert pricing without adjustment. The fair value of these MSRs is within the range of prices provided by the valuation experts; however, a change in the valuation inputs utilized by the valuation expert or a change in the best point price in the range might result in a significantly higher or lower fair value measurement.

The key assumptions (generally unobservable inputs) used in the valuation of these MSRs include:

- Mortgage prepayment speeds;
- Delinquency rates; and
- Discount rates.

The primary assumptions used in the June 30, 2014 valuation include an 8.82% weighted average constant prepayment rate and a discount rate equal to 1-Month LIBOR plus 9.01%.

Advances

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

Receivables

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

Borrowings

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. At June 30, 2014, the interest on all borrowings under match funded facilities was based on a variable rate adjusted regularly using a market index, and therefore, the carrying value approximates fair value.

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 June 30, 2014 valuation include:

- Life in years ranging from 5.09 to 9.40 (weighted average of 5.64);
- Conditional repayment rate ranging from 4.80% to 53.75% (weighted average of 19.21%); and
- Discount rate of 2.37%.

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

Financing Liabilities

MSRs Pledged

We periodically sell rights to receive servicing fees, excluding ancillary income, with respect to certain MSRs (Rights to MSRs) and the related servicing advances to Home Loan Servicing Solutions, Ltd. and its wholly owned subsidiary, HLSS Holdings, LLC (collectively HLSS) in transactions we refer to as the HLSS Transactions. 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 to HLSS. Thereafter, the carrying value of the Financing Liability - MSRs pledged is adjusted from time to time to reflect changes in the net present value of the estimated future cash flows of the underlying MSRs. Since these cash flows are ceded to HLSS as part of the HLSS Transactions, the future cash flows of the underlying MSRs also represent the future payments to HLSS of principal and interest on the Financing Liability - MSRs Pledged. As a result, the net present value of the future cash flows related to the underlying MSRs also represent the net present value of the principal and interest payments to be made on the Financing Liability - MSRs Pledged. The net present value of these future cash flows represents the fair value of the Financing Liability - MSRs Pledged.

Secured Notes

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

Other Secured Borrowings

The carrying value of secured borrowings that bear interest at a rate that is adjusted regularly based on a market index approximates fair value. For other secured borrowings that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. For the SSTL, we used a discount rate of 5.49% and the repayment schedule specified in the loan agreement to determine fair value at June 30, 2014.

Senior Unsecured Notes

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

Derivative Financial Instruments

Interest rate lock commitments (IRLCs) represent an agreement to purchase loans from a third-party originator, 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 mortgage-backed securities (MBS) trades to provide an economic hedge against changes in 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 obtained 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 exposures on variable rate debt issued on servicing advance 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.

See Note 14 – Derivative Financial Instruments and Hedging Activities for additional information regarding derivative financial instruments.

Note 5 – Loans Held for Sale

Loans Held for Sale - Fair Value

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

| | 2014 | 2013 |
|---|---|---|
| Beginning balance | $503,753 | $426,480 |
| Originations and purchases | 2,636,800 | 4,511,255 |
| Proceeds from sales | (2,649,366) | (4,526,875) |
| Transfers to loans held for investment - reverse mortgages | (110,874) | — |
| Gain (loss) on sale of loans | 29,735 | (37,794) |
| Other | 287 | (11,922) |
| Ending balance | $410,335 | $361,144 |

At June 30, 2014, Loans held for sale, at fair value with a UPB of $331.7 million were pledged to secure warehouse lines of credit in our Lending segment. See Note 11 – Borrowings for additional information regarding these facilities.

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 balance of Loans held for sale, at lower of cost or fair value, during the six months ended June 30:

| | 2014 | 2013 |
|---|---|---|
| Beginning balance | $62,907 | $82,866 |
| Purchases | 1,864,931 | 567,437 |
| Proceeds from sales | (1,574,715) | (356,060) |
| Principal payments | (191,870) | (212,936) |
| Transfers to accounts receivable | (79,808) | (60,441) |
| Gain on sale of loans | 22,570 | 16,169 |
| Increase in valuation allowance | (14,380) | (2,277) |
| Other | 1,873 | (771) |
| Ending balance | $91,508 | $33,987 |

The balances at June 30, 2014 and June 30, 2013 are net of valuation allowances of $45.3 million and $19.4 million, respectively. At June 30, 2014, Loans held for sale, at lower of cost or fair value with a UPB of $22.5 million were pledged to secure a warehouse line of credit in our Servicing segment. See Note 11 – Borrowings for additional information regarding this facility.

The balances at June 30, 2014 and June 30, 2013 include $44.2 million and $14.1 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.

On March 3, 2014, we purchased delinquent FHA-insured loans with a UPB of $549.4 million out of Ginnie Mae securities under the terms of a conditional repurchase option whereby as servicer we have the right, but not the obligation, to repurchase delinquent loans at par plus delinquent interest (the Ginnie Mae early buy-out (EBO) program). Immediately after their purchase, we sold the loans (the Ginnie Mae EBO Loans) and related advances to HLSS Mortgage for $612.3 million ($556.4 million for the Ginnie Mae EBO Loans and $55.7 million for the servicing advances). We recognized a gain of $7.2 million on the sale of the loans.

On May 1, 2014, we purchased a second group of delinquent FHA-insured loans with a UPB of $451.0 million through the Ginnie Mae EBO program for $479.6 million, including delinquent interest. On May 2, 2014, we sold the Ginnie Mae EBO Loans to an unrelated third party for $462.5 million and recognized a gain of $1.3 million, including the value assigned to the retained MSRs. Separately, we sold $20.2 million of the advances related to these loans to HLSS SEZ LP .

25

The sales of advances to HLSS Mortgage and to HLSS SEZ LP did not qualify for sales treatment and were accounted for as a financing. See Note 11 – Borrowings for additional information. We refer to the purchase and sale of the Ginnie Mae EBO Loans and the sale of the related advances to HLSS Mortgage and HLSS SEZ LP as the Ginnie Mae EBO Transactions.

Gain on Loans Held for Sale, Net

The following table summarizes the activity in Gain on loans held for sale, net, during the three and six months ended June 30:

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Gain on sales of loans | $48,539 | $25,026 | $103,501 | $25,368 |
| Change in fair value of IRLCs | 887 | (11,757) | 1,874 | (12,994) |
| Change in fair value of loans held for sale | 7,184 | (5,216) | 9,015 | (5,656) |
| Gain (loss) on economic hedge instruments | (17,428) | 28,814 | (31,038) | 39,003 |
| Other | (346) | (389) | (529) | (1,071) |
| | $38,836 | $36,478 | $82,823 | $44,650 |

Gains on loans held for sale, net include $9.8 million and $18.2 million for the three months ended June 30, 2014 and 2013, respectively, and $21.4 million and $46.9 million for the six months ended June 30, 2014 and 2013, respectively, representing the value assigned to MSRs retained on transfers of forward loans.

Also included in Gains on loans held for sale, net are gains of $17.9 million and $40.7 million recorded during the three and six months ended June 30, 2014, respectively, on sales of repurchased Ginnie Mae loans which are carried at the lower of cost or fair value. For the three and six months ended June 30, 2013, gains on sales of repurchased Ginnie Mae loans were $14.8 million and $16.3 million, respectively.