

OCWEN FINANCIAL CORP
Form 10-Q
October 31, 2014

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

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

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

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Florida

65-0039856

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1000 Abernathy Road NE, Suite 210

30328

Atlanta, Georgia

(Zip Code)

(Address of principal executive office)

(561) 682-8000

(Registrant's telephone number, including area code)

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

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

Large Accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes ☐ No ☒
Number of shares of common stock outstanding as of October 27, 2014: 125,814,811 shares

OCWEN FINANCIAL CORPORATION
FORM 10-Q
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FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact included in this report, including, without limitation, statements regarding our financial position, business strategy and other plans and objectives for our future operations, are forward-looking statements. These statements include declarations regarding our management's beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "intend," "consider," "expect," "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such terms or other comparable terminology. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. 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, our Quarterly Report for the three months ended June 30, 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)

	September 30, 2014	December 31, 2013
Assets		
Cash	\$299,163	\$178,512
Mortgage servicing rights (\$101,948 and \$116,029 carried at fair value)	1,958,766	2,069,381
Advances	987,286	890,832
Match funded advances	2,359,579	2,552,383
Loans held for sale (\$335,950 and \$503,753 carried at fair value)	407,887	566,660
Loans held for investment - reverse mortgages, at fair value	1,315,324	618,018
Goodwill	420,201	420,201
Receivables, net	245,817	152,516
Deferred tax assets, net	79,470	115,571
Premises and equipment, net	44,907	53,786
Other assets	237,240	309,143
Total assets	\$8,355,640	\$7,927,003
Liabilities, Mezzanine Equity and Equity		
Liabilities		
Match funded liabilities	\$2,035,639	\$2,364,814
Financing liabilities (\$1,854,949 and \$1,249,380 carried at fair value)	2,057,490	1,266,973
Other secured borrowings	1,666,427	1,777,669
Senior unsecured notes	350,000	—
Other liabilities	631,641	644,595
Total liabilities	6,741,197	6,054,051
Commitments and Contingencies (Note 22)		
Mezzanine Equity		
Series A Perpetual Convertible Preferred stock, \$.01 par value; 200,000 shares authorized; 62,000 shares issued and outstanding at December 31, 2013	—	60,361
Equity		
Ocwen Financial Corporation (Ocwen) stockholders' equity		
Common stock, \$.01 par value; 200,000,000 shares authorized; 127,467,805 and 135,176,271 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	1,275	1,352
Additional paid-in capital	567,025	818,427
Retained earnings	1,052,236	1,002,963
Accumulated other comprehensive loss, net of income taxes	(8,784)	(10,151)
Total Ocwen stockholders' equity	1,611,752	1,812,591
Non-controlling interest in subsidiaries	2,691	—
Total equity	1,614,443	1,812,591
Total liabilities, mezzanine equity and equity	\$8,355,640	\$7,927,003

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013 (As Restated)	2014	2013 (As Restated)
Revenue				
Servicing and subservicing fees	\$465,964	\$483,267	\$1,448,096	\$1,333,392
Gain on loans held for sale, net	27,218	28,262	110,041	72,912
Other revenues	20,516	19,711	59,896	76,014
Total revenue	513,698	531,240	1,618,033	1,482,318
Operating expenses				
Compensation and benefits	99,879	118,054	316,118	330,679
Amortization of mortgage servicing rights	60,783	79,183	186,075	197,435
Servicing and origination	49,739	34,236	129,473	89,740
Technology and communications	44,261	38,809	121,234	102,698
Professional services	160,704	19,090	212,745	99,228
Occupancy and equipment	24,697	30,786	82,504	74,631
Other operating expenses	14,976	26,102	101,547	66,007
Total operating expenses	455,039	346,260	1,149,696	960,418
Income from operations	58,659	184,980	468,337	521,900
Other income (expense)				
Interest expense	(133,049)	) (116,885	) (409,129	) (319,564
Gain (loss) on debt redemption	—	1,282	2,609	(12,556
Other, net	2,124	68	14,797	9,115
Total other expense, net	(130,925)	) (115,535	) (391,723	) (323,005
Income (loss) before income taxes	(72,266)	) 69,445	76,614	198,895
Income tax expense (benefit)	2,992	8,873	24,374	23,752
Net income (loss)	(75,258)	) 60,572	52,240	175,143
Net income attributable to non-controlling interests	(123)	) —	(165) —
Net income (loss) attributable to Ocwen stockholders	(75,381)	) 60,572	52,075	175,143
Preferred stock dividends	—	(1,446	) (1,163	) (4,450
Deemed dividends related to beneficial conversion feature of preferred stock	(808)	) (4,401	) (1,639	) (6,573
Net income (loss) attributable to Ocwen common stockholders	\$(76,189)	) \$54,725	\$49,273	\$164,120
Earnings (loss) per share attributable to Ocwen common stockholders				
Basic	\$(0.58) \$0.40	\$0.37	\$1.21
Diluted	\$(0.58) \$0.39	\$0.36	\$1.17

Weighted average common shares outstanding

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Basic	130,551,197	135,787,834	133,318,381	135,705,892
Diluted	130,551,197	140,057,195	136,881,326	139,747,490

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013 (As Restated)	2014	2013 (As Restated)
Net income (loss)	\$(75,258)	\$60,572	\$52,240	\$175,143
Other comprehensive income (loss), net of income taxes:				
Change in deferred loss on cash flow hedges arising during the year (1)	—	—	—	(7,537)
Reclassification adjustment for losses on cash flow hedges included in net income (2)	384	4,714	1,362	6,198
Net change in deferred loss on cash flow hedges	384	4,714	1,362	(1,339)
Other	2	31	5	711
Total other comprehensive income (loss), net of income taxes	386	4,745	1,367	(628)
Comprehensive income (loss)	(74,872)	65,317	53,607	174,515
Comprehensive income attributable to non-controlling interests	(121)	—	(165)	—
Comprehensive income (loss) attributable to Ocwen stockholders	\$(74,993)	\$65,317	\$53,442	\$174,515

(1) Net of tax benefit of \$4.8 million for the nine months ended September 30, 2013.

Net of tax expense of \$3.1 million for the three months ended September 30, 2013 and \$0.2 million and \$3.9 million for the nine months ended September 30, 2014 and 2013, respectively. These losses are reclassified to

(2) Other, net in the unaudited Consolidated Statements of Operations. See Note 15 – 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 NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
 (Dollars in thousands)

	Ocwen Stockholders Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes		Non-controlling Interest in Subsidiaries	Total
	Shares	Amount	Additional Paid-in Capital					
Balance at December 31, 2013	135,176,271	\$ 1,352	\$ 818,427	\$ 1,002,963	\$ (10,151)	\$ —		\$ 1,812,591
Net income	—	—	—	52,075	—	165		52,240
Preferred stock dividends (\$18.75 per share)	—	—	—	(1,163)	—	—		(1,163)
Deemed dividend related to beneficial conversion feature of preferred stock	—	—	—	(1,639)	—	—		(1,639)
Conversion of preferred stock	1,950,296	20	61,980					62,000
Repurchase of common stock	(9,920,649)	(99)	(325,510)	—	—	—		(325,609)
Exercise of common stock options	244,000	2	1,036	—	—	—		1,038
Equity-based compensation and other	17,887	—	11,092	—	—	—		11,092
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		—	—	—	1,367	—		1,367
Balance at September 30, 2014	127,467,805	\$ 1,275	\$ 567,025	\$ 1,052,236	\$ (8,784)	\$ 2,691		\$ 1,614,443
Balance at December 31, 2012	135,637,932	\$ 1,356	\$ 911,942	\$ 704,565	\$ (6,441)	\$ —		\$ 1,611,422
Net income (As Restated)	—	—	—	175,143	—	—		175,143
Preferred stock dividends (\$27.92 per share)	—	—	—	(4,450)	—	—		(4,450)
Deemed dividend related to beneficial conversion feature of preferred stock	—	—	—	(6,573)	—	—		(6,573)
Conversion of preferred stock	3,145,640	31	99,969	—	—	—		100,000

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Repurchase of common stock	(3,145,640)	(31)	(157,849)	—	—	—	(157,880)
Exercise of common stock options	172,969	2	(188)	—	—	—	(186)
Equity-based compensation and other	12,031	—	10,849	—	—	—	10,849
Other comprehensive loss, net of income taxes	—	—	—	—	(628)	—	(628)
Balance at September 30, 2013 (As Restated)	135,822,932	\$ 1,358	\$ 864,723	\$ 868,685	\$ (7,069)	\$ —	\$ 1,727,697

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

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

For the Nine Months Ended September 30,	2014	2013 (As Restated)
Cash flows from operating activities		
Net income	\$52,240	\$175,143
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage servicing rights	186,075	197,435
Depreciation	16,601	17,153
Provision for bad debts	49,583	22,386
Gain on sale of loans	(110,041)	(72,912)
Realized and unrealized losses on derivative financial instruments	1,955	12,896
(Gain) loss on extinguishment of debt	(2,609)	12,556
Loss (gain) on valuation of mortgage servicing rights, at fair value	13,147	(11,725)
Decrease (increase) in deferred tax assets, net	35,884	(2,393)
Origination and purchase of loans held for sale	(6,007,152)	(7,072,260)
Proceeds from sale and collections of loans held for sale	6,013,059	7,006,883
Changes in assets and liabilities:		
Decrease in advances and match funded advances	236,688	424,008
(Increase) decrease in receivables and other assets, net	(11,806)	265,554
(Decrease) increase in other liabilities	46,243	27,783
Other, net	39,148	1,723
Net cash provided by operating activities	559,015	1,004,230
Cash flows from investing activities		
Cash paid to acquire ResCap Servicing Operations (a component of Residential Capital, LLC)	(54,220)	(2,260,830)
Net cash paid to acquire controlling interest in Ocwen Structured Investments, LLC	(7,834)	—
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	(19,395)	(676,750)
Acquisition of advances in connection with the purchase of mortgage servicing rights	(84,373)	(445,478)
Acquisition of advances in connection with the purchase of loans	(60,482)	—
Proceeds from sale of advances and match funded advances	—	3,492,489
Net proceeds from sale of diversified fee-based businesses to Altisource Portfolio Solutions, SA	—	215,700
Proceeds from sale of mortgage servicing rights	287	21,511
Origination of loans held for investment – reverse mortgages	(565,670)	(274,081)
Principal payments received on loans held for investment - reverse mortgages	56,193	2,164
Additions to premises and equipment	(7,716)	(24,475)
Other	4,270	2,947
Net cash (used in) provided by investing activities	(732,368)	50,037
Cash flows from financing activities		
Repayment of match funded liabilities	(329,175)	(2,169,732)
Proceeds from other secured borrowings	4,352,495	7,935,374

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Repayments of other secured borrowings	(4,532,029) (7,166,050)
Proceeds from issuance of senior unsecured notes	350,000	—	
Payment of debt issuance costs	(6,835	) (25,547)
Proceeds from sale of mortgage servicing rights accounted for as a financing	123,551	404,509	
Proceeds from sale of loans accounted for as a financing	572,031	272,652	
Proceeds from sale of advances accounted for as a financing	88,095	—	
Repurchase of common stock	(325,609	) (157,880)
Payment of preferred stock dividends	(1,163	) (4,534)
Other	2,643	(5,703)
Net cash provided by (used in) financing activities	294,004	(916,911)
Net increase in cash	120,651	137,356	
Cash at beginning of year	178,512	220,130	
Cash at end of period	\$299,163	\$357,486	
Supplemental non-cash investing and financing activities			
Conversion of Series A preferred stock to common stock	\$62,000	\$100,000	
Supplemental business acquisition information - ResCap (1)			
Fair value of assets acquired			
Advances	\$—	\$(1,786,409)
Mortgage servicing rights	—	(401,314)
Premises and equipment	—	(16,423)
Goodwill	—	(211,419)
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)	—	83,099	
Cash paid	\$—	\$(2,260,830)

- (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
SEPTEMBER 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 nine months ended September 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.

Certain insignificant amounts in the unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 have been reclassified to conform to the current year presentation. These reclassifications had no impact on our consolidated cash flows from operating, investing or financing activities.

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 nine months ended September 30, 2014 as follows:

	Three Months	Nine Months
Reduction in Amortization of mortgage servicing rights	\$(21,309)	\$(69,244)
Increase in Net income attributable to Ocwen common stockholders	\$14,920	\$48,485
Increase in Earnings per share attributable to Ocwen common stockholders:		
Basic	\$0.11	\$0.36
Diluted	\$0.11	\$0.35

Recently Issued Accounting Standards

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

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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

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 accounting for a financing liability related to the Rights to MSRs sold to Home Loan Servicing Solutions, Ltd. and its wholly-owned subsidiary, HLSS Holdings, LLC (collectively HLSS). The error relates to the subsequent accounting for the financing liability at fair value 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.

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

Consolidated Statement of Operations for the Three Months Ended September 30, 2013			
	As Reported	Restatement	As Restated
Interest expense	\$ (110,055)	\$ (6,830)	\$ (116,885)
Total other expense, net	(108,705)	(6,830)	(115,535)
Income before income taxes	76,275	(6,830)	69,445
Income tax expense	9,273	(400)	8,873
Net income	67,002	(6,430)	60,572
Net income attributable to Ocwen common stockholders	61,155	(6,430)	54,725
Earnings per share attributable to Ocwen common stockholders			
Basic	\$0.45	\$ (0.05)	\$0.40
Diluted	\$0.44	\$ (0.05)	\$0.39

Consolidated Statement of Operations for the Nine Months Ended September 30, 2013			
	As Reported	Restatement	As Restated
Interest expense	\$ (303,339)	\$ (16,225)	\$ (319,564)
Total other expense, net	(306,780)	(16,225)	(323,005)
Income before income taxes	215,120	(16,225)	198,895
Income tax expense	26,250	(2,498)	23,752
Net income	188,870	(13,727)	175,143
Net income attributable to Ocwen common stockholders	177,847	(13,727)	164,120
Earnings per share attributable to Ocwen common stockholders			
Basic	\$1.31	\$ (0.10)	\$1.21
Diluted	\$1.27	\$ (0.10)	\$1.17

Consolidated Statement of Comprehensive Income for the Three Months Ended September 30, 2013			
	As Reported	Restatement	As Restated
Net income	\$67,002	\$ (6,430)	\$60,572
Comprehensive income	71,747	(6,430)	65,317

Consolidated Statement of Comprehensive Income for the Nine Months Ended September 30, 2013			
	As Reported	Restatement	As Restated
Net income	\$188,870	\$ (13,727)	\$175,143
Comprehensive income	188,242	(13,727)	174,515

Consolidated Statement of Changes in Equity for the Nine Months Ended September 30, 2013			
	As Reported	Restatement	As Restated
Net income	\$188,870	\$ (13,727)	\$175,143

Consolidated Statement of Cash Flows for
the Nine Months Ended September 30, 2013

	As Reported	Restatement	As Restated
Net income	\$188,870	\$(13,727)	) \$175,143
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease (increase) in deferred tax assets, net	105	(2,498)	) (2,393)
Net cash provided by operating activities	1,020,455	(16,225)	) 1,004,230
Repayments of other secured borrowings	(7,182,275)	) 16,225	(7,166,050)
Net cash used in financing activities	(933,136)	) 16,225	(916,911)

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 15 – 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 nine months ended September 30:

	Three Months		Nine Months	
	2014	2013	2014	2013
Proceeds received from securitizations	\$1,369,468	\$1,776,309	\$4,346,991	\$6,240,459
Servicing fees collected	10,840	6,317	25,174	13,125
Purchases of previously transferred assets, net of claims reimbursed	2,237	—	2,237	—
	\$1,382,545	\$1,782,626	\$4,374,402	\$6,253,584

In connection with these transfers, we retained MSRs of \$10.7 million and \$32.1 million during the three and nine months ended September 30, 2014, respectively, and \$16.3 million and \$63.2 million during the three and nine months ended September 30, 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:

	September 30, 2014	December 31, 2013
Carrying value of assets:		
Mortgage servicing rights, at amortized cost	\$84,397	\$44,615
Mortgage servicing rights, at fair value	2,965	3,075
Advances and match funded advances	10,153	15,888
Unpaid principal balance of loans transferred (1)	8,816,416	5,641,277
Maximum exposure to loss	\$8,913,931	\$5,704,855

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

At September 30, 2014 and December 31, 2013, 4.4% and 2.6%, respectively, of the transferred residential loans that we service were 30 days or more past due. During the three and nine months ended September 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 September 30, 2014 and December 31, 2013, we had HMBS-related borrowings of \$1.2 billion and \$615.6 million and HECMs pledged as collateral to the pools of \$1.3 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 the transfers to these SPEs under the terms of our advance financing facility agreements. We classify the transferred advances on our unaudited Consolidated Balance Sheets as Match funded advances and the related liabilities as Match funded liabilities. The SPEs use collections of the pledged advances to repay principal and interest and to pay the expenses of the SPE. Holders of the debt issued by these entities 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 \$5.0 million of notes outstanding at September 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 in our unaudited Consolidated Balance Sheets.

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 which can extend 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, MSR's 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 MSR's 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
MSR's (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

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 (1) 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 nine months ended September 30, 2013 (from the acquisition date of February 15, 2013):

	Three Months	Nine Months
Revenues	\$212,164	\$508,589
Net income	\$8,230	\$81,362

Pro Forma Results of Operations

The following table presents unaudited supplemental pro forma information for Ocwen for the nine months ended September 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	\$1,530,055
Net income	\$205,062

Other Acquisitions

Correspondent One S.A. (Correspondent One)

On March 31, 2013, we increased our ownership in Correspondent One, an entity formed with Altisource Portfolio Solutions, SA (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 \$26.4 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 interest 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, lease termination costs for the closure of leased facilities and other contract termination costs 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 nine months ended September 30, 2014:

	Employee termination benefits	Lease and other contract termination costs	Total
Liability balance as at December 31, 2013	\$4,816	\$7,432	\$12,248
Additions charged to operations (1)	14,748	2,813	17,561
Amortization of discount	—	115	115
Payments	(17,215)	(2,928)	(20,143)
Liability balance as at September 30, 2014 (2)	\$2,349	\$7,432	\$9,781

Of the additions charged to operations during the period, \$14.4 million was recognized in the Servicing segment, \$(0.1) million was recognized in the Lending segment and the remaining \$3.3 million was recognized in the Corporate Items and Other segment. Charges related to employee termination benefits, lease termination costs and other contract termination costs are reported in Compensation and benefits expense, Occupancy and equipment expense and Other operating expenses, respectively, in the unaudited Consolidated Statements of Operations. The liabilities are included in Other liabilities in the unaudited Consolidated Balance Sheet.

(1) We expect the remaining liability for employee termination benefits at September 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:

		September 30, 2014		December 31, 2013	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Loans held for sale:					
Loans held for sale, at fair value (a)	2	\$335,950	\$335,950	\$503,753	\$503,753
Loans held for sale, at lower of cost or fair value (b)	3	71,937	71,937	62,907	62,907
Total Loans held for sale		\$407,887	\$407,887	\$566,660	\$566,660
Loans held for investment - Reverse mortgages, at fair value (a)	3	\$1,315,324	\$1,315,324	\$618,018	\$618,018
Advances and match funded advances (c)	3	3,346,865	3,346,865	3,443,215	3,443,215
Receivables, net (c)	3	245,817	245,817	152,516	152,516
Financial liabilities:					
Match funded liabilities (c)	3	\$2,035,639	\$2,035,639	\$2,364,814	\$2,364,814
Financing liabilities:					
HMBS-related borrowings, at fair value (a)	3	\$1,236,094	\$1,236,094	\$615,576	\$615,576
Financing liability - MSRs pledged (a)	3	618,855	618,855	633,804	633,804
Other (c)	3	202,541	206,261	17,593	17,593
Total Financing liabilities		\$2,057,490	\$2,061,210	\$1,266,973	\$1,266,973
Other secured borrowings:					
Senior secured term loan (c)	3	\$1,276,142	\$1,259,601	\$1,284,901	\$1,270,108
Other (c)	3	390,285	390,285	492,768	492,768
Total Other secured borrowings		\$1,666,427	\$1,649,886	\$1,777,669	\$1,762,876
Senior unsecured notes	2	\$350,000	\$338,625	\$—	\$—
Derivative financial instruments (a):					
IRLCs	2	\$6,117	\$6,117	\$8,433	\$8,433
Forward MBS trades	1	(1,089)	(1,089)	6,905	6,905
Interest rate caps	3	91	91	442	442
MSRs:					
MSRs, at fair value (a)	3	\$101,948	\$101,948	\$116,029	\$116,029
MSRs, at amortized cost (c)	3	1,856,818	2,364,393	1,953,352	2,441,719
Total MSRs		\$1,958,766	\$2,466,341	\$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 for the three and nine months ended September 30. The information presented for 2013 has been revised to include Financing liability - MSR's pledged in conformity with the 2014 presentation of Level 3 assets and liabilities.

	Loans Held for Investment - Reverse Mortgages	Financing Liability - MSR's Pledged	HMBS-Related Borrowings	Derivative Financial Instruments, net	MSR's	Total
Three months ended September 30, 2014						
Fair value at July 1, 2014	\$1,107,626	\$(629,579)	\$ (1,033,712)	\$97	\$ 104,220	\$(451,348)
Purchases, issuances, sales and settlements:						
Purchases	—	—	—	—	—	—
Issuances	208,566	—	(190,452)	—	—	18,114
Sales	—	—	—	—	—	—
Settlements (1)	(27,592)	10,724	12,690	—	(934)	(5,112)
	180,974	10,724	(177,762)	—	(934)	13,002
Total realized and unrealized gains and (losses):						
Included in earnings	26,724	—	(24,620)	(6)	(1,338)	760
Included in Other comprehensive income (loss)	—	—	—	—	—	—
	26,724	—	(24,620)	(6)	(1,338)	760
Transfers in and / or out of Level 3	—	—	—	—	—	—
Fair value at September 30, 2014	\$1,315,324	\$(618,855)	\$ (1,236,094)	\$91	\$ 101,948	\$(437,586)
	Loans Held for Investment - Reverse Mortgages	Financing Liability - MSR's Pledged	HMBS-Related Borrowings	Derivative Financial Instruments, net	MSR's	Total
Three months ended September 30, 2013						
Fair value at July 1, 2013	\$76,649	\$(437,734)	\$ (73,641)	\$176	\$97,163	\$(337,387)
Purchases, issuances, sales and settlements:						
Purchases	—	—	—	—	—	—
Issuances	211,052	(239,851)	(206,714)	—	—	(235,513)
Sales	—	—	—	—	—	—
Settlements	(1,293)	17,764	1,021	(176)	—	17,316
	209,759	(222,087)	(205,693)	(176)	—	(218,197)
Total realized and unrealized gains and (losses):						
Included in earnings	4,445	—	(4,942)	—	(225)	(722)
Included in Other comprehensive income (loss)	—	—	—	—	—	—
	4,445	—	(4,942)	—	(225)	(722)
Transfers in and / or out of Level 3	—	—	—	—	—	—

Fair value at September 30, 2013	\$290,853	\$(659,821)	\$ (284,276)	\$—	\$96,938	\$(556,306)
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	Loans Held for Investment - Reverse Mortgages	Financing Liability - MSRs Pledged	HMBS-Related Borrowings	Derivative Financial Instruments, net	MSRs	Total
Nine months ended September 30, 2014						
Fair value at January 1, 2014	\$618,018	\$(633,804)	\$ (615,576)	\$442	\$116,029	\$(514,891)
Purchases, issuances, sales and settlements:						
Purchases	—	—	—	23	—	23
Issuances	565,670	—	(572,031)	—	—	(6,361)
Transfer from loans held for sale, at fair value	110,874	—	—	—	—	110,874
Sales	—	—	—	—	—	—
Settlements (1)	(56,193)	14,949	25,725	—	(934)	(16,453)
	620,351	14,949	(546,306)	23	(934)	88,083
Total realized and unrealized gains and (losses): (2)						
Included in earnings	76,955	—	(74,212)	(374)	(13,147)	(10,778)
Included in Other comprehensive income (loss)	—	—	—	—	—	—
	76,955	—	(74,212)	(374)	(13,147)	(10,778)
Transfers in and / or out of Level 3	—	—	—	—	—	—
Fair value at September 30, 2014	\$1,315,324	\$(618,855)	\$ (1,236,094)	\$91	\$101,948	\$(437,586)
	Loans Held for Investment - Reverse Mortgages	Financing Liability - MSRs Pledged	HMBS-Related Borrowings	Derivative Financial Instruments, net	MSRs	Total
Nine months ended September 30, 2013						
Fair value at January 1, 2013	\$—	\$(303,705)	\$ —	\$(10,668)	\$85,213	\$(229,160)
Purchases, issuances, sales and settlements:						
Purchases	10,251	—	(10,179)	—	—	72
Issuances	274,081	(388,473)	(272,652)	—	—	(387,044)
Sales	—	—	—	24,156	—	24,156
Settlements	(2,164)	32,357	1,888	(1,242)	—	30,839
	282,168	(356,116)	(280,943)	22,914	—	(331,977)
Total realized and unrealized gains and (losses):						
Included in earnings	8,685	—	(3,333)	117	11,725	17,194
Included in Other comprehensive income (loss)	—	—	—	(12,363)	—	(12,363)
	8,685	—	(3,333)	(12,246)	11,725	4,831
Transfers in and / or out of Level 3	—	—	—	—	—	—
Fair value at September 30, 2013	\$290,853	\$(659,821)	\$ (284,276)	\$—	\$96,938	\$(556,306)
(1)						

In the event of a transfer of servicing to another party related to Rights to MSRs sold to HLSS, we are required to reimburse HLSS at predetermined contractual rates for the loss of servicing revenues. Settlements for Financing liability - MSRs pledged for the three and nine months ended September 30, 2014 includes \$2.0 million of such reimbursements.

- (2) Total losses attributable to derivative financial instruments still held at September 30, 2014 were \$0.4 million for the nine months ended September 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 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 September 30, 2014 valuation include:

- Life in years ranging from 6.64 to 10.75 (weighted average of 6.99);
- Conditional repayment rate ranging from 4.82% to 53.75% (weighted average of 19.28%); and
- Discount rate of 3.20%.

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

Mortgage Servicing Rights

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 | • Interest rate used for computing float earnings |
| • Discount rate | • Compensating interest expense |
| • Interest rate used for computing the cost of financing servicing advances | • 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.

Our 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 September 30, 2014 valuation of our MSRs carried at amortized cost include:

- Prepayment speeds ranging from 9.87% to 16.82% (weighted average of 14.16%) depending on loan type;
- Delinquency rates ranging from 6.77% to 24.32% (weighted average of 18.96%) 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 9.23% to 16.74% (weighted average of 12.01%).

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 strata 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 September 30, 2014 valuation include an 8.55% 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, are generally realized within a relatively short period of time and do not bear interest.

Receivables

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

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 September 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 September 30, 2014 valuation include:

• Life in years ranging from 4.97 to 10.75 (weighted average of 5.65);

• Conditional repayment rate ranging from 4.82% to 53.75% (weighted average of 19.28%); and

• Discount rate of 2.44%.

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 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 to fair value at each reporting date.

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 5.71% and the repayment schedule specified in the loan agreement to determine fair value at September 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 or an agreement to extend credit to a mortgage applicant (locked pipeline), whereby the interest rate is set prior to funding. IRLCs are classified within Level 2 of the valuation hierarchy as the primary component of the price is obtained from observable values of mortgage forwards for loans of similar terms and characteristics. Fair value amounts of IRLCs are adjusted for expected "fallout" (locked pipeline loans not expected to close) using models that consider cumulative historical fallout rates and other factors.

We enter into forward 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 obtain unadjusted market quotes for these derivatives, thus they are classified within Level 1 of the valuation hierarchy.

In addition, we may use interest rate caps to minimize future interest rate 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 15 – 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 nine months ended September 30:

	2014	2013
Beginning balance	\$503,753	\$426,480
Originations and purchases	3,923,870	5,988,501
Proceeds from sales	(4,010,644)	(6,033,785)
Transfers to loans held for investment - reverse mortgages	(110,874)	—
Gain (loss) on sale of loans	39,486	(46,962)
Other	(9,641)	868
Ending balance	\$335,950	\$335,102

At September 30, 2014, Loans held for sale, at fair value with a UPB of \$311.8 million were pledged to secure warehouse lines of credit in our Lending segment. See Note 11 – Borrowings for additional information.

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 nine months ended September 30:

	2014	2013
Beginning balance	\$62,907	\$82,866
Purchases	2,083,282	1,144,853
Proceeds from sales	(1,744,273)	(654,916)
Principal payments	(248,552)	(317,528)
Transfers to accounts receivable	(96,257)	(190,185)
Transfers to real estate owned	(4,575)	(2,838)
Gain on sale of loans	32,471	20,336
Increase in valuation allowance	(16,282)	(6,510)
Other	3,216	10,675
Ending balance	\$71,937	\$86,753

The balances at September 30, 2014 and September 30, 2013 are net of valuation allowances of \$47.0 million and \$27.0 million, respectively. At September 30, 2014, Loans held for sale, at lower of cost or fair value with a UPB of \$21.1 million were pledged to secure a warehouse line of credit in our Servicing segment. See Note 11 – Borrowings for additional information.

The balances at September 30, 2014 and September 30, 2013 include \$24.1 million and \$60.8 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 guaranteed securitizations 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 (\$556.6 million for the Ginnie Mae EBO Loans and \$55.7 million for the related 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

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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.

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 nine months ended September 30:

	Three Months		Nine Months	
	2014	2013	2014	2013
Gain on sales of loans	\$42,185	\$4,622	\$145,455	\$36,156
Change in fair value of IRLCs	(4,188)	) 18,912	(2,315)	) 5,918
Change in fair value of loans held for sale	(9,348)	) 14,362	(97)	) 1,452
Gain (loss) on economic hedge instruments	(1,145)	) (9,408)	) (32,183)	) 30,989
Other	(286)	) (226)	) (819)	) (1,603)
	\$27,218	\$28,262	\$110,041	\$72,912

Gains on loans held for sale, net include \$10.7 million and \$16.3 million for the three months ended September 30, 2014 and 2013, respectively, and \$32.1 million and \$63.2 million for the nine months ended September 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 \$9.9 million and \$50.6 million recorded during the three and nine months ended September 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 nine months ended September 30, 2013, gains on sales of repurchased Ginnie Mae loans were \$4.3 million and \$20.5 million, respectively.

Fair value gains recognized in connection with sales of reverse mortgages into Ginnie Mae guaranteed securitizations are also included in Gains on loans held for sale, net and amounted to \$20.4 million and \$51.4 million for the three and nine months ended September 30, 2014, respectively. Fair value gains for the three and nine months ended September 30, 2013 were \$14.5 million and \$20.6 million, respectively.

Note 6 – Advances

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

	September 30, 2014	December 31, 2013
Servicing:		
Principal and interest	\$198,540	\$141,307
Taxes and insurance	443,255	477,039
Foreclosures, bankruptcy and other (1)	340,882	268,053
	982,677	886,399
Corporate Items and Other	4,609	4,433
	\$987,286	\$890,832

(1) The balances at September 30, 2014 and December 31, 2013 are net of an allowance for losses of \$48.4 million and \$38.4 million, respectively.

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

	2014	2013
Beginning balance	\$890,832	\$184,463
Acquisitions (1)	99,318	708,415
Transfers to match funded advances	(10,156)	(131,197)
Sales of advances to HLSS (2)	—	(61,673)
New advances, net of collections and other	7,292	244,923
Ending balance	\$987,286	\$944,931

Servicing advances acquired through business acquisitions and asset acquisitions, primarily in connection with the (1) acquisition of MSRs. See Note 3 – Business Acquisitions, Note 5 – Loans Held for Sale and Note 8 – Mortgage Servicing for additional information.

We periodically sell Rights to MSRs and the related servicing advances to HLSS. The related advance sales generally meet the requirements for sale accounting and are derecognized from our financial statements at the time of the sale. In connection with the Ginnie Mae EBO Transactions completed during 2014, we transferred advances (2) related to certain FHA-insured mortgage loans to HLSS Mortgage and HLSS SEZ LP in transactions which did not qualify as sales for accounting purposes. See Note 4 – Fair Value and Note 5 – Loans Held for Sale for additional information.

Note 7 – Match Funded Advances

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

	September 30, 2014	December 31, 2013
Principal and interest	\$1,360,568	\$1,497,649
Taxes and insurance	788,612	830,113
Foreclosures, bankruptcy, real estate and other	210,399	224,621
	\$2,359,579	\$2,552,383

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

	2014	2013
Beginning balance	\$2,552,383	\$3,049,244
Acquisitions (1)	85,521	1,448,371
Transfers from advances	10,156	131,197
Sales of advances to HLSS (2)	—	(3,428,234)
Collections, net of new advances and other	(288,481)	(666,853)
Ending balance	\$2,359,579	\$533,725

Servicing advances acquired in connection with the acquisitions of MSRs through business acquisitions and asset (1) acquisitions. See Note 3 – Business Acquisitions and Note 8 – Mortgage Servicing for additional information.

(2) See Note 6 – Advances for additional information.

Note 8 – Mortgage Servicing

Mortgage Servicing Rights – Amortization Method

The following tables summarize the activity in the carrying value of amortization method servicing assets for the nine months ended September 30. Amortization of mortgage servicing rights is reported net of the amortization of servicing liabilities and includes the amount of charges we recognized to increase servicing liability obligations, if any.

	2014	2013
Beginning balance	\$1,953,352	\$678,937
Additions recognized in connection with business acquisitions:		
OSI (1)	9,008	—
ResCap Acquisition (1)	11,370	391,853
Liberty Acquisition (1)	—	2,532
Additions recognized in connection with asset acquisitions:		
Ally MSR Transaction	—	683,787
OneWest MSR Transaction (2)	1,516	127,047
Greenpoint MSR Transaction (3)	3,690	—
Other	14,132	3,003
Additions recognized on the sale of mortgage loans	50,480	63,154
Sales	(137)	(17,523)
Servicing transfers and adjustments	(518)	2,052
Amortization	(186,075)	(197,899)
Ending balance	\$1,856,818	\$1,736,943

Estimated fair value at end of period	\$2,364,393	\$2,532,239
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(1) See Note 3 – Business Acquisitions for additional information regarding MSRs recognized in connection with business acquisitions.

The acquired MSRs in 2014 relate to mortgage loans with a UPB of \$1.1 billion and related servicing advances of \$34.3 million acquired in the final closing of the OneWest MSR Transaction. The OneWest MSR Transaction (2) closed in stages, and the majority of loans were boarded onto our primary servicing platform as of December 31, 2013. As of September 30, 2013, we had acquired MSRs of \$127.0 million with a UPB of \$30.5 billion and related servicing advance receivables of \$371.6 million.

(3) The acquired MSRs relate to mortgage loans with a UPB of \$948.9 million and related servicing advances of \$47.6 million.

We have sold certain Rights to MSRs as part of the HLSS Transactions which did not qualify as sales for accounting purposes. In addition, on February 26, 2014, we issued \$123.6 million of OASIS Series 2014-1 Notes secured by Ocwen-owned MSRs relating to Freddie Mac mortgages of \$11.8 billion UPB. We account for these transactions as financings. See Note 11 – Borrowings for additional information.

Mortgage Servicing Rights—Fair Value Measurement Method

This portfolio comprises servicing rights for which we elected the fair value option and includes Agency forward residential mortgage loans for which we previously hedged the related market risks.

The following table summarizes the activity related to fair value servicing assets for the nine months ended September 30:

	2014	2013
Beginning balance	\$116,029	\$85,213
Servicing transfers	(934)	—
Changes in fair value (1):		
Changes in assumptions	(12,217)	19,800
Realization of cash flows and other changes	(930)	(8,075)
Ending balance	\$101,948	\$96,938

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

Because the mortgages underlying these MSRs permit the borrowers to prepay the loans, the value of the MSRs generally tends to diminish in periods of declining interest rates (as prepayments increase) and increase in periods of rising interest rates (as prepayments decrease). The following table summarizes the estimated change in the value of the MSRs that we carry at fair value as of September 30, 2014 given hypothetical instantaneous parallel shifts in the yield curve:

	Adverse change in fair value	
	10%	20%
Weighted average prepayment speeds	\$(8,245)	\$(16,137)
Discount rate (Option-adjusted spread)	\$(4,100)	\$(7,905)

The sensitivity analysis measures the potential impact on fair values based on hypothetical changes (increases and decreases) in interest rates.

Portfolio of Assets Serviced

The following table presents the composition of our primary servicing and subservicing portfolios by type of property serviced as measured by UPB. The servicing portfolio represents loans for which we own the MSRs while subservicing represents all other loans. The UPB of assets serviced for others are not included on our unaudited Consolidated Balance Sheets.

	Residential	Commercial	Total
UPB at September 30, 2014			
Servicing (1)	\$360,919,248	\$—	\$360,919,248
Subservicing	50,360,366	216,111	50,576,477
	\$411,279,614	\$216,111	\$411,495,725
UPB at December 31, 2013			
Servicing (1)	\$397,546,635	\$—	\$397,546,635
Subservicing	67,104,697	400,502	67,505,199
	\$464,651,332	\$400,502	\$465,051,834
UPB at September 30, 2013			
Servicing (1)	\$362,792,312	\$—	\$362,792,312
Subservicing	72,027,114	495,312	72,522,426
	\$434,819,426	\$495,312	\$435,314,738

(1) Includes primary servicing UPB of \$160.8 billion, \$175.1 billion and \$177.1 billion at September 30, 2014, December 31, 2013 and September 30, 2013, respectively, for which the Rights to MSRs have been sold to HLSS. Residential assets serviced includes foreclosed real estate. Residential assets serviced also includes small-balance commercial assets with a UPB of \$2.4 billion, \$2.6 billion and \$2.5 billion at September 30, 2014, December 31, 2013 and September 30, 2013, respectively, that are managed using the REALServicing® platform. Commercial assets consist of large-balance foreclosed real estate.

A significant portion of our non-Agency servicing portfolio servicing agreements contain provisions whereby we could be terminated as servicer without compensation upon the failure of the serviced loans to meet certain portfolio delinquency or cumulative loss thresholds or in the event we fail to maintain required servicer ratings, among other provisions. As a result of the economic downturn of recent years, the portfolio delinquency and/or cumulative loss threshold provisions have been breached by many private-label securitizations in our non-Agency servicing portfolio. Terminations as servicer as a result of a breach of any of these provisions have been minimal. In the event we were terminated as servicer and the Rights to MSRs were sold to HLSS, we would be obligated to compensate HLSS.

Servicing Revenue

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

	Three Months		Nine Months	
	2014	2013	2014	2013
Loan servicing and subservicing fees:				
Servicing	\$331,794	\$335,884	\$1,039,033	\$887,500
Subservicing	30,926	35,286	95,509	115,437
	362,720	371,170	1,134,542	1,002,937
Home Affordable Modification Program (HAMP) fees	37,644	40,213	111,000	118,412
Late charges	27,634	30,445	97,002	85,930
Loan collection fees	8,655	8,387	25,573	22,524
Custodial accounts (float earnings)	1,831	743	5,235	4,533
Other	27,480	32,309	74,744	99,056
	\$465,964	\$483,267	\$1,448,096	\$1,333,392

Float balances (balances in custodial accounts, which represent collections of principal and interest that we receive from borrowers, are held in escrow by an unaffiliated bank and are excluded from our balance sheet) amounted to \$3.7 billion and \$3.5 billion at September 30, 2014 and September 30, 2013, respectively.

Note 9 – Receivables

Receivables consisted of the following at the dates indicated:

	September 30, 2014	December 31, 2013
Servicing:		
Government-insured loan claims (1)	\$60,236	\$54,012
Due from custodial accounts	33,553	2,943
Reimbursable expenses	21,575	35,933
Other servicing receivables	26,673	31,649
	142,037	124,537
Income taxes receivable	56,174	6,369
Due from related parties (2)	30,075	14,553
Other receivables (3)	44,040	24,579
	272,326	170,038
Allowance for losses (1)	(26,509)	(17,522)
	\$245,817	\$152,516

The total allowance for losses at September 30, 2014 and December 31, 2013 includes \$26.4 million and \$17.4 million, respectively, related to receivables of our Servicing business. Allowance for losses related to defaulted (1) FHA or VA insured loans repurchased from Ginnie Mae guaranteed securitizations (government-insured loan claims) at September 30, 2014 and December 31, 2013 were \$17.4 million and \$14.0 million, respectively.

(2) See Note 20 – Related Party Transactions for additional information.

The balance at September 30, 2014 and December 31, 2013 includes \$28.3 million and \$13.6 million, respectively, (3) related to losses expected to be indemnified under the terms of the merger agreement entered into in connection with the acquisition of Homeward. See Note 20 – Related Party Transactions for additional information regarding this receivable.

Note 10 – Other Assets

Other assets consisted of the following at the dates indicated:

	September 30, 2014	December 31, 2013
Debt service accounts (1)	\$100,003	\$129,897
Prepaid lender fees and debt issuance costs, net	31,200	31,481
Purchase price deposit (2)	25,000	10,000
Prepaid income taxes	25,142	20,585
Prepaid expenses	12,095	16,132
Derivatives, at fair value (3)	6,169	15,494
Contingent assets - ResCap Acquisition (4)	—	51,932
Investment in unconsolidated entities (5)	—	11,771
Other	37,631	21,851
	\$237,240	\$309,143

Under our advance funding facilities, we are contractually required to remit collections on pledged advances to the trustee within two days of receipt. The collected funds are not applied to reduce the related match funded debt until the payment dates specified in the indenture. The balances also include amounts that have been set aside from the proceeds of our match funded advance facilities and certain of our warehouse facilities to provide for possible shortfalls in the funds available to pay certain expenses and interest. The funds related to match funded facilities are held in interest earning accounts in the name of the SPE created in connection with the facility.

The balance at December 31, 2013 represents an initial cash deposit that we made in connection with the agreement we entered into on December 20, 2013 to acquire MSRs and related advances from Wells Fargo Bank, N.A. This deposit, along with an additional deposit of \$15.0 million that we made in January 2014, is being held in an escrow account pending the transaction closing. See Note 22 – Commitments and Contingencies for additional information on this transaction.

See Note 15 – Derivative Financial Instruments and Hedging Activities for additional information.

As disclosed in Note 3 – Business Acquisitions, the purchase of certain MSRs and related advances from ResCap was not complete on the date of acquisition pending the receipt of certain consents and court approvals. We recorded a contingent asset effective on the date of the acquisition until we subsequently obtained the required consents and approvals for the MSRs and paid the additional purchase price.

The balance at December 31, 2013 includes an investment of \$5.1 million in OSI and an investment of \$6.6 million in PowerLink Settlement Services, LP and related entities. As disclosed in Note 3 – Business Acquisitions, we increased our ownership in OSI from 26.00% to 87.35% on January 31, 2014. Effective on that date, we began including the accounts of OSI in our consolidated financial statements and eliminated our current investment in consolidation. In June 2014, we received proceeds from the dissolution of PowerLink Settlement Services, LP equal to our investment.

Note 11 – Borrowings

Match Funded Liabilities

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

Borrowing Type	Interest Rate	Maturity (1)	Amortization Date (1)	Available Borrowing Capacity (2)	September 30, 2014	December 31, 2013
Advance Receivable Backed Notes Series 2012-ADV1 (3)	1ML (4) + 175 bps	Jun. 2017	Jun. 2015	\$ 130,753	\$ 344,247	\$ 417,388
Advance Receivable Backed Note	1ML + 300 bps	Dec. 2015	Dec. 2014	44,987	5,013	33,211
2012-Homeward Agency Advance Funding Trust	Cost of Funds + 300 bps	Apr. 2014	Apr. 2014	—	—	21,019
2012-1 (5)						
Advance Receivables Backed Notes, Series 2013-VF1, Class A (6)	1ML + 175 bps (7)(11)	Oct. 2044	Oct. 2014	156,812	843,188	1,494,628
Advance Receivables Backed Notes, Series 2013-VF2, Class A (6)	1ML + 167 bps (8)(11)	Oct. 2044	Oct. 2014	75,693	408,019	385,645
Advance Receivables Backed Notes, Series 2013-VF2, Class B (6)	1ML + 425 bps (9)(11)	Oct. 2044	Oct. 2014	2,711	13,577	12,923
Advance Receivables Backed Notes - Series 2014-VF3, Class A (10)	1ML + 175 bps (10)(11)	Oct. 2044	Oct. 2014	78,405	421,595	—
				\$ 489,361	\$ 2,035,639	\$ 2,364,814

Weighted average interest rate

1.91 % 2.08 %

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

Borrowing capacity is available to us provided that we have additional eligible collateral to pledge.

(2) Collateral may only be pledged to one facility. At September 30, 2014, only \$51.2 million of the available borrowing capacity could be used based on the amount of eligible collateral that had been pledged.

(3) On October 28, 2014, the maximum borrowing capacity under this facility was reduced to \$450.0 million and will further decline to \$400.0 million in February 2015.

(4) 1-Month LIBOR (1ML) was 0.16% and 0.17% at September 30, 2014 and December 31, 2013, respectively.

(5) Advance facility assumed as part of the acquisition of Homeward. This facility was terminated on April 16, 2014, and the advances pledged to the facility were transferred to another facility.

(6) These notes were issued in connection with the OneWest MSR Transaction. On February 3, 2014, the maximum borrowing capacity on the 2013-VF2 notes was increased by \$100.0 million to a total of \$500.0 million. On March 17, 2014, the maximum borrowing capacity under the 2013-VF1 note declined by \$500.0 million to a total of \$1.0

billion. On October 1, 2014, the VF1 note was fully repaid. The maximum borrowing capacity of the VF2, Class A notes was increased to \$564.0 million, and the maximum borrowing capacity of the VF2, Class B notes was increased to \$36.0 million. In addition, the amortization date of the VF2 Class A and B notes was extended to October 15, 2015, and the maturity date was extended to October 15, 2045. Finally, a new series, the Series 2014-VF4 note, was issued with a maximum borrowing capacity of \$600.0 million, an amortization date of October 15, 2015 and a maturity date of October 15, 2045. The interest margin on this new series of notes was set to 175 bps through July 14, 2015, to 200 bps on July 15, 2015, to 212 bps on August 15, 2015 and to 250 bps on September 15, 2015.

(7) The interest margin on these notes increased to 200 bps on July 15, 2014, to 225 bps on August 15, 2014 and 250 bps on September 15, 2014.

(8) The interest margin on these notes increased to 191 bps on July 15, 2014, to 215 bps on August 15, 2014 and 238 bps on September 15, 2014. Effective October 1, 2014, the interest margin on these notes was set to 167 bps through July 14, 2015, to 191 bps on July 15, 2015, to 215 bps on August 15, 2015 and to 239 bps on September 15, 2015.

(9) The interest margin on these notes increased to 486 bps on July 15, 2014, to 546 bps on August 15, 2014 and 607 bps on September 15, 2014. Effective October 1, 2014, the interest margin on these notes was set to 300 bps through July 14, 2015, to 343 bps on July 15, 2015, to 386 bps on August 15, 2015 and to 429 bps on September 15, 2015.

(10) This note was issued on March 17, 2014 with a maximum borrowing capacity of \$500.0 million. The interest margin on this note increased to 200 bps on July 15, 2014, to 225 bps on August 15, 2014 and 250 bps on September 15, 2014. On October 1, 2014, the maximum borrowing capacity of the note was increased to \$600.0 million, the amortization date was extended to October 15, 2015 and the maturity date was extended to October 15, 2045. The interest margin was set to 175 bps through July 14, 2015, to 200 bps on July 15, 2015, to 225 bps on August 15, 2015 and to 250 bps on September 15, 2015.

(11) On July 15, 2014, the lenders agreed to waive the increase in interest margin scheduled for July 15, 2014. On August 15, 2014, the lenders also agreed to waive the increases in interest margin that were scheduled for August 15, 2014 and September 15, 2014.

Financing Liabilities

Financing liabilities are comprised of the following at the dates indicated:

Borrowings	Collateral	Interest Rate	Maturity	September 30, 2014	December 31, 2013
Servicing:					
Financing liability – MSRs pledged	MSRs	(1)	(1)	\$ 618,855	\$633,804
Secured Notes, Ocwen Asset Servicing Income Series, Series 2014-1 (2)	MSRs	(2)	Feb. 2028	115,039	—
Financing Liability – Advances Pledged (3)	Advances on loans	(3)	(3)	87,502	—
				821,396	633,804
Lending:					
Financing liability - MSRs pledged (4)	MSRs	(4)	(4)	—	17,593
HMBS-related borrowings (5)	Loans held for investment (LHFI)	1ML + 245 bps	(5)	1,236,094	615,576
				1,236,094	633,169
				\$ 2,057,490	\$ 1,266,973

(1) The HLSS Transaction financing liabilities have no contractual maturity. The balance of the liability is adjusted each reporting period to its fair value based on the present value of the estimated future cash flows underlying the related MSRs. As discussed in Note 1A — Restatement of Previously Issued Consolidated Financial Statements, we are restating our previously reported consolidated operating results for the three and nine months ended September 30, 2013 to correct an error in the accounting applicable to the financing liabilities in connection with Rights to MSRs sold to HLSS.

(2) OASIS noteholders are entitled to receive a monthly payment amount equal to the sum of: a) the designated servicing fee amount (21 basis points of the UPB of the reference pool of Freddie Mac mortgages); b) any termination payment amounts; c) any excess refinance amounts; and d) the note redemption amounts, each as defined in the indenture supplement for the notes. The notes have a final stated maturity of February 2028. We accounted for this transaction as a financing. Monthly amortization of the liability is estimated using the proportion

of monthly projected service fees on the underlying MSRs as a percentage of lifetime projected fees, adjusted for the term of the security.

Certain advances were sold to HLSS Mortgage and HLSS SEZ LP on March 4, 2014 and May 2, 2014, (3) respectively. These sales of advances did not qualify for sales accounting treatment and were accounted for as a financing. See Note 5 – Loans Held for Sale for additional information.

Sales of MSRs to a third party accounted for as a financing. The financing liability was being amortized using the (4) interest method with the servicing income that was remitted to the purchaser representing payments of principal and

interest. In April 2014, we derecognized the remaining liability related to this MSR sale. During 2014, we recognized a gain of \$2.6 million on the extinguishment of the financing liability.

Represents amounts due to the holders of beneficial interests in Ginnie Mae guaranteed HMBS. The beneficial (5) interests have no maturity dates, and the borrowings mature as the related loans are repaid. See Note 2 –

Securitizations and Variable Interest Entities for additional information.

Other Secured Borrowings

Other secured borrowings are comprised of the following at the dates indicated:

Borrowings	Collateral	Interest Rate	Maturity	Available Borrowing Capacity	September 30, 2014	December 31, 2013
Servicing:						
SSTL (1)	(1)	1-Month Euro-dollar rate + 375 bps with a Eurodollar floor of 125 bps (1)	Feb. 2018	\$—	\$1,280,500	\$1,290,250
Promissory note (2)	MSRs	1ML + 350 bps	May 2017	—	—	15,529
Repurchase agreement (3)	Loans held for sale (LHFS)	1ML + 200 - 345 bps	Jun. 2015	27,338	22,662	17,507
				27,338	1,303,162	1,323,286
Lending:						
Master repurchase agreement (4)	LHFS	1ML + 175 bps	Apr. 2015	17,199	132,801	105,659
Participation agreement (5)	LHFS	N/A	May 2015	—	54,369	81,268
Master repurchase agreement (6)	LHFS	1ML + 175 - 275 bps	Oct. 2014	10,645	64,355	91,990
Master repurchase agreement (7)	LHFS	1ML + 175 - 200 bps	Nov. 2014	99,527	50,473	89,836
Master repurchase agreement (8)	LHFI	1ML + 275bps	Oct. 2014	858	36,642	51,975
Mortgage warehouse agreement (9)	LHFI	1ML + 275 bps; floor of 350 bps	May 2015	35,695	24,305	34,292
				163,924	362,945	455,020
Corporate Items and Other:						
Securities sold under an agreement to repurchase (10)	Ocwen Real Estate Asset Liquidating Trust 2007-1 Notes	Class A-2 notes: 1ML + 200 bps; Class A-3 notes: 1ML + 300 bps	Monthly	—	4,678	4,712
				191,262	1,670,785	1,783,018
Discount (1)				—	(4,358)	(5,349)

\$191,262 \$1,666,427 \$1,777,669

Weighted average interest rate	4.94	%	4.86	%
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This facility had an initial balance of \$1.3 billion and was issued with an original issue discount of \$6.5 million that we are amortizing over the term of the loan. We are required to repay the principal amount of the borrowings in (1)consecutive quarterly installments of \$3.3 million. In addition, we are generally required to use the net cash proceeds (as defined) from any asset sale (as defined) to repay loan principal, subject to a 270-day reinvestment provision (or, in the case of a

sale of MSRs, related servicing advances or other related assets to HLSS, we have a 180-day reinvestment provision and the net cash proceeds must be invested in MSRs or related assets, such as advances). We are also required to make mandatory prepayments in certain circumstances based on our corporate leverage ratio (as defined) if we have positive consolidated excess cash flow (as defined) in any fiscal year. The borrowings are secured by a first priority security interest in substantially all of the assets of Ocwen. Borrowings bear interest, at the election of Ocwen, at a rate per annum equal to either (a) the base rate [the greatest of (i) the prime rate in effect on such day, (ii) the federal funds rate in effect on such day plus 0.50% and (iii) the one-month Eurodollar rate (1-Month LIBOR)], plus a margin of 2.75% and a base rate floor of 2.25% or (b) the one month Eurodollar rate, plus a margin of 3.75% with a one month Eurodollar floor of 1.25%. To date, we have elected option (b) to determine the interest rate.

(2) This note was repaid in full on February 28, 2014.

(3) Under this repurchase agreement, the lender provides financing on a committed basis for \$50.0 million and, at the discretion of the lender, on an uncommitted basis for an additional \$50.0 million.

(4) Under this repurchase agreement, the lender provides financing on a committed basis for \$150.0 million and, at the discretion of the lender, on an uncommitted basis for an additional \$150.0 million.

Under this participation agreement, the lender provides financing on an uncommitted basis for \$50.0 million to \$100.0 million at the discretion of the lender. The participation agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing. The lender earns the stated interest rate of the underlying mortgage loans while the loans are financed under the participation agreement.

(6) Under this repurchase agreement, the lender provides financing on a committed basis for \$75.0 million and, at the discretion of the lender, on an uncommitted basis for an additional \$75.0 million. On September 2, 2014, the maturity date of this facility was extended to October 2, 2014. On October 2, 2014, the maturity date was further extended to September 1, 2015.

(7) Under this repurchase agreement, the lender provides financing on a committed basis for \$150.0 million and, at the discretion of the lender, on an uncommitted basis for an additional \$300.0 million. On October 24, 2014, this facility was repaid in full and terminated.

(8) On September 2, 2014, the maturity date of this facility was extended to October 2, 2014, and the maximum borrowing capacity was reduced to \$37.5 million on a committed basis plus an additional \$37.5 million on an uncommitted basis at the discretion of the lender. On October 1, 2014, the maturity date was extended to October 31, 2014. Effective October 31, 2014, the maturity date was further extended to November 14, 2014.

(9) In August 2014, the maturity date of this facility was extended to May 28, 2015.

(10) Represents repurchase agreement for Class A-2 and A-3 notes issued by Ocwen Real Estate Asset Liquidating Trust 2007-1 which have a current face value of \$22.4 million at September 30, 2014. This agreement has no stated credit limit and lending is determined for each transaction based on the acceptability of the securities presented as collateral.

Senior Unsecured Notes

On May 12, 2014, Ocwen completed the issuance and sale of \$350.0 million of its 6.625% Senior Notes due 2019 (the Senior Unsecured Notes) in a private offering. We received net proceeds of \$343.3 million from the sale of the Senior Unsecured Notes after deducting underwriting fees and offering expenses. The Senior Unsecured Notes are general senior unsecured obligations of Ocwen and will mature on May 15, 2019. Interest is payable semi-annually on May 15th and November 15th. The Senior Unsecured Notes are not guaranteed by any of Ocwen's subsidiaries.

At any time prior to May 15, 2016, Ocwen may redeem all or a part of the Senior Unsecured Notes, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100.0% of the principal amount of the Senior Unsecured Notes redeemed, plus the Applicable Premium as defined in the related indenture agreement (the Indenture), plus accrued and unpaid interest and Additional Interest as defined in the Indenture, if any, on the Senior Unsecured Notes redeemed. The Additional Premium on a Note is the greater of 1% of the principal amount of the Note or the redemption price at May 15, 2016 plus all interest due from the redemption date through May 15, 2016, less the principal amount of the Note. Additional Interest is earned by the Senior Unsecured Notes if the deadline for exchange or registration of the Senior Unsecured Notes is not met and ranges from an initial 0.25% to a maximum

1.0%.

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On or after May 15, 2016, Ocwen may redeem all or a part of the Senior Unsecured Notes, upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) specified in the Indenture plus accrued and unpaid interest and Additional Interest, if any. The redemption prices during the twelve-month periods beginning on May 15th of each year are as follows:

Year	Redemption Price
2016	104.969%
2017	103.313%
2018 and thereafter	100.000%

At any time prior to May 15, 2016, Ocwen may, at its option, use the net cash proceeds of one or more Equity Offerings as defined in the Indenture to redeem up to 35% of the principal amount of all Senior Unsecured Notes issued at a redemption price equal to 106.625% of the principal amount of the Senior Unsecured Notes redeemed plus accrued and unpaid interest and Additional Interest, if any, provided that: (i) at least 65% of the principal amount of all Senior Unsecured Notes issued under the Indenture remains outstanding immediately after any such redemption; and (ii) Ocwen makes such redemption not more than 120 days after the consummation of any such Equity Offering. Upon the occurrence of a change of control as defined in the Indenture, Ocwen is required to make an offer to the holders of the Senior Unsecured Notes to repurchase the Senior Unsecured Notes at a purchase price equal to 101.0% of the principal amount of the Senior Unsecured Notes purchased plus accrued and unpaid interest and Additional Interest, if any. Each holder will have the right to require that the Ocwen purchase all or a portion of the holder's Senior Unsecured Notes pursuant to the offer.

The Indenture contains various covenants that could, unless certain conditions are met, limit or restrict the ability of Ocwen and its subsidiaries to engage in specified types of transactions. Among other things, these covenants could potentially limit or restrict the ability of Ocwen and its subsidiaries to:

- incur additional debt or issue preferred stock;
- pay dividends or make distributions on or purchase equity interests of Ocwen;
- repurchase or redeem debt that is subordinate to the Senior Unsecured Notes prior to maturity;
- make investments or other restricted payments;
- create liens on assets to secure debt of Ocwen or any guarantor of the Senior Unsecured Notes;
- sell or transfer assets;
- enter into transactions with "affiliates" (any entity that controls, is controlled by or is under common control with Ocwen or certain of its subsidiaries); and
- enter into mergers, consolidations, or sales of all or substantially all of Ocwen's assets.

Many of the restrictive covenants will be suspended if the Senior Unsecured Notes achieve an investment grade rating from both Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Ratings Services (S&P) and no default or event of default, as specified in the Indenture, has occurred and is continuing. However, covenants that are suspended as a result of achieving these ratings will again apply if Moody's or S&P withdraws its investment grade rating or downgrades the rating assigned to the Senior Unsecured Notes below an investment grade rating.

Ocwen contemporaneously entered into a Registration Rights Agreement under which it agreed for the benefit of the initial purchasers of the Senior Unsecured Notes to use commercially reasonable efforts to file a registration statement and to have the registration statement become effective on or prior to 270 days after the closing of the offering. The registration statement would relate to a registered offer to exchange the Senior Unsecured Notes for other notes (referred to as the exchange notes) that would be issued by Ocwen, would be registered with the SEC and would have substantially identical terms as the Senior Unsecured Notes. If Ocwen is not able to effect the exchange offer, it will instead use commercially reasonable efforts to file and cause to become effective a shelf registration statement relating to resales of the Senior Unsecured Notes.

In connection with our issuance of the Senior Unsecured Notes, we incurred certain costs that we capitalized and are amortizing over the period from the date of issuance to May 15, 2019. The unamortized balance of these issuance costs was \$6.1 million at September 30, 2014.

Covenants

Match funded liabilities and other secured borrowings are collateralized by specific assets. Under the terms of these borrowing agreements, we are subject to various qualitative and quantitative covenants. Collectively, these covenants include:

Specified net worth requirements;
Restrictions on future indebtedness; and

Monitoring and reporting of various specified transactions or events, including specific reporting on defined events affecting collateral underlying certain borrowing agreements.

Financial covenants in our borrowing agreements require that we maintain consolidated tangible net worth, the most restrictive of which is \$630.0 million plus 65% of quarterly net income, without adjustment for quarterly net losses, beginning with the three months ended December 31, 2012. The required consolidated tangible net worth in connection with this agreement was \$957.1 million at September 30, 2014. Should we fail to be in compliance with these requirements, remedies include but are not limited to, at the option of the facility provider, termination of further funding, acceleration of outstanding obligations, enforcement of liens against the assets securing or otherwise supporting the agreement, and other legal remedies. Our lenders can waive their contractual rights in the event of a default. Our borrowing agreements generally include cross default provisions such that a default under one agreement could trigger defaults under other agreements. We believe that we are in compliance with all of our qualitative and quantitative covenants at the date of these financial statements.

Note 12 – Other Liabilities

Other liabilities were comprised of the following at the dates indicated:

	September 30, 2014	December 31, 2013
Liability for indemnification obligations (1)	\$143,836	\$192,716
Accrued expenses (2)	227,309	108,870
Payable to loan servicing and subservicing investors	83,778	33,501
Due to related parties (3)	60,235	77,997
Liability for selected tax items	30,627	27,273
Checks held for escheat	19,880	24,392
Liability for certain foreclosure matters (4)	—	66,948
Additional purchase price due seller - ResCap Acquisition (5)	—	54,220
Other	65,976	58,678
	\$631,641	\$644,595

(1) See Note 22 – Commitments and Contingencies for additional information.

(2) Accrued expenses at September 30, 2014 includes \$100.0 million related to certain regulatory contingencies. See Note 22 – Commitments and Contingencies for additional information.

(3) See Note 20 – Related Party Transactions for additional information.

(4) This liability was settled in May 2014. See Note 22 – Commitments and Contingencies for additional information regarding the National Mortgage Settlement.

(5) See Note 3 – Business Acquisitions for additional information.

Note 13 – Mezzanine Equity

On July 14, 2014, holders of our Series A Perpetual Convertible Preferred Stock (the Preferred Shares) elected to convert the remaining 62,000 shares into 1,950,296 shares of common stock.

The following table summarizes the activity in mezzanine equity for the nine months ended September 30:

	2014	2013
Beginning balance	\$60,361	\$153,372
Conversion of Preferred Shares	(62,000)	(100,000)
Accretion of beneficial conversion feature discount (Deemed dividend) (1)	1,639	6,573
Ending balance	\$—	\$59,945

(1) Accretion includes an accelerated write-off of the unamortized discount of \$0.8 million and \$3.5 million related to the conversion of Preferred Shares during 2014 and 2013, respectively.

Note 14 – Equity

Common Stock

On July 14, 2014, Ocwen paid \$72.3 million to repurchase from the holders of our Preferred Shares all 1,950,296 shares of Ocwen common stock that were issued upon their election to convert the remaining 62,000 Preferred Shares into shares of Ocwen common stock.

On October 31, 2013, we announced that Ocwen’s Board of Directors had authorized a share repurchase program for an aggregate of up to \$500.0 million of Ocwen’s issued and outstanding shares of common stock. Repurchases may be made in open market transactions at prevailing market prices or in privately negotiated transactions. Unless we amend the share repurchase program or repurchase the full \$500.0 million amount by an earlier date, the share repurchase program will continue through July 2016. No assurances can be given as to the amount of shares, if any, that we may repurchase in any given period. The repurchase of shares issued in connection with the conversion of our Series A Perpetual Convertible Preferred Stock (the Preferred Shares) is not considered to be part of this repurchase program and, therefore, does not count against the \$500.0 million aggregate value limit. During the nine months ended September 30, 2014, we completed the repurchase of 7,970,353 shares of common stock in the open market under this program for a total purchase price of \$253.4 million. To date through September 30, 2014, we have completed the repurchase of 9,096,060 total shares of common stock under this program for an aggregate purchase price of \$313.4 million. See Note 23 – Subsequent Events for information regarding repurchases completed subsequent to September 30, 2014.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss (AOCL), net of income taxes, were as follows at the dates indicated:

	September 30, 2014	December 31, 2013
Unrealized losses on cash flow hedges	\$8,663	\$10,026
Other	121	125
	\$8,784	\$10,151

See Note 15 – Derivative Financial Instruments and Hedging Activities for the changes in the components of AOCL for the nine months ended September 30, 2014 and 2013.

Note 15 – Derivative Financial Instruments and Hedging Activities

Because many of our current derivative agreements are not exchange-traded, we are exposed to credit loss in the event of nonperformance by the counterparty to the agreements. We control this risk through credit monitoring procedures including financial analysis, dollar limits and other monitoring procedures. The notional amount of our contracts does not represent our exposure to credit loss.

The following table summarizes the changes in the notional balances of our holdings of derivatives during the nine months ended September 30, 2014:

	IRLCs	Forward MBS Trades	Interest Rate Caps
Beginning notional balance	\$751,436	\$950,648	\$1,868,000
Additions	3,795,311	6,951,828	100,000
Amortization	94,571	—	(490,000)
Maturities	(3,298,265)	(3,379,589)	—
Terminations	(876,254)	(3,762,592)	—
Ending notional balance	\$466,799	\$760,295	\$1,478,000
Fair value of derivative assets (liabilities) at:			
September 30, 2014	\$6,117	\$(1,089)	\$91
December 31, 2013	\$8,433	\$6,905	\$442

Maturity	Nov. 2014 - Jan. 2014	Nov. 2014 - Dec. 2014	Nov. 2016
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Foreign Currency Exchange Rate Risk Management

We periodically enter into foreign exchange forward contracts to hedge against the effect of changes in the value of the India Rupee on amounts payable to our India subsidiaries. Our operations in Uruguay and the Philippines also expose us to foreign currency exchange rate risk, but we currently consider this risk to be insignificant.

Interest Rate Management

Match Funded Liabilities

We terminated our interest rate swaps on May 31, 2013 primarily because the custodial account float balances, which earn a variable rate of interest, are well in excess of variable rate borrowings under advance facilities. The earnings on these deposits reduce our exposure to changes in interest rates. As required by certain of our advance financing arrangements, we have purchased interest rate caps to minimize future interest rate exposure from increases in one-month LIBOR interest rates.

Loans Held for Sale, at Fair Value

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

Interest Rate Lock Commitments

Outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of the commitment through the loan funding date or expiration date. The borrower is not obligated to obtain the loan, thus we are subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. Our interest rate exposure on these derivative loan commitments is hedged with freestanding derivatives such as forward contracts. We enter into forward contracts with respect to fixed rate loan commitments.

MSRs, at Fair Value

Effective April 1, 2013, we terminated our hedging program for fair value MSRs. Prior to the termination, we used economic hedges including interest rate swaps, U.S. Treasury futures and forward contracts to minimize the effects of loss in value of these MSRs associated with increased prepayment activity that generally results from declining interest rates.

The following summarizes our open derivative positions at September 30, 2014 and the gains (losses) on all derivatives used in each of the identified hedging programs for the year to date period then ended. None of the derivatives was designated as a hedge for accounting purposes at September 30, 2014:

Purpose	Expiration Date	Notional Amount	Fair Value (1)	Gains / (Losses)	Consolidated Statements of Operations Caption
Hedge the effect of changes in interest rates on interest expense on borrowings					
Interest rate caps					
Hedge the effect of changes in 1ML on advance funding facilities	Nov. 2016	\$ 1,478,000	\$91	\$(374)	Other, net
Interest rate risk of mortgage loans held for sale and of IRLCs					
Forward MBS trades	Nov. 2014 - Dec. 2014	760,295	(1,089)	(32,183)	Gain on loans held for sale, net
IRLCs	Nov. 2014 - Jan. 2014	466,799	6,117	(2,315)	Gain on loans held for sale, net
Total derivatives			\$5,119	\$(34,872)	

(1) Derivatives are reported at fair value in Receivables, Other assets and Other liabilities on our unaudited Consolidated Balance Sheet.

Included in AOCL at September 30, 2014 and September 30, 2013, respectively, were \$9.2 million and \$12.2 million of deferred unrealized losses, before taxes of \$0.5 million and \$4.5 million, respectively, on interest rate swaps that we designated as cash flow hedges. Changes in AOCL during the nine months ended September 30 were as follows:

	2014	2013
Beginning balance	\$10,151	\$6,441
Additional net losses on cash flow hedges	—	12,363
Ineffectiveness of cash flow hedges reclassified to earnings	—	(657)
Losses on terminated hedging relationships amortized to earnings	(1,579)	(9,434)
Net increase (decrease) in accumulated losses on cash flow hedges	(1,579)	2,272
Decrease (increase) in deferred taxes on accumulated losses on cash flow hedges	217	(933)
(Decrease) increase in accumulated losses on cash flow hedges, net of taxes	(1,362)	1,339
Other, net of taxes	(5)	(711)
Ending balance	\$8,784	\$7,069

Projected amortization of deferred unrealized losses from AOCL to earnings during the coming twelve months is \$1.6 million.

Other income (expense), net, includes the following related to derivative financial instruments for the three and nine months ended September 30:

	Three Months		Nine Months	
	2014	2013	2014	2013
Losses on economic hedges	\$(6)	\$(103)	\$(374)	\$(3,822)
Ineffectiveness of cash flow hedges	—	—	—	(657)
Write-off of losses in AOCL for a discontinued hedge relationship	(408)	(7,780)	(1,580)	(9,434)
	\$(414)	\$(7,883)	\$(1,954)	\$(13,913)

Note 16 – Interest Expense

The following table presents the components of interest expense for the three and nine months ended September 30:

	Three months		Nine Months	
	2014	2013	2014	2013
Financing liabilities (1) (2)	\$88,246	\$81,192	\$281,930	\$185,116
Other secured borrowings	20,790	21,608	62,359	60,211
Match funded liabilities	15,097	10,775	46,762	65,774
Senior unsecured notes	6,141	—	9,466	—
Other	2,775	3,310	8,612	8,463
	\$133,049	\$116,885	\$409,129	\$319,564

Includes interest expense related to financing liabilities recorded in connection with the HLSS Transactions as indicated in the table below. As discussed in Note 1A — Restatement of Previously Issued Consolidated Financial (1) Statements, we are restating our previously reported consolidated operating results for the three and nine months ended September 30, 2013 to correct an error in the accounting applicable to the financing liabilities in connection with Rights to MSRs sold to HLSS.

	Three months		Nine Months	
	2014	2013	2014	2013
Servicing fees collected on behalf of HLSS	\$177,113	\$200,838	\$553,423	\$431,795
Less: Subservicing fee retained by Ocwen	83,550	102,040	266,514	214,587
Net servicing fees remitted to HLSS	93,563	98,798	286,909	217,208
Less: Reduction in financing liability	8,736	17,764	12,960	32,357
Interest expense on HLSS financing liability	\$84,827	\$81,034	\$273,949	\$184,851

(2) Interest expense that we expect to be paid on the HMBS-related borrowings is included with net fair value gains in Other revenues. See Note 2 – Securitizations and Variable Interest Entities for additional information.

Note 17 – Income Taxes

Our effective tax rate for the nine months ended September 30, 2014 and 2013 was 31.8% and 11.9%, respectively. The increase in our effective tax rate is due primarily to changes in the jurisdictional mix of income and expenses. Ocwen avails itself of certain tax benefits in the USVI and other international jurisdictions, which produce a favorable effect on our effective tax rate. To the extent that our pre-tax earnings are weighted more heavily in these lower tax rate jurisdictions, our effective tax rate decreases. If a greater proportion of our pre-tax earnings are earned in higher tax rate jurisdictions, our effective tax rate increases.

As of September 30, 2014 and December 31, 2013, we had approximately \$35.1 million and \$23.7 million, respectively, of unrecognized tax benefits, all of which if recognized would affect the effective tax rate. We accrue interest and penalties related to unrecognized tax benefits in our provision for income taxes. At September 30, 2014 and December 31, 2013, we had accrued interest and penalties related to unrecognized tax benefits of \$5.5 million and \$3.6 million, respectively.

It is reasonably possible that there could be a change in the amount of our unrecognized tax benefits within the next 12 months due to activities of the Internal Revenue Service or other taxing authorities, including proposed assessments of additional tax, possible settlement of audit issues, or the expiration of applicable statutes of limitations. The range of the possible change in unrecognized tax benefits within the next 12 months cannot be reasonably estimated at September 30, 2014. However, we do not expect that change to have a material impact on our financial position or results of operations.

Our major jurisdiction tax years that remain subject to examination are our U.S. federal tax return for the years ended December 31, 2008 through the present and our India corporate tax returns for the years ended March 31, 2004 through the present. Our U.S. consolidated federal tax return for the years ended December 31, 2008, 2009 and 2010 are currently under examination. In addition, the U.S. federal tax return filed by our USVI subsidiary for the year ended December 31, 2012 is currently under examination.

Note 18 – Basic and Diluted Earnings (Loss) per Share

Basic EPS excludes common stock equivalents and is calculated by dividing net income attributable to Ocwen common stockholders by the weighted average number of common shares outstanding during the year. We calculate diluted EPS by dividing net income attributable to Ocwen, as adjusted to add back preferred stock dividends, by the weighted average number of common shares outstanding including the potential dilutive common shares related to outstanding stock options, restricted stock awards and the Preferred Shares.

The following is a reconciliation of the calculation of basic EPS to diluted EPS for the three and nine months ended September 30:

	Three Months		Nine Months	
	2014	2013	2014	2013
Basic EPS:				
Net income (loss) attributable to Ocwen common stockholders	\$(76,189	) \$54,725	\$49,273	\$164,120
Weighted average shares of common stock	130,551,197	135,787,834	133,318,381	135,705,892
Basic EPS	\$(0.58	) \$0.40	\$0.37	\$1.21
Diluted EPS (1):				
Net income (loss) attributable to Ocwen common stockholders	\$(76,189	) \$54,725	\$49,273	\$164,120
Preferred stock dividends (1) (2)	—	—	—	—
Adjusted net income (loss) attributable to Ocwen	\$(76,189	) \$54,725	\$49,273	\$164,120
Weighted average shares of common stock	130,551,197	135,787,834	133,318,381	135,705,892
Effect of dilutive elements (1):				
Preferred Shares (1) (2)	—	—	—	—
Stock options	—	4,263,965	3,558,689	4,030,297
Common stock awards	—	5,396	4,256	11,301
Dilutive weighted average shares of common stock	130,551,197	140,057,195	136,881,326	139,747,490
Diluted EPS	\$(0.58	) \$0.39	\$0.36	\$1.17
Stock options excluded from the computation of diluted EPS:				
Anti-dilutive (3)	91,250	—	47,083	—
Market-based (4)	295,000	547,500	295,000	547,500

For the three months ended September 30, 2014, we have excluded the effect of the Preferred Shares, stock options (1) and common stock awards from the computation of diluted EPS because of the anti-dilutive effect of our reported net loss.

The effect of our Preferred Shares on diluted EPS is computed using the if-converted method. For purposes of computing diluted EPS, we assume the conversion of the Preferred Shares into shares of common stock unless the (2) effect is anti-dilutive. Conversion of the Preferred Shares has not been assumed for the nine months ended September 30, 2014 and the three and nine months ended September 30, 2013 because the effect would have been antidilutive.

(3) These options were anti-dilutive because their exercise price was greater than the average market price of our stock.

(4)

Shares that are issuable upon the achievement of certain performance criteria related to Ocwen's stock price and an annualized rate of return to investors.

Note 19 – Business Segment Reporting

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

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Servicing. This segment is primarily comprised of our core residential servicing business. We provide residential and commercial mortgage loan servicing, special servicing and asset management services. We earn fees for providing these services to owners of the mortgage loans and foreclosed real estate. In most cases, we provide these services either because we purchased the MSRs from the owner of the mortgage, retained the MSRs on the sale of residential mortgage loans or because we entered into a subservicing or special servicing agreement with the entity that owns the MSR. Our residential servicing portfolio includes conventional, government insured and non-Agency loans.

Non-Agency loans include subprime loans which represent residential loans that generally did not qualify under GSE guidelines or have subsequently become delinquent.

Lending. The Lending segment is focused on originating and purchasing conventional and government insured residential forward and reverse mortgage loans mainly through our correspondent lending arrangements, broker relationships and directly with mortgage customers. The loans are typically sold shortly after origination into a liquid market on a servicing retained basis.

Corporate Items and Other. Corporate Items and Other includes revenues and expenses that are not directly related to other reportable segments, business activities that are individually insignificant, interest income on short-term investments of cash, interest expense on corporate debt and certain corporate expenses. Business activities that are not considered to be of continuing significance include subprime loans held for sale (at lower of cost or fair value), investments in unconsolidated entities and affordable housing investment activities. Corporate Items and Other also included the diversified fee-based businesses that we acquired as part of the acquisitions of Homeward and ResCap and subsequently sold to Altisource on March 29, 2013 and April 12, 2013, respectively.

We allocate interest income and expense to each business segment for funds raised or for funding of investments made, including interest earned on cash balances and short-term investments and interest incurred on corporate debt.

We also allocate expenses generated by corporate support services to each business segment.

Financial information for our segments is as follows:

	Servicing	Lending	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
Results of Operations					
Three months ended September 30, 2014					
Revenue	\$485,303	\$26,877	\$1,557	\$(39)	) \$513,698
Operating expenses (1)	313,964	22,632	118,482	(39)	) 455,039
Income (loss) from operations	171,339	4,245	(116,925)	) —	58,659
Other income (expense):					
Interest income	903	4,825	865	—	6,593
Interest expense	(124,106)	) (2,601)	) (6,342)	) —	(133,049)
Other	(3,618)	) 139	(990)	) —	(4,469)
Other income (expense), net	(126,821)	) 2,363	(6,467)	) —	(130,925)
Income (loss) before income taxes	\$44,518	\$6,608	\$(123,392)	) \$—	\$(72,266)
Three months ended September 30, 2013					
Revenue	\$496,302	\$33,539	\$1,801	\$(402)	) \$531,240
Operating expenses (1)	305,654	29,504	11,143	(41)	) 346,260
Income (loss) from operations	190,648	4,035	(9,342)	) (361)	) 184,980
Other income (expense):					
Interest income	859	3,066	1,454	—	5,379
Interest expense (2)	(113,678)	) (3,279)	) 72	—	(116,885)
Other	(6,631)	) 1,843	398	361	(4,029)
Other income (expense), net	(119,450)	) 1,630	1,924	361	(115,535)
Income (loss) before income taxes	\$71,198	\$5,665	\$(7,418)	) \$—	\$69,445

	Servicing	Lending	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
Nine months ended September 30, 2014					
Revenue	\$1,526,606	\$86,811	\$4,734	\$(118)	) \$1,618,033
Operating expenses (1)	919,998	81,261	148,555	(118)	) 1,149,696
Income (loss) from operations	606,608	5,550	(143,821)	) —	468,337
Other income (expense):					
Interest income	1,805	13,117	2,550	—	17,472
Interest expense	(391,122)	) (8,271)	) (9,736)	) —	(409,129)
Other	(4,622)	) 3,846	710	—	(66)
Other income (expense), net	(393,939)	) 8,692	(6,476)	) —	(391,723)
Income (loss) before income taxes	\$212,669	\$14,242	\$(150,297)	) \$—	\$76,614
Nine months ended September 30, 2013					
Revenue	\$1,381,872	\$81,180	\$19,758	\$(492)	) \$1,482,318
Operating expenses (1)	795,645	69,543	95,361	(131)	) 960,418
Income (loss) from operations	586,227	11,637	(75,603)	) (361)	) 521,900
Other income (expense):					
Interest income	1,382	12,432	3,516	—	17,330
Interest expense (2)	(309,606)	) (10,108)	) 150	—	(319,564)
Other	(30,961)	) 6,852	2,977	361	(20,771)
Other income (expense), net	(339,185)	) 9,176	6,643	361	(323,005)
Income (loss) before income taxes	\$247,042	\$20,813	\$(68,960)	) \$—	\$198,895
Total Assets					
September 30, 2014	\$6,059,359	\$1,706,964	\$589,317	\$—	\$8,355,640
December 31, 2013	\$6,295,976	\$1,195,812	\$435,215	\$—	\$7,927,003
September 30, 2013	\$4,086,378	\$704,641	\$609,236	\$—	\$5,400,255

(1) Depreciation and amortization expense are as follows:

	Servicing	Lending	Corporate Items and Other	Business Segments Consolidated
For the three months ended September 30, 2014				
Depreciation expense	\$2,636	\$98	\$3,022	\$5,756
Amortization of mortgage servicing rights	60,689	94	—	60,783
Amortization of debt discount	331	—	344	675
Amortization of debt issuance costs	1,114	—	—	1,114
For the three months ended September 30, 2013				
Depreciation expense	\$3,589	\$135	\$2,973	\$6,697
Amortization of mortgage servicing rights	79,035	148	—	79,183
Amortization of debt discount	330	—	—	330
Amortization of debt issuance costs	1,178	—	—	1,178
For the nine months ended September 30, 2014				
Depreciation expense	\$8,099	\$235	\$8,267	\$16,601
Amortization of mortgage servicing rights	185,263	613	199	186,075
Amortization of debt discount	991	—	513	1,504
Amortization of debt issuance costs	3,241	—	—	3,241
For the nine months ended September 30, 2013				
Depreciation expense	\$9,968	\$209	\$6,976	\$17,153
Amortization of mortgage servicing rights	197,287	148	—	197,435
Amortization of debt discount	1,082	—	—	1,082
Amortization of debt issuance costs	3,264	—	—	3,264

Includes interest expense related to financing liabilities recorded in connection with the HLSS Transactions. As discussed in Note 1A — Restatement of Previously Issued Consolidated Financial Statements, we are restating our (2) previously reported consolidated operating results for the three and nine months ended September 30, 2013 to correct an error in the accounting applicable to the financing liabilities in connection with Rights to MSRs sold to HLSS.

Note 20 – Related Party Transactions

Ocwen's Executive Chairman of the Board of Directors, William C. Erbey, also serves as Chairman of the Board of Altisource, HLSS, Altisource Residential Corporation (Residential) and Altisource Asset Management Corporation (AAMC). As a result, he has obligations to Ocwen as well as to Altisource, HLSS, Residential and AAMC. As of September 30, 2014, Mr. Erbey owned or controlled approximately 14% of the common stock of Ocwen, approximately 29% of the common stock of Altisource, approximately 1% of the common stock of HLSS, approximately 28% of the common stock of AAMC and approximately 4% of the common stock of Residential. At September 30, 2014, Mr. Erbey also held 3,620,498 options to purchase Ocwen common stock, of which 3,220,498 were exercisable. On April 22, 2014, Mr. Erbey surrendered 1,000,000 of his options to purchase Ocwen common stock. During the second quarter of 2014, Ocwen recognized the remaining \$5.4 million of previously unrecognized compensation expense associated with these options as of the date of surrender. At September 30, 2014, Mr. Erbey held 873,501 options to purchase Altisource common stock and 87,350 options to purchase AAMC common stock, all of which were exercisable.

Our business is currently dependent on many of the services and products provided by Altisource under various long-term contracts, including the Services Agreements, Technology Products Services Agreements, Intellectual Property Agreements and the Data Center and Disaster Recovery Services Agreements. Under the Services

Agreements, Altisource provides various business process outsourcing services. Under the Technology Products Services Agreements and the Data Center and Disaster Recovery Services Agreements, Altisource provides technology products and support services. In addition, we have entered into (i) Support Services Agreements pursuant to which we and Altisource provide administrative and corporate services to each other and (ii) a Data Access and Services Agreement pursuant to which we make available to Altisource certain data from

our servicing portfolio in exchange for a per asset fee. The revenues and expenses related to our agreements with Altisource for the three and nine months ended September 30, 2014 and 2013 are set forth in the table below. Services provided by Altisource under the Services Agreements with Ocwen are generally charged to the borrower and/or loan investor. Accordingly, such services, while derived from our loan servicing portfolio, are not reported as expenses by Ocwen. These services include residential property valuation, residential property preservation and inspection services, title services and real estate sales services. We believe the rates charged for these services are market rates as they are materially consistent with one or more of the following: the rates Ocwen pays to or observes from other service providers and the fees we believe Altisource charges to other customers for comparable services. Ocwen and HLSS provide each other certain professional services including valuation analysis of potential MSR acquisitions, treasury management services and other similar services, licensing and regulatory compliance support services, risk management services and other similar services under a Professional Services Agreement. We have also entered into a long-term servicing and a support services agreement with Residential and AAMC, respectively.

The following table summarizes revenues and expenses related to our agreements with Altisource, HLSS, AAMC and Residential (and, as applicable, their subsidiaries) for the three and nine months ended September 30 and net amounts receivable or payable at the dates indicated:

	Three Months		Nine Months	
	2014	2013	2014	2013
Revenues and Expenses:				
Altisource:				
Revenues	\$10,716	\$5,185	\$30,007	\$15,390
Expenses	27,099	13,153	70,577	36,650
HLSS:				
Revenues	\$84	\$20	\$458	\$172
Expenses	345	386	1,590	1,615
AAMC				
Revenues	\$251	\$—	\$952	\$—
Residential				
Revenues	\$4,618	\$493	\$12,141	\$606
			September 30, 2014	December 31, 2013
Net Receivable (Payable)				
Altisource			\$(12,626)	\$(3,843)
HLSS			(17,812)	(59,505)
AAMC			278	943
Residential			—	50
			\$(30,160)	\$(62,355)

As disclosed in Note 4 – Fair Value, Ocwen has sold to HLSS certain Rights to MSRs and related servicing advances. During the nine months ended September 30, 2013, we completed HLSS Transactions relating to Rights to MSRs for \$109.8 billion of UPB and received \$388.5 million from the sale of Rights to MSRs and \$3.5 billion from the sale of the related advances. We did not complete any sales of Rights to MSRs to HLSS during the nine months ended September 30, 2014. If and when legal ownership of the MSRs is transferred to HLSS, OLS will subservice the MSRs pursuant to a subservicing agreement, as amended, with HLSS.

On March 3, 2014, in the first Ginnie Mae EBO Transaction, Ocwen sold Ginnie Mae EBO Loans and transferred the related servicing advances to HLSS Mortgage for \$612.3 million. On May 2, 2014, in connection with the second Ginnie Mae EBO Transaction, we transferred \$20.2 million of advances to HLSS SEZ LP. The transfer of advances in both transactions did not qualify as sales for accounting purposes. See Note 5 – Loans Held for Sale for additional information.

On June 26, 2014, we entered into a servicing agreement with HLSS Mortgage LP under which we agreed to service mortgage loans with a UPB of approximately \$396.9 million as of that date. On July 31, 2014, mortgage loans with a UPB of \$92.9 million were added under this agreement.

On July 14, 2014, holders of our Preferred Shares elected to convert the remaining shares into shares of common stock. On the same date, Ocwen repurchased all of the converted shares of common stock. The Preferred Shares were originally issued to certain private equity funds managed by WL Ross & Co. LLC (the Funds) as partial consideration in the acquisition of Homeward. Mr. Wilbur L. Ross, Jr. is the Chairman and Chief Executive Officer of WL Ross & Co. LLC and Invesco Private Capital, Inc. and the managing member of El Vedado, LLC, each of which directly or indirectly controls or manages the Funds. Mr. Ross has been a director of Ocwen since March 2013. See Note 13 – Mezzanine Equity and Note 14 – Equity for additional information.

In accordance with the terms of the Homeward merger agreement, we are entitled to assert retained liabilities claims on or before September 26, 2014, inclusive of reasonable liabilities in excess of the retained liabilities acquired and subject to certain additional procedures as set forth in the merger agreement. The aggregate amount of the indemnification recovery is limited to a maximum of \$75.0 million. We have recorded receivables of \$28.3 million and \$13.6 million at September 30, 2014 and December 31, 2013, respectively, related to losses expected to be indemnified through retained liabilities claims.

Note 21 – Regulatory Requirements

Regulation

Our business is subject to extensive regulation by federal, state and local governmental authorities, including the Consumer Financial Protection Bureau (CFPB), the Federal Trade Commission (FTC), the SEC and various state agencies that license, audit and conduct examinations of our mortgage servicing, origination and collection activities. From time to time, we also receive requests from federal, state and local agencies for records, documents and information relating to our policies, procedures and practices regarding our mortgage servicing, origination and collection activities. In addition, the GSEs and their conservator, the Federal Housing Finance Authority (FHFA), Ginnie Mae, various investors, non-Agency securitization trustees and others also subject us to periodic reviews and audits.

As a result of the current regulatory environment, we have faced and expect to continue to face increased regulatory and public scrutiny as well as stricter and more comprehensive regulation of our business. We continue to work diligently to assess and understand the implications of the regulatory environment in which we operate and the regulatory changes that we are facing. We devote substantial resources to regulatory compliance, while, at the same time, striving to meet the needs and expectations of our customers and clients. Our failure to comply with applicable federal, state and local consumer protection laws could lead to (i) loss of our licenses and approvals to engage in our servicing and lending businesses, (ii) governmental investigations and enforcement actions, (iii) administrative fines and penalties and litigation, (iv) civil and criminal liability, including class action lawsuits, (v) inability to raise capital and (vi) inability to execute on our business strategy, including our growth plans.

We must comply with a number of federal, state and local consumer protection laws including, among others, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, the Real Estate Settlement Procedures Act (RESPA), the Truth in Lending Act (TILA), the Fair Credit Reporting Act, the Servicemembers Civil Relief Act, the Homeowners Protection Act, the Federal Trade Commission Act and, more recently, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and state foreclosure laws. These statutes apply to loan origination, debt collection, use of credit reports, safeguarding of non-public personally identifiable information about our customers, foreclosure and claims handling, investment of and interest payments on escrow balances and escrow payment features, and mandate certain disclosures and notices to borrowers. These requirements can and do change as statutes and regulations are enacted, promulgated, amended, interpreted and enforced. The recent trend among federal, state and local lawmakers and regulators has been toward increasing laws, regulations and investigative proceedings with regard to residential real estate lenders and servicers.

We expect to continue to incur substantial ongoing operational and system costs in order to comply with these laws and regulations. Furthermore, there may be additional federal or state laws enacted that place additional obligations on

servicers and originators of residential mortgage loans.

There are a number of foreign laws and regulations that are applicable to our operations in India, Uruguay and the Philippines, including acts that govern licensing, employment, safety, taxes, insurance and the laws and regulations that govern the creation, continuation and the winding up of companies as well as the relationships between shareholders, our corporate entities, the public and the government in these countries. Non-compliance with the laws and regulations of India, Uruguay or the Philippines could result in (i) restrictions on our operations in these countries, (ii) fines, penalties or sanctions or (iii) reputational damage.

Capital Requirements

Our OLS, Homeward, Liberty and OMS subsidiaries are licensed to originate and/or service forward and reverse mortgage loans in the jurisdictions in which they operate. The licensed entities are subject to minimum net worth requirements in connection with these licenses. These minimum net worth requirements are unique to each state and type of license. Failure to meet these minimum capital requirements can result in the initiation of certain mandatory actions by federal, state, and foreign agencies that could have a material effect on our results of operations and financial condition. The most restrictive of these requirements is based on the outstanding UPB of our owned and subserviced portfolio and was \$753.1 million at September 30, 2014. Our licensed subsidiaries were in compliance with all of their capital requirements at September 30, 2014.

Homeward, OLS and Liberty are also parties to seller/servicer agreements with one or more of the GSEs, FHA, VA and Ginnie Mae. These seller/servicer agreements contain financial covenants that include capital requirements related to tangible net worth, as defined in each agreement, as well as extensive requirements regarding servicing, selling and other matters. To the extent that these requirements are not met, the counterparty may, at its option, utilize a variety of remedies ranging from sanctions or suspension to termination of the seller/servicer agreements, which would prohibit future originations or securitizations of forward or reverse mortgage loans or being an approved seller/servicer. We were in compliance with these net worth requirements at September 30, 2014.

Note 22 – Commitments and Contingencies

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

Litigation Contingencies

In the ordinary course of business, we are routinely a defendant in, or a party or potential party to, many threatened and pending legal proceedings, including proceedings brought on behalf of various classes of claimants. These proceedings are generally based on alleged violations of federal, state and local laws and regulations governing our mortgage servicing and lending activities, including wrongful foreclosure and eviction actions, allegations of wrongdoing in connection with lender-placed insurance arrangements, claims relating to our pre-foreclosure property preservation activities and claims related to our payment and other processing operations. In some of these proceedings, claims for substantial monetary damages are asserted against us. In our opinion, the resolution of the vast majority of these proceedings will not have a material effect on our financial condition, results of operations or cash flows.

In view of the inherent difficulty of predicting the outcome of any threatened or pending legal proceedings, particularly where the claimants seek very large or indeterminate damages or where the matters present novel legal theories or involve a large number of parties, we generally cannot predict what the eventual outcome of such proceedings will be, what the timing of the ultimate resolution will be, or what the eventual loss, if any, will be. Where we determine that a loss contingency is probable in connection with a pending or threatened legal proceeding and the amount of our losses can be reasonably estimated, we record an accrual for the losses. Excluding expenses of internal or external legal counsel, we have accrued \$19.1 million as of September 30, 2014 for losses relating to threatened and pending litigation pertaining to our mortgage servicing practices that we believe are probable and reasonably estimable based on current information regarding these matters. Where we determine that a loss is not probable but is reasonably possible or where a loss in excess of the amount accrued is reasonably possible, we

disclose an estimate of the amount of the loss or range of possible losses for the claim if a reasonable estimate can be made, unless the amount of such reasonably possible loss is not material to our financial position, results of operations or cash flows. It is possible that we will incur losses relating to threatened and pending litigation pertaining to our mortgage servicing practices that materially exceed the amount accrued. We cannot currently estimate the amount, if any, of reasonably possible losses above amounts that have been recorded at September 30, 2014.

Following our announcement on August 12, 2014 that we intended to restate our financial statements for the fiscal year ended December 31, 2013 and the quarter ended March 31, 2014, and amend our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, putative

securities fraud class action lawsuits have been filed against Ocwen and certain of its officers and directors regarding such restatements and amendments. Ocwen and the other defendants intend to vigorously defend such lawsuits. Additional lawsuits may be filed and, at this time, Ocwen is unable to predict the outcome of these lawsuits, the possible loss or range of loss, if any, associated with the resolution of these lawsuits or any potential impact they may have on us or our operations. If our efforts to defend these lawsuits are not successful, our business, financial condition and results of operations could be adversely affected.

In several recent court actions, mortgage loan sellers against whom repurchase claims have been asserted based on alleged breaches of representations and warranties are defending on various grounds including the expiration of statutes of limitation, lack of notice and opportunity to cure, and vitiation of the obligation to repurchase as a result of foreclosure or charge off of the loan. Ocwen has entered into tolling agreements with respect to its role as servicer for a very small number of securitizations and may enter into additional tolling agreements in the future. Other court actions have been filed recently against certain RMBS trustees alleging that the trustees breached their contractual and statutory duties by, among other things, failing to require the loan servicers to abide by the servicers' obligations and by failing to declare that certain servicing events of default under the applicable contracts allegedly occurred. Ocwen is a party in certain of these actions, is the servicer for certain securitizations involved in other such actions, and is the servicer for other securitizations as to which actions have been threatened by certificate holders. We intend to vigorously defend ourselves in lawsuits to which we have been named a party. Should Ocwen be made a party to other similar actions or should Ocwen be asked to indemnify any parties to such actions, we may need to defend allegations that we failed to service loans in accordance with applicable agreements and that such failures prejudiced the rights of repurchase claimants against loan sellers or otherwise diminished the value of the trust collateral. We believe that any such allegations would be without merit and, if necessary, would vigorously defend against them. At this time, we are unable to predict the ultimate outcome of these lawsuits, the possible loss or range of loss, if any, associated with the resolution of these lawsuits or any potential impact they may have on us or our operations. If, however, we were required to compensate claimants for losses related to the alleged loan servicing breaches, then our business, financial condition and results of operations could be adversely affected.

Regulatory Contingencies

We are subject to a number of pending federal and state regulatory investigations, examinations, inquiries, requests for information and other actions, including those discussed below.

In December 2012, we entered into a Consent Order with the New York Department of Financial Services (NY DFS) in which we agreed to the appointment of a Monitor to oversee our compliance with an Agreement on Servicing Practices. The Monitor began its work in 2013, and we continue to cooperate with the Monitor. We devote substantial resources to regulatory compliance, and we incur, and expect to continue to incur, significant ongoing costs with respect to compliance in connection with the Agreement on Servicing Practices and the work of the Monitor. In early February 2014, the NY DFS requested that Ocwen put an indefinite hold on an acquisition from Wells Fargo Bank, N.A. of MSRs and related servicing advances relating to a portfolio of approximately 184,000 loans with a UPB of approximately \$39.0 billion. The NY DFS expressed an interest in evaluating further our ability to manage additional servicing. We have agreed to place the transaction on indefinite hold. The NY DFS has also inquired about certain other aspects of our business, including certain aspects of our business dealings with Altisource, HLSS, AAMC and Residential, the interests of our directors and executive officers in these companies, an online auction business owned by Altisource, the role of Altisource in certain lender-placed insurance arrangements, the provisions contained in releases we use in connection with litigation settlements and certain erroneously dated borrower correspondence that we sent. We are cooperating with the NY DFS on these matters.

As noted above, an assessment regarding the ultimate outcome of these matters involves judgments about future events, actions and circumstances that are inherently uncertain. If we determine that a loss contingency is probable and the amount of our losses can be reasonably estimated, we record an accrual for the losses. We accrued \$100.0 million as of September 30, 2014 for losses that we believe are probable and reasonably estimable based on current information regarding these matters, although we have not reached any agreement with the NY DFS on any of the outstanding matters and cannot predict whether or when we may reach such a resolution. It is possible that we could incur losses that materially exceed this amount. We cannot currently estimate the amount, if any, of reasonably

possible losses above amounts that have been recorded at September 30, 2014.

Actions taken by the NY DFS, if any, regarding these matters could have a material impact on our business, reputation, financial condition, liquidity and results of operations.

On December 19, 2013, we reached an agreement, which was subject to court approval, involving the CFPB and various state attorneys general and other state agencies that regulate the mortgage servicing industry (Regulators). In February 2014, the United States District Court for the District of Columbia entered a Consent Order memorializing the settlement (the Ocwen National Mortgage Settlement). The settlement has four key elements:

A commitment by Ocwen to service loans in accordance with specified servicing guidelines and to be subject to oversight by an independent national monitor for three years. Ocwen was previously subject to substantially the same guidelines and oversight with respect to the portion of its servicing portfolio acquired from ResCap in early 2013, and those loans will also be subject to these provisions.

A payment of \$127.3 million, which includes a fixed amount for administrative expenses, to a consumer relief fund to be disbursed by an independent administrator to eligible borrowers. In May 2014, Ocwen satisfied this obligation with regard to the consumer relief fund. Pursuant to indemnification and loss sharing provisions of applicable acquisition documents, the former owners of certain servicing portfolios previously acquired by Ocwen are responsible for approximately \$60.4 million of that sum, of which \$49.0 million has already been paid to Ocwen.

A commitment by Ocwen to continue its principal forgiveness modification programs to delinquent and underwater borrowers, including underwater borrowers at imminent risk of default, in an aggregate amount of at least \$2.0 billion over three years. These and all of Ocwen's other loan modifications are designed to be sustainable for homeowners while providing a net present value for loan investors that is superior to that of foreclosure. Principal forgiveness as part of a loan modification is determined on a case-by-case basis in accordance with the applicable servicing agreement. Principal forgiveness does not involve an expense to Ocwen other than the operating expense incurred in arranging the modification, which is part of Ocwen's role as loan servicer.

Ocwen and the former owners of certain of the acquired servicing portfolios received from the Regulators comprehensive releases, subject to certain exceptions, from liability with respect to residential mortgage servicing, modification and foreclosure practices.

On April 28, 2014, we received a letter from the staff of the New York Regional Office of the SEC (the Staff) informing us that it was conducting an investigation relating to Ocwen and making a request for voluntary production of documents and information relating to the April 22, 2014 surrender of certain options to purchase our common stock by Mr. Erbey, our Executive Chairman, including the 2007 Equity Incentive Plan and the related option grant and surrender documents. On June 12, 2014, we received a subpoena from the SEC requesting production of various documents relating to our business dealings with Altisource, HLSS, AAMC and Residential and the interests of our directors and executive officers in these companies. Following the above-described announcement on August 12, 2014 that we intended to amend our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, received an additional subpoena in relation to such amendments. We are cooperating with the Staff on these matters.

One or more of the foregoing regulatory actions or our failure to comply with the commitments we have made with respect to such regulatory actions or other regulatory actions in the future against us of a similar or different nature could cause us to incur fines, penalties, settlement costs, damages, legal fees or other charges in material amounts or could impose additional requirements or restrictions on our activities. Any of these occurrences could increase our operating expenses and reduce our revenues, hamper our ability to grow or otherwise materially and adversely affect our business, reputation, financial condition and results of operations.

In addition to these matters, Ocwen receives periodic inquiries, both formal and informal in nature, from various federal and state agencies, including those made as part of regulatory oversight of our mortgage servicing, origination and collection activities. Such ongoing inquiries, including those into servicer foreclosure processes, could result in additional actions by state or federal governmental bodies, regulators or the courts with respect to our mortgage servicing, origination and collection activities and could result in an extension of foreclosure timelines, which may be applicable generally to the servicing industry or to us in particular. In addition, one of our match funded advance facilities contains provisions that limit the eligibility of advances to be financed based on the length of time that advances are outstanding, which, if such provisions applied, could adversely affect liquidity by reducing our average effective advance rate. Increases in the amount of advances and the length of time to recover advances, fines or increases in operating expenses, and decreases in the advance rate and availability of financing for advances could result in increased borrowings, reduced cash and higher interest expense which could negatively impact our liquidity and profitability.

Loan Repurchase Obligations and Other Contingencies

We have exposure to representation, warranty and indemnification obligations because of our lending, sales and securitization activities and our acquisitions to the extent we assume one or more of these obligations and in connection with our servicing practices. In connection with our lending, sales and securitization activities, our exposure primarily relates to representations and warranties concerning the proper origination and insurance of the loans. In connection with our servicing practices, claims may be made against us by contractual counterparties, such as trustees, master servicers and insurers, or by other third parties. At September 30, 2014 and 2013, we had provided or assumed representation and warranty obligations in connection with \$83.4 billion and \$89.4 billion of UPB, respectively, covering both forward and reverse mortgage loans. At September 30, 2014, we had outstanding representation and warranty repurchase demands of \$108.2 million UPB (578 loans). At September 30, 2013, the outstanding UPB of representation and warranty repurchase demands was \$113.0 million (534

loans). We review each demand and monitor through resolution, primarily through rescission, loan repurchase or make-whole payment.

The following table presents the changes in our liability for representation and warranty obligations, compensatory fees for foreclosures that may ultimately exceed investor timelines and related indemnification obligations for the nine months ended September 30, 2014 and 2013:

	2014	2013
Beginning balance	\$192,716	\$38,140
Provision for representation and warranty obligations	5,076	18,116
New production reserves	820	1,055
Obligations assumed in connection with MSR and servicing business acquisitions	—	189,742
Charge-offs and other (1)	(54,776)	(40,979)
Ending balance	\$143,836	\$206,074

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

We believe that it is reasonably possible that losses beyond amounts currently recorded for potential representation and warranty obligations and other claims described above could occur, and such losses could have an adverse impact on our results of operations, financial condition or cash flows. However, based on currently available information, we are unable to estimate a range of reasonably possible losses above amounts that have been recorded at September 30, 2014.

Note 23 – Subsequent Events

During the period October 1, 2014 through October 30, 2014, we completed the repurchase of 1,988,673 shares of Ocwen common stock in the open market for a total purchase price of \$47.0 million.

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF

2. OPERATIONS (Dollars in thousands, except per share amounts and unless otherwise indicated)

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as other portions of this Form 10-Q, may contain certain statements that constitute forward-looking statements within the meaning of the federal securities laws. You can identify forward-looking statements by terminology such as "may," "will," "should," "could," "intend," "consider," "expect," "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the ne terms or other comparable terminology. 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. You should not place undue reliance on any forward-looking statement, and you should consider all uncertainties and risks discussed or referenced in this report, including those under "Forward-Looking Statements" and Item 1A, Risk Factors, as well as those provided in any subsequent SEC filings.

RESTATEMENT

On August 12, 2014, our Board of Directors and the Audit Committee of the Board of Directors (Audit Committee), after consultation with Deloitte & Touche LLP, the Company's independent registered public accounting firm, determined that the Company's consolidated financial statements for the fiscal year ended December 31, 2013 and the quarter ended March 31, 2014 could no longer be relied upon as being compliant with generally accepted accounting standards in the United States (GAAP). Consequently, we have revised certain financial results for the 2013 periods presented in this Form 10-Q. Because these revisions represent corrections to our prior period financial results, the revisions are considered to be a "restatement" under GAAP. Accordingly, the revised 2013 financial information included in this Form 10-Q has been identified as "As Restated." Management's Discussion and Analysis of Financial Condition and Results of Operations has been revised to give effect to the restatement of our Consolidated Financial Statements for the year ended December 31, 2013 to correct an error in the accounting for certain financing liabilities. See Note 1A — Restatement of Previously Issued Consolidated Financial Statements to the unaudited Consolidated Financial Statements for additional information.

OVERVIEW

Ocwen Financial Corporation is a financial services holding company which, through its subsidiaries, is one of the largest mortgage companies in the United States. We are the fourth largest mortgage servicer in the United States and are a leader in the servicing industry in helping keep borrowers in their homes through foreclosure prevention. Ocwen has completed nearly 532,000 loan modifications since January 2008 (through September 30, 2014) and is an industry leader in completing sustainable loan modifications as evidenced by the number of completed modifications that remain less than 90 days delinquent. Through our Homeward and Liberty lending operations, we purchased or originated 5,505 and 1,607 forward and reverse mortgage loans with a UPB of \$1.1 billion and \$168.0 million, respectively, during the third quarter of 2014.

The U.S. economy continues to improve, albeit slowly. An improving economy generally serves to increase the value of our portfolio of MSRs by reducing delinquencies and lowering the constant repayment rate (CPR) on our servicing portfolio. We also anticipate a rising interest rate environment to lower CPR due to lower refinancing activity, primarily in our performing conventional servicing portfolio (our non-Agency portfolio has not historically experienced significant voluntary prepayments). As such, higher interest rates are expected to positively impact our servicing portfolio.

The recent trend among federal, state and local lawmakers and regulators has been toward increasing laws, regulations and investigative proceedings with regard to residential real estate lenders and servicers. This increased oversight has significantly affected us and the industry in general in recent years. Actions by regulators have the potential to materially impact our business, operations and growth prospects, as well as influence perceptions of us by borrowers, mortgage loan investors, lenders, credit rating agencies and other regulators, among others, which in turn could impact our financial condition, liquidity and results of operations. We believe this oversight has had the effect of significantly impacting decisions by potential sellers of MSRs and has contributed to a marked reduction in industry-wide MSR sales activity in comparison to recent years. Despite this slowdown, we believe that several macro factors exist that

provide opportunities for growth for us.

We believe the heightened regulatory environment, while challenging in the near-term due to increased operating and other costs and potentially longer timelines for servicing transfers, has created a long-term opportunity for Ocwen. Many banks viewed servicing of non-performing loans as unprofitable even before the recent changes in regulatory compliance increased their cost to service. As a result, we believe the increasing regulatory burden amplifies an already strong desire on the part of the banks to shift away from credit-challenged products. For non-bank servicers, a more uniform regulatory environment levels the playing field, ensuring all market participants are held to the same high standards.

We expect additional servicing assets and platforms to come to market as banks seek to sell or subservice non-core servicing assets. In addition, banks have legacy mortgage loan portfolios that they may look to sell or subservice. Small

specialty servicers may also view a sale and exit as their highest return alternative, especially given the increasingly high fixed costs associated with complying with state and federal servicing rules and regulations.

Several factors suggest that the demand for alternative credit products to support homeownership is growing. We believe that a large percentage of American households would be unable to qualify for a new mortgage in the current environment. This compares to a pre-financial crisis estimate that 70% of households could obtain mortgage loan financing in either the prime or non-prime lending market. Expanding the credit matrix has been solidly supported by community groups with whom we are in close contact. While we do not have any interest at this time in originating non-Qualified Mortgage (QM) loans, given the penalties that an originator could incur, we do believe that there are innovative products that could serve this underserved market without violating the QM rules. In most cases, these products will require a flexible servicing platform that can manage the risks associated with non-prime or credit-impaired servicing, an area in which we believe we have strong competitive advantages.

Our lending business has three major production channels, forward direct, forward wholesale/correspondent and reverse direct/wholesale. The main source of loan volume for the forward direct retail channel has been refinance activity from the existing Ocwen servicing portfolio. We plan to increase our marketing efforts beyond our current portfolio. Our reverse mortgage business is a market leader and, with strong operational and sales capabilities, future growth and market share capture is contemplated. We are also focused on significant expansion of our forward wholesale/correspondent channel.

We continue to evaluate new opportunities to use our capital to capture attractive returns for our shareholders. In addition to growing our core servicing business, we are also interested in expanding into adjacent or complementary businesses in which we can capture competitive advantages and achieve superior returns. Our general requirements are as follows: New opportunities must align with long-term macro trends. We look for opportunities that can add meaningfully to our long-term growth rate and return on equity. We will only enter a business if we feel we can capture and maintain a long-term competitive advantage. For example, our advantage could be related to our operating efficiencies, our cost of capital or our tax structure, but we must view it as meaningful and sustainable. In addition, any business we enter must have a demonstrated ability to generate positive cash flows with manageable risk, particularly liquidity and interest rate risk. We prefer businesses that can be structured efficiently around repetitive processes where we can utilize our operational expertise and innovation to create best-in-class practices. Finally, any business we add to our platform must not jeopardize our franchise or dilute our core servicing business.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the related notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q and with our consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operation appearing in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2013.

Operations Summary

The following table summarizes our consolidated operating results for the three and nine months ended September 30 and includes the results of acquired businesses from their acquisition dates.

	Three Months		\$ Change	% Change	Nine Months		\$ Change	% Change	
	2014	2013 (As Restated)			2014	2013 (As Restated)			
Consolidated:									
Revenue:									
Servicing and subservicing fees	\$465,964	\$483,267	\$(17,303)	(4)%	\$1,448,096	\$1,333,392	\$114,704	9	%
Gain on loans held for sale, net	27,218	28,262	(1,044)	(4)	110,041	72,912	37,129	51	
Other	20,516	19,711	805	4	59,896	76,014	(16,118)	(21)	
Total revenue	513,698	531,240	(17,542)	(3)	1,618,033	1,482,318	135,715	9	
Operating expenses	455,039	346,260	108,779	31	1,149,696	960,418	189,278	20	
Income from operations	58,659	184,980	(126,321)	(68)	468,337	521,900	(53,563)	(10)	
Other income (expense):									
Interest expense	(133,049)	(116,885)	(16,164)	14	(409,129)	(319,564)	(89,565)	28	
Other, net	2,124	1,350	774	57	17,406	(3,441)	20,847	(606)	
Other expense, net	(130,925)	(115,535)	(15,390)	13	(391,723)	(323,005)	(68,718)	21	
Income (loss) before income taxes	(72,266)	69,445	(141,711)	(204)	76,614	198,895	(122,281)	(61)	
Income tax expense (benefit)	2,992	8,873	(5,881)	(66)	24,374	23,752	622	3	
Net income (loss)	(75,258)	60,572	(135,830)	(224)	52,240	175,143	(122,903)	(70)	
Net loss attributable to non-controlling interests	(123)	—	(123)	n/m	(165)	—	(165)	n/m	
Net income (loss) attributable to Ocwen stockholders	(75,381)	60,572	(135,953)	(224)	52,075	175,143	(123,068)	(70)	
Preferred stock dividends	—	(1,446)	1,446	(100)	(1,163)	(4,450)	3,287	(74)	
Deemed dividend related to beneficial conversion feature of preferred stock	(808)	(4,401)	3,593	(82)	(1,639)	(6,573)	4,934	(75)	
Net income (loss) attributable to Ocwen common stockholders	\$(76,189)	\$54,725	\$(130,914)	(239)%	\$49,273	\$164,120	\$(114,847)	(70)%	
Segment income (loss) before income taxes:									
Servicing	\$44,518	\$71,198	\$(26,680)	(37)%	\$212,669	\$247,042	\$(34,373)	(14)%	
Lending	6,608	5,665	943	17	14,242	20,813	(6,571)	(32)	
	(123,392)	(7,418)	(115,974)	n/m	(150,297)	(68,960)	(81,337)	118	

Corporate Items and
Other

\$(72,266) \$69,445 \$(141,711) (204)% \$76,614 \$198,895 \$(122,281) (61)%

n/m: not meaningful

Three Months Ended September 30, 2014 versus 2013. Servicing and subservicing fees for the third quarter of 2014 were lower than the third quarter of 2013 primarily as a result of declines in completed modifications and REO sales, offset in part by an improvement in delinquencies and an increase in the proportion of the average UPB of the portfolio attributable to servicing contracts.

Gain on loans held for sale decreased in the third quarter of 2014 compared to the third quarter of 2013 largely due to a decline in forward loan origination volume reflecting our decision in the fourth quarter of 2013 to scale back correspondent channel production. Margin rates on forward lending remained substantially the same for the third quarter of 2014 as compared to the third quarter of 2013.

Operating expenses increased during the third quarter of 2014 as compared to the third quarter of 2013:

• Professional services were \$141.6 million higher for the three months ended September 30, 2014. As disclosed in Note 22 – Commitments and Contingencies to the unaudited Consolidated Financial Statements, we established a

liability of \$100.0 million at September 30, 2014 for estimated losses related to certain regulatory contingencies. Higher costs related to litigation, regulatory monitoring and compliance also contributed to the increase in professional services expense.

• Servicing and origination expenses increased largely due to unrecoverable litigation costs and advances in connection with our Agency servicing portfolio.

• Amortization of MSR's declined \$18.4 million due to a change in accounting estimate in the first quarter of 2014 related to an increase in estimated net servicing income primarily as a result of lower actual prepayment speeds.

• Compensation and benefits declined \$18.2 million primarily as a result of progress integrating our servicing platforms which reduced U.S.-based headcount.

Provisions for bad debts decreased \$12.6 million due to the reversal of previously established allowances as a result of revised collection assumptions on advances, and a reduction in Ginnie Mae loss provisions resulting from the decline in delinquent loans.

• Servicing-related outsourcing expenses declined by \$7.4 million as we transition loans to the REALServicing platform.

Interest expense for the third quarter of 2014 increased as compared to the third quarter of 2013 driven by an increase in our borrowings, including the HLSS Transactions completed in 2013, the OASIS transaction, the Ginnie Mae EBO Transactions, our issuance of the \$350.0 million Senior Unsecured Notes in May 2014 and higher borrowings under our match funded advance facilities.

Nine Months Ended September 30, 2014 versus 2013. Servicing and subservicing fees for the nine months ended September 30, 2014 were higher than the nine months ended September 30, 2013 primarily as a result of a 9% increase in the total average serviced portfolio and changes in the portfolio mix, with a 27% higher servicing UPB and a 45% lower subservicing UPB in the nine months ended September 30, 2014. Servicing and subservicing fees for the nine months ended September 30, 2014 includes a full nine months of revenue attributed to the ResCap Acquisition, which settled on February 15, 2013.

Gain on loans held for sale from our lending operations increased in the nine months ended September 30, 2014 as a result of the shift in the forward origination business mix from the lower margin correspondent channel to the higher margin direct channel which more than offset the effects of a decline in funded volume. Gains on the sale of modified government insured loans increased because the nine months ended September 30, 2014 includes a full nine months of activity as this business was acquired as part of the ResCap Acquisition. Gains recognized during the nine months ended September 30, 2014 include gains recognized in connection with the Ginnie Mae EBO Transactions completed during the first and second quarters.

Operating expenses increased during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013:

Professional services increased \$113.5 million primarily because of the \$100.0 million charge we recognized in the third quarter of 2014 for estimated losses related to certain regulatory contingencies. In addition, regulatory monitoring and compliance costs were higher during the nine months ended September 30, 2014. Partially offsetting these increases, the nine months ended September 30, 2013 includes the \$52.8 million loss we recognized during the second quarter of 2013 in connection with the Ocwen National Mortgage Settlement.

Provisions for bad debts increased \$27.2 million largely in connection with a write-down of receivables during the first quarter related to a subservicing portfolio that was transferred and unrecoverable litigation costs and advances in connection with our Agency servicing.

We recognized losses of \$13.1 million in connection with changes in the value of our fair value elected MSR's during the nine months ended September 30, 2014 as primary mortgage rates decreased and recognized gains of \$11.7 million during the nine months ended September 30, 2013 as primary mortgage rates increased. Other servicing and origination expenses increased primarily because of additional unrecoverable litigation costs and advances in connection with our Agency servicing.

• Technology and communication expense increased by \$18.5 million largely because of costs to maintain the ResCap servicing platform and costs related to systems enhancements for the REALServicing platform.

Compensation and benefits declined \$14.6 million primarily as a result of progress integrating our servicing platforms which reduced US-based headcount, offset in part by the accelerated recognition of \$5.4 million of expense during the second quarter of 2014 related to surrendered stock options.

Amortization of MSRs decreased \$11.4 million as a result of the effects of the change in accounting estimate in the first quarter of 2014, offset in part by asset and platform acquisitions throughout 2013.

Until we completed the integration of the ResCap platform onto the REALServicing platform, we continued to incur the operating costs of maintaining the ResCap platform. We completed the integration in October 2014 with the final transfer of the remaining loans and expect our operating expenses to decline. We began to see a decline in these operating costs during the

second quarter of 2014. Also, operating expenses for the nine months ended September 30, 2014 includes a full nine months of costs attributed to the ResCap Acquisition which closed February 15, 2013.

Interest expense for the nine months ended September 30, 2014 increased primarily as a result of the increase in borrowings. The average balance of financing liabilities increased as a result of HLSS Transactions completed during 2013, the OASIS transaction and the Ginnie Mae EBO Transactions. Our issuance of the \$350.0 million Senior Unsecured Notes in May 2014 also contributed to the increase in borrowings and interest expense. These increases in interest were partly offset by a decline in interest on match funded liabilities as we replaced facilities in 2013 with new facilities that featured lower spreads over LIBOR. In addition, 2013 included additional interest expense resulting from the accelerated write-off of facility costs because the HLSS Transactions resulted in the early termination of match funded facilities and payments made under interest rate swaps which were terminated in May 2013.

For the nine months ended September 30, 2014, we recorded a net gain on the extinguishment of debt of \$2.6 million versus a loss of \$12.6 million for the nine months ended September 30, 2013. We recognized \$17.0 million of losses on debt redemption during the first quarter of 2013 primarily related to our early repayment of the balance outstanding on a previous SSTL with the proceeds from a new SSTL that we entered into on February 14, 2013 in connection with the ResCap Acquisition. See Note 11 – Borrowings to the unaudited Consolidated Financial Statements for additional information.

The effective tax rate for the nine months ended September 30, 2014 increased to 31.8% as compared to 11.9% for the nine months ended September 30, 2013. We evaluate our effective tax rate quarterly and derive a new annual estimate if circumstances warrant. Ocwen avails itself of certain tax benefits in the USVI and other international jurisdictions, which produce a favorable effect on our effective tax rate. To the extent that our pre-tax earnings are weighted more heavily in these lower tax rate jurisdictions, the effective tax rate decreases. If a greater proportion of our pre-tax earnings are earned in higher tax rate jurisdictions, the effective tax rate increases. In evaluating our latest projections, we determined that Ocwen will generate lower pre-tax earnings for 2014 with a higher percentage of such earnings in higher tax rate jurisdictions than we had previously anticipated. These changes in the third quarter of 2014 resulted in an increase in the annual estimated effective tax rate of approximately 17.4% before any discrete items. Because this new rate must be applied to our year-to-date earnings, the increase in the annual estimated effective tax rate has a disproportionate impact on the effective tax rate for the current quarter.

Financial Condition Summary

The following table summarizes our consolidated balance sheets at the dates indicated.

	September 30, 2014	December 31, 2013 (As Restated)	\$ Change	% Change	
Cash	\$299,163	\$178,512	\$120,651	68	%
Mortgage servicing rights (\$101,948 and \$116,029 carried at fair value)	1,958,766	2,069,381	(110,615)	(5))
Advances and match funded advances	3,346,865	3,443,215	(96,350)	(3))
Loans held for sale (\$335,950 and \$503,753 carried at fair value)	407,887	566,660	(158,773)	(28))
Loans held for investment - reverse mortgages, at fair value	1,315,324	618,018	697,306	113	
Goodwill	420,201	420,201	—	—	
Other	607,434	631,016	(23,582)	(4))
Total assets	\$8,355,640	\$7,927,003	\$428,637	5	%
Total Assets by Segment:					
Servicing	\$6,059,359	\$6,295,976	\$(236,617)	(4))%
Lending	1,706,964	1,195,812	511,152	43	
Corporate Items and Other	589,317	435,215	154,102	35	
	\$8,355,640	\$7,927,003	\$428,637	5	%
Match funded liabilities	\$2,035,639	\$2,364,814	\$(329,175)	(14))%
Financing liabilities (\$1,854,949 and \$1,249,380 carried at fair value)	2,057,490	1,266,973	790,517	62	
Other secured borrowings	1,666,427	1,777,669	(111,242)	(6))
Senior unsecured notes	350,000	—	350,000	n/m	
Other	631,641	644,595	(12,954)	(2))
Total liabilities	6,741,197	6,054,051	687,146	11	
Mezzanine equity	—	60,361	(60,361)	(100))
Total Ocwen stockholders' equity	1,611,752	1,812,591	(200,839)	(11))
Non-controlling interest in subsidiaries	2,691	—	2,691	n/m	
Total equity	1,614,443	1,812,591	(198,148)	(11))
Total liabilities, mezzanine equity and equity	\$8,355,640	\$7,927,003	\$428,637	5	%
Total Liabilities by Segment:					
Servicing	\$4,655,411	\$4,777,698	\$(122,287)	(3))%
Lending	1,624,127	1,107,413	516,714	47	
Corporate Items and Other	461,659	168,940	292,719	173	
	\$6,741,197	\$6,054,051	\$687,146	11	

n/m: not meaningful

MSRs decreased as a result of amortization of \$186.1 million and a \$13.1 million decline in fair value offset in part by \$39.7 million of acquisitions completed during the nine months ended September 30, 2014 and new capitalization of \$50.5 million generated from our lending platform and the Ginnie Mae EBO Transactions. Loans held for investment increased as a result of our reverse mortgage securitizations which do not qualify for sales accounting.

Financing liabilities increased as a result of our reverse mortgage securitizations accounted for as secured financings and the OASIS transaction. Other secured borrowings declined due to a reduction in borrowings under our mortgage loan warehouse facilities consistent with the decline in the balance of loans held for sale. We issued \$350.0 million Senior Unsecured Notes with an interest rate of 6.625% on May 12, 2014. These notes are general senior unsecured obligations and will mature on May 15, 2019. We used a portion of the proceeds from the Senior Unsecured Notes to repurchase common stock and to pay down match funded liabilities. Other liabilities declined primarily due to a net settlement of \$66.9 million paid in May 2014 in connection with the Ocwen National Mortgage Settlement and \$54.2 million paid in connection with the ResCap Acquisition.

On July 14, 2014, holders of our Preferred Shares elected to convert the remaining 62,000 shares into 1,950,296 shares of common stock.

We completed the repurchase of 7,970,353 common shares in the open market for \$253.4 million during the nine months ended September 30, 2014 under the stock repurchase plan announced on October 31, 2013. In addition, Ocwen paid \$72.3 million to repurchase all 1,950,296 shares of Ocwen common stock that were issued upon the conversion of the remaining Preferred Shares.

SEGMENT RESULTS OF OPERATIONS

Servicing and Lending are our primary lines of business.

Our Servicing business is primarily comprised of our core residential mortgage servicing business and currently accounts for the majority of our total revenues. Our servicing clients include some of the largest financial institutions in the U.S., including Fannie Mae, Freddie Mac and Ginnie Mae. We are a leader in the servicing industry in foreclosure prevention and loss mitigation that helps families stay in their homes and improves financial outcomes for investors.

Servicing involves the collection and remittance of principal and interest payments received from borrowers, the administration of mortgage escrow accounts, the collection of insurance claims, the management of loans that are delinquent or in foreclosure or bankruptcy, including making servicing advances, evaluating loans for modification and other loss mitigation activities and, if necessary, foreclosure referrals and the sale of the underlying mortgaged property following foreclosure (real estate owned or REO) on behalf of investors or other servicers. Master servicing involves the collection of payments from servicers and the distribution of funds to investors in mortgage and asset-backed securities and whole loan packages. We earn contractual monthly servicing fees pursuant to servicing agreements (which are typically payable as a percentage of UPB) as well as ancillary fees in connection with owned MSRs.

We also earn fees under both subservicing and special servicing arrangements with banks and other institutions that own the MSRs. The owners of MSRs may choose to hire Ocwen as a subservicer or special servicer instead of servicing the MSRs themselves for a variety of reasons, including not having a servicing platform or not having the necessary capacity or expertise to service some or all of their MSRs. In a subservicing context, Ocwen may be engaged to perform all of the servicing functions previously described or it could be a limited engagement (e.g., sub-servicing only non-defaulted mortgage loans). Ocwen is also engaged as a special servicer. These engagements typically involve portfolios of defaulted mortgage loans, which require more work than performing mortgage loans and involve working out modifications with borrowers or taking properties through the foreclosure process. We typically earn subservicing and special servicing fees either as a percentage of UPB or on a per loan basis.

In our Lending business, we originate and purchase conventional and government insured forward mortgage loans through the direct, wholesale and correspondent lending channels of our Homeward operations. We also originate and purchase Home Equity Conversion Mortgages (HECM or reverse mortgage loans) insured by FHA through our Liberty operations. We leverage our direct forward mortgage lending channel to pursue refinancing opportunities from our servicing portfolio, where permitted. After origination, we package and sell the loans in the secondary mortgage market, through GSE and Ginnie Mae guaranteed securitizations and whole loan transactions. We typically retain the associated MSRs.

Servicing

The following table presents selected results of operations of our Servicing segment for the three and nine months ended September 30. The amounts presented are before the elimination of balances and transactions with our other segments:

	Three Months			Nine Months			
	2014	2013 (As Restated)	% Change	2014	2013 (As Restated)	% Change	
Revenue							
Servicing and subservicing fees:							
Residential	\$460,861	\$478,381	(4)%	\$1,434,721	\$1,316,981	9 %	
Commercial	4,739	4,123	15	12,221	12,086	1	
	465,600	482,504	(4)	1,446,942	1,329,067	9	
Gain on loans held for sale, net	9,937	3,660	172	47,800	23,227	106	
Other revenues	9,766	10,138	(4)	31,864	29,578	8	
Total revenue	485,303	496,302	(2)	1,526,606	1,381,872	10	
Operating expenses							
Compensation and benefits	65,466	82,791	(21)	206,780	243,946	(15)	
Amortization of mortgage servicing rights	60,689	79,035	(23)	185,263	197,287	(6)	
Servicing and origination	47,093	30,748	53	118,411	76,864	54	
Technology and communications	36,378	30,330	20	96,790	84,411	15	
Professional services	36,929	6,621	458	60,261	21,989	174	
Occupancy and equipment	21,418	26,441	(19)	69,879	62,708	11	
Other operating expenses	45,991	49,688	(7)	182,614	108,440	68	
Total operating expenses	313,964	305,654	3	919,998	795,645	16	
Income from operations	171,339	190,648	(10)	606,608	586,227	3	
Other income (expense)							
Interest expense	(124,106)	(113,678)	9	(391,122)	(309,606)	26	
Loss on debt redemption	—	—	n/m	—	(17,030)	(100)	
Other, net	(2,715)	(5,772)	(53)	(2,817)	(12,549)	(78)	
Total other expense, net	(126,821)	(119,450)	6	(393,939)	(339,185)	16	
Income before income taxes	\$44,518	\$71,198	(37)%	\$212,669	\$247,042	(14)%	
n/m: not meaningful							

The following table provides selected operating statistics at September 30:

	2014	2013	% Change	
Residential Assets Serviced				
Unpaid principal balance:				
Performing loans (1)	\$356,287,572	\$371,279,813	(4))%
Non-performing loans	47,894,124	56,846,036	(16))
Non-performing real estate	7,097,918	6,693,577	6	
Total residential assets serviced (2)	\$411,279,614	\$434,819,426	(5))%
Conventional loans (3)	\$198,260,020	\$184,166,970	8	%
Government insured loans	41,021,612	46,349,310	(11))
Non-Agency loans	171,997,982	204,303,146	(16))
Total residential loans serviced	\$411,279,614	\$434,819,426	(5))%
Percent of total UPB:				
Servicing portfolio	87.8	% 83.4	% 5	%
Subservicing portfolio	12.2	% 16.6	% (27))
Non-performing residential assets serviced (4)	13.4	% 14.6	% (8))%
Number of:				
Performing loans (1)	2,285,143	2,431,084	(6))%
Non-performing loans	233,184	328,546	(29))
Non-performing real estate	37,413	36,521	2	
Total number of residential assets serviced (2)	2,555,740	2,796,151	(9))%
Conventional loans (3)	1,134,598	1,166,657	(3))%
Government insured loans	273,028	292,377	(7))
Non-Agency loans	1,148,114	1,337,117	(14))
Total residential loans serviced	2,555,740	2,796,151	(9))%
Percent of total number:				
Servicing	88.2	% 80.9	% 9	%
Subservicing	11.8	% 19.1	% (38))%
Non-performing residential assets serviced (4)	10.6	% 13.1	% (19))%

The following table provides selected Servicing operating statistics for the three and nine months ended September 30:

	Three Months			Nine Months			
	2014	2013	% Change	2014	2013	% Change	
Residential Assets Serviced							
Average UPB of residential assets serviced:							
Servicing	\$370,529,580	\$345,662,822	7	% \$383,568,861	\$301,982,054	27	%
Subservicing	51,918,021	77,494,904	(33)	) 57,030,164	103,395,969	(45))
	\$422,447,601	\$423,157,726	—	% \$440,599,025	\$405,378,023	9	%

	Three Months			Nine Months			
	2014	2013	% Change	2014	2013	% Change	
Prepayment speed (average CPR)	12.8	% 15.8	% (19)%	12.3	% 18.2	% (32)%	
Average number of residential assets serviced:							
Servicing	2,376,473	2,165,082	10 %	2,401,709	1,884,850	27 %	
Subservicing	350,218	564,233	(38)	368,561	670,400	(45)	
	2,726,691	2,729,315	— %	2,770,270	2,555,250	8 %	
Residential Servicing and Subservicing Fees							
Loan servicing and subservicing fees:							
Servicing	\$329,340	\$333,363	(1)%	\$1,031,756	\$903,253	14 %	
Subservicing	30,721	35,189	(13)	95,379	91,508	4	
	360,061	368,552	(2)	1,127,135	994,761	13	
HAMP fees	37,634	40,213	(6)	110,995	117,681	(6)	
Late charges	27,455	30,155	(9)	96,517	85,211	13	
Loan collection fees	8,643	8,375	3	25,535	22,476	14	
Custodial accounts (float earnings)	1,756	576	205	4,979	4,184	19	
Other	25,312	30,510	(17)	69,560	92,668	(25)	
	\$460,861	\$478,381	(4)%	\$1,434,721	\$1,316,981	9 %	
Number of Completed Modifications							
HAMP	8,862	15,273	(42)%	31,494	34,443	(9)%	
Non-HAMP	12,681	16,778	(24)	45,973	49,928	(8)	
Total	21,543	32,051	(33)%	77,467	84,371	(8)%	

	Three Months				Nine Months			
	2014	2013	% Change		2014	2013	% Change	
Financing Costs								
Average balance of advances and match funded advances	\$3,261,378	\$1,741,506	87	%	\$3,352,908	\$2,944,769	14	%
Average borrowings								
Match funded liabilities	1,953,463	258,110	657		2,102,060	1,759,173	19	
Financing liabilities	830,453	671,296	24		788,262	471,291	67	
Other secured borrowings	1,296,691	1,344,913	(4)	)	1,314,483	1,131,970	16	
Interest expense on borrowings								
Match funded liabilities	15,097	10,774	40		46,762	65,774	(29))
Financing liabilities	88,361	81,034	9		281,842	184,851	52	
Other secured borrowings	18,151	18,359	(1)	)	54,184	50,252	8	
Effective average interest rate								
Match funded liabilities (5)	3.09	% 16.70	% (81)	)	2.97	% 4.69	% (37))
Financing liabilities	42.56	% 48.29	% (12)	)	47.67	% 52.30	% (9))
Other secured borrowings	5.60	% 5.46	% 3		5.50	% 5.92	% (7))
Facility costs included in interest expense	\$5,483	\$8,077	(32)	)	\$14,715	\$15,757	(7))
Discount amortization included in interest expense	331	330	—		661	1,082	(39))
Average 1-month LIBOR	0.15	% 0.19	% (21)	)	% 0.15	% 0.19	% (21))
Average Employment								
India and other	6,748	5,120	32	%	6,276	4,860	29	%
U. S.	2,445	3,275	(25)	)	2,569	3,386	(24))
Total	9,193	8,395	10		8,845	8,246	7	

Collections on loans serviced for others \$18,619,457 \$22,346,482 (17)% \$57,446,570 \$66,846,411 (14)%

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

(2) Includes 729,554 and 951,384 subprime loans with a UPB of \$123.3 billion and \$147.7 billion at September 30, 2014 and September 30, 2013, respectively.

(3) Includes 242,981 and 182,963 jumbo loans with a UPB of \$50.7 billion and \$17.9 billion at September 30, 2014 and September 30, 2013, respectively, that we service or subservice.

- (4) Excludes Freddie Mac loans serviced under special servicing agreements where we have no obligation to advance. The effective average interest rate on match funded liabilities during the three months ended September 30, 2013 was impacted by the accelerated write-off of \$6.0 million of deferred financing costs, principally related to the
- (5) early repayment of three advance financing facilities in connection with the July 1, 2013 HLSS Transaction. Excluding this write-off, the average effective rate for the quarter was 7.46%.

The decline in collections on loans serviced for others for the three months ended September 30, 2014 as compared to 2013 primarily reflects a decline in average CPR and loan modifications offset in part by higher collections due to lower delinquencies.

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

	Amount of UPB		Count	
	2014	2013	2014	2013
Portfolio at January 1	\$464,651,332	\$203,665,716	2,861,918	1,219,956
Additions	4,507,762	276,366,219	28,972	1,773,522
Servicing transfers	(4,708,016)	—	(30,206)	—
Runoff	(14,880,482)	(12,960,274)	(97,297)	(61,872)
Portfolio at March 31	449,570,596	467,071,661	2,763,387	2,931,606
Additions	1,498,220	5,314,631	7,862	23,735
Servicing transfers	(1,870,009)	(10,933,630)	(8,349)	(49,356)
Runoff	(14,078,959)	(25,197,280)	(73,793)	(120,060)
Portfolio at June 30	\$435,119,848	\$436,255,382	2,689,107	2,785,925
Additions	941,003	38,739,521	5,315	196,251
Servicing transfers	(12,188,206)	(22,259,926)	(76,339)	(94,301)
Runoff	(12,593,031)	(17,915,551)	(62,343)	(91,724)
Portfolio at September 30	\$411,279,614	\$434,819,426	2,555,740	2,796,151

Three Months Ended September 30, 2014 versus 2013. Total residential servicing and subservicing fees for the third quarter of 2014 were \$460.9 million, a 4% decrease as compared to the third quarter of 2013. This decline is primarily due to a decline in completed modifications and REO sales, offset in part by an increase in the proportion of the portfolio attributable to servicing contracts (for which we earn higher fees) and a reduction in the proportion of the portfolio representing non-performing loans. Annualized loan servicing and subservicing fees as a percentage of UPB declined to 0.34% of average UPB in the third quarter of 2014 as compared to 0.35% in the third quarter of 2013.

An increase or decrease in modifications typically results in higher or lower revenue for the period. When we return a loan to performing status, we generally recognize deferred servicing fees and late fees on the loan. For loans modified under HAMP, which expires on December 31, 2015, we earn HAMP fees in place of late fees. Under the HAMP program, we receive an incentive fee upon completion of the modification and may be eligible to receive success fees for the first three years of the modification to the extent the loan is not repaid and the borrower remains in good standing. Total completed modifications were down 33% in the third quarter of 2014 as compared to 2013. HAMP modifications accounted for 41% of total modifications versus 48% in the third quarter of 2013. Of the total modifications completed during the third quarter of 2014, 47% included principal modifications. This compares to 59% in the third quarter of 2013. We recognized deferred servicing fee, late fee and HAMP fee revenue of \$64.2 million and \$80.8 million during the third quarter of 2014 and 2013, respectively, in connection with loan modifications.

We estimate the balance of deferred servicing fees related to delinquent borrower payments was \$559.0 million at September 30, 2014 compared to \$500.5 million at September 30, 2013. The net increase is primarily due to portfolio acquisitions offset by collections and resolutions of delinquent loans through modification, payoff or through the sale of the underlying mortgaged property following foreclosure.

Average CPR decreased to 12.8% for the third quarter of 2014, as compared to 15.8% for the third quarter of 2013.

This decline reflects a reduction in refinancing activity primarily due to higher interest rates during the third quarter of 2014 as compared to 2013. For the third quarter of 2014, principal reduction modifications, regular principal repayments and other voluntary payoffs accounted for approximately 82% of average CPR, with real estate sales and other involuntary liquidations accounting for the remaining 18%. For the third quarter of 2013, total voluntary and involuntary reductions accounted for 83% and 17%, respectively, of average CPR. Principal reduction modifications accounted for 3% and 6% of our average prepayment speed for the third quarter of 2014 and 2013, respectively.

Gain on loans held for sale, net includes gains on the sale of modified FHA and VA insured loans. As servicer, we are obligated to repurchase loans from Ginnie Mae guaranteed securitizations in order to complete a modification. Once the modification is completed, we pool the loans into new Ginnie Mae guaranteed securitizations at the then prevailing market value.

Operating expenses increased by \$8.3 million in the third quarter of 2014, or 3%, as compared to the third quarter of 2013:

Professional services expense increased by \$30.3 million due to higher legal costs as a result of additional regulatory compliance costs and an increase in settlement expenses. In addition, amounts that we billed for reimbursement of transition services related to the ResCap Acquisition have decreased.

Servicing and origination expenses, excluding the provision for losses on government-insured receivables (a component of bad debt expense), increased by \$21.6 million primarily as a result of additional unrecoverable litigation costs and advance write-offs related to our Agency servicing portfolio.

Overhead cost allocations for corporate support services including law, human resources, compliance, accounting and finance increased by \$10.8 million as compared to the third quarter of 2013 primarily due to higher staffing and other costs associated with regulatory compliance.

MSR amortization expense decreased by \$18.3 million principally due to the effects of a change in accounting estimate in the first quarter of 2014 related to an increase in estimated net servicing income primarily as a result of lower actual prepayment speeds. The effect of this change was a reduction in amortization expense of \$21.3 million in the third quarter of 2014. See Note 1 – Description of Business and Basis of Presentation to the unaudited Consolidated Financial Statements for additional information.

Compensation and benefits decreased by \$17.3 million primarily as a result of platform integration that reduced the average U.S. based headcount by 25%, offset in part by a 32% increase in average India based and other headcount. Provision for bad debt decreased by \$12.6 million due to the reversal of allowances as a result of revised collection assumptions on advances, as well as a reduction in Ginnie Mae loss provisions resulting from the Ginnie Mae EBO Transactions earlier in the year.

Servicing-related outsourcing expenses declined by \$7.3 million. The ResCap servicing platform leverages third-party outsourcing for a variety of functions. These costs are being absorbed and/or diminished as the loans transition to the REALServicing platform.

Interest expense increased by \$10.4 million, or 9%, in the third quarter of 2014 principally as the result of higher average outstanding borrowings offset, in part, by a decline in the average effective rate on our borrowings. Average borrowings under our match funded advance financing facilities and our financing liabilities increased by 657% and 24%, respectively, during the third quarter of 2014 as compared to the third quarter of 2013. The 2013 average reflects the effect on advance funding requirements of the July 1, 2013 sale of MSRs and advances to HLSS. The increase in borrowing in 2014 reflects the effect of the OneWest and Greenpoint MSR transactions in the fourth quarter of 2013. The increase in our financing liabilities is a result of HLSS Transactions completed during the fourth quarter of 2013 and the OASIS and Ginnie Mae EBO Transactions completed in 2014.

Nine Months Ended September 30, 2014 versus 2013. Residential servicing and subservicing fee revenue for the nine months ended September 30, 2014 was \$1.4 billion, a 9% increase over the same period in 2013, primarily as a result of a 9% increase in the average UPB of our residential servicing portfolio and an increase in the proportion of the portfolio attributable to servicing versus subservicing offset in part by an 8% decrease in completed modifications. Previously subserviced loans added in connection with our assumption of the Ally Bank subservicing agreement from ResCap in February 2013 became serviced loans upon the acquisition of the MSRs from Ally Bank in April 2013. The increase in the average UPB of our total residential portfolio is attributable to acquisitions and new MSR capitalization in connection with our lending activities, offset by runoff resulting from principal repayments, modifications, real estate sales and servicing transfers. Servicing and subservicing fees for the nine months ended September 30, 2014 includes a full nine months of revenue attributed to the ResCap servicing portfolio we acquired on February 15, 2013.

Gains on the sale of modified FHA and VA insured loans increased because the nine months ended September 30, 2014 includes a full nine months of activity as this business was acquired as part of the ResCap Acquisition. Also, gains recognized during the nine months ended September 30, 2014 include gains on the Ginnie Mae EBO Transactions.

Operating expenses increased by \$124.4 million for the nine months ended September 30, 2014, or 16%, as compared to the nine months ended September 30, 2013 primarily as a result of an increase in the provision for bad debts,

changes in the value of our fair value elected MSRs and the effects of acquisitions completed during 2013. We continued to incur the operating costs of maintaining the ResCap platform until we completed the integration onto the REALServicing platform. We completed the final transfer of the remaining loans in October 2014 and expect our operating expenses to decline. Operating expenses for the nine months ended September 30, 2014 includes a full nine months of costs attributed to the ResCap Acquisition.

Overhead cost allocations for corporate support services including law, human resources, compliance, accounting and finance increased \$51.7 million in the nine months ended September 30, 2014 as compared to 2013 mainly due to the integration of Homeward and ResCap support functions during 2013 which were previously charged directly to the Servicing segment. In addition, regulatory compliance costs incurred by the corporate support groups increased in 2014.

Servicing and origination expenses, excluding the provision for losses on government-insured receivables, increased by \$44.7 million.

The carrying value of the MSR for which we elected the fair value option declined by \$13.1 million during the nine months ended September 30, 2014 as compared to an increase of \$11.7 million during the nine months ended September 30, 2013.

Other servicing and origination expenses increased \$21.6 million primarily resulting from additional unrecoverable litigation and advance write-offs related to our Agency servicing portfolio offset in part by slower voluntary prepayments in our Agency portfolio and reduced delinquent UPB in our Ginnie Mae servicing portfolio, primarily in connection with the Ginnie Mae EBO Transactions.

Professional services expense increased by \$38.3 million largely because of higher legal costs and a decrease in amounts that we billed for reimbursement of transition services related to the ResCap Acquisition.

We recognized \$27.2 million of additional bad debt expense in the nine months ended September 30, 2014 as compared to 2013 largely in connection with a write-down of receivables related to a subservicing portfolio that has been transferred and unrecoverable litigation costs and advances in connection with our Agency servicing.

During the nine months ended September 30, 2014, primary mortgage rates fell 0.30%, resulting in a loss in fair value of \$13.1 million on MSRs versus an increase in the primary mortgage rate of 0.64% resulting in an increase in fair value of \$11.7 million on MSRs during the nine months ended September 30, 2013.

Technology charges increased by \$12.4 million primarily due to costs of maintaining the ResCap servicing platform and costs related to systems enhancements for REALServicing platform.

- Compensation and benefits expense for the nine months ended September 30, 2014 decreased by \$37.2 million as compared to 2013, primarily as a result of platform integration activities that reduced our average US-based headcount by 24% while our India-based and other average headcount increased by 29%.

Amortization of MSRs decreased \$12.0 million as a result of the effects of the change in accounting estimate in the first quarter of 2014, which reduced amortization expense by \$69.2 million for the nine months ended September 30, 2014, offset in part by the asset and platform acquisitions throughout 2013.

Interest expense increased by \$81.5 million, or 26%, in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 with \$89.1 million attributable to a 35% increase in the average balance of the HLSS financing liabilities. This increase was partly offset by a \$19.0 million decline in interest expense on our match funded advance financing facilities primarily as a result of a decrease in the average effective interest rate on these facilities because of lower spreads over LIBOR, and because interest expense in 2013 included the accelerated write-off of \$6.0 million of facility costs as a result of the July 1, 2013 sale of MSRs and advances to HLSS and \$3.9 million of payments under interest swaps. Loss on debt redemption for the nine months ended September 30, 2013 of \$17.0 million represents losses that we recognized during the first quarter of 2013 when, in connection with the ResCap Acquisition, we repaid the balance outstanding on an earlier SSTL with the proceeds from a new SSTL that we entered into on February 14, 2013.

Lending

We originate and purchase conventional and government insured forward mortgage loans through our Homeward lending operations and reverse mortgage loans through our Liberty lending operations. Loans are acquired through three primary channels: correspondent lender relationships, broker relationships and directly with mortgage customers. Per loan margin, cost and income vary by channel, with correspondent typically being the lowest and direct the highest. After origination, we package and sell the loans in the secondary mortgage market, through GSE securitizations and whole loan transactions. We typically retain the associated MSRs as Lending provides a low cost means to acquire MSRs with good return profiles.

Reverse mortgages are originated and purchased through our Liberty lending operations under the guidelines of the HECM reverse mortgage insurance program of the Department of Housing and Urban Development (HUD). Loans originated under this program are guaranteed by the FHA, which provides investors with protection against risk of borrower default. We retain the servicing rights to reverse loans securitized through the Ginnie Mae Home Equity Conversion Mortgage-Backed Security (HMBS) program. Variable rate HECM loans allow borrowers to make

additional draws in the future. These draws are funded by the servicer and can be subsequently securitized or sold (Future Value). We do not incur any substantive underwriting, marketing or compensation costs in connection with these future draws. At September 30, 2014, Future Value is estimated to be \$41.4 million. We use a third-party valuation expert to determine Future Value based on the net present value of the estimated future cash flows of the loans and utilizing a discount rate of 12% and projected performance assumptions in line with historical experience and industry benchmarks.

Our lending production volume, by channel, for the three and nine months ended September 30, 2014 and 2013, is as follows:

	Correspondent	Wholesale	Direct	Total
Three months ended September 30, 2014				
Forward loans (1)	\$572,472	\$242,221	\$267,814	\$1,082,507
Reverse loans (2)	46,138	79,823	42,050	168,011
Total	\$618,610	\$322,044	\$309,864	\$1,250,518
Nine months ended September 30, 2014				
Forward loans (1)	\$1,895,599	\$623,386	\$867,801	\$3,386,786
Reverse loans (2)	130,068	227,841	118,420	476,329
Total	\$2,025,667	\$851,227	\$986,221	\$3,863,115
Three months ended September 30, 2013				
Forward loans (1)	\$1,093,221	\$214,042	\$98,450	\$1,405,713
Reverse loans (2)	47,594	151,243	79,469	278,306
Total	\$1,140,815	\$365,285	\$177,919	\$1,684,019
Nine months ended September 30, 2013				
Forward loans (1)	\$4,681,877	\$521,344	\$189,135	\$5,392,356
Reverse loans (2)	124,884	332,628	190,827	648,339
Total	\$4,806,761	\$853,972	\$379,962	\$6,040,695

(1)Includes loans originated or purchased by Homeward and OLS.

(2)Includes loans originated or purchased by Liberty.

The following table presents the results of operations of the Lending segment for the three and nine months ended September 30. The amounts presented are before the elimination of balances and transactions with our other segments:

	Three Months			Nine Months			
	2014	2013	% Change	2014	2013	% Change	
Revenue							
Gain on loans held for sale, net							
Forward mortgages	\$10,022	\$17,034	(41)%	\$42,970	\$30,071	43 %	
Reverse mortgages	7,258	7,568	(4)	19,271	19,616	(2)	
	17,280	24,602	(30)	62,241	49,687	25	
Other	9,597	8,937	7	24,570	31,493	(22)	
Total revenue	26,877	33,539	(20)	86,811	81,180	7	
Operating expenses							
Compensation and benefits	11,761	16,809	(30)	44,314	39,668	12	
Amortization of mortgage servicing rights	94	148	(36)	613	148	314	
Servicing and origination	2,519	3,392	(26)	11,154	9,055	23	
Technology and communications	1,000	1,060	(6)	3,412	3,029	13	
Professional services	1,165	1,512	(23)	3,167	3,428	(8)	
Occupancy and equipment	1,167	1,832	(36)	3,558	3,183	12	
Other operating expenses	4,926	4,751	4	15,043	11,032	36	
Total operating expenses	22,632	29,504	(23)	81,261	69,543	17	
Income from operations	4,245	4,035	5	5,550	11,637	(52)	
Other income (expense)							
Interest income	4,825	3,066	57	13,117	12,432	6	
Interest expense	(2,601)	(3,279)	(21)	(8,271)	(10,108)	(18)	
Gain on debt redemption	—	1,282	(100)	2,609	4,474	(42)	
Other, net	139	561	(75)	1,237	2,378	(48)	
Other income, net	2,363	1,630	45	8,692	9,176	(5)	
Income before income taxes	\$6,608	\$5,665	17	\$14,242	\$20,813	(32)	

n/m: not meaningful

Three Months Ended September 30, 2014 versus 2013. For the third quarter of 2014, our Lending operations generated \$6.6 million of pre-tax income on revenues of \$26.9 million and originated \$1.3 billion UPB of mortgage loans. This compares to \$5.7 million of pre-tax income on revenues of \$33.5 million and mortgage originations of \$1.7 billion UPB in the third quarter of 2013. The improvement in Lending results is due to a \$4.1 million improvement in pre-tax earnings generated by the Liberty reverse mortgage operations that was partially offset by a \$3.2 million decline in pre-tax earnings of the Homeward forward lending operations. The overall margin rate improved slightly for the third quarter of 2014 as compared to the third quarter of 2013 due to an increase in margins on reverse mortgage operations. Total funding declined by \$433.5 million due to a \$323.2 million reduction in forward mortgage originations and a \$110.3 million reduction in reverse mortgage volume.

For the third quarter of 2014, the forward lending operations generated \$5.7 million of pre-tax income on revenues of \$14.6 million and originated \$1.1 billion UPB of forward mortgage loans. This compares to \$8.9 million of pre-tax income on revenues of \$21.6 million and forward mortgage originations of \$1.4 billion UPB in the third quarter of 2013. Forward lending results declined in the third quarter of 2014 as compared to the third quarter of 2013 due to a \$323.2 million or 23%, decline in total funding volume. Margin rates remained substantially the same for the third quarter of 2014 as compared to the third quarter of 2013. The decline in volume is due to a \$520.7 million reduction in the correspondent channel that was partially offset by a \$197.5 million increase in the direct and wholesale channels.

The level of correspondent volume is based in part on current market conditions and margins and will vary as these conditions change.

During the third quarter of 2014, reverse mortgage operations generated pre-tax income of \$0.9 million on revenues of \$12.3 million and funded reverse mortgage volume of \$168.0 million UPB. This compares to a pre-tax loss of \$3.2 million on revenues of \$12.0 million and reverse mortgage originations of \$278.3 million UPB in the third quarter of 2013. Pre-tax income increased by \$4.1 million in the third quarter of 2014 as compared to the third quarter of 2013 due to higher margin rates and lower costs that more than offset the reduction in revenue due to lower funded volume. Due to the HECM program changes by HUD in 2013, the reverse mortgage market shifted from being primarily fixed rate to a majority of variable rate product as a result of government program changes. This resulted in lower industry and Liberty volume. This also resulted in lower loan size at origination, which in turn results in a lower gain on sale. Over time, we anticipate that the loan balances on these variable rate LIBOR loans will increase through subsequent draws by the borrowers. As these additional draws are securitized, we expect to recognize additional gain on sale with minimal incremental cost. We estimate the pre-tax Future Value of the draws related to third quarter of 2014 production to be \$4.5 million.

Nine Months Ended September 30, 2014 versus 2013. For the nine months ended September 30, 2014, the Lending operations generated \$14.2 million of pre-tax income on revenues of \$86.8 million and originated \$3.9 billion UPB of mortgage loans. This compares to \$20.8 million of pre-tax income on revenues of \$81.2 million and mortgage originations of \$6.0 billion UPB for the nine months ended September 30, 2013. Lending pre-tax income declined by \$6.6 million for the nine months ended September 30, 2014 as compared to the same period last year due to an \$8.2 million decline in pre-tax earnings of the Liberty reverse mortgage operations that was partially offset by a \$1.6 million improvement in pre-tax earnings of the Homeward forward lending operations. The overall margin rate increased for the nine months ended September 30, 2014 as compared to the same period last year for both forward and reverse operations. Total funding declined by \$2.2 billion due to a \$2.0 billion reduction in forward lending volume and a \$172.0 million reduction reverse mortgage volume. The results of the Lending segment for the nine months ended September 30, 2013 includes Liberty's reverse mortgage operation beginning as of the acquisition date of April 1, 2013.

For the nine months ended September 30, 2014, the Homeward forward lending operations generated \$21.3 million of pre-tax income on revenues of \$57.0 million. This compares to \$19.7 million of pre-tax income on revenues of \$50.7 million for the nine months ended September 30, 2013. Forward mortgage originations for the nine months ended September 30, 2014 and 2013 were \$3.4 billion and \$5.4 billion, respectively. Due to the shift in channel business mix from the lower margin correspondent channel to the higher margin direct channel, better margin rates led to improved forward lending results despite the effects of the 37% decrease in total funding volume.

We sell MSRs for certain forward loans that may qualify under the federal government's Home Affordable Refinance Program (HARP) to an unrelated third party in transactions accounted for as secured financings. We recognize gains on the retirement of the related financing liabilities upon repurchase of those MSRs related to loans that were successfully refinanced.

During the nine months ended September 30, 2014, Liberty incurred a pre-tax loss of \$7.1 million on revenues of \$29.8 million and funded reverse mortgage volume of \$476.3 million. This compares to pre-tax income of \$1.1 million on revenues of \$30.5 million and reverse mortgage originations of \$648.3 million UPB for the nine months ended September 30, 2013. While margin rates for the nine months ended September 30, 2014 improved compared to the same period last year, the decline in Liberty results was due primarily to HECM program changes by HUD in 2013. Of the \$7.1 million pre-tax loss for the nine months ended September 30, 2014, \$6.3 million was incurred during the three months ended March 31, 2014. Aggressive cost reduction and improved margins during 2014 limited the pre-tax loss for the three months ended June 30, 2014 to \$1.6 million and resulted in pre-tax income of \$0.9 million for the three months ended September 30, 2014.

Corporate Items and Other

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

Portions of interest income and interest expense are allocated to the Servicing and Lending segments, including interest earned on cash balances and short-term investments and interest incurred on corporate debt. Operating expenses incurred by corporate support services are also allocated to the Servicing and Lending segments.

The following table presents selected results of operations of Corporate Items and Other for the three and nine months ended September 30. The amounts presented are before the elimination of balances and transactions with our other segments:

	Three Months		Nine Months	
	2014	2013	2014	2013
Revenue	\$1,557	\$1,801	\$4,734	\$19,758
Operating expenses	118,482	11,143	148,555	95,361
Loss from operations	(116,925)	(9,342)	(143,821)	(75,603)
Other income (expense), net	(6,467)	1,924	(6,476)	6,643
Loss before income taxes	\$(123,392)	\$(7,418)	\$(150,297)	\$(68,960)

Three Months Ended September 30, 2014 versus 2013. Operating expenses increased by \$107.3 million primarily as a result of the \$100.0 million liability we established at September 30, 2014 for estimated losses related to certain regulatory contingencies. In addition, we incurred certain non-recurring regulatory monitoring costs which have not been allocated to the business segments. Other income (expense), net for the three months ended September 30, 2014 includes \$6.1 million of interest expense on the \$350.0 million Senior Unsecured Notes that we issued on May 12, 2014.

Nine Months Ended September 30, 2014 versus 2013. Revenues declined by \$15.0 million as the nine months ended September 30, 2013 included \$16.2 million related to the diversified fee-based businesses that we acquired as part of the Homeward and ResCap acquisitions and subsequently sold to Altisource. Operating expenses increased by \$53.2 million primarily because of the \$100.0 million charge we recognized in the third quarter of 2014 for estimated losses related to certain regulatory contingencies. Operating expenses for the nine months ended September 30, 2014 also includes the accelerated recognition of \$5.4 million of expenses related to the surrender of stock options in the second quarter and certain non-recurring regulatory monitoring costs which have not been allocated to the business segments. Partially offsetting these increases in operating expenses, the nine months ended September 30, 2013 included the \$52.8 million charge that we recorded during the second quarter in connection with the Ocwen National Mortgage Settlement and \$15.3 million of operating expenses related to the diversified fee-based businesses that we sold to Altisource as disclosed above. Other income (expense), net for the nine months ended September 30, 2014 includes \$9.5 million of interest expense on the \$350.0 million Senior Unsecured Notes.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2014, our cash position was \$299.2 million compared to \$178.5 million at December 31, 2013. We invest cash that is in excess of our immediate operating needs primarily in money market deposit accounts. Our priorities for deployment of excess cash are: (1) supporting the growth of our core servicing and lending businesses, (2) expanding into similar or complimentary businesses that meet our return on capital requirements and (3) repurchasing shares of our common stock.

On October 31, 2013, we announced that our board of directors had authorized a share repurchase program for an aggregate of up to \$500.0 million of our issued and outstanding shares of common stock. The purpose of this program is to provide a tax efficient way to return cash to shareholders when it is deemed the shares are attractively priced. On February 27, 2014, we announced a general goal of buying at least the prior quarter's earnings in the three months following our earnings announcements. We may buy more or less in any given period and our intentions may change. During the nine months ended September 30, 2014, we completed the repurchase of 7,970,353 shares of common stock under this program for a total purchase price of \$253.4 million, including 5,307,019 shares for \$158.8 million during the third quarter of 2014. As of September 30, 2014, the approximate remaining value of shares that may be repurchased under the plan was \$186.6 million. During the period October 1, 2014 through October 30, 2014, we completed the repurchase of an additional 1,988,673 shares of common stock for \$47.0 million.

Our ability to finance servicing advances is a significant factor that affects our liquidity. Our use of advance facilities is integral to our servicing advance financing strategy. Our borrowings under these facilities are secured by pledges of servicing advances. To fund additional advance obligations, we have typically "upsized" existing advance facilities or created new advance facilities prior to the funding obligation and then pledged additional advances to support the

borrowing. Our ability to continue to pledge collateral under each advance facility depends on the performance of the collateral. Advances and match funded advances comprised 40% of total assets at September 30, 2014. At September 30, 2014, \$489.4 million of the total maximum borrowing capacity under our servicing advance facilities of \$2.5 billion remained available; however, only \$51.2 million could be used based on the amount of available collateral. In addition, one of our match funded advance facilities contains provisions that limit the eligibility of advances to be financed based on the length of time that advances are outstanding, which, if such provisions applied, could adversely affect liquidity by reducing our average effective advance rate. Currently, the majority of our collateral qualifies for financing under the advance facility to which it is pledged.

We use mortgage loan warehouse facilities to fund newly originated loans on a short-term basis until they are sold to secondary market investors, including GSEs or other third-party investors. The majority of these warehouse facilities are structured as repurchase agreements under which ownership of the loans is temporarily transferred to a lender. The loans are transferred at a discount or “haircut” which serves as the primary credit enhancement for the lender. The funds are repaid using the proceeds from the sale of the loans to secondary market investors, usually within 30-45 days. At September 30, 2014, \$163.9 million of borrowing capacity was available under our lending warehouse facilities including our warehouse facilities for reverse mortgages on a committed basis. In addition, another \$608.1 million of borrowing capacity was available on an uncommitted basis at the discretion of the lenders. See Note 11 – Borrowings to the unaudited Consolidated Financial Statements for additional details.

In addition to these near-term sources, potential additional long-term sources of liquidity include proceeds from long-term secured borrowings such as the SSTL facility and proceeds from the issuance of senior unsecured notes and equity capital; although, we cannot assure that these sources will be available on terms that we find acceptable. On May 12, 2014, we issued \$350.0 million Senior Unsecured Notes with an interest rate of 6.625% that mature on May 15, 2019. To date the proceeds have been used to fund repurchases of common stock, to reduce borrowing used to finance servicing advances and for other general corporate purposes. See Note 11 – Borrowings to the unaudited Consolidated Financial Statements for additional details regarding these notes. In the current favorable interest rate environment, we continue to assess all financing options.

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

We closely monitor our liquidity position and ongoing funding requirements, and we regularly monitor and project cash flow by period to minimize liquidity risk. We also monitor the duration of our funding sources to better match the duration of our advances and corresponding borrowings. We believe that we have sufficient sources of cash and debt financing to fund all but the largest servicing acquisitions without issuing common equity capital.

We are the subject of mortgage servicer and credit ratings issued and revised from time to time by credit rating agencies including Moody’s Investors Services, Inc. (Moody’s), Standard & Poor’s Rating Services (S&P), Fitch Ratings (Fitch) and Morningstar Credit Ratings, LLC. Servicer ratings are intended to be an indicator of the ability of a servicer to prevent or mitigate losses in an asset pool. Credit ratings are intended to be an indicator of the creditworthiness of a particular company, security or obligation. Lower ratings generally result in higher borrowing costs and reduced access to capital markets.

The following table summarizes our main servicer ratings by the respective rating agencies.

Rating Agency	Residential Prime Servicer	Residential Subprime Servicer	Residential Special Servicer	Master Servicing	Review Status / Outlook	Date of last action
Moody’s	na	SQ3	SQ3	na	On review for downgrade	October 22, 2014
Morningstar	na	MOR RS2 (1)	MOR RS2	na	na	October 30, 2014
S&P	Average	Average	Average	Above Average	Negative	October 28, 2014
Fitch	RPS3	RPS3	RSS3	RMS3	Negative	October 24, 2014

(1) Non-prime rating.

The following table summarizes our main credit ratings by the respective rating agencies.

Rating Agency	Short-term	Long-term	Senior Unsecured Notes	Review Status / Outlook	Date of last action
Moody’s	na	B2	B3	On review for downgrade	October 21, 2014
S&P	na	B	B-	Negative	October 21, 2014
Fitch	B	B	CCC	Negative	October 24, 2014

As indicated above, a number of our servicer and credit ratings have recently been lowered. The credit rating agencies have generally cited uncertainty regarding the impact of the regulatory scrutiny and possible regulatory actions against us as the primary basis for their actions. At this time, we do not believe that such actions have had a material impact on our liquidity or

funding position. It is possible that additional actions by credit rating agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Certain of our existing debt covenants limit our ability to incur additional debt in relation to our equity and require that we maintain minimum levels of liquid assets and earnings. Failure to comply with these covenants could result in restrictions on new borrowings or the early termination of our borrowing facilities. We are currently in compliance with these covenants.

Consistent with our 'asset-light' strategy, we continue to execute transactions that achieve the multiple objectives of providing cost effective financing and the mitigation of exposure to market and liquidity risk. During the first quarter of 2014, we settled our first OASIS transaction, raising \$123.6 million in financing in connection with \$11.8 billion of Freddie Mac MSR UPB, which, among other things, mitigates our exposure to voluntary prepayments with respect to these MSRs. We intend to execute additional transactions under this type of facility in the future.

Cash Flows

Our operating cash flow is primarily impacted by the timing of acquisitions, economic assumptions impacting our servicer models and our 'asset light' strategy. The timing of portfolio acquisitions impacts our operating cash. We generally expect our loss mitigation strategies to begin accelerating servicing advance collections within six months of boarding onto our REALServicing platform. Platform acquisitions, including Homeward and ResCap, had longer integration timelines, and as a result, were not expected to follow our historical collection trends until the transfers to the REALServicing platform were completed. We completed the last transfers related to these acquisitions in October 2014.

Improving home prices translate into higher expected liquidation proceeds in our servicing models. With higher expected liquidation proceeds, we began to fund advances again on certain loans that were in stop-advance status. In the short-term, this increases servicing advances. To the extent delinquencies stabilize or improve, we expect to return to our historical trend even as home prices continue to recover. Finally, because we classify proceeds from the sale of servicing advances as investing activities, cash generated from our operations related to collections of servicing advances has declined. We expect this trend to continue to the extent sales to HLSS remain the most efficient source of funding for our non-Agency MSRs. Operating cash flows were used principally to fund the portions of acquisitions not funded through borrowings.

Cash flows for the nine months ended September 30, 2014. Our operating activities provided \$559.0 million of cash largely due to net income of \$52.2 million adjusted for MSR amortization of \$186.1 million and other non-cash items and \$236.7 million of net collections of servicing advances offset in part by the net settlement paid in May 2014 in connection with the Ocwen National Mortgage Settlement.

Our investing activities used \$732.4 million of cash. Investing activities include cash outflows in connection with our reverse mortgage securitizations of \$565.7 million accounted for as secured financings. In addition, we paid \$226.3 million in connection with acquisitions completed during the nine months ended September 30, 2014.

Our financing activities provided \$294.0 million of cash. Cash provided by our financing activities includes \$572.0 million in connection with our reverse mortgage securitization activities. Financing activities also include \$343.3 million of cash received in connection with the issuance of \$350.0 million of Senior Unsecured Notes, net of the payment of \$6.7 million of debt issuance costs. In addition, we received \$123.6 million of proceeds from the OASIS transaction involving the financing of Freddie Mac MSRs and \$88.1 million of proceeds from the sale of advances to HLSS acquired in connection with the Ginnie Mae EBO Transactions, both of which we accounted for as financing transactions. These cash inflows were partially offset by a \$329.2 million net paydown of match funded liabilities using a portion of the proceeds from the newly issued Senior Unsecured Notes and a \$92.1 million net reduction in borrowings under mortgage warehouse facilities used to fund originated forward loans which declined during the period. We also completed the repurchase of 9,920,649 shares of common stock for \$325.6 million, including 7,970,353 shares for \$253.4 million under our stock repurchase program and 1,950,296 shares for \$72.3 million which we issued upon conversion of the remaining 62,000 Preferred Shares.

Cash flows for the nine months ended September 30, 2013. Our operating activities provided \$1.0 billion of cash largely due to \$424.0 million of collections of servicing advances, net income of \$175.1 million, adjusted for MSR

amortization of \$197.4 million and other non-cash items. Operating cash flows were used principally to repay related match funded liabilities and to fund the portions of the ResCap Acquisition and the Ally and OneWest MSR Transactions not funded through borrowings.

Our investing activities provided \$50.0 million of cash. We paid \$2.3 billion to acquire certain operations and assets of ResCap, primarily servicing advances and MSRs. We paid \$620.7 million to acquire MSRs and advances in the Ally MSR Transaction, net of assumed liabilities for origination and representation warranty obligations of \$136.7 million. For the OneWest MSR Transaction, we paid \$498.7 million to acquire MSRs and advances. Cash inflows from investing activities include \$3.5 billion of proceeds from HLSS from the sale of advances and \$215.7 million from the sales to Altisource of the diversified fee-based businesses acquired in the Homeward and ResCap Acquisitions. As disclosed below in the discussion of

financing activities, we used a portion of the proceeds from the sales to HLSS to repay match funded liabilities and for required prepayments of the SSTL.

Our financing activities used \$916.9 million of cash. To finance the ResCap acquisition, we deployed approximately \$840.0 million of net additional capital from the proceeds of a new \$1.3 billion SSTL facility and borrowed \$1.2 billion pursuant to three servicing advance facilities, offset by our repayment of the old SSTL which had an outstanding principal balance of \$314.2 million at December 31, 2012. We received \$387.3 million from the sale of Rights to MSRs to HLSS in transactions accounted for as financings. We used collections of servicing advances and \$2.7 billion of the proceeds received from the HLSS Transactions to repay match funded liabilities. Debt issuance costs paid on the new SSTL were \$25.5 million. Borrowings under mortgage loan warehouse facilities used to fund newly-originated forward loans until they are sold declined by \$175.5 million as sales exceeded originations during the period. We paid \$157.9 million to repurchase the 3,145,640 shares of common stock we issued upon conversion of 100,000 of the outstanding shares of Series A Perpetual Convertible Preferred stock.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET ARRANGEMENTS

Contractual Obligations

We believe that we have adequate resources to fund all unfunded commitments to the extent required and meet all contractual obligations as they come due. At September 30, 2014, such contractual obligations were comprised of secured and unsecured borrowings, interest payments and operating leases. On May 12, 2014, we issued \$350.0 million of Senior Unsecured Notes with an interest rate of 6.625% and maturing on May 15, 2019. There were no other significant changes to our contractual obligations during the nine months ended September 30, 2014. See Note 11 – Borrowings and Note 22 – Commitments and Contingencies to the unaudited Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

In the normal course of business, we engage in transactions with a variety of financial institutions and other companies that are not reflected on our balance sheet. We are subject to potential financial loss if the counterparties to our off-balance sheet transactions are unable to complete an agreed upon transaction. We seek to limit counterparty risk through financial analysis, dollar limits and other monitoring procedures.

Derivatives. We record all derivative transactions at fair value on our consolidated balance sheets. We use these derivatives primarily to manage our interest rate risk. The notional amounts of our derivative contracts do not reflect our exposure to credit loss. See Note 15 – Derivative Financial Instruments and Hedging Activities to the unaudited Consolidated Financial Statements for additional information.

Involvement with SPEs. We use SPEs for a variety of purposes but principally in the financing of our servicing advances and in the securitization of mortgage loans. We consolidate the servicing advance financing SPEs. See Note 2 – Securitizations and Variable Interest Entities to the unaudited Consolidated Financial Statements for additional information.

Mortgage Loan Repurchase and Indemnification Liabilities. We have exposure to representation, warranty and indemnification obligations in our capacity as a loan originator and servicer. See Note 2 – Securitizations and Variable Interest Entities, Note 12 – Other Liabilities and Note 22 – Commitments and Contingencies to the unaudited Consolidated Financial Statements for additional information.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (Dollars in thousands, except per share amounts and unless otherwise indicated)

Our ability to measure and report our financial position and operating results is influenced by the need to estimate the impact or outcome of future events on the basis of information available at the time of the financial statements. An accounting estimate is considered critical if it requires that management make assumptions about matters that were highly uncertain at the time the accounting estimate was made. If actual results differ from our judgments and assumptions, then it may have an adverse impact on the results of operations and cash flows. Management has processes in place to monitor these judgments and assumptions, including with the Audit Committee of the Board of Directors. Our significant accounting policies and critical accounting estimates are disclosed in our Annual Report on

Form 10-K/A for the year ended December 31, 2013 in Note 1 to the Consolidated Financial Statements and in Management's Discussion and Analysis of Financial Condition and Results of Operations under "Critical Accounting Policies and Estimates."

Valuation and Amortization of MSRs

As disclosed in Note 1 – Description of Business and Basis of Presentation to the unaudited Consolidated Financial Statements, we have increased our estimate of net servicing income from our servicing portfolio and have accounted for the resulting change in MSR amortization as a change in accounting estimate. The effect of this change on the third quarter of 2014 was to reduce amortization expense by \$21.3 million, increase Net income attributable to Ocwen common stockholders by \$14.9 million and to increase both basic and diluted earnings per share for the quarter by \$0.11. The effect on the nine months ended September 30, 2014 was to reduce amortization expense by \$69.2 million, increase Net income attributable to Ocwen common stockholders by \$48.5 million and to increase basic and diluted earnings per share for the period by \$0.36 and \$0.35, respectively.

Fair Value Measurements

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

	September 30, 2014	December 31, 2013	
Loans held for sale	\$407,887	\$566,660	
Loans held for investment - reverse mortgages	1,315,324	618,018	
MSRs	101,948	116,029	
Derivative assets	5,119	15,780	
Assets at fair value	\$1,830,278	\$1,316,487	
As a percentage of total assets	22	% 17	%
Financing liabilities	\$1,854,949	\$1,249,380	
Liabilities at fair value	\$1,854,949	\$1,249,380	
As a percentage of total liabilities	28	% 21	%
Assets at fair value using Level 3 inputs	\$1,489,300	\$797,396	
As a percentage of assets at fair value	81	% 61	%
Liabilities at fair value using Level 3 inputs	\$1,854,949	\$1,249,380	
As a percentage of liabilities at fair value	100	% 100	%

Level 3 assets and liabilities increased during the nine months ended September 30, 2014 primarily in connection with reverse mortgage origination and securitization activity. We account for reverse mortgage securitizations as secured financings and have elected the fair value option for the related Loans held for investment - reverse mortgages and Financing liabilities. Our economic exposure to these net assets is limited to the residual value we retain. Changes in inputs used to value the loans held for investment are largely offset by offsetting changes in the value of the related secured financing.

Refer to Note 4 – Fair Value to the unaudited Consolidated Financial Statements for descriptions of valuation methodologies used to measure material assets and liabilities at fair value and details of the valuation models, key inputs to those models, and significant assumptions utilized.

RECENT ACCOUNTING DEVELOPMENTS

Recent Accounting Pronouncements

Listed below are new accounting pronouncements which we adopted on January 1, 2014. None of these pronouncements had a material impact on our unaudited Consolidated Financial Statements.

Liabilities – Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (ASU 2013-04)

Foreign Currency Matters – Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05)

Income Taxes - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists (ASU 2013-11)

We are also evaluating the impact of new standards issued in 2014 that are not effective for us until January 1, 2015 and later, but we do not anticipate that our adoption of these standards will have a material impact on our consolidated

financial

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statements. For additional information, see Note 1 – Description of Business and Basis of Presentation to the unaudited Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Dollars in thousands unless otherwise indicated)

Market risk is the risk of loss arising from changes in the fair value of our assets or liabilities, including derivatives, caused by movements in market variables such as interest rates.

Our Investment Committee reviews significant transactions that may affect market risk and is authorized to utilize a wide variety of techniques and strategies to manage market risk. Our business units are responsible for executing on risk strategies, policies and controls that are fundamentally sound and compliant with our risk management policies and with applicable laws and regulations.

Interest Rate Risk

Our principal market exposure is to interest rate risk due to the impact on our mortgage-related assets and commitments, including mortgage loans held for sale, IRLCs and MSRs. Changes in interest rates could materially and adversely affect our volume of mortgage loan originations or reduce the value of our MSRs. We also have exposure to the effects of changes in interest rates on our borrowings under advance financing facilities.

Interest rate risk is a function of (i) the timing of re-pricing and (ii) the dollar amount of assets and liabilities that re-price at various times. We are exposed to interest rate risk to the extent that our interest rate sensitive liabilities mature or re-price at different speeds, or on different bases, than interest-earning assets.

Interest Rate Sensitive Financial Instruments

The tables below present the notional amounts of our financial instruments that are sensitive to changes in interest rates and the related fair value of these instruments at September 30, 2014 and December 31, 2013. We use certain assumptions to estimate the fair value of these instruments. See Note 4 – Fair Value to the unaudited Consolidated Financial Statements for additional fair value information on financial instruments.

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Rate-Sensitive Assets:				
Interest-earning cash	\$98,076	\$98,076	\$87,936	\$87,936
Loans held for sale, at fair value	335,950	335,950	503,753	503,753
Loans held for sale, at lower of cost or fair value (1)	71,937	71,937	62,907	62,907
Loans held for investment - reverse mortgages	1,315,324	1,315,324	618,018	618,018
Interest-earning collateral and debt service accounts	105,172	105,172	134,982	134,982
Total rate-sensitive assets	\$1,926,459	\$1,926,459	\$1,407,596	\$1,407,596
Rate-Sensitive Liabilities:				
Match funded liabilities	\$2,035,639	\$2,035,639	\$2,364,814	\$2,364,814
Other secured borrowings (2)	1,666,427	1,649,886	1,777,669	1,762,876
Senior unsecured notes	350,000	338,625	—	—
Total rate-sensitive liabilities	\$4,052,066	\$4,024,150	\$4,142,483	\$4,127,690

	September 30, 2014		December 31, 2013	
	Notional Balance	Fair Value	Notional Balance	Fair Value
Rate-Sensitive Derivative Financial Instruments:				
Derivative assets (liabilities):				
Interest rate caps	\$1,478,000	\$91	\$1,868,000	\$442
IRLCs	466,799	6,117	751,436	8,433
Forward MBS trades	760,295	(1,089	) 950,648	6,905
Derivatives, net		\$5,119		\$15,780

(1) Net of market valuation allowances and including non-performing loans.

Excludes financing liabilities of \$618.9 million and \$633.8 million at September 30, 2014 and December 31, 2013, respectively, that we recorded in connection with the sales of Rights to MSRs to HLSS which did not qualify as sales for accounting purposes. These financing liabilities have no contractual maturity and are amortized over the

(2) life of the transferred Rights to MSRs. Also, excludes the financing liabilities of \$1.2 billion and \$615.6 million at September 30, 2014 and December 31, 2013, respectively, that we recorded in connection with the securitizations of HMBS which did not qualify as sales for accounting purposes. These financing liabilities have no contractual maturity and are amortized as the related loans are repaid.

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

Based on September 30, 2014 balances, if interest rates were to increase by 1% on our variable rate debt and interest earning cash and float balances, we estimate a net positive impact of \$15.1 million resulting from an increase of \$40.2 million in annual interest income and an increase of \$25.1 million in annual interest expense.

Sensitivity Analysis

The following table summarizes the estimated change in the fair value of our MSRs and loans held for sale that we have elected to carry at fair value as well as any related derivatives at September 30, 2014 given hypothetical instantaneous parallel shifts in the yield curve. We used September 30, 2014 market rates to perform the sensitivity analysis. The estimates are based on the market risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves. These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in fair value may not be linear.

	Change in Fair Value	
	Down 25 bps	Up 25 bps
Loans held for sale	\$5,738	\$(7,042)
Forward MBS trades	(5,863	) 6,650
Total loans held for sale and related derivatives	(125	) (392)
Fair value MSRs	(7,481	) 7,053
MSRs, embedded in pipeline	(339	) 319
Total fair value MSRs	(7,820	) 7,372
Total, net	\$(7,945	) \$6,980

ITEM 4. CONTROLS AND PROCEDURES

Management, under the supervision of and with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), as of September 30, 2014.

Based on this evaluation and solely because of the previously disclosed material weakness in internal control over financial reporting (see our Quarterly Report on Form 10-Q for the three months ended June 30, 2014) related to ineffective controls regarding the use of an accounting convention in accounting for financing liabilities related to Rights to MSRs sold to HLSS,

management concluded that our internal control over financial reporting was not effective as of September 30, 2014. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

We have corrected our accounting used in connection with the financing liability related to Rights to MSRs sold to HLSS and have implemented new controls related to the monitoring and oversight of valuations of Level 3 assets and liabilities and the level and timing of critical assumptions used in third-party valuations we use in our accounting processes and reporting. The material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

There has been no change in our internal control over financial reporting during the fiscal quarter ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 22 – Commitments and Contingencies to the unaudited Consolidated Financial Statements. That information is incorporated into this item by reference.

ITEM 1A. RISK FACTORS

An investment in our common stock involves significant risks that are inherent to our business. We describe the principal risks and uncertainties that management believes affect or could affect us under Part I, Item 1A of Amendment No.1 to our Annual Report on Form 10-K for the year ended December 31, 2013. The risks and uncertainties described therein are not the only ones facing us. You should carefully read and consider the risks and uncertainties described therein together with all of the other information included or incorporated by reference in such Annual Report before you make any decision regarding an investment in our common stock. If any of the risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could significantly decline, and you could lose some or all of your investment.

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

Purchases of Equity Securities by the Issuer and Affiliates

Information regarding repurchases of our common stock during the third quarter of 2014 is as follows:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced repurchase program	Approximate dollar value of shares that may yet be purchased under the repurchase program	
July 1 - July 31 (1)	3,163,703	\$36.7011	1,213,407	\$301.5	million
August 1 - August 31	1,613,506	\$28.2865	1,613,506	\$255.9	million
September 1 - September 30	2,480,106	\$27.9228	2,480,106	\$186.6	million
Total	7,257,315	\$31.8304	5,307,019		

The total number of shares purchased during July 2014 includes the repurchase of 1,950,296 shares issued in connection with the conversion of our remaining Preferred Shares outstanding on July 14, 2014. The shares were repurchased from the holders of the Preferred Shares at a negotiated price of \$37.0464 per share. The repurchase of these shares is not considered to be part of our repurchase program announced on October 31, 2013.

On October 31, 2013, we announced that our board of directors had authorized a share repurchase program for an aggregate of up to \$500.0 million of our issued and outstanding shares of common stock. Unless we amend the share repurchase program or repurchase the full \$500.0 million amount by an earlier date, the share repurchase program will continue through July 2016. We have used and may continue to use SEC Rule 10b5-1 plans in connection with our share repurchase program. On February 27, 2014, we announced a general goal of buying at least the prior quarter's earnings in the three months

following our earnings announcements. We may buy more or less in any given period and our intentions may change. No assurances can be given as to the amount of shares, if any, that we may repurchase in any given period.

ITEM 6. EXHIBITS

- 3.1 Amended and Restated Articles of Incorporation (1)
- 3.2 Articles of Amendment to Articles of Incorporation (2)
- 3.3 Articles of Amendment to Articles of Incorporation (2)
- 3.4 Articles of Amendment to Articles of Incorporation (3)
- 3.5 Articles of Correction (3)
- 3.6 Articles of Amendment to Articles of Incorporation, Articles of Designation, Preferences and Rights of Series A Perpetual Convertible Preferred Stock (4)
- 3.7 Amended and Restated Bylaws of Ocwen Financial Corporation (5)
- 11.1 Computation of earnings per share (6)
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 101.INS XBRL Instance Document (filed herewith)
- 101.SCH XBRL Taxonomy Extension Schema Document (filed herewith)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)
- (1) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-1 (File No. 333-5153) as amended, declared effective by the SEC on September 25, 1996.
- (2) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013.
- (3) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.
- (4) Incorporated by reference from the similarly described exhibit included with the Registrant's Form 8-K filed with the SEC on December 28, 2012.
- (5) Incorporated by reference to the similarly described exhibit included with the Registrant's Form 8-K filed with the SEC on May 10, 2013.
- (6) Incorporated by reference from "Note 18 – Basic and Diluted Earnings (Loss) per Share" to the unaudited Consolidated Financial Statements.

Signatures

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

By: /s/ Michael R. Bourque, Jr.
Michael R. Bourque, Jr.
Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and as its principal
financial officer)

Date: October 30, 2014