OCWEN FINANCIAL CORP
Form 10-K
March 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

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

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION
(Exact name of Registrant as specified in our charter)

Florida	**65-0039856**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1661 Worthington Road, Suite 100	
West Palm Beach, Florida	**33409**
(Address of principal executive office)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.01 par value	**New York Stock Exchange (NYSE)**
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12 (g) of the Act: Not applicable.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

Aggregate market value of the common stock, $0.01 par value, held by nonaffiliates of the registrant, computed by reference to the closing price as reported on the NYSE as of the close of business on June 30, 2008: $175,089 (for purposes of this calculation affiliates include only directors and executive officers of the registrant).

Number of shares of common stock, $0.01 par value, outstanding as of March 5, 2009: 62,725,864 shares

DOCUMENTS INCORPORATED BY REFERENCE: Portions of our definitive Proxy Statement with respect to our Annual Meeting of Shareholders to be held on May 6, 2009, are incorporated by reference into Part III, Items 10 - 12 and 14.

OCWEN FINANCIAL CORPORATION
2008 FORM 10-K ANNUAL REPORT
TABLE OF CONTENTS

		PAGE
	PART I	
Item 1.	Business	3
Item 1A.	Risk Factors	11
Item 1B.	Unresolved Staff Comments	15
Item 2.	Properties	15
Item 3.	Legal Proceedings	16
Item 4.	Submission of Matters to a Vote of Security Holders	17
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	17
Item 6.	Selected Financial Data	19
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	51
Item 8.	Financial Statements and Supplementary Data	54
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	54
Item 9A.	Controls and Procedures	54
Item 9B.	Other Information	55
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	55
Item 11.	Executive Compensation	55
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	55
Item 13.	Certain Relationships and Related Transactions, and Director Independence	55

Item 14.	Principal Accounting Fees and Services	55

PART IV

Item 15.	Exhibits, Financial Statement Schedules	56
Signatures		58

FORWARD-LOOKING STATEMENTS

This Annual 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, including, but not limited to the following:

- assumptions related to the sources of liquidity, our ability to fund advances and the adequacy of financial resources;
- estimates regarding prepayment speeds, float balances, delinquency rates, advances and other servicing portfolio characteristics;
- projections as to the performance of our fee-based loan processing business and our asset management vehicles;
- assumptions about our ability to grow our business;
- our plans to continue to sell our non-core assets;
- our ability to establish additional asset management vehicles;
- our ability to reduce our cost structure;
- our analysis in support of the decision to spin Ocwen Solutions as a separate company;
- our continued ability to successfully modify delinquent loans and sell foreclosed properties;
- estimates regarding our reserves, valuations and anticipated realization on assets; and
- expectations as to the effect of resolution of pending legal proceedings on our financial condition.

Forward-looking statements are not guarantees of future performance and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially. Important factors that could cause actual results to differ include, but are not limited to, the risks discussed in "Risk Factors" below and the following:

- availability of adequate and timely sources of liquidity,
- delinquencies, advances and availability of servicing,
- general economic and market conditions,
- uncertainty related to market conditions and government programs,
- governmental regulations and policies, and
- uncertainty related to dispute resolution and litigation.

Further information on the risks specific to our business are detailed within this report and our other reports and filings with the Securities and Exchange Commission, including our quarterly reports on Form 10-Q and current reports on Form 8-K. Forward-looking statements speak only as of the date they are made and should not be relied upon. Ocwen Financial Corporation undertakes no obligation to update or revise forward-looking statements.

PART I

ITEM 1. BUSINESS (Dollars in thousands)

GENERAL

Ocwen Financial Corporation (OCN) is a leading asset manager and business process solutions provider specializing in loan servicing, special servicing and mortgage services. OCN is headquartered in West Palm Beach, Florida with offices in Arizona, California, Florida, Georgia and New York and global operations in Germany, Canada, Uruguay and India. OCN is a Florida corporation organized in February 1988 in connection with the acquisition of Ocwen Federal Bank FSB (the Bank).

Effective June 30, 2005, the Bank voluntarily terminated its status as a federal savings bank. This process, which we referred to as "debanking," was approved by the Office of Thrift Supervision (OTS) and resulted in the divestiture to Marathon National Bank of New York (Marathon) of the Bank's deposit liabilities and the assignment of the Bank's remaining assets and liabilities to Ocwen Loan Servicing, LLC (OLS). We continued the Bank's non-depository businesses, including its residential mortgage servicing business, under OLS, which is a licensed servicer in all 50 states, the District of Columbia and Puerto Rico.

On June 6, 2007, we acquired NCI Holdings, Inc. (NCI) for $57,000 in cash, including $2,000 of closing adjustments. NCI, through its operating subsidiary, Nationwide Credit, Inc., is ranked as one of the top 10 U.S. companies in the accounts receivable management industry. NCI's primary business is contingency collections for credit card issuers and other consumer credit providers. The majority of NCI's annual revenue comes from credit card related collections, with the remainder coming from first party customer service solutions, other consumer credit collections and student loan collections. NCI primarily serves large credit issuers and has a "blue chip" customer list.

In the fourth quarter of 2007, management of OCN approved and committed to a plan to sell its investment in Bankhaus Oswald Kruber GmbH & Co. KG (BOK), our wholly-owned German banking subsidiary that we acquired in 2004. We continue to actively market BOK and have received proposals that are in excess of the current book value but are non-binding. An interested party has completed due diligence, drafted a purchase agreement and scheduled a meeting with the German banking regulatory authorities. We are in preliminary negotiations with other interested parties subject to their due diligence. We expect to reach an agreement of sale of our investment (subject to regulatory approval) in 2009. We report the operating results of BOK as discontinued operations in our consolidated financial statements.

BUSINESS SEGMENTS AND STRATEGY

Overview

Our primary goal is to make our clients' loans worth more by leveraging our superior processes and innovative technology. In a recent comparison of servicer performance in servicing non-performing residential loans, Moody's reported that we had a "cure and cash flowing rate" that exceeded the average rate for Moody's highest-rated servicers as a group. Our high cure rate demonstrates that we are among the leaders in our industry in realizing loan values for investors and in keeping Americans in their homes.

Effective January 1, 2008, we realigned our business segments in conjunction with implementing our revised business strategy. Our current business segments, aligned within our two lines of business, are as follows:

Ocwen Asset Management	Ocwen Solutions
Servicing	Mortgage Services
Loans and Residuals	Financial Services
Asset Management Vehicles (AMV)	Technology Products

In addition to our core residential servicing business, Ocwen Asset Management (OAM) includes our equity investments in asset management vehicles and our remaining investments in subprime loans and residual securities. Asset management vehicles were previously included in the former Residential Servicing segment. Subprime loans and residuals were components of the former Residential Origination Services segment.

In addition to our unsecured collections business, Ocwen Solutions (OS) includes our residential fee-based loan processing businesses, all of our technology platforms and our equity interest in BMS Holdings, Inc. (BMS Holdings). Most of these fee-based businesses were previously part of the Residential Origination Services segment, and the results of BMS Holdings were included in Corporate Items and Other. OS can best be described as a "knowledge process outsourcer." Our competitive advantage, which is similar to that of our Servicing business, is our ability to manage high value, knowledge-based job functions with our global platform while reducing operating variability. We accomplish this by using technology solutions that include psychological principles, scripts, decision models, straight-through processing and workflow management. Our plans are to continue to sell our non-core assets, including BOK, or to finance them. In November 2008, our Board of Directors authorized management to investigate the possible sale of our remaining Global Servicing Solutions, LLC (GSS) partnerships.

Financial Information for our business segments is as follows as of and for the years ended December 31:

Segment	2008 $	2008 %	2007 $	2007 %	2006 $	2006 %
External Revenues						
Servicing	$ 339,278	69.0%	$ 342,889	71.3%	$ 341,188	79.1%
Loans and Residuals	—	—	353	0.1	225	0.1
Asset Management Vehicles	2,751	0.6	1,444	0.3	—	—
Mortgage Services	58,706	11.9	73,657	15.3	65,565	15.2
Financial Services	73,835	15.0	41,292	8.6	7,666	1.8
Technology Products	17,402	3.5	19,864	4.1	16,568	3.8
Corporate Items and Other	156	—	1,162	0.3	118	—
Consolidated	$ 492,128	100.0%	$ 480,661	100.0%	$ 431,330	100.0%
Income (Loss) from Continuing Operations before Income Taxes						
Servicing	$ 100,770	262.1%	$ 65,349	111.9%	$ 82,339	100.1%
Loans and Residuals	(14,677)	(38.2)	(8,322)	(14.3)	(4,578)	(5.6)
Asset Management Vehicles	(9,813)	(25.5)	(159)	(0.3)	(29)	—
Mortgage Services	13,298	34.6	13,584	23.3	8,416	10.2
Financial Services	(7,875)	(20.5)	(7,087)	(12.1)	(386)	(0.5)
Technology Products	3,580	9.3	8,968	15.4	562	0.7
Corporate Items and Other	(46,828)	(121.8)	(13,954)	(23.9)	(4,097)	(4.9)
Consolidated	$ 38,455	100.0%	$ 58,379	100.0%	$ 82,227	100.0%
Total Assets						
Servicing	$ 1,416,615	63.3%	$ 1,710,947	71.4%	$ 1,130,532	56.3%
Loans and Residuals	67,317	3.0	102,398	4.3	173,655	8.6
Asset Management Vehicles	26,755	1.2	74,242	3.1	—	—
Mortgage Services	3,558	0.2	24,149	1.0	16,446	0.8
Financial Services	58,707	2.6	67,149	2.8	360	—
Technology Products	8,906	0.4	17,885	0.7	60,107	3.0
Corporate Items and Other	665,874	29.7	406,894	17.0	628,474	31.3
Corporate Eliminations	(9,720)	(0.4)	(8,968)	(0.3)	169	—
Consolidated	$ 2,238,012	100.0%	$ 2,394,696	100.0%	$ 2,009,743	100.0%

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Segments” and Note 28 to the Consolidated Financial Statements for additional financial information regarding each of our segments.

Key Strategic Imperatives

Three key strategic imperatives facing OCN are as follows:

1. Liquidity

2. New business and

3. Spinning-off Ocwen Solutions as a separate company

As for liquidity and new servicing business, we have identified four key initiatives ranked from highest to lowest in terms of our ability to control the outcome:

Liquidity

First, we are currently in an environment where banks are suffering from falling asset valuations and remain concerned about capital requirements. The U.S. Treasury's actions appear to have stabilized the situation in that fewer large banks are failing, but we believe that the lending environment will remain challenged until asset prices stop falling and bank balance sheets are repaired. Despite facing such a challenging lending environment, we were able to renew a $300,000 and a $200,000 advance facility in December 2008 and January 2009, respectively.

Our success in obtaining financing has been partly attributable to our success in controlling delinquencies and the resulting advances. In addition, we have reduced non-core assets and right sized our business for the current financing environment. This focus on liquidity has resulted in cash balances of $201,025 and total borrowing capacity of $1,340,747 of which $266,770 was unused at December 31, 2008. Given our cash balances and the advance financing already in place, we are currently positioned to remain liquid this year without any new or renewed financing. Our liquidity forecast for 2009 allows for the cash retirement of our 3.25% Convertible Notes and the financing of our auction rate securities holdings at a lower advance rate if necessary.

We are continuing our efforts to develop other sources of liquidity, including pursuing advance financing facilities with new providers who find the risk / return profile attractive, and we are participating in an industry coalition that seeks, including among other things, governmental guarantees of advances as a means of facilitating additional financing. Given the progress that we have achieved in arranging financing, we have decided to withdraw our application to become a bank holding company.

New Business

Second, according to a third-party industry study, we hold a 60% cost advantage over other servicers in the servicing of non-performing residential loans, and we have implemented strategies that we believe will enable us to maintain profitability even with a declining portfolio of serviced loans. For example, we are rolling out our next generation of technology and processes for a step function improvement in cost and quality. By eliminating variability in our processes, we can grow our industry leading programs that keep more people in their homes, generate greater cash flow for investors and reduce our costs.

Third, we believe that the current environment affords us a unique opportunity to capitalize upon our exceptional loss mitigation capabilities. Accordingly, we are working with guarantors and owners of mortgages to provide special servicing arrangements under which we accept a reduced servicing fee but share in the savings as compared to their existing servicers’ performance. Savings would be measured by a control group of loans remaining with their existing servicer. Two positives associated with this program are: first, if we are able to maintain our current level of performance vis-à-vis other servicers, profitability per unpaid principal balance (UPB) should be greater than a standard servicing fee; and second, this program requires little to no capital. The negative to this program is that the receipt of fees and the recognition of earnings under accounting principles generally accepted in the United States (GAAP) will occur at a later date after performance hurdles are met.

With financing for new business difficult to obtain, we are placing particular emphasis on special servicing arrangements that minimize our need to finance advances and purchases of mortgage servicing rights (MSRs). We are also working actively with Government Sponsored Enterprises and other institutions that can benefit from our high quality servicing platform. As a result of this effort, Freddie Mac has selected Ocwen as a special servicer for the high risk loan pilot program that it announced on February 3, 2009.

Finally, the majority of our balance sheet is comprised of advances which have an imputed, if not actual, AAA rating, which are short term in duration and for which cost approximates fair value. In the current environment, advance financing has remained available to the strongest servicers, but the cost has increased and availability has become less certain. When competition returns to the credit markets, the cost of advance financing declines and availability becomes more certain, we will look to acquire existing servicing platforms as a way to leverage our low operating costs and ability to reduce delinquencies and advances.

Ocwen Solutions Spin

On November 12, 2008, our Board of Directors authorized management to pursue a plan to separate, through a tax-free spin into a newly formed publicly-traded company, all of our business operations currently included within the OS business line except for BMS Holdings and GSS. We made our decision based upon a strategic analysis that concluded that the spin would:

- Better position OS to pursue business opportunities with other servicers.
- Allow potential investors to choose between the contrasting business models of servicing and business process outsourcing models that are valued differently by the equity markets.
- Provide OS with flexibility in creating its own capital structure and would allow for a subsequent capital raise when equity markets recover.
- Give OS the option of offering its stock as consideration to potential acquisition targets.

The ownership interest in this new company will be distributed to OCN’s existing shareholders in the form of a pro rata stock dividend. Each OCN shareholder will receive one share of OS common stock for every three shares of OCN common stock held as of the close of business on the record date of the distribution. We are currently moving ahead with our efforts to address the legal and regulatory requirements for the spin with the goal of effecting the transaction by midyear 2009. We believe this transaction does not require OTS approval. These efforts include filing in March 2009 a registration statement on Form 10 with the Securities and Exchange Commission (SEC) for the proposed transaction. A vote of OCN shareholders is not required in connection with the spin.

In connection with the spin, OAM expects to enter into contractual agreements with OS to both provide certain corporate services, as well as receive commercial services. We expect OAM and OS to continue to enjoy their respective competitive advantages. After the spin, OAM and OS are expected to independently pursue strategic initiatives, manage liquidity and financing needs, and continue to operate efficiently.

Outlook

Ocwen Asset Management

We are aggressively pursuing special servicing opportunities that require little capital, and our pilot program with Freddie Mac is an example of the kind of business that we are targeting. During most of 2008, delinquency rates on our servicing portfolio were relatively stable and advances declined. However, notwithstanding a recent uptick in delinquency rates near the end of 2008, we expect advances to continue to decline in 2009. We will continue to pursue additional advance financing at a reasonable cost to increase our margin of safety and to provide the flexibility to acquire new servicing business. We do not expect to make any material additions to our servicing portfolio that require capital unless we have excess advance financing in place. We will also continue to reduce non-core assets to raise cash for our core businesses.

If advances increase or the credit markets worsen, we may need to pay significantly more for advance financing and are prepared to act aggressively to ensure adequate liquidity. If we do not win substantial new subservicing business, our revenues may decline as a result of the net runoff of our servicing portfolio. Under such a runoff scenario, our five-year outlook reflects continuing profitability with appropriate cost reductions as volume decreases.

Ocwen Solutions

The primary growth engine for Ocwen Solutions will be Mortgage Services, which we intend to expand by increasing the array and geographical range of the mortgage and default services that we provide to originators and servicers. These services include default processing, property inspection and preservation, homeowner outreach, real estate sales and title services.

We expect limited revenue but meaningful profitability growth in Financial Services in 2009. The difficult collection environment that all receivables management firms currently are facing stems from growing unemployment and consumers' limited access to credit. These issues have lowered NCI's collection rate, but NCI remains a top performer for its most important clients. NCI will continue to focus on reducing operating costs by improving processes, leveraging its global collections platform and implementing its strategic initiatives which include: scoring, scripting and optimal debtor resolution. As NCI begins to see positive results from these efforts, it will turn its attention toward revenue growth.

A more detailed description of each of our business segments follows.

Servicing

Through this segment, we earn fees by providing services to owners of residential mortgage loans, and we are one of the largest servicers of subprime mortgage loans. These loans have typically been securitized in Real Estate Mortgage Investment Conduits (REMICs). We also provide services to owners of foreclosed real estate. Because of the low return on equity, we elected to allow our real estate servicing contract with the United States Department of Veterans Affairs (VA) to expire on July 24, 2008 in accordance with its terms. Our sale of existing VA properties concluded in October 2008 followed by the complete transition of the remaining properties to the new service provider. As of December 31, 2008, we serviced 322,515 loans and real estate properties with an aggregate UPB of $40,171,532 under 506 servicing agreements for over 45 clients. These clients include firms such as Deutsche Bank, Credit Suisse and Goldman Sachs. The mortgaged properties securing the loans that we service are geographically dispersed throughout all 50 states, the District of Columbia and three U.S. territories. The five largest concentrations of properties are located in California, Florida, New York, Texas and Illinois which in the aggregate comprise 41% of the loans serviced at December 31, 2008. New York has the largest concentration of loans with 12% of the total.

We are entitled to service loans either because we purchased the MSRs from the owners of the mortgages or because we entered into subservicing agreements with the entities that own the MSRs. A Pooling and Servicing Agreement between the various parties to a mortgage securitization transaction typically specifies the rights and obligations of the holder of the servicing rights. Our largest source of revenue with respect to servicing rights is the servicing fees that we earn pursuant to servicing and subservicing agreements. In the majority of cases, we purchase the MSRs, which generally entitle us to receive 50 basis points annually on the average UPB of the loans serviced. We purchased most of the MSRs that we own today for between 25 and 95 basis points of the UPB. Under subservicing arrangements, where we do not pay for the MSRs, we generally receive between 5 and 45 basis points annually on the UPB. The servicing and subservicing fees are supplemented by related income, including late fees from borrowers who are delinquent in remitting their monthly mortgage payments, Speedpay® fees from borrowers who pay by telephone or through the Internet and interest earned on loan payments that we have collected but have not yet remitted to the owner of the mortgage (float earnings). In 2008, we collected $10,683,541 in monthly mortgage payments and one-time payoffs on behalf of the owners of these loans.

Subprime mortgage loan servicing involves special loss mitigation challenges not usually present in prime loan servicing. Over a period of years, we have developed proprietary best practices for reducing loan losses, and we continue to refine and enhance these practices to meet the challenges posed by the current market. Our proactive measures are designed to make borrowers who become delinquent begin paying again on their loans and avoid foreclosure. In the current environment, loan modifications often provide a better outcome for loan investors than do foreclosures or forbearance plans. We pride ourselves on keeping more borrowers in their homes than other servicers and avoiding foreclosure. This is a “win-win” situation for both the investors and the borrowers that we serve.

As a servicer or subservicer, we have a variety of contractual obligations including the obligation to service the mortgages according to certain standards and to advance funds to securitization trusts in the event that borrowers are delinquent on their monthly mortgage payments. When a borrower becomes delinquent, we "advance" cash to the REMIC Trustees on the scheduled remittance date thus creating a receivable due us from the REMIC Trust. We advance principal and interest (P&I Advances), taxes and insurance (T&I Advances) and legal fees, maintenance and preservation costs on properties that have already been foreclosed (Corporate Advances). If we determine that our P&I Advances cannot be recovered from the projected proceeds, we generally have the right to cease making P&I advances, declare advances in excess of net proceeds to be non-recoverable and, in most cases, recover immediately any excess advances from the general collections accounts of the respective REMIC Trustees. With T&I Advances and Corporate Advances, we continue to advance provided that net proceeds exceed projected future advances without regard to advances already made. The large majority of our advances have the highest standing and are "top of the waterfall" so that we are entitled to repayment from loan proceeds before any interest or principal is paid on the bonds, and in the majority of cases, advances in excess of loan proceeds may be recovered from pool level proceeds. The costs incurred in meeting these obligations include, but are not limited to, the interest expense incurred to finance the servicing advances.

A total of 60,885 loan modifications took effect in 2008 as compared to 768 in 2007. The majority of loans modified were delinquent, although we modified some performing loans proactively under the American Securitization Forum guidelines. The most common term modified is the interest rate. Some modifications also involve the forgiveness or rescheduling of delinquent principal and interest. To select the best resolution option for a delinquent loan, we perform a structured analysis of all options using information provided by the borrower as well as external data. We use recent broker price opinions to value the property. We then determine the option with the best expected outcome for the loan investors. The passage of both the Emergency Economic Stabilization Act of 2008 on October 1, 2008 and the President's Homeowner Affordability and Stability Plan (also known as the Make Home Affordable Plan) announced on February 18, 2009, and other related government-sponsored initiatives provide a unique opportunity for us as an asset manager and loan servicer with unparalleled loss mitigation expertise and a substantial operating cost advantage. The Make Home Affordable Plan provides a financial incentive for us to modify qualifying loans, in accordance with the plan's guidelines and requirements. We intend to be an active participant in this plan and expect it to impact our revenue and profits. Of the loans modified in 2008, we believe 38,809 would qualify under the requirements of this plan. In January and February 2009, we modified 8,793 loans which we believe meet the requirements of this plan. Under the plan, we receive an annual financial incentive for up to four years, provided certain conditions are met. At the same time, however, we forego accrued late fees incurred in the year of modification for each qualifying loan modification.

With our highly automated, artificial intelligence driven technology platforms and global workforce, we can quickly scale up to handle multiples of volume with modest infrastructure additions. We have refocused our business development efforts away from Wall Street to Washington, D.C., and secured a contract with Freddie Mac to service non-performing loans on a trial basis in December 2008.

The key business drivers in the Servicing segment are aggregate UPB, delinquencies and prepayment speed.

Aggregate Unpaid Principal Balance (UPB). Aggregate UPB is a key revenue driver. As noted earlier, servicing fees are usually earned as a percentage of UPB, and growth in the portfolio means growth in servicing fees. Additionally, a larger servicing portfolio generates increased ancillary fees and leads to larger custodial balances which generate greater float income. A larger servicing portfolio also drives increases in expenses. To the extent that we grow UPB through the purchase of MSRs, our amortization of MSRs will generally increase with our servicing revenues. We will also incur additional interest expense to finance the servicing advances, and our compensating interest expense will increase as the size of our portfolio increases.

Delinquencies. Delinquencies also have a significant impact on our results of operations. Non-performing loans are more expensive to service than performing loans because our cost of servicing is higher and, although collectability is generally not a concern, our advances to investors increase which results in higher financing costs. Performing loans include those loans that are current or have been delinquent for less than 90 days in accordance with their original terms and those loans for which borrowers are making scheduled payments under loan modifications, forbearance plans or bankruptcy plans. We consider all other loans to be non-performing.

When borrowers are delinquent, the amount of funds that we are required to advance to the investors on behalf of the borrowers increases. While the collectibility of advances generally is not an issue, we do incur significant costs to finance those advances. We utilize both securitization, (i.e., match funded liabilities) and revolving credit facilities to finance our advances. As a result, increased delinquencies result in increased interest expense.

In addition, the cost of servicing non-performing loans is higher than the cost of servicing performing loans primarily because the loss mitigation techniques that we employ to keep borrowers in their homes are more costly than the techniques used in handling a performing loan. When loans are performing, we have limited interaction with the borrowers, and relatively low-cost customer service personnel conduct most of that interaction. Once a loan becomes delinquent, however, we must employ our loss mitigation capabilities to work with the borrower to return the loan to performing status. These procedures involve increased contact with the borrower and the development of forbearance plans or loan modifications by highly skilled consultants who command higher compensation. On those occasions when loans go into foreclosure, we incur additional costs related to coordinating the work of local attorneys to represent us in the foreclosure process. Finally, when we foreclose on loans, we employ specialists to service the real estate and manage the sale of those properties on behalf of our investors. A significant increase in delinquencies would cause us to increase our activities in these areas resulting in increased operating expenses. This increase in operating expenses should be somewhat offset by increased late fees for loans that become delinquent but do not enter the foreclosure process.

Prepayment Speed. A significant driver of our business is prepayment speed, which is the measurement of how quickly UPB is reduced. Items reducing UPB including normal principal and interest payments, refinancings, voluntary property sales and involuntary property sales such as foreclosures or short sales. Prepayment speed impacts future servicing fees, amortization of servicing rights, float income, interest expense on advances and compensating interest expense. When prepayment speed increases, our servicing fees decrease faster which results in a shorter amortization period and higher amortization expense because we amortize servicing rights in proportion to total expected income over the life of a portfolio. The converse is true when prepayment speed decreases.

Prepayment speed affects our float balances and float income as decreased prepayment speed leads to our holding lower float balances before remitting payoff collections to the investor and lower float income due to a lower invested balance. Lower prepayments have been associated with higher delinquency rates, higher advances balances and interest expense, but lower compensating interest expense. Compensating interest expense represents the difference between the full month of interest that we are required to remit to the REMIC Trustee in the month that a loan pays off and the amount of interest that we actually collect from the borrower for that month, and is included in “Servicing and origination expenses” in our consolidated statements of operations.

The U.S. Department of Housing and Urban Development, Freddie Mac and Fannie Mae have approved OLS as a loan servicer. Standard & Poor’s Rating Services (Standard & Poor’s) has rated OLS “Strong” as a Residential Subprime Servicer and Residential Special Servicer. “Strong” represents Standard & Poor’s highest ratings category. Moody’s Investors Services, Inc. (Moody’s) has rated OLS “SQ2–” as a Residential Subprime Servicer and “SQ2” as a Residential Special Servicer. “SQ2” represents Moody’s second highest rating category. Fitch Ratings (Fitch) has rated OLS “RPS2” for Residential Subprime Servicing and “RSS2” for Residential Special Servicing. These represent Fitch’s second highest categories.

Loans and Residuals

Our Loans and Residuals segment consists of two components:

Trading and investing activities. During 2007, we de-emphasized our whole loan purchase and securitization activities. Long-term, the key driver of our results in this area is the performance of our assets. The default risk associated with our loans held for resale and with the loans underlying our mortgage backed securities and the success of our loan modification initiatives are particularly important to asset performance.

Subprime originations. In January 2007, we decided to close our subprime loan origination operation and no longer originate loans. Our loan origination operation included the results of Funding America, LLC (Funding America), which we began to include in our consolidated financial statements as of December 31, 2005. Our decision to discontinue the subprime loan origination component included closing Funding America.

Asset Management Vehicles

In 2007, we began developing asset management vehicles that benefit from our servicing and loss mitigation capabilities. These entities provide us with a source of servicing. By involving third parties in the funding of these entities, we are able to realize a greater benefit from our capabilities than would be possible if we were to engage in these ventures using only our own financial resources.

Ocwen Structured Investments, LLC (OSI). To date we have invested $37,500 in OSI. Our commitment to invest up to an additional $37,500 in OSI expired on September 18, 2008. OSI began operations during the second quarter of 2007. Our ownership interest in OSI is 25%. OSI invests primarily in MSRs and the related lower tranches and residuals of residential mortgage-backed securities, the credit risk of which is partially mitigated through the use of credit default swaps. Under agreements that we have entered into with OSI, we are responsible for providing various management services and for subservicing the portfolio of loans underlying its MSRs. During 2008, we received distributions from OSI totaling $16,000 that represent returns of capital. We, along with the other principal investors, are also entitled to receive a preferential return in excess of our ownership interest in the event that OSI achieves certain performance objectives. These preferential distributions are, however, subject to a repayment provision should the future performance of OSI not support the preference payments made to the principal investors. To date, we have not received any preferential distributions.

Ocwen Nonperforming Loans, LLC (ONL). Our investments in ONL and related entities represent approximately 25% equity interests. To date we have invested a combined $37,561 in ONL and related entities and have committed to invest up to an additional $37,125. This commitment expires on September 13, 2010. These entities invest in non-performing residential loans purchased at a discount and in foreclosed real estate. Under agreements that we have entered into with ONL and affiliates, we provide various management services and act as the servicer of the loans and foreclosed real estate. During 2008, we received distributions from ONL and related entities totaling $21,046 that represent returns of capital. We are also entitled to receive a preferential return in excess of our ownership interest in the event that ONL and related entities achieve certain performance objectives. To date, we have not received any preferential distributions.

Mortgage Services

Mortgage Services, our mortgage and default services business, provides due diligence, underwriting, valuation, real estate sales, default processing services, property inspection and preservation services, homeowner outreach, closing and title services and knowledge process outsourcing services. Additionally, Mortgage Services performs international, primary, sub and special servicing primarily for commercial loans.

The Mortgage Services segment generates the majority of its revenue by providing professional outsourced services across the lifecycle of a mortgage loan. We have longstanding relationships with some of the leading capital markets firms, commercial banks, hedge funds, insurance companies and lending institutions and provide a fully integrated suite of products that enhances our clients' ability to make informed investment decisions. Mortgage services has limited capital requirements and represents a balance among the origination, servicing and resolution of loans, thereby producing relatively stable earnings in spite of the decline in residential loan origination activity. We believe that our continued success in this area is dependent on our ability to manage our operating costs efficiently and to continue to improve the quality and timeliness of service delivery so that we can provide high quality products at competitive prices. We also recently expanded our product offerings in this area to include real estate sales, property inspection and preservation services, default processing services, title services and homeowner outreach. We generated minimal revenues from these products in the fourth quarter of 2008, but we anticipate continued growth throughout 2009. Mortgage Services consists of three business components:

Portfolio Solutions. This component provides fee-based transaction management services including valuation, due diligence, forensic analysis, fraud review and settlement services. Historically, revenue was directly correlated to the level of origination activity; however, during 2007, we restructured to expand our products and services focusing on supporting delinquent and defaulted loans. By enhancing our proprietary processes and the embedded technology, we were able to somewhat offset the negative impact of the dramatic decline in loan origination activity in 2008 on our revenue stream. As a result of our ability to reduce operating expenses, income from operations as a percent of revenue has improved in 2008 as compared to 2007

Business Process Outsourcing. This component provides loan underwriting, quality control, insurance and claims processing, call center services and analytical support to clients.

International Operations. This component provides master, primary, sub and special servicing primarily for commercial loans. International Operations generally has a consistent and recurring revenue stream. In a typical transaction, the loan originator or purchaser engages us to provide our services over the life of the loan. We are paid a monthly servicing fee as a percentage of the UPB of the loan until such time as the loan is paid off or the asset is liquidated. The majority of our subservicing and special servicing revenue is based upon a negotiated rate multiplied by the outstanding principal balance of the underlying mortgage loans. In November 2008, our Board of Directors authorized management to investigate the possible sale of our remaining GSS partnership in Germany.

Financial Services

The Financial Services segment is our unsecured collections business. Effective June 6, 2007, this segment includes the results of NCI, a receivables management company. NCI specializes in contingency collections and customer relationship management for credit card issuers and other consumer credit providers. NCI's primary source of revenue is fees for collections on behalf of credit card issuers and other consumer credit providers on a contingency basis. The fees generally range from 4% to 40% of the dollars collected on behalf of the owners of the receivables. Our current focus is on the improvement of NCI's financial performance.

We have implemented an integration plan that generates cost savings from the combined operations of NCI and ORG. We believe that the key to our success is our ability to leverage scripting engines and other advanced tools.

Technology Products

Technology Products is responsible for the design, development and delivery of a suite of technology products and services to the mortgage industry. Technology Products includes the REAL suite of applications that support our servicing business as well as the servicing and origination businesses of external customers. The REAL suite of applications is complemented by the offering of other technology services primarily to OCN. This segment also includes the results of our approximately 45% equity investment in BMS Holdings, Inc.

The key products offered by Technology Products include:

- REALServicing – an enterprise mortgage loan servicing product that covers the entire loan administration cycle from loan boarding to satisfaction, including all collections, payment processing, escrow and reporting functions. REALServicing has the ability to service both performing loans and loans in all stages of delinquency and to deliver real estate asset management functionality. REALServicing is used as the core loan servicing application by OCN and few external customers.

- REALResolution – a default loan administration product that provides decision support, timeline management and reporting capability for loans and assets in loss mitigation or foreclosure and for foreclosed real estate. It is also designed to manage borrower bankruptcy from a loan administration perspective. REALResolution is deployed in conjunction with a loan servicing system such as REALServicing.

-

REALTrans – an order management system that handles the fulfillment of orders for real estate products primarily related to origination and servicing. REALTrans has vendor management functionality and provides strong coverage of the entire suite of loan origination products including appraisal, flood, title and credit reporting.

- REALSynergy – a loan servicing platform that handles the servicing of commercial loans. This product manages the entire life cycle associated with commercial loans and has over 50 external customers.

- REALRemit – an electronic invoice presentment and payment system which provides our real estate vendors and brokers with the ability to submit invoices electronically for payment and to have invoice payments deposited directly to their bank accounts.

BMS Holdings provides technology-based case management solutions to trustees, law firms and debtor companies that administer cases in the federal bankruptcy system. BMS Holdings provides software applications, computer hardware and support services primarily to Chapter 7 bankruptcy trustees at no direct charge. In exchange for the technology and services provided, trustee customers contractually agree to place substantially all of the cash balances under their administration with a depository institution designated by BMS Holdings. Revenue is primarily derived by BMS Holdings from this deposit referral relationship and is based on the aggregate amount of cash balances on deposit and prevailing market rates on short-term financial instruments.

Corporate Items and Other

In Corporate Items and Other, we report business activities that are individually insignificant, items of revenue and expense not directly related to a business unit, interest income on short-term investments of cash and the related costs of financing these investments and certain other corporate expenses. Our corporate debt is also included in Corporate Items and Other. Insignificant business activities include, among others, BOK and our affordable housing investment activities. We report the results of operations of BOK in the consolidated financial statements as discontinued operations.

SOURCES OF FUNDS

We meet our current need for funds through financings, such as match funded liabilities, lines of credit and other secured borrowings, through funds generated by operations, such as servicing fees (including float earnings and ancillary fees), through collections of advances that were not financed and through payments received on loans held for resale and trading securities. Our primary uses of funds are the funding of servicing advances, the payment of interest and operating expenses and the repayments of borrowings. We closely monitor our liquidity position and ongoing funding requirements, and we invest available funds in short-term investment grade securities.

Our ability to sustain and grow our Servicing business depends in part on our ability to maintain and expand sources of financing to fund servicing advances and to purchase new servicing rights. We finance most of our advances using match funded securitization facilities through Barclays Capital, Inc., Deutsche Bank AG, Greenwich Capital Financial Products, Inc. and Wachovia Bank, N.A. We previously financed advances through a banking syndication, led by JPMorgan Chase Bank, N.A. that we did not renew prior to its maturity in August 2008. Instead, we exercised our option to convert the facility to an 18-month term note secured solely by MSRs. This term note is currently our sole source of financing for MSRs. We also finance our investment in auction rate securities through the use of a term note that matures on June 30, 2009 (the Investment Line).

Delinquency rates determine the amount of funds that we, as servicer, must advance to meet contractual requirements. Meeting the need to advance these funds requires readily available unused borrowing capacity. However, as noted earlier, we are generally obligated to advance funds only to the extent that we believe that the advances are recoverable, and the risk of loss on advances is low because advances generally have priority over the securities that the securitization trust has issued.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources” for additional financial information regarding our sources of funds.

COMPETITION

A discussion of competition as it relates to our primary businesses appears in Item 1A, “Risk Factors.”

SUBSIDIARIES

A list of our significant subsidiaries is set forth in Exhibit 21.0.

EMPLOYEES

As of December 31, 2008, we had 4,146 employees, of which 1,400 were resident in our U.S. facilities, 2,668 were resident in our India operations centers and 78 were based in other countries. We have developed our India operations centers over the past seven years in order to benefit from the cost savings opportunities and the quality workforce that are available to us in that country.

In the U.S., our principal locations as of December 31, 2008 included our headquarters in West Palm Beach, Florida, which had 242 employees, our operations center in Orlando, Florida, which had 190 employees, and NCI locations in Vestal, New York with 527 employees, Kennesaw, Georgia with 131 employees and Phoenix, Arizona with 128 employees. In total, NCI operations included 907 employees at five locations in the U.S. plus 56 employees in Canada. We also had 61 employees at various other locations in the U.S.

Of our employees in India as of December 31, 2008, 1,568 were in the city of Bangalore, 926 were in the city of Mumbai and 174 were in our offices in the state of Goa. Our India workforce is deployed as follows:

- 37% are in Servicing,
- 24% are in Mortgage Services

- 18% are in Technology Products,
- 11% are in Financial Services,
- Fewer than 1% work in various other business units and
- 10% are in support functions, including Human Resources, Corporate Services, Accounting, Legal and Risk Management.

REGULATION

Our business is subject to extensive regulation by federal, state and local governmental authorities, including the Federal Trade Commission and the state agencies that license our servicing and collection entities. We also 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, the Truth in Lending Act, the Fair Credit Reporting Act and the Homeowners Protection Act. These statutes apply to debt collection, foreclosure and claims handling, investment of and interest payments on escrow balances and escrow payment features, and they mandate certain disclosures and notices to borrowers. These requirements can and do change as statutes and regulations are enacted, promulgated or amended.

We are also subject to licensing and regulation as a mortgage service provider and/or debt collector in a number of states. We are subject to audits and examinations that are conducted by the states. From time to time, we receive requests from state and other agencies for records, documents and information regarding our policies, procedures and practices regarding our loan servicing and debt collection business activities. We incur significant ongoing costs to comply with governmental regulations.

We entered into various agreements to obtain the approval of the OTS for our debanking plan. We also entered into an Assignment and Assumption Agreement, dated June 28, 2005, with our subsidiaries Investors Mortgage Insurance Holding Company, Rocaille Acquisition Subsidiary, Inc., the Bank and OLS whereby the Bank assigned to OLS, directly or indirectly, all of its assets, liabilities and business remaining after the consummation of the debanking transactions (the Assignment). Also on June 28, 2005, we entered into an agreement (the Guaranty) in favor of the OTS and any holders of claims with respect to liabilities assumed by OLS from the Bank in connection with the Assignment. The Guaranty contains affirmative covenants relating to the maintenance of a cash collateral account, reporting requirements, transactions with affiliates, preservation of the existence of our subsidiaries and maintenance of not less than $35,000 of unencumbered assets. The Guaranty also contains negative covenants that restrict our ability to (i) incur indebtedness if certain financial ratios are not achieved or if we fail to maintain a specified minimum net worth, (ii) enter into merger transactions or a sale of substantially all of our assets, (iii) sell, lease, transfer or otherwise dispose of our assets, or (iv) pay dividends or acquire our capital stock. While we do not expect that compliance with the Guaranty will have a material adverse impact on our financial condition, results of operations or cash flows, if an event of default were to occur we would be obligated to increase the cash collateral amount. Furthermore, the OTS and other beneficiaries of the Guaranty are entitled to initiate enforcement proceedings against us, which, in the case of the OTS, could result in monetary civil penalties.

There are a number of foreign regulations that are applicable to our operations in India, including acts that govern licensing, employment, safety, taxes, insurance, and the basic law which governs the creation, continuation and the winding up of companies as well as the relationships between the shareholders, the company, the public and the government. The Central Act is applicable to all of India, while various state acts may be applicable to certain locations in India. Non-compliance with the laws and regulations of India could result in fines, penalties or sanctions to our operations. In addition, non-compliance could lead to loss of reputation and other penalties and prosecution.

AVAILABLE INFORMATION

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are made available free of charge through our website (http://www.ocwen.com) as soon as such material is electronically filed with or furnished to the SEC. The public may read or copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers, including OCN, that file electronically with the SEC. The address of that site is www.sec.gov. We have also posted on our website, and have available in print upon request, the charters for our Audit Committee, Compensation Committee and Governance Committee, our Governance Guidelines and our Code of Ethics and Code of Ethics for Senior Financial Officers. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to or waiver of the Code of Ethics for Senior Financial Officers, as well as any amendment to the Code of Ethics or waiver thereto applicable to any executive officer or director. The information provided on our website is not part of this report and is therefore not incorporated herein by reference.

On May 30, 2008, pursuant to Section 303A.12 of the listing standards of the New York Stock Exchange, our Chief Executive Officer certified to the New York Stock Exchange that he was not aware of any violation by Ocwen Financial Corporation of the New York Stock Exchange corporate governance listing standards as of that date. Additionally, we filed with the SEC the CEO/CFO certifications required under Section 302 of the Sarbanes-Oxley Act as Exhibits to our Form 10-K.

ITEM 1A. RISK FACTORS (Dollars in thousands)

An investment in our common stock involves significant risks that are inherent to our business. We describe below the principal risks and uncertainties that management believes affect or could affect us. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. You should carefully read and consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report before you decide to invest in our common stock. If any of the following risks actually occur, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly, and you could lose all or part of your investment.

Continued economic slowdown and/or continued deterioration of the housing market could increase delinquencies, defaults, foreclosures and advances. During any period in which the borrower is not making payments, we are required under most of our servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for investors, pay property taxes and insurance premiums and process foreclosures. We also advance funds to maintain, repair and market real estate properties on behalf of investors. Most of our advances have the highest standing and are "top of the waterfall" so that we are entitled to repayment from loan proceeds before any interest or principal is paid on the bonds, and in the majority of cases, advances in excess of loan proceeds may be recovered from pool level proceeds.

An increase in advances outstanding relative to the change in the size of the servicing portfolio can result in substantial strain on our financial resources. This occurs because excess growth of advances increases financing costs with no offsetting increase in revenue, thus reducing profitability. If we are unable to fund additional advances, we could to breach the requirements of our servicing contracts. Such developments could result in our losing our servicing rights, which would have a substantial negative impact on our financial condition and results of operations and could trigger cross-defaults under our various credit agreements.

We may be unable to obtain sufficient capital to meet the financing requirements of our business. Our financing strategy includes the use of significant leverage. Accordingly, our ability to finance our operations and repay maturing obligations rests in large part on our ability to borrow money. Our ability to borrow money is affected by a variety of factors including:

- limitations imposed on us by existing lending and similar agreements that contain restrictive covenants that may limit our ability to raise additional debt;
- the recent decline in liquidity in the credit markets due in part to the recent turmoil in the subprime mortgage market;
- the strength of the lenders from whom we borrow; and
- borrowing on advance facilities is limited by the amount of eligible collateral pledged and may be less than the borrowing capacity of the facility.

Our senior secured credit facility was the only source of debt that was available to fund the purchase of MSRs, and it matured in August 2008. At that time, we repaid the borrowings under the facility that were secured by advances and converted the remaining borrowings that were secured by MSRs to a term note. The term note matures in February 2010 and may not be used to finance new MSRs. We are exploring alternatives for financing MSRs.

Our 3.25% Convertible Notes become callable at the option of the investor in August 2009, and we expect them to be called. We repurchased $25,910 of these notes in February 2009 at 95% of par value, reducing the outstanding balance to $56,445. If operating cash flow is insufficient, other financing sources may be needed to meet the expected call obligation in August 2009.

An event of default, a negative ratings action by a rating agency, the perception of financial weakness, an adverse action by a regulatory authority or a general deterioration in the economy that constricts the availability of credit may increase our cost of funds and make it difficult for us to renew existing credit facilities and obtain new lines of credit. We are currently exploring other methods of raising capital, including bank financing, conduit financing or equity or debt offerings. We cannot predict whether any additional financing will be available at all or on acceptable terms.

Our advance facilities are revolving facilities, and in a typical monthly cycle, we repay up to one-third of the borrowings under these facilities from collections. During the remittance cycle, which starts in the middle of each month, we depend on our lenders to provide the cash necessary to make remittances to the Servicing investors where such new advances represent eligible collateral under our advance facilities. If one or more of these lenders were to fail, we may not have sufficient funds to meet our obligations.

With strong competition in our primary business segment, special servicing contracts and purchases of seasoned assets may not be sufficient to maintain scale in the servicing business given the continued absence of new securitizations. The lack of subprime originations in 2008 has had and may continue to have an adverse impact on our ability to maintain or expand our servicing portfolio. The market for new special servicing contracts, at present, remains relatively small. The strategy of purchasing seasoned assets to service requires willing sellers and sufficient advance financing. Our competitors include a number of large financial institutions. These financial institutions generally have significantly greater resources and access to capital than we do which gives them the benefit of a lower cost of funds. Because a part of our strategy depends on our ability to obtain new servicing business, we can provide no assurance that such competition will not have an adverse impact on our ability to implement our strategy.

A significant increase in prepayment speeds or delinquencies could adversely affect our financial results. Prepayment speed and delinquency rate are significant drivers of our business. Prepayment speed is the measurement of how quickly borrowers pay down the UPB of their loans. Prepayment speed and delinquency rate have a significant impact on our revenues, our expenses and on the valuation of our MSRs as follows:

- *Revenue*. If prepayment speeds increase, our servicing fees will decrease because of the faster decrease in UPB on which those fees are based. The reduction in servicing fees would be somewhat offset by increased float earnings, because the faster repayment of loans will result in higher balances in the custodial accounts that generate the float earnings. Conversely, decreases in prepayment speeds drive increased servicing fees and lead to lower float balances and float earnings. An increase in delinquencies may delay the timing of revenue recognition because we recognize servicing fees as earned which is generally upon collection. An increase in delinquencies also leads to lower float balances and float earnings.

- *Expenses*. Amortization of MSRs is the largest operating expense of our Servicing business. Since we amortize servicing rights in proportion to total expected income over the life of a portfolio, an increase in prepayment speeds or delinquencies will lead to increased amortization expense as we revise downward our estimate of total expected income. Faster prepayment speeds would also result in higher compensating interest expense. Compensating interest expense represents the difference, in the month in which a loan is repaid, between the full month of interest that we are required to remit to the trust and the amount of interest that we actually collect from the borrower. Decreases in prepayment speeds lead to decreased amortization expense as the period over which we amortize MSRs is extended. Slower prepayment speeds also lead to lower compensating interest expense.

- *Valuation of MSRs*. We base the price we pay for MSRs and the rate of amortization of those rights on, among other things, our projections of the cash flows from the related pool of mortgage loans. Our expectation of prepayment speeds and delinquencies are significant assumptions underlying those cash flow projections. If prepayment speeds or delinquencies were significantly greater than expected, the carrying value of our MSRs could exceed their estimated fair value which is based on our cash flow projections. When the carrying value of MSRs exceeds their fair value, we are required to record an impairment charge, which has a negative impact on our financial results.

Thus far, in 2009, we have acquired one small servicing portfolio and unless sufficient advance financing is available, we do not expect to make any material additions to our servicing rights other than through the acquisition of special servicing. If this does not occur, and we do not win substantial new subservicing business, our revenues may decline as a result of the net runoff of the portfolio. As a result, we may be unable to sustain growth or even to maintain our current level of business. In determining the purchase price for servicing rights, management makes assumptions regarding the following, among other things:

- the rates of prepayment and repayment within the underlying pools of mortgage loans;
- projected rates of delinquencies and defaults;
- future interest rates;
- our cost to service the loans;
- ancillary fee income; and
- amounts of future servicing advances.

If these assumptions are inaccurate or the bases for the assumptions change, the price we pay to acquire servicing rights may prove to be too high. This could result in lower than expected profitability or a loss. To the degree that we purchase servicing rights in the future, our success is highly dependent upon accurate pricing of servicing rights.

We are subject to investment risks. We have, in some cases, retained subordinate and residual interests in connection with the securitization of our loans and have acquired other residual interests outright or in connection with our acquisition of subsidiaries. In addition, we have invested in certain asset management vehicles that invest principally in the same classes of assets. The performance of these types of securities has at times been negatively impacted by higher than expected prepayment speeds and credit losses experienced on the mortgage loans collateralizing the securities. We remain subject to the risk of loss on our remaining securities primarily to the extent that actual credit losses exceed expected credit losses in the future.

We also have invested in loans that we hold for resale. We believe that we have established adequate valuation allowances for declines in fair values below the cost of these loans in accordance with GAAP. However, future increases to these valuation allowances may be necessary due to changes in economic conditions and the performance of these loans prior to their sale or securitization. Increases in our valuation allowances for declines in fair value below cost would adversely affect our results of operations.

We use estimates in determining the fair value of certain assets, such as MSRs, auction rate securities and residual securities. If our estimates proveto be incorrect, we may be required to write down the value of these assets, which could adversely affect our earnings. We use internal financial models that use, wherever possible, market participant data to value our MSRs, auction rate securities and residuals. These models are complex and use asset-specific collateral data and market inputs for interest and discount rates. In addition, the modeling requirements of MSRs, auction rate securities and residual securities are complex because of the high number of variables that drive cash flows associated with MSRs, the complex cash flow structures (which may differ on each securitization) that determine the value of residual securities and the uncertainty regarding liquidity dates of auction rate securities.

Even if the general accuracy of our valuation models is validated, valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships that drive the results of the models. Such assumptions are complex, as we must make judgments about the effect of matters that are inherently uncertain. If prepayment speeds increase more than estimated, loan loss levels are higher than anticipated or financial market illiquidity continues beyond our estimate, we may be required to write down the value of certain assets, which could adversely impact our earnings.

A downgrade in our servicer ratings could have an adverse effect on our business, financial condition or results of operations. Standard & Poor's, Moody's and Fitch rate us as a mortgage servicer. Our current favorable servicer ratings from these entities are important to the conduct of our loan servicing business. We can provide no assurance that these ratings will not be downgraded in the future. Any such downgrade could have an adverse effect on our business, financing activities, financial condition or results of operations.

Governmental and legal proceedings and related costs could adversely affect our financial results. An adverse judgment in various lawsuits, including purported class action lawsuits, could affect our financial condition and results of operations. We and certain of our affiliates have been named as defendants in a number of purported class action lawsuits challenging our residential loan servicing practices. At least one of our competitors has paid significant sums to settle lawsuits brought against it that raised claims similar to those raised in the lawsuits brought against us and our affiliates. Although we believe that we have meritorious legal and factual defenses to the lawsuits, we can provide no assurance that we will ultimately prevail. Litigation and other proceedings may require that we pay settlement costs, damages, penalties or other charges which could adversely affect our financial results. For more information about our legal proceedings, see “Legal Proceedings.”

The OTS and other beneficiaries of the Guaranty could initiate enforcement proceedings against us, which, in the case of the OTS, could result in civil money penalties. Accordingly, there can be no assurance that any such events, were they to occur, would not have a material adverse effect on our financial condition, results of operations or cash flows.

Federal or state government actions could adversely affect our financial results or business. Government action that results in large scale refinancing of subprime mortgages could substantially increase our prepayment speed, reducing revenue and the value of our MSRs. A Federal moratorium on foreclosures could increase the timeline to recover advances, increase advance balances, reduce advance rates, limit future borrowing or cause a repayment of borrowing on certain facilities. How future actions, and those currently under consideration, by federal or state governments are implemented could significantly change the manner in which we do business, potentially limit the opportunities to grow our business or increase our operating or financing costs.

The expanding body of federal, state and local regulation and/or the licensing of loan servicing, collections or other aspects of our business may increase the cost of compliance and the risks of noncompliance. As noted in “Regulation,” our business is subject to extensive regulation by federal, state and local governmental authorities and is subject to various laws and judicial and administrative decisions imposing requirements and restrictions on a substantial portion of our operations. The volume of new or modified laws and regulations has increased in recent years and, in addition, some individual municipalities have begun to enact laws that restrict loan servicing activities including delaying or preventing foreclosures or forcing the modification of certain mortgages. If our regulators impose new or more restrictive requirements, we may incur additional significant costs to comply with such requirements, which could further adversely affect our results of operations or financial condition. In addition, our failure to comply with these laws and regulations could possibly lead to civil and criminal liability; loss of licensure; damage to our reputation in the industry; fines and penalties and litigation, including class action lawsuits; or administrative enforcement actions. Any of these outcomes could harm our results of operations or financial condition.

Our earnings may be inconsistent. Our past financial performance should not be considered a reliable indicator of future performance, and historical trends may not be reliable indicators of anticipated financial performance or trends in future periods.

The consistency of our operating results may be significantly affected by inter-period variations in our current operations, including the amount of servicing rights acquired and the changes in realizable value of those assets due to, among other factors, increases or decreases in prepayment speeds.

Certain non-recurring gains and losses that have significantly affected our operating results may result in substantial inter-period variations in financial performance.

An increase in interest rates could harm our business. An increase in interest rates could generate an increase in delinquency, default and foreclosure rates occasioning an increase in both operating expenses and interest expense on advances and could cause a reduction in the value of, and income from, our loans and subordinate and residual securities. Rising delinquencies also delay our collection of servicing fees, although we anticipate that we will ultimately collect these fees.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates. From time to time, we have used various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. The derivative financial instruments that we select may not have the effect of reducing our interest rate risks. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies, improperly executed and documented transactions or inaccurate assumptions could actually increase our risks and losses. In addition, hedging strategies involve transaction and other costs. We cannot be assured that our hedging strategies and the derivatives that we use will adequately offset the risks of interest rate volatility or that our hedging transactions will not result in or magnify losses.

We have significant operations in India that could be adversely affected by changes in the political or economic stability of India or by government policies in India or the U.S. More than 2,600 of our employees are located in India. A significant change in India’s economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally and our business in particular. The political or regulatory climate in the U.S. or elsewhere also could change so that it would not be lawful or practical for us to use international operations centers. For example, changes in privacy regulations could require us to curtail our use of lower-cost operations in India to service our businesses which could reduce the cost benefits we currently realize from using these operations. If we were to cease our operations in India and transfer these operations to another geographic area, we could incur increased overhead costs that could materially and adversely affect our results of operations.

We may need to increase the levels of our employee compensation more rapidly than in the past to retain talent. Unless we are able to continue to enhance the efficiency and productivity of our employees, wage increases in the long term may reduce our profitability.

Technology failures could damage our business operations and increase our costs. The financial services industry as a whole is characterized by rapidly changing technologies, and system disruptions and failures may interrupt or delay our ability to provide services to our customers. The secure transmission of confidential information over the Internet is essential to our maintaining consumer confidence in certain of our services. Security breaches, acts of vandalism and developments in computer capabilities could result in a compromise or breach of the technology that we use to protect our customers' personal information and transaction data. Consumers generally are concerned with security breaches and privacy on the Internet, and Congress or individual states could enact new laws regulating the electronic commerce market that could adversely affect us.

The loss of the services of our senior managers could have an adverse effect on us. The experience of our senior managers is a valuable asset to us. Our chairman and chief executive officer, William C. Erbey, has been with us since our founding in 1987, and our president, Ronald M. Faris, joined us in 1991. Other senior managers have been with us for 10 years or more. We do not have employment agreements with, or maintain key man life insurance relating to, Mr. Erbey, Mr. Faris or any of our other executive officers. The loss of the services of our senior managers could have an adverse effect on us.

Our directors and executive officers collectively own a large percentage of our common shares and could influence or control matters requiring shareholder approval. Our directors and executive officers and their affiliates collectively own or control approximately 40% of our outstanding common shares. This includes approximately 30% owned or controlled by our chairman and chief executive officer, William C. Erbey, and approximately 10% owned or controlled by our director and former chairman, Barry N. Wish. As a result, these shareholders could influence or control virtually all matters requiring shareholder approval, including the amendment of our articles of incorporation, the approval of mergers or similar transactions and the election of all directors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth information relating to our primary facilities at December 31, 2008:

Location	Owned/Leased	Square Footage
Executive office and headquarters:		
West Palm Beach, Florida	Leased	41,860
Document storage and imaging facility:		
Riviera Beach, Florida	Leased	65,000
Servicing operations center:		
Orlando, Florida	Subleased (1)	64,850
NCI office and customer support centers:		
Kennesaw, Georgia	Leased (2)	46,700
Vestal, New York	Leased	54,957
Phoenix, Arizona	Leased	32,929
Goa, India	Leased	17,216
Business operations and technology support offices:		
Bangalore, India	Leased	92,650
Bangalore, India	Leased	56,960
Mumbai, India	Leased	46,280
Montevideo, Uruguay	Leased	16,668

(1) In December 2007, we entered into a sale-leaseback agreement whereby we sold this facility to a third party and then immediately leased it back. In December 2008, we assigned this lease to another third party. Under a sublease agreement, we will continue to occupy the first floor of the building through July 2009 and a portion of the second floor through December 2009.

(2) We have provided notice to the owner of this facility that we are terminating our lease commitment effective December 31, 2009.

In addition to the facilities listed above, GSS leases one office for commercial servicing and consulting operations in Germany. BOK has two offices in Germany, one in Berlin and one in Mainz. NCI leases three smaller offices in Miramar, Florida; Sacramento, California; and Victoria, British Columbia. We also lease a small office in Atlanta, Georgia. We no longer occupy our former mortgage fulfillment center located in Lisle, Illinois and have sublet the space to a third party for the remaining term of the lease.

ITEM 3. LEGAL PROCEEDINGS (Dollars in thousands)

A description of material pending or recently settled legal proceedings to which OCN or its subsidiaries are a party follows:

The liability, if any, for the claims noted below against Ocwen Federal Bank FSB (the Bank) has been assumed by OLS as successor in interest under an Assignment and Assumption Agreement, dated June 28, 2005, whereby OLS assumed all of the Bank's remaining assets and liabilities, including contingent liabilities, in connection with its voluntary termination of its status as a federal savings bank.

On April 13, 2004, the United States Judicial Panel on Multi-district Litigation granted our petition to transfer and consolidate a number of lawsuits against the Bank, OCN and various third parties arising out of the servicing of plaintiffs' mortgage loans into a single proceeding pending in the United States District Court for the Northern District of Illinois styled: In re Ocwen Federal Bank FSB Mortgage Servicing Litigation, MDL Docket No. 1604 (the MDL Proceeding). Currently, there are approximately 64 lawsuits against the Bank and/or OCN consolidated in the MDL Proceeding involving 98 mortgage loans that we currently service or previously serviced. Additional similar lawsuits have been brought in other courts, some of which may be transferred to and consolidated in the MDL Proceeding. The borrowers in many of these lawsuits seek class action certification. Others have brought individual actions. No class has been certified in the MDL Proceeding or any related lawsuits. On April 25, 2005, the trial court entered an Opinion and Order granting the Bank partial summary judgment finding that, as a matter of law, the mortgage loan contracts signed by plaintiffs authorize the imposition of breach letter fees, foreclosure-related fees and other legitimate default-related fees. The trial court explained that its ruling was in favor of defendants to the specific and limited extent that plaintiffs' claims challenge the propriety of the above-mentioned fees. On May 19, 2006, plaintiffs filed an Amended Consolidated Class Action Complaint (Amended Complaint) containing various claims under federal statutes, including the Real Estate Settlement Procedures Act, Fair Debt Collection Practices Act and bankruptcy laws, state deceptive trade practices statutes and common law. The claims are generally based on allegations of improper loan servicing practices, including (i) charging borrowers allegedly improper or unnecessary fees such as breach letter fees, hazard insurance premiums, foreclosure-related fees, late fees, property inspection fees and bankruptcy-related fees; (ii) untimely posting and misapplication of borrower payments; and (iii) improperly treating borrowers as in default on their loans. While the Amended Complaint does not set forth any specific amounts of claimed damages, plaintiffs are not precluded from requesting leave to amend further their pleadings or otherwise seek damages should the matter proceed to trial. On June 22, 2007, after hearing Ocwen's interlocutory appeal from the trial court's denial of a motion to dismiss on federal preemption grounds, the Seventh Circuit issued an opinion holding that many of the claims were preempted or failed to satisfy the pleading requirements of the applicable rules of procedure and directing the trial judge to seek clarification from the plaintiffs so as to properly determine which particular claims are to be dismissed. On September 24, 2007, plaintiffs filed a Second Amended Complaint, which contains servicing practices allegations similar to those set forth in the prior version of their Complaint. Defendants have filed a motion to dismiss the Second Amended Consolidated Class Action Complaint on the grounds that the claims are preempted and are otherwise deficient as a matter of law. That motion is now fully briefed and submitted to the Court. We believe the allegations in the MDL Proceeding are without merit and, if an acceptable settlement is not reached, will continue to vigorously defend against them.

On November 3, 2004, the trial judge in litigation brought by Cartel Asset Management, Inc. (Cartel) against OCN, the Bank and Ocwen Technology Xchange, Inc. (OTX), a subsidiary that has been dissolved, in federal court in Denver, Colorado, entered final judgment in the amount of $520 against OTX and nominal damages of two dollars against the Bank. In so doing, the judge reduced a prior jury verdict in the amount of $9,320 after trial on this matter involving allegations of misappropriation of trade secrets and contract-related claims brought by a former vendor. Notwithstanding the nominal damage award against the Bank, it was assessed a statutory award to Cartel of attorneys' fees in an additional amount of $170, and the Bank and OTX were further assessed costs in the amount of $9. On September 18, 2007, the United States Court of Appeals for the Tenth Circuit upheld the damage award against OTX and remanded the case for a new trial on damages against the Bank. On December 10, 2007, we paid the full amount of the judgment against OTX, including accrued interest. On March 24, 2008, the trial court entered an order joining OLS, in its capacity as the Bank's successor-in-interest, and OCN, in its capacity as guarantor of the Bank's obligations, as additional defendants. The trial court has not yet set a date for the new trial against the Bank, OLS and OCN. We do not believe that Cartel is entitled to additional damages, if any, in an amount that would be material to our financial condition, results of operations or cash flows, and we intend to continue to vigorously defend against this matter.

On September 13, 2006, the Bankruptcy Trustee in Chapter 7 proceedings involving American Business Financial Services, Inc. (ABFS) brought an action against multiple defendants, including OLS, in Bankruptcy Court in Delaware. The action arises out of Debtor-in-Possession financing to ABFS by defendant Greenwich Capital Financial Products, Inc. and the subsequent purchases by OLS of MSRs and certain residual interests in mortgage-backed securities previously held by ABFS. OLS brought a separate action against the Trustee, in his representative capacity, seeking damages of approximately $2,500 arising out of the ABFS MSRs purchase transaction. OLS' separate action against the Trustee was dismissed by agreement without prejudice with the right to replead such claims as counterclaims in the Trustee's action or otherwise as a separate action should the Trustee's action be dismissed. By opinion dated February 13, 2007, the Court granted OLS' motion to dismiss some claims but refused to dismiss others. The Court allowed the Trustee leave to file an Amended Complaint, which the Trustee filed on March 13, 2007. The Amended Complaint sets forth claims against all of the original defendants and as against OLS alleges turnover, fraudulent transfers, accounting, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, breach of contract, fraud, civil conspiracy and conversion. The Trustee seeks compensatory damages in excess of $100,000 and punitive damages jointly and severally against all defendants. On March 20, 2008, the Court denied OLS' motion to dismiss. On April 28, 2008, OLS answered the Amended Complaint denying all charges and filed a Counterclaim for breach of contract, fraud, negligent misrepresentation and indemnification in connection with the MSR purchase transaction. Fact discovery is complete and expert discovery is in progress. We believe that the Trustee's allegations against OLS are without merit and intend to continue to vigorously defend against this matter.

Ocwen along with Bankruptcy Management Solutions, Inc., the wholly owned subsidiary of BMS Holdings, commenced separate arbitrations before the Financial Industry Regulatory Authority against Goldman Sachs & Co., Banc of America Securities LLC, and Citigroup Global Markets, Inc. (collectively the Broker/Dealers) primarily alleging fraud, breach of duty and statutory violations arising out of the sale of AAA-rated student loan auction rate securities (SLARS) backed by the Federal Family Education Loan Program. Ocwen purchased the SLARS based on the Broker/Dealer representation that the SLARS were liquid securities which could be sold at regularly scheduled auctions to meet the Investment Line requirement to pay the borrowings at quarter end. The Broker/Dealers represented that the SLARS would remain liquid because if there were not sufficient buyers in the auctions, the Broker/Dealers would purchase to make the auctions succeed. Contrary to those representations, in February 2008, the Broker/Dealers stopped supporting the SLARS auctions and the market for SLARS became illiquid. Ocwen seeks to require the Broker/Dealers to repurchase the SLARS at par (aggregating $199,275), and pay consequential damages, potentially including damages related to the repayment of the Investment Line, and punitive damages.

OCN is subject to various other pending legal proceedings. In our opinion, the resolution of those proceedings will not have a material effect on our financial condition, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of stockholders during the quarter ended December 31, 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of the Company's Common Stock

The common stock of Ocwen Financial Corporation is traded under the symbol "OCN" on the New York Stock Exchange (NYSE). The following table sets forth the high and low closing sales prices for our common stock, as traded on the NYSE:

	High	Low
2008		
First quarter	$ 6.53	$ 3.98
Second quarter	7.04	3.69
Third quarter	8.05	4.52
Fourth quarter	9.18	5.49
2007		
First quarter	$ 16.72	$ 10.66
Second quarter	14.52	12.75
Third quarter	12.72	7.75
Fourth quarter	10.59	4.99

The closing sales price of our common stock on March 5, 2009, was $8.89.

We do not currently pay cash dividends on our common stock and have no current plans to do so in the future. The timing and amount of future dividends, if any, will be determined by our Board of Directors and will depend, among other factors, upon our earnings, financial condition, cash requirements, the capital requirements of subsidiaries and investment opportunities at the time any such payment is considered. In addition, the Guaranty agreement with the OTS and the indentures and covenants relating to certain of our borrowings contain limitations on our payment of dividends. See Note 29 to the Consolidated Financial Statements for additional information regarding limitations on the payment of dividends on our common stock.

The following graph compares the cumulative total return on the common stock of Ocwen Financial Corporation since December 31, 2003, with the cumulative total return on the stocks included in the Standard & Poor's 500 Market Index and the Standard & Poor's Diversified Financials Market Index.

	Period Ending					
Index	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**
Ocwen Financial Corporation	100.00	107.90	98.19	179.01	62.53	103.61
S&P 500	100.00	109.07	112.35	127.65	132.15	81.29
S&P Diversified Financials	100.00	105.90	113.54	137.09	108.66	43.33

Purchases of Equity Securities by the Issuer and Affiliates

We did not purchase any shares of our own common stock during 2008.

Our ability to repurchase shares of our common stock is restricted under the terms of the Guaranty that we entered into with the OTS in connection with debanking. See Note 23 and Note 29 to the Consolidated Financial Statements for additional information regarding common stock repurchases in prior years and limitations on the repurchase of our common stock, respectively.

Number of Holders of Common Stock

At March 5, 2009, 62,725,864 shares of our common stock were outstanding and held by approximately 139 holders of record. Such number of stockholders does not reflect the number of individuals or institutional investors holding our stock in nominee name through banks, brokerage firms and others.

Securities authorized for issuance under equity compensation plans

The information required by this item with respect to securities authorized for issuance under equity compensation plans is incorporated by reference from the section entitled "Security Ownership Of Certain Beneficial Owners And Related Shareholder Matters – Equity Compensation Plan Information" in our definitive Proxy Statement with respect to our Annual Meeting of Shareholders to be held on May 6, 2009 and as filed with the SEC on or about March 27, 2009 (the 2009 Proxy Statement).

ITEM 6. SELECTED FINANCIAL DATA (Dollars in thousands, except share data)

The following tables present selected consolidated financial information of Ocwen Financial Corporation and its subsidiaries at the dates and for the years indicated. Our historical balance sheet and operations data at and for the five years ended December 31, 2008 have been derived from our audited financial statements. We have reclassified certain amounts included in the prior years to conform to the 2008 presentation. The selected consolidated financial information should be read in conjunction with the information we have provided in Management's Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements.

	December 31,				
	2008	2007	2006	2005	2004
Selected balance sheet data					
Cash	$ 201,025	$ 114,243	$ 236,581	$ 269,611	$ 542,891
Investment grade auction rate securities	239,301	—	—	—	—
Other investment grade securities	—	34,876	74,986	1,685	86,215
Subordinate and residual securities	4,369	7,362	65,242	30,277	39,527
Investment in certificates of deposit	—	—	72,733	—	—
Loans held for resale, at lower of cost or market (1)	49,918	75,240	99,064	624,671	8,437
Advances	102,085	292,887	324,137	219,716	240,430
Match funded advances	1,100,555	1,126,097	572,708	377,105	280,760
Mortgage servicing rights	139,500	197,295	183,743	148,663	131,409
Deferred tax assets, net (2)	175,963	178,178	176,135	20,280	17,683
Goodwill and intangibles (3)	46,227	58,301	7,053	7,053	7,756
Investment in unconsolidated entities (4)	25,663	76,465	46,151	79	79
Other	153,406	233,752	151,210	155,033	228,956
Total assets	$ 2,238,012	$ 2,394,696	$ 2,009,743	$ 1,854,173	$ 1,584,143
Match funded liabilities	$ 961,939	$ 1,001,403	$ 510,236	$ 339,292	$ 244,327
Debt securities, lines of credit and other secured borrowings:					
Short-term	185,227	339,976	310,149	611,787	35,676
Long-term (5)	67,377	150,279	164,700	168,990	246,185
Investment line	200,719	—	—	—	—
Servicer liabilities	135,751	204,484	383,549	298,892	291,265
Deposits and escrows (6)	—	—	—	—	376,591
Other	78,813	110,429	81,340	85,952	58,461
Total liabilities	1,629,826	1,806,571	1,449,974	1,504,913	1,252,505
Minority interest in subsidiary	406	1,979	1,790	1,853	1,530
Stockholders' equity	607,780	586,146	557,979	347,407	330,108
Total liabilities and stockholder's equity	$ 2,238,012	$ 2,394,696	$ 2,009,743	$ 1,854,173	$ 1,584,143
Residential loans and real estate serviced for others					
Count	322,515	435,616	473,665	368,802	320,185

Amount	$ 40,171,532	$ 53,545,985	$ 52,834,028	$ 42,779,048	$ 34,524,491

	For the Years Ended December 31,				
	2008	2007	2006	2005	2004
Selected operations data					
Revenue:					
Servicing and subservicing fees	$ 368,026	$ 379,277	$ 340,584	$ 293,382	$ 288,078
Other	124,102	101,384	90,746	81,703	71,780
Total revenue	492,128	480,661	431,330	375,085	359,858
Operating expenses	323,355	351,866	339,655	345,271	335,002
Income from operations	168,773	128,795	91,675	29,814	24,856
Other income (expense):					
Interest income	14,696	29,651	47,609	24,551	23,582
Interest expense	(82,824)	(72,670)	(53,371)	(36,986)	(30,317)
Other	(62,190)	(27,397)	(3,686)	5,302	7,505
Other income (expense), net	(130,318)	(70,416)	(9,448)	(7,133)	770
Income from continuing operations before income taxes	38,455	58,379	82,227	22,681	25,626
Income tax expense (benefit)	14,771	16,610	(126,377)	5,815	(32,324)
Income from continuing operations	23,684	41,769	208,604	16,866	57,950
Loss from discontinued operations, net of taxes (7)	(5,767)	(3,172)	(2,094)	(1,801)	(226)
Net income	$ 17,917	$ 38,597	$ 206,510	$ 15,065	$ 57,724
Basic earnings per share					
Income from continuing operations	$ 0.38	$ 0.67	$ 3.32	$ 0.27	$ 0.88
Loss from discontinued operations (7)	(0.09)	(0.05)	(0.04)	(0.03)	—
Net income	$ 0.29	$ 0.62	$ 3.28	$ 0.24	$ 0.88
Diluted earnings per share					
Income from continuing operations	$ 0.38	$ 0.62	$ 2.94	$ 0.26	$ 0.82
Loss from discontinued operations (7)	(0.09)	(0.04)	(0.03)	(0.02)	—
Net income	$ 0.29	$ 0.58	$ 2.91	$ 0.24	$ 0.82
Weighted average common shares outstanding					
Basic	62,670,957	62,712,076	62,871,613	62,912,768	65,811,697
Diluted (8)	62,935,314	71,458,544	71,864,311	63,885,439	73,197,255

(1) During 2005 and 2006, we acquired loans held for resale through whole loan purchases and subprime loan origination activities. We funded these acquisitions through the use of repurchase agreements and other short-term credit facilities. The majority of these loans were disposed of during 2006 through securitization transactions and whole loan sales, and the related debt was repaid. In 2007, we decided to discontinue our subprime loan origination activities.

(2) The income tax benefit for 2006 reflects the reversal of $155,377 of valuation allowances on our deferred tax assets in order to increase the net deferred tax asset to the amount that is more likely than not to be realized in future periods. The benefit in 2004 principally reflects the reversal of $35,518 of valuation allowances on our deferred tax assets as a result of $56,526 of refund claims that were filed with the IRS. As a result of filing the claims, we reduced our deferred tax asset and increased our current income tax receivable by the amount of the claims. We collected these claims, plus accrued interest, in 2005.

(3) The operations of NCI are included in our consolidated financial statements effective June 6, 2007, the date of acquisition. NCI is a receivables management company specializing in contingency collections for credit card issuers and other consumer credit providers. Total goodwill and intangibles were $44,609 and $53,260 at December 31, 2008 and 2007, respectively. NCI revenues and operating expenses for 2008 were $71,331 and $73,856, respectively. For the 2007 period, NCI revenues and operating expenses were $38,157 and $40,578, respectively.

(4) In 2006, we acquired a 46% equity interest in BMS Holdings. BMS Holdings provides technology-based case management solutions to trustees, law firms and debtor companies that administer cases in the federal bankruptcy system. In 2007, we acquired 25% equity interests in OSI and in ONL and affiliates. OSI invests primarily in MSRs and the related lower tranches and residuals of residential mortgage backed securities. ONL and affiliates invest in non-performing residential loans acquired at a discount and in foreclosed real estate. We account for our investments in unconsolidated entities using the equity method.

(5) Long-term borrowings include the 3.25% Convertible Notes which mature on August 1, 2024. Beginning August 1, 2009, we may redeem all or a portion of the notes for cash at a price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest, if any. Holders may require us to repurchase all or a portion of their notes for cash on August 1, 2009, August 1, 2014 and August 1, 2019. Also, upon the occurrence of a "fundamental change", Holders may redeem the notes at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest, if any. A "fundamental change" is a change of control or a termination of trading in our common stock. The outstanding balance of the Convertible Notes at December 31, 2008, 2007, 2006, 2005 and 2004 was $82,355, $96,900, $96,900, $100,900 and $175,000, respectively. In February 2009, we repurchased $25,910 of the Convertible Notes at a price equal to 95% of the principal balance.

(6) Effective June 30, 2005, we terminated our banking subsidiary's status as a federal savings bank, and as a result, we are no longer able to accept customer deposits in the U.S. On that same date, an unaffiliated bank assumed the customer deposits associated with our bank branch facility in New Jersey.

(7) In the fourth quarter of 2007, management of OCN approved and committed to a plan to sell its investment in BOK, a wholly-owned German banking subsidiary acquired in 2004. We have reported the results of operations of BOK in the consolidated financial statements as discontinued operations.

(8) The assumed conversion of the 3.25% Convertible Notes has been reflected in the calculation of weighted average common shares outstanding in computing diluted earnings per share for 2007, 2006 and 2004. Conversion of the Convertible Notes to common stock was not assumed for 2008 and 2005 because the effect would be antidilutive. Interest expense on the Convertible Notes, net of income tax, has been added back to net income for purposes of computing diluted earnings per share for 2007, 2006 and 2004.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands, except share data)

The following discussion of our results of operations, consolidated financial condition and capital resources and liquidity should be read in conjunction with our Consolidated Financial Statements and the related notes, all included elsewhere in this annual report on Form 10-K.

OVERVIEW

Results of Operations

The following table summarizes our consolidated operating results for the years indicated. We have provided a more complete discussion of operating results by line of business in the Segments section beginning on page 2.

	For the years ended December 31,			% Change	
	2008	2007	2006	2008-2007	2007-2006
Consolidated:					
Revenue	$ 492,128	$ 480,661	$ 431,330	2	11
Operating expenses	323,355	351,866	339,655	(8)	4
Income from operations	168,773	128,795	91,675	31	40
Other expense, net	(130,318)	(70,416)	(9,448)	85	645
Income from continuing operations before taxes	38,455	58,379	82,227	(34)	(29)
Income tax expense (benefit)	14,771	16,610	(126,377)	(11)	(113)
Income from continuing operations	23,684	41,769	208,604	(43)	(80)
Loss from discontinued operations, net of taxes	(5,767)	(3,172)	(2,094)	82	51
Net income	$ 17,917	$ 38,597	$ 206,510	(54)	(81)

Segment income (loss) from continuing operations before taxes:					
Servicing	$ 100,770	$ 65,349	$ 82,339	54	(21)
Loans and Residuals	(14,677)	(8,322)	(4,578)	76	82
Asset Management Vehicles	(9,813)	(159)	(29)	6,072	448
Mortgage Services	13,298	13,584	8,416	(2)	61
Financial Services	(7,875)	(7,087)	(386)	11	1,736
Technology Products	3,580	8,968	562	(60)	1,496
Corporate items and other	(46,828)	(13,954)	(4,097)	236	241
	$ 38,455	$ 58,379	$ 82,227	(34)	(29)

2008 Compared to 2007

Overall, our 2008 results reflect a modest increase in revenue combined with a decline in operating expenses that resulted in a 31% improvement in operating income. This increase in operating income is largely attributed to the Servicing business due primarily to a decline in the amortization of servicing rights as a result of a decline in acquisitions and in the rate of amortization. This operational improvement was tempered, however, by increased costs related to financing our servicing advances relative to the prior year, a decline in interest income on loans and residuals and unrealized losses on our investment grade auction rate securities that reflect liquidity risk. Despite being higher than 2007, financing costs for servicing advances in 2008 declined in both the second and third quarters and in the fourth quarter were significantly lower than the fourth quarter of 2007 as a result of lower effective interest rates and our success in reducing advance balances.

Total revenues increased by $11,467, or 2%, in 2008 as compared to 2007 principally because of an increase in Financial Services revenue. Financial Services external revenue increased by $32,543, or 79%, because 2008 results include a full year of the operations of NCI which we acquired on June 6, 2007. At the same time, however, external revenue of the Mortgage Services segment declined by $14,951, or 20%, primarily because of the low volume of loan origination activity, the scaling back of our mortgage due diligence activities and the sale of GSS Canada’s servicing rights during the second quarter of 2008. External revenue of the Servicing segment declined by $3,611, or 1%, primarily due to declines in float earnings and servicing fees, although these declines were largely offset by increases in late charges. Float earnings declined because of lower interest rates and lower average float balances which declined because of higher delinquencies and a smaller servicing portfolio. Late charges, which are not recognized as revenue until collected, have increased to normal levels as delinquency rates have become more stable.

Total operating expenses were $28,511, or 8%, lower in 2008 as compared to 2007. Declines in operating expenses of the Servicing and Mortgage Services segments were partly offset by an increase in operating expenses of the Financial Services segment. Operating expenses of the Servicing segment declined primarily due to a $46,931 decline in the amortization of MSRs and a $13,041 decline in servicing and origination expense. Slower projected prepayment speeds and higher projected delinquency rates used to compute amortization expense in 2008 reduced the rate of MSR amortization because we expect to earn servicing income for a longer period of time. In addition, the average balance of our investment in MSRs has declined in 2008 as a result of fewer acquisitions. Operating expenses of the Mortgage Services segment declined largely because of the low volume of loan origination activity and the scaling back of our mortgage due diligence activities. Operating expenses of the Financial Services segment increased primarily because 2008 results include a full year of the operations of NCI.

Other expense, net, for 2008 was $130,318 as compared to $70,416 for 2007, an unfavorable variance of $59,902. This variance is the result of several factors:

- In the Servicing segment, interest expense was $17,857 higher in 2008 because of an increase in the average balance of servicing advances and an increase in facility fees and interest rate spreads charged by the lenders.
- In the Loans and Residuals segment, interest income on loans and residual securities declined by $9,124 in 2008 because of declines in assets.
- In the AMV segment, our consolidated share of the losses of OSI and ONL and affiliates for 2008 was $8,343 higher than 2007. The higher losses in 2008 reflect charges to reduce residual securities, loans and real estate to fair value.
- In the Technology Products segment, our share of the losses of BMS Holdings was $5,666 in 2008 as compared to earnings of $5,488 in 2007, a decline of $11,154. This decline is primarily the result of significant unrealized losses on auction rate securities. Unrealized gains on derivatives in the first quarter of 2008 were largely reversed in the second quarter of 2008 as a result of volatility in LIBOR interest rates during those periods. The derivatives held at BMS Holdings are intended to hedge against the effects of a decline in interest rates on BMS Holdings’ revenue earned through its deposit referral relationship.
- In Corporate Items and Other, we recorded $29,612 of realized and unrealized losses on our investment grade auction rate securities during 2008. In 2007, we realized a loss of $8,673 on the early redemption of long-term discounted certificates of deposit.

2007 Compared to 2006

Our results for 2007 were characterized by higher income from operations that were offset by increased interest expense related to funding requirements for servicing advances and losses on residual securities and loans held for resale. Increases in unrealized losses on residual securities were, however, significantly offset by the gain that we realized from our sale of the UK residuals. Interest income decreased due to reduced investments in loans held for resale and residual securities, and we recognized a loss on our early redemption of long-term discounted certificates of deposit.

Total revenues increased by $49,331 or 11% in 2007 principally because of the acquisition of NCI which added $35,978 of revenues to the Financial Services segment, and an increase in Mortgage Services revenue. External revenues of the Mortgage Services segment were $8,092, or 12%, higher in 2007 as increases in fees from residential property valuations and title services offset a decline in mortgage due diligence fees.

Total operating expenses were $12,211, or 4%, higher in 2007 largely because of the acquisition of NCI, which added $38,400 of operating expenses to the Financial Services segment in 2007, offset by declines in operating expenses of the Servicing and Loans and Residuals segments. Servicing operating expenses declined largely because of an $11,400 decline in the amortization of MSRs. Slower prepayment speeds have reduced the rate of MSR amortization because we expect to earn the servicing income over a longer period of time. Loans and Residuals operating expenses were lower in 2007 largely due to our closing of the subprime loan origination operation and lower fees for professional services because of a sharp decline in securitizations of loans held for resale.

Other expense, net increased by $60,968 in 2007 as a result of several significant factors:

- In the Servicing segment, total interest expense was $27,341 higher due to the costs of financing servicing advances and servicing rights because of the growth in the average balance of these assets and higher interest rates.

- In the Loans and Residuals segment, we suffered a decline in interest income of $18,938 in 2007 due to a lower investment in loans held for resale and our sale of the UK residuals. In addition, Loans and Residuals incurred unrealized losses of $29,031 in 2007 due principally to the write-down during the fourth quarter of subprime subordinate and residual securities to their estimated market values reflecting significantly higher projected loss assumptions. However, these unrealized losses were largely offset by a gain of $25,587 realized from our sale of the UK residuals in the second quarter.

- In Corporate Items and Other, we recorded a loss of $8,673 realized when an unanticipated liquidity need arose in the third quarter that caused us to redeem our zero coupon certificates of deposit prior to their maturity.

Changes in Financial Condition

Total assets declined by $156,684, or 7%, in 2008. This decrease was due to declines in all asset categories other than trading securities and cash:

- Advances and match funded advances declined by $216,344 because of declines in UPB serviced and because we were able to stabilize the rate of loan delinquencies.

- Although the rate of amortization has slowed, mortgage servicing rights still declined by $57,795 largely because of the relatively small additions to our residential servicing portfolio. In addition, during the second quarter of 2008, we sold our commercial MSRs which had a carrying value of $5,360 at December 31, 2007.

- Investment in unconsolidated entities declined by $50,802 primarily due to $37,046 of distributions received from our asset management entities, $7,444 from our share of the losses of these entities and $5,666 from our share of the losses of BMS Holdings.

- Loans held for resale declined by $25,322 due to foreclosures, charge-offs, payoffs and declines in our estimated values.

- Trading securities increased by $201,432 and cash grew by $86,782. The increase in trading securities is primarily due to our investment in investment grade auction rate securities which had a fair value of $239,301 at December 31, 2008. This increase in auction rate securities was partially offset by the sale of our remaining investment in CMOs that had a fair value of $33,171 at December 31, 2007.

Total liabilities declined by $176,745, or 10%, in 2008. This decrease was the result of declines in all liability categories other than the Investment Line:

- Lines of credit and other secured borrowings declined by $223,106 principally because of a decline in borrowings under repurchase agreements and the payoff of the Servicing borrowings under the senior secured credit agreements. Borrowings under repurchase agreements declined as a result of our sale of the CMOs and because the proceeds from the sale of the notes that financed loans held for resale were used to repay a repurchase agreement that was secured by loans held for resale and real estate. The decline in borrowings under the senior secured credit agreements occurred because of the sale of our commercial MSRs in May 2008 and because in August 2008, we exercised our option to convert our borrowings to a term note for the financing of MSRs only. Advances serving as collateral under this facility were transferred to other match funded advance facilities, and borrowings secured by the advances were repaid.

- Servicer liabilities declined by $68,733, largely because of a decrease in the amount of borrower payments that have not yet been remitted to custodial accounts. The decline in borrower payments is the result of slower repayments.

- The Investment Line balance of $200,719 is secured by the auction rate securities that we acquired in 2008.

At December 31, 2008, we had $607,780 of stockholders' equity, an increase of $21,634 over December 31, 2007 that was primarily due to net income of $17,917 for 2008, compensation related to employee share-based awards and the expiration of stock-based incentive compensation awards.

Liquidity

Cash totaled $201,025 at December 31, 2008, an $86,782 increase as compared to December 31, 2007 due to retaining profits earned in 2008 coupled with limited acquisitions of mortgage servicing rights. In addition, we raised $53,110 of cash by selling or financing non-core assets, including our investments in CMOs issued by Fannie Mae and Freddie Mac, loans held for resale, real estate and commercial MSRs held by GSS Canada and by collecting long-term receivables from the sale of affordable housing partnerships.

Servicer liabilities, which represent cash collected from borrowers but not yet remitted to securitization trusts, declined by $68,733 from December 31, 2007 to December 31, 2008. Servicer liabilities have a very short duration, as funds collected must be remitted to the trust in accordance with contractual obligation. After increasing by $30,489 in the first quarter of 2008, total advances decreased by $91,277, $147,218 and $8,338 in the second, third and fourth quarters of 2008, respectively, for a net decrease of $216,344, or 15%, for the year. The improvement in advance levels is attributable to the success of our efforts to reduce growth in the delinquency rate, allowing advances to track the decline in UPB. Management initiatives that we took to benefit loan investors, such as loan modifications and faster real estate sales, are the main factors helping to slow the growth in delinquencies. During 2008, we modified 60,873 delinquent loans and made 26,894 sales of foreclosed real estate.

Our borrowings as of December 31, 2008 include $200,719 borrowed under the Investment Line term note that is used to finance the investment grade auction rate securities that we are carrying at a fair value of $239,301. The term note matures on June 30, 2009. We anticipate that we will be successful in negotiating an extension of the term note. However, because of the failed auctions, the market for investment grade auction rate securities is not currently liquid. In the event we need to liquidate our investment, we may not be able to do so without a loss of principal. Maximum borrowing under this note declined to 75% of the face amount in December 2008 and declines to 70% in March 2009. We intend to fund the reduction in the maximum borrowing rate using cash generated through operations. Through December 31, 2008, we have repaid $99,245 of Investment Line term note principal. This amount includes proceeds of $5,199 from the redemption of certain securities and $24,588 from sales of securities during the second quarter. In addition, the lender applied $1,356 of interest income from our investment in auction rate securities against the balance outstanding. On September 30, 2008, we repaid in full the Investment Line revolving demand note that we had used to facilitate the generation of float income.

Excluding the Investment Line, our borrowings have decreased by $277,115 in 2008. This decline primarily reflects reductions in borrowing by the Servicing segment, Loans and Residuals segment, Mortgage Services segment and Corporate Items and Other of $202,453, $28,712, $4,090 and $42,836, respectively. The decline in borrowings of the Servicing segment reflects a decline in advances and MSRs. The decline in borrowings of the Loans and Residuals segment is primarily the result of a decline in the balance of the loans pledged as collateral. Mortgage Services borrowings declined as a result of our sale of the commercial MSRs while Corporate Items and Other borrowings declined as a result of our sale of the remaining CMOs.

Excluding the Investment Line, our total maximum borrowing capacity was $1,340,747 as of December 31, 2008, a decrease of $305,271 as compared to December 31, 2007. This decrease is primarily due to a $272,013 decrease in borrowing capacity of the Servicing segment and a $32,240 decline in borrowing capacity of the Loans and Residuals segment. The decrease in Servicing borrowing capacity is primarily the result of the payoff of term notes of $100,000 and $75,000 under one match funded facility and a variable funding note of $200,000 under another match funded facility. These notes had entered their amortization periods during the first and second quarters of 2008. In addition, in August 2008, we repaid $141,991 of borrowings under our senior secured credit agreement when we exercised our option to convert that facility to a term note secured only by mortgage servicing rights. These decreases were offset by an increase from $140,000 to $200,000 in the borrowing capacity under a match funded facility that we renewed in February 2008 and by our closing on a new $300,000 match funded facility in April 2008.

At December 31, 2008, excluding the Investment Line, $266,770 of our total maximum borrowing capacity remained unused, including $257,893 attributed to the Servicing business. Our lowest unused borrowing capacity for any day during the month of December 2008 was approximately $264,300. Of the unused borrowing capacity, none was readily available because we had no additional assets pledged as collateral but not drawn under our facilities. We have some unpledged advances under certain pooling and servicing agreements that previously had been pledged to the senior secured credit agreement. These advances are awaiting pledging to other advance facilities and will generate additional cash when this takes place.

The current challenges facing the financial markets have made it difficult to renew or increase advance financing under terms as favorable as those of our current facilities. In December 2008, we secured a one-year renewal of a $300,000 variable funding note under one of our match funded advance facilities The start of the amortization period for this note is December 2009. In January 2009, we also negotiated an early renewal of a $200,000 facility. The start of the amortization period for this note is January 2010. With the continuing decline of our advance balances and the success of our other liquidity initiatives, we believe that we will have sufficient borrowing capacity to finance advances on our current servicing portfolio through the remainder of 2009 even if we are unable to negotiate any new facilities or any renewals or increases of existing facilities. We will endeavor to retain sufficient cash to repay any advances in excess of our borrowing capacity if such borrowing capacity declines under this worst-case scenario for financing. Another reason that we will retain cash is to cover possible additional principal repayments on our MSR term note in the event that the collateral value determined by a third party appraiser declines faster than the scheduled amortization of this note.

During these challenging times in the financial markets, we have given careful consideration to counterparty risk. Our advance facilities revolve, and in a typical monthly cycle, we repay up to one-third of the borrowings from collections. During the remittance cycle, which starts in the middle of each month, we must depend on our lenders to provide us with the cash that is required to make remittances to the Servicing investors. However, this is possible only when new advances represent eligible collateral under our advance facilities, and we can borrow additional funds against this collateral. Some of the financial institutions lending to us have experienced significant financial losses and have been the subject of investor concern. Several of these lenders are undergoing restructuring activities, including merging with stronger institutions or raising additional capital, either as part of or outside of the various government rescue plans that have been announced. These actions appear to have succeeded in stabilizing our largest lenders and thereby reducing our counterparty risk, but we continue to monitor closely the financial condition of our lenders.

During 2008, financing costs have come down from the historic highs in the latter part of 2007 that were driven largely by the increase in our advance borrowings. Declining advances and lower interest rates in 2008 have offset higher facility costs and interest rate spreads and allowed the effective interest rates that we pay to return to levels experienced in 2006 and prior years. The rate paid on the average balance of our debt outstanding under our match funded facilities and our lines of credit and other secured borrowings was 6.48% in 2006. This rate rose to 7.38% in 2007 but declined to 6.33% in 2008.

CRITICAL ACCOUNTING POLICIES

Our ability to measure and report our operating results and financial position is heavily influenced by the need to estimate the impact or outcome of risks in the marketplace or other future events. Our critical accounting policies are those that relate to the estimation and measurement of these risks. Because they inherently involve significant judgments and uncertainties, an understanding of these policies is fundamental to understanding Management's Discussion and Analysis of Results of Operations and Financial Condition. We discuss our significant accounting policies in detail in Note 1 of our Consolidated Financial Statements (which are incorporated herein by reference). The following is a summary of our more subjective and complex accounting policies as they relate to our overall business strategy.

Valuation and Amortization of Residential Mortgage Servicing Rights

Our most significant business is our Servicing business. Inherent in this business is the acquisition of MSRs, an intangible asset representing the value of the right to service the loans in a portfolio. As of December 31, 2008, we held residential MSRs with a carrying value of $139,500 and an estimated fair value of $148,135. The most critical accounting policy for this business is the methodology we use to value and amortize MSRs. Application of this methodology requires the development of a number of estimates, including anticipated amortization, and periodic re-evaluation of these estimates.

We estimate the fair value of our MSRs based on the results of our internal valuation. Our internal valuation calculates the present value of estimated future cash flows utilizing external assumptions that we believe are used by market participants. In addition, we periodically review third-party valuations of certain of our MSRs to assess the reasonableness of our valuation assumptions and the resulting fair value estimates. The most significant assumptions used in our internal valuation are the expected speed at which mortgages prepay and expected delinquencies, both of which we derive from our historical experience and available market data. Other assumptions used in our internal valuation include:

- Cost of servicing
- Compensating interest expense
- Discount rate
- Interest rate used for computing the cost of servicing advances
- Interest rate used for computing float earnings

The significant cash inflows considered in estimating future cash flows include servicing fees, late fees, prepayment penalties, float earnings and other ancillary fees. Significant cash outflows include the cost of servicing, the cost of making servicing advances and compensating interest payments. We base our strata on the predominant risk characteristics of the underlying loans. Our strata include:

- Subprime
- ALT A
- High-loan-to-value
- Re-performing
- Special servicing
- Other

At December 31, 2008, we had MSRs relating to the Subprime, ALT A and High-loan-to-value strata. The following table provides the range of prepayment speed and delinquency assumptions (expressed as a percentage) by strata projected over the five-year period beginning December 31, 2008:

	Prepayment Speed	Delinquency
Subprime	16% – 25%	18% – 23%
ALT A	19% – 31%	20% – 27%
High-loan-to-value	36% – 43%	17% – 20%

While we internally develop the discount rate in light of prevailing market conditions, we base the interest rate for the cost of financing advances, the interest rate for float earnings and the cost of servicing on external market-based assumptions. As of December 31, 2008, these assumptions were as follows:

- Discount rate of 19%

- Interest rate of 5% for the cost of financing advances
- Interest rate of 1% for float earnings
- Assumptions regarding the cost of servicing represent industry averages, vary by strata and range from a low of $100 per year for a performing ALT A loan to a high of $900 per year for a loan in foreclosure.

Changes in these assumptions are generally expected to affect our results of operations as summarized below:

- Increases in prepayment speeds generally reduce the value of our MSRs as the underlying loans prepay faster which causes accelerated MSR amortization, higher compensating interest payments and lower overall servicing fees, partially offset by a lower overall cost of servicing, increased float balances on higher float earnings and lower interest expense on decreased servicing advance balances.
- Increases in delinquencies generally reduce the value of our MSRs as the cost of servicing increases during the delinquency period, and the amount of servicing advances and related interest expense also increase.
- Increases in the discount rate reduce the value of our MSRs due to the lower overall net present value of the net cash flows.
- Increases in interest rate assumptions for the cost of servicing advances will increase interest expense although this effect is partially offset because rate increases will also increase the amount of float earnings we recognize.

We periodically perform an impairment analysis based on the difference between the carrying amount and estimated fair value of MSRs after grouping the underlying loans we service into the applicable strata. The risk factors used to assign loans to strata include the credit score (FICO) of the borrower, the loan to value ratio and the default risk.

We amortize MSRs over the period of estimated net servicing income based on our projections of the amount and timing of future cash flows. We determine these projections using the same assumptions that we use in our internal valuation of MSRs. The amount and timing of servicing asset amortization is adjusted periodically based on actual results and updated projections. In 2008 and 2007, we experienced lower mortgage prepayment speeds and higher delinquency rates which resulted in a slower rate of amortization.

Trading Securities and Loans Held for Resale

We currently account for our investment grade, residual and subordinate securities as trading securities at fair value. We report changes in fair value as a component of gain (loss) on trading securities in the period of change. We adjust our investment grade securities for which external marks are available to fair value based on third party dealer quotations. Our investment grade securities typically represent short-term investments that trade frequently in active markets and therefore we are able to evaluate the quotations we receive against observable market activity and subsequent trades or maturities.

We base our estimate of the fair value of the auction rate securities on a combination of actual sales and redemptions of the auction rate securities that we hold and a discounted cash flow analysis. Key assumptions that we use in our estimate of expected future cash flows include the expected term, illiquidity premium and discount rate. We use an expected term of 36 months based on our best estimate of market participants' expectations of future successful auctions or other solutions to the illiquidity that characterizes the market. The discount rates that we use range from 5.50% to 9.09%, and we assumed illiquidity premiums that range between 0.5% and 1.0%. The discount rates and illiquidity premiums are consistent with prevailing rates for similar securities. Other significant assumptions that we considered in our analysis included the credit risk profiles of the issuers, the impact on the issuers of the increased debt service costs associated with the payment of penalty interest rates and the collateralization of the securitization trusts. As of December 31, 2008, investment grade auction rate securities had a fair value of $239,301, net of unrealized losses of $28,137. We believe that the fair value reflected in the consolidated financial statements is considerably less than the amounts we ultimately expect to realize. Recent government initiatives may resolve the liquidity constraints for these securities, resulting in an economic value higher than the estimated fair market value.

Our subordinate and residual securities are not actively traded and, therefore, market quotations are not available. We estimate fair value using an industry accepted discounted cash flow model which is calibrated for trading activity whenever possible. We estimate expected future cash flows using our best estimate of key assumptions such as discount, delinquency and cumulative loss rates as well as prepayment speeds associated with the loans underlying mortgage backed securities. Discount rates for the subordinate and residual securities range from 21% to 30% and are determined based upon an assessment of prevailing market conditions and prices for similar assets. We project the delinquency, loss and prepayment assumptions based on a comparison of actual historical performance curves, adjusted for prevailing market conditions. Peak delinquency assumptions range from 20% to 42%, and loss assumptions range from 13% to 21%. Average prepayment assumptions range from 8% to 12%. Estimated fair value represents management's best estimate of an amount that could ultimately be realized in an actual sale transaction. Residual and subordinate securities had a fair value of $4,369 at December 31, 2008, net of unrealized losses of $30,884.

We classify loans that we do not intend to hold to maturity as loans held for resale and report them at the lower of cost or fair value. We account for the excess of cost over fair value as a valuation allowance with changes in the valuation allowance included in gain (loss) on loans held for resale, net, in the period in which the change occurs. Loans for which we have entered into an agreement to sell to an investor at a set price are valued at the commitment price. For uncommitted loans, we estimate fair value based upon a discounted cash flow analysis. We base the fair value of our performing loans upon the expected future cash flows discounted at a rate commensurate with the risk of the estimated cash flows. Significant assumptions include collateral and loan characteristics, prevailing market conditions and the creditworthiness of the borrower. The fair value of our non-performing loans is estimated based upon the underlying collateral to the loan and the estimated period and cost of disposition. We defer loan origination fees and direct loan origination costs until we sell the loans. We consider these fees and costs in the carrying value of the loans when determining a valuation allowance. As of December 31, 2008, loans held for resale of $49,918 were net of valuation allowances of $17,491.

Goodwill and Intangibles

As a result of our acquisition of NCI in 2007, we acquired goodwill and identifiable intangible assets of $49,881. Goodwill represents the cost of an acquired business in excess of the fair value of its net assets, including identifiable intangible assets, at the acquisition date. At December 31, 2008, the balance of goodwill was $9,836, of which $8,218 relates to the acquisition of NCI and is included in our Financial Services segment and $1,618 relates to our acquisition of the company that developed the predecessor to REALTrans and is included in our Technology Products segment.

Goodwill. We test the goodwill in each of our operating segments, which are components one level below our six business segments, for impairment at least annually or whenever events or circumstances indicate that the carrying value of goodwill may not be recoverable from future cash flows based on a two-step impairment test in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." We evaluate the recoverability by comparing the estimated fair value of each operating segment with its estimated net carrying value (including goodwill). We derive the fair value of each of our operating segments based on valuation techniques that we believe market participants would use for each segment (discounted cash flow valuation methodology). Our goodwill impairment test involves the making of estimates and the exercise of management judgment. From time to time, we may obtain assistance from third parties in our evaluation. The discounted cash flow valuation methodology uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions that may differ from actual future cash flows achieved.

In projecting our cash flows, we used projected growth rates of 0.1% to 5.0%. For the discount rate, we used 16.0%, which reflected our weighted average cost of capital determined based on our industry and size risk premiums based on our market capitalization. Fair value is calculated as the sum of the projected discounted cash flows of the reporting units over the next five years and terminal value at the end of those five years.

During the fourth quarters of 2008, 2007, and 2006, we completed our annual goodwill impairment tests and determined that there was no goodwill impairment. However, in the second quarter of 2008, we did record an impairment of the remaining $1,682 of goodwill related to BOK, which is held for sale, based on offers that we had received that were less than carrying value.

In addition, we recorded a $4,891 reduction of the goodwill in our Financial Services segment during 2008. Prior to our acquisition of NCI in 2007, NCI made a taxable acquisition which created tax-deductible goodwill that amortizes over time. When we acquired NCI in 2007, we recorded a lesser amount of goodwill for financial reporting purposes than what had previously been recorded at NCI for tax purposes. This difference between the amount of goodwill recorded for financial reporting purposes and the amount recorded for taxes is amortized in our consolidated financial statements. In 2008, the amortization resulted in a $4,891 reduction of goodwill on our balance sheet and a corresponding increase in current and deferred taxes (in Corporate Items and Other). We will continue to amortize the remaining difference to reducing first, goodwill and then, noncurrent intangible assets to zero. Finally, we will amortize any remaining difference annually as a reduction to income tax expense.

Identifiable Intangible Assets. We amortize our identifiable intangible assets over their estimated lives in accordance with SFAS No. 142. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," identifiable intangible assets are tested for impairment whenever events or changes in circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable. The balance of intangibles at December 31, 2008 was $36,391. These intangibles are amortizing and relate to trademarks and customer lists we acquired in connection with our acquisition of NCI.

These circumstances include, but are not limited to, a significant adverse change in legal factors or in the business climate or operating or cash flow losses and projections of continuing losses. An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

During 2008, we did not identify any indicators of impairment for our NCI customer relationship and trade name intangibles. However, we did record an impairment in the second quarter of the remaining $1,741 of non-amortizing license intangibles related to BOK.

Deferred Tax Assets

The use of estimates and the application of judgment is involved in the determination of our overall tax provision and the evaluation of the realizability of our gross deferred tax assets. As of December 31, 2008, we had gross deferred tax assets of $177,708, and a corresponding valuation allowance of $1,745 resulting in a net deferred tax asset of $175,963. During 2006, we reversed $155,377 of valuation allowances on our deferred tax assets in order to increase the net deferred tax asset to the amount that is more likely than not to be realized in future periods. In assessing the amount of the valuation allowance in 2006, we primarily based our determination on the cumulative taxable earnings in recent periods, the positive outlook for future earnings and the disposal of nearly all of our non-core assets. We established our valuation allowance during the period 2001 through 2003. Our evaluation of the need to maintain a valuation allowance takes into consideration evidence, both positive and negative, including our recent earnings history, current tax position and estimates of future taxable income. The tax character (ordinary versus capital) and the carry-forward and carry-back periods of certain tax attributes (e.g., capital losses and tax credits) are also considered. Judgment is required in considering the relative impact of negative and positive evidence related to realizability of the deferred tax assets. We base the determination of the amount of the aggregate valuation allowance on scenario analyses of the projected results of operations by line of business resulting in a range of potential valuation allowances within which a final amount is determined. We assess the amount of the valuation allowance each quarter. As further evidence of the realizability of our deferred tax assets we disposed of MSRs with a carrying value of $246 in February 2009, resulting in a taxable gain.

Litigation

We continuously monitor the status of our legal matters. We obtain advice from external legal counsel in our periodic assessment of legal matters for potential loss accrual and disclosure. We make a determination of the amount of the reserves required in accordance with SFAS No. 5, "Accounting for Contingencies." We establish reserves for settlements, judgments on appeal and filed and/or threatened claims for which we believe it is probable that a loss has been incurred, and the amount of the loss can be reasonably estimated.

SEGMENTS

For each of our business segments, the following section provides a discussion of the changes in financial condition during the year ended December 31, 2008 and a discussion of pre-tax results of operations for the three annual periods ended December 31, 2008, 2007 and 2006.

The following table presents the assets and liabilities of each of our business segments at December 31, 2008:

	Ocwen Asset Management			Ocwen Solutions					
	Servicing	**Loans and Residuals**	**Asset Management Vehicles**	**Mortgage Services**	**Financial Services**	**Technology Products**	**Corporate Items and Other**	**Corporate Eliminations**	**Business Segments Consolidated**
Assets									
Cash	$ 5	$ 141	$ —	$ 749	$ 2,256	$ —	$ 197,874	$ —	$ 201,025
Cash held for clients	—	—	—	—	398	—	—	(398)	—
Trading securities:									
Investment grade auction rate	—	—	—	—	—	—	239,301	—	239,301
Subordinates and residuals	—	4,204	—	—	—	—	165	—	4,369
Loans held for resale	—	49,918	—	—	—	—	—	—	49,918
Advances	97,098	4,867	—	—	—	—	120	—	102,085
Match funded advances	1,100,555	—	—	—	—	—	—	—	1,100,555
Mortgage servicing rights	139,500	—	—	—	—	—	—	—	139,500
Receivables	7,936	1,431	1,171	2,680	5,848	974	32,249	(9,491)	42,798
Deferred tax asset, net	—	—	—	—	—	—	175,963	—	175,963
Goodwill and intangibles	—	—	—	—	44,609	1,618	—	—	46,227
Premises and equipment	71	—	—	21	3,967	5,452	3,415	—	12,926
Investment in unconsolidated entities	—	—	25,584	—	—	—	79	—	25,663
Other assets	71,450	6,756	—	108	1,629	862	16,708	169	97,682
Total assets	$ 1,416,615	$ 67,317	$ 26,755	$ 3,558	$ 58,707	$ 8,906	$ 665,874	$ (9,720)	$ 2,238,012
Liabilities									
Match funded liabilities	$ 961,939	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 961,939
Lines of credit and other secured borrowings	97,987	17,760	—	—	1,123	—	2,385	(2,385)	116,870
Investment line	—	—	—	—	—	—	200,719	—	200,719
Servicer liabilities	135,649	—	—	—	—	—	102	—	135,751
Cash due to clients	—	—	—	—	398	—	—	(398)	—
Debt securities	—	—	—	—	—	—	135,734	—	135,734
Other liabilities	23,138	1,409	96	2,442	6,683	3,361	48,518	(6,834)	78,813
Total liabilities	$ 1,218,713	$ 19,169	$ 96	$ 2,442	$ 8,204	$ 3,361	$ 387,458	$ (9,617)	$ 1,629,826

The following table presents the pre-tax statement of continuing operations for each of our business segments for the year ended December 31, 2008:

	Ocwen Asset Management			Ocwen Solutions					
	Servicing	Loans and Residuals	Asset Management Vehicles	Mortgage Services	Financial Services	Technology Products	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
Revenue									
Servicing and subservicing fees	$ 304,572	$ —	$ —	$ 3,571	$ 61,347	$ —	$ 10	$ (1,474)	$ 368,026
Process management fees	36,153	—	—	54,846	12,488	4,221	—		