OCWEN FINANCIAL CORP
Form 10-Q
November 09, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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 Number: 1-13219

Ocwen Financial Corporation

(Exact name of registrant as specified in its charter)

Florida	65-0039856
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2002 Summit Boulevard, 6th Floor, Atlanta, Georgia 30319
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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	x	Accelerated filer o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Number of shares of Common Stock, $0.01 par value, outstanding as of November 4, 2011: 101,101,951 shares.

OCWEN FINANCIAL CORPORATION

FORM 10-Q

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FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact included in this report, including, without limitation, statements regarding our financial position, business strategy and other plans and objectives for our future operations, are forward-looking statements.

These forward-looking statements include declarations regarding our management's beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "intend,' "consider," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such term comparable terminology. Such statements are not guarantees of future performance as they are subject to certain assumptions, inherent risks and uncertainties in predicting future results. Important factors that could cause actual results to differ materially include, but are not limited to, the following:

- our sources of liquidity; our ability to fund and recover advances, repay borrowings, and comply with debt covenants; and the adequacy of financial resources;
- servicing portfolio characteristics, including prepayment speeds, float balances, delinquency and advances rates;
- our ability to grow or otherwise adapt our business, including the availability of new servicing opportunities and joint ventures;
- our ability to reduce our cost structure;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;
- our reserves, valuations, provisions and anticipated realization on assets;
- our ability to effectively manage our exposure to interest rate changes and foreign exchange fluctuations;
- our credit and servicer ratings and other actions from various rating agencies;
- uncertainty related to general economic and market conditions, delinquency rates, home prices and real-estate owned disposition timelines;
- uncertainty related to the actions of loan owners, including mortgage-backed securities investors, regarding loan putbacks or legal actions;
- uncertainty related to the processes for judicial and non-judicial foreclosure proceedings, including potential additional costs or delays or moratoria in the future or claims pertaining to past practices;
- uncertainty related to litigation or dispute resolution and inquiries from government agencies into past servicing and foreclosure practices;
- uncertainty related to legislation, regulations, regulatory agency actions, government programs and policies, industry initiatives and evolving best servicing practices; and
- uncertainty related to acquisitions.

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the Securities and Exchange Commission (SEC) including our Annual Report on Form 10-K for the year ended December 31, 2010, our quarterly reports on Form 10-Q and our current reports on Form 8-K. Forward-looking statements speak only as of the date they were made and should not be relied upon. Ocwen Financial Corporation undertakes no obligation to update or revise forward-looking statements.

PART I – FINANCIAL INFORMATION
ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	September 30, 2011	December 31, 2010
Assets		
Cash	$ 152,037	$ 127,796
Restricted cash – for securitization investors	910	727
Loans held for resale, at lower of cost or fair value	21,933	25,803
Advances	118,872	184,833
Match funded advances	3,756,834	1,924,052
Loans, net – restricted for securitization investors	60,389	67,340
Mortgage servicing rights	299,717	193,985
Receivables, net	53,141	69,518
Deferred tax assets, net	138,483	138,716
Goodwill	57,380	12,810
Premises and equipment, net	28,376	5,475
Investments in unconsolidated entities	23,364	12,072
Other assets	185,739	158,282
Total assets	$ 4,897,175	$ 2,921,409
Liabilities and Equity		
Liabilities		
Match funded liabilities	$ 3,080,228	$ 1,482,529
Secured borrowings – owed to securitization investors	55,323	62,705
Lines of credit and other secured borrowings	555,110	246,073
Servicer liabilities	4,417	2,492
Debt securities	82,554	82,554
Other liabilities	141,600	140,239
Total liabilities	3,919,232	2,016,592
Commitments and Contingencies (Note 22)		
Equity		
Ocwen Financial Corporation stockholders' equity		
Common stock, $.01 par value; 200,000,000 shares authorized; 101,093,217 and 100,726,947 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	1,011	1,007
Additional paid-in capital	470,862	467,500
Retained earnings	514,136	445,456
Accumulated other comprehensive loss, net of income taxes	(8,307)	(9,392)
Total Ocwen Financial Corporation (OCN) stockholders' equity	977,702	904,571
Non-controlling interest in subsidiaries	241	246
Total equity	977,943	904,817
Total liabilities and equity	$ 4,897,175	$ 2,921,409

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

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

For the periods ended September 30,	Three months		Nine months	
	2011	2010	2011	2010
Revenue				
Servicing and subservicing fees	$112,611	$86,424	$310,953	$218,840
Process management fees	9,215	7,911	26,151	24,132
Other revenues	636	1,234	2,201	4,136
Total revenue	122,462	95,569	339,305	247,108
Operating expenses				
Compensation and benefits	29,067	43,886	59,107	69,752
Amortization of mortgage servicing rights	11,210	7,874	30,059	22,103
Servicing and origination	1,969	1,707	5,192	4,756
Technology and communications	8,529	6,727	21,774	18,582
Professional services	5,075	25,132	10,729	37,521
Occupancy and equipment	6,720	5,201	15,003	13,517
Other operating expenses	3,080	2,847	7,239	6,978
Total operating expenses	65,650	93,374	149,103	173,209
Income from operations	56,812	2,195	190,202	73,899
Other income (expense)				
Interest income	2,186	2,962	6,644	8,507
Interest expense	(27,658)	(24,187)	(87,014)	(50,017)
Loss on trading securities	—	(3,013)	—	(3,958)
Loss on loans held for resale, net	(1,011)	(539)	(3,531)	(2,626)
Equity in (loss) earnings of unconsolidated entities	(140)	266	(690)	1,344
Other, net	(1,238)	1,604	(1,135)	(3,154)
Other expense, net	(27,861)	(22,907)	(85,726)	(49,904)
Income (loss) from continuing operations before taxes	28,951	(20,712)	104,476	23,995
Income tax expense (benefit)	8,730	(7,487)	35,808	310
Income (loss) from continuing operations	20,221	(13,225)	68,668	23,685
Income from discontinued operations, net of taxes	—	4,383	—	4,383
Net income (loss)	20,221	(8,842)	68,668	28,068
Net loss (income) attributable to non-controlling interests	7	7	12	(5)
Net income (loss) attributable to OCN	$20,228	$(8,835)	$68,680	$28,063
Basic earnings per share				
Income (loss) from continuing operations	$0.20	$(0.13)	$0.68	$0.24
Income from discontinued operations	—	0.04	—	0.04
Net income (loss) attributable to OCN	$0.20	$(0.09)	$0.68	$0.28

Diluted earnings per share				
Income (loss) from continuing operations	$0.19	$(0.13)	$0.64	$0.23
Income from discontinued operations	—	0.04	—	0.04
Net income (loss) attributable to OCN	$0.19	$(0.09)	$0.64	$0.27
Weighted average common shares outstanding				
Basic	101,016,777	100,329,915	100,908,473	100,159,547
Diluted	108,273,444	100,329,915	108,067,981	107,379,725

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

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

For the periods ended September 30,	Three months		Nine months	
	2011	2010	2011	2010
Net income (loss)	$20,221	$(8,842)	$68,668	$28,068
Other comprehensive income (loss), net of income taxes:				
Unrealized foreign currency translation income (loss) arising during the period (1)	(16)	54	10	(31)
Change in deferred loss on cash flow hedges arising during the period (2)	460	(5,835)	227	(13,239)
Reclassification adjustment for losses on cash flow hedges included in net income (3)	105	268	828	289
Net change in deferred loss on cash flow hedges	565	(5,567)	1,055	(12,950)
Other (4)	24	—	27	—
Total other comprehensive income (loss), net of income taxes	573	(5,513)	1,092	(12,981)
Comprehensive income (loss)	20,794	(14,355)	69,760	15,087
Comprehensive income (loss) attributable to non-controlling interests	10	(11)	5	1
Comprehensive income (loss) attributable to Ocwen Financial Corporation	$20,804	$(14,366)	$69,765	$15,088

(1) Net of income tax (expense) benefit of $2 and $(8) for the three months ended September 30, 2011 and 2010, respectively, and $(7) and $27 for the nine months ended September 30, 2011 and 2010, respectively.

(2) Net of income tax (expense) benefit of $(260) and $3,428 for the three months ended September 30, 2011 and 2010, respectively, and $(102) and $7,775 for the nine months ended September 30, 2011 and 2010, respectively.

(3) Net of income tax expense of $59 and $158 for the three months ended September 30, 2011 and 2010, respectively, and $468 and $169 for the nine months ended September 30, 2011 and 2010, respectively.

(4) Net of income tax expense of $9 and $10 for the three and nine months ended September 30, 2011, respectively.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(Dollars in thousands)

	OCN Shareholders						
	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Loss, Net of	Non-controlling Interest in	
	Shares	Amount	Capital	Earnings	Taxes	Subsidiaries	Total
Balance at December 31, 2010	100,726,947	$ 1,007	$ 467,500	$ 445,456	$ (9,392)	$ 246	$ 904,817
Net income (loss)	—	—	—	68,680	—	(12)	68,668
Exercise of common stock options	354,906	4	966	—	—	—	970
Equity-based compensation	11,364	—	2,396	—	—	—	2,396
Other comprehensive income, net of income taxes	—	—	—	—	1,085	7	1,092
Balance at September 30, 2011	101,093,217	$ 1,011	$ 470,862	$ 514,136	$ (8,307)	$ 241	$ 977,943

	OCN Shareholders						
	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Loss, Net of	Non-controlling Interest in	
	Shares	Amount	Capital	Earnings	Taxes	Subsidiaries	Total
Balance at December 31, 2009	99,956,833	$ 1,000	$ 459,542	$ 405,198	$ (129)	$ 252	$ 865,863
Adoption of ASC 810 (FASB Statement No. 167), net of tax	—	—	—	2,274	—	—	2,274
Net income	—	—	—	28,063	—	5	28,068
	502,026	5	2,495	—	—	—	2,500

Exercise of common stock options							
Issuance of common stock awards to employees	9,865	—	—	—	—	—	—
Equity-based compensation	7,654	—	2,968	—	—	—	2,968
Other comprehensive loss, net of income taxes	—	—	—	—	(12,975)	(6)	(12,981)
Balance at September 30, 2010	100,476,378	$ 1,005	$ 465,005	$ 435,535	$ (13,104)	$ 251	$ 888,692

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

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

	For the nine months ended September 30, 2011	2010
Cash flows from operating activities		
Net income	$68,668	$28,068
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of mortgage servicing rights	30,059	22,103
Amortization of debt discount	8,101	3,390
Amortization of debt issuance costs – senior secured term loan	8,888	497
Depreciation	1,974	1,434
Write-off of investment in commercial real estate property	—	3,000
Reversal of valuation allowance on mortgage servicing assets	(868)	(185)
Loss on trading securities	—	3,958
Loss on loans held for resale, net	3,531	2,626
Equity in loss (earnings) of unconsolidated entities	690	(1,344)
Unrealized losses on derivative financial instruments	4,743	442
Gain on extinguishment of debt	(3,651)	(152)
Increase in deferred tax assets, net	(354)	(421)
Net cash provided by trading activities	—	168,853
Net cash provided by loans held for resale activities	1,050	1,163
Changes in assets and liabilities:		
Decrease in advances and match funded advances	699,516	204,343
Increase in receivables and other assets, net	(5,349)	(20,382)
Increase (decrease) in servicer liabilities	1,925	(36,304)
(Decrease) increase in other liabilities	(23,341)	44,912
Other, net	8,039	8,581
Net cash provided by operating activities	803,621	434,582
Cash flows from investing activities		
Cash paid to acquire Litton Loan Servicing LP	(2,646,486)	—
Cash paid to acquire HomEq Servicing (a business within Barclays Bank PLC)	—	(1,167,122)
Purchase of mortgage servicing rights	—	(23,425)
Acquisition of advances and other assets in connection with the purchase of mortgage servicing rights	—	(528,882)
Distributions of capital from unconsolidated entities – Ocwen Structured Investments, LLC, Ocwen Nonperforming Loans, LLC and Ocwen REO, LLC	2,415	3,542
Investment in unconsolidated entity – Correspondent One S.A.	(15,000)	—
Additions to premises and equipment	(1,236)	(3,261)
Proceeds from sales of real estate	1,448	3,001
(Increase) decrease in restricted cash – for securitization investors	(183)	813
Principal payments received on loans – restricted for securitization investors	4,610	3,558
Net cash used by investing activities	(2,654,432)	(1,711,776)
Cash flows from financing activities		
Proceeds from match funded liabilities	1,597,699	1,140,655

Repayment of secured borrowings – owed to securitization investors	(7,382)	(7,487)
Proceeds from lines of credit and other secured borrowings	563,500	448,316
Repayment of lines of credit and other secured borrowings	(266,275)	(63,018)
Payment of debt issuance costs – senior secured term loan	(12,070)	—
Repayment of investment line	—	(156,968)
Repurchase of debt securities	—	(11,659)
Exercise of common stock options	1,285	2,381
Other	(1,705)	(2,034)
Net cash provided by financing activities	1,875,052	1,350,186
Net increase in cash	24,241	72,992
Cash at beginning of period	127,796	90,919
Cash at end of period	$152,037	$163,911
Supplemental business acquisition information		
Fair value of assets acquired		
Cash	$(23,791)	$—
Advances	(2,468,137)	(1,062,873)
Mortgage servicing rights	(135,341)	(84,683)
Premises and equipment	(24,224)	(8,008)
Goodwill	(44,570)	(19,457)
Receivables	—	(1,423)
Other assets	(5,829)	—
	(2,701,892)	(1,176,444)
Fair value of liabilities assumed		
Other liabilities	31,615	9,322
Cash paid	(2,670,277)	(1,167,122)
Less: Cash acquired	23,791	—
Net cash paid	$(2,646,486)	$(1,167,122)

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Dollars in thousands, except share data)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ocwen Financial Corporation (NYSE: OCN) (Ocwen or OCN), through its subsidiaries, is a leading provider of residential and commercial mortgage loan servicing, special servicing and asset management services. Ocwen is headquartered in Atlanta, Georgia with offices in West Palm Beach, Florida, Orlando, Florida, the District of Columbia and support operations in India and Uruguay. Ocwen is a Florida corporation organized in February 1988. Ocwen Loan Servicing, LLC (OLS), a wholly-owned subsidiary of Ocwen, is a licensed mortgage servicer in all 50 states, the District of Columbia and two U.S. territories.

At September 30, 2011, Ocwen owned all of the outstanding stock of its primary subsidiaries: OLS, Ocwen Financial Solutions, Private Limited (OFSPL) and Investors Mortgage Insurance Holding Company. OCN also holds a 49% equity interest in Correspondent One S.A. (Correspondent One), an entity formed with Altisource Portfolio Solutions S.A. (Altisource) in March 2011, a 25% interest in Ocwen Structured Investments, LLC (OSI) and an approximate 25% interest in Ocwen Nonperforming Loans, LLC (ONL) and Ocwen REO, LLC (OREO).

On September 1, 2011, Ocwen completed its acquisition (the Litton Acquisition) of (i) all the outstanding partnership interests of Litton Loan Servicing LP (Litton), a subsidiary of The Goldman Sachs Group, Inc. (Goldman Sachs) and a provider of servicing and subservicing of primarily non-prime residential mortgage loans and (ii) certain interest-only servicing securities (the Litton IO Strips) previously owned by Goldman Sachs & Co., also a subsidiary of Goldman Sachs (collectively referred to as Litton Loan Servicing Business). See Note 3 for additional information regarding the Litton Acquisition.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in conformity with the instructions of the Securities and Exchange Commission (SEC) to Form 10-Q and SEC Regulation S-X, Article 10, Rule 10-01 for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In our opinion, the accompanying unaudited financial statements contain all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation. The results of operations and other data for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for any other interim period or for the entire year ending December 31, 2011. The unaudited interim consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

The preparation of financial statements in conformity with GAAP requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Material estimates that are particularly significant relate to our fair value measurements, the provision for potential estimates that may arise from litigation proceedings, the amortization of mortgage servicing rights (MSRs) and the valuation of goodwill and deferred tax assets.

Principles of Consolidation

Our financial statements include the accounts of Ocwen and its majority-owned subsidiaries. We apply the equity method of accounting to investments when the entity is not a variable interest entity (VIE), and we are able to exercise significant influence, but not control, over the policies and procedures of the entity but own 50% or less of the voting securities. We account for our investments in OSI, ONL, OREO and Correspondent One using the equity method. We have eliminated intercompany accounts and transactions in consolidation.

Variable Interest Entities

We evaluate each special purpose entity (SPE) for classification as a VIE. When an SPE meets the definition of a VIE and we determine that Ocwen is the primary beneficiary, we include the SPE in our consolidated financial statements.

We have determined that the SPEs created in connection with the match funded financing facilities discussed below are VIEs of which we are the primary beneficiary. We have also determined that we are the primary beneficiary for certain residential mortgage loan securitization trusts. The accounts of these SPEs are included in our consolidated financial statements.

Securitizations or Asset Backed Financing Arrangements

Ocwen or its subsidiaries have been a transferor in connection with a number of securitizations or asset-backed financing arrangements. We have continuing involvement with the financial assets of eight of the securitizations and three of the asset-backed financing arrangements. We also hold residual interests in and are the servicer for three securitizations where we were not a transferor.

We have aggregated these securitizations and asset-backed financing arrangements into two groups: (1) securitizations of residential mortgage loans and (2) financings of advances on loans serviced for others.

Securitizations of Residential Mortgage Loans. In prior years, we securitized residential mortgage loans using certain trusts. These transactions were accounted for as sales even though we continued to be involved with the trusts, typically by acting as the servicer or sub-servicer for the loans held by the trust and by retaining a beneficial ownership interest in the trust. The beneficial interests we held consisted of both subordinate and residual securities that were either retained at the time of the securitization or subsequently acquired.

For four of these trusts, we have determined that our involvement represents a variable interest and that we are the primary beneficiary. We have included these four trusts in our consolidated financial statements. Our involvement with each of the remaining trusts does not represent a variable interest, and therefore, we exclude them from our consolidated financial statements.

For the three months ended September 30, 2011 and 2010, the four consolidated trusts generated income from continuing operations before income taxes of $697 and $1,312, respectively. For the nine months ended September 30, 2011 and 2010, these trusts generated income from continuing operations before income taxes of $664 and $1,646, respectively. See Note 7 and Note 12 for additional information regarding Loans – restricted for securitization investors and Secured borrowings – owed to securitization investors.

The following table presents a summary of the involvement of Ocwen with unconsolidated securitization trusts and summary financial information for the trusts where we are the transferor and hold beneficial interests. Although we are the servicer for these trusts, the residual interests that we hold in these entities have no value and no potential return of significant cash flows. As a result, we are not exposed to loss from these holdings. Further, since our valuation of the residual interest is based on anticipated cash flows, we are unlikely to receive any future benefits from our residual interests in these trusts.

For the periods ended September 30,	Three months		Nine months	
	2011	2010	2011	2010
Total servicing and subservicing fee revenues	$772	$947	$2,342	$2,820

	As of	
	September 30, 2011	December 31, 2010
Total servicing advances	$13,015	$ 16,886
Total MSRs at amortized cost	1,200	1,330

With regard to both the consolidated and the unconsolidated securitization trusts, we have no obligation to provide financial support to the trusts and have provided no such support. The creditors of the trusts can look only to the assets of the trusts themselves for satisfaction of the debt and have no recourse against the assets of Ocwen. Similarly, the general creditors of Ocwen have no claim on the assets of the trusts. Our exposure to loss as a result of our continuing involvement is limited to the carrying values of our investments in the residual and subordinate securities of the trusts, our MSRs that are related to the trusts and our advances to the trusts. We consider the probability of loss arising from our advances to be remote because of their position ahead of most of the other liabilities of the trusts. At September 30, 2011 and December 31, 2010, our investment in the securities of the trusts was $2,508 and $2,691, respectively, all of which is eliminated in consolidation. See Note 5 and Note 8 for additional information regarding Advances and Mortgage servicing rights.

Financings of Advances on Loans Serviced for Others. Match funded advances on loans serviced for others result from our transfers of residential loan servicing advances to SPEs in exchange for cash. These SPEs issue debt supported by collections on the transferred advances. We made these transfers under the terms of three advance facility agreements. We classify the transferred advances on our Consolidated Balance Sheet as Match funded advances and the related liabilities as Match funded liabilities. Collections on the advances pledged to the SPEs are used to repay principal and interest and to pay the expenses of the entity. Holders of the debt issued by these entities can look only to the assets of the entities themselves for satisfaction of the debt and have no recourse against OCN. However, OLS has guaranteed the payment of the obligations under the securitization documents of one of the entities, Ocwen Servicer Advance Funding (Wachovia), LLC (OSAFW). The maximum amount payable under the guarantee is limited to 10% of the notes outstanding at the end of the facility's revolving period on July 1, 2013. As of September 30, 2011, OSAFW had $194,534 of notes outstanding.

The following table summarizes the assets and liabilities of the SPEs formed in connection with our match funded advance facilities, at the dates indicated:

	September 30, 2011	December 31, 2010
Match funded advances	$ 3,756,832	$ 1,924,052
Other assets	134,121	103,448
Total assets	$ 3,890,953	$ 2,027,500
Match funded liabilities	$ 3,080,228	$ 1,482,529
Due to affiliates (1)	865,159	262,900
Other liabilities	2,665	2,890
Total liabilities	$ 3,948,052	$ 1,748,319

(1) Amounts are payable to Ocwen and its consolidated affiliates and eliminated in consolidation.

See Note 6 and Note 11 for additional information regarding Match funded advances and Match funded liabilities.

Reclassification

Within the operating activities section of the Consolidated Statement of Cash Flows for the nine months ended September 30, 2010, we made the following reclassifications to conform to the 2011 presentation:

- reclassified the components of Depreciation and other amortization to the Amortization of debt discount and the Depreciation line items;

- reclassified Amortization of debt issuance costs – senior secured term loan from Increase in receivables and other assets, net; and

- reclassified Gain on extinguishment of debt and Unrealized losses on derivative financial instruments from Other, net.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update (ASU) 2011-02 (ASC 310, Receivables): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. The amendments in this ASU clarify the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. This additional guidance will assist creditors in determining whether a restructuring or modification of a receivable meets the criteria to be considered a troubled debt restructuring. If the restructuring is considered a troubled debt restructuring, creditors are required to make certain disclosures in their financial statements. In addition, the calculation of the allowance for credit losses for that receivable follows the impairment guidance specific to impaired receivables. Our adoption of this standard on July 1, 2011 did not have a material impact on our consolidated financial statements.

ASU 2011-03 (ASC 860, Transfers and Servicing): Reconsideration of Effective Control for Repurchase Agreements. ASC 860 prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. That determination is based, in part, on whether the entity has maintained effective control over the transferred financial assets. Repurchase agreements are accounted for as secured financings if the transferee has not surrendered control over the transferred assets. The amendments in this ASU remove from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The Financial Accounting Standards Board (FASB) concluded that this criterion is not a determining factor of effective control. Consequently, the amendments in this update also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets.

The guidance in this ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. We do not expect our adoption of the provisions in this ASU to have a material impact on our consolidated financial statements.

ASU 2011-04 (ASC 820, Fair Value Measurement): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments clarify FASB's intent about the application of existing fair value measurement and disclosure requirements and prescribe certain additional disclosures about fair value measurements, including: for fair value measurements within Level 3 of the fair value hierarchy, disclosing the valuation process used and the sensitivity of fair value measurement to changes in unobservable inputs; and for items not carried at fair value but for which fair value must be disclosed, categorization by level of the fair value hierarchy. The provisions of this ASU are effective for interim and annual periods beginning on or after December 15, 2011, with early adoption prohibited. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

ASU 2011-05 (ASC 220, Comprehensive Income): Presentation of Comprehensive Income, Current U.S. GAAP allows reporting entities three alternatives for presenting other comprehensive income and its components in financial statements. One of those presentation options is to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This ASU eliminates that option. This ASU also requires consecutive presentation of the statement of net income and other comprehensive income and requires an entity to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2011. Our adoption of this standard will not have a material impact on our consolidated financial statements.

ASU 2011-08 (ASC 350, Intangibles – Goodwill and Other): Testing Goodwill for Impairment. With this ASU, the FASB has taken action to reduce the cost and complexity of the annual goodwill impairment test by providing reporting entities with the option of performing a "qualitative" assessment of impairment to determine if any further quantitative testing for impairment may be necessary. An entity can choose to apply the qualitative assessment to all, some or none of its reporting units. The ASU is effective for reporting periods beginning after December 15, 2011; however, an entity can early adopt the revised standard even if its annual impairment test date is before September 15, 2011, the date that the ASU was issued. We intend to early adopt the revised standard during the fourth quarter of 2011. We do not anticipate that the adoption of the standard will have a material impact on our consolidated financial statements.

NOTE 3 ACQUISITION

As disclosed in Note 1, Ocwen completed its acquisition of the Litton Loan Servicing Business on September 1, 2011. The transaction was completed in accordance with the provisions of the Purchase Agreement (the Agreement) between Ocwen and Goldman Sachs dated June 5, 2011.

Ocwen completed the acquisition in order to expand its Servicing segment. The Litton Acquisition resulted in the acquisition by Ocwen of a servicing portfolio of approximately 245,000 primarily non-prime residential mortgage loans with approximately $38.6 billion in unpaid principal balance (UPB) and the servicing platform of Litton Loan Servicing Business based in Houston, Texas and McDonough, Georgia.

The base purchase price for the Litton Acquisition was $247,154, which was paid in cash by Ocwen at closing. In addition, Ocwen repaid at closing Litton's $2,423,123 outstanding debt on an existing servicing advance financing facility that was provided by an affiliate of the Goldman Sachs and entered into a new advance financing facility under which it borrowed $2,126,742 from Goldman Sachs. On September 1, 2011, Ocwen and certain of its subsidiaries also entered into a $575,000 senior secured term loan facility agreement to fund the base purchase price and the amount by which the repayment of Litton's advance financing facility debt exceeded the proceeds from the new advance financing facility. Borrowings under the senior secured term loan facility are net of an original issue discount of $11,500, which is being amortized over the life of the loan. See Note 11 and Note 13 for additional details of the new advance financing facility and the senior secured term loan.

The purchase price was based in part on estimated closing-date measurements specified in the Agreement and may be further adjusted as these estimated closing-date measurements are finalized.

The actual base purchase price is subject to additional post-closing adjustments for a period of 60 days as a result of certain adjustments specified in the Agreement such as for changes in Litton's estimated closing date net worth, servicing portfolio UPB and advance balances, among others.

The transaction has been accounted for using the acquisition method of accounting which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The following table summarizes the preliminary estimate of the fair values of assets acquired and liabilities assumed as part of the Litton Acquisition:

Cash	$23,791
Advances	2,468,137
MSRs	135,341
Premises and equipment, net	24,224
Other assets	5,829
Other liabilities	(31,615)
Total identifiable net assets	2,625,707
Goodwill	44,570
Total consideration	2,670,277
Litton debt repaid to Goldman Sachs at closing	(2,423,123)
Base purchase price	$247,154

Consistent with our fair value policy for MSRs as disclosed in Note 4, we estimated the fair value of the MSRs by calculating the present value of expected future cash flows utilizing assumptions that we believe are used by market participants. The Litton IO Strips that Ocwen acquired and holds are entitled to a portion of the servicing revenues from the securitization trusts to which they relate. However, Ocwen has relinquished the rights to these revenues to the holder of the MSRs. As a result, the MSRs include the right to all the servicing revenues from those securitization trusts, and we have estimated the fair values of the related MSRs on that basis.

The valuation of premises and equipment was based on the in-use valuation premise, where the fair value of an asset is based on the highest and best use of the asset that would provide maximum value to market participants principally through its use with other assets as a group. This valuation presumes the continued operation of the Litton Loan Servicing Business platform as installed or otherwise configured for use.

Advances are non-interest bearing receivables that are expected to have a short average collections period and were, therefore, valued at their face amount, consistent with Ocwen's fair value policy for servicing advances. Other assets and liabilities that are expected to have a short life were also valued at the face value of the specific assets and liabilities purchased, including receivables, prepaid expenses, accounts payable and accrued expenses.

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the expected revenue and cost synergies of the combined business. The goodwill portion of the purchase price allocation shown in the table above pertains to the Servicing segment and is subject to adjustment as the fair value of certain other components of the purchase price are adjusted. All components of the purchase price allocation are considered preliminary. We anticipate finalizing the purchase price allocations by December 31, 2011. Potential changes in advances, premises and equipment and goodwill could be significant. If certain of the acquired premises and equipment are not used in the future, they may be written down to their estimated liquidation value. Ocwen is considering subleasing office space acquired as part of the Litton Acquisition. Further changes to the opening balance of advances will result in a cash exchange between Ocwen and Goldman Sachs and, as such, should not result in any change to goodwill.

The acquisition of Litton is treated as an asset acquisition for U.S. tax purposes. We expect the opening tax basis for the acquired assets and liabilities to be the fair value as shown in the table above. We expect the MSRs and goodwill to be treated as intangible assets acquired in connection with the purchase of a trade or business and as such, amortized over 15 years for tax purposes.

Additionally, the Agreement provides that the severance plans of Litton and the Goldman Sachs remain in effect for one year. We recognized severance expense of $3,913 during the third quarter as steps taken to reorganize and streamline the operations of Litton obligated Ocwen to pay severance under those plans. Severance expense is included in Compensation and benefits in our Consolidated Statements of Operations.

In connection with the establishment of the match funded advance facility Ocwen funded a reserve in the initial amount of $42,535 which is held by the facility Indenture Trustee for the benefit of the note holders. Ocwen also paid Barclays an $11,500 arrangement fee in connection with the senior secured term loan agreement. This fee along with the discount and certain other professional fees incurred in connection with the establishment of the facility are being amortized over the five-year life of the loan.

As part of the Litton Acquisition, Goldman Sachs and Ocwen have agreed to indemnification provisions for the benefit of the other party. Additionally, Goldman Sachs has agreed to retain certain contingent liabilities for fines and penalties that could potentially be imposed by certain government authorities relating to Litton's pre-closing foreclosure and servicing practices. Further, Goldman Sachs and Ocwen have agreed to share certain losses arising out of third-party claims in connection with Litton's pre-closing performance under its servicing agreements. Goldman Sachs has agreed to be liable for (i) 80% of any such losses until the amount paid by Goldman Sachs is equal to 80% of the Goldman Shared Loss Cap and (ii) thereafter, 20% of any such losses until the amount paid by Goldman Sachs is equal to the Goldman Shared Loss Cap. Ocwen has agreed to be liable for (i) 20% of any such losses until the amount paid by Ocwen is equal to 20% of the Goldman Shared Loss Cap, (ii) thereafter, 80% of any such losses until the amount paid by Ocwen is equal to the Goldman Shared Loss Cap and (iii) thereafter, 100% of any such losses in excess of the Goldman Shared Loss Cap. The "Goldman Shared Loss Cap" is currently approximately $123,577 or 50% of the adjusted purchase price of the Litton Acquisition, but which may be further adjusted after final reconciliations of the purchase price are made.

In connection with the Litton Acquisition, Ocwen, Goldman Sachs Bank USA, Litton and the New York State Banking Department have entered into an agreement (the NY Agreement) that sets forth certain loan servicing practices and operational requirements. No fines, penalties or other payments were assessed against Ocwen or Litton under the terms of the NY Agreement. We do not believe that our commitments under the NY Agreement will have a material impact on our financial statements.

Actual and Pro forma impact of the Litton Acquisition

The following table presents the revenue and earnings of the Litton Loan Servicing Business that is included in our Consolidated Statement of Operations from the acquisition date of September 1, 2011 through September 30, 2011:

Revenues	$14,560
Net loss (1)	$(10,107)

(1) Net loss includes non-recurring transaction related expenses of $18,431, including severance and other compensation of $12,933 related to Litton employees and $304 of fees for professional services related to the acquisition. Net loss also includes $2,276 of amortization of the acquired MSRs. Net loss does not include an allocation of costs related to the servicing of the Litton loans on Ocwen's platform. We computed income taxes using a combined statutory rate of 36.12% for federal and state income taxes.

The following table presents supplemental pro forma information as if the Litton Acquisition had occurred on January 1, 2010. Pro forma adjustments include:

- conforming revenues to the revenue recognition policy followed by Ocwen rather than the policy followed by Litton;
- conforming the accounting for MSRs to the valuation and amortization policy of Ocwen rather than the policy followed by Litton;
- reversing Litton depreciation and reporting depreciation based on the estimated fair values and remaining lives of the acquired premises and equipment at the date of acquisition;
- adjusting interest expense to eliminate the pre-acquisition interest expense of Litton and to recognize interest expense as if the acquisition-related debt of Ocwen had been outstanding at January 1, 2010; and

- reporting acquisition-related charges, including severance paid to Litton employees and fees for professional services related to the acquisition as if they had been incurred in 2010 rather than 2011.

The pro forma consolidated results are not indicative of what Ocwen's consolidated net earnings would have been had Ocwen completed the Litton Acquisition on January 1, 2010 because of differences in servicing practices and cost structure between Ocwen and Litton. In addition, the pro forma consolidated results do not purport to project the future results of Ocwen combined nor do they reflect the expected realization of any cost savings associated with the Litton Acquisition.

Periods ended September 30,	Three months		Nine months	
	2011	2010	2011	2010
Revenues	$155,420	$160,308	$485,408	$455,016
Net income (loss)	$6,792	$(28,468)	$10,019	$(16,770)

Through September 30, 2011, we have incurred approximately $1,100 of fees for professional services related to the Litton Acquisition which are included in Operating expenses.

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and the estimated fair values of our financial instruments are as follows at the dates indicated:

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Loans held for resale	$21,933	$21,933	$25,803	$25,803
Loans, net – restricted for securitization investors	60,389	56,789	67,340	64,795
Advances	3,875,706	3,875,706	2,108,885	2,108,885
Receivables, net	53,141	53,141	69,518	69,518
Financial liabilities:				
Match funded liabilities	$3,080,228	$3,096,522	$1,482,529	$1,486,476
Lines of credit and other secured borrowings	555,110	566,353	246,073	252,722
Secured borrowings – owed to securitization investors	55,323	54,280	62,705	62,105
Servicer liabilities	4,417	4,417	2,492	2,492
Debt securities	82,554	89,534	82,554	75,325
Derivative financial instruments, net	$(18,389)	$(18,389)	$(15,351)	$(15,351)

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

The three broad categories are:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs for the asset or liability.

Where available, we utilize quoted market prices or observable inputs rather than unobservable inputs to determine fair value. We classify assets in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following table presents assets and liabilities measured at fair value categorized by input level within the fair value hierarchy:

	Carrying value	Level 1	Level 2	Level 3
At September 30, 2011:				

Measured at fair value on a recurring basis:				
Derivative financial instruments, net (1)	$(18,389)	—	—	$(18,389)
Measured at fair value on a non-recurring basis:				
Loans held for resale (2)	21,933	—	—	21,933
MSRs (3)	741	—	—	741
At December 31, 2010:				
Measured at fair value on a recurring basis:				
Derivative financial instruments, net (1)	$(15,351)	—	—	$(15,351)
Measured at fair value on a non-recurring basis:				
Loans held for resale (2)	25,803	—	—	25,803
MSRs (3)	334	—	—	334

(1) The derivative financial instruments are not exchange-traded and therefore quoted market prices or other observable inputs are not available. Fair value is based on certain assumptions provided by third-party pricing sources. See Note 15 for additional information on our derivative financial instruments.

(2) Loans held for resale are reported at the lower of cost or fair value. The fair value of loans for which we do not have a firm commitment to sell is based upon a discounted cash flow analysis with 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. All loans held for resale were measured at fair value because the cost exceeded the estimated fair value. At September 30, 2011 and December 31, 2010, the carrying value of loans held for resale is net of a valuation allowance of $14,407 and $14,611, respectively. Current market illiquidity has reduced the availability of observable pricing data. Consequently, we classify loans within Level 3 of the fair value hierarchy.

(3) Balances represent the carrying value of the impaired stratum of MSRs, net of a valuation allowance of $1,996 and $2,864 at September 30, 2011 and December 31, 2010, respectively. The estimated fair value exceeded amortized cost for all other strata. See Note 8 for additional information on MSRs, including significant assumptions used in their valuation.

The following tables present a reconciliation of the changes in fair value of our Level 3 assets that we measure at fair value on a recurring basis for the periods indicated:

	Derivative Financial Instruments	
For the periods ended September 30, 2011:	Three months	Nine months
Beginning balance	$(15,787)	$(15,351)
Purchases, issuances, sales and settlements:		
Purchases	—	—
Issuances	—	—
Sales	—	—
Settlements	9	80
	9	80
Total realized and unrealized gains and (losses) (1):		
Included in Other, net	(2,722)	(3,970)
Included in Other comprehensive income (loss)	111	852
	(2,611)	(3,118)
Transfers in and / or out of Level 3	—	—
Ending balance	$(18,389)	$(18,389)

		Trading Securities		
Three months ended September 30, 2010:	Derivative Financial Instruments	Auction Rate Securities	Subordinates and Residuals	Total
Beginning balance	$(12,278)	$78,073	$52	$65,847
Purchases, issuances, sales and settlements:				
Purchases	—	—	—	—
Issuances	—	—	—	—
Sales	—	(400)	—	(400)
Settlements	58	—	—	58
	58	(400)	—	(342)
Total realized and unrealized gains and (losses) (1) (2):				
Included in Loss on trading securities	—	(2,961)	(52)	(3,013)
Included in Other, net	(362)	—	—	(362)
Included in Other comprehensive income (loss)	(8,837)	—	—	(8,837)
	(9,199)	(2,961)	(52)	(12,212)
Transfers in and / or out of Level 3	—	—	—	—
Ending balance	$(21,419)	$74,712	$—	$53,293

		Trading Securities		
Nine months ended September 30, 2010:	Derivative Financial Instruments	Auction Rate Securities	Subordinates and Residuals	Total
Beginning balance	$(45)	$247,464	$59	$247,478
Purchases, issuances, sales and settlements:				
Purchases	—	—	—	—
Issuances	—	—	—	—
Sales	—	(75,508)	—	(75,508)
Settlements	134	(93,345)	—	(93,211)
	134	(168,853)	—	(168,719)
Total realized and unrealized gains and (losses) (1) (2):				
Included in Loss on trading securities	—	(3,899)	(59)	(3,958)
Included in Other, net	(952)	—	—	(952)
Included in Other comprehensive income (loss)	(20,556)	—	—	(20,556)
	(21,508)	(3,899)	(59)	(25,466)
Transfers in and / or out of Level 3	—	—	—	—

Ending balance	$(21,419)	$74,712	$—	$53,293

(1) Total net losses attributable to derivative financial instruments for the three and nine months ended September 30, 2011 include losses of $2,611 and $2,900, respectively, on derivatives held at September 30, 2011. Net losses attributable to derivative financial instruments for the three and nine months ended September 30, 2010 include losses of $9,140 and $21,373, respectively, on derivatives held at September 30, 2010.

(2) Total net losses on trading securities for the three and nine months ended September 30, 2010 include unrealized gains (losses) of $(2,417) and $13,298, respectively, on auction rate securities held at September 30, 2010.

NOTE 5 ADVANCES

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

	September 30, 2011	December 31, 2010
Servicing:		
Principal and interest	$ 45,133	$ 82,060
Taxes and insurance	32,049	49,785
Foreclosure and bankruptcy costs	12,588	27,163
Other	25,177	21,701
	114,947	180,709
Corporate Items and Other	3,925	4,124
	$ 118,872	$ 184,833

Servicing advances of $75,489 were pledged as collateral under the term reimbursement advance borrowing as of December 31, 2010. See Note 13 for additional information regarding the fee reimbursement advance facility.

NOTE 6 MATCH FUNDED ADVANCES

Match funded advances on residential loans we service for others, as more fully described in Note 1—Principles of Consolidation-Financings of Advances on Loans Serviced for Others, are comprised of the following at the dates indicated:

	September 30, 2011	December 31, 2010
Principal and interest	$ 1,841,536	$ 947,990
Taxes and insurance	1,388,320	684,928
Foreclosure and bankruptcy costs	299,243	140,181
Real estate servicing costs	111,710	116,064
Other	116,025	34,889
	$ 3,756,834	$ 1,924,052

NOTE 7 LOANS – RESTRICTED FOR SECURITIZATION INVESTORS

Loans – restricted for securitization investors are held by four securitization trusts that we include in our consolidated financial statements, as more fully described in Note 1—Securitizations of Residential Mortgage Loans. Loans – restricted for securitization investors consisted of the following at:

	September 30, 2011	December 31, 2010
Single family residential loans (1)	$ 62,673	$ 69,718
Allowance for loans losses	(2,284)	(2,378)
	$ 60,389	$ 67,340

(1) Includes nonperforming loans of $12,671 and $12,933 at September 30, 2011 and December 31, 2010, respectively.

At September 30, 2011, the trusts held 1,447 loans that are secured by first or second liens on one- to four-family residential properties. These loans have a weighted average coupon rate of 9.19% and a weighted average remaining life of 130 months.

NOTE 8 MORTGAGE SERVICING RIGHTS

Servicing Assets. The following table summarizes the activity in the carrying value of residential servicing assets for the nine months ended September 30, 2011:

Balance at December 31, 2010	$193,985
Purchases (1)	135,341
Decrease in impairment valuation allowance	868
Amortization (2)	(30,477)
Balance at September 30, 2011	$299,717

(1) Purchases represent the MSRs acquired as a part of the Litton Acquisition.

(2) In the Consolidated Statement of Operations, Amortization of mortgage servicing rights is reported net of the amortization of servicing liabilities and includes the amount of charges we recognized to increase servicing liability obligations.

The following table presents the composition of our servicing and subservicing portfolios by type of property serviced as measured by UPB. The servicing portfolio represents purchased MSRs while subservicing generally represents all other MSRs.

	Residential	Commercial	Total
UPB of Assets Serviced:			
September 30, 2011:			
Servicing	$80,518,944	$—	$80,518,944
Subservicing	25,607,224	311,624	25,918,848
	$106,126,168	$311,624	$106,437,792
December 31, 2010:			
Servicing	$51,252,380	$—	$51,252,380
Subservicing	22,634,011	434,305	23,068,316
	$73,886,391	$434,305	$74,320,696

MSRs are an intangible asset representing the right to service a portfolio of mortgage loans. We generally obtain MSRs by purchasing them from the owners of the mortgage loans. Residential assets serviced consist principally of mortgage loans, primarily subprime, but also include foreclosed real estate. Commercial assets serviced consist of foreclosed real estate. Assets serviced for others are not included on our Consolidated Balance Sheet.

Custodial accounts, which hold funds representing collections of principal and interest we receive from borrowers, are held in escrow by an unaffiliated bank and excluded from our Consolidated Balance Sheet. Custodial accounts amounted to approximately $540,500 and $320,300 at September 30, 2011 and December 31, 2010, respectively.

Valuation Allowance for Impairment. During 2008, we established a valuation allowance for impairment of $3,624 on the high-loan-to-value stratum of our MSRs as the estimated fair value was less than the carrying value. Changes in the valuation allowance for impairment are reflected in Servicing and origination expenses in our Consolidated Statement of Operations. Net of the current valuation allowance of $1,996, the carrying value of this stratum was $741 at September 30, 2011. For all other strata, the fair value was above the carrying value at September 30, 2011.

The estimated fair value of residential MSRs at September 30, 2011 and December 31, 2010 was $335,013 and $237,407, respectively. The more significant assumptions used in the September 30, 2011 valuation include prepayment speeds ranging from 11.8% to 24.2% (depending on loan type) and 90+ non-performing delinquency rates ranging from 18.5% to 32.1% (depending on loan type). Other assumptions include an interest rate of 1-month LIBOR plus 4% for computing the cost of financing advances, an interest rate of 1-month LIBOR for computing float earnings and a discount rate of 20%.

Servicing Liabilities. Servicing liabilities are included in Other liabilities. See Note 14 for additional information.

NOTE 9 RECEIVABLES

Receivables consisted of the following at the dates indicated:

	Receivables	Allowance for Credit Losses	Net
September 30, 2011			
Servicing (1)	$43,308	$(1,084)	$42,224
Income taxes receivable	5,969	—	5,969
Affordable housing (2)	5,617	(5,067)	550
Due from Altisource (3)	2,199	—	2,199
Other	3,496	(1,297)	2,199
	$60,589	$(7,448)	$53,141
December 31, 2010			
Servicing (1)	$59,436	$(262)	$59,174
Income taxes receivable	3,620	—	3,620
Affordable housing (2)	6,882	(5,866)	1,016
Due from Altisource (3)	2,445	—	2,445
Other	4,586	(1,323)	3,263
	$76,969	$(7,451)	$69,518

(1) The balances at September 30, 2011 and December 31, 2010 arise from our Servicing business and primarily include reimbursable expenditures due from investors and amounts to be recovered from the custodial accounts of the trustees.

(2) The balances at September 30, 2011 and December 31, 2010 primarily represent annual payments to be received through June 2014 for proceeds from sales of investments in affordable housing properties. None of these receivables is delinquent.

(3) See Note 20 for additional information regarding our relationship with Altisource.

Receivable balances are evaluated individually. The change in the allowance for credit losses for the nine months ended September 30, 2011 and the balance of the related receivables at those dates were as follows (the disclosure requirements for the allowance for credit losses under ASC 310, Receivables, do not apply to mortgage banking activities, including the long-term servicing of loans, such as the activities of our Servicing segment):

	Affordable Housing	Other	Total
Allowance for credit losses balance at December 31, 2010	$5,866	$1,323	$7,189
Charge offs	—	(7)	(7)
Recoveries	—	(105)	(105)
Provision (reversal), net	(799)	86	(713)
Allowance for credit losses balance at September 30, 2011	$5,067	$1,297	$6,364
Receivables balance at September 30, 2011	$5,617	$3,496	$9,113

NOTE 10 OTHER ASSETS

Other assets consisted of the following at the dates indicated:

	September 30, 2011	December 31, 2010
Debt service accounts (1)	$ 120,484	$ 86,234
Interest earning collateral deposits (2)	29,023	25,738
Prepaid lender fees and debt issuance costs, net (3)	21,436	22,467
Real estate, net	3,440	4,682
Term note (4)	—	5,600
Other	11,356	13,561
	$ 185,739	$ 158,282

(1) Under our four advance funding facilities, we are contractually required to remit collections on pledged advances to the trustee within two days of receipt. The collected funds are not applied to reduce the related match funded debt until the payment dates specified in the indenture. The balance also includes amounts that have been set aside from the proceeds of our four match funded advance facilities to provide for possible shortfalls in the funds available to pay certain expenses and interest. These funds are held in interest earning accounts.

(2) The balances include $21,319 and $18,684 of cash collateral held by the counterparties to our certain of our derivative agreements at September 30, 2011 and December 31, 2010, respectively.

(3) Unamortized costs at September 30, 2011 and December 31, 2010 relate to match funded liabilities and other secured borrowings of the Servicing segment. We amortize these costs to the earlier of the scheduled amortization date, contractual maturity date or prepayment date of the debt.

(4) In September 2011, we collected this term note in full and repaid a five-year note that was payable to the same counterparty. We originally issued a $7,000 note receivable in March 2009 with a maturity date of April 1, 2014 in connection with advances funded by the Ocwen Servicer Advance Funding, LLC (OSAF) term note pledged as collateral. See Note 13 for additional information.

NOTE 11 MATCH FUNDED LIABILITIES

Match funded liabilities, as more fully described in Note 1—Principles of Consolidation – Match Funded Advances on Loans Serviced for Others, are comprised of the following at:

Borrowing Type	Interest Rate	Maturity (1)	Amortization Date (1)	Unused Borrowing Capacity (2)	Balance Outstanding September 30, 2011	December 31, 2010
Promissory Note (3)	3.3875%	Sept. 2013	Sept. 2013	$ 130,560	1,996,182	$ —
Advance Receivable Backed Note Series 2009-3 (4)	4.14%	Jul. 2023	Jul. 2012	—	210,000	210,000
Variable Funding Note Series 2009-2 (5)	1-Month LIBOR + 350 bps	Nov. 2023	Nov. 2012	88,000	—	—
Variable Funding Note Series 2009-1 (6)	Commercial paper rate + 200 bps	Feb. 2022	Feb. 2012	165,317	134,683	1,095
Advance Receivable Backed Note Series 2010-1 (4)(7)	3.59%	Sep. 2023	Feb. 2011	—	80,000	200,000
Class A-1 Term Note (8)	Commercial paper rate + 350 bps	Aug. 2043	Aug. 2013	—	389,644	721,000
Class A-2 Variable Funding Note (8)	Commercial paper rate + 350 bps	Aug. 2043	Aug. 2013	173,535	26,465	—
Class B Term Note (8)	Commercial paper rate + 525 bps	Aug. 2043	Aug. 2013	—	18,148	33,500
Class C Term Note (8)	Commercial paper rate + 625 bps	Aug. 2043	Aug. 2013	—	17,248	31,900
Class D Term Note (8)	1-Month LIBOR + 750 bps	Aug. 2043	Aug. 2013	—	13,324	24,600
Advance Receivable Backed Notes (9)	1-Month LIBOR + 400 bps	Mar. 2020	May 2011	—	—	10,315
Advance Receivable Backed Notes (10)	1-Month LIBOR + 200 bps	Jan. 2014	Jul. 2013	70,466	194,534	250,119
				$ 627,878	$ 3,080,228	$ 1,482,529

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

(2) Our unused borrowing capacity is available to us provided that we have additional eligible collateral to pledge. Collateral may only be pledged to one facility.

(3) This note was issued in connection with the financing of advances acquired in connection with the acquisition of Litton on September 1, 2011.

(4) These notes were issued under the Term Asset-Backed Securities Loan Facility (TALF) program administered by the Federal Reserve Bank of New York.

(5) Under the terms of the note purchase agreement, the maximum funding obligation will increase from $88,000 to $100,000 in November 2011.

(6) The interest rate for this note is determined using a commercial paper rate that reflects the borrowing costs of the lender plus a margin of 200 bps. In February 2011, the amortization date was extended to February 2012.

(7) This note entered into its amortization period in February 2011. The 2010-1 Indenture Supplement provides for scheduled amortization of $40,000 per quarter through January 2012.

(8) These notes were issued in connection with the financing of advances acquired as part of our acquisition (the HomEq Acquisition) of the U.S. non-prime mortgage servicing business of Barclays Bank PLC on September 1, 2010.

(9) On June 30, 2011, we terminated this facility and repaid the outstanding balance.

(10) We renewed this facility on June 30, 2011 at which time the maximum borrowing capacity was reduced to $265,000 from $500,000 and the amortization date was extended by two years to July 2013. In addition, the facility fee, which is payable in monthly installments, was reduced to 1.00% annually of the maximum borrowing capacity from 1.30%.

NOTE 12 SECURED BORROWINGS – OWED TO SECURITIZATION INVESTORS

Secured borrowings – owed to securitization investors of $55,323 and $62,705 at September 30, 2011 and December 31, 2010, respectively, consist of certificates that represent beneficial ownership interests in four securitization trusts that we include in our consolidated financial statements, as more fully described in Note 1—Securitizations of Residential Mortgage Loans. The holders of these certificates have no recourse against the assets of Ocwen.

The trusts consist principally of mortgage loans that are secured by first and second liens on one- to four-family residential properties. Except for the residuals, the certificates generally pay interest based on 1-Month LIBOR plus a margin of from 8 to 250 basis points. Interest rates on the certificates are generally capped at the weighted average of the net mortgage rates of the mortgage loans in the respective loan pools.

NOTE 13 LINES OF CREDIT AND OTHER SECURED BORROWINGS

Secured lines of credit from various unaffiliated financial institutions are as follows:

Borrowings	Collateral	Interest Rate	Maturity	Unused Borrowing Capacity	Balance Outstanding September 30, 2011	Balance Outstanding December 31, 2010
Servicing:						
Senior secured term loan (1)	Substantially all tangible and intangibles assets	1-Month LIBOR + 700 bps with a LIBOR floor of 2%	June 2015	$ —	$ —	$ 197,500
Senior secured term loan (2)	Substantially all tangible and intangibles assets	1-Month LIBOR + 550 bps with a LIBOR floor of 1.50%(2)	Sept. 2016	—	560,625	—
Fee reimburse–ment advance	Term note (3)	Zero coupon	March 2014	—	—	48,000
Term note (4)	Advances	1-Month LIBOR + 350 basis points	March 2014	—	—	5,600
				—	560,625	251,100
Corporate Items and Other						
Securities sold under an agreement to repurchase (5)	Ocwen Real Estate Asset Liquidating Trust 2007-1 Notes	(5)	(5)	—	5,728	7,774
					566,353	258,874
Discount (1)(2)(3)				—	(11,243)	(12,801)
				$ —	$ 555,110	$ 246,073

(1) On June 9, 2011, we terminated this facility and repaid the outstanding balance. We amortized the remaining balance of the original issue discount and the remaining unamortized prepaid debt issuance costs through this date.

(2) On September 1, 2011, we entered into a new senior secured term loan facility agreement and borrowed $575,000 that was primarily used to fund a portion of the Litton Acquisition. The loan was issued with an original issue discount of $11,500 that we are amortizing over the term of the loan. Borrowings bear interest, at the election of Ocwen, at a rate per annum equal to either (a) the base rate [the greatest of (i) the prime rate of Barclays Bank PLC in effect on such day, (ii) the federal funds effective rate in effect on such day plus 0.50% and (iii) the one-month Eurodollar rate (1-Month LIBOR)], plus a margin of 4.50% and a base rate floor of 2.50% or (b) 1-Month LIBOR, plus a margin of 5.50% with a 1-Month LIBOR floor of 1.50%. The loan is secured by a first priority security interest in substantially all of the tangible and intangible assets of Ocwen and the guarantors (OLS, Litton and Real Estate Servicing Solutions, Inc.), as well as by a pledge of the equity of certain of the subsidiaries of Ocwen and each guarantor. We are required to prepay the principal amount of the term loans in consecutive quarterly installments of $14,375 per quarter commencing September 30, 2011 through June 30, 2016, with the balance of the term loans becoming due on September 1, 2016.

(3) During September 2011, we repaid this facility in full and recognized a gain of $2,405 on the extinguishment of debt, including the write off of the unamortized balances of the discount and related deferred income. We were amortizing the discount to interest expense over the five-year term of the advance. Under the agreement that governed this advance, a portion of the annual payment was forgiven if the annual net written premium by the lender for insurance on serviced loans and real estate exceeded $100,000. In the first quarter of 2011, the lender forgave $1,246 of the outstanding debt balance based on the net written premium for the contract year ended March 31, 2011, which we also recognized as a gain on extinguishment debt. These gains are reported in Other income (expense).

(4) This note that was issued by OSAF was secured by advances on loans serviced for others, similar to match funded advances and liabilities. The lender pledged its interest in this note as collateral against a $7,000 term note receivable from the lender that we held. Both this note and the term note receivable were fully repaid in September 2011 as disclosed in Note 10.

(5) In August 2010, we obtained financing under a repurchase agreement for the Class A-2 and A-3 notes issued by Ocwen Real Estate Asset Liquidating Trust 2007-1 with a face value of $33,605. This agreement has no stated credit limit and lending is determined for each transaction based on the acceptability of the securities presented as collateral. Borrowings mature and are renewed monthly. The borrowings secured by the Class A-2 notes bear interest at 1-Month LIBOR + 200 basis points and borrowings secured by the Class A-3 notes bear interest at 1-Month LIBOR + 300 basis points.

NOTE 14 OTHER LIABILITIES

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

	September 30, 2011	December 31, 2010
Accrued expenses (1)(2)(3)	$ 62,606	$ 55,816
Checks held for escheat (1)(4)	24,790	18,087
Derivatives, at fair value	18,389	15,670
Accrued interest payable	3,854	4,830
Payable to Altisource (5)	3,736	3,877
Servicing liabilities (6)	2,997	3,415
Liability for selected tax items	2,913	2,913
Deferred income (7)	722	10,394
Other (8)	21,593	25,237
	$ 141,600	$ 140,239

(1) We assumed $31,615 of other liabilities in the Litton acquisition, including accruals of $10,106 for salaries and related compensation expenses, $7,429 of accrued legal fees and $6,145 of checks held for escheat. At September 30, 2011, accrued expenses includes $26,662 related to Litton. In September 2011, we recorded $12,933 of compensation related to terminated Litton employees, including $3,913 of severance. We expect to pay the liabilities for compensation during the fourth quarter of 2011.

(2) During 2010, in connection with the HomEq Acquisition, we accrued facility closure costs of $7,794 for the termination of the HomEq office leases effective in 2013 and $32,954 for employee termination benefits (including $30,345 during the third quarter). The balances at September 30, 2011 and December 31, 2010 include $5,901 and $7,794, respectively, of lease termination accruals. The balance at December 31, 2010 included $1,332 of remaining accruals for employee termination benefits. The change in the accrual balances is due to payments made, net of $57 of amortization of the discount recorded at the time that the lease termination accrual was established.

(3) The balances at September 30, 2011 and December 31, 2010 include $2,360 and $24,366, respectively, of litigation reserves. During 2011, we paid the settlement of one legal proceeding and a judgment in another case.

(4) The balance at September 30, 2011, includes $6,813 related to Litton.

(5) See Note 20 for additional information regarding our relationship with Altisource.

(6) We recognize a servicing liability for those agreements that are not expected to compensate us adequately for performing the servicing. During the first nine months of 2011, amortization of servicing liabilities exceeded the amount of charges we recognized to increase servicing liability obligations by $418. Amortization of mortgage servicing rights is reported net of this amount in the Consolidated Statement of Operations.

(7) The balance at December 31, 2010 included $9,508 of deferred income associated with the fee reimbursement advance facility that was being amortized to earnings over the five-year life of the related debt as a reduction of interest expense. The unamortized balance was written off upon the repayment of the related debt during September 2011 and included in the gain on extinguishment of debt. See Note 13 for additional information on the fee reimbursement advance facility.

(8) The balances at September 30, 2011 and December 31, 2010 include $12,960 and $14,943, respectively, due to investors in connection with loans we service under subservicing agreements.

NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS

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

Foreign Currency Exchange Rate Risk Management

In 2010, we entered into foreign exchange forward contracts to hedge against the effect of changes in the value of the India Rupee (INR) on amounts payable to our India subsidiary, OFSPL. We did not designate these contracts as hedges and we did not renew or replace them upon their expiration in April 2011. In August 2011, we entered into new foreign exchange forward contracts to hedge against the effect of changes in the value of the INR. We did not designate these contracts as hedges.

Our operations in Uruguay also expose us to foreign currency exchange rate risk, but we consider this risk to be insignificant.

Interest Rate Management

We include certain securitization trusts in our consolidated financial statements as more fully described in Note 1—Securitizations of Residential Mortgage Loans. As a result, we report the fair value of an interest rate swap that is held by one of the securitization trusts. Under the terms of the swap, the trust pays a fixed rate of 4.935% and receives a variable rate equal to 1-Month LIBOR. The notional amount and fair value of the swap was $6,400 and $(49), respectively, at September 30, 2011. This swap was not designated as a hedge and matures in November 2011.

In April 2010, we entered into a $250,000 non-amortizing interest rate swap to hedge against the effects of a change in 1-Month LIBOR on borrowing under a $500,000 advance funding facility that carries a variable interest rate. The balance outstanding under this facility at September 30, 2011 was $194,534. Under the terms of the swap, we pay a fixed rate of 2.059% and receive a variable rate equal to 1-Month LIBOR. Settlements commenced in August 2010 and the swap matures in July 2013. The notional amount and fair value of the swap were $250,000 and $(7,579), respectively, at September 30, 2011. Projected net settlements for the next twelve months total approximately $3,275 of payments to the counterparty. Although we originally designated this swap as a cash flow hedge, the hedging relationship failed to meet the effectiveness criterion for the third quarter of 2011 and on a prospective basis because declines in advances pledged as collateral to the hedged debt resulted in lower borrowings. As a result, we discontinued hedge accounting effective July 1, 2011 and began amortizing the $6,179 of deferred losses in accumulated other comprehensive income. Amortization will continue until the related debt matures in July 2013.

In June 2010, we entered into two amortizing interest rate swaps with notional amounts totaling $637,200 to hedge against the effects of changes in the lender's commercial paper rate and 1-Month LIBOR on borrowings under a second variable-rate advance funding facility entered into in connection with the HomEq Acquisition. The balance outstanding under this facility at September 30, 2011 was $464,829. Under the terms of the two swaps, we pay fixed rates of 1.575% and 1.5275%, respectively, and receive a variable rate equal to 1-Month LIBOR. Settlements commenced in September 2010 and the swaps mature in August 2013. The notional amount and fair value of the swaps were $472,429 and $(8,002), respectively, at September 30, 2011. Projected net settlements for the next twelve months total approximately $2,944 of payments to the counterparty. We designated these swaps as cash flow hedges.

The following table summarizes the use of derivatives during the nine months ended September 30, 2011:

	Foreign Exchange Forwards	Interest Rate Swaps
Notional balance at December 31, 2010	$6,400	$846,888
Additions	39,600	—
Maturities	(9,700)	(118,059)
Terminations	—	—
Notional balance at September 30, 2011	$36,300	$728,829
Fair value of derivative assets (liabilities) at (1):		
September 30, 2011	$(2,759)	$(15,630)
December 31, 2010	$319	$(15,670)
Maturity	August 2012	November 2011 to August 2013

(1) Derivatives are reported at fair value in Other assets or in Other liabilities.

Other income (expense), net, includes the following related to derivative financial instruments:

	Three months		Nine months	
	2011	2010	2011	2010
Net realized and unrealized gains (losses) on derivative financial instruments that are not designated as hedges (1)	$(2,558)	$439	$(2,675)	$(117)
Unrealized losses arising from ineffectiveness of interest rate swaps designated as cash flow hedges	(164)	(426)	(1,296)	(458)
Amortization of deferred losses included in accumulated other comprehensive income related to a discontinued hedging relationship	(772)	—	(772)	—
	$(3,494)	$13	$(4,743)	$(575)

(1) Includes $117 of net unrealized gains during the three and nine months ended September 30, 2011 relating to the swap for which we discontinued hedge accounting effective July 1, 2011.

Included in Accumulated other comprehensive loss at September 30, 2011 and December 31, 2010, respectively, was $12,811 and $14,435 of deferred unrealized losses, before taxes of $4,627 and $5,196, respectively, on the interest rate swaps that we designated as cash flow hedges.

NOTE 16 SERVICING AND SUBSERVICING FEES

We earn fees for providing services to owners of mortgage loans and foreclosed real estate. The following table presents the principal components of servicing and subservicing fees for the periods ended September 30:

	Three months		Nine months	
	2011	2010	2011	2010
Loan servicing and subservicing fees	$82,618	$57,836	$232,359	$151,097
Home Affordable Modification Program (HAMP) fees	11,013	11,616	28,304	22,655
Late charges	9,536	8,711	24,771	24,126
Loan collection fees	2,772	2,191	7,689	6,448
Custodial accounts (float earnings) (1)	560	632	1,632	2,080
Other	6,112	5,438	16,198	12,434
	$112,611	$86,424	$310,953	$218,840

(1) For the three and nine months ended September 30, 2010 float earnings included $138 and $757, respectively, of interest income from our investment in auction rate securities.

NOTE 17 INTEREST EXPENSE

The following table presents the components of Interest expense for each category of our interest-bearing liabilities for the periods ended September 30:

	Three months		Nine months	
	2011	2010	2011	2010
Match funded liabilities	$21,989	$15,891	$60,943	$37,560
Lines of credit and other secured borrowings	4,044	6,808	21,308	7,707
Secured borrowings – owed to securitization investors	153	171	545	395
Investment line	—	—	—	376
Debt securities:				
3.25% Convertible Notes	459	459	1,376	1,376
10.875% Capital Trust Securities	710	710	2,130	2,244
Other	303	148	712	359
	$27,658	$24,187	$87,014	$50,017

NOTE 18 BASIC AND DILUTED EARNINGS PER SHARE

Basic EPS excludes common stock equivalents and is calculated by dividing net income (loss) attributable to OCN by the weighted average number of common shares outstanding during the period. We calculate diluted EPS by dividing net income attributable to OCN, as adjusted to add back interest expense net of income tax on the 3.25% Convertible Notes, by the weighted average number of common shares outstanding including the potential dilutive common shares related to outstanding stock options, restricted stock awards and the 3.25% Convertible Notes.

The following is a reconciliation of the calculation of basic EPS to diluted EPS for the periods ended September 30:

	Three months		Nine months	
	2011	2010	2011	2010
Basic EPS:				
Net income attributable to Ocwen Financial Corporation	$20,228	$(8,835)	$68,680	$28,063
Weighted average shares of common stock	101,016,777	100,329,915	100,908,473	100,159,547
Basic EPS	$0.20	$(0.09)	$0.68	$0.28
Diluted EPS:				
Net income attributable to Ocwen Financial Corporation	$20,228	$(8,835)	$68,680	$28,063
Interest expense on 3.25% Convertible Notes, net of income tax (1)	301	—	904	927
Adjusted net income attributable to Ocwen Financial Corporation	$20,529	$(8,835)	$69,584	$28,990
Weighted average shares of common stock	101,016,777	100,329,915	100,908,473	100,159,547
Effect of dilutive elements:				
3.25% Convertible Notes (1)	4,637,224	—	4,637,224	4,637,224

Stock options (2) (3)	2,619,443	—	2,522,284	2,581,104
Common stock awards	—	—	—	1,850
Dilutive weighted average shares of common stock	108,273,444	100,329,915	108,067,981	107,379,725
Diluted EPS	$0.19	$(0.09)	$0.64	$0.27
Stock options excluded from the computation of diluted EPS:				
Anti-dilutive (2)	—	—	13,333	20,000
Market-based (3)	1,615,000	—	1,615,000	1,615,000

(1) The effect of our 3.25% Convertible Notes on diluted EPS is computed using the if-converted method. Interest expense and related amortization costs applicable to the 3.25% Convertible Notes, net of income tax, are added back to net income. Conversion of the 3.25% Convertible Notes into shares of common stock is assumed for purposes of computing diluted EPS unless the effect would be anti-dilutive. The effect is anti-dilutive whenever interest expense on the 3.25% Convertible Notes, net of income tax, per common share obtainable on conversion exceeds basic EPS.

(2) These stock options were anti-dilutive under the treasury stock method.

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

NOTE 19 BUSINESS SEGMENT REPORTING

Effective January 1, 2011, we realigned our business segments in response to the growth in our core servicing business and the continuing reductions in our equity investments in asset management vehicles and our remaining investments in subprime loans and residual securities. Effective with this realignment, our former Loans and Residuals segment and Asset Management Vehicles segment are included in Corporate Items and Other. Our business segments reflect the internal reporting that we use to evaluate operating performance of products and services and to assess the allocation of our resources. Segment results for prior periods have been restated to conform to the current segment structure.

A brief description of our current business segments is as follows:

Servicing. This segment provides loan servicing for a fee, including asset management and resolution services, primarily to owners of subprime residential mortgages. In most cases, we provide these services either because we purchased the MSR from the owner of the mortgage or because we entered into a subservicing or special servicing agreement with the entity that owns the MSR. Subprime loans represent residential loans that were made to borrowers who generally did not qualify under guidelines of Fannie Mae and Freddie Mac (nonconforming loans) or have subsequently become delinquent. This segment is primarily comprised of our core residential servicing business.

Corporate Items and Other. We report items of revenue and expense that are not directly related to a business, business activities that are individually insignificant, interest income on short-term investments of cash and certain corporate expenses in Corporate Items and Other. Debt securities, which are comprised of the 3.25% Convertible Notes and the 10.875% Capital Trust Securities, are also included in Corporate Items and Other.

Effective with the segment realignment discussed above, Corporate Items and Other includes the former Loans and Residuals segment and the former Asset Management Vehicles segment. Our recently acquired equity investment in Correspondent One is also included in Corporate Items and Other.

The former Loans and Residuals segment included our investments in subprime residential loans held for resale and subprime residual mortgage backed trading securities related to our former subprime loan origination operation and whole loan purchase and securitization activities. The Loans and Residuals segment also included the four loan securitization trusts that we began including in our consolidated financial statements effective January 1, 2010. The former Asset Management Vehicles segment was comprised of our 25% equity investment in OSI and approximately a 25% equity investment in ONL and OREO. These unconsolidated entities are engaged in the management of residential assets. Other business activities included in Corporate Items and Other that are not considered to be of continuing significance include our affordable housing investment activities.

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

Financial information for our segments is as follows:

	Servicing	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
Results of Operations				
For the three months ended September 30, 2011				
Revenue (1)(2)	$122,863	$592	$(993)	$122,462
Operating expenses (3) (4)	64,119	2,298	(767)	65,650
Income (loss) from operations	58,744	(1,706)	(226)	56,812
Other income (expense), net:				
Interest income	28	2,158	—	2,186
Interest expense (3)	(27,618)	(40)	—	(27,658)
Other (2)(5)	1,592	(4,207)	226	(2,389)
Other income (expense), net	(25,998)	(2,089)	226	(27,861)
Income (loss) from continuing operations before income taxes	$32,746	$(3,795)	$—	$28,951
For the three months ended September 30, 2010				
Revenue (1)(2)	$95,369	$535	$(335)	$95,569
Operating expenses (3) (4)	69,012	24,578	(216)	93,374
Income (loss) from operations	26,357	(24,043)	(119)	2,195
Other income (expense), net:				
Interest income	51	2,911	—	2,962
Interest expense (3)	(20,619)	(3,568)	—	(24,187)
Other (2)(5)	(361)	(1,440)	119	(1,682)
Other income (expense), net	(20,929)	(2,097)	119	(22,907)
Income (loss) from continuing operations before income taxes	$5,428	$(26,140)	$—	$(20,712)
For the nine months ended September 30, 2011				
Revenue (1)(2)	$339,224	$1,698	$(1,617)	$339,305
Operating expenses (3)(4)	144,700	5,498	(1,095)	149,103
Income (loss) from operations	194,524	(3,800)	(522)	190,202
Other income (expense), net:				
Interest income	110	6,534	—	6,644
Interest expense (3)	(86,870)	(144)	—	(87,014)
Other (2)(5)	2,653	(8,531)	522	(5,356)
Other income (expense), net	(84,107)	(2,141)	522	(85,726)
Income (loss) from continuing operations before income taxes	$110,417	$(5,941)	$—	$104,476

For the nine months ended September 30, 2010:				
Revenue (1)(2)	$246,581	$1,673	$(1,146)	$ 247,108
Operating expenses (3)(4)	141,039	32,790	(620)	173,209
Income (loss) from operations	105,542	(31,117)	(526)	73,899
Other income (expense), net:				
Interest income	161	8,346	—	8,507
Interest expense (3)	(44,772)	(5,245)	—	(50,017)
Other (2)(5)	(1,570)	(7,350)	526	(8,394)
Other income (expense), net	(46,181)	(4,249)	526	(49,904)
Income (loss) from continuing operations before income taxes	$59,361	$(35,366)	$—	$ 23,995
Total Assets				
September 30, 2011	$4,446,960	$450,215	$—	$ 4,897,175
December 31, 2010	$2,495,966	$425,443	$—	$ 2,921,409
September 30, 2010	$2,698,023	$557,751	$—	$ 3,255,774

(1) Intersegment revenues are as follows:

	Servicing	Corporate Items and Other	Business Segments Consolidated
For the three months ended September 30, 2011	$954	$39	$ 993
For the three months ended September 30, 2010	308	27	335
For the nine months ended September 30, 2011	1,524	93	1,617
For the nine months ended September 30, 2010	1,028	118	1,146

(2) Servicing has a contractual right to receive interest income on float balances. However, Corporate controls investment decisions associated with the float balances. Accordingly, Servicing receives revenues generated by those investments that are associated with float balances but are reported in Corporate Items and Other. Gains and losses associated with corporate investment decisions are recognized in Corporate Items and Other.

(3) Depreciation and amortization expense are as follows:

	Servicing	Corporate Items and Other	Business Segments Consolidated
For the three months ended September 30, 2011:			
Depreciation expense	$661	$426	$ 1,087
Amortization of MSRs	11,210	—	11,210
Amortization of debt discount	758	—	758
Amortization of debt issuance costs – senior secured term loan	284	—	284
For the three months ended September 30, 2010:			
Depreciation expense	$360	$333	$ 693
Amortization of MSRs	7,874	—	7,874
Amortization of debt discount	1,114	172	1,286
For the nine months ended September 30, 2011:			
Depreciation expense	$711	$1,263	$ 1,974
Amortization of MSRs	30,059	—	30,059
Amortization of debt discount	8,101	—	8,101
Amortization of debt issuance costs – senior secured term loan	8,888	—	8,888
For the nine months ended September 30, 2010:			
Depreciation expense	$389	$1,045	$ 1,434
Amortization of MSRs	22,103	—	22,103
Amortization of debt discount	3,218	172	3,390
Amortization of debt issuance costs – senior secured term loan	497	—	497

(4) Operating expenses of the Servicing segment for the three months ended September 30, 2011 include $18,746 related to the Litton Acquisition. For the three months ended September 30, 2010, operating expenses include $33,902 incurred in connection with the HomEq Acquisition.

(5) Other income (expense) of the Servicing segment includes $2,405 and $3,651 of gains on the extinguishment of debt during the three and nine months ended September 30, 2011, respectively. Other income (expense) for the three and nine months ended September 30, 2010 includes net losses on auction rate securities of $2,961 and $3,899, respectively, recorded in Corporate Items and Other.

NOTE 20 RELATED PARTY TRANSACTIONS

On August 10, 2009, we completed the distribution of our Ocwen Solutions line of business, except for BMS Holdings and GSS, via the spin-off of Altisource. Altisource common stock is listed on the NASDAQ market under the ticker symbol “ASPS.” We distributed all of the shares of Altisource common stock to OCN’s shareholders of record as of August 4, 2009 (the Separation). Although Altisource is a separate company from Ocwen after the Separation, Altisource and Ocwen have the same Chairman of the Board, William C. Erbey. As a result, he has obligations to Ocwen as well as to Altisource. Mr. Erbey currently owns approximately 18% of the common stock of Ocwen and owns approximately 25% of the common stock of Altisource.

For purposes of governing certain of the ongoing relationships between Ocwen and Altisource after the Separation, and to provide for an orderly transition to the status of two independent companies, we entered into certain agreements with Altisource. Under these agreements, Altisource and Ocwen provide to each other services in such areas as human resources, vendor management, corporate services, six sigma, quality assurance, quantitative analytics, treasury, accounting, tax matters, risk management, law, strategic planning, compliance and other areas where we, and Altisource, may need transition assistance and support following the Separation. In addition, Altisource provides certain technology products and support services to us, including the REAL suite of applications that support our Servicing business. In addition, in the third quarter of 2011, Ocwen and Altisource entered into a Data Access and Services Agreement under which Ocwen agreed to make available to Altisource certain data from Ocwen's servicing portfolio in exchange for a per asset fee.

Certain services provided by Altisource under these contracts are charged to the borrower and/or loan investor. Accordingly, such services, while derived from our loan servicing portfolio, are not reported as expenses by Ocwen. These services include residential property valuation, residential property preservation and inspection services, title services and real estate sales.

Our business is currently dependent on many of the services and products provided under these long-term contracts which are effective for up to eight years with renewal rights. We believe the rates charged under these agreements are market rates as they are materially consistent with one or more of the following: the fees charged by Altisource to other customers for comparable services and the rates Ocwen pays to or observes from other service providers.

For the three and nine months ended September 30, 2011, we generated revenues of $3,426 and $8,806 respectively, under our agreements with Altisource, principally from fees for providing referral services to Altisource. During the same periods of 2010, we generated revenues of $2,587 and $9,622 respectively. We also incurred expenses of $5,756 and $16,148 during the three and nine months ended September 30, 2011, respectively, principally for technology products and support services including the REAL suite of products that support our Servicing business. During the same periods of 2010, we incurred expenses of $4,973 and $14,555, respectively. At September 30, 2011, the net payable to Altisource was $1,537.

In December 2010, we entered into an agreement with Altisource to sublease 2,094 square feet of space as our principal executive office in Atlanta, Georgia. Under the terms of the agreement, Ocwen is responsible for monthly base rent of $3 plus a proportionate amount of maintenance costs and other shared services. The sublease is in effect through October 2014.

As disclosed in Note 1, Ocwen and Altisource each hold a 49% equity interest in Correspondent One. Correspondent One facilitates the purchase of conforming and government-guaranteed residential mortgages from approved mortgage originators and resells the mortgages to secondary market investors. As of September 30, 2011, Ocwen had invested $15,000 in Correspondent One.

NOTE 21 REGULATORY REQUIREMENTS

Ocwen is subject to extensive regulation by federal, state and local governmental authorities including the Federal Trade Commission, the SEC, the new Consumer Finance Protection Bureau and the state agencies that license its servicing and collection entities. The Company 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, the Servicemembers Civil Relief Act, the Homeowners Protection Act and the Dodd-Frank Wall Street Reform and Consumer 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 mandate certain disclosures and notices to borrowers. These requirements can and do change as statutes and regulations are enacted, promulgated or amended.

Ocwen is also subject to licensing and regulation as a mortgage service provider and/or debt collector in a number of states. It is subject to audits and examinations that are conducted by the states. From time to time, the Company receives requests from state and other agencies for records, documents and information regarding policies, procedures and practices regarding loan servicing and debt collection business activities.

There are a number of foreign regulations that are applicable to Ocwen's 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.

NOTE 22 COMMITMENTS AND CONTINGENCIES

Litigation

Since April 2004, we have been included as a defendant in litigation in federal court in Chicago which consolidated certain class actions and individual actions brought by borrowers in various federal and state courts challenging the defendants' mortgage servicing practices, including charging improper or unnecessary fees, misapplying borrower payments and similar allegations (the MDL Proceeding). We believe the allegations in the MDL Proceeding are without merit and have defended against them vigorously. In the interests of obtaining finality and cost certainty with regard to this complex and protracted litigated matter, however, defendants, including Ocwen, entered into a definitive written agreement with plaintiffs' counsel with respect to a class settlement. Ocwen's portion of the proposed settlement payment is $5,163 plus certain other non-cash consideration and administrative costs. On July 1, 2011, the Court granted final approval to this class settlement. Defendants, including Ocwen, have paid their respective portions of the settlement into escrow and notice of the settlement has been provided to potential class members. On July 6, 2011, the Court entered final judgment and no appeals were filed. While there are some claims that are subject to opt-outs by individual plaintiffs, these are not viewed as material at this time.

In September 2006, the Bankruptcy Trustee in Chapter 7 proceedings involving American Business Financial Services, Inc. (ABFS) brought an action against multiple defendants, including Ocwen, in Bankruptcy Court. The action arises out of Debtor-in-Possession financing to ABFS by defendant Greenwich Capital Financial Products, Inc. and the subsequent purchases by Ocwen of MSRs and certain residual interests in mortgage-backed securities previously held by ABFS. The Trustee filed an amended complaint in March 2007 alleging various claims against Ocwen including 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. In April 2008, Ocwen filed an answer denying all charges and a counterclaim for breach of contract, fraud, negligent misrepresentation and indemnification in connection with the MSR purchase transaction. Fact discovery is complete and both Ocwen and the Trustee have filed motions for partial summary judgment. We believe that the Trustee's allegations against Ocwen are without merit and intend to continue to vigorously defend against this matter. We are unable to provide any estimate of possible loss or range of possible loss at this time.

We are subject to various other pending legal proceedings, including those subject to loss sharing provisions of the Litton Acquisition more fully described in Note 3. In our opinion, the resolution of those proceedings will not have a material effect on our financial condition, results of operations or cash flows.

Tax Matters

On December 21, 2009, the India tax authorities issued a draft income tax assessment order (the First Order) with respect to assessment year 2006 – 2007. The proposed adjustment would impose upon OFSPL additional tax of INR 41,760 ($853) and interest of INR 18,297 ($374) for the Assessment Year 2006 – 2007, and penalties may be assessed. OCN and OFSPL intend to vigorously contest this Order and any imposition of tax and interest and do not believe they have violated any statutory provision or rule. OFSPL has filed an application with the Dispute Resolution Panel for the First Order. OFSPL received the final assessment order (the Second Order) on November 24, 2010, with a demand of INR 64,085 ($1,310), reflecting tax of INR 41,712 ($852) and interest of INR 22,373 ($457). In response, OFSPL petitioned for assistance to be provided by the Competent Authority under the Mutual Agreement Procedures of the U.S./India income tax treaty, furnished a Bank Guarantee for INR 76,754 ($1,569) related to transfer pricing matters and paid INR 7,647 ($156) towards non-transfer pricing issues. Furthermore, OFSPL has submitted an appeal of the Second Order to the Income Tax Appellate Tribunal.

On January 4, 2011, OFSPL received a draft assessment order (the Third Order) with respect to assessment year 2007 – 2008. The proposed adjustment would impose upon OFSPL additional tax of INR 63,885 ($1,306) and interest of INR 28,748 ($587). OFSPL filed an application and received no relief from the Dispute Resolution Panel for the Third Order. OFSPL intends to file a further appeal under the Mutual Agreement Procedures of the U.S./India income tax treaty and submit an appeal of the Third Order to the Income Tax Appellate Tribunal. Due to the uncertainties inherent in the Appeals and Competent Authority processes, OCN and OFSPL cannot currently estimate any additional exposure beyond the amount currently detailed in the Orders. We also cannot predict when these tax matters will be resolved. Competent Authority assistance requests under the Mutual Agreement Procedures should preserve OCN’s right to offset any potential increase in India taxes against OCN’s U.S. taxes.

Other Information

In July 2010, OLS received two subpoenas from the Federal Housing Finance Agency (FHFA) as conservator for Freddie Mac and Fannie Mae in connection with ten private label mortgage securitization transactions where Freddie Mac and Fannie Mae have invested. The transactions include mortgage loans serviced but not originated by OLS or its affiliates. There is no allegation of wrongdoing in the subpoenas against OLS, and we are cooperating with the FHFA’s requests.

On November 24, 2010, OLS received a Civil Investigative Demand (CID) from the Federal Trade Commission (FTC) requesting documents and information regarding various servicing activities. There is no allegation of wrongdoing in the CID against OLS, and we are cooperating with the FTC’s request.

Recent inquiries into servicer foreclosure processes could result in actions by state or federal governmental bodies, regulators or the courts that could result in temporary moratoria on mortgage foreclosures or an extension of foreclosure timelines, which may be applicable generally to the servicing industry or to us in particular. In addition, a number of our match funded advance facilities contain provisions that limit the eligibility of advances to be financed based on the length of time that advances are outstanding, and three of our match funded advance facilities have provisions that limit new borrowings if average foreclosure timelines extend beyond a certain time period, either of which, if such provisions applied, could adversely affect liquidity by reducing our average effective advance rate. In addition, governmental bodies may impose regulatory fines or penalties as a result of our foreclosure processes or impose additional requirements or restrictions on such activities which could increase our operating expenses. Increases in the amount of advances and the length of time to recover advances, fines or increases in operating expenses, and decreases in the advance rate and availability of financing for advances would lead to increased borrowings, reduced cash and higher interest expense which could negatively impact our liquidity and profitability. With respect to the Servicing segment, Ocwen is not the title owner of record for any foreclosed real estate, and neither Ocwen nor any of its subsidiaries make any type of direct title warranty to a subsequent purchaser of foreclosed real estate.

Ocwen has been a party to loan sales and securitizations dating back to the 1990s. The majority of securities issued in these transactions have been retired and are not subject to putback risk. There is one remaining securitization with an original UPB of approximately $200,000 where Ocwen provided representations and warranties and the loans were originated in the last decade. Ocwen performed due diligence on each of the loans included in this securitization. The outstanding UPB of this securitization was $51,074 at September 30, 2011, and the outstanding balance of the notes was $52,338. Ocwen is not aware of any inquiries or claims regarding loan putbacks for any transaction where we made representations and warranties. We do not expect loan putbacks to result in any material change to our financial position, operating results or liquidity.

NOTE 23 SUBSEQUENT EVENTS

On October 19, 2011, Ocwen entered into a Purchase Agreement with SCI Services, Inc. (SCI), Saxon Capital Holdings, LLC (Saxon Capital) and Morgan Stanley Mortgage Capital Holdings, LLC (Morgan Stanley) to acquire (i) all of the issued and outstanding stock of SCI Services, Inc. (SCI) and (ii) certain MSRs currently owned by Morgan Stanley and its affiliates (the Saxon Transaction). SCI is a subsidiary of Saxon Capital and the parent company of Saxon Mortgage Services, Inc., a provider of servicing and subservicing of primarily non-prime residential mortgage loans. Morgan Stanley is the parent company of Saxon Capital. The Saxon Transaction will result in the acquisition of a servicing portfolio of approximately $26,800,000 in UPB as of June 30, 2011, of which Ocwen currently subservices approximately $10,800,000 as of June 30, 2011. The Saxon Transaction also includes approximately $12,900,000 of loans that SCI subservices for Morgan Stanley and others. This subservicing may be transferred to Ocwen, pending approval by the owners of the servicing, or will be subserviced by Ocwen under short-term agreements. The base purchase price for the Saxon Transaction is $59,300, subject to certain adjustments at closing, plus an estimated $292,200 for the portion of the Saxon servicing advance receivables that will not be financed through committed financing. The Saxon Transaction is expected to close in the first quarter of 2012.

On October 31, 2011, we entered into two interest rate swaps to hedge against the effects of changes in variable interest rates on borrowings under servicing advance funding facilities. Under the terms of the swaps, we will pay fixed rates of 0.9780% and 0.9725% and will receive a variable rate equal to 1-Month LIBOR. The swaps become effective on the last business day of June 2013 and mature in January 2015. The notional amounts vary over time based on the terms of the swap transaction with combined notional amounts as high as $1,046,821 in September 2013.

In addition to the Saxon Transaction, on November 4, 2011, Ocwen entered into a servicing rights purchase agreement with JPMorgan Chase, N.A. (“JPMCB”) to acquire less than 2% of JPMCB’s mortgage servicing portfolio which includes servicing rights for certain third party private securitizations in which neither JPMCB nor any of its affiliated entities were issuers or loan sellers. The transaction relates to MSRs for approximately 82,000 non-prime loans with a UPB of approximately $15,000,000 as of September 30, 2011 (the "JPMCB MSR Transaction"). The purchase price, subject to adjustment at closing and inclusive of servicing advance receivables, is approximately $950,000, which will be payable in cash by Ocwen. Ocwen expects to finance $625,000 of the purchase price through an existing servicing advance facility. We do not expect the adjustment in the purchase price to be material.

As part of the JPMCB MSR Transaction, JPMCB and Ocwen have agreed to indemnification provisions for the benefit of the other party. There is no assurance that JPMCB will fulfill its indemnification obligations.

The JPMCB MSR Transaction is expected to close on January 1, 2012, however the JPMCB MSR Transaction may close in phases on more than one date. Closing of the JPMCB MSR Transaction is subject to closing conditions, including but not limited to obtaining applicable third party authorizations and amendments. There can be no assurance that the JPMCB MSR Transaction will be consummated as proposed or at all.

Ocwen is funding the amounts for the Saxon Transaction and the JPMCB MSR Transaction through a combination of cash on-hand, cash generated through operations, available credit, additional borrowing under our September 1, 2011 senior secured term loan facility, servicing advance facilities and a registered offering of common stock.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in Thousands, Except Share Data and unless Otherwise Indicated)

INTRODUCTION

The following discussion of our results of operations, change in financial condition and liquidity should be read in conjunction with our Interim Consolidated Financial Statements and the related notes, all included elsewhere in this report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2010.

OVERVIEW

Strategic Priorities

The long-term success of any mortgage servicer is driven primarily by four criteria:

1. Access to new servicing business
2. Cost of servicing
3. Ability to manage delinquencies and advances
4. Cost and amount of capital

Ocwen is an established industry leader in cost of servicing and ability to manage delinquencies and advances. While we will continue to pursue improvements in these areas, our plan for 2011 is more heavily focused on access to new servicing business and reducing our cost of capital relative to our peers, both banks and non-banks.

For accessing new servicing business, we have a four-pronged strategy:

1. Acquisition of existing servicing platforms
2. Special servicing opportunities (both residential and commercial)
3. Flow servicing
4. New servicing segments

As a result of the Litton Acquisition, which closed on September 1, 2011, Ocwen's servicing UPB grew by approximately $38.6 billion. This increases Ocwen's residential servicing portfolio to $106.1 billion in UPB as of September 30, 2011, making it the 12th largest mortgage loan servicer in the United States. In addition, as disclosed in Note 23 to our Interim Consolidated Financial Statements, we recently announced that we had entered into an agreement with Saxon Capital Holdings, Inc., a subsidiary of Morgan Stanley, to acquire SCI Services, Inc. (SCI) and certain MSRs. The MSRs reflect a servicing portfolio of approximately $26.8 billion in UPB.

We expect that other non-prime servicing platforms are likely to come to market in the next several months, and to the extent that we find these opportunities to be attractive, we believe that Ocwen can compete effectively for these opportunities, although it will not necessarily be the winning bidder in all cases. With our highly automated platform, we believe that we can quickly scale our servicing capabilities to handle acquired loan portfolios with only modest additions to infrastructure.

We expect to continue to pursue subservicing transactions, the acquisition of existing servicing portfolios and platforms and special servicing opportunities. We have been able to grow our average residential UPB serviced significantly since the end of 2008 without access to a flow of newly originated business. On flow servicing, we worked with Altisource and its Lenders One business (which generated approximately 6% of new loans originated in the United States in 2010) to create a new entity to securitize newly originated loans. Ocwen and Altisource each hold a 49% equity interest in this new entity, Correspondent One. We believe that this venture can improve the economics for the members of Lenders One and allow Ocwen to compete for servicing rights for newly originated Federal Housing Administration loans. If proposed changes in the servicing fee structure for Fannie Mae and Freddie Mac loans are implemented, Ocwen may be able to compete for the servicing of an even broader potential flow of new loans.

We also plan on evaluating and developing capabilities to service new segments of the servicing industry such as reverse mortgages and home equity lines of credit. In addition, we now deploy a full on-shore servicing alternative for entities that limit or prohibit offshore activities by their service providers.

Results of our revenue growth initiatives include:

- On March 29, 2010, we entered into a Servicing Rights Purchase and Sale Agreement under which we agreed to purchase from Saxon Mortgage Services, Inc. the rights to service approximately 38,000 mortgage loans with an aggregate UPB of approximately $6.9 billion (the Saxon Acquisition). This acquisition was completed on May 3, 2010.

- On May 28, 2010, we entered into an Asset Purchase Agreement pursuant to which OLS agreed to acquire the U.S. non-prime mortgage servicing business of Barclays Bank PLC known as "HomEq Servicing." The HomEq Acquisition closed on September 1, 2010, and we boarded approximately 134,000 residential loans with an aggregate UPB of approximately $22.4 billion onto Ocwen's platform.

- On April 15, 2011, we entered an agreement to subservice approximately 13,000 non-agency mortgage loans with a UPB of approximately $2.9 billion. The boarding dates were May 2, 2011 and May 16, 2011. This agreement provides for reimbursement of servicing advances.

- On September 1, 2011, we acquired Litton Loan Servicing LP (Litton), a provider of servicing and subservicing of primarily non-prime residential mortgage loans, from The Goldman Sachs Group, Inc. (Goldman Sachs). The purchase resulted in the acquisition of a servicing portfolio of approximately $38.6 billion in UPB.

- On October 19, 2011, we entered into a Purchase Agreement to acquire (i) the issued and outstanding stock of SCI from a subsidiary of Morgan Stanley and (ii) certain MSRs from Morgan Stanley and its affiliates. The Saxon Transaction will result in the acquisition of approximately $26.8 billion in UPB of primarily non-prime residential mortgage loans as of June 30, 2011 – of which Ocwen currently subservices approximately $10.8 billion – and also includes the acquisition of approximately $12.9 billion of UPB that Saxon or its subsidiaries subservice for Morgan Stanley and others.

We expect to continue in 2011 and 2012 to roll out new initiatives designed to reduce the cost of servicing and to improve our ability to manage delinquencies and advances. These initiatives will also improve borrower customer service levels, increase loan modifications and reduce re-defaults on loan modifications. We have already rolled out our "Shared Appreciation Modification" in most states which incorporates principal reductions and lower payments for borrowers while still providing some ability for investors to recoup losses if property values increase over time. We also rolled out our "Appointment Model" approach for communicating with our delinquent borrowers which will allow borrowers to schedule a time to review their files with a resolution specialist. By allowing both the borrower and the resolution specialist to prepare for discussions in advance, we believe that the Appointment Model approach is the best way to improve service and provide borrowers with the choice of a single point of contact.

Inquiries into servicer foreclosure practices are continuing and bring the possibility of action by state or federal government bodies, regulators or courts that could have an adverse effect on the average foreclosure timeline and increase asset intensity. Through 2010, the average number of days to complete a foreclosure action extended by 53 days in judicial foreclosure states and 43 days in traditional non-judicial foreclosure states as compared to 2009. In the first nine months of 2011, foreclosure timelines have increased by an additional 125 days in judicial foreclosure states and 26 days in traditional non-judicial foreclosure states as compared to 2010 averages. The 90+ non-performing delinquency rate on the Ocwen portfolio as a percentage of UPB has increased from 27.3% at December 31, 2010 to 28.7% at September 30, 2011. Excluding the Litton portfolio, the 90+ non-performing delinquency rate as a percentage of UPB was 23.6% at September 30, 2011. This improvement occurred because fewer loans entered delinquency and because of improved loss mitigation. It is not possible to predict the full financial impact of changes in foreclosure practices, but if the extension of timelines causes delinquency rates to rise, this could lead to a delay in revenue recognition and collections, an increase in operating expenses and an increase in the advance ratio. An increase in the advance ratio would lead to increased borrowings, reduced cash and higher interest expense.

Ocwen is pursuing a strategic opportunity that over time could significantly reduce the amount of capital we require through our relationship with a newly formed entity called Home Loan Servicing Solutions, Ltd. (HLSS). Initially formed by Ocwen's Chairman, William C. Erbey, HLSS intends to acquire and hold MSRs and related servicing advances in a more efficient manner than is currently feasible for Ocwen. HLSS and Ocwen intend to enter into an agreement pursuant to which HLSS will purchase a substantial portion of the MSRs and related servicing advances (the Acquisition) that Ocwen acquired in connection with the HomEq Acquisition. HLSS will also assume the related match funded liabilities under the HomEq Servicing advance facility.

As part of the Acquisition Ocwen plans initially to sell the right to receive the servicing fees, excluding ancillary income, relating to the MSRs (Rights to MSRs) to HLSS. Ocwen would retain legal ownership of the MSRs and would continue to service the related mortgage loans for a reduced fee because HLSS will assume the obligation to make and finance servicing advances related to the MSRs. Ocwen will be obligated to transfer legal ownership of the MSRs to HLSS if and when the required third party consents are obtained, and at such time, Ocwen would commence subservicing the MSRs for a fee pursuant to a subservicing agreement. HLSS intends to finance the Acquisition through proceeds from an initial public offering of its ordinary shares.

All transactions and agreements between Ocwen and HLSS will be subject to review under Ocwen's related party transaction policy, including a review by the Board and independent directors.

HLSS may acquire additional MSRs or rights similar to the Rights to MSRs from Ocwen and enter into related subservicing arrangements with Ocwen in the future. HLSS may also acquire MSRs from third parties which could increase the benefit of this strategy to Ocwen by boosting the size of its subservicing portfolio with little or no capital requirement on the part of Ocwen if HLSS chooses to engage Ocwen as a subservicer on these acquisitions. If HLSS is successful in acquiring all or most of Ocwen's portfolio of MSRs, Ocwen could evolve over time into a "capital-light" fee-for-service business. Ocwen cannot provide assurance that it will consummate the sale of MSRs or Rights to MSRs to HLSS, or that HLSS will continue to engage Ocwen as subservicer. Any Rights to MSRs to be acquired in the Acquisition and in any subsequent acquisitions will be subject to customary closing conditions.

There have been no transactions between Ocwen and HLSS, and there have been no formal agreements executed between Ocwen and HLSS as negotiations on the economic terms of the agreements are not yet finalized.

Ocwen has paid fees on the behalf of HLSS for organizational costs and costs associated with HLSS' planned initial public offering. The amount of such payments incurred to date has been immaterial to Ocwen's financial statements. Ocwen may make additional payments on behalf of HLSS until the initial public offering is completed at which time Ocwen expects to be reimbursed by HLSS.

The effects on Ocwen of the Acquisition are anticipated to be as follows:

- Upon the sale of assets to HLSS, management believes that Ocwen's liquidity and cash flows will improve as the sale will result in cash proceeds to Ocwen, a portion of which will be used to reduce the balance on Ocwen's senior secured term loan that it entered into on September 1, 2011 as required under the terms of the related loan agreement.

- There will be a decrease in Ocwen's match funded liabilities, as HLSS will assume a servicing advance financing facility from Ocwen.

- As described above, Ocwen will initially sell Rights to MSRs to HLSS. While the sale of the Rights to MSRs to HLSS will achieve an economic result for Ocwen substantially identical to a sale of the MSRs, the transaction is expected to be accounted for as a financing until the required third party consents are obtained and legal ownership of the MSRs transfers to HLSS.

- Net income is expected to decline somewhat before considering any income that could be generated from reinvesting the net proceeds from the sale. Interest expense on the advance facility transferring to HLSS will be assumed by HLSS but the interest expense to be recognized on the portion of the sales proceeds accounted for as a financing of the MSRs will be greater.

- Ocwen expects that the reduction in the equity required to run its servicing business will be relatively greater than the reduction in net income, thus improving the return on equity of its servicing business.

Operating Segments

Effective January 1, 2011, with the growth in our Servicing segment and continuing reductions in the Loans and Residuals and Asset Management Vehicles (AMV) segments, we changed our internal management reporting to focus on the Servicing segment and to include the results for Loans and Residuals and AMVs in Corporate Items and Other. Due to a lack of profitable opportunities to acquire assets, we are allowing the assets of the existing asset management vehicles to run off. The Servicing segment, which comprised nearly 100% of total revenues during the first nine months of 2011, represents our sole reported business segment following the change in our reporting structure. Segment results for prior periods have been restated to conform to the current segment structure.

See the Segment Results and Financial Condition section and Note 19 to the Interim Consolidated Financial Statements for additional financial information regarding our segments.

Operations Summary

The HomEq Acquisition on September 1, 2010 and the Litton Acquisition on September 1, 2011 have significantly impacted our consolidated operating results. The operating results of the HomEq Servicing and Litton Loan Servicing businesses are included in the Servicing segment since their respective acquisition dates.

The following table summarizes our consolidated operating results for the three and nine months ended September 30, 2011 and 2010. We have provided a more complete discussion of operating results by line of business in the Segment Results and Financial Condition section.

	Three months			Nine months		
	2011	2010	% Change	2011	2010	% Change
Consolidated:						
Revenue (1)	$ 122,462	$ 95,569	28 %	$ 339,305	$ 247,108	37 %
Operating expenses (2)	65,650	93,374	(30)	149,103	173,209	(14)
Income from operations	56,812	2,195	2,488	190,202	73,899	157
Other expense, net	(27,861)	(22,907)	22	(85,726)	(49,904)	72
Income (loss) from continuing operations before taxes	28,951	(20,712)	(240)	104,476	23,995	335
Income tax expense (benefit)	8,730	(7,487)	(217)	35,808	310	11,451
Income (loss) from continuing operations	20,221	(13,225)	(253)	68,668	23,685	190
Income (loss) from discontinued operations, net of taxes	—	4,383	(100)	—	4,383	(100)
Net income (loss)	20,221	(8,842)	(329)	68,668	28,068	145
Net income (loss) attributable to non-controlling interest in subsidiaries	7	7		12	(5)	(340)
Net income (loss) attributable to Ocwen	$ 20,228	$ (8,835)	(329)	$ 68,680	$ 28,063	145
Segment income (loss) from continuing operations before taxes:						
Servicing	$ 32,746	$ 5,428	503 %	$ 110,417	$ 59,361	86 %
Corporate items and other	(3,795)	(26,140)	(85)	(5,941)	(35,366)	(83)
	$ 28,951	$ (20,712)	(240)	$ 104,476	$ 23,995	335

Three Months Ended September 2011 versus September 2010. Residential servicing and subservicing fees were higher than the third quarter of 2010 as a result of 31% growth in the average servicing portfolio that included approximately $38.6 billion acquired on September 1, 2011 related to the Litton Acquisition.

Operating expenses for the third quarter of 2011 declined principally because of lower transaction-related expenses related to the Litton Acquisition as compared to the HomEq Acquisition in the 2010 period. Transaction expenses related to the Litton Acquisition were $18,746 versus $33,902 of transaction-related charges for the HomEq Acquisition. In addition, during the third quarter of 2010 we recorded $20,647 of charges for litigation primarily related to an adverse verdict in a vendor dispute. These declines were significantly offset by higher amortization of MSRs and the effects of a substantial increase in staffing to service the larger portfolio. Income from operations increased by $54,617, or 2,488%, in the three months ended September 30, 2011 as compared to 2010.

Other expense, net increased by $4,954 primarily due to an increase of $7, 582 in interest expense on borrowings related to the HomEq and Litton acquisitions and $2,759 of unrealized losses on foreign exchange forward contracts we entered into to hedge against the effects of changes in the value of the Indian Rupee. These increases in other expense were partly offset by the $2,405 gain on extinguishment of debt in the third quarter of 2011 and the effect of $2,961 of realized and unrealized losses on auction rate securities in the third quarter of 2010.

The income tax benefit recognized in the third quarter of 2010 reflects the release of a reserve predominantly related to deductions associated with a servicing advance finance structure and statute expirations. The reserve for this item was recorded in 2009.

Nine Months Ended September 2011 versus September 2010. Residential servicing fees were higher than the first nine months of 2010 as a result of loan modifications and the 35% growth in the average servicing portfolio that included the Litton, HomEq and Saxon acquisitions.

Operating expenses for the first nine months of 2011 declined principally because of the lower transaction-related expenses related to the Litton Acquisition as compared to the HomEq Acquisition as disclosed above. In addition, litigation-related expenses were higher during 2010 due to the accruals established in connection with the adverse verdict in a vendor dispute disclosed above and the settlement of the MDL Proceeding. These declines were significantly offset by higher amortization of MSRs and the effects of a substantial increase in staffing to service the larger portfolio. Income from operations increased by $116,303, or 157%, in the first nine months of 2011 as compared to 2010.

Other expense, net increased by $35,822 primarily due to an increase of $43,914 in interest expense on borrowings related to the HomEq and Litton acquisitions and $3,077 of unrealized losses on foreign exchange forward contracts including $2,759 in the third quarter related to new contracts as disclosed above. Interest expense for the first nine months of 2011 also includes the write-off of $12,575 of unamortized discount and deferred debt issuance costs as the result of the prepayment of $180,000 on the $350,000 senior secured term loan, primarily during the second quarter. These increases in other expense were offset in part by $3,651 of gains on extinguishment of debt in 2011 and the effects of $3,899 of losses on auction rate securities and a $3,000 write-off of a commercial real estate investment in 2010.

Change in Financial Condition Summary

The overall increase in assets of $1,975,766 or 68% during the first nine months of 2011 was principally the result of the following changes:

- Cash increased by $24,241.

- Total advances increased by $1,766,821 due primarily to $2,468,137 of advances acquired in connection with the Litton Acquisition offset in part by a reduction in advances on the pre-existing portfolio.

- MSRs increased by $105,732 due primarily to purchase of $135,341 related to the Litton acquisition, offset by amortization expense of $30,477.

- Receivables declined by $16,377 due primarily to declines in amounts to be recovered from custodial accounts of trustees.

- Goodwill increased by $44,570 as a result of the Litton Acquisition.

- Increase of $22,901 in premises and equipment primarily due to $24,224 acquired as a part of the Litton Acquisition.

- Investments in unconsolidated entities increased by $11,292 due primarily to the investment in Correspondent One of $15,000, including $11,975 during the third quarter.

- Other assets increased by $27,457 primarily as a result of a $34,250 increase in debt service accounts as a result of the new Litton advance financing facility offset by the repayment of a $5,600 note receivable. We also wrote-off $7,603 of debt issuance costs to interest expense as a result of the prepayment of $180,000 on the $350,000 senior secured term loan incurred in connection with the HomEq Acquisition.

Liabilities increased by $1,902,640 or 94%, primarily because of the following items:

- Match funded liabilities increased by $1,597,699 reflecting $2,126,742 of notes issued in connection with the financing of advances that we acquired as part of the Litton Acquisition, of which $1,996,182 was outstanding at September 30, 2011. This was partially offset by repayments of $346,171 on the HomEq advance facility.

- Lines of credit and other secured borrowings increased by $309,037 primarily due to the $575,000 senior secured term loan facility that we entered into in connection with the Litton Acquisition net of an $11,500 discount. This increase was offset by principal repayments of $197,500 related to the $350,000 senior secured term loan facility, including the $180,000 prepayment noted above, $48,000 related to the fee reimbursement advance facility and the first payment of $14,375 on the new senior secured term loan. The prepayments on the 2010 senior secured term loan resulted in the write-off of $4,972 of the related discount to interest expense during the first and second quarters of 2011. The repayment of fee reimbursement advance facility resulted in a gain on debt extinguishment of $3,651, including $2,405 during the third quarter.

· Other liabilities increased slightly. This increase was due to the assumption of $31,615 of other liabilities as part of the Litton Acquisition offset in large part by a decline in litigation reserves related to settled cases.

Liquidity Summary

We define liquidity as unencumbered cash balances plus unused, collateralized advance financing capacity. Our liquidity as of September 30, 2011, by this definition, was $229,069, a decrease of $27,821, or 11%, from December 31, 2010. At September 30, 2011, our cash position was $152,037 as compared to $127,796 at December 31, 2010. However, our available credit on collateralized but unused advance financing capacity declined to $77,032 at September 30 2011 compared to $129,095 at December 31, 2010. The decline in available credit was principally the result of our success reducing advances from December 31, 2010 which resulted in a lower amount of advances pledged to our advance financing facilities.

Our investment policies emphasize principal preservation by limiting investments to include:

- Securities issued by the U.S. government, a U.S. agency or a U.S. government-sponsored enterprise
- Money market mutual funds
- Money market demand deposits
- Demand deposit accounts

We regularly monitor and project cash flow to minimize liquidity risk. In assessing our liquidity outlook, our primary focus is on maintaining cash and unused borrowing capacity that is sufficient to meet the needs of the business.

At September 30, 2011, $627,878 of our total maximum borrowing capacity remained unused. However, as noted above, the amount of collateral pledged to these facilities limits additional borrowing, and only $77,032 of this amount is readily available. We may utilize the unused borrowing capacity in the Servicing business in the future by pledging additional qualifying collateral to these facilities. In order to reduce interest expense, we are reducing unused borrowing capacity to a level that we consider prudent relative to the current levels of advances and match funded advances and to meet our funding needs for reasonably foreseeable changes in advances.

Interest Rate Risk Summary

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

We have executed a hedging strategy aimed at largely neutralizing the impact on our Servicing business of changes in interest rates within a certain period based on the projected excess of variable rate debt over cash and float balances. As of September 30, 2011, the notional amount of our outstanding hedges somewhat exceeded the net exposure of projected variable rate debt and cash and float balances for the next several years due to a faster than expected reduction in advances and in our match funded liabilities. Future variances between the projected excess of variable rate debt over cash and float balances and actual results could result in our becoming over-hedged or under-hedged. See Note 15 to our Interim Consolidated Financial Statements for additional information regarding our use of derivatives.

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 future events. Our critical accounting policies 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. Our significant accounting policies are discussed in detail on pages 32 through 35 of Management's Discussion and Analysis of Results of Operations and Financial Condition and in Note 1 to our Consolidated Financial Statements for the year ended December 31, 2010 included in our Annual Report on Form 10-K filed February 28, 2011. Such policies have not changed during 2011.

SEGMENT RESULTS AND FINANCIAL CONDITION

For the Servicing segment and for Corporate Items and Other, the following section provides a discussion of the changes in financial condition during the nine months ended September 30, 2011 and a discussion of pre-tax results of operations for the three and nine months ended September 30, 2011 and 2010. Our former Loans and Residuals segment and Asset Management Vehicles segment are included in Corporate Items and Other effective January 1,

2011. Segment results for the 2010 periods have been restated to conform to the current segment structure.

Servicing

The following table presents selected results of operations of our Servicing segment for the three and nine months ended September 30:

	Three months		Nine months	
	2011	2010	2011	2010
Revenue				
Servicing and subservicing fees:				
Residential	$ 111,880	$ 85,591	$ 308,451	$ 217,486
Commercial	1,680	1,130	3,998	2,366
	113,560	86,721	312,449	219,852
Process management fees	9,215	7,907	26,151	24,112
Other	88	741	624	2,617
Total revenue	122,863	95,369	339,224	246,581
Operating expenses				
Compensation and benefits	23,881	39,184	43,989	54,945
Amortization of servicing rights	11,210	7,874	30,059	22,103
Servicing and origination	1,951	1,686	5,115	4,352
Technology and communications	7,259	5,151	17,877	14,370
Professional services	4,165	3,332	8,018	11,689
Occupancy and equipment	5,899	4,157	12,826	10,607
Other operating expenses	9,754	7,628	26,816	22,973
Total operating expenses	64,119	69,012	144,700	141,039
Income from operations	58,744	26,357	194,524	105,542
Other income (expense)				
Interest income	28	51	110	161
Interest expense	(27,618)	(20,619)	(86,870)	(44,772)
Gain (loss) on debt redemption	2,405	—	3,651	(571)
Other, net	(813)	(361)	(998)	(999)
Total other expense, net	(25,998)	(20,929)	(84,107)	(46,181)
Income from continuing operations before income taxes	$ 32,746	$ 5,428	$ 110,417	$ 59,361

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

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
Residential Assets Serviced						
Unpaid principal balance:						
Performing loans (1)	$ 74,156,557	$ 53,844,690	38 %	$ 74,156,557	$ 53,844,690	38 %

Non-performing loans	25,213,527	16,670,616	51	25,213,527	16,670,616	51
Non-performing real estate	6,756,084	5,624,716	20	6,756,084	5,624,716	20
Total residential assets serviced (2)	$ 106,126,168	$ 76,140,022	39	$ 106,126,168	$ 76,140,022	39
Average residential assets serviced	$ 78,960,593	$ 60,160,356	31	$ 74,596,127	$ 55,104,751	35
Prepayment speed (average CPR)	15.2 %	12.6 %	21	14.5 %	12.7 %	14
Percent of total UPB:						
Servicing portfolio	75.9 %	69.6 %	9 %	75.9 %	69.6 %	9 %
Subservicing portfolio	24.1	30.4	(21)	24.1	30.4	(21)
Non-performing residential assets serviced, excluding Freddie Mac (3)	28.7 %	27.2 %	6	28.7 %	27.2 %	6

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
Number of:						
Performing loans (1)	531,082	379,097	40 %	531,082	379,097	40 %
Non-performing loans	127,224	87,941	45	127,224	87,941	45
Non-performing real estate	34,348	27,954	23	34,348	27,954	23
Total number of residential assets serviced (2)	692,654	494,992	40	692,654	494,992	40
Average number of residential assets serviced	516,214	401,454	29	487,135	375,805	30
Percent of total number:						
Servicing portfolio	75.9 %	68.8 %	10 %	75.9 %	68.8 %	10 %
Subservicing portfolio	24.1	31.2	(23)	24.1	31.2	(23)
Non-performing residential assets serviced, excluding Freddie Mac (3)	21.6 %	21.2 %	2	21.6 %	21.2 %	2
Residential Servicing and Subservicing Fees						
Loan servicing and subservicing	$ 82,372	$ 57,520	43 %	$231,414	$150,613	54 %
HAMP fees	11,013	11,616	(5)	28,304	22,655	25
Late charges	9,535	8,710	9	24,770	24,121	3
Loan collection fees	2,772	2,191	27	7,689	6,448	19
Custodial accounts (float earnings)	560	632	(11)	1,632	2,080	(22)
Other	5,628	4,922	14	14,642	11,569	27
	$ 111,880	$ 85,591	31	$308,451	$217,486	42
Financing Costs						
Average balance of advances and match funded advances	$ 2,502,979	$ 1,612,676	55 %	$2,027,344	$1,248,447	62 %
Average borrowings	1,876,014	1,164,304	61	1,478,494	828,675	78
Interest expense on borrowings (4)	25,980	19,259	35	82,086	42,201	95
Facility costs included in interest expense (4)	2,999	4,421	(32)	19,093	14,232	34
Discount amortization included in interest expense (4)	1,009	1,114	(9)	8,352	3,219	159
	5.54 %	6.62 %	(16)	6.88 %	6.79 %	1

Effective average interest rate (4)						
Average 1-month LIBOR	0.21 %	0.29 %	(28)	0.22 %	0.28 %	(21)
Average Employment						
India and other	2,559	1,837	39 %	2,234	1,580	41 %
United States (5)	731	231	216	402	228	76
Total	3,290	2,068	59	2,636	1,808	46
Collections on loans serviced for others	$ 1,487,903	$ 1,350,232	10 %	$ 4,474,890	$ 3,703,911	21 %

(1) 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 modification, forbearance or bankruptcy plans. We consider all other loans to be non-performing.

(2) Subprime loans represents the largest category, or strata, of residential loans we service. At September 30, 2011, we serviced 560,440 subprime loans with a UPB of $89,097,259. This compares to 360,317 subprime loans with a UPB of $56,530,714 at December 31, 2010 and 372,997 subprime loans with a UPB of $58,407,094 at September 30, 2010.

(3) Excluding the Litton portfolio acquired on September 1, 2011, the UPB and the number of non-performing residential assets serviced as a percentage of the total portfolio were 23.6% and 17.4%, respectively, at September 30, 2011. Excluding the HomEq and Saxon portfolios acquired in 2010, the UPB and number of non-performing residential assets serviced as a percentage of the total portfolio were 25.0% and 18.3%, respectively, at September 30, 2010.

(4) By June 30, 2011, we had repaid the $197,500 balance outstanding under the $350,000 senior secured term loan. The repayments included $180,000 of prepayments in addition to the mandatory quarterly repayments of $17,500. These prepayments resulted in a write-off to interest expense amounting to $4,972 of debt discount and $7,603 of deferred debt issuance costs. Excluding these additional costs, the effective annual interest rate would have been 5.74% for the first nine months of 2011. This rate declined from 2010, principally because of a decline in facility costs charged on certain facilities and an increase in average borrowings relative to facility costs which resulted in a significant decline in the proportion of interest expense represented by the amortization of facility costs.

(5)