OCWEN FINANCIAL CORP
Form 10-Q/A
August 18, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No. 1)
(Mark one)

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014

OR

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes o No T
Number of shares of common stock outstanding as of April 30, 2014: 134,879,998 shares

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Explanatory Note

Ocwen Financial Corporation (the “Company”, “Ocwen”, “we”, “us”, “our”) is filing this Amendment No. 1 (Amendment) to i Quarterly Report on Form 10-Q for the three months ended March 31, 2014 (Original Form 10-Q) filed with the Securities and Exchange Commission (SEC) on May 2, 2014 (Original Filing Date) to restate the Company’s previously issued unaudited consolidated financial statements and related financial information for the three months ended March 31, 2014 and 2013 included in its Original Form 10-Q. This Amendment is to correct an error in the application of the interest method in accounting for a financing liability. For the three months ended March 31, 2014, $17.3 million of cash payments were applied to reduce the outstanding balance of the financing liability instead of being recognized as interest expense. For the three months ended March 31, 2013, $4.0 million of cash payments were recognized as interest expense instead of being applied to reduce the outstanding balance of the financing liability.

Background on Restatement

The Company has sold rights to receive servicing fees, excluding ancillary income, with respect to certain of its mortgage servicing rights (Rights to MSRs) to Home Loan Servicing Solutions, Ltd. (HLSS). Because we retain legal title to the MSRs, the sales of Rights to MSRs are accounted for as financings. The liability, which represents the estimated future payments to HLSS relating to the Rights to MSRs, is included in Financing liabilities on our consolidated balance sheet. Until such time as we obtain certain third party consents for the transfer of legal title to the MSRs, we continue to recognize the full amount of servicing revenue and amortization of the MSRs. We initially establish the value of the liability based on the price at which the Rights to MSRs are sold to HLSS. Thereafter, the carrying value of the liability is adjusted to reflect changes in the net present value of the estimated future cash flows of the underlying MSRs, a Level 3 valuation. The future cash flows represent the estimated future payments to HLSS of principal and interest on the financing liability. Because the financing liability does not have any contractual maturity date, the liability is amortized over the estimated life of the underlying MSRs using the interest method. For purposes of applying the interest method, the balance of the liability is reduced each quarter based on the change in the present value of the estimated future cash flows, with any remaining cash payment recognized as interest expense.

The Company utilizes a third-party valuation expert to provide the estimated fair value of the MSRs underlying the financing liability. In 2012, with the completion of the first Rights to MSRs sale to HLSS, the Company adopted an accounting convention whereby we applied a narrow (5%) range to the valuations received from the third-party valuation expert in determining the carrying value of our financing liability. Under this accounting convention, no adjustment was made to the amortization of the financing liability as long as the valuation from the third-party valuation expert was within 5% of our carrying value. This accounting convention and the use of a range, rather than the third-party valuation expert point estimate of fair value, resulted in the error in the Company’s financial statements.

We also identified a data error in connection with the valuation of less than 1/2 of 1% of the unpaid principal balance (UPB) of the Rights to MSRs underyling the financing liability. This error overstated the estimated fair value of the Rights to MSRs underlying our financing liability by $9.3 million and $5.9 million at March 31, 2014 and December 31, 2013, respectively. The impact of this error at March 31, 2014 is included in the $17.3 million adjustment described above.

On August 12, 2014, our Board of Directors and the Audit Committee of the Board of Directors (Audit Committee), after consultation with Deloitte & Touche LLP, the Company’s independent registered public accounting firm, determined that the Company’s consolidated financial statements for the fiscal year ended December 31, 2013 and the quarter ended March 31, 2014 could no longer be relied upon as being compliant with GAAP. Consequently, we have revised our financial results for the periods presented in this Amendment.

The adjustments to correct the error in applying the interest method to certain financing liabilities resulted in a decrease in net income of $15.3 million and a decrease in basic and diluted earnings per share of $0.11 for the three months ended March 31, 2014. For the three months ended March 31, 2013, the adjustments to correct the error resulted in an increase in net income of $3.8 million and an increase in basic and diluted earnings per share of $0.03 and $0.02, respectively.

Because these revisions represent corrections to our prior period financial results, the revisions are considered to be a “restatement” under GAAP. Accordingly, the revised financial information included in this Quarterly Report on Form 10-Q/A has been identified as “As Restated.”

In connection with the restatement, management has re-evaluated the effectiveness of he Company’s disclosure controls and procedures and internal control over financial reporting as of March 31, 2014 based on the framework in “Internal Control-Integrated Framework (1992 framework)” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has concluded that the Company’s disclosure controls and procedures and internal controls over financial reporting were not effective as of March 31, 2014 solely due to a material weakness in internal control over financial reporting related to the accounting convention when applying the interest method in our accounting for financing liabilities related to Rights to MSRs sold to HLSS. Specifically, our controls were not properly designed to calculate the appropriate allocation of cash payments between principal and interest in connection with the financing liability. For a discussion of management's consideration of our disclosure controls and procedures, internal controls over financial reporting, and the material weaknesses identified, see Part I, Item 4, "Controls and Procedures" of this Amendment.

Effects of Restatement

Revisions to the Original Form 10-Q have been made to the Company's unaudited Consolidated Financial Statements and related disclosures in Part I, Item 1 - Unaudited Consolidated Financial Statements for the periods presented. In addition, corresponding changes have been made to the following other items to reflect the restatement:

(A) Amendments to Part I, Item 1 - Unaudited Consolidated Financial Statements, to restate our consolidated balance sheets as of March 31, 2014 and December 31, 2013, and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the three months ended March 31, 2014 and 2013. Specifically, the amendments restate (a) our results of operations for the three months ended March 31, 2014 to reflect an increase in interest expense related to a change in the value of Financing liabilities which had the effect of understating our consolidated Other expense, net and overstating Income before tax by $17.3 million; (b) our balance sheet as of March 31, 2014 to reflect an increase in Total liabilities and Financing liabilities of $17.3 million; (c) our results of operations for the three months ended March 31, 2013 to reflect a decrease in interest expense related to a change in the value of Financing liabilities which had the effect of overstating our consolidated Other expense, net and understating Income before tax by $4.0 million; (d) balance sheet as of December 31, 2013 to reflect a decrease in Total liabilities and Financing liabilities of $17.3 million; and (e) the impact on our income tax accounts for the effects of above items within our results of operations and balance sheet as of December 31, 2013.

(B) Amendments to Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations, to reflect the restatement of our financial results, described in (A) above.

(C) Amendments to Part II, Item 4 - Controls and Procedures, to (i) describe changes in our disclosure controls and procedures and our internal controls over financial reporting to address a material weakness and (ii) modify management's opinion of the effectiveness of our internal controls over financial reporting as of March 31, 2014.

(D) Part II, Item 6 - Exhibits, Financial Statement Schedules, exhibits 31.1 and 31.2.

We believe that presenting the restated information regarding the restated period in this Form 10-Q/A allows investors to review all pertinent data in a single presentation. Accordingly, investors should rely only on the financial information and other disclosures regarding the restated period in this Form 10-Q/A or in future filings with the SEC, as applicable, and not on any previously issued or filed reports, earnings releases or similar communications relating to these periods.

Except as described in this Explanatory Note, the consolidated financial statements and financial statement footnote disclosures in the Original Form 10-Q are unchanged. In particular, except for the events described above, this Amendment has not been updated to reflect any events that have occurred after the Original Form 10-Q was filed or to modify or update disclosures affected by other subsequent events, except where required by generally accepted accounting standards in the United States (GAAP). Accordingly, forward-looking statements included in this Amendment represent management's views as of the Original Filing Date and should not be assumed to be accurate as of any date thereafter. This Amendment should be read in conjunction with the Company's other filings with the SEC, together with any amendments to those filings.

OCWEN FINANCIAL CORPORATION
FORM 10-Q
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FORWARD-LOOKING STATEMENTS

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

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

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

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

	March 31, 2014 (As Restated)	December 31, 2013 (As Restated)
Assets		
Cash	$242,386	$178,512
Mortgage servicing rights ($110,826 and $116,029 carried at fair value)	2,040,355	2,069,381
Advances	937,926	890,832
Match funded advances	2,655,854	2,552,383
Loans held for sale ($338,228 and $503,753 carried at fair value)	383,703	566,660
Loans held for investment - reverse mortgages, at fair value	923,464	618,018
Goodwill	420,201	420,201
Receivables, net	182,724	152,516
Deferred tax assets, net	119,080	115,571
Premises and equipment, net	51,553	53,786
Other assets	229,105	309,143
Total assets	$8,186,351	$7,927,003
Liabilities, Mezzanine Equity and Equity		
Liabilities		
Match funded liabilities	$2,361,662	$2,364,814
Financing liabilities ($870,462 and $615,576 carried at fair value)	1,693,147	1,266,973
Other secured borrowings	1,633,999	1,777,669
Other liabilities	560,615	644,595
Total liabilities	6,249,423	6,054,051
Commitments and Contingencies (Note 21)		
Mezzanine Equity		
Series A Perpetual Convertible Preferred stock, $.01 par value; 200,000 shares authorized; 62,000 shares issued and outstanding at March 31, 2014 and December 31, 2013; redemption value $62,000 plus accrued and unpaid dividends	60,776	60,361
Equity		
Ocwen Financial Corporation (Ocwen) stockholders' equity		
Common stock, $.01 par value; 200,000,000 shares authorized; 135,365,174 and 135,176,271 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	1,354	1,352
Additional paid-in capital	819,362	818,427
Retained earnings	1,062,467	1,002,963
Accumulated other comprehensive loss, net of income taxes	(9,542)	(10,151)
Total Ocwen stockholders' equity	1,873,641	1,812,591
Non-controlling interest in subsidiaries	2,511	—
Total equity	1,876,152	1,812,591

Total liabilities, mezzanine equity and equity	$8,186,351	$7,927,003

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

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

	For the Three Months Ended March 31,	
	2014 (As Restated)	2013 (As Restated)
Revenue		
Servicing and subservicing fees	$490,459	$369,309
Gain on loans held for sale, net	43,987	6,749
Other revenues	16,815	30,601
Total revenue	551,261	406,659
Operating expenses		
Compensation and benefits	105,637	94,626
Amortization of mortgage servicing rights	62,094	47,883
Servicing and origination	43,947	23,913
Technology and communications	36,976	30,012
Professional services	21,398	14,065
Occupancy and equipment	32,051	18,249
Other operating expenses	47,091	14,778
Total operating expenses	349,194	243,526
Income from operations	202,067	163,133
Other income (expense)		
Interest expense	(139,873)	(89,459)
Gain (loss) on debt redemption	2,253	(17,030)
Other, net	7,256	(1,352)
Total other expense, net	(130,364)	(107,841)
Income before income taxes	71,703	55,292
Income tax expense	11,217	6,383
Net income	60,486	48,909
Net loss attributable to non-controlling interests	15	—
Net income attributable to Ocwen stockholders	60,501	48,909
Preferred stock dividends	(581)	(1,485)
Deemed dividends related to beneficial conversion feature of preferred stock	(416)	(1,086)
Net income attributable to Ocwen common stockholders	$59,504	$46,338
Earnings per share attributable to Ocwen common stockholders		
Basic	$0.44	$0.34
Diluted	$0.43	$0.33
Weighted average common shares outstanding		
Basic	135,227,067	135,638,567
Diluted	141,089,455	139,559,157

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

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

	For the Three Months Ended March 31,	
	2014	2013
	(As Restated)	(As Restated)
Net income	$60,486	$48,909
Other comprehensive income (loss), net of income taxes:		
Change in deferred gain (loss) on cash flow hedges arising during the year (1)	—	(4,126)
Reclassification adjustment for losses on cash flow hedges included in net income (2)	608	408
Net change in deferred loss on cash flow hedges	608	(3,718)
Other	1	39
Total other comprehensive income (loss), net of income taxes	609	(3,679)
Comprehensive income attributable to Ocwen stockholders	$61,095	$45,230

(1) Net of tax benefit of $2.8 million for the three months ended March 31, 2013.

(2) Net of tax (expense) of $(0.2) million and $(0.2) million for the three months ended March 31, 2014 and 2013, respectively. These losses are reclassified to Other, net on the unaudited Consolidated Statement of Operations. See Note 15 — Derivative Financial Instruments and Hedging Activities for additional information.

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013
(Dollars in thousands)

	Ocwen Stockholders Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Non-controlling Interest in Subsidiaries	Total
Balance at December 31, 2013 (As Restated)	135,176,271	$1,352	$818,427	$1,002,963	$ (10,151)	$ —	$1,812,591
Net income (As Restated)	—	—	—	60,501	—	(15)	60,486
Deemed dividend related to beneficial conversion feature of preferred stock	—	—	—	(416)	—	—	(416)
Preferred stock dividends ($9.38 per share)	—	—	—	(581)	—	—	(581)
Repurchase of common stock	(60,000)	(1)	(2,307)	—	—	—	(2,308)
Exercise of common stock options	244,000	3	1,036	—	—	—	1,039
Equity-based compensation	4,903	—	2,206	—	—	—	2,206
Non-controlling interest in connection with acquisition of controlling interest in Ocwen Structured Investments, LLC	—	—	—	—	—	2,526	2,526
Other comprehensive income, net of income taxes	—	—	—	—	609	—	609
Balance at March 31, 2014 (As Restated)	135,365,174	$1,354	$819,362	$1,062,467	$ (9,542)	$ 2,511	$1,876,152
Balance at December 31, 2012	135,637,932	$1,356	$911,942	$704,565	$ (6,441)	$ —	$1,611,422
Net income (As Restated)	—	—	—	48,909	—	—	48,909
Preferred stock dividends ($9.17 per share)	—	—	—	(1,485)	—	—	(1,485)
Deemed dividend related to beneficial conversion feature of preferred stock	—	—	—	(1,086)	—	—	(1,086)
Equity-based compensation	5,715	—	1,353	—	—	—	1,353
Other comprehensive loss, net of income taxes	—	—	—	—	(3,679)	—	(3,679)
Balance at March 31, 2013 (As Restated)	135,643,647	$1,356	$913,295	$750,903	$ (10,120)	$ —	$1,655,434

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

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

	For the Three Months Ended March 31,	
	2014 (As Restated)	2013 (As Restated)
Cash flows from operating activities		
Net income	$60,501	$48,909
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage servicing rights	62,094	47,883
Depreciation	5,540	4,513
Provision for bad debts	31,386	60
Gain on sale of loans	(43,987)	(6,749)
Realized and unrealized losses on derivative financial instruments	920	5,736
(Gain) loss on extinguishment of debt	(2,253)	17,030
Gain on valuation of mortgage servicing rights, at fair value	5,148	679
Origination and purchase of loans held for sale	(2,378,056)	(2,515,084)
Proceeds from sale and collections of loans held for sale	2,414,699	2,629,152
Changes in assets and liabilities:		
Decrease in advances and match funded advances	13,434	186,420
Decrease (increase) in receivables and other assets, net (2)	48,437	(41,443)
(Decrease) increase in other liabilities	(41,170)	18,983
Other, net	19,089	9,809
Net cash provided by operating activities	195,782	405,898
Cash flows from investing activities		
Cash paid to acquire ResCap Servicing Operations (a component of Residential Capital, LLC)	(54,220)	(2,097,821)
Net cash paid to acquire controlling interest in Ocwen Structured Investments, LLC	(7,833)	—
Net cash acquired in acquisition of Correspondent One S.A.	—	22,108
Purchase of mortgage servicing rights, net	(6,698)	(971)
Acquisition of advances in connection with the purchase of mortgage servicing rights	(83,942)	—
Acquisition of advances in connection with the purchase of loans	(60,482)	—
Proceeds from sale of advances and match funded advances	—	713,582
Net proceeds from sale of diversified fee-based businesses to Altisource Portfolio Solutions, SA	—	86,950
Origination of loans held for investment – reverse mortgages	(176,658)	—
Principal payments received on loans held for investment - reverse mortgages	14,030	—
Additions to premises and equipment	(3,308)	(4,201)
Other	891	1,300
Net cash used in investing activities	(378,220)	(1,279,053)
	(As Restated)	(As Restated)
Cash flows from financing activities		
(Repayment of) proceeds from match funded liabilities	(3,151)	450,239
Proceeds from other borrowings	1,497,669	3,778,876
Repayments of other borrowings	(1,652,903)	(2,989,374)
Payment of debt issuance costs – senior secured term loan	(175)	(24,048)

Proceeds from sale of mortgage servicing rights accounted for as a financing	123,551	100,737
Proceeds from sale of loans accounted for as a financing	226,626	—
Proceeds from sale of advances accounted for as a financing	55,702	—
Repurchase of common stock	(2,308)	—
Other	1,301	—
Net cash provided by financing activities	246,312	1,316,430
Net increase in cash	63,874	443,275
Cash at beginning of year	178,512	220,130
Cash at end of period	$242,386	$663,405
Supplemental business acquisition information - ResCap (1)		
Fair value of assets acquired		
Advances	$—	$(1,786,409)
Mortgage servicing rights	—	(401,314)
Premises and equipment	—	(16,423)
Goodwill	—	(211,419)
Receivables and other assets	—	(2,989)
	—	(2,418,554)
Fair value of liabilities assumed		
Accrued expenses and other liabilities	—	74,625
Total consideration	—	(2,343,929)
Amount due to seller (2)	—	246,108
Cash paid	$—	$(2,097,821)

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

(2) Amount due seller includes $54,220 paid in 2014 for certain mortgage servicing rights and related servicing advances which we were obligated to acquire that were not settled as part of the initial closing.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2014
(Dollars in thousands, except per share data and unless otherwise indicated)

Note 1 — Description of Business and Basis of Presentation

Organization

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

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

In 2013, we completed acquisitions of mortgage servicing rights (MSRs) and servicing advances from, among others, OneWest Bank, FSB (OneWest MSR Transaction) and Ally Bank, a wholly-owned subsidiary of Ally Financial Inc. (Ally), the indirect parent of Residential Capital, LLC (ResCap) (Ally MSR Transaction), and acquisitions of servicing and origination platforms, including Liberty Home Equity Solutions, Inc. (Liberty) through a stock purchase agreement (Liberty Acquisition) and certain assets and operations of ResCap pursuant to a plan under Chapter 11 of the Bankruptcy Code (ResCap Acquisition). See Note 3 — Business Acquisitions and Note 9 — Mortgage Servicing for additional information.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions of the Securities and Exchange Commission (SEC) to Form 10-Q and SEC Regulation S-X, Article 10, Rule 10-01 for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation. The results of operations and other data for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2014. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2013.

Reclassifications

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

Certain insignificant amounts in the unaudited Consolidated Statement of Cash Flows for the three months ended March 31, 2013 have been reclassified to conform to the current year presentation. These reclassifications had no impact on our consolidated cash flows.

Use of Estimates and Assumptions

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

Change in Accounting Estimate

For servicing assets or liabilities that we account for using the amortization method, we amortize the balances in proportion to, and over the period of, estimated net servicing income (if servicing revenues exceed servicing costs) or net servicing loss (if servicing costs exceed servicing revenues). We determine estimated net servicing income using the estimated future balance of the underlying mortgage loan portfolio, which, absent new purchases, declines over time from prepayments and scheduled loan amortization. We adjust MSR amortization prospectively in response to changes in estimated projections of future cash flows. As a result of the significant growth and change in composition of our servicing portfolio, we determined that the estimated net servicing income has increased, primarily as a result of lower actual prepayment speeds. We accounted for this change in MSR amortization as a change in an accounting estimate beginning January 1, 2014. This change had the effect of reducing amortization expense and increasing both net income and earnings per share in our unaudited Consolidated Statement of Operations for the three months ended March 31, 2014 as follows:

Reduction in Amortization of mortgage servicing rights	$(25,998)
Increase in Net income attributable to Ocwen common stockholders	$22,755
Increase in Earnings per share attributable to Ocwen common stockholders:	
Basic	$0.17
Diluted	$0.16

Recently Issued Accounting Standards

Investments—Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force) (ASU 2014-01)

In January 2014, the FASB issued ASU 2014-01. This ASU permit entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the statement of operations as a component of income tax expense (benefit). The new standard is expected to enable more entities to qualify for the proportional amortization method than the number of entities that currently qualify for the effective yield method.

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

Receivables—Troubled Debt Restructurings by Creditors: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force) (ASU 2014-04)

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

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

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

Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08)

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

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

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

Note 1A — Restatement of Previously Issued Consolidated Financial Statements

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

The following tables summarize the effect of these restatements at and for the periods indicated:

	Consolidated Balance Sheet as of March 30, 2014		
	As Reported	Restatement	As Restated
Deferred tax assets, net	$118,156	$924	$119,080
Total assets	8,185,427	924	8,186,351
Financing liabilities	1,693,147	—	1,693,147
Total liabilities	6,249,423	—	6,249,423
Retained earnings	1,061,543	924	1,062,467
Total stockholders’ equity	1,872,717	924	1,873,641

	Consolidated Balance Sheet as of December 31, 2013		
	As Reported	Restatement	As Restated
Deferred tax assets, net	$116,558	$(987)	$115,571
Financing liabilities	1,284,229	(17,256)	1,266,973
Total liabilities	6,071,307	(17,256)	6,054,051
Retained earnings	986,694	16,269	1,002,963
Total stockholders’ equity	1,796,322	16,269	1,812,591

	Consolidated Statement of Operations for the Three Months Ended March 31, 2014		
	As Reported	Restatement	As Restated
Interest expense	$(122,616)	$(17,257)	$(139,873)
Total other expense, net	(113,107)	(17,257)	(130,364)
Income before income taxes	88,960	(17,257)	71,703
Income tax expense	13,129	(1,912)	11,217
Net income	75,831	(15,345)	60,486
Net income attributable to Ocwen stockholders	75,846	(15,345)	60,501
Net income attributable to Ocwen common stockholders	74,849	(15,345)	59,504
Earnings per share attributable to Ocwen common stockholders			
Basic	$0.55	$(0.11)	$0.44
Diluted	$0.54	$(0.11)	$0.43

	Consolidated Statement of Operations for the Three Months Ended March 31, 2013		
	As Reported	Restatement	As Restated
Interest expense	$(93,416)	$3,957	$(89,459)
Total other expense, net	(111,798)	3,957	(107,841)
Income before income taxes	51,335	3,957	55,292
Income tax expense	6,188	195	6,383
Net income	45,147	3,762	48,909
Net income attributable to Ocwen stockholders	45,147	3,762	48,909
Net income attributable to Ocwen common stockholders	42,576	3,762	46,338
Earnings per share attributable to Ocwen common stockholders			
Basic	$0.31	$0.03	$0.34
Diluted	$0.31	$0.02	$0.33

	Consolidated Statement of Comprehensive Income for the Three Months Ended March 31, 2014		
	As Reported	Restatement	As Restated
Net Income	$75,831	$(15,345)	$60,486
Comprehensive income attributable to Ocwen stockholders	76,440	(15,345)	61,095

	Consolidated Statement of Comprehensive Income for the Three Months Ended March 31, 2013		
	As Reported	Restatement	As Restated
Net Income	$45,147	$3,762	$48,909
Comprehensive income attributable to Ocwen stockholders	41,468	3,762	45,230

	Consolidated Statement of Changes in Equity for the Three Months Ended March 31, 2014		
	As Reported	Restatement	As Restated
Net Income	$75,831	$(15,345)	$60,486

	Consolidated Statement of Changes in Equity for the Three Months Ended March 31, 2013		
	As Reported	Restatement	As Restated
Net Income	$45,147	$3,762	$48,909

	Consolidated Statement of Cash Flows for the Three Months Ended March 31, 2014		
	As Reported	Restatement	As Restated
Net income	$75,846	$(15,345)	$60,501
Adjustments to reconcile net income to net cash provided by operating activities:			
Other, net	21,000	(1,911)	19,089
Net cash provided by operating activities	213,038	(17,256)	195,782
Repayments of other borrowings	(1,670,159)	17,256	(1,652,903)
Net cash provided by financing activities	229,056	17,256	246,312

	Consolidated Statement of Cash Flows for the Three Months Ended March 31, 2013		
	As Reported	Restatement	As Restated
Net income	$45,147	$3,762	$48,909
Adjustments to reconcile net income to net cash provided by operating activities:			
Other, net	9,614	195	9,809
Net cash provided by operating activities	401,941	3,957	405,898
Repayments of other borrowings	(2,985,417)	(3,957)	(2,989,374)
Net cash provided by financing activities	1,320,387	(3,957)	1,316,430

Note 2 — Securitizations and Variable Interest Entities

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

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

Securitizations of Residential Mortgage Loans

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

Transfers of Forward Loans

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

We report the gain or loss on the transfer of the loans held for sale in Gain on loans held for sale, net in the unaudited Consolidated Statement of Operations along with changes in fair value of the loans and the gain or loss on the related derivatives. See Note 15 — Derivative Financial Instruments and Hedging Activities for information on these derivative financial instruments. We include all changes in loans held for sale and related derivative balances in operating activities in the unaudited Consolidated Statement of Cash Flows.

The following table presents a summary of cash flows received from and paid to securitization trusts related to transfers accounted for as sales that were outstanding during the three months ended March 31:

	2014	2013
Proceeds received from securitizations	$1,534,251	$2,576,792
Servicing fees collected	5,194	1,518
	$1,539,445	$2,578,310

In connection with these transfers, we recorded MSRs of $11.6 million and $28.7 million during the three months ended March 31, 2014 and 2013, respectively. We initially record the MSRs at fair value and subsequently account for them at amortized cost. See Note 9 — Mortgage Servicing for information relating to MSRs.

Certain obligations arise from agreements associated with our transfers of loans. Under these agreements, we may be obligated to repurchase the loans, or otherwise indemnify or reimburse the investor or insurer for losses incurred due to material breach of contractual representations and warranties. See Note 13 — Other Liabilities for further information.

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

	March 31, 2014	December 31, 2013
Carrying value of assets:		
Mortgage servicing rights, at amortized cost	$49,219	$44,615
Mortgage servicing rights, at fair value	3,079	3,075
Advances and match funded advances	11,069	15,888
Unpaid principal balance of loans transferred (1)	6,497,814	5,641,277
Maximum exposure to loss	$6,561,181	$5,704,855

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

At March 31, 2014 and December 31, 2013, 2.9% and 2.6%, respectively, of the transferred residential loans that we serviced were 60 days or more past due. During the three months ended March 31, 2014, there were no charge-offs, net of recoveries, associated with these transferred loans.

Transfers of Reverse Mortgages

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

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

At March 31, 2014 and December 31, 2013, we had HMBS-related borrowings of $870.5 million and $615.6 million and HECMs pledged as collateral to the pools of $923.5 million and $618.0 million, respectively. See Note 5 — Fair Value for a reconciliation of the changes in fair value of HECMs and HMBS-related borrowings for the three months ended March 31, 2014.

Financings of Advances on Loans Serviced for Others

Match funded advances on loans serviced for others result from our transfers of residential loan servicing advances to SPEs in exchange for cash. We consolidate these SPEs either because the transfers do not qualify for sales accounting treatment or because Ocwen is the primary beneficiary of the SPE. These SPEs issue debt supported by collections on the transferred advances.

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

facility's revolving period in December 2014. The entity to which this guarantee applies had $31.4 million of notes outstanding at March 31, 2014. The assets and liabilities of the advance financing SPEs are comprised solely of Match funded advances, Debt service accounts, Match funded liabilities and amounts due to affiliates. Amounts due to affiliates are eliminated in consolidation.
See Note 8 — Match Funded Advances, Note 11 - Other Assets and Note 12 — Borrowings for additional information.

Note 3 — Business Acquisitions
We account for business acquisitions using the acquisition method which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The initial allocation of the purchase price is considered preliminary and therefore subject to change until the end of the measurement period (up to one year from the acquisition date). Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the expected revenue and cost synergies of the combined business. Measurement period adjustments are applied retrospectively to the period of acquisition.
The purchase price allocations provided below for our business acquisitions are based on the estimated fair value of the acquired receivables, loans, advances, MSRs and the assumed debt in a manner consistent with the methodology described in Note 5 — Fair Value. Premises and equipment were initially valued based on the "in-use" valuation premise, where the fair value of an asset is based on the highest and best use of the asset that would provide maximum value to market participants principally through its use with other assets as a group. Other assets and liabilities expected to have a short life were valued at the face value of the specific assets and liabilities purchased, including receivables, prepaid expenses, accounts payable and accrued expenses.
The unaudited pro forma consolidated results presented below for the ResCap Acquisition are not indicative of what Ocwen's consolidated net earnings would have been had we completed the acquisition on the date indicated because of differences in servicing practices and cost structure between Ocwen and ResCap. In addition, the unaudited pro forma consolidated results do not purport to project our combined future results nor do they reflect the expected realization of any cost savings associated with the acquisition.
The acquisition of Liberty was treated as stock purchases for U.S. tax purposes. The ResCap Acquisition was treated as an asset acquisition for U.S. tax purposes. We expect the opening tax basis for the acquired assets and liabilities to be the fair values as shown in the purchase price allocation table below. We expect MSRs and goodwill to be treated as intangible assets acquired in connection with the purchase of a trade or business and, as such, amortized over 15 years for tax purposes.
Purchase Price Allocation
The following table summarizes the fair values of assets acquired and liabilities assumed as part of the ResCap Acquisition:

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

(1) As of the acquisition date, the purchase of certain MSRs from ResCap was not complete pending the receipt of certain consents and court approvals. Subsequent to the acquisition, we obtained the required consents and approvals for a portion of these MSRs and paid an additional purchase price of $174.6 million to acquire the MSRs

and related advances, including $54.2 million in 2014. The purchase price allocation has been revised to include the resulting adjustments to MSRs, advances and goodwill.

ResCap Acquisition

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

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

Post-Acquisition Results of Operations

The following table presents the revenue and earnings of the ResCap operations that are included in our unaudited Consolidated Statement of Operations from the acquisition date of February 15, 2013 through March 31, 2013:

Revenues	$74,853
Net income	$14,879

Pro Forma Results of Operations

The following table presents unaudited supplemental pro forma information for Ocwen for the three months ended March 31, 2013 as if the ResCap Acquisition occurred on January 1, 2012. Pro forma adjustments include:

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

Revenues	$454,003
Net income	$36,303

Other Acquisitions

Correspondent One S.A. (Correspondent One)

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

Correspondent One is not material to our financial condition, results of operations or cash flows.

Liberty

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

Ocwen Structured Investments, LLC (OSI)

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

Facility Closure Costs

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

	Employee termination benefits	Lease termination costs	Total
Liability balance as at December 31, 2013	$4,816	$2,454	$7,270
Additions charged to operations (1)	10,584	—	10,584
Amortization of discount	—	42	42
Payments	(10,370)	(341)	(10,711)
Liability balance as at March 31, 2014 (2)	$5,030	$2,155	$7,185

(1) $9.5 million was recognized in the Servicing segment, $(0.1) million was recognized in the Lending segment and the remaining $1.2 million was recognized in the Corporate Items and Other segment. Charges related to employee termination benefits are reported in Compensation and benefits expense in the unaudited Consolidated Statement of Operations. The liabilities are included in Other liabilities in the unaudited Consolidated Balance Sheet.

(2) We expect the remaining liability for employee termination benefits at March 31, 2014 to be settled in 2014.

Note 4 — Sales of Advances and MSRs

In order to efficiently finance our assets and operations and to create liquidity, we periodically sell MSRs, Rights to MSRs and servicing advances to market participants, including Home Loan Servicing Solutions, Ltd. and its wholly owned subsidiary, HLSS Holdings, LLC (collectively HLSS). We typically retain the right to subservice loans when we sell MSRs and Rights to MSRs. To the extent applicable, counterparties may also acquire advance SPEs and the related match funded liabilities. In connection with sales of Rights to MSRs, we retain legal ownership of the MSRs and continue to service the related mortgage loans until such time as all necessary consents are received. We are obligated to transfer legal ownership of the MSRs upon obtaining all required third party consents. As it relates to the sale of Rights to MSRs to HLSS (together with the sale of the related servicing advances, the HLSS Transactions), upon transfer, we would subservice the loans pursuant to a subservicing agreement, as amended, with HLSS. During the three months ended March 31, 2013, we completed HLSS Transactions relating to the Rights to MSRs for $15.9

billion of UPB. We did not complete any sales of Rights to MSRs to HLSS during the three months ended March 31, 2014. See Note 19 — Related Party Transactions for additional information regarding the agreements with HLSS.

The following table provides a summary of the assets and liabilities sold in connection with the HLSS Transactions during the three months ended March 31, 2013:

Sale of MSRs accounted for as a financing	$100,707
Sale of advances and match funded advances	703,206
Sales price, as adjusted	803,913
Amount due to (from) HLSS for post-closing adjustments at March 31	10,406
Cash received on current year sales	814,319
Amount received from HLSS as settlement of post-closing adjustments outstanding at the end of the previous year	—
Total cash received	$814,319

To the extent we retain legal title to the MSRs, the sales of Rights to MSRs are accounted for as financings. Upon receipt of third party consents, we derecognize the related MSRs. Upon derecognition, any resulting gain or loss is deferred and amortized over the expected life of the related subservicing agreement. Until derecognition, we continue to recognize the full amount of servicing revenue and amortization of the MSRs.

The related advance sales generally meet the requirements for sale accounting and are derecognized from our financial statements at the time of the sale. In the event the purchaser acquires an advance SPE in connection with the sale, we derecognize the assets and liabilities of the advance SPEs at the time of the sale.

In March 2014, Ocwen sold advances related to certain FHA-insured mortgage loans to HLSS Mortgage Master Trust (HLSS Mortgage), a wholly owned subsidiary of HLSS. The advance sale was treated as a financing. See Note 6 — Loans Held for Sale for additional information.

Note 5 — Fair Value

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

Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
Level 2:	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3:	Unobservable inputs for the asset or liability.

We classify assets in their entirety based on the lowest level of input that is significant to the fair value measurement.

The carrying amounts and the estimated fair values of our financial instruments and our nonfinancial assets measured at fair value on a recurring or non-recurring basis are as follows at the dates indicated:

		March 31, 2014		December 31, 2013	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Loans held for sale:					
Loans held for sale, at fair value (a)	2	$338,228	$338,228	$503,753	$503,753
Loans held for sale, at lower of cost or fair value (b)	3	45,475	45,475	62,907	62,907
Total Loans held for sale		$383,703	$383,703	$566,660	$566,660
Loans held for investment - Reverse mortgages, at fair value (a)	3	$923,464	$923,464	$618,018	$618,018
Advances and match funded advances (c)	3	3,593,780	3,593,780	3,443,215	3,443,215
Receivables, net (c)	3	182,724	182,724	152,516	152,516
Financial liabilities:					
Match funded liabilities (c)	3	$2,361,662	$2,361,662	$2,364,814	$2,364,814
Financing liabilities:					
HMBS-related borrowings, at fair value (a)	3	$870,462	$870,462	$615,576	$615,576
Other (c)	3	822,685	822,685	651,397	651,397
Total Financing liabilities		$1,693,147	$1,693,147	$1,266,973	$1,266,973
Other secured borrowings:					
Senior secured term loan (c)	3	$1,281,981	$1,267,043	$1,284,901	$1,270,108
Other (c)	3	352,018	352,018	492,768	492,768
Total Other secured borrowings		$1,633,999	$1,619,061	$1,777,669	$1,762,876
Derivative financial instruments (a):					
IRLCs	2	$9,420	$9,420	$8,433	$8,433
Forward MBS trades	1	699	699	6,905	6,905
Interest rate caps	3	324	324	442	442
MSRs:					
MSRs, at fair value (a)	3	$110,826	$110,826	$116,029	$116,029
MSRs, at amortized cost (c)	3	1,929,529	2,774,910	1,953,352	2,441,719
Total MSRs		$2,040,355	$2,885,736	$2,069,381	$2,557,748

(a) Measured at fair value on a recurring basis.
(b) Measured at fair value on a non-recurring basis.
(c) Disclosed, but not carried, at fair value.

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

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Derivative Financial Instruments, net	MSRs	Total
Fair value at January 1, 2014	$618,018	$ (615,576)	$442	$116,029	$118,913
Purchases, issuances, sales and settlements:					
Purchases	—	—	—	—	—
Issuances	176,658	(226,626)	24	—	(49,944)
Transfer from loans held for sale, at fair value	110,874	—	—	—	110,874
Sales	—	—	—	—	—
Settlements	(14,029)	5,386	—	—	(8,643)
	273,503	(221,240)	24	—	52,287
Total realized and unrealized gains and (losses): (1)					
Included in earnings	31,943	(33,646)	(142)	(5,203)	(7,048)
Included in Other comprehensive income (loss)	—	—	—	—	—
	31,943	(33,646)	(142)	(5,203)	(7,048)
Transfers in and / or out of Level 3	—	—	—	—	—
Fair value at March 31, 2014	$923,464	$ (870,462)	$324	$110,826	$164,152

	Derivative Financial Instruments, net	MSRs	Total
Fair value at January 1, 2013	$(10,668)	$85,213	$74,545
Purchases, issuances, sales and settlements:			
Purchases	—	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements	310	—	310
	310	—	310
Total realized and unrealized gains and (losses) (1):			
Included in earnings	(1,353)	(679)	(2,032)
Included in Other comprehensive income (loss)	(6,924)	—	(6,924)
	(8,277)	(679)	(8,956)
Transfers in and / or out of Level 3	—	—	—
Fair value at March 31, 2013	$(18,635)	$84,534	$65,899

(1) Total losses attributable to derivative financial instruments still held at March 31, 2014 and March 31, 2013 were $0.1 million and $4.8 million, respectively.

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

Loans Held for Sale

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

We have the ability to access this market, and it is the market into which conventional and government insured mortgage loans are typically sold.

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

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

Loans Held for Investment – Reverse Mortgages

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

The more significant assumptions used in the March 31, 2014 valuation include:

- Life in years ranging from 2.56 to 22.86 (weighted average of 8.05);
- Conditional repayment rate ranging from 4.79% to 56.59% (weighted average of 8.84%); and
- Discount rate of 1.63%.

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

Mortgage Servicing Rights

Amortized Cost MSRs

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

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

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

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

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

The more significant assumptions used in the March 31, 2014 valuation of our MSRs carried at amortized cost include:

- Prepayment speeds ranging from 6.62% to 17.63% (weighted average of 13.78%) depending on loan type;
- Delinquency rates ranging from 7.02% to 31.04% (weighted average of 16.59%) depending on loan type;
- Interest rate of 1-month LIBOR plus a range of 0.00% to 3.50% for computing the cost of financing servicing advances;
- Interest rate of 1-month LIBOR for computing float earnings; and
- Discount rates ranging from 9.88% to 16.46% (weighted average of 11.67%)

We perform an impairment analysis based on the difference between the carrying amount and fair value after grouping the underlying loans into the applicable strata. In response to the significant change in the composition of our MSR portfolio as a result of recent acquisitions, our stratum are defined as conventional, government insured and non-Agency (i.e. all private label primary and master serviced loans).

Fair Value MSRs

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

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

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

The primary assumptions used in the March 31, 2014 valuation include an 8.35% weighted average constant prepayment rate and a discount rate equal to 1-Month LIBOR plus 10.28%.

Advances

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

Receivables

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

Borrowings

Match Funded Liabilities

For match funded liabilities that bear interest at a rate that is adjusted regularly based on a market index, the carrying value approximates fair value. For match funded liabilities that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. We estimate principal repayments of match funded liabilities during the amortization period based on our historical advance collection rates and taking into consideration any plans to refinance the notes. At March 31, 2014, the interest on all borrowings under match funded facilities was based on a variable rate adjusted regularly using a market index, and therefore, the carrying value approximates fair value.

HMBS-Related Borrowings

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

The more significant assumptions used in the March 31, 2014 valuation include:
- Life in years ranging from 2.54 to 22.24 (weighted average of 7.01);
- Conditional repayment rate ranging from 4.79% to 56.02% (weighted average of 8.84%); and
- Discount rate of 1.06%.

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

Financing Liability - MSRs Pledged

The carrying value of the Financing Liability - MSRs Pledged approximates fair value. We initially establish the value of the Financing Liability - MSRs Pledged based on the price at which the Rights to MSRs are sold to HLSS. Thereafter, the carrying value of the Financing Liability - MSRs pledged is adjusted from time to time to reflect changes in the net present value of the estimated future cash flows of the underlying MSRs. Since these cash flows are ceded to HLSS as part of the HLSS Transactions, the future cash flows of the underlying MSRs also represent the future payments to HLSS of principal and interest on the Financing Liability - MSRs Pledged. As a result, the net present value of the future cash flows related to the underlying MSRs also represent the net present value of the principal and interest payments to be made on the Financing Liability - MSRs Pledged. The net present value of these future cash flows represents the fair value of the Financing Liability - MSRs Pledged.

Other Secured Borrowings

The carrying value of secured borrowings that bear interest at a rate that is adjusted regularly based on a market index approximates fair value. For other secured borrowings that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. For the SSTL, we used a discount rate of 5.6% and the repayment schedule specified in the loan agreement to determine fair value at March 31, 2014.

Derivative Financial Instruments

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

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

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

See Note 15 — Derivative Financial Instruments and Hedging Activities for additional information regarding derivative financial instruments.

Note 6 — Loans Held for Sale

Loans Held for Sale - Fair Value

Loans held for sale, at fair value, represent residential forward and reverse mortgage loans originated or purchased and held until sold to secondary market investors, such as GSEs or other third parties. The following table summarizes the activity in the balance of Loans held for sale, at fair value, during the three months ended March 31:

	2014	2013
Beginning balance	$503,753	$426,480
Originations and purchases	1,416,797	2,462,531
Proceeds from sales	(1,481,403)	(2,563,247)
Transfers to loans held for investment - reverse mortgages	(110,874)	—
Gain (loss) on sale of loans	12,863	(29,786)
Other	(2,908)	(464)
Ending balance	$338,228	$295,514

At March 31, 2014, Loans held for sale, at fair value with a UPB of $314.0 million were pledged to secure warehouse lines of credit in our Lending segment. See Note 12 — Borrowings for additional information regarding these facilities.

Loans Held for Sale - Lower of Cost or Fair Value

Loans held for sale, at lower of cost or fair value, include residential loans that we do not intend to hold to maturity. The following table summarizes the activity in the balance of Loans held for sale, at lower of cost or fair value, during the three months ended March 31:

	2014	2013
Beginning balance	$62,907	$82,866
Purchases	959,756	53,674
Proceeds from sales	(835,786)	(66,868)
Principal payments	(96,300)	(460)
Transfers to accounts receivable	(66,187)	—
Gain on sale of loans	23,031	1,423
Increase in valuation allowance	(4,163)	(7,269)
Modifications, charge offs and other	2,217	(751)
Ending balance	$45,475	$62,615

The balances at March 31, 2014 and March 31, 2013 are net of valuation allowances of $36.0 million and $21.9 million, respectively.

The balances at March 31, 2014 and 2013 include $6.1 million and $42.0 million, respectively, of loans that we were required to repurchase from Ginnie Mae guaranteed securitizations as part of our servicing obligations. Repurchased loans are modified or otherwise remediated through loss mitigation activities or are reclassified to receivables.

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

Gain on Loans Held for Sale, Net

The following table summarizes the activity in Gain on loans held for sale, net, during the three months ended March 31:

	2014	2013
Gain on sales of loans (1)(2)	$54,993	$(1,081)
Change in fair value of IRLCs	986	(1,237)
Change in fair value of loans held for sale	1,800	(440)
Gain (loss) on economic hedge instruments	(13,610)	10,189
Other	(182)	(682)
	$43,987	$6,749

(1) Includes gains of $11.6 million and $28.7 million for the three months ended March 31, 2014 and 2013, respectively, representing the value assigned to MSRs retained on sales of loans. Also includes gains of $22.8 million recorded during the three months ended March 31, 2014 on sales of repurchased loans into Ginnie Mae guaranteed securitizations.

(2) Includes gains of $16.1 million recorded during the three months ended March 31, 2014 in connection with sales of reverse mortgages into Ginnie Mae guaranteed securitizations.

Note 7 — Advances

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

	March 31, 2014	December 31, 2013
Servicing:		
Principal and interest	$189,338	$141,307
Taxes and insurance	465,359	477,039
Foreclosures, bankruptcy and other	278,713	268,053
	933,410	886,399
Corporate Items and Other	4,516	4,433
	$937,926	$890,832

The following table summarizes the activity in advances for the three months ended March 31:

	2014	2013
Beginning balance	$890,832	$184,463
Acquisitions (1)	98,875	205,365
Transfers to match funded advances	(10,156)	—
Sales of advances to HLSS	—	(38,313)
(Collections) new advances, net	(41,625)	210,046
Ending balance	$937,926	$561,561

(1) Servicing advances acquired through business acquisitions and asset acquisitions, primarily in connection with the acquisition of MSRs. See Note 3 — Business Acquisitions, Note 6 — Loans Held for Sale and Note 9 — Mortgage Servicing for additional information.

Note 8 — Match Funded Advances

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

	March 31, 2014	December 31, 2013
Principal and interest	$1,589,396	$1,497,649
Taxes and insurance	847,615	830,113
Foreclosures, bankruptcy, real estate and other	218,843	224,621
	$2,655,854	$2,552,383

The following table summarizes the activity in match funded advances for the three months ended March 31:

	2014	2013
Beginning balance	$2,552,383	$3,049,244
Acquisitions (1)	85,521	1,448,371
Transfers from advances	10,156	—
Sales of advances to HLSS	—	(664,893)
New advances (collections), net	7,794	(396,639)
Ending balance	$2,655,854	$3,436,083

(1) Servicing advances acquired in connection with the acquisitions of MSRs through business acquisitions and asset acquisitions. See Note 3 — Business Acquisitions and Note 9 — Mortgage Servicing for additional information.

Note 9 — Mortgage Servicing

Mortgage Servicing Rights – Amortization Method

The following tables summarize the activity in the carrying value of amortization method servicing assets for the three months ended March 31:

	2014	2013
Beginning balance	$1,953,352	$678,937
Additions recognized in connection with business acquisitions:		
OSI (1)	8,954	—
ResCap Acquisition (1)	11,370	393,891
Additions recognized in connection with asset acquisitions:		
OneWest MSR Transaction (2)	1,516	—
Greenpoint MSR Transaction (3)	3,700	—
Other	1,481	972
Additions recognized on the sale of mortgage loans	11,614	28,705
Servicing transfers and adjustments	(364)	(124)
Amortization (4)	(62,094)	(47,987)
Ending balance	$1,929,529	$1,054,394
Estimated fair value at end of period	$2,774,910	$1,288,732

(1) See Note 3 — Business Acquisitions for additional information regarding MSRs recognized in connection with business acquisitions.

(2) The acquired MSRs relate to mortgage loans with a UPB of $1.1 billion and related servicing advances of $34.3 million acquired in the final closing of the OneWest MSR Transaction. The OneWest MSR Transaction closed in stages, and the majority of loans were boarded onto our primary servicing platform as of December 31, 2013.

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

(4) In the unaudited 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.

As disclosed in Note 4 — Sales of Advances and MSRs, we have sold certain Rights to MSRs as part of the HLSS Transactions which did not qualify as sales for accounting purposes. In addition, on February 26, 2014, we issued $123.6 million of Ocwen Asset Servicing Income Series (OASIS), Series 2014-1 Notes secured by Ocwen-owned MSRs relating to Freddie Mac mortgages of $11.8 billion UPB. We accounted for this transaction as a financing. See Note 12 — Borrowings for additional information.

The estimated amortization expense for MSRs, calculated based on assumptions used at March 31, 2014, is projected as follows over the next five years (See Note 1 — Description of Business and Basis of Presentation regarding a change in accounting estimate applicable to MRS amortization.):

2015	$227,807
2016	193,589
2017	166,401
2018	143,094
2019	68,417

Mortgage Servicing Rights—Fair Value Measurement Method

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

The following table summarizes the activity related to fair value servicing assets for the three months ended March 31:

	2014	2013
Beginning balance	$116,029	$85,213
Changes in fair value (1):		
Changes in market value assumptions	(3,155)	4,650
Realization of cash flows and other changes	(2,048)	(5,329)
Ending balance	$110,826	$84,534

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

Because the mortgages underlying these MSRs permit the borrowers to prepay the loans, the value of the MSRs generally tends to diminish in periods of declining interest rates (as prepayments increase) and increase in periods of rising interest rates (as prepayments decrease). The following table summarizes the estimated change in the value of the MSRs that we carry at fair value as of March 31, 2014 given hypothetical instantaneous parallel shifts in the yield curve:

	Adverse change in fair value	
	10%	20%
Weighted average prepayment speeds	$(8,475)	$(16,635)
Discount rate (Option-adjusted spread)	$(4,881)	$(9,371)

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

Portfolio of Assets Serviced

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

	Residential	Commercial	Total
UPB at March 31, 2014			
Servicing (1)	$391,701,237	$—	$391,701,237
Subservicing	57,869,359	318,507	58,187,866
	$449,570,596	$318,507	$449,889,103
UPB at December 31, 2013			
Servicing (1)	$397,546,635	$—	$397,546,635
Subservicing	67,104,697	400,502	67,505,199
	$464,651,332	$400,502	$465,051,834
UPB at March 31, 2013			
Servicing (1)	$272,252,405	$—	$272,252,405
Subservicing	194,819,256	392,584	195,211,840
	$467,071,661	$392,584	$467,464,245

(1) Includes primary servicing UPB of $170.8 billion, $175.1 billion and $92.5 billion at March 31, 2014, December 31, 2013 and March 31, 2013, respectively, for which the Rights to MSRs have been sold to HLSS.

Residential assets serviced includes foreclosed real estate. Residential assets serviced also includes small-balance commercial assets with a UPB of $2.5 billion, $2.6 billion and $2.0 billion at March 31, 2014, December 31, 2013 and March 31, 2013, respectively, that are managed using the REALServicing™ platform. Commercial assets consist of large-balance foreclosed real estate.

Servicing Revenue

The following table presents the components of servicing and subservicing fees for the three months ended March 31:

	2014	2013
Loan servicing and subservicing fees:		
Servicing	$351,823	$235,156
Subservicing	33,725	33,866
	385,548	269,022
Home Affordable Modification Program (HAMP) fees	36,699	40,147
Late charges	36,835	25,896
Loan collection fees	8,294	6,382
Custodial accounts (float earnings)	1,721	1,680
Other	21,362	26,182
	$490,459	$369,309

Float balances (balances in custodial accounts, which represent collections of principal and interest that we receive from borrowers, are held in escrow by an unaffiliated bank and are excluded from our balance sheet) amounted to $3.5 billion and $4.7 billion at March 31, 2014 and 2013, respectively.

Note 10 — Receivables

Receivables consisted of the following at the dates indicated:

	Receivables	Allowance for Losses	Net
March 31, 2014			
Servicing (1)	$175,029	$(23,291)	$151,738
Due from related parties (2)	11,217	—	11,217
Other (3)	19,872	(103)	19,769
	$206,118	$(23,394)	$182,724
December 31, 2013			
Servicing (1)	$124,537	$(17,419)	$107,118
Income taxes receivable	6,369	—	6,369
Due from related parties (2)	14,553	—	14,553
Other (3)	24,579	(103)	24,476
	$170,038	$(17,522)	$152,516

(1) The balances at March 31, 2014 and December 31, 2013 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. The balances at March 31, 2014 and December 31, 2013 include $59.8 million and $54.0 million of receivables and $16.4 million and $14.0 million of allowances for losses, respectively, related to defaulted FHA or VA insured loans repurchased from Ginnie Mae guaranteed securitizations.

(2) See Note 19 — Related Party Transactions for additional information regarding transactions with Altisource and HLSS.

(3) Includes $13.6 million related to probable losses expected to be indemnified under the terms of the Homeward merger agreement.

Note 11 — Other Assets

Other assets consisted of the following at the dates indicated:

	March 31, 2014	December 31, 2013
Debt service accounts (1)	$82,630	$129,897
Contingent assets - ResCap Acquisition (2)	—	51,932
Prepaid lender fees and debt issuance costs, net	32,151	31,481
Prepaid income taxes	25,334	20,585
Purchase price deposit (3)	25,000	10,000
Prepaid expenses	12,956	16,132
Derivatives, at fair value (4)	10,409	15,494
Investment in unconsolidated entities (5)	6,646	11,771
Other	33,979	21,851
	$229,105	$309,143

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

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

consents and approvals for the MSRs and paid the additional purchase price.

(3) The balance at December 31, 2013 represents an initial cash deposit that we made in connection with the agreement we entered into on December 20, 2013 to acquire MSRs and related advances from Wells Fargo Bank, N.A. This deposit along with an additional deposit of $15.0 million that we made in January 2014 will be held in escrow until the transaction closes. See Note 21 - Commitments and Contingencies for additional information.

(4) See Note 15 — Derivative Financial Instruments and Hedging Activities for additional information regarding derivatives.

(5) The balance at December 31, 2013 includes an investment of $6.6 million in OSI. As disclosed in Note 3 — Business Acquisitions, we increased our ownership from 26.00% to 87.35% on January 31, 2014. Effective on that date, we began including the accounts of OSI in our consolidated financial statements and eliminated our current investment in consolidation.

Note 12 — Borrowings

Match Funded Liabilities

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

Borrowing Type	Interest Rate	Maturity (1)	Amortization Date (1)	Available Borrowing Capacity (2)	March 31, 2014	December 31, 2013
Advance Receivable Backed Notes Series 2012-ADV1	1ML (4) + 250 bps	Jun. 2016	Jun. 2014	$121,742	$353,258	$417,388
Advance Receivable Backed Note	1ML + 300 bps	Dec. 2015	Dec. 2014	18,630	31,370	33,211
2012-Homeward Agency Advance Funding Trust 2012-1 (3)	Cost of Funds + 300 bps	Mar. 2014	Mar. 2014	1,562	23,438	21,019
Advance Receivables Backed Notes, Series 2013-VF1, Class A (5)	1ML + 175 bps (6)	Oct. 2044	Oct. 2014	23,202	976,798	