

OCWEN FINANCIAL CORP  
 Form 10-Q  
 October 31, 2014

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

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

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

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION  
 (Exact name of registrant as specified in its charter)

Florida	65-0039856
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Abernathy Road NE, Suite 210	30328
Atlanta, Georgia	(Zip Code)
(Address of principal executive office)	
(561) 682-8000	
(Registrant's telephone number, including area code)	

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

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

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

(Do not check if a smaller reporting company)

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

OCWEN FINANCIAL CORPORATION  
 FORM 10-Q  
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## FORWARD-LOOKING STATEMENTS

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

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

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the Securities and Exchange Commission (SEC) including Amendment No.1 to our Annual Report on Form 10-K for the year ended December 31, 2013, Amendment No.1 to our Quarterly Report on Form 10-Q for the three months ended March 31, 2014, our Quarterly Report for the three months ended June 30, 2014 and our Current Reports on Form 8-K. Forward-looking statements speak only as of the date they were made and except for our ongoing obligations under the U.S. federal securities laws, we undertake no obligation to update or revise

forward-looking statements whether as a result of new information, future events or otherwise.

## PART I – FINANCIAL INFORMATION

## ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

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

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

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

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

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

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

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

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

Net of tax expense of \$3.1 million for the three months ended September 30, 2013 and \$0.2 million and \$3.9 million for the nine months ended September 30, 2014 and 2013, respectively. These losses are reclassified to (2) Other, net in the unaudited Consolidated Statements of Operations. See Note 15 – Derivative Financial Instruments and Hedging Activities for additional information.

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

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

	Ocwen Stockholders Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Non-controlling Interest in Subsidiaries	Total
	Shares	Amount	Additional Paid-in Capital				
Balance at December 31, 2013	135,176,271	\$1,352	\$818,427	\$1,002,963	\$ (10,151 )	\$ —	\$1,812,591
Net income	—	—	—	52,075	—	165	52,240
Preferred stock dividends (\$18.75 per share)	—	—	—	(1,163 )	—	—	(1,163 )
Deemed dividend related to beneficial conversion feature of preferred stock	—	—	—	(1,639 )	—	—	(1,639 )
Conversion of preferred stock	1,950,296	20	61,980	—	—	—	62,000
Repurchase of common stock	(9,920,649 )	(99 )	(325,510 )	—	—	—	(325,609 )
Exercise of common stock options	244,000	2	1,036	—	—	—	1,038
Equity-based compensation and other	17,887	—	11,092	—	—	—	11,092
Non-controlling interest in connection with the acquisition of a controlling interest in Ocwen Structured Investments, LLC	—	—	—	—	—	2,526	2,526
Other comprehensive income, net of income taxes	—	—	—	—	1,367	—	1,367
Balance at September 30, 2014	127,467,805	\$1,275	\$567,025	\$1,052,236	\$ (8,784 )	\$ 2,691	\$1,614,443
Balance at December 31, 2012	135,637,932	\$1,356	\$911,942	\$704,565	\$ (6,441 )	\$ —	\$1,611,422
Net income (As Restated)	—	—	—	175,143	—	—	175,143
Preferred stock dividends (\$27.92 per share)	—	—	—	(4,450 )	—	—	(4,450 )
Deemed dividend related to beneficial conversion feature of preferred stock	—	—	—	(6,573 )	—	—	(6,573 )
Conversion of preferred stock	3,145,640	31	99,969	—	—	—	100,000

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

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES  
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

For the Nine Months Ended September 30,	2014	2013 (As Restated)
Cash flows from operating activities		
Net income	\$52,240	\$175,143
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage servicing rights	186,075	197,435
Depreciation	16,601	17,153
Provision for bad debts	49,583	22,386
Gain on sale of loans	(110,041)	(72,912)
Realized and unrealized losses on derivative financial instruments	1,955	12,896
(Gain) loss on extinguishment of debt	(2,609)	12,556
Loss (gain) on valuation of mortgage servicing rights, at fair value	13,147	(11,725)
Decrease (increase) in deferred tax assets, net	35,884	(2,393)
Origination and purchase of loans held for sale	(6,007,152)	(7,072,260)
Proceeds from sale and collections of loans held for sale	6,013,059	7,006,883
Changes in assets and liabilities:		
Decrease in advances and match funded advances	236,688	424,008
(Increase) decrease in receivables and other assets, net	(11,806)	265,554
(Decrease) increase in other liabilities	46,243	27,783
Other, net	39,148	1,723
Net cash provided by operating activities	559,015	1,004,230
Cash flows from investing activities		
Cash paid to acquire ResCap Servicing Operations (a component of Residential Capital, LLC)	(54,220)	(2,260,830)
Net cash paid to acquire controlling interest in Ocwen Structured Investments, LLC	(7,834)	—
Net cash paid to acquire Liberty Home Equity Solutions, Inc.	—	(26,568)
Net cash acquired in acquisition of Correspondent One S.A.	—	22,108
Distributions of capital from unconsolidated entities	6,572	1,300
Purchase of mortgage servicing rights, net	(19,395)	(676,750)
Acquisition of advances in connection with the purchase of mortgage servicing rights	(84,373)	(445,478)
Acquisition of advances in connection with the purchase of loans	(60,482)	—
Proceeds from sale of advances and match funded advances	—	3,492,489
Net proceeds from sale of diversified fee-based businesses to Altisource Portfolio Solutions, SA	—	215,700
Proceeds from sale of mortgage servicing rights	287	21,511
Origination of loans held for investment – reverse mortgages	(565,670)	(274,081)
Principal payments received on loans held for investment - reverse mortgages	56,193	2,164
Additions to premises and equipment	(7,716)	(24,475)
Other	4,270	2,947
Net cash (used in) provided by investing activities	(732,368)	50,037
Cash flows from financing activities		
Repayment of match funded liabilities	(329,175)	(2,169,732)
Proceeds from other secured borrowings	4,352,495	7,935,374

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Repayments of other secured borrowings	(4,532,029	) (7,166,050	)
Proceeds from issuance of senior unsecured notes	350,000	—	
Payment of debt issuance costs	(6,835	) (25,547	)
Proceeds from sale of mortgage servicing rights accounted for as a financing	123,551	404,509	
Proceeds from sale of loans accounted for as a financing	572,031	272,652	
Proceeds from sale of advances accounted for as a financing	88,095	—	
Repurchase of common stock	(325,609	) (157,880	)
Payment of preferred stock dividends	(1,163	) (4,534	)
Other	2,643	(5,703	)
Net cash provided by (used in) financing activities	294,004	(916,911	)
Net increase in cash	120,651	137,356	
Cash at beginning of year	178,512	220,130	
Cash at end of period	\$299,163	\$357,486	
Supplemental non-cash investing and financing activities			
Conversion of Series A preferred stock to common stock	\$62,000	\$100,000	
Supplemental business acquisition information - ResCap (1)			
Fair value of assets acquired			
Advances	\$—	\$(1,786,409	)
Mortgage servicing rights	—	(401,314	)
Premises and equipment	—	(16,423	)
Goodwill	—	(211,419	)
Receivables and other assets	—	(2,989	)
	—	(2,418,554	)
Fair value of liabilities assumed			
Accrued expenses and other liabilities	—	74,625	
Total consideration	—	(2,343,929	)
Amount due to seller (2)	—	83,099	
Cash paid	\$—	\$(2,260,830	)

- (1) See Note 3 – Business Acquisitions for information regarding the acquisitions of Ocwen Structured Investments, LLC and Correspondent One S.A. during the three months ended March 31, 2014 and 2013, respectively.
- (2) Amount due to seller includes \$54.2 million paid in 2014 for certain mortgage servicing rights and related servicing advances which we were obligated to acquire that were not settled as part of the initial closing.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

(Dollars in thousands, except per share data and unless otherwise indicated)

Note 1 – Description of Business and Basis of Presentation

Organization

Ocwen Financial Corporation (NYSE: OCN) (Ocwen, we, us and our) is a financial services holding company which, through its subsidiaries, is engaged in the servicing and origination of forward and reverse mortgage loans. Ocwen is headquartered in Atlanta, Georgia with offices throughout the United States (U.S.) and in the United States Virgin Islands (USVI) with support operations in India, the Philippines and Uruguay. Ocwen is a Florida corporation organized in February 1