OCWEN FINANCIAL CORP
Form 10-K
February 29, 2016

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

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.) |
| 1661 Worthington Road, Suite 100<br>West Palm Beach, Florida | 33409 |
| (Address of principal executive office) | (Zip Code) |

(561) 682-8000
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12 (g) of the Act: Not applicable.
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark 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 x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

| | | | |
|---|---|---|---|
| Large Accelerated filer | x | Accelerated filer | o |

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes o No x
Aggregate market value of the common stock of the registrant held by nonaffiliates as of June 30, 2015: $1,230,610,916
Number of shares of common stock outstanding as of February 16, 2016: 123,852,336 shares
DOCUMENTS INCORPORATED BY REFERENCE: Portions of our definitive Proxy Statement with respect to our Annual Meeting of Shareholders, which is currently scheduled to be held on May 11, 2016, are incorporated by reference into Part II, Item 5 and Part III, Items 10 - 14.

OCWEN FINANCIAL CORPORATION
2015 FORM 10-K ANNUAL REPORT
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FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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 Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Our business has been undergoing substantial change, which has magnified such uncertainties. Readers should bear these factors in mind when considering such statements and should not place undue reliance on such statements. Forward-looking statements involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially. In the past, actual results have differed from those suggested by forward looking statements and this may happen again. Important factors that could cause actual results to differ include, but are not limited to, the risks discussed in "Risk Factors" and the following:

- adverse effects on our business as a result of regulatory settlements;
- reactions to the announcement of such settlements by key counterparties;
- increased regulatory scrutiny and media attention;
- uncertainty related to claims, litigation and investigations brought by government agencies and private parties regarding our servicing, foreclosure, modification, origination and other practices;
- any adverse developments in existing legal proceedings or the initiation of new legal proceedings;
- 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 sell, fund and recover advances, repay borrowings and comply with our debt agreements, including the financial and other covenants contained in them;
- our servicer and credit ratings as well as other actions from various rating agencies, including the impact of downgrades of our servicer and credit ratings;
- volatility in our stock price;
- the characteristics of our servicing portfolio, including prepayment speeds along with delinquency and advance rates;
- our ability to contain and reduce our operating costs, including our ability to successfully execute on our cost improvement initiative;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;
- uncertainty related to legislation, regulations, regulatory agency actions, regulatory examinations, government programs and policies, industry initiatives and evolving best servicing practices;
- our dependence on New Residential Investment Corp. (NRZ) for a substantial portion of our advance funding for non-agency mortgage servicing rights;
- uncertainties related to our long-term relationship with NRZ;
- 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 and guarantors, including mortgage-backed securities investors, the Government National Mortgage Association, trustees and government sponsored entities (GSEs), regarding loan put-backs, penalties and legal actions;
- our ability to comply with our servicing agreements, including our ability to comply with our seller/servicer agreements with GSEs and maintain our status as an approved seller/servicer;
- uncertainty related to the GSEs substantially curtailing or ceasing to purchase our conforming loan originations or the Federal Housing Authority of the Department of Housing and Urban Development or Department of Veterans Affairs ceasing to provide insurance;
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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;
- uncertainty related to the ability of third-party obligors and financing sources to fund servicing advances on a timely basis on loans serviced by us;
- uncertainty related to the ability of our technology vendors to adequately maintain and support our systems, including our servicing systems, loan originations and financial reporting systems;
- our ability to effectively manage our exposure to interest rate changes and foreign exchange fluctuations;
- uncertainty related to our ability to adapt and grow our business;
- our ability to integrate the systems, procedures and personnel of acquired assets and businesses;

- 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, including under "Risk Factors." 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

## ITEM 1. BUSINESS

### OVERVIEW

Ocwen Financial Corporation is a financial services holding company that, through its subsidiaries, is one of the largest mortgage companies in the United States. When we use the terms “Ocwen,” “OCN,” “we,” “us” and “our,” we are referring to Ocwen Financial Corporation and its consolidated subsidiaries. We are headquartered in West Palm Beach, Florida with offices located throughout the United States (U.S.) and in the United States Virgin Islands (USVI) and operations in India and the Philippines. Ocwen Financial Corporation is a Florida corporation organized in February 1988. With its predecessors, Ocwen has been servicing residential mortgage loans since 1988. We have been originating forward mortgage loans since 2012 and reverse mortgage loans since 2013.

### BUSINESS LINES

Servicing and Lending are our primary lines of business. Business activities that currently are individually insignificant are included in our Corporate Items and Other segment.

#### Servicing

Our Servicing business is primarily comprised of our core residential mortgage servicing business and currently accounts for the majority of our total revenues. Our servicing clients include some of the largest financial institutions in the U.S., including the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (each, an Agency or, collectively, the GSEs), the Government National Mortgage Association (Ginnie Mae) and non-Agency residential mortgage-backed securities (RMBS) trusts. As of December 31, 2015, we were the seventh largest servicer in the U.S. based on the unpaid principal balance (UPB) of our residential servicing portfolio of $251.0 billion. We also service a small portfolio of commercial loans.

We are a leader in the servicing industry in foreclosure prevention and loss mitigation that helps families stay in their homes and improves financial outcomes for investors. Our leadership in the industry is evidenced by our high cure rate for delinquent loans and above average rate of continuing performance by homeowners whose loans we have modified. Ocwen has provided more loan modifications under the Federal Government’s Home Affordable Modification Program (HAMP) than any other mortgage servicer and 50% more than the next highest servicer, according to data published in the U.S. Treasury’s Making Home Affordable Third Quarter 2015 Program Performance Report. Overall, Ocwen has completed nearly 644,000 loan modifications from January 1, 2008 through December 31, 2015, including over 54,000 modifications under Ocwen’s own Shared Appreciation Modification (SAM) program that incorporates the ability for our servicing clients to recoup a portion of the principal reductions granted if property values increase over time.

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

We also earn fees under both subservicing and special servicing arrangements with banks and other institutions that own the mortgage servicing rights (MSRs). The owners of MSRs may choose to hire Ocwen as a subservicer or special servicer instead of servicing the MSRs themselves for a variety of reasons, including not having a servicing platform or not having the necessary capacity or expertise to service some or all of their MSRs. In a subservicing context, where Ocwen does not own the MSRs, we may be engaged to perform all of the servicing functions previously described or it could be a limited engagement (e.g., subservicing only non-defaulted mortgage loans). As a subservicer, we may be obligated to make servicing advances, though most subservicing agreements provide for more rapid reimbursement of any advances from the owner of the servicing rights than if we were the servicer. Ocwen is

also engaged as a special servicer. These engagements typically involve portfolios of defaulted mortgage loans, which require more work than performing mortgage loans and involve working out modifications or short sales with borrowers or taking properties through the foreclosure process. We typically earn subservicing and special servicing fees either as a percentage of UPB or on a per loan basis.

Servicing advances are amounts that we, as servicer, are required to advance to or on behalf of our servicing clients if we do not receive such amounts from borrowers. These amounts include principal and interest payments, property taxes and

insurance premiums and amounts to maintain, repair and market real estate properties on behalf of our servicing clients. Most of our advances have the highest reimbursement priority and are “top of the waterfall” so that we are entitled to repayment from respective loan or REO liquidations proceeds before most other claims on these proceeds, and in the majority of cases, advances in excess of respective loan or REO liquidation proceeds may be recovered from pool level proceeds. The costs incurred in meeting these obligations consist principally of the interest expense incurred in financing the servicing advances and the costs of arranging such financing.

Reducing delinquencies is important to our business because it enables us to recover advances and recognize additional ancillary income, such as late fees, which we do not recognize on delinquent loans until they are brought current. Performing loans also require less work and are thus generally less costly to service. While increasing borrower participation in loan modification programs is a critical component of our ability to reduce delinquencies, the persistence of those modifications to remain current is also an important factor. As of December 31, 2015, only 22.4% of Ocwen modifications were 60 or more days delinquent as compared to non-Ocwen subprime servicer re-default rates of 27.0%, according to data from a leading independent third party mortgage industry data provider. According to the same data, Ocwen has modified a larger percentage of its subprime portfolio, 66.0% versus 59.3% for the non-Ocwen subprime servicers. The data also demonstrated an ability to generate greater cash flow to our servicing clients because it showed that 80.4% of Ocwen’s subprime borrowers have made 10 or more payments in the 12 months ending December 31, 2015 as compared to only 65.1% for other subprime servicers.

While our Servicing business grew rapidly via portfolio and business acquisitions from 2010 to 2013, we made no significant acquisitions during 2014 or 2015. Our growth ceased primarily as a result of significant regulatory scrutiny, which resulted in our settlements with the New York Department of Financial Services (NY DFS) in December 2014 and the California Department of Business Oversight (CA DBO) in January 2015, which are discussed in greater detail in the Regulation section below. These settlements have significantly impacted our ability to grow our servicing portfolio, which naturally decreases over time through portfolio runoff, because we have agreed to restrictions in our consent orders with the NY DFS and CA DBO that effectively prohibit future acquisitions of servicing until we have satisfied the respective conditions in those consent orders. If we are unable to satisfy these conditions, we will be unable to grow our servicing portfolio through acquisitions.

During 2015, we implemented a strategy to sell a portion of our Agency MSRs with the intent of reducing our exposure to interest rate movements, monetizing significant unrealized value and generating significant liquidity. We also desired to refocus our business on non-Agency servicing, where we believe we have traditional cost advantages. In a series of performing and non-performing MSR sales, we sold approximately $87.6 billion of UPB of MSRs, generating cumulative gains of $83.9 million and cash proceeds of $1.2 billion, $686.8 million of which was from sales proceeds and $486.3 million of which was via the recovery of advances. These proceeds, as well as ongoing cash from operating activities, were used to reduce our overall indebtedness by $1.4 billion during 2015. At this time, we remain a servicer of Agency and government-insured loans. However, we may enter into additional asset sales from time to time, if we view sale prices to be attractive. Additionally, we continue to originate and service new Agency and government-insured loans.

Given the intense regulatory scrutiny and the subsequent investments Ocwen has made in its risk and compliance infrastructure, we believe the underlying economics of our Servicing business have likely been changed for the foreseeable future. We believe it is unlikely Ocwen will achieve meaningful profitability in its Servicing business in the near term unless there is a significant, structural change in the business model. While we believe such structural change is probably unlikely in the current regulatory environment, we are nonetheless intensely focused on improving our operations to enhance borrower experiences and improve efficiencies both of which we believe will drive stronger financial performance through lower overall costs. An additional way to improve our financial performance would be to significantly grow or re-scale our Servicing portfolio. Although we are currently constrained under our regulatory settlements, if we can successfully navigate the regulatory hurdles and demonstrate the progress we have achieved in the areas of risk management and compliance, we believe that any potential future sellers of non-Agency servicing rights would view Ocwen’s infrastructure in a favorable light and place significant consideration on our ability to provide not only strong servicing performance for both RMBS investors and borrowers, but also on our ability to service loans in a highly compliant manner. Despite this belief, we do not believe there is a large market for future

bulk servicing transfers at this time, and therefore our ability to add additional servicing rights through purchase transactions may be limited in the near term.

As a result of uncertainty regarding our ability to achieve meaningful profitability in our Servicing business in its current state and our ability to grow our Servicing portfolio, for both regulatory and market-based reasons, we are seeking to become a much larger asset generator to provide Ocwen with not only future servicing rights but also other future income streams. We intend to transform Ocwen over time by reinvesting cash flows generated by the Servicing business to grow not only our residential mortgage lending business but also to grow other new business lines, which we believe can diversify our income profile and assist us in returning Ocwen to profitability. We believe asset generation, through our residential mortgage lending business and our new business lines, will be Ocwen's primary driver of growth for the future. There can be no assurances that our efforts to transform Ocwen in this manner will be successful.

Lending
In our Lending business, we originate and purchase conventional (conforming to the underwriting standards of the GSEs, collectively Agency loans) and government-insured (insured by the Federal Housing Authority (FHA) or Department of Veterans Affairs (VA)) forward mortgage loans through the correspondent, wholesale and retail lending channels of our Homeward Residential, Inc. (Homeward) operations. Per-loan margins vary by channel, with correspondent typically being the lowest margin and retail the highest margin. After origination, we generally package and sell the loans in the secondary mortgage market, through GSE and Ginnie Mae guaranteed securitizations and whole loan transactions. In 2016, we will securitize and sell forward loans through our Ocwen Loan Servicing, LLC (OLS) operations. We typically retain the associated MSRs, providing the Servicing business with a source of new MSRs to replenish our servicing portfolio and partially offset the impact of amortization and prepayments. The only jurisdiction where we currently do not retain servicing rights on new originations, other than recapture (which is our ability to convert borrowers in our current servicing portfolio into newly originated loans), is California, where we sell the forward mortgage loans servicing-released to meet a requirement of our January 2015 settlement with the CA DBO. Lending revenues include interest income earned for the period the loans are held by us, gain on sale revenue, which represents the difference between the origination value and the sale value of the loan, and fee income earned at origination.
We are working to increase the scale and breadth of our Lending business. Although the slowing of the Home Affordable Refinance Program (HARP) and the sale of Agency MSRs (which decreases loans available to re-finance) present challenges, we are focused on increasing conversion rates (i.e., recapture) on our existing servicing portfolio and expanding our correspondent channel through growing our third party origination businesses. Additionally we are exploring offering different products we believe we can originate profitably and with acceptable levels of risk. We believe our experience in servicing difficult loans will allow us to also help borrowers obtain loans that are more challenging to originate. Building the sales and operations capacity to meet this need is a goal for the business, as well as investment in the development of our LOS (Loan Operating System) and the continued use of process improvements to drive productivity.
We historically have originated and purchased Home Equity Conversion Mortgages (HECM or reverse mortgage loans) insured by FHA through our Liberty Home Equity Solutions, Inc. (Liberty) operations. Effective in January 2016, we will continue to originate and purchase reverse mortgage loans through Liberty but will securitize the reverse mortgage loans through our OLS operations. Loans originated under this program are guaranteed by the FHA, which provides investors with protection against risk of borrower default. The reverse channel provides both current period and future period gain on sale revenue from new originations as a result of subsequent tail draws taken by the borrower. While we are focused on current period reported earnings, we also utilize our market experience to invest in future asset value when returns are at an attractive level. These future cash flows are not guaranteed but viewed as probable given our historic asset quality and slow prepayment speeds.
Correspondent Lending. Our forward and reverse correspondent lending channels purchase mortgage loans that have been originated by a network of approved third party lenders.
All of the lenders participating in our correspondent lending program are approved by senior lending and credit management executives. We also employ an ongoing monitoring and renewal process for participating lenders that includes an evaluation of the performance of the loans they have sold to us. We perform a variety of pre- and post-funding review procedures to ensure that the loans we purchase conform to our requirements and to the requirements of the investors to whom we sell loans.
Wholesale Lending. We originate loans through a network of approved brokers. Brokers are subject to a formal approval and monitoring process. We underwrite all loans originated through this channel consistent with the underwriting standards required by the ultimate investor prior to funding.
Retail Lending. We originate forward and reverse mortgage loans directly with borrowers through our retail lending business. Our retail lending business utilizes our significant portfolio of borrowers being serviced to originate refinanced loans. Depending on borrower eligibility, we will refinance into conventional, government or non-Agency products. We also are increasing our ability to originate in the external retail market. Through lead campaigns and direct marketing, the Retail channel seeks to convert leads into higher margin loans in a cost efficient manner.

We provide customary origination representations and warranties to investors in connection with our loan sales and securitization activities. We receive customary origination representations and warranties from our network of approved originators in connection with loans we purchase through our correspondent lending channel. We recognize the fair value of the liability for our representations and warranties at the time of sale. In the event we cannot remedy a breach of a representation or warranty, we may be required to repurchase the loan or provide an indemnification payment to the investor. To the extent that we have recourse against a third-party originator, we may recover part or all of any loss we incur.

In 2015, we originated or purchased forward and reverse mortgage loans with a UPB of $3.9 billion and $809.7 million, respectively. Our Lending business provides us the opportunity to expand into new markets and offer new products, for example prime loans that exceed the GSE limits (jumbo loans) or non-Agency loans, as market and investor demand develops in that product segment. We do not currently expect to originate loans not considered qualified mortgages (Qualified Mortgages) by the Consumer Financial Protection Bureau (CFPB).

New Lines of Business

Automotive Capital Services (ACS)

In August 2015, we launched our ACS business on a pilot basis in two markets in Florida. ACS makes short-term inventory-secured loans to independent used car dealers to finance their inventory. Loans are typically outstanding for 30 to 60 days and structured as lines of credit on which the dealerships can draw to finance inventory purchases. We anticipate that ACS could provide meaningful growth and income diversification in future periods. After a successful four-month pilot period, we began expanding across select markets in the U.S. In 2015, ACS approved twenty-one credit applications. We issued outstanding credit lines for $10.9 million and had drawn $2.8 million as of the end of the year. For the time being, ACS will fund new originations with available corporate cash. When the business grows to sufficient size, we anticipate obtaining warehouse line financing to fund new volumes, and eventually anticipate launching securitizations when loan volume and market conditions permit.

Liberty Rental Finance

Through Homeward, Liberty Rental Finance has entered the rental property finance market. The business will provide mortgage loans to investors interested in purchasing foreclosed properties or refinancing existing rental properties for the purpose of improving financing terms. We expect to sell the mortgage loans to aggregators including both private investors and the GSEs. Liberty Rental Finance is currently licensed to lend in 38 states and plans to expand to all states in the future. We believe that our substantial experience in small balance commercial servicing and single- and multi-family REO management along with our large customer base of REO buyers provide competitive opportunities.

Given the early launch status of the ACS and Liberty Rental Finance businesses and their present contribution to Ocwen, each is currently reported as a component of the Corporate Items and Other segment.

The results of operations for each of our reportable operating segments (Servicing, Lending and Corporate Items and Other) are included in the individual business operations sections of Management's Discussion and Analysis of Financial Condition and Results of Operations. Financial information related to reportable operating segments is provided in Note 23 — Business Segment Reporting.

REGULATION

Our business is subject to extensive regulation by federal, state and local governmental authorities, including the CFPB, the Department of Housing and Urban Development (HUD), the Securities and Exchange Commission (SEC) and various state agencies that license, audit and conduct examinations of our loan servicing, origination and collection activities. In addition, we operate under a number of regulatory settlements that subject us to ongoing monitoring or reporting. From time to time, we also receive requests from federal, state and local agencies for records, documents and information relating to our policies, procedures and practices regarding our mortgage servicing, origination and collection activities. The GSEs and their conservator, the Federal Housing Finance Authority (FHFA), Ginnie Mae, the United States Treasury Department, various investors, non-Agency securitization trustees and others also subject us to periodic reviews and audits.

In the current regulatory environment, we have faced and expect to continue to face increased regulatory and public scrutiny as an organization as well as stricter and more comprehensive regulation of the entire mortgage sector. We continue to work diligently to assess and understand the implications of the regulatory environment in which we operate and to meet the requirements of the changing environment in which we operate. We devote substantial resources to regulatory compliance, while, at the same time, striving to meet the needs and expectations of our customers, clients and other stakeholders. Our failure to comply with applicable federal, state and local laws regulations and licensing requirements could lead to any of the following:

- loss of our licenses and approvals to engage in our servicing and lending businesses;
- governmental investigations and enforcement actions;
- administrative fines and penalties and litigation;

- civil and criminal liability, including class action lawsuits and actions to recover incentive and other payments made by governmental entities;
- breaches of covenants and representations under our servicing, debt or other agreements;
- damage to our reputation;
- inability to raise capital; or

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- inability to execute on our business strategy.

We must comply with a large number of federal, state and local consumer protection laws including, among others, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, the Real Estate Settlement Procedures Act (RESPA), the Truth in Lending Act (TILA), the Fair Credit Reporting Act, the Servicemembers Civil Relief Act, the Homeowners Protection Act, the Federal Trade Commission Act, the Telephone Consumer Protection Act, the Equal Credit Opportunity Act, the Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and state foreclosure laws. These statutes apply to many facets of our business, including loan origination, default servicing and collections, use of credit reports, safeguarding of non-public personally identifiable information about our customers, foreclosure and claims handling, investment of and interest payments on escrow balances and escrow payment features, and mandate certain disclosures and notices to borrowers. These requirements can and do change as statutes and regulations are enacted, promulgated, amended, interpreted and enforced.

The recent trend among federal, state and local lawmakers and regulators has been toward increasing laws, regulations and investigative proceedings with regard to residential real estate lenders and servicers. Over the past few years, state and federal lawmakers and regulators have adopted a variety of new or expanded laws and regulations and recommended practices, including the Dodd-Frank Act discussed below. These regulatory and legislative measures, or changes in enforcement practices, could, either individually, in combination or in the aggregate, require that we further change our business practices, impose additional costs on us, limit our product offerings, limit our ability to efficiently pursue business opportunities, negatively impact asset values and reduce our revenues. Accordingly, they could materially and adversely affect our business and our financial condition, liquidity and results of operations. For additional information on these risks, see Item 1A. Risk Factors, below.

The Dodd-Frank Act, enacted in 2010, constituted a sweeping reform of the regulation and supervision of financial institutions, including consumer financial products and services. Among other things, the Dodd-Frank Act created the CFPB, a new federal entity responsible for regulating consumer financial services. The CFPB directly affects the regulation of residential mortgage servicing and lending in a number of ways. First, the CFPB has rule making authority with respect to many of the federal consumer protection laws applicable to mortgage servicers and lenders, including TILA and RESPA, as reflected in the new rules for servicing and origination that went into effect in 2014. Second, the CFPB has supervision, examination and enforcement authority over consumer financial products and services offered by certain non-depository institutions and large insured depository institutions. The CFPB’s jurisdiction includes those persons originating, brokering or servicing residential mortgage loans and those persons performing loan modification or foreclosure relief services in connection with such loans. Accordingly, we are subject to supervision, examination and enforcement by the CFPB. We are currently in receipt of three Civil Investigative Demands or investigative subpoenas from the CFPB seeking information about our servicing practices. If the CFPB were to bring an enforcement action against us, the resolutions of such action could have a material adverse impact on our business, reputation, financial condition and results of operations.

While the CFPB’s rule-making and regulatory agenda relating to loan servicing and origination continues to evolve, to date it is apparent that the CFPB has taken a very active role in the mortgage industry, including but not limited to, the issuance of new servicing and origination rules that went into effect in 2014. We have devoted substantial resources and incurred significant compliance costs responding to the Dodd-Frank Act and rules and regulations issued thereunder, and we expect to continue to devote substantial resources and incur significant costs going forward.

Title XIV of the Dodd-Frank Act contains the Mortgage Reform and Anti-Predatory Lending Act (Mortgage Act). The Mortgage Act imposes a number of additional requirements on servicers of residential mortgage loans, such as OLS, by amending certain existing provisions and adding new sections to TILA and RESPA. The penalties for noncompliance with TILA and RESPA are also significantly increased by the Mortgage Act and could lead to an increase in lawsuits against mortgage servicers.

Transfers of mortgage servicing are subject to regulation under federal consumer finance laws, including CFPB rules implementing RESPA that require servicers to, among other things, maintain policies and procedures that are reasonably designed to facilitate the transfer of accurate information and documents during mortgage servicing transfers and properly evaluate loss mitigation applications that are in process at the time of transfer. The CFPB has advised mortgage servicers that its examiners will be carefully reviewing servicers’ compliance with these and other

regulations applicable to servicing transfers, and state mortgage regulators have supervisory power over any licensed institutions involved in a transaction. Accordingly, we devote significant time and resources to our compliance efforts and to engaging with such regulators in connection with our transfers of mortgage servicing, and we expect to continue to do so. If we fail to comply with regulations relating to servicing transfers in connection with our dispositions of MSRs, we could be subject to adverse regulatory actions, which could materially and adversely affect our business.

There are a number of foreign laws and regulations that are applicable to our operations in India and the Philippines, including acts that govern licensing, employment, safety, taxes, insurance and the laws and regulations that govern the creation, continuation and the winding up of companies as well as the relationships between shareholders, our corporate entities, the

public and the government in these countries. Non-compliance with the laws and regulations of India or the Philippines could result in (i) restrictions on our operations in these counties, (ii) fines, penalties or sanctions or (iii) reputational damage.

We are subject to a number of ongoing federal and state regulatory examinations, consent orders, inquiries, requests for information and other actions, which could result in further adverse regulatory action against us.

New York Department of Financial Services

In December 2012, we entered into a consent order with the New York Department of Financial Services (NY DFS) in which we agreed to the appointment of a Monitor to oversee our compliance with an Agreement on Servicing Practices that we had entered into with the NY DFS in September 2011. After the Monitor began its work in 2013, the NY DFS began an investigation into Ocwen's compliance with the servicing requirements specified in the Agreement on Servicing Practices as well as New York State laws and regulations relating to the servicing of residential mortgages.

In December 2014, Ocwen reached a settlement with the NY DFS related to this investigation and entered into a consent order (the NY Consent Order) with the NY DFS to reflect such settlement. The settlement contained monetary and non-monetary provisions including the payment of a civil monetary penalty of $100.0 million and restitution in the amount of $50.0 million to certain New York borrowers. Non-monetary provisions included: the appointment of an independent Operations Monitor who shall, among other responsibilities, review and assess the adequacy and effectiveness of our operations, including providing periodic reporting on findings and progress, and review transactions with Altisource, Home Loan Servicing Solutions, Ltd. (HLSS), Altisource Residential Corporation (Residential) and Altisource Asset Management Corporation (AAMC); the appointment of two additional independent directors to the Board of Directors (which occurred in January 2015); the resignation of William C. Erbey as an officer and director, as of January 16, 2015, as well as from the boards of Altisource, HLSS, AAMC and Residential; and restrictions on the ability and/or timing of any future MSR acquisitions which effectively prohibit any such future acquisitions until we have satisfied certain specified conditions. The Operations Monitor, Goldin Associates LLC (Goldin), was appointed in March 2015. We must pay all reasonable and necessary costs of the Operations Monitor. The expenses associated with the Operations Monitor have and will continue to impact us, as the expenses are substantial and we have limited ability to control, monitor or contest the Operation Monitor's charges.

We continue to work cooperatively with the Operations Monitor. If we are found to have breached the terms of the NY Consent Order or if the NY DFS or the Operations Monitor were to allege non-compliance with New York laws or regulations, we could become subject to financial penalties or other regulatory action could be taken against us. The Operations Monitor also makes recommendations to Ocwen on various operational and governance matters. If we do not address such recommendations in a manner deemed satisfactory by the Operations Monitor and the NY DFS, we could be subject to additional scrutiny by the Operations Monitor or the NY DFS or other regulatory action could be taken against us.

California Department of Business Oversight

In January 2015, OLS reached an agreement with the CA DBO relating to our failure to produce certain information and documents during a routine licensing examination, which resulted in the CA DBO withdrawing its notice of hearing to suspend OLS' license in California. OLS and the CA DBO entered into a Consent Order pursuant to the California Residential Mortgage Lending Act (the CA Consent Order) with the CA DBO to reflect such settlement. The CA Consent Order addresses and resolves the examination disputes between the CA DBO and OLS, and does not involve any accusation or admission of wrongdoing with regard to OLS' servicing practices.

Under the terms of the CA Consent Order, OLS paid the CA DBO a penalty of $2.5 million plus costs associated with the examination. We accrued the $2.5 million penalty as of December 31, 2014. OLS also agreed to cease acquiring any additional MSRs for loans secured in California until the CA DBO is satisfied that OLS can satisfactorily respond to the requests for information and documentation made in the course of a regulatory exam.

In addition, the CA DBO has selected an independent third-party auditor (the CA Auditor) to assess OLS' compliance with laws and regulations impacting California borrowers for an initial term of two years, extendable for one year at the discretion of the CA DBO. OLS must pay all reasonable and necessary costs of the CA Auditor. The expenses associated with the CA Auditor have and will continue to impact us, as the expenses are substantial and we have

limited ability to control, monitor or contest the CA Auditor's charges. The CA Auditor will report periodically on its findings and progress and OLS must submit to the CA DBO a written plan to address and implement corrective measures and address any deficiencies identified by the CA Auditor.

We continue to work cooperatively with the CA Auditor. As part of the CA Auditor's work, from time to time the CA Auditor and the CA DBO have made observations regarding our compliance with various regulations and legal requirements, including the Consent Order. At this time, we believe that we will be able to resolve all matters related to such observations in a constructive manner with the CA DBO, and we are not aware of any issue that we believe will have a material impact on our financial condition. As part of these observations, the CA DBO has informed us of its position that certain onboarding activities relating to new California originations in 2015 were prohibited by the Consent Order and represent a material breach of the

agreement. We disagree with this position. Given that we have already made adjustments to our processes for California originations, the CA DBO has not asked us to make any additional changes to such processes at this time. The CA DBO has also raised similar concerns related to our on-boarding of loans subject to subservicing agreements. The CA DBO is still evaluating this activity as it relates to the Consent Order. The CA DBO has not asked us to cease any subservicing activities, and these activities are not material to our overall operations. However, it is possible that the CA DBO could determine to take action against us, which could subject us to financial penalties or other regulatory action, and it is possible that the CA Auditor or the CA DBO could allege that other activities do not comply with California laws or regulations, which could also result in regulatory action against us.

National Mortgage Settlement

In February 2014, the Ocwen National Mortgage Settlement involving the CFPB and various state attorneys general and other state agencies that regulate the mortgage servicing industry (NMS Regulators), relating to various allegations regarding deficient mortgage servicing practices, including those with respect to foreclosures, was memorialized by a consent order entered by the United States District Court for the District of Columbia (District Court).

We are tested on a quarterly basis on various metrics to ensure compliance with the Ocwen National Mortgage Settlement. These metrics relate to various aspects of our servicing business, and each has a proscribed error threshold. These metrics are tested by a dedicated group of Ocwen employees who do not report to the servicing business and are referred to as the Internal Review Group (IRG). The IRG tests these metrics, and reports their findings to the professional firms employed by the Office of Mortgage Settlement Oversight (OMSO). OMSO has ultimate authority to accept or reject the IRG's findings, and OMSO reports its findings to the District Court. Exceeding the metric error rate threshold for the first time does not result in a violation of the settlement, but rather it is deemed a "potential violation" which then is subject to a cure period. Any potential violation requires us to submit a corrective action plan (CAP) to OMSO for approval and review, and all testing for that metric is suspended until the CAP is completed. Following the completion of the CAP, testing on that metric resumes by the IRG and any further fails in the cure period or the quarter following that cure period would subject us to financial penalties. These penalties start at an amount of not more than $1.0 million for the first uncured violation and increase to an amount of not more than $5.0 million for the second uncured violation. To date, OMSO's reports have found six metrics where our testing has exceeded the applicable error rate threshold. Each of those metrics has been the subject of an agreed-upon CAP, and one of those potential fails have been deemed "cured" by OMSO as subsequent testing has not exceeded the metric error rate threshold. The remainder of the metrics are either still under CAPs or the post-cure testing has yet to be validated by OMSO. Moreover, we agreed with OMSO to deem an additional five metrics as having failed due to the letter-dating issues that were raised by the NY DFS in 2014, as the testing of those metrics could have been affected by that issue. Those metrics are subject to a "global CAP" that covers all letter-dating issues under the Ocwen National Mortgage Settlement, in addition to any metric-specific CAP plan. It is also possible that if we are found to have caused borrower harm, we would be subject to costs to remediate that harm. In addition, in the event that there were widespread metric failures, it is possible that OMSO or the District Court could determine that we were generally violating the settlement and seek to impose a broader range of financial, injunctive or other penalties on us.

In December 2014, OMSO identified two issues involving our compliance with the Ocwen National Mortgage Settlement. The first concerned the adequacy and independence of our IRG, which is responsible for reporting on our compliance with the settlement. The second concerned the letter-dating issues discussed above. OMSO's reports since then have identified the steps that we have taken to remediate these issues and acknowledged Ocwen's cooperation. OMSO has recently reported that Ocwen's IRG appears to be operating in conformity with the National Mortgage Settlement, and noted that the letter-dating issues are subject to the global CAP discussed above.

We continue to work cooperatively with OMSO on ongoing testing and CAPs. While, to date, these issues have not resulted in financial or other penalties, if we are found to have breached the Ocwen National Mortgage Settlement, we could become subject to financial penalties or other regulatory action could be taken against us.

Securities and Exchange Commission

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

to Mr. Erbey's approvals for specifically enumerated board actions. We have cooperated with the SEC in its investigation and believe that the investigation is substantially completed.

On January 20, 2016, the SEC entered an administrative order resolving its investigation, which required Ocwen to pay, without admitting or denying liability, a $2.0 million civil money penalty and consent to the entry of an administrative order requiring that we cease and desist from any violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and certain related SEC rules promulgated thereunder. We had previously disclosed in our Form 10-Q for the quarter ended September 30, 2015 that we had reached this resolution in principle with the SEC staff and that we had accrued $2.0 million as of September 30, 2015.

Separately, on February 10, 2015, we received a letter from the Staff informing us that it was conducting an investigation relating to the use of collection agents by mortgage loan servicers. The letter requested that we voluntarily produce documents and information. We believe that the February 10, 2015 letter was also sent to other companies in the industry. On February 11, 2016, we received a letter from the Staff informing us that it was conducting an investigation relating to fees and expenses charged in connection with liquidated loans and REO properties held in non-agency RMBS trusts. The letter requested that we voluntarily produce documents and information. We are cooperating with the Staff on these matters.

General

In addition to the above matters, our mortgage origination and servicing businesses require one or more licenses in the various jurisdictions in which we operate. Our licensed entities are required to renew their licenses, typically on an annual basis, and to do so they must satisfy the license renewal requirements of each jurisdiction, which in some cases include the requirement to provide audited financial statements. Last year, our licensed entities did not satisfy the requirements for timely provision of financial statements due to the delay in finalizing the audits for the 2014 fiscal years of these entities.

The same agencies that issue licenses to us engage in regular supervisory examinations of the licensable activities. We are also subject to supervision by the CFPB at the federal level, and it similarly has the authority to conduct regulatory examinations, in addition to its enforcement and investigatory powers. These examinations are part of our ordinary course business activities, and the mere existence of an examination is not typically indicative of anything unusual or material as to that business. We also receive information requests and other inquiries, both formal and informal in nature, from these agencies as part of their general regulatory oversight of our origination and servicing businesses. The GSEs and their conservator, FHFA, HUD, FHA, VA, Ginnie Mae, the United States Treasury Department, and others also subject us to periodic reviews and audits. We have in the past resolved, and may in the future resolve, matters via consent orders or payment of monetary amounts to settle issues identified in connection with examinations or regulatory or other oversight activities.

We also have regular engagements with not only our state financial regulators, but also the attorneys general in the various states and the CFPB to address individual borrower complaints that they bring to our attention, or to respond to information requests and other inquiries. On occasion, we also engage with U.S. attorneys. Many of these matters are brought to our attention as a complaint that the entity is investigating, although some are formal investigations or proceedings. We are currently in receipt of three Civil Investigative Demands from the CFPB, one Civil Investigative Demand from the Massachusetts Attorney's General Office and two subpoenas from the Office of the United States Attorney for the District of Massachusetts seeking information about various aspects of our servicing practices.

To the extent that an examination, monitorship, audit or other regulatory engagement results in an alleged failure by us to comply with applicable law, regulation or licensing requirement, or if allegations are made that we have failed to comply with the commitments we have made in connection with our regulatory settlements (including commitments under any corrective action plans under such settlements) or if other regulatory actions of a similar or different nature are taken in the future against us, this could lead to (i) loss of our licenses and approvals to engage in our servicing and lending businesses, (ii) governmental investigations and enforcement actions, (iii) administrative fines and penalties and litigation, (iv) civil and criminal liability, including class action lawsuits, (v) breaches of covenants and representations under our servicing, debt or other agreements, (vi) inability to raise capital and (vii) inability to execute on our business strategy. Any of these occurrences could increase our operating expenses and reduce our revenues, hamper our ability to grow or otherwise materially and adversely affect our business, reputation, financial

condition and results of operations.

COMPETITION

The financial services markets in which we operate are highly competitive. We compete with large and small financial services companies, including bank and non-bank entities, in the servicing and lending markets. Large banks such as Wells Fargo, JPMorgan Chase, Bank of America and Citibank are generally the largest participants in these markets, although we also compete against other large non-bank servicers such as Nationstar Mortgage LLC and Walter Investment Management.

In the servicing industry, we compete on the basis of price, quality and counterparty risk. Potential counterparties also (1) assess our regulatory compliance track record and examine our systems and processes for maintaining and demonstrating regulatory compliance, and (2) consider our third-party servicer ratings. Certain of our competitors, especially large banks, may

have substantially lower costs of capital and greater financial resources, which makes it challenging to compete. We believe that our competitive strengths flow from our ability to control and drive down delinquencies through the use of proprietary technology and processes and our lower cost to service non-performing, non-Agency loans. Notwithstanding these strengths, we have suffered reputational damage as a result of our regulatory settlements and the associated scrutiny of our business. We believe this has weakened our competitive position against both our bank and non-bank servicing competitors. In addition, our New York and California regulatory settlements effectively prohibit us from competing in the market for bulk servicing acquisitions at this time.

In the lending industry, we face intense competition in most areas, including product offerings, rates, pricing and fees, and customer service. Some of our competitors, including the larger banks, have substantially lower costs of capital and strong retail presence, which makes it challenging to compete. On the other hand, the larger banks have tended to be less competitive in non-retail channels, especially in the wholesale channel. We believe our competitive strengths flow from our existing role as a mortgage servicer, which has traditionally enabled us to more efficiently capture refinance volume from our servicing portfolio, our customer service and our customer relationships.

THIRD-PARTY SERVICER RATINGS

Similar to other servicers, we are the subject of mortgage servicer ratings or rankings (collectively, ratings) issued and revised from time to time by rating agencies including Moody’s Investors Services, Inc. (Moody’s), Morningstar, Inc. (Morningstar), Standard & Poor’s Rating Services (S&P) and Fitch Ratings Inc. (Fitch). Favorable ratings from these agencies are important to the conduct of our loan servicing and lending businesses.

The following table summarizes our key current ratings by these rating agencies:

| | Moody’s | Morningstar | S&P | Fitch |
|---|---|---|---|---|
| Residential Prime Servicer | SQ3- | MOR RS3 | Below Average | RPS3- |
| Residential Subprime Servicer | SQ3- | MOR RS3 | Below Average | RPS3- |
| Residential Special Servicer | SQ3- | MOR RS3 | Below Average | RSS3- |
| Residential Second/Subordinate Lien Servicer | SQ3- | — | Below Average | RPS3- |
| Residential Home Equity Servicer | — | — | — | RPS3- |
| Residential Alt A Servicer | — | — | — | RPS3- |
| Master Servicing | SQ3 | — | Below Average | RMS3- |
| Ratings Outlook | (1) | Negative | Stable | Stable |
| Date of last action | September 23, 2015 | February 6, 2015 | September 29, 2015 | February 19, 2016 |

(1) Removed from review for downgrade in June 2015.

In addition to servicer ratings, each of the rating agencies will from time to time assign an outlook (or a ratings watch such as Moody’s review status) to a mortgage servicer’s rating status. A negative outlook is generally used to indicate that a ranking “may be lowered,” while a positive outlook is generally used to indicate a ranking “may be raised.”

Failure to maintain minimum servicer ratings could adversely affect our ability to sell or fund servicing advances going forward, could affect the terms and availability of debt financing facilities that we may seek in the future, and could impair our ability to consummate future servicing transactions or adversely affect our dealings with lenders, other contractual counterparties and regulators, including our ability to maintain our status as an approved servicer by Fannie Mae and Freddie Mac.

Certain of our servicing agreements require that we maintain specified servicer ratings. Out of approximately 3,979 non-Agency servicing agreements, approximately 745 with $40.1 billion of UPB as of December 31, 2015 have minimum servicer ratings criteria. As a result of downgrades in our servicer ratings, termination rights have been triggered in 664 of these non-Agency servicing agreements. This represents approximately $34.3 billion in UPB as of December 31, 2015, or approximately 18.3% of our total non-Agency servicing portfolio. Under 264 of the 664 triggered agreements, trustees and master servicers have sent notices to investors indicating that they did not currently intend to take action relating to the termination rights. In addition, in connection with 66 of the triggered agreements, the trustee or master servicer sent solicitation notices to investors asking whether or not the investor wanted to direct

the trustee or master servicer to terminate Ocwen as servicer. The trustee or master servicer has announced results for 47 of the solicitations: 43 resulted in no direction to terminate and four resulted in the termination of Ocwen as servicer in early 2015 due to rating downgrades. The 264 notices regarding no action at this time and the 43 solicitations resulting in no direction to terminate Ocwen as servicer represent approximately $19.6 billion in UPB as of

December 31, 2015, or approximately 57.1% of the UPB of the non-Agency servicing agreements with triggered termination rights. Pursuant to our servicing agreements, generally we are entitled to payment of accrued and unpaid servicing fees through termination as well as all advances and certain other previously unreimbursed amounts, although we lose the future servicing fee revenue. The financial impact of the termination of servicing under the four servicing agreements was immaterial to our overall financial condition, as it represented only 0.17% of our overall servicing portfolio as of the time of transfer of servicing. However, we could be subject to further terminations, either as a result of recent servicer ratings downgrades or future adverse actions by rating agencies, which could have an adverse effect on our business, financing activities, financial condition and results of operations.

See Item 1A. Risk Factors - Risks Relating to Our Business for further discussion of the adverse effects that a downgrade in our servicer ratings could have on our business, financing activities, financial condition or results of operations.

USVI OPERATIONS

As part of an initiative to reorganize the ownership and management of our global servicing assets and operations under a single entity and cost-effectively expand our U.S.-based origination and servicing activities, Ocwen formed Ocwen Mortgage Servicing, Inc. (OMS) in 2012 under the laws of the USVI where OMS has its principal place of business. OMS is located in a federally recognized economic development zone and in 2012 became eligible for certain benefits, which may have a favorable impact on our effective tax rate.

ALTISOURCE SPIN-OFF AND ONGOING RELATIONSHIP

In 2009, we completed the distribution of our Ocwen Solutions (OS) line of business (the Separation) via the spin-off of a separate publicly traded company, Altisource. OS consisted primarily of Ocwen’s former unsecured collections business, residential fee-based loan processing businesses and technology platforms. Since the spin-off, our relationship has been governed by a number of agreements that set forth the terms of our business with Altisource. Ocwen Financial Corporation and OMS are parties to a Services Agreement, a Technology Products Services Agreement, an Intellectual Property Agreement and a Data Center and Disaster Recovery Services Agreement with Altisource. Under the Services Agreements, Altisource provides various business process outsourcing services, such as valuation services and property preservation and inspection services, among other things. Altisource provides certain technology products and support services under the Technology Products Services Agreements and the Data Center and Disaster Recovery Services Agreements. These agreements expire August 31, 2025. Ocwen and Altisource have also entered into a Master Services Agreement pursuant to which Altisource provides certain loan origination services to Homeward and Liberty, and a General Referral Fee Agreement pursuant to which Ocwen receives referral fees which are paid out of the commission that would otherwise be paid to Altisource as the selling broker in connection with real estate sales services provided by Altisource. A Data Access and Services Agreement under which we agreed to make available to Altisource certain data from Ocwen’s servicing portfolio in exchange for a per asset fee was terminated on March 31, 2015.

We are currently dependent on many of the services and products provided by Altisource under these long-term agreements, many of which include renewal provisions. For example, our servicing platform runs on an information technology system that we license from Altisource. If Altisource were to fail to fulfill its contractual obligations to us, including through a failure to provide services at the required level to maintain and support our systems, or if Altisource were to become unable to fulfill such obligations (for example, because it entered bankruptcy), our business and operations would suffer. In addition, if Altisource fails to develop and maintain its technology so as to provide us with a competitive platform, our business could suffer.

Certain services provided by Altisource under these agreements are charged to the borrower and/or mortgage loan investor. Accordingly, such services, while derived from our loan servicing portfolio, are not reported as expenses by Ocwen. These services include residential property valuation, residential property preservation and inspection services, title services and real estate sales. Ocwen has commissioned a third-party study assessing the reasonableness of such fees and expenses and believes that they are broadly consistent with prevailing market rates. Similar to other vendors, in the event that Altisource’s activities do not comply with the applicable servicing criteria, we could be exposed to liability as the servicer and it could negatively impact our relationships with our servicing clients, borrowers or regulators, among others.

We have also entered into Support Services Agreements with Altisource that set forth certain services that Altisource and Ocwen may provide to each other in such areas as human resources, corporate services, Six Sigma, quality assurance, quantitative analytics, treasury, accounting, tax matters and strategic planning. These Support Services Agreements run through October 2017 and September 2018, respectively, with automatic one-year renewals thereafter. During 2014, we began reducing the amount of services provided to us under the Support Services Agreement. Beginning April 1, 2015, the only services that are regularly provided under these Support Services Agreements are corporate services such as vendor procurement for technology and facilities management services. We anticipate that we will cease all corporate services by the end of 2016.

OUR SALES OF RIGHTS TO MSRS AND OUR RELATIONSHIP WITH NEW RESIDENTIAL INVESTMENT CORP. (NRZ)

We have implemented an "asset-light" strategy pursuant to which we have sold rights to receive servicing fees, with respect to certain non-Agency MSRs (Rights to MSRs), together with the related servicing advances, to NRZ, who purchased these Rights to MSRs and assumed the rights and obligations under the associated agreements from Home Loan Servicing Solutions, Ltd. (HLSS) on April 6, 2015. Pursuant to our agreements with NRZ, NRZ has acquired Rights to MSRs and related servicing advances, and has assumed the obligation to fund new servicing advances in respect of the Rights to MSRs. We continue to service the loans for which the Rights to MSRs have been sold to NRZ and receive a servicing fee plus the right to retain ancillary income (other than net earnings on custodial and escrow accounts). References to NRZ as the counterparty in this annual report include HLSS for periods prior to April 6, 2015 because, following HLSS' sale of substantially all of its assets on April 6, 2015, NRZ, through its subsidiaries, is the owner of the Rights to MSRs and has assumed HLSS' rights and obligations under the associated agreements.

Including our initial transaction on March 5, 2012, through 2014, we completed sales of Rights to MSRs and related servicing advances for serviced loans with a UPB of $202.4 billion (based on UPB at the time of sale). Together, these transactions are referred to as the NRZ/HLSS Transactions. We did not complete any sales of Rights to MSRs to NRZ during 2014 or 2015. As of December 31, 2015, we serviced loans with an outstanding UPB of approximately $137.1 billion for which the Rights to MSRs have been sold to NRZ.

Our sales of Rights to MSRs have had two primary benefits. First, they enabled us to operate our business in a manner that allowed us to keep less capital on our balance sheet because we did not need to fund servicing advances on the loans for which Rights to MSRs have been sold. Second, when we sold Rights to MSRs, we were able to redeploy the proceeds to acquire additional MSRs. We sold the Rights to MSRs, and related servicing advances, for substantially all of the MSRs we owned or acquired through the third quarter 2013.

We entered into the Rights to MSRs transactions because we had a counterparty with a cost of capital and an investment profile that meant, under the economic terms we agreed, that it was attractive for them to take on the servicing advance funding and other obligations relating to the Rights to MSRs while it was attractive for us to retain the servicing obligations. The specific MSRs for which Rights to MSRs were sold were selected following negotiations between the parties. All of our Rights to MSRs transactions relate to non-Agency MSRs, primarily due to the fact that servicing advances on Agency MSRs are generally more difficult to finance than non-Agency MSRs.

On April 6, 2015, in consideration for OLS' consent to the assignment by HLSS to NRZ of all HLSS' right, title and interest in, to and under our agreements with HLSS, we amended our Master Servicing Rights Purchase Agreement and Sale Supplements (the Amendment). The Amendment extends and, we believe, strengthens our relationship with NRZ. Most notably, the Amendment (i) extends the term of the agreements by two years or until April 30, 2020, whichever is earlier, provided that such extension will not apply with respect to any servicing agreement that, as of the date that it was scheduled to terminate under our original agreements, is affected by an uncured termination event due to a downgrade of our servicer rating to below average or lower by S&P or to "SQ4" or lower by Moody's, and (ii) limits NRZ's ability to transfer the servicing of any or all of the servicing agreements underlying the Rights to MSRs until April 6, 2017 even if further OLS servicer rating downgrades were to occur. We were also able to secure the future monetization of certain clean-up call rights we own. The Amendment provides that we will sell to NRZ, on an exclusive and "as is" basis, all economic beneficial rights to the "clean-up call rights" to which we are entitled pursuant to servicing agreements that underlie Rights to MSRs owned by NRZ, for a payment upon exercise of 0.50% of the UPB of all performing mortgage loans (mortgage loans that are current or 30 days or less delinquent) associated with the applicable clean up-call. Generally, a clean-up call allows a servicer or master servicer to purchase the remaining loans and REO out of a securitization, after the stated principal balance of the loans in the securitization falls below a specified percentage (e.g., falls below 10% of the principal balance of the loans as of the cut-off date under the securitization).

We continue to service the loans for which the Rights to MSRs have been sold to NRZ. Accordingly, in the event NRZ were unable to fulfill its advance funding obligations, as the servicer under our servicing agreements with the RMBS trusts, we would be contractually obligated to fund such advances under those servicing agreements. At December 31, 2015, NRZ had outstanding advances of approximately $5.2 billion in connection with the Rights to

MSRs.

The servicing fees payable under the servicing agreements underlying the Rights to MSRs are apportioned between us and NRZ as provided in our agreements with NRZ. NRZ retains a fee based on the UPB of the loans serviced, and OLS receives certain fees, including a performance fee based on servicing fees actually paid less an amount calculated based on the amount of servicing advances and cost of financing those advances. After the earlier of April 30, 2020 or eight years after the closing date of the initial sale of each tranche of Rights to MSRs, the apportionment of these fees with respect to such tranche is subject to re-negotiation.

Beginning April 7, 2017, we are obligated to transfer legal ownership of the MSRs to NRZ if and when NRZ obtains all required third-party consents and licenses. If and when such transfer of legal ownership occurs, we will subservice the loans pursuant to a subservicing agreement, as amended, with NRZ. NRZ has agreed not to direct our replacement as servicer before April 6, 2017 except under certain limited circumstances.

To the extent that any servicing agreements underlying Rights to MSRs are terminated as a result of a termination event thereunder, NRZ is entitled to payment of an amount equal to an amortized percentage of the purchase price for the related Rights to MSRs.

Pursuant to the Amendment, beginning April 7, 2017, if a termination event related to a servicer rating downgrade is existing under the Master Servicing Rights Purchase Agreement and Sale Supplements, NRZ will have the right to direct the transfer of servicing with respect to an affected servicing agreement to a replacement servicer that obtains all required third-party consents and licenses. As of the date of this annual report, a termination event relating to a servicer rating downgrade exists because our current servicer rating from S&P is below “Average.” If our servicer rating from S&P is not upgraded to “Average” or better prior to April 7, 2017, NRZ will have the right to direct the transfer of any affected servicing agreements to a successor servicer that obtains all required third-party consents and licenses. Following any such transfer, we would no longer be entitled to receive future servicing fee revenue with respect to the transferred servicing agreement.

Our agreements with NRZ provide that, if S&P downgrades our servicer rating to below “Average” (which it has), we will compensate NRZ for certain increased costs associated with its servicing advance financing facilities, including increased costs of funding, to the extent such costs are the direct result of such downgrade. Any such compensation will continue for a maximum of 12 months and will not exceed $3.0 million for any calendar month or $36.0 million in the aggregate. In such circumstances, NRZ must use commercially reasonable efforts to assist us in curing any potential cost increases by obtaining amendments to the relevant financing agreements. We incurred $14.3 million through December 31, 2015 in connection with this agreement, and will incur costs in connection with this agreement in future periods. We will make additional future payments in connection with this agreement that are currently anticipated to be in the range of $1.5 million to $1.9 million per month through May 2016 (and $1.0 million for June 2016). Actual future payments will vary based on NRZ's outstanding borrowings and movements in applicable floating interest rates, and may be higher than our estimates.

While we have not sold any Rights to MSRs since 2013, we may, in the future, enter into transactions to sell Rights to MSRs (or enter into transactions which have similar economic effects) due to the benefits such transactions have in allowing us to carry less capital on our balance sheet and devote the capital that we do have to less capital intensive activities such as loan servicing and loan origination. Obviously, any future transactions would need to be on terms we deem to be economically attractive - it is not possible to determine exactly when or if we might agree on terms for such transactions.

## EMPLOYEES

We had a total of approximately 10,500 and 11,400 employees at December 31, 2015 and 2014, respectively. We maintain operations in the U.S., USVI, India and the Philippines. At December 31, 2015, approximately 6,900 of our employees were located in India and approximately 700 in the Philippines. Of our foreign-based employees, more than 80% were engaged in our Servicing operations as of December 31, 2015.

## SUBSIDIARIES

For a listing of our significant subsidiaries, refer to Exhibit 21.1 of this Annual Report on Form 10-K.

## AVAILABLE INFORMATION

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are made available free of charge through our website (www.ocwen.com) as soon as such material is electronically filed with or furnished to the SEC. The public may read or copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers, including Ocwen, that file electronically with the SEC. The address of that site is www.sec.gov. We have also posted on our website, and have available in print upon request (1) the charters for our Audit Committee, Compensation Committee,

Nomination/Governance Committee, Compliance Committee, and Independent Review Committee, (2) our Corporate Governance Guidelines, (3) our Code of Business Conduct and Ethics and (4) our Code of Ethics for Senior Financial Officers. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to or waiver of the Code of Ethics for Senior Financial Officers, as well as any amendment to the Code of Business Conduct and Ethics or waiver thereto applicable to any executive officer or director. We may post information that is important to investors on our website. The information provided on our website is not part of this report and is, therefore, not incorporated herein by reference.

ITEM 1A. RISK FACTORS

An investment in our common stock involves significant risk. We describe below the most significant risks that management believes affect or could affect us. Understanding these risks is important to understanding any statement in this Annual Report and to evaluating an investment in our common stock. You should carefully read and consider the risks described below together with all of the other information included or incorporated by reference in this Annual Report before you make any decision regarding an investment in our common stock. You should also consider the information set forth above under “Forward Looking Statements.” If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could significantly decline, and you could lose some or all of your investment.

Risks Relating to Government Regulation and Financial Regulatory Reforms

The business in which we engage is complex and heavily regulated. If we fail to operate our business in compliance with both existing and future regulations, our business, reputation, financial condition or results of operations could be materially and adversely affected.

Our business is subject to extensive regulation by federal, state and local governmental authorities, including the CFPB, HUD, the SEC and various state agencies that license, audit and conduct examinations of our mortgage servicing, origination and collection activities. From time to time, we also receive requests from federal, state and local agencies for records, documents and information relating to the policies, procedures and practices of our mortgage servicing, origination and collection activities. In addition, we operate under a number of regulatory settlements that subject us to ongoing monitoring or reporting. See the next risk factor below for examples of matters we settled in 2014 and 2015, respectively, with the State of New York and the State of California. The GSEs and their conservator, the FHFA, Ginnie Mae, the United States Treasury Department, various investors, non-Agency securitization trustees and others also subject us to periodic reviews and audits.

In the current regulatory environment, we have faced and expect to continue to face increased regulatory and public scrutiny as an organization as well as stricter and more comprehensive regulation of the entire mortgage sector. We must devote substantial resources to regulatory compliance, and we incur, and expect to continue to incur, significant ongoing costs to comply with new and existing laws and governmental regulation of our business. If we fail to effectively manage our regulatory and contractual compliance obligations, the resources we are required to devote and our compliance expenses would likely increase.

We must comply with a large number of federal, state and local consumer protection laws including, among others, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, RESPA, TILA, the Fair Credit Reporting Act, the Servicemembers Civil Relief Act, the Homeowners Protection Act, the Federal Trade Commission Act, the Telephone Consumer Protection Act, the Equal Credit Opportunity Act, the Dodd-Frank Act and state foreclosure laws. These statutes apply to many facets of our business, including loan origination, default servicing and collections, use of credit reports, safeguarding of non-public, personally identifiable information about our customers, foreclosure and claims handling, investment of and interest payments on escrow balances and escrow payment features, and mandate certain disclosures and notices to borrowers. These requirements can and do change as statutes and regulations are enacted, promulgated, amended, interpreted and enforced. See “Business - Regulation” for additional information regarding our regulators and the laws that apply to us.

To be successful, we must structure and operate our business to comply with the laws and regulations to which we are subject and the terms of our regulatory settlements. This can require judgment by us with respect to the requirements of such laws and regulations and such settlements. While we endeavor to engage regularly with our regulators in an effort to ensure we do so correctly, if we fail to interpret correctly the requirements of such laws and regulations or the terms of our regulatory settlements, we could be found to be in breach of such laws and regulations or the terms of such settlements.

Our failure to comply with the terms of our regulatory settlements or applicable federal, state and local consumer protection laws could lead to any of the following:

- loss of our licenses and approvals to engage in our servicing and lending businesses;
- damage to our reputation in the industry;
- governmental investigations and enforcement actions;

- administrative fines and penalties and litigation;
- civil and criminal liability, including class action lawsuits and actions to recover incentive and other payments made by governmental entities;
- breaches of covenants and representations under our servicing, debt or other agreements;
- inability to raise capital; or
- inability to execute on our business strategy.

Any of these outcomes could materially and adversely affect our business and our financial condition, liquidity and results of operations.
The recent trend among federal, state and local lawmakers and regulators has been toward increasing laws, regulations and investigative proceedings with regard to residential real estate lenders and servicers. Over the past few years, state and federal lawmakers and regulators have adopted a variety of new or expanded laws and regulations and recommended practices. These regulatory and legislative measures or changes in enforcement practices could, either individually, in combination or in the aggregate, require that we further change our business practices, impose additional costs on us, limit our product offerings, limit our ability to efficiently pursue business opportunities, negatively impact asset values and reduce our revenues. Accordingly, they could materially and adversely affect our business and our financial condition, liquidity and results of operations.
Governmental bodies have taken regulatory actions against us in the past and may in the future impose regulatory fines or penalties or impose additional requirements or restrictions on our activities that could increase our operating expenses, reduce our revenues or otherwise adversely affect our business, financial condition, results of operations, ability to grow and reputation.
We are subject to a number of ongoing federal and state regulatory examinations, consent orders, inquiries, requests for information and other actions that could result in further adverse regulatory action against us.
In December 2012, we entered into a consent order with the NY DFS in which we agreed to the appointment of a Monitor to oversee our compliance with an Agreement on Servicing Practices that we had entered into with the NY DFS in September 2011. After the Monitor began its work in 2013, the NY DFS began an investigation into Ocwen’s compliance with the servicing requirements specified in the Agreement on Servicing Practices as well as New York State laws and regulations relating to the servicing of residential mortgages.
In December 2014, Ocwen reached a settlement with the NY DFS related to this investigation and entered into the NY Consent Order to reflect such settlement. The settlement contained monetary and non-monetary provisions including the payment of a civil monetary penalty of $100.0 million and restitution in the amount of $50.0 million to certain New York borrowers. Non-monetary provisions included: the appointment in March 2015 of an independent Operations Monitor, Goldin, who shall, among other responsibilities, review and assess the adequacy and effectiveness of our operations, including providing periodic reporting on findings and progress, and review transactions with Altisource, HLSS, AAMC and Residential; the appointment of two additional independent directors to our Board of Directors (which occurred in January 2015); the resignation of William C. Erbey as an officer and director, as of January 16, 2015, as well as from the boards of Altisource, HLSS, AAMC and Residential; and restrictions on the ability and/or timing of any future MSR acquisitions which effectively prohibit any such future acquisitions until we have satisfied certain specified conditions. We must pay all reasonable and necessary costs of the Operations Monitor. The expenses associated with the Operations Monitor have and will continue to impact us, as the expenses are substantial and we have limited ability to control, monitor or contest the Operation Monitor’s charges. We continue to work cooperatively with the Operations Monitor. If we are found to have breached the terms of the NY Consent Order or if the NY DFS or the Operations Monitor were to allege non-compliance with New York laws or regulations, we could become subject to financial penalties or other regulatory action could be taken against us. The Operations Monitor also makes recommendations to Ocwen on various operational and governance matters. If we do not address such recommendations in a manner deemed satisfactory by the Operations Monitor and the NY DFS, we could be subject to additional scrutiny by the Operations Monitor or the NY DFS or other regulatory action could be taken against us.
On January 23, 2015, OLS reached an agreement with the CA DBO, which resulted in the CA DBO withdrawing its notice of hearing to suspend OLS’s license in California. Under the terms of the Consent Order, OLS paid the CA DBO a penalty of $2.5 million plus costs associated with the examination. OLS also agreed to cease acquiring any MSRs for loans secured in California until the CA DBO is satisfied that OLS can satisfactorily respond to the requests for information and documentation made in the course of a regulatory exam. In addition, in July 2015, the CA DBO selected an independent third-party auditor to assess OLS’s compliance with laws and regulations impacting California borrowers for an initial term of two years, extendable for one year at the discretion of the CA DBO. OLS must pay all reasonable and necessary costs of the CA Auditor. The expenses associated with the CA Auditor have and will

continue to impact us, as the expenses are substantial and we have limited ability to control, monitor or contest the Operation Monitor's charges. The CA Auditor must report periodically on its findings and progress and OLS must submit to the CA DBO a written plan to address and implement corrective measures and address any deficiencies identified by the CA Auditor.

We continue to work cooperatively with the CA Auditor. As part of the CA Auditor's work, from time to time the CA Auditor and the CA DBO have made observations regarding our compliance with various regulations and legal requirements, including the Consent Order. At this time, we believe that we will be able to resolve all matters related to such observations in a constructive manner with the CA DBO, and we are not aware of any issue that we believe will have a material impact on our

financial condition. As part of these observations, the CA DBO has informed us of its position that certain onboarding activities relating to new California originations in 2015 were prohibited by the Consent Order and represent a material breach of the agreement. We disagree with this position. Given that we have already made adjustments to our processes for California originations, the CA DBO has not asked us to make any additional changes to such processes at this time. The CA DBO has also raised similar concerns related to our on-boarding of loans subject to subservicing agreements. The CA DBO is still evaluating this activity as it relates to the Consent Order. The CA DBO has not asked us to cease any subservicing activities, and these activities are not material to our overall operations. However, it is possible that the CA DBO could determine to take action against us, which could subject us to financial penalties or other regulatory action, and it is possible that the CA Auditor or the CA DBO could allege that other activities do not comply with California laws or regulations, which could also result in regulatory action against us.

In February 2014, the Ocwen National Mortgage Settlement involving the CFPB and the NMS Regulators was finalized by a consent order entered by the United States District Court for the District of Columbia (District Court). The settlement related to various allegations regarding deficient mortgage servicing practices, including those with respect to foreclosures.

We are tested on a quarterly basis on various metrics to ensure compliance with the Ocwen National Mortgage Settlement. These metrics relate to various aspects of our servicing business, and each has a proscribed error threshold. These metrics are tested by the IRG, a dedicated group of Ocwen employees who do not report to the servicing business. The IRG reports its findings to the professional firms employed by OMSO. OMSO has ultimate authority to accept or reject the IRG’s findings, and OMSO reports its findings to the District Court.

Exceeding the metric error rate threshold for the first time does not result in a violation of the settlement, but rather it is deemed a “potential violation” which then is subject to a cure period. Any potential violation requires us to submit a CAP to OMSO for approval and review, and all testing for that metric is suspended until the CAP is completed. Following the completion of the CAP, testing on that metric resumes by the IRG and any further fails in the cure period or the quarter following that cure period would subject us to financial penalties. These penalties start at an amount of not more than $1.0 million for the first uncured violation and increase to an amount of not more than $5.0 million for the second uncured violation.

To date, OMSO’s reports have found six metrics where our testing has exceeded the applicable error rate threshold. Each of those metrics has been the subject of an agreed-upon CAP, and one of those potential fails have been deemed “cured” by OMSO as subsequent testing has not exceeded the metric error rate threshold. The remainder of the metrics are either still under CAPs or the post-cure testing has yet to be validated by OMSO. Moreover, we agreed with OMSO to deem an additional five metrics as having failed due to the letter-dating issues that were raised by the NY DFS in 2014, as the testing of those metrics could have been affected by that issue. Those metrics are subject to a “global CAP” that covers all letter-dating issues under the Ocwen National Mortgage Settlement, in addition to any metric-specific CAP plan. It is also possible that if we are found to have caused borrower harm, we would be subject to costs to remediate that harm. In addition, in the event that there were widespread metric failures, it is possible that OMSO or the District Court could determine that we were generally violating the settlement and seek to impose a broader range of financial, injunctive or other penalties on us.

In December 2014, OMSO identified two issues involving our compliance with the Ocwen National Mortgage Settlement. The first concerned the adequacy and independence of our IRG, which is responsible for reporting on our compliance with the settlement. The second concerned the letter-dating issues discussed above. OMSO’s reports since then have identified the steps that we have taken to remediate these issues and acknowledged Ocwen’s cooperation. OMSO has recently reported that Ocwen’s IRG appears to be operating in conformity with the National Mortgage Settlement, and noted that the letter-dating issues are subject to the global CAP discussed above.

We continue to work cooperatively with OMSO on ongoing testing and CAPs. While, to date, these issues have not resulted in financial or other penalties, if we are found to have breached the Ocwen National Mortgage Settlement, we could become subject to financial penalties or other regulatory action could be taken against us.

In April 2014, we received a letter from the staff of the New York Regional Office of the SEC (the Staff) informing us that it was conducting an investigation relating to Ocwen and making a request for voluntary production of documents and information relating to the April 2014 surrender of certain options to purchase our common stock by Mr. Erbey,

our former Executive Chairman, including the 2007 Equity Incentive Plan and the related option grant and surrender documents. In June 2014, we received a subpoena from the SEC requesting production of various documents relating to our business dealings with Altisource, HLSS, AAMC and Residential and the interests of our directors and executive officers in these companies. Following our announcement in August 2014 that we intended to amend our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, we received an additional subpoena in September 2014 in relation to such amendments. In addition, we received a further subpoena in November 2014 requesting certain documents related to Ocwen's agreement with Southwest Business Corporation, and related to Mr. Erbey's approvals for specifically enumerated board actions. We cooperated with the SEC in its investigation.

On January 20, 2016, the SEC entered an administrative order resolving its investigation, which required Ocwen to pay, without admitting or denying liability, a $2.0 million civil money penalty and consent to the entry of an administrative order requiring that we cease and desist from any violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and certain related SEC rules promulgated thereunder. We had previously disclosed in our Form 10-Q for the quarter ended September 30, 2015 that we had reached this resolution in principle with the SEC staff and that we had accrued $2.0 million as of September 30, 2015.

Separately, on February 10, 2015, we received a letter from the Staff informing us that it was conducting an investigation relating to the use of collection agents by mortgage loan servicers. The letter requested that we voluntarily produce documents and information. We believe that the February 10, 2015 letter was also sent to other companies in the industry. On February 11, 2016, we received a letter from the Staff informing us that it was conducting an investigation relating to fees and expenses charged in connection with liquidated loans and REO properties held in non-agency RMBS trusts. The letter requested that we voluntarily produce documents and information. We are cooperating with the Staff on these matters.

In addition to the above matters, our loan origination and servicing businesses require one or more licenses in the various jurisdictions in which we operate. Our licensed entities are required to renew their licenses, typically on an annual basis, and to do so they must satisfy the license renewal requirements of each jurisdiction, which in some cases include the requirement to provide audited financial statements as well as other financial and non-financial requirements. Last year, our licensed entities did not satisfy the requirements for timely provision of financial statements due to the delay in finalizing the audits for the 2014 fiscal years of these entities.

The same agencies that issue licenses to us engage in regular supervisory examinations of the licensable activities. We are also subject to supervision by the CFPB at the federal level, and it similarly has the authority to conduct regulatory examinations of us, in addition to its enforcement and investigatory powers. We are currently in receipt of three Civil Investigative Demands from the CFPB seeking information about our servicing practices. If the CFPB were to bring an enforcement action against us, the resolutions of such action could have a material adverse impact on our business, reputation, financial condition and results of operations. Regulatory examinations are part of our ordinary course business activities, and the mere existence of an examination is not typically indicative of anything unusual or material as to that business. We also receive information requests and other inquiries, both formal and informal in nature, from these agencies as part of their general regulatory oversight of our origination and servicing businesses. We have in the past resolved, and may in the future resolve, matters via consent orders or payment of monetary amounts to settle issues identified in connection with examinations or other regulatory oversight activities.

We also have regular engagements with not only our state financial regulators, but also the attorneys general in the various states and the CFPB to address such matters as individual borrower complaints that they bring to our attention, or to respond to information requests and other inquiries. On occasion, we also engage with U.S. attorneys. Many of these matters are brought to our attention as a complaint that the entity is investigating, although some are formal investigations or proceedings. We are currently in receipt of a Civil Investigative Demand from the Massachusetts Attorney's General Office and two subpoenas from the Office of the United States Attorney for the District of Massachusetts seeking information about our servicing practices.

To the extent that an examination, monitorship, audit or other regulatory engagement results in an alleged failure by us to comply with applicable law, regulation or licensing requirement, or if allegations are made that we have failed to comply with the commitments we have made in connection with our regulatory settlements (including commitments under any corrective action plans under such settlements) or if other regulatory actions of a similar or different nature are taken in the future against us, this could lead to (i) loss of our licenses and approvals to engage in our servicing and lending businesses, (ii) governmental investigations and enforcement actions, (iii) administrative fines and penalties and litigation, (iv) civil and criminal liability, including class action lawsuits, (v) breaches of covenants or representations under our servicing, debt or other agreements, (vi) inability to raise capital and (vii) inability to execute on our business strategy. Any of these occurrences could increase our operating expenses and reduce our revenues, hamper our ability to grow or otherwise materially and adversely affect our business, reputation, financial condition and results of operations.

Our regulatory settlements and public allegations regarding our business practices by regulators and other third parties may affect other regulators' and rating agencies' perceptions of us and may increase our operating expenses.

Our regulatory settlements and public allegations regarding our business practices by regulators and other third parties may affect other regulators' and rating agencies' perceptions of us. As a result, our ordinary course interactions with regulators may be adversely affected. We may incur additional compliance costs and management time may be diverted from other aspects of our business to address regulatory issues. It is possible that we may incur fines or penalties or even that we could lose the licenses and approvals necessary to engage in our servicing and lending businesses.

Our regulatory settlements have significantly impacted our ability to grow our servicing portfolio or maintain its size.

Our servicing portfolio naturally decreases over time as homeowners make regularly scheduled mortgage payments, loans are prepaid prior to maturity, refinanced with a mortgage loan not serviced by us or involuntarily liquidated through foreclosure or other liquidation process. Our ability to maintain the size of our servicing portfolio depends on our ability to acquire the right to service or subservice additional pools of mortgage loans or to originate additional loans for which we retain the MSRs.

Our regulatory settlements have significantly impacted our ability to grow our servicing portfolio because we have agreed to restrictions in our consent orders with the NY DFS and CA DBO that effectively prohibit future acquisitions of servicing until we have satisfied the respective conditions in those consent orders. Under the NY DFS consent order, we may acquire MSRs upon (a) meeting benchmarks specified by the Operations Monitor relating to our boarding process for newly acquired MSRs and our ability to adequately service newly acquired MSRs and our existing loan portfolio, and (b) the NY DFS's approval, not to be unreasonably withheld. Under the CA DBO consent order, we agreed to cease acquiring any additional MSRs for loans secured in California until the CA DBO is satisfied that OLS can satisfactorily respond to the requests for information and documentation made in the course of a regulatory exam. If we are unable to satisfy these conditions, we will be unable to grow or even maintain the size of our servicing portfolio through acquisitions.

If we are unable to respond effectively to routine regulatory examinations, our business and financial conditions may be adversely affected.

Regulatory examinations by state and federal regulators are part of our ordinary course business activities. If we are unable to respond effectively to routine regulatory examinations, our business and financial conditions may be adversely affected. For example, our consent order with the CA DBO arose out of a failure to respond adequately to requests from the CA DBO as part of a routine regulatory examination. If, in the future, we fail to respond effectively to routine regulatory examinations, we may incur fines or penalties or we could lose the licenses and approvals necessary to engage in our servicing and lending businesses. We could also suffer from reputational harm and become subject to private litigation.

The enactment of the Dodd-Frank Act has impacted our business and may continue to do so, and new rules and regulations or more stringent interpretations of existing rules and regulations by the CFPB could result in increased compliance costs and, potentially, regulatory action against us.

The Dodd-Frank Act constituted a sweeping reform of the regulation and supervision of financial institutions, including mortgage servicing, origination, sales and securitization. Among other things, the Dodd-Frank Act created the CFPB, a new federal entity responsible for regulating consumer financial services. We have devoted substantial resources and incurred significant compliance costs responding to the Dodd-Frank Act and rules and regulations issued thereunder, and we expect to continue to do so.

The CFPB is charged, in part, with enforcing laws involving consumer financial products and services, including loan servicing and origination, and is empowered with examination and rule-making authority. While the CFPB's rule-making and regulatory agenda relating to loan servicing and origination continues to evolve, to date it is apparent that the CFPB has taken a very active role, including but not limited to, the issuance of new servicing and origination rules that went into effect in 2014.

Regulations promulgated under the Dodd-Frank Act or by the CFPB and actions by the CFPB could materially and adversely affect the manner in which we conduct our businesses, result in heightened federal regulation and oversight of our business activities, and in increased costs and potential litigation associated with our business activities. Our failure to comply with the laws, rules or regulations to which we are subject, whether actual or alleged, would expose us to fines, penalties or potential litigation liabilities, including costs, settlements and judgments, any of which could have a material adverse effect on our business, financial position, results of operations or cash flows.

Private legal proceedings and related costs alleging failures to comply with applicable laws or regulatory requirements could adversely affect our financial condition and results of operations.

We are subject to various pending private legal proceedings, including purported class actions, challenging whether certain of our loan servicing practices and other aspects of our business comply with applicable laws and regulatory

requirements. In the future, we are likely to become subject to other private legal proceedings alleging failures to comply with applicable laws and regulations, including purported class actions, in the ordinary course of our business. While we do not currently believe that the resolution of the vast majority of these proceedings will have a material adverse effect on our financial condition or results of operations, we cannot express a view with respect to all of these proceedings. The outcome of any pending legal matter is never certain, and it is possible that adverse results in private legal proceedings could materially and adversely affect our financial results and operations.

Non-compliance with laws and regulations could lead to termination of servicing agreements or defaults under our debt agreements.

Most of our servicing agreements and debt agreements contain provisions requiring compliance with applicable laws and regulations. While the specific language in these agreements takes many forms and materiality qualifiers are often present, if we fail to comply with applicable laws and regulations, we could be terminated as a servicer and defaults could be triggered under our debt agreements, which could materially and adversely affect our revenues, cash flows, liquidity, business and financial condition.

Regulatory scrutiny regarding foreclosure processes has lengthened foreclosure timelines, and new laws and regulations regarding foreclosure procedures could result in additional compliance requirements or result in regulatory actions against us, which could increase our operating costs, negatively affect our liquidity and adversely affect our reputation, financial condition and results of operations.

In connection with continuing regulatory scrutiny of foreclosure processes and practices in the industry, some jurisdictions have enacted laws and adopted procedures that have had the effect of increasing the time that it takes to complete a foreclosure in such jurisdictions. In addition, several state banking regulators and state attorneys general have publicly announced that they have initiated inquiries into banks and servicers regarding compliance with legal procedures in connection with mortgage foreclosures, including the preparation, execution, notarization and submission of documents, principally affidavits, filed in connection with foreclosures.

When a mortgage loan is in foreclosure, we are generally required to continue to advance delinquent principal and interest to the securitization trust and to make advances for delinquent taxes and insurance and foreclosure costs and the upkeep of vacant property in foreclosure to the extent that we determine that such amounts are recoverable. These servicing advances are generally recovered when the delinquency is resolved. Regulatory actions that lengthen the foreclosure process will increase the amount of servicing advances that we are required to make, lengthen the time it takes for us to be reimbursed for such advances and increase the costs incurred during the foreclosure process.

Increased regulatory scrutiny and new laws and procedures could cause us to adopt additional compliance measures and incur additional compliance costs in connection with our foreclosure processes. We may incur legal and other costs responding to regulatory inquiries or any allegation that we improperly foreclosed on a borrower. We could also suffer reputational damage and could be fined or otherwise penalized if we are found to have breached regulatory requirements.

FHFA and GSE initiatives and other actions may affect mortgage servicing generally and future servicing fees in particular.

In 2011, Freddie Mac and Fannie Mae each issued their Servicing Alignment Initiative as directed by the FHFA. The Servicing Alignment Initiative established new requirements primarily related to loss mitigation processes, including servicer incentives and compensatory fees that could be charged to servicers based on performance against benchmarks for various metrics. Through our servicing relationship with Freddie Mac and Fannie Mae, we have exposure to such compensatory fees and have been subject to such fees in connection with certain of our serviced loans. These compensatory fees have increased the costs and risks associated with servicing Freddie Mac or Fannie Mae non-performing loans and it is possible that such increases could materially and adversely affect our financial condition and results of operations. Moreover, due to the significant role Fannie Mae and Freddie Mac play in the secondary mortgage market, it is possible that compensatory fee requirements and similar initiatives that they implement could become prevalent in the mortgage servicing industry generally. Other industry stakeholders or regulators may also implement or require changes in response to the perception that current mortgage servicing practices and compensation do not serve broader housing policy objectives well. To the extent that FHFA and/or the GSEs implement reforms that materially affect the market for conventional and/or government-insured loans, there may also be indirect effects on the subprime and Alt-A markets, which could include material adverse effects on the creation of new mortgage servicing rights, the economics or performance of any mortgage servicing rights that we acquire, servicing fees that we can charge and costs that we incur to comply with new servicing requirements.

Federal and state legislative and GSE initiatives in residential mortgage-backed securities, or RMBS, and securitizations may adversely affect our financial condition and results of operations.

There are federal and state legislative and GSE initiatives that could, once fully implemented, adversely affect our loan origination business and secured asset financing arrangements. For instance, the risk retention requirement under the Dodd-Frank Act requires securitizers to retain a minimum beneficial interest in RMBS they sell through a securitization, absent certain qualified residential mortgage (QRM) exemptions. Once implemented, the risk retention requirement may result in higher costs of certain lending operations and impose on us additional compliance requirements to meet servicing and originations criteria for QRMs. Additionally, the amendments to Regulation AB relating to registration statement required to be filed by issuers of asset-backed securities (ABS) adopted by the SEC pursuant to the Dodd-Frank Act and other amendments to such regulations and other relevant regulations have increased and may further increase compliance costs for ABS issuers, such as ourselves, which will in turn increase our cost of funding and operations.

Changes to government loan modification and refinance programs may adversely affect future revenues.
Under government loan modification and refinance programs such as HAMP and the Home Affordable Refinance Program (HARP), a participating servicer may be entitled to receive financial incentives in connection with modification plans it enters into with eligible borrowers and subsequent pay for success fees to the extent that a borrower remains current in any agreed upon loan modification. HAMP and HARP have been significant drivers of our servicing and origination revenue. Changes to current programs such as HAMP or HARP or future federal, state or local legislative or regulatory actions that result in changes to the requirements necessary to qualify for government loan modification and refinance programs, or the financial incentives available to us from such programs, may impact the extent to which we participate in and receive financial benefits from such programs or may increase our operating costs and the expense of participation in such programs, any of which may have a material adverse effect on our business. In addition, because these programs have been operational for a number of years, the number of loans that may be modified or refinanced has significantly decreased. HAMP fees accounted for $135.0 million of servicing revenues in 2015, or 8% of total Servicing revenues for the year. We originated loans with a total UPB of approximately $786.0 million through the HARP program in 2015, which represented approximately 20% of total forward loan originations for the year. HARP and HAMP are scheduled to expire on December 31, 2016. If HAMP or HARP is not extended, if our participation in government programs such as HAMP or HARP decreases, or if the financial benefits from such programs decrease, our revenues will be adversely affected, which could adversely affect our business, financial condition and results of operations.
If we fail to comply with the new TILA-RESPA Integrated Disclosure (TRID) rules, our business and operations could be materially and adversely affected and our plans to expand our lending business could be adversely impacted.
On October 3, 2015, the CFPB implemented new loan disclosure requirements to consolidate and revamp TILA and RESPA disclosures intended to help consumers better understand the key terms of a mortgage and its associated costs and to more easily compare different loan offers and avoid costly surprises at the closing table. The TRID rules changed how loan terms and information must be presented to the consumer and added certain waiting periods to allow the consumer to reconsider the loan after the consumer receives the new disclosures. In some cases, the ability of the lender to cure any errors in the TRID disclosures is not explicit in the TRID rules, which is causing some loans to be delayed during processing and causing some uncertainty in the secondary mortgage market. If we fail to comply with the TRID rules, we may be unable to sell loans that we originate or purchase, or we may be required to sell such loans at a discount compared to other loans. We also could be subject to repurchase or indemnification claims from purchasers of such loans, including the GSEs. Additionally, loans might stay on our warehouse lines for longer periods before sale, which would increase our holding costs and interest expense. We could also be subject to regulatory actions or private lawsuits.
We believe that most lenders are facing challenges with respect to TRID implementation, including issues related to data contained in the new TRID forms. Recent reports from third party reviews of other mortgage lenders indicate that some level of TRID non-compliance is evident on approximately 90% of loan files originated under the new regulatory regime. Prevalent non-compliance issues in the industry range from minor, technical errors and timing/waiting period violations to more serious errors such as use of the incorrect forms. As the industry continues to try to adjust to the new requirements, we, like most lenders, have increased pre- and post-closing quality control measures. We also have implemented significant modifications and enhancements to our loan production processes and systems in response to the TRID rules, including pre-closing rejection of defective wholesale loans submitted to us by our broker partners. Many of the common issues with TRID compliance are curable, but as indicated above, the rules have not specified precisely how some other deficiencies should be resolved. Both the CFPB and the GSEs have indicated that the industry is in an indefinite "curative period" and that regulatory enforcement during this period will be remedial in nature and not punitive. Based on the CFPB's informal guidance, regulatory risk currently appears manageable for entities making good faith efforts to comply, provided the violations identified are of a technical nature and do not result in unremediated borrower harm. In addition, directives from Fannie Mae and Freddie Mac suggest that Agency loans are at a low risk of being subjected to post-closing review or contractual repurchase demands for most TRID violations that are being presently identified in the market.

We are conscious that regulators and the GSEs have the ability to revise their positions at any time, and that we will need to re-evaluate our exposure to origination activities as these regulatory rules are clarified. In the current environment, assuming that we continue to use the correct TILA forms, and that we do not complete the forms in such a way as to adversely impact the borrower or to impair the enforceability of mortgage notes, we believe that the risk of significant numbers of Agency loans being rejected for purchase or subject to a repurchase demand for a TRID error should be low. Furthermore, HUD guidance suggests the same is true with respect to FHA-insured mortgage loans. On the other hand, if we cause un-remediated borrower harm, impair the enforceability of the mortgage note or take other actions that constitute significant violations of the TRID rules, we could become subject to regulatory action, we may not be able to sell our loans and we could become subject to repurchase demands on sold loans.

As regulatory guidance and enforcement and the views of the GSEs develop, we may need to modify further our loan production processes and systems in order to adjust to evolution in the regulatory landscape. In such circumstances, if we are

unable to make the necessary adjustments, our business and operations could be adversely affected and we may not be able to execute on our plans to grow our lending business.

There are additional disclosure and other regulatory requirements in connections with originating non-Agency loans. If we fail to comply with these requirements our business and operations could be materially and adversely affected. This risk will be magnified to the extent we execute on our plans to expand our originations of non-GSE loans.

Non-Agency loans originated or purchased by Homeward may include higher interest rates than GSE loans. Originating or purchasing such loans would require additional Higher Priced Mortgage Loan (HPML) disclosures, which would be subject to regulatory oversight. These HPML loans will not qualify for the GSE QM safe harbor and instead must comply independently with ability-to-repay (ATR) underwriting requirements. These HPML loans will continue to be underwritten as QM loans, but the lender will only be entitled to a “rebuttable presumption” that a loan satisfies the QM requirements, and a borrower will be permitted to challenge the QM classification. If we fail to comply with the disclosure and other regulatory requirements relating to originating and purchasing non-Agency loans, our business and operations could be materially and adversely affected. This risk will be magnified to the extent we execute on our plans to expand our originations of non-GSE loans.

There may be material changes to the laws, regulations, rules or practices applicable to reverse mortgage programs sponsored by HUD and FHA, and securitized by Ginnie Mae, which could materially and adversely affect the reverse mortgage industry as a whole.

The reverse mortgage industry is largely dependent upon rules and regulations implemented by HUD, FHA and Ginnie Mae. There can be no guarantee that HUD/FHA will retain Congressional authorization to continue the Home Equity Conversion Mortgage (HECM) program, which provides FHA government insurance for qualifying HECM loans, or that they will not make material changes to the laws, regulations, rules or practices applicable to reverse mortgage programs. For example, HUD recently implemented certain lending limits for the HECM program, and added credit-based underwriting criteria designed to assess a borrower’s ability and willingness to satisfy future tax and insurance obligations. In addition, Ginnie Mae’s participation in the reverse mortgage industry may be subject to economic and political changes that cannot be predicted. Any of the aforementioned circumstances could materially and adversely affect the performance of our reverse mortgage business and the value of our common stock.

Violations of predatory lending and/or servicing laws could negatively affect our business.

Various federal, state and local laws have been enacted that are designed to discourage predatory lending and servicing practices. The federal Home Ownership and Equity Protection Act of 1994 (HOEPA) prohibits inclusion of certain provisions in residential loans that have mortgage rates or origination costs in excess of prescribed levels and requires that borrowers be given certain additional disclosures prior to origination. Some states have enacted, or may enact, similar laws or regulations, which in some cases impose restrictions and requirements greater than are those in HOEPA. In addition, under the anti-predatory lending laws of some states, the origination of certain residential loans, including loans that are not classified as “high cost” loans under HOEPA or other applicable law, must satisfy a net tangible benefits test with respect to the related borrower. This test may be highly subjective and open to interpretation. As a result, a court may determine, for example, that a residential loan does not meet the test even if the related originator reasonably believed that the test was satisfied. A failure by us to comply with these laws, to the extent we originate, service or acquire residential loans that are non-compliant with HOEPA or other predatory lending or servicing laws, could subject us, as an originator or a servicer, or as an assignee, in the case of acquired loans, to monetary penalties and could result in the borrowers rescinding the affected loans. Lawsuits have been brought in various states making claims against originators, servicers and assignees of high cost loans for violations of state law. Named defendants in these cases have included numerous participants within the secondary mortgage market. If we are found to have violated predatory or abusive lending laws, defaults could be declared under our debt or servicing agreements, we could suffer reputational damage, and we could incur losses, any of which could materially and adversely impact our business, financial condition and results of operations.

The S.A.F.E. Act may adversely affect our business.

The Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (the S.A.F.E. Act) requires the individual licensing and registration of those engaged in the business of loan origination. The S.A.F.E. Act is designed to improve accountability on the part of loan originators, combat fraud and enhance consumer protections by

encouraging states to establish a national licensing system and minimum qualification requirements for applicants. Thus, Ocwen must ensure proper licensing for all employees who participate in certain specified loan origination activities. Failure to strictly comply with the S.A.F.E. Act licensing requirements could adversely impact Ocwen's origination business.

Risks Relating to Our Business

There can be no assurance that our strategies to return to profitability will be successful.

We have incurred losses for the past two years. Accordingly, we have taken a number of actions to increase our financial flexibility, simplify our servicing operations, increase our lending activity and stabilize our relationships with key counterparties.

We have largely executed on our previously announced strategy to sell certain of our Agency MSRs with the intent of reducing our exposure to interest rate movements, monetizing significant unrealized value and generating significant liquidity. During 2015, we sold Agency MSRs with approximately $87.6 billion of UPB, and our residential servicing portfolio declined to $251.0 billion at December 31, 2015 from $398.7 billion at December 31, 2014, reflecting both MSR sales and routine run off. We anticipate that the reduction in the size of our Agency servicing portfolio will also simplify our operations and improve our margins over time.

Largely as a result of these sales, our servicing revenues have declined and have not been offset by a corresponding decrease in expenses. In order to return to profitability, we have undertaken a cost improvement initiative intended to align our expenses with our reduced revenue profile. The primary areas in which we expect to generate cost reductions are servicing operations, professional services and technology costs. While we are targeting expense reductions in certain areas, we expect to continue to invest in select areas including enhancing the customer experience, strengthening our risk and compliance infrastructure and delivering strong loss mitigation results.

We are also investing in our forward and reverse lending businesses and will continue to evaluate new adjacent market opportunities that are consistent with our strategic goals, such as providing secured floor plan lending to used car dealerships through our ACS venture and providing financing to investors to purchase single family homes and apartments for lease through our Liberty Rental Finance venture. Our new ventures involve risks and uncertainties, including potential difficulties integrating new lines of business into our current infrastructure, the inability to achieve the expected financial results in a reasonable time frame, implementing and maintaining consistent standards, controls, policies and information systems, and diversion of management’s attention from other business matters. Further, our strategic initiatives could be impacted by factors beyond our control, such as general economic conditions and increased competition. The diversion of management’s attention and any delays or difficulties encountered in implementing our new strategic initiatives could negatively impact our business and results of operations. Further, the economic benefits that we anticipate from these strategic initiatives may not develop.

There can be no assurance that we will be successful in returning to profitability. Our success will depend on market conditions and other factors outside of our control as well as successful operational execution. If we continue to experience losses, our share price, business, reputation, financial condition and results of operations could be materially and adversely affected. We could also be forced to sell assets such as additional MSRs, which would reduce future revenues.

An economic slowdown or a deterioration of the housing market could increase both interest expense on servicing advances and operating expenses and could cause a reduction in income from, and the value of, our servicing portfolio.

An economic slowdown or a deterioration of the housing market could increase both interest expense on servicing advances and operating expenses and could cause a reduction in income from, and the value of, our servicing portfolio.

During any period in which a borrower is not making payments, we are required under most of our servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for investors, pay property taxes and insurance premiums and process foreclosures. We also advance funds to maintain, repair and market real estate properties on behalf of investors. Most of our advances have the highest standing and are “top of the waterfall” so that we are entitled to repayment from respective loan or REO liquidations proceeds before most other claims on these proceeds, and in the majority of cases, advances in excess of respective loan or REO liquidation proceeds may be recovered from pool level proceeds. Consequently, the primary impact of an increase in advances is through increased interest expense as we finance a large portion of servicing advance obligations.

Higher delinquencies also increase our cost to service loans, as loans in default require more intensive effort to bring them current or manage the foreclosure process. An increase in delinquencies may delay the timing of revenue

recognition because we recognize servicing fees as earned, which is generally upon collection of payments from borrowers or proceeds from REO liquidations. An increase in delinquencies also leads to lower balances in custodial and escrow accounts (float balances) and lower net earnings on custodial and escrow accounts (float earnings). Additionally, an increase in delinquencies in our GSE servicing portfolio will result in lower revenue because we collect servicing fees from GSEs only on performing loans.

Foreclosures are involuntary prepayments resulting in a reduction in UPB. This may result in higher amortization expense as well as charges to recognize impairment and declines in the value of our MSRs.

Adverse economic conditions could also negatively impact our lending businesses. For example, during the economic crisis that began in 2007, total U.S. residential mortgage originations volume decreased substantially. Moreover, declining

home prices and increasing loan-to-value ratios may preclude many potential borrowers from refinancing their existing loans. Further, an increase in prevailing interest rates could decrease originations volume.

Any of the foregoing could adversely affect our business, financial condition and results of operations.

If we are unable to obtain sufficient capital to meet the financing requirements of our business, or if we fail to comply with our debt agreements, our business, financing activities, financial condition and results of operations will be adversely affected.

Our business requires substantial amounts of capital and our financing strategy includes the use of leverage. Accordingly, our ability to finance our operations and repay maturing obligations rests in large part on our ability to continue to borrow money. If we are unable to maintain adequate financing, or other sources of capital are not available, we could be forced to suspend, curtail or reduce our operations, which could harm our revenues, results of operations, liquidity, financial condition and business prospects. Our ability to borrow money is affected by a variety of factors including:

- limitations imposed on us by existing lending and similar agreements that contain restrictive covenants that may limit our ability to raise additional debt;
- liquidity in the credit markets;
- the strength of the lenders from whom we borrow;
- lenders' perceptions of us or our sector;
- corporate credit and servicer ratings from rating agencies; and
- limitations on borrowing under our advance facilities and mortgage loan warehouse facilities due to structural features in these facilities and the amount of eligible collateral that is pledged.

In addition, our advance facilities are revolving facilities, and in a typical monthly cycle, we repay up to one-third of the borrowings under these facilities from collections. During the remittance cycle, which starts in the middle of each month, we depend on our lenders to provide the cash necessary to make the advances that we are required to make as servicer. If one or more of these lenders were to restrict our ability to access these revolving facilities or were to fail, we may not have sufficient funds to meet our obligations. We typically require significantly more liquidity to meet our advance funding obligations than our available cash on hand.

Our advance funding facilities are comprised of (i) revolving notes that have a 364-day term, and (ii) term notes with one- and two-year maturities. At December 31, 2015, we had $1.6 billion outstanding under these facilities. The revolving periods for notes with a total committed borrowing capacity of $825.0 million as well as the term of $500.0 million of our one-year term notes end in 2016. In the event we are unable to renew, replace or extend one or more of these advance funding facilities, repayment of the outstanding balances on the revolving and term notes must begin at the end of the applicable revolving period and end of the one-year term, respectively. In addition, we use mortgage loan warehouse facilities to fund newly originated loans on a short-term basis until they are sold to secondary market investors, including GSEs or other third-party investors. All of our master repurchase and participation agreements for financing new loan originations have 364-day terms and mature in 2016, and similar to the revolving notes in the advance funding facilities, they are typically renewed, replaced or extended annually. At December 31, 2015, we had $342.3 million outstanding under these warehouse financing arrangements.

We currently plan to renew, replace or extend all of these debt agreements consistent with our historical experience. There can be no assurance that we will be able to renew, replace or extend all of our debt agreements on appropriate terms or at all and, if we fail to do so, we may not have adequate sources of funding for our business.

Our debt agreements contain various qualitative and quantitative covenants including financial covenants, covenants to operate in material compliance with applicable laws, monitoring and reporting obligations and restrictions on our ability to engage in various activities, including but not limited to incurring additional debt, paying dividends, repurchasing or redeeming capital stock, transferring assets or making loans, investments or acquisitions. As a result of the covenants to which we are subject, we may be limited in the manner in which we conduct our business and may be limited in our ability to engage in favorable business activities or raise additional capital to finance future operations or satisfy future liquidity needs. In addition, breaches or events that may result in a default under our debt agreements include, among other things, noncompliance with our covenants, nonpayment of principal or interest, material misrepresentations, the occurrence of material adverse change, insolvency, bankruptcy, certain material

judgments and changes of control. Covenants and defaults of this type are commonly found in debt agreements such as ours. Certain of these covenants and defaults are open to subjective interpretation and, if our interpretation were contested by a lender, a court may ultimately be required to determine compliance or lack thereof. In addition, our debt agreements generally include cross default provisions such that a default under one agreement could trigger defaults under other agreements. If we fail to comply with our debt agreements and are unable to avoid, remedy or secure a waiver of any resulting default, we may be subject to adverse action by our lenders, including termination of further funding, acceleration of outstanding obligations, enforcement of liens against the assets securing or otherwise supporting our obligations and other legal remedies.

Under a number of scenarios, we currently project that we will breach the consolidated total debt to consolidated tangible net worth ratio financial covenant under our Senior Secured Term Loan (SSTL) during 2016, depending upon the decrease in our net worth resulting from losses in the year, the impact of higher debt balances under our warehouse lines from expansion of our lending business and movements in interest rates, among other factors. In order to avoid an event of default arising from a covenant breach, we intend to repay, refinance or amend the SSTL prior to September 30, 2016, assuming we continue to project any covenant compliance issues based on our ongoing business performance. There are a number of actions we could take in terms of how we run our business that will impact our covenant compliance under the SSTL, including reducing our efforts to expand our lending business, reducing our planned investment in our ACS business and reducing the debt balances on our warehouse lines or paying down other debt. Alternately, in addition to the above-mentioned options for the SSTL, we have an ability to increase our tangible net worth by issuing common or preferred equity. In the event we are not successful in completing these or other actions, we would likely be in default under the SSTL. Our ability to execute upon any planned course of action may be impacted by developments outside of our control such as developments in debt and equity capital markets. In such circumstances, the SSTL lenders could accelerate our outstanding obligations under the SSTL and enforce their liens on the collateral securing the SSTL. An event of default under the SSTL would trigger cross-defaults under other debt agreements meaning that the lenders under those facilities could accelerate outstanding obligations under those facilities and enforce any liens on the collateral securing such facilities. Accordingly, an event of default or acceleration of obligations under the SSTL would have a material adverse effect on our business operations and financial condition.

An actual or alleged default under the SSTL or any of our other debt agreements, further negative ratings action by a rating agency, the perception of financial weakness, an adverse action by a regulatory authority or GSE, a lengthening of foreclosure timelines or a general deterioration in the economy that constricts the availability of credit may increase our cost of funds and make it difficult for us to renew existing credit facilities or obtain new lines of credit. Any or all of the above could have an adverse effect on our business, financing activities, financial condition and results of operations.

We may be unable to obtain sufficient servicer advance financing necessary to meet the financing requirements of our business, which could adversely affect our liquidity position and result in a loss of servicing rights.

We currently fund a substantial portion of our servicing advance obligations through our servicing advance facilities. Under normal market conditions, mortgage servicers typically have been able to renew or refinance these facilities. However, during the economic crisis that began in 2007, there were periods of time when some mortgage servicers were unable to renew these facilities. Borrowing conditions have improved since that time; however, market conditions or the markets or lenders' perceptions of us at the time of any renewal or refinancing may mean that we are unable to renew or refinance our advance financing facilities or obtain additional facilities on favorable terms or at all.

We are dependent on NRZ for a substantial portion of our advance financing for non-Agency MSRs.

As part of our asset-light strategy, we have sold Rights to MSRs, including the associated servicing advance obligation, to NRZ. Consequently, we are dependent upon NRZ for financing of the servicing advance obligations for MSRs where we are the servicer. NRZ currently uses advance financing facilities in order to fund a substantial portion of the servicing advances that it is contractually obligated to make pursuant to our agreements with NRZ. As of December 31, 2015, we serviced loans with an outstanding UPB of approximately $137.1 billion for which the Rights to MSRs have been sold to NRZ. The associated outstanding servicing advances as of such date were approximately $5.2 billion. Should NRZ's advance financing facilities fail to perform as envisaged or should NRZ otherwise be unable to meet its advance financing obligations, our liquidity, financial condition and business could be materially and adversely affected because, as the named servicer, we are contractually required under our servicing agreements to make the relevant servicing advances even if NRZ does not perform its contractual obligations to fund those advances.

Although we are not an obligor or guarantor under NRZ's advance financing facilities, we are a party to certain of the facility documents as the servicer of the underlying loans on which advances are being financed. As the servicer, we make certain representations, warranties and covenants, including representations and warranties in connection with our sale of advances to NRZ. If we were to make representations or warranties that were untrue or if we were

otherwise to fail to comply with our contractual obligations, we could become subject to claims for damages or events of default under such facilities could be asserted. In early 2015, a purported owner of notes issued by an NRZ advance financing facility asserted that events of default had occurred under the indenture governing those notes based on alleged failures by us to comply with applicable laws and regulations and the terms of the servicing agreement to which the applicable servicing advances relate. While we vigorously defended ourselves against these allegations, and the assertions were resolved with a finding that there was no event of default under the indenture, it is possible that claims alleging non-compliance with our contractual obligations under these facilities could be made in the future, which could also materially and adversely affect us. Even if such claims are without merit, we could be forced to expend significant resources and devote significant management time to responding to such claims, which in and of itself could materially and adversely impact our financial condition and results of operations.

A downgrade in our servicer ratings could have an adverse effect on our business, financing activities, financial condition or results of operations.
S&P, Moody’s, Fitch and Morningstar rate us as a mortgage servicer. Downgrades in servicer ratings could adversely affect our ability to finance servicing advances and maintain our status as an approved servicer by Fannie Mae and Freddie Mac. The servicer rating requirements of Fannie Mae do not necessarily require or imply immediate action, as Fannie Mae has discretion with respect to whether we are in compliance with their requirements and what actions it deems appropriate under the circumstances in the event that we fall below their desired servicer ratings.
In addition, out of approximately 3,979 non-Agency servicing agreements, approximately 745 with $40.1 billion of UPB as of December 31, 2015 have minimum servicer ratings criteria. As a result of downgrades in our servicer ratings, termination rights have been triggered in 664 of these non-Agency servicing agreements. This represents approximately $34.3 billion in UPB as of December 31, 2015, or approximately 18.3% of our total non-Agency servicing portfolio. Under 264 of the 664 triggered agreements, trustees and master servicers have sent notices to investors indicating that they did not currently intend to take action relating to the termination rights. In addition, in connection with 66 of the triggered agreements, the trustee or master servicer sent solicitation notices to investors asking whether or not the investor wanted to direct the trustee or master servicer to terminate Ocwen as servicer. The trustee or master servicer has announced results for 47 of the solicitations: 43 resulted in no direction to terminate and four resulted in the termination of Ocwen as servicer in early 2015 due to rating downgrades. The 264 notices regarding no action at this time and the 43 solicitations resulting in no direction to terminate us as servicer represent approximately $19.6 billion in UPB as of December 31, 2015, or approximately 57.1% of the UPB of the non-Agency servicing agreements with triggered termination rights. Pursuant to our servicing agreements, generally we are entitled to payment of accrued and unpaid servicing fees through termination as well as all advances and certain other previously unreimbursed amounts, although we lose the future servicing fee revenue. While the financial impact of the termination of servicing under these four servicing agreements which was immaterial to our overall financial condition, as it represented only 0.17% of our overall servicing portfolio as of the time of transfer of servicing, we could be subject to further terminations either as a result of recent servicer ratings downgrades or future adverse actions by ratings agencies, which could have an adverse effect on our business, financing activities, financial condition and results of operations.
To the extent that a servicing agreement underlying Rights to MSRs is terminated due to a servicer ratings downgrade, NRZ is entitled to payment equal to a percentage of the purchase price for the related Rights to MSRs. After April 7, 2017, or at any time if it determines in good faith that a trustee intends to exercise termination rights triggered by a servicer rating downgrade under an affected servicing agreement, NRZ may also direct us to use commercially reasonable efforts to transfer servicing under such affected servicing agreement. Following any such transfer, we would no longer be entitled to receive future servicing fee revenue with respect to the transferred servicing agreement.
Our agreements with NRZ provide that if S&P’s downgrades our servicer rating to below “Average” (which it has), we will compensate NRZ for certain increased costs associated with its servicing advance financing facilities, including increased costs of funding, to the extent such costs are the direct result of such downgrade. Any such compensation will continue for a maximum of 12 months and will not exceed $3.0 million for any calendar month or $36.0 million in the aggregate. In such circumstances, NRZ must use commercially reasonable efforts to assist us in curing any potential cost increases by obtaining amendments to the relevant financing agreements. We incurred $14.3 million through December 31, 2015 in connection with this agreement, and will incur costs in connection with this agreement in future periods. We will make additional future payments in connection with this agreement that are currently anticipated to be in the range of $1.5 million to $1.9 million per month through May 2016 (and $1.0 million for June 2016). Actual future payments will vary based on NRZ's outstanding borrowings and movements in applicable floating interest rates, and may be higher than our estimates.
Beginning April 7, 2017, if a termination event related to a servicer rating downgrade is existing under the Master Servicing Rights Purchase Agreement and Sale Supplements we have with NRZ, NRZ will have the right to direct the transfer of servicing with respect to an affected servicing agreement to a replacement servicer that obtains all required third-party consents and licenses. As of the date of this annual report, a termination event relating to a servicer rating downgrade exists because our current servicer rating from S&P is below “Average.” If our servicer rating from S&P is

not upgraded to "Average" or better prior to April 7, 2017, NRZ will have the right to direct the transfer of any affected servicing agreements to a successor servicer that obtains all required third-party consents and licenses. Following any such transfer, we would no longer be entitled to receive future servicing fee revenue with respect to the transferred servicing agreement.

Downgrades in our servicer ratings could also affect the terms and availability of advance financing facilities that we may seek in the future.

Our failure to maintain minimum or specified ratings could adversely affect our dealings with contractual counterparties, including GSEs, and regulators, any of which could have a material adverse effect on our business, financing activities, financial condition and results of operations.

A number of lawsuits have been filed against mortgage loan sellers related to repurchase claims arising out of alleged breaches of representations and warranties, and actions have also been filed against RMBS trustees alleging that the trustees breached their contractual and statutory duties by, among other things, failing to require the loan servicers to abide by the servicers' obligations and failing to declare that certain alleged servicing events of default under the applicable contracts occurred. In addition, RMBS trustees have received notices of default alleging material failures by servicers to comply with applicable servicing agreements.

In several recent court actions, mortgage loan sellers against whom repurchase claims have been asserted based on alleged breaches of representations and warranties are defending on various grounds including the expiration of statutes of limitation, lack of notice and opportunity to cure, and vitiation of the obligation to repurchase as a result of foreclosure or charge off of the loan. We have entered into tolling agreements with respect to our role as servicer for a small number of securitizations and may enter into additional tolling agreements in the future. Other court actions have been filed against certain RMBS trustees alleging that the trustees breached their contractual and statutory duties by, among other things, failing to require the loan servicers to abide by the servicers' obligations and failing to declare that certain alleged servicing events of default under the applicable contracts occurred.

Ocwen is a third-party defendant in certain of these actions, is the servicer for certain securitizations involved in other such actions and is the servicer for other securitizations as to which actions have been threatened by certificate holders. We intend to vigorously defend ourselves in the lawsuits to which we have been named a party. Should Ocwen be made a party to other similar actions or should Ocwen be asked to indemnify any parties to such actions, we may need to defend allegations that we failed to service loans in accordance with applicable agreements and that such failures prejudiced the rights of repurchase claimants against loan sellers or otherwise diminished the value of the trust collateral. We believe that any such allegations would be without merit and, if necessary, would vigorously defend against them. At this time, we are unable to predict the ultimate outcome of these lawsuits, the possible loss or range of loss, if any, associated with the resolution of these lawsuits or any potential impact they may have on us or our operations. If, however, we were required to compensate claimants for losses related to the alleged loan servicing breaches, then our business, financial condition and results of operations could be adversely affected.

In addition, a number of RMBS trustees have received notices of default alleging material failures by servicers to comply with applicable servicing agreements. For example, in late January 2015, certain investors claiming to hold at least 25% ownership interest in 119 RMBS trusts serviced by Ocwen have submitted to the respective trustees of those trusts a Notice of Non-Performance, alleging that we have materially breached our obligations under the servicing agreements in those trusts. The Notice further alleged that our conduct, if not timely cured, would give rise to events of default under the applicable servicing agreements, on the basis of which we could potentially be terminated as servicer for the 119 Trusts. Ocwen denies the allegations in the Notice and intends to continue vigorously rebutting them. Since the Notice was issued, Ocwen has been directed by the trustee for two of the RMBS trusts to transfer its servicing to another loan servicing company based on ratings downgrades. There is a risk that Ocwen could be replaced as servicer on the remaining trusts at issue in the Notice, that the trustees could take legal action on behalf of the trust certificateholders, or, under certain circumstances, that the investors who issued the Notice could seek to press their allegations against Ocwen, independent of the trustees. We are unable at this time to predict what, if any, actions the trustees will take in response to the Notice, nor can we predict at this time the potential loss or range of loss, if any, associated with the resolution of the Notice or the potential impact on our operations. If Ocwen were to be terminated as servicer, or other related legal actions were pursued against Ocwen, it could have an adverse effect on Ocwen's business, financing activities, financial condition and results of operations.

A significant increase in prepayment speeds could adversely affect our financial results.

Prepayment speed is a significant driver of our business. Prepayment speed is the measurement of how quickly borrowers pay down the UPB of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. Prepayment speeds have a significant impact on our servicing fee revenues, our expenses and on the valuation of our MSRs as follows:

- Revenue. If prepayment speeds increase, our servicing fees will decline more rapidly than anticipated because of the greater decrease in the UPB on which those fees are based. The reduction in servicing fees would be somewhat offset by increased float earnings because the faster repayment of loans will result in higher float balances that generate the

float earnings. Conversely, decreases in prepayment speeds result in increased servicing fees but lead to lower float balances and float earnings.

- Expenses. Amortization of MSRs is one of our largest operating expenses. Since we amortize servicing rights in proportion to total expected income over the life of a portfolio, an increase in prepayment speeds leads to increased amortization expense as we revise downward our estimate of total expected income. Faster prepayment speeds also result in higher compensating interest expense, which represents the difference between the full month of interest we are required to remit in the month a loan pays off and the amount of interest we actually collect from the borrower for

that month. Decreases in prepayment speeds lead to decreased amortization expense as the period over which we amortize MSRs is extended. Slower prepayment speeds also lead to lower compensating interest expense.

- Valuation of MSRs. We base the price we pay for MSRs and the rate of amortization of those rights on, among other things, our projection of the cash flows from the related pool of mortgage loans. Our expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speeds were significantly greater than expected, the carrying value of our MSRs that we account for using the amortization method could exceed their estimated fair value. When the carrying value of these MSRs exceeds their fair value, we are required to record an impairment charge, which has a negative impact on our financial results. Similarly, if prepayment speeds were significantly greater than expected, the fair value of our MSRs, which we carry at fair value, could decrease. When the fair value of these MSRs decreases, we record a loss on fair value, which also has a negative impact on our financial results.

If we do not comply with our obligations under our servicing agreements or if others allege non-compliance, our business and results of operations may be harmed.

We have contractual obligations under the servicing agreements pursuant to which we service mortgage loans. Many of our servicing agreements require adherence to general servicing standards, and certain contractual provisions delegate judgment over various servicing matters to us. Our servicing practices, and the judgments that we make in our servicing of loans, could be questioned by parties to these agreements, such as trustees or master servicers, or by investors in the trusts which own the mortgage loans or other third parties.

In addition, OLS, Homeward and Liberty are parties to seller/servicer agreements and/or subject to guidelines and regulations (collectively, seller/servicer obligations) with one or more of the GSEs, HUD, FHA, VA and Ginnie Mae. These seller/servicer obligations include financial covenants that include capital requirements related to tangible net worth, as defined by the applicable agency, an obligation to provide audited consolidated financial statements within 90 days of the applicable entity's fiscal year end as well as extensive requirements regarding servicing, selling and other matters. To the extent that these requirements are not met or waived, the applicable agency may, at its option, utilize a variety of remedies including, requirements to deposit funds as security for our obligations, sanctions, suspension or even termination of approved seller/servicer status, which would prohibit future originations or securitizations of forward or reverse mortgage loans or servicing for the applicable agency. Last year, OLS, Homeward and Liberty did not satisfy the requirements for timely filing of financial statements due to the delay in finalizing the audits for the 2014 fiscal years of these entities. To date, none of these agencies has communicated any material sanction, suspension or prohibition in connection with our seller/servicer obligations. We believe we were in compliance with the related net worth requirements at December 31, 2015. Our non-agency servicing agreements also contain requirements regarding servicing practices and other matters, and a failure to comply with these requirements could have an adverse impact on our business.

We could become subject to litigation claims seeking damages or other remedies arising from alleged breaches of our servicing agreements. Third parties have indicated that they might seek to pursue such claims in the future. If we do not comply with our servicing agreements, we may be terminated as servicer, or we may be required to make indemnification or other payments or provide other remedies. Such actions may have a significant negative impact on our profitability and lead to lower earnings in the future. Even if such allegations against us lack merit, we may have to spend additional resources and devote additional management time to contesting such allegations, which would reduce the resources available to address, and the time management is able to devote to, other issues.

GSEs may curtail or terminate our ability to sell newly originated loans to them.

As noted in the prior risk factor, if we do not comply with our seller/servicer obligations, the GSEs may utilize a variety of remedies against us. Such remedies include curtailment of our ability to sell newly originated loans or even termination of our ability to sell such loans altogether.

While we have largely executed on our previously announced strategy to sell certain of our Agency MSRs, this strategy has significantly reduced our revenues and may not produce the desired benefits, including the desired improvements in our operating margins.

We have largely executed on our previously announced strategy to sell certain of our Agency MSRs with the intent of reducing our exposure to interest rate movements, monetizing significant unrealized value and generating significant

liquidity. Largely as a result of these sales, our servicing revenues have declined and such declines have not been offset by a corresponding decrease in expenses. While we anticipate that the reduction in the size of our Agency servicing portfolio will simplify our operations and improve our margins over time, we may not realize these benefits. We have made representation, warranties and covenants in our sale agreements relating to these MSRs. To the extent, that we have made inaccurate representations or warranties or fail to perform our covenants, we could incur liability to the purchasers of these MSRs pursuant to the contractual provisions of our sale agreements. In addition, transfers of servicing are



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subject to regulation under federal consumer finance laws, including CFPB rules implementing RESPA that require servicers to, among other things, maintain policies and procedures that are reasonably designed to facilitate the transfer of accurate information and documents during mortgage servicing transfers and properly evaluate loss mitigation applications that are in process at the time of transfer. The CFPB has advised mortgage servicers that its examiners will be carefully reviewing servicers' compliance with these and other regulations applicable to servicing transfers, and state mortgage regulators have supervisory power over any licensed institutions involved in a transaction. Accordingly, we devote significant time and resources to our compliance efforts and to engaging with such regulators in connection with our transfers of mortgage servicing and we expect to continue to do so. If we fail to comply with regulations relating to servicing transfers in connection with our dispositions of MSRs, we could be subject to adverse regulatory actions, which could materially and adversely affect our business.

Technology or process failures could damage our business operations or reputation and harm our relationships with key stakeholders.

Our business is substantially dependent on our ability to process and monitor a large number of transactions, many of which are complex, across various parts of our business. These transactions often must adhere to the terms of complex legal agreements, as well as legal and regulatory standards. In addition, given the volume of transactions that we process and monitor, certain errors may be repeated or compounded before they are discovered and rectified. For example, in the area of borrower correspondence we have experienced problems with our letter dating processes, such that erroneously dated letters were sent to borrowers, which has damaged our reputation and relationships with borrowers, regulators, important counterparties and other stakeholders. Because in an average month we mail in excess of four million letters, a process problem such as our letter dating problem has the potential to negatively affect many parts of our business. We are responsible for developing and maintaining sophisticated operational systems and infrastructure, which is challenging.

Loan putbacks and related liabilities for breaches of representations and warranties regarding sold loans could adversely affect our business.

We have exposure to representation, warranty and indemnification obligations because of our lending, sales and securitization activities, and in certain instances, we have assumed these obligations on loans we service. Homeward's contracts with purchasers of originated loans contain provisions that require indemnification or repurchase of the related loans under certain circumstances. While the language in the purchase contracts varies, such contracts generally contain provisions that require Homeward to indemnify purchasers of its loans or repurchase such loans if:

- representations and warranties concerning loan quality, contents of the loan file or loan underwriting circumstances are inaccurate;
- adequate mortgage insurance is not secured within a certain period after closing;
- a mortgage insurance provider denies coverage; or
- there is a failure to comply, at the individual loan level or otherwise, with regulatory requirements.

Additionally, in one of the servicing contracts that Homeward acquired in 2008 from Freddie Mac involving non-prime mortgage loans, it assumed the origination representations and warranties even though it did not originate the loans.

At December 31, 2015, we had outstanding representation and warranty repurchase demands of $97.5 million UPB (506 loans).

We believe that, as a result of the current market environment, many purchasers of residential mortgage loans are particularly aware of the conditions under which originators must indemnify or repurchase loans and under which such purchasers would benefit from enforcing any indemnification rights and repurchase remedies they may have. Assuming our lending business grows, we expect that our exposure to indemnification risks and repurchase requests is likely to increase. If home values decrease, our realized loan losses from loan repurchases and indemnifications may increase as well. As a result, our liability for repurchases may increase beyond our current expectations. Depending on the magnitude of any such increase, our business, financial condition and results of operations could be adversely affected.

We rely on an experienced senior management team, including our President and Chief Executive Officer, Ronald M. Faris, who has been with us since 1991, and the loss of the services of one or more of our senior officers could have a

material adverse effect on us.

Our President and Chief Executive Officer, Ronald M. Faris, joined us in 1991 and other senior officers have been with us for 10 years or more. We do not have employment agreements with, or maintain key man life insurance relating to, Mr. Faris or any of our other executive officers. The loss of the services of Mr. Faris or any of our other senior officers could have a material adverse effect on us.



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An inability to attract and retain qualified personnel could harm our business, financial condition and results of operations.
Our future success also depends, in part, on our ability to identify, attract and retain highly skilled servicing, lending, finance and technical personnel. We face intense competition for qualified individuals from numerous financial services and other companies, some of which have far greater resources and better reputations than we do. We may be unable to identify, attract and retain suitably qualified individuals, or we may be required to pay increased compensation in order to do so. If we were to be unable to attract and retain the qualified personnel we need to succeed, our business, financial condition and results of operations could suffer.
Failure to maintain good relationships with Altisource, AAMC and Residential could adversely affect us, and members of our board of directors or management could have, could appear to have or could be alleged to have conflicts of interest due to their relationships with Altisource, AAMC or Residential.
We conduct a substantial amount of business with Altisource, which is important to our business model. Additionally, we conduct business with Residential, which is managed by AAMC. If we are unable to maintain good relationships with these companies, our business and operations could be materially and adversely affected. For example, if we were to have a dispute over a significant matter regarding the services provided by or to us, the dispute could potentially adversely affect our business and operations.
In addition, certain of our officers and directors own stock or options in one or more of Altisource, AAMC and Residential. Such ownership interests could create, appear to create or be alleged to create conflicts of interest with respect to matters potentially or actually involving or affecting us and Altisource, AAMC and Residential, as the case may be. Our relationships with these companies have also been a source of significant regulatory scrutiny.
We have adopted policies to avoid potential conflicts or allegations of conflicts of interest with respect to our dealings with Altisource, AAMC and Residential, including a written recusal policy pursuant to which any Ocwen employee, officer or director owning more than $200,000 equity ownership in a company must recuse themselves from negotiating or voting to approve any transaction involving any such company. Our board of directors has also established an Independent Review Committee, comprised solely of directors that do not own any equity in any of these companies, to review new transactions between us and these companies that involve $120,000 or more. In addition, we will seek to manage any potential conflicts through dispute resolution and other provisions of our agreements with Altisource, AAMC and Residential. There can be no assurance that such measures will be effective in eliminating all conflicts of interest or that third parties will refrain from making such allegations.
We are subject to, among other things, requirements regarding the effectiveness of our internal controls over financial reporting. If our internal controls over financial reporting are found to be inadequate, our financial condition and results of operations and the trading price of our common stock may be materially and adversely affected.
Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. In addition, Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires us to evaluate and report on our internal control over financial reporting. We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Even if we conclude that our internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles (GAAP), because of their inherent limitations, internal controls over financial reporting may not prevent or detect fraud or misstatements. Fraud or misstatement could adversely affect our financial condition and results of operations. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our results of operations or cause us to fail to meet our reporting obligations. In addition, investors could lose confidence in our financial reports and the trading price of our common stock may be adversely affected if our internal controls over financial reporting are found by management or by our independent registered public accounting firm not to be adequate.
We are dependent on Altisource and other vendors for our technology and other services.
Our vendor relationships subject us to a variety of risks. We have significant exposure to third-party risks, as we are dependent on vendors for a number of key services, including our servicing platform that runs on an information technology system that we license under long-term agreements with Altisource. Our servicing business operates on

this platform and we have used it for many years. If Altisource were to fail to fulfill properly its contractual obligations to us, including through a failure to provide services at the required level to maintain and support our systems, or if Altisource were to become unable to fulfill such obligations (for example, because it entered bankruptcy), our business and operations would suffer. In addition, if Altisource fails to develop and maintain its technology so as to provide us with a competitive platform, our business could suffer. Similarly, we are reliant on other vendors for the proper maintenance and support of our technological systems and our business and operations would suffer if these vendors do not perform as required. If Altisource or our other vendors do not adequately maintain and support our systems, including our servicing systems, loan originations and financial reporting

systems, our business and operations could be materially and adversely affected.

Altisource and other vendors supply us with other services in connection with our business activities such as property preservation and inspection services and valuation services. In the event that a vendor's activities do not comply with the applicable servicing criteria, we could be exposed to liability as the servicer and it could negatively impact our relationships with our servicing clients, borrowers or regulators, among others. In addition, if our current vendors were to stop providing services to us on acceptable terms, including as a result of one or more vendor bankruptcies, we may be unable to procure alternatives from other vendors in a timely and efficient manner and on acceptable terms, or at all. Further, we may incur significant costs to resolve any such disruptions in service and this could adversely affect our business, financial condition and results of operations.

Cybersecurity breaches or system failures may interrupt or delay our ability to provide services to our customers, expose our business and our customers to harm and otherwise adversely affect our operations.

System disruptions and failures may interrupt or delay our ability to provide services to our customers and otherwise adversely affect our operations. The secure transmission of confidential information over the Internet and other electronic distribution and communication systems is essential to our maintaining consumer confidence in certain of our services. Security breaches, computer viruses, cyberattacks, hacking and other acts of vandalism could result in a compromise or breach of the technology that we use to protect our borrowers' personal information and transaction data and other information that we must keep secure. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a cyberattack, a spike in transaction volume or unforeseen catastrophic events, potentially resulting in data loss and adversely affecting our ability to process these transactions. If one or more of such events occurs, this could potentially jeopardize data integrity or confidentiality of information processed and stored in, or transmitted through, our computer systems and networks, which could result in our facing significant losses, reputational damage and legal liabilities.

In addition, consumers generally are concerned with security breaches and privacy on the Internet, and Congress or individual states could enact new laws regulating the use of technology in our business that could adversely affect us or result in significant compliance costs.

We have operations in India and the Philippines that could be adversely affected by changes in the political or economic stability of these countries or by government policies in India, the Philippines or the U.S.

Approximately 66% of our employees as of December 31, 2015 are located in India. A significant change in India's economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally and our business in particular. The political or regulatory climate in the U.S. or elsewhere also could change so that it would not be lawful or practical for us to use international operations in the manner in which we currently use them. For example, changes in regulatory requirements could require us to curtail our use of lower-cost operations in India to service our businesses. If we had to curtail or cease our operations in India and transfer some or all of these operations to another geographic area, we would incur significant transition costs as well as higher future overhead costs that could materially and adversely affect our results of operations.

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

Our operations in the Philippines are less substantial than our Indian operations. However, they are still at risk of being affected by the same types of risks that affect our Indian operations. If they were to be so affected, our business could be materially and adversely affected.

The industry in which we operate is concentrated and highly competitive, and, to the extent we fail to meet these competitive challenges, it would have a material adverse effect on our business, financial position, results of operations or cash flows.

We operate in a highly competitive industry that could become even more competitive as a result of economic, legislative, regulatory or technological changes. Competition to service mortgage loans and for mortgage loan originations comes primarily from commercial banks and savings institutions. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources, typically have access

to greater financial resources and lower funding costs. All of these factors place us at a competitive disadvantage. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more favorable relationships than we can. Competition to service residential loans may result in lower margins based on our servicing model. Because of the relatively limited number of customers, our failure to meet the expectations of any customer could materially impact our business. Ocwen has recently suffered reputational damage as a result of the regulatory scrutiny that resulted in the NY DFS and CA DBO settlements. We believe this may have weakened our competitive position against

both our bank and non-bank mortgage servicing competitors. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition or results of operations.

We originate and securitize reverse mortgages, which subjects us to risks that could have a material adverse effect on our business, reputation, liquidity, financial condition and results of operations.

We originate, securitize and service reverse mortgages although we have retained Compu-Link Corporation dba Celink to subservice the reverse mortgages. The reverse mortgage business is subject to substantial risks, including market, credit, interest rate, liquidity, operational, reputational and legal risks. Generally, a reverse mortgage is a loan available to seniors aged 62 or older that allows homeowners to borrow money against the value of their home. No repayment of the mortgage is required until the borrower dies, moves out of the home or the home is sold. A decline in the demand for reverse mortgages may reduce the number of reverse mortgages we originate and adversely affect our ability to sell reverse mortgages in the secondary market. Although foreclosures involving reverse mortgages generally occur less frequently than forward mortgages, loan defaults on reverse mortgages leading to foreclosures may occur if borrowers fail to maintain their property or fail to pay taxes or home insurance premiums. A general increase in foreclosure rates may adversely impact how reverse mortgages are perceived by potential customers and thus reduce demand for reverse mortgages. Additionally, as a result of the Liberty acquisition, we could become subject to negative headline risk in the event that loan defaults on reverse mortgages lead to foreclosures or evictions of the elderly. Finally, the HUD HECM reverse mortgage program has received scrutiny for failing to afford the surviving spouse of the deceased borrower an opportunity to remain in the home following death of the borrower, if the surviving spouse is not a party to the note or mortgage. HUD recently implemented new rules which now permit the surviving spouse to remain in the home under certain circumstances, and which allow the lender to assign the due-and-payable loan to HUD. While such claims primarily are directed at HUD and not against lenders such as Liberty, the attention may nonetheless create negative headline risk for us. All of the above factors could have a material adverse effect on our business, reputation, liquidity, financial condition and results of operations.

We may incur litigation costs and related losses if the validity of a foreclosure action is challenged by a borrower or if a court overturns a foreclosure.

We may incur costs if we are required to, or if we elect to, execute or re-file documents or take other action in our capacity as a servicer in connection with pending or completed foreclosures. We may incur litigation costs if the validity of a foreclosure action is challenged by a borrower. If a court were to overturn a foreclosure because of errors or deficiencies in the foreclosure process, we may have liability to a title insurer of the property sold in foreclosure. These costs and liabilities may not be legally or otherwise reimbursable to us, particularly to the extent they relate to securitized mortgage loans. In addition, if certain documents required for a foreclosure action are missing or defective, we could be obligated to cure the defect or repurchase the loan. A significant increase in litigation costs could adversely affect our liquidity, and our inability to be reimbursed for servicing advances could adversely affect our business, financial condition or results of operations.

Negative public opinion could damage our reputation and adversely affect our earnings.

Reputational risk, or the risk to our business, earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending, loan servicing, debt collection practices and corporate governance as well as from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can also result from media coverage, whether accurate or not. Negative public opinion can adversely affect our ability to attract and retain customers, counterparties and employees and can expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in dealing with our customers and communities, this risk will always be present in our organization.

A significant portion of our business is in the states of California, Florida, New York, Texas and New Jersey, and our business may be significantly harmed by a slowdown in the economy or the occurrence of a natural disaster in those states.

A significant portion of the mortgage loans that we originate and service are secured by properties in California, Florida, New York, Texas and New Jersey. Any adverse economic conditions in these markets, including a downturn in real estate values, will likely increase our obligations to advance delinquent principal and interest and to make

advances for delinquent taxes and insurance and foreclosure costs and the upkeep of vacant property in foreclosure to the extent that we determine that such amounts are recoverable. We could also be adversely affected by business disruptions triggered by natural disasters or acts or war or terrorism in these geographic areas.

Our earnings may be subject to volatility.

Our operating results have been and may in the future be significantly affected by inter-period variations in our results of operations, including variations due to expense fluctuations, sales or acquisitions of MSRs or changes in the value of MSRs due to, among other factors, increases or decreases in prepayment speeds, delinquencies or defaults.

Certain non-recurring gains and losses have significantly affected our operating results in the past, and non-recurring gains and losses may affect our operating results in future periods, resulting in substantial inter-period variations in financial performance. For example, we recognized significant gains from our sales of Agency MSRs during 2015 and we do not anticipate recognizing similar gains in 2016.

We use estimates in determining the fair value of certain assets and liabilities. If our estimates prove to be incorrect, we may be required to write down the value of these assets or write up the value of these liabilities, which could adversely affect our earnings.

Our ability to measure and report our financial position and operating results is influenced by the need to estimate the impact or outcome of future events on the basis of information available at the time of the financial statements. An accounting estimate is considered critical if it requires that management make assumptions about matters that were highly uncertain at the time the accounting estimate was made. If actual results differ from our judgments and assumptions, then it may have an adverse impact on the results of operations and cash flows.

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.

As a result of acquisitions, dispositions and our ongoing and potential future business activities, the number and complexity of estimates we use in determining fair value has increased. At December 31, 2015, 52% and 45% of our consolidated total assets and liabilities are measured at fair value, respectively, on a recurring and nonrecurring basis, 88% and 100% of which are considered Level 3 valuations. Our largest Level 3 asset and liability carried at fair value on a recurring basis is Loans held for investment - reverse mortgages and the related secured financing. We pool home equity conversion mortgages (reverse mortgages) into Ginnie Mae Home Equity Conversion Mortgage-Backed Securities (HMBS). Because the transfers of reverse mortgages do not qualify for sale accounting, we account for these transfers as secured financings and classify the transferred reverse mortgages as Loans held for investment - reverse mortgages and recognize the related Financing liabilities. Holders of HMBS have no recourse against our assets, except for standard representations and warranties and our contractual obligations to service the reverse mortgages and HMBS. We estimate the fair value of our assets and liabilities utilizing assumptions that we believe are appropriate and are used by market participants. The methodology used to estimate these values is complex and uses asset- and liability-specific data and market inputs for assumptions including interest and discount rates, collateral status and expected future performance and liquidity dates.

Valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships that drive the results of our valuation methodologies. If prepayment speeds increase more than estimated, delinquency and default levels are higher than anticipated or financial market illiquidity is greater than anticipated, we may be required to adjust the value of certain assets, which could adversely affect our earnings.

Our hedging strategies may not be successful in mitigating our exposure to interest rate risk.

As of December 31, 2015, we had no interest rate swaps in place to hedge our exposure to variable interest rates under our match funded advance funding facilities, but we have interest rate caps in place that limits our exposure to increases in interest rates on our three facilities. In the event that we acquire additional servicing or subservicing rights in the future, there is no assurance that we will be able to obtain the fixed rate financing that would be necessary to protect us from the effect of rising interest rates. Therefore, we may consider utilizing various derivative financial instruments to protect against the effects of rising rates. In addition, we may use interest rate swaps, U.S. Treasury futures, forward contracts and other derivative instruments to hedge our interest rate exposure on loans and MSRs measured at fair value. We currently have no economic hedge positions open to hedge our fair value MSRs. We have entered into forward mortgage backed securities trades to hedge our mortgage loans held for sale at fair value and to hedge interest rate lock commitments (IRLCs) on loans that we have agreed to originate at a specified fixed or variable rate.

Nevertheless, no hedging strategy can completely protect us. The derivative financial instruments that we select may not have the effect of reducing our interest rate risks. Poorly designed strategies, improperly executed and documented transactions or inaccurate assumptions could actually increase our risks and losses. In addition, hedging strategies involve transaction and other costs. We cannot be assured that our hedging strategies and the derivatives that we use will adequately offset the risks of interest rate volatility or that our hedging transactions will not result in or magnify losses.



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We are exposed to market risk, credit risk, liquidity risk, reputational risk, operational risk and foreign currency exchange risk.

We are exposed to liquidity risk primarily because of the highly variable daily cash requirements to support our servicing business including the requirement to make advances pursuant to servicing contracts and the process of remitting borrower payments to the custodial accounts. We are also exposed to liquidity risk by our need to originate and finance mortgage loans and sell mortgage loans into the secondary market. In general, we finance our operations through operating cash flows and various other sources of funding including match funded borrowing agreements, secured lines of credit and repurchase agreements. We believe that we will have adequate financing for the next twelve months.

We are exposed to interest rate risk to the degree that our interest-bearing liabilities mature or reprice at different speeds, or on different bases, than our interest earning assets or when financed assets are not interest-bearing. Our servicing business is characterized by non-interest earning assets financed by interest-bearing liabilities. Among the more significant non-interest earning assets are servicing advances and MSRs. At December 31, 2015, we had total advances and match funded advances of $2.2 billion. We are also exposed to interest rate risk because a portion of our advance funding and other outstanding debt at December 31, 2015 is variable rate. Rising interest rates may increase our interest expense. Earnings on float balances partially offset this variability. At December 31, 2015, we had no interest rate swaps in place to hedge our exposure to rising interest rates, but we have interest rate caps in place as required by our three advance financing arrangements.

The MSRs that we carry at fair value are subject to substantial interest rate risk as the mortgage notes underlying the servicing rights permit the borrowers to prepay the loans. We may enter into economic hedges (derivatives that do not qualify as hedges for accounting purposes) including interest rate swaps, U.S. Treasury futures and forward contracts to minimize the effects of loss in value of these MSRs associated with increased prepayment activity that generally results from declining interest rates. We currently have no economic hedges in place to minimize the effects on our MSRs carried at fair value of increased prepayment activity in the event of declining interest rates.

In our lending business, we are subject to interest rate and price risk on mortgage loans held for sale from the loan funding date until the date the loan is sold into the secondary market. Generally, the fair value of a loan will decline in value when interest rates increase and will rise in value when interest rates decrease. To mitigate this risk, we enter into forward mortgage-backed securities trades to provide an economic hedge against those changes in fair value on mortgage loans held for sale. IRLCs represent an agreement to purchase loans from a third-party originator or an agreement to extend credit to a mortgage applicant, whereby the interest rate is set prior to funding. As such, outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of the commitment through the loan funding date or expiration date. Our interest rate exposure on these derivative loan commitments is hedged with freestanding derivatives such as forward contracts. We also enter into forward contracts with respect to fixed or variable rate loan commitments.

We are exposed to foreign currency exchange rate risk in connection with our investment in non-U.S. dollar functional currency operations to the extent that our foreign exchange positions remain unhedged. Our operations in the Philippines and India expose us to foreign currency exchange rate risk, but we consider this risk to be insignificant.

Pursuit of business or asset acquisitions exposes us to financial, execution and operational risks that could adversely affect us.

We may in the future look for opportunities to grow our business through acquisitions of businesses and assets. The performance of the businesses and assets we acquire through acquisitions may not match the historical performance of our other assets. Nor can we assure you that the businesses and assets we may acquire will perform at levels meeting our expectations. We may find that we overpaid for the acquired business or assets or that the economic conditions underlying our acquisition decision have changed. In 2014, we recognized an impairment loss of the full carrying value of goodwill totaling $420.2 million, which was primarily associated with certain large acquisitions in prior years. It may also take several quarters or longer for us to fully integrate newly acquired business and assets into our business, during which period our results of operations and financial condition may be negatively affected. Further, certain one-time expenses associated with such acquisitions may have a negative impact on our results of operations and financial condition. We cannot assure you that acquisitions will not adversely affect our results of operations and

financial condition.

The risks associated with acquisitions include, among others:

- unanticipated issues in integrating servicing, information, communications and other systems;
- unanticipated incompatibility in servicing, lending, purchasing, logistics, marketing and administration methods;
- not retaining key employees; and
- the diversion of management's attention from ongoing business concerns.

The integration process can be complicated and time consuming and could potentially be disruptive to borrowers of loans serviced by the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its borrowers, we may not realize the anticipated economic benefits of particular acquisitions within our

expected timeframe, or we could lose subservicing business or employees of the acquired business. Through acquisitions, we may enter into business lines in which we have not previously operated. Such acquisitions could require additional integration costs and efforts, including significant time from senior management. We may not be able to achieve the synergies we anticipate from acquired businesses, and we may not be able to grow acquired businesses in the manner we anticipate. In fact, the businesses we acquire could decrease in size, even if the integration process is successful.

Further, prices at which acquisitions can be made fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices that we considered to be acceptable, and we expect that we will experience this condition in the future. In addition, in order to finance an acquisition we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or we could raise additional equity capital, which could dilute the interests of our existing shareholders.

The timing of closing of our acquisitions is often uncertain. We have in the past and may in the future experience delays in closing our acquisitions, or certain tranches of them. For example, we and the applicable seller are often required to obtain certain contractual and regulatory consents as a prerequisite to closing, such as the consents of Fannie Mae or Freddie Mac, the FHFA and trustees to RMBS securitization trusts. Accordingly, even if we and the applicable seller are efficient and proactive, the actions of third parties can impact the timing under which such consents are obtained. We and the applicable seller may not be able to obtain all of the required consents, which may mean that we are unable to acquire all of the assets that we wish to acquire. Regulators may have questions relating to aspects of our acquisitions and we may be required to devote time and resources responding to those questions. It is also possible that we will expend considerable resources in the pursuit of an acquisition that, ultimately, either does not close or is terminated. Our regulatory settlements have significantly impacted our ability to grow our servicing portfolio through acquisitions because we have agreed to restrictions in our consent orders with the NY DFS and CA DBO that effectively prohibit future acquisitions of servicing until we have satisfied the respective conditions in those consent orders.

Risks Relating to Tax Matters

Our tax liability as a result of the transfer of assets to OMS could be substantial.

Pursuant to the formation of OMS, we transferred significant assets to OMS in a taxable transaction. We recognized gain, but not loss, on this transfer equal to the excess, if any, of the fair market value of the transferred assets over our tax basis therein. The fair market value of the transferred assets was based on market standard valuation methodology and confirmed by an independent valuation firm. However, the Internal Revenue Service (the IRS) could challenge this valuation, and if such a challenge were successful, any tax imposed as a result of the transfer could be significant.

Failure to retain the tax benefits provided by the United States Virgin Islands would adversely affect our financial condition and results of operations.

OMS is incorporated under the laws of the USVI and is headquartered in Frederiksted, USVI. The USVI has an Economic Development Commission (EDC) that provides benefits (EDC Benefits) to certain qualified businesses that enable us to avail ourselves of significant tax benefits for a 30-year period. OMS received its certificate to operate as a company qualified for EDC Benefits as of October 1, 2012. It is possible that we may not be able to retain our qualifications for the EDC Benefits, or that changes in U.S. federal, state, local, territorial or USVI taxation statutes or applicable regulations may cause a reduction in or an elimination of the EDC Benefits, all of which could result in a significant increase to our tax expense, and, therefore, adversely affect our financial condition and results of operations.

We may be subject to increased United States federal income taxation.

OMS is incorporated under the laws of the USVI and intends to operate in a manner that will cause a substantial amount of its net income to be treated as not related to a trade or business within the United States, which will cause such income to be exempt from current United States federal income taxation. However, because there are no definitive standards provided by the Internal Revenue Code (the Code), regulations or court decisions as to the specific activities that constitute being engaged in the conduct of a trade or business within the United States, and as any such determination is essentially factual in nature, we cannot assure you that the IRS will not successfully assert that OMS is engaged in a trade or business within the United States with respect to that income.

If the IRS were to successfully assert that OMS has been engaged in a trade or business within the United States with respect to that income in any taxable year, it may become subject to current United States federal income taxation on such income. In addition, changes in the Code, state statutes, regulations or court decisions relevant to the various aspects of our business such as various international tax reform proposals being considered by Congress could increase our tax expense.

Our tax liability as a result of the Separation could be substantial.

Prior to the Separation, any assets transferred to Altisource or non-U.S. subsidiaries were taxable pursuant to Section 367(a) of the Code, or other applicable provisions of the Code and Treasury regulations. Taxable gains not recognized in the

restructuring were generally recognized pursuant to the Separation itself under Section 367(a). The taxable gain recognized by us attributable to the transfer of assets to Altisource equaled the excess of the fair market value of each asset transferred over our basis in such asset. Our basis in some assets transferred to Altisource may have been low or zero which could result in a substantial tax liability to us. In addition, the amount of taxable gain was based on a determination of the fair market value of our transferred assets. The determination of fair market values of non-publicly traded assets is subjective, and our valuation has been challenged by the IRS. Although we remain confident in our original filing position on this issue (on which we received both advice from outside tax counsel and an independent, third party valuation), we cannot predict what the eventual outcome of this matter will be or the timing of such outcome. If the IRS were to be wholly or partially successful in this matter, our financial condition and operating results could be materially and adversely impacted. In addition, the valuation could be subject to closing date adjustments.

Tax regulations under Section 7874 of the Code, if held applicable to the Separation, could materially increase our tax costs.

IRS tax regulations under Section 7874 can apply to transactions where a U.S. corporation contributes substantially all of its assets, including subsidiary equity interests, to a foreign corporation and distributes shares of such corporation. We do not believe that Section 7874 of the Code applies to the Separation because “substantially all” of our assets were not transferred to the distributed company or its subsidiaries. Our board of directors required that we and Altisource receive an independent valuation prior to completing the Separation; however, if the IRS were to successfully challenge the independent valuation, then we may not be permitted to offset the taxable gain recognized on the transfer of assets to Altisource with net operating losses, tax credits or other tax attributes. This could materially increase the tax costs to us of the Separation.

Risks Relating to Ownership of Our Common Stock

Our common stock price experiences substantial volatility and has dropped significantly in recent months, which may affect your ability to sell our common stock at an advantageous price.

The market price of our shares of common stock has been and may continue to be volatile. For example, the closing market price of our common stock on the New York Stock Exchange fluctuated during 2015 between $5.77 per share and $15.03 per share and the closing stock price on February 16, 2016 was $5.39 per share. Therefore, the volatility and recent decline in our stock price may affect your ability to sell our common stock at an advantageous price.

Market price fluctuations in our common stock may be due to factors both within and outside our control, including regulatory action, acquisitions, dispositions or other material public announcements or speculative trading in our stock (e.g., traders “shorting” our common stock), as well as a variety of other factors including those set forth under “Risk Factors” and “Forward-Looking Statements.”

In addition, the stock markets in general, including the New York Stock Exchange, have, at times, experienced extreme price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of our common stock.

Further, when the market price of a company's ordinary shares drops significantly, shareholders often institute securities class action lawsuits against the company. A lawsuit against us, even if unsuccessful, could cause us to incur substantial costs and could divert the time and attention of our management and other resources.

We recently re-initiated our stock repurchase program. No assurances can be given as to the amount of shares, if any, that we may repurchase in any given period under our share repurchase program, and such repurchases could affect our share price and increase share price volatility.

On February 5, 2015, we announced that we had suspended our stock repurchase program that we had previously announced on October 31, 2013 for an aggregate of up to $500.0 million of our issued and outstanding shares of common stock. Subsequently, on November 20, 2015, we disclosed that we believed it was appropriate to re-initiate our stock repurchase program effective November 19, 2015. As of November 19, 2015, the approximate remaining value of shares that could be repurchased under the program was $129.7 million.

There can be no assurance as to the amount of shares, if any, that we will purchase in any given period under our share repurchase program.

Purchases may be made on market or in privately negotiated transactions. We may use SEC Rule 10b5-1 plans in connection with our share repurchase program. Repurchases of our common stock pursuant to our share repurchase program could affect our stock price and increase its volatility. The existence of a share repurchase program could also cause our stock price to be higher than it would be in the absence of such a program. Our share repurchase program will utilize cash that we will not be able to use in other ways to grow our business.

We have several large shareholders, and such shareholders may vote their shares to influence matters requiring shareholder approval.

Based on SEC filings, certain shareholders, such as our former Executive Chairman, William C. Erbey, and affiliates of Kingstown Capital Management L.P., own or control significant amounts of our common stock. Mr. Erbey retired as an officer and director of Ocwen effective as of January 16, 2015 and, following his retirement, has no directorial, management, oversight, consulting, or any other role at Ocwen. However, Mr. Erbey and our other large shareholders will each have the ability to vote a meaningful percentage of our outstanding common stock on all matters put to a vote of our shareholders. As a result, these shareholders could influence matters requiring shareholder approval, including the amendment of our articles of incorporation, the approval of mergers or similar transactions and the election of directors.

Our board of directors may authorize the issuance of additional securities that may cause dilution and may depress the price of our securities.

Our charter permits our board of directors, without our stockholders' approval, to:

- authorize the issuance of additional common stock or preferred stock in connection with future equity offerings or acquisitions of securities or other assets of companies; and
- classify or reclassify any unissued common stock or preferred stock and to set the preferences, rights and other terms of the classified or reclassified shares, including the issuance of shares of preferred stock that have preference rights over the common stock and existing preferred stock with respect to dividends, liquidation, voting and other matters or shares of common stock that have preference rights over common stock with respect to voting.

The issuance of additional shares of our securities could be substantially dilutive to our existing stockholders and may depress the price of our securities.

Future offerings of debt securities, which would be senior to our common stock and preferred stock in liquidation, or equity securities, which would dilute our existing stockholders' interests and may be senior to our common stock or existing preferred stock for the purposes of distributions, may harm the market price of our securities.

We will continue to seek to access the capital markets from time to time by making additional offerings of debt and/or equity securities, including commercial paper, medium-term notes, senior or subordinated notes, preferred stock or common stock. We are not precluded by the terms of our charter from issuing additional indebtedness. Accordingly, we could become more highly leveraged, resulting in an increase in debt service obligations that could harm our ability to make expected distributions to stockholders and in an increased risk of default on our obligations. If we were to liquidate, holders of our debt and lenders with respect to other borrowings would receive a distribution of our available assets before the holders of our common stock and preferred stock. Additional equity offerings by us may dilute our existing stockholders' interest in us or reduce the market price of our existing securities. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Further, conditions could require that we accept less favorable terms for the issuance of our securities in the future. Thus, our existing stockholders will bear the risk of our future offerings reducing the market price of our securities and diluting their ownership interest in us.

Because of certain provisions in our organizational documents, takeovers may be more difficult, possibly preventing you from obtaining an optimal share price.

Our amended and restated articles of incorporation provide that the total number of shares of all classes of capital stock that we have authority to issue is 220 million, of which 200 million are common shares and 20 million are preferred shares. Our Board of Directors has the authority, without a vote of the shareholders, to establish the preferences and rights of any preferred or other class or series of shares to be issued and to issue such shares. The issuance of preferred shares could delay or prevent a change in control. Since our Board of Directors has the power to establish the preferences and rights of the preferred shares without a shareholder vote, our Board of Directors may give the holders of preferred shares preferences, powers and rights, including voting rights, senior to the rights of holders of our common shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The following table sets forth information relating to our primary facilities at December 31, 2015:

| Location | Owned/Leased | Square Footage |
|---|---|---|
| Principal executive offices: | | |
| West Palm Beach, Florida | Leased | 51,546 |
| St. Croix, U.S. Virgin Islands | Leased | 4,400 |
| | | |
| Document storage and imaging facility: | | |
| West Palm Beach, Florida | Leased | 51,931 |
| | | |
| Business operations and support offices | | |
| U.S. facilities: | | |
| Coppell, Texas (1) | Leased | 182,700 |
| Waterloo, Iowa (2)(4) | Owned | 154,980 |
| Addison, Texas (6) | Leased | 137,992 |
| Fort Washington, Pennsylvania (2) | Leased | 77,026 |
| Lewisville, Texas (5) | Leased | 78,413 |
| Jacksonville, Florida (6) | Leased | 76,075 |
| McDonough, Georgia (7) | Leased | 62,000 |
| Rancho Cordova, California (3) | Leased | 53,107 |
| Houston, Texas (2) | Leased | 36,382 |
| Burbank, California (2) | Leased | 18,601 |
| Westborough, Massachusetts (3) | Leased | 18,158 |
| | | |
| Offshore facilities (2): | | |
| Mumbai, India | Leased | 178,508 |
| Bangalore, India | Leased | 173,980 |
| Pune, India | Leased | 110,623 |
| Manila, Philippines | Leased | 39,006 |

(1) Supports Servicing and Lending operations.

(2) Primarily supports Servicing operations.

(3) Primarily supports Lending operations.

(4) We ceased using approximately one-half of our facility in Waterloo, Iowa following a reduction in workforce during 2015. Also in 2015, we sold our facility in Eden Prairie, Minnesota. We acquired these facilities in connection with our acquisition of ResCap.

(5) We ceased using this facility and the space is currently being marketed for sublease.

(6) We ceased using these facilities in 2013 and subleased a portion of the space. The sublease of the Addison, Texas facility expired in August 2015. We assumed the leases in connection with our acquisition of Homeward.

(7) We ceased using this facility in 2012 and subleased a portion of the space.

In addition to the facilities listed in the table above, we also lease other small facilities in Orlando, Florida; Mount Laurel, New Jersey; Irvine, California; St. Croix, U.S. Virgin Islands and Atlanta, Georgia.

ITEM 3. LEGAL PROCEEDINGS

See Note 27 — Contingencies to the Consolidated Financial Statements. That information is incorporated into this item by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Price Range of Our Common Stock

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

| | High | Low |
|---|---|---|
| 2015 | | |
| First quarter | $15.03 | $5.77 |
| Second quarter | 11.02 | 7.54 |
| Third quarter | 11.76 | 6.67 |
| Fourth quarter | 8.16 | 5.90 |
| | | |
| 2014 | | |
| First quarter | $56.39 | $35.64 |
| Second quarter | 40.02 | 31.71 |
| Third quarter | 37.13 | 25.16 |
| Fourth quarter | 26.26 | 14.32 |

The closing sales price of our common stock on February 16, 2016 was $5.39.

We have never declared or paid cash dividends on our common stock. We currently do not intend to pay cash dividends in the foreseeable future but intend to reinvest earnings in our business. The timing and amount of any future dividends will be determined by our Board of Directors and will depend, among other factors, upon our earnings, financial condition, cash requirements, the capital requirements of subsidiaries and investment opportunities at the time any such payment is considered. In addition, the covenants relating to certain of our borrowings contain limitations on our payment of dividends. Our Board of Directors has no obligation to declare dividends on our common stock under Florida law or our amended and restated articles of incorporation.

The following graph compares the cumulative total return on the common stock of Ocwen Financial Corporation since December 31, 2010, with the cumulative total return on the stocks included in Standard & Poor's 500 Market Index and Standard & Poor's Diversified Financials Market Index.

Total Return Performance

| | Period Ending | | | | | |
|---|---|---|---|---|---|---|
| Index | 12/31/2010 | 12/31/2011 | 12/31/2012 | 12/31/2013 | 12/31/2014 | 12/31/2015 |
| Ocwen Financial Corporation | 100.00 | 151.78 | 362.58 | 581.24 | 158.28 | 73.06 |
| S&P 500 | 100.00 | 100.00 | 113.40 | 146.97 | 161.11 | 162.52 |
| S&P 500 Diversified Financials | 100.00 | 69.07 | 95.92 | 133.72 | 154.00 | 138.20 |

(1) The S&P 500 and S&P 500 Diversified Financials (Industry Group) indices are proprietary to and are calculated, distributed and marketed by S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC), its affiliates and/or its licensors and has been licensed for use. S&P® and S&P 500®, among other famous marks, are registered trademarks of Standard & Poor's Financial Services LLC, and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC. ©2015 S&P Dow Jones Indices LLC, its affiliates and/or its licensors. All rights reserved.

Purchases of Equity Securities by the Issuer and Affiliates

On September 23, 2013, we entered into amendments to the Senior Secured Term Loan (SSTL) Facility Agreement and the related Pledge and Security Agreement which permit Ocwen to repurchase of all of its preferred stock, which may be converted to common stock prior to repurchase, and up to $1.5 billion of its common stock, subject, in each case, to pro forma financial covenant compliance.

On September 23, 2013, holders elected to convert 100,000 shares of our Series A Perpetual Convertible Preferred Stock into 3,145,640 shares of common stock. On July 14, 2014, holders elected to convert the remaining 62,000 preferred shares into 1,950,296 shares of common stock. We subsequently repurchased from the holders all shares of common stock issued upon each conversion.

On October 31, 2013, we announced that our board of directors had authorized a share repurchase program for an aggregate of up to $500.0 million of our issued and outstanding shares of common stock. As of December 31, 2015, the approximate remaining value of shares that may be repurchased under the program was $125.6 million. We suspended this stock repurchase program on February 5, 2015 and re-initiated it effective November 19, 2015. Unless we amend the share repurchase program or repurchase the full $500.0 million amount by an earlier date, the share repurchase program will continue

through July 31, 2016. We may use SEC Rule 10b5-1 plans in connection with our share repurchase program. No assurances can be given as to the amount of shares, if any, that we may repurchase in any given period.
Information regarding repurchases of our common stock during the fourth quarter of 2015 is as follows:

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of a publicly announced repurchase program | Approximate dollar value of shares that may yet be purchased under the repurchase program | |
|---|---|---|---|---|---|
| October 1 - October 31 | — | $— | — | $129.7 | million |
| November 1 - November 30 | — | $— | — | $129.7 | million |
| December 1 - December 31 | 625,705 | $6.6201 | 625,705 | $125.6 | million |
| Total | 625,705 | $6.6201 | 625,705 | | |

Number of Holders of Common Stock
On February 16, 2016, 123,852,336 shares of our common stock were outstanding and held by approximately 66 holders of record. Such number of stockholders does not reflect the number of individuals or institutional investors holding our stock in nominee name through banks, brokerage firms and others.
Securities Authorized for Issuance under Equity Compensation Plans
The information required by this item is incorporated by reference to the information contained under the caption “Equity Compensation Plan Information” in our definitive Proxy Statement with respect to our 2016 Annual Meeting, which will be filed with the SEC not later than April 30, 2016.

ITEM 6. SELECTED FINANCIAL DATA (Dollars in thousands, except per share data and unless otherwise indicated)

The selected historical consolidated financial information set forth below should be read in conjunction with Business, Management's Discussion and Analysis of Financial Condition and Results of Operations, our Consolidated Financial Statements and the Notes to the Consolidated Financial Statements. The historical financial information presented may not be indicative of our future performance.

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 (1) (2) | 2012 (1) (2) | 2011 (1) |
| Selected Balance Sheet Data | | | | | |
| Total Assets | $7,404,809 | $8,267,278 | $7,927,003 | $5,685,962 | $4,728,009 |
| Loans held for sale | $414,046 | $488,612 | $566,660 | $509,346 | $20,633 |
| Loans held for investment - Reverse mortgages | 2,488,253 | 1,550,141 | 618,018 | — | — |
| Advances and match funded advances | 2,151,066 | 3,303,356 | 3,443,215 | 3,233,707 | 3,733,502 |
| Mortgage servicing rights | 1,138,569 | 1,913,992 | 2,069,381 | 764,150 | 293,152 |
| Goodwill (3) | — | — | 420,201 | 416,176 | 70,240 |
| | | | | | |
| Total Liabilities | $6,550,171 | $7,226,113 | $6,054,051 | $3,921,168 | $3,384,698 |
| Match funded liabilities | $1,584,049 | $2,090,247 | $2,364,814 | $2,532,745 | $2,558,951 |
| Financing liabilities | 3,089,255 | 2,258,641 | 1,266,973 | 306,308 | — |
| Long-term other borrowings | 734,763 | 1,611,531 | 1,288,740 | 18,466 | 563,627 |
| | | | | | |
| Mezzanine equity (4) | $— | $— | $60,361 | $153,372 | $— |
| | | | | | |
| Total equity (5) | $854,638 | $1,041,165 | $1,812,591 | $1,611,422 | $1,343,311 |
| | | | | | |
| Residential Loans and Real Estate Serviced for Others | | | | | |
| Count | 1,624,762 | 2,486,038 | 2,861,918 | 1,219,956 | 671,623 |
| UPB | $250,966,112 | $398,727,727 | $464,651,332 | $203,665,716 | $102,199,222 |

| | For the Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Selected Operations Data | | | | | |
| Revenue: | | | | | |
| Servicing and subservicing fees | $1,531,797 | $1,894,175 | $1,823,559 | $804,407 | $458,838 |
| Gain (loss) on loans held for sale | 134,969 | 134,297 | 121,694 | 215 | (2) |
| Other | 74,332 | 82,853 | 93,020 | 40,581 | 37,055 |
| Total revenue | 1,741,098 | 2,111,325 | 2,038,273 | 845,203 | 495,891 |
| Expenses (3) | 1,478,184 | 2,035,208 | 1,301,294 | 363,907 | 239,547 |
| Other income (expense): | | | | | |
| Interest expense | (482,373) | (541,757) | (395,586) | (223,455) | (132,770) |
| Gain on sale of MSRs (6) | 83,921 | — | — | — | — |
| Other, net | 5,677 | 22,481 | 11,086 | (333) | (579) |
| Other expense, net | (392,775) | (519,276) | (384,500) | (223,788) | (133,349) |
| Income (loss) before income taxes | (129,861) | (443,159) | 352,479 | 257,508 | 122,995 |
| Income tax expense (7) | 116,851 | 26,396 | 42,061 | 76,585 | 44,672 |
| Net income (loss) | (246,712) | (469,555) | 310,418 | 180,923 | 78,323 |
| Net loss (income) attributable to non-controlling interests | (305) | (245) | — | — | 8 |
| Net income (loss) attributable to Ocwen stockholders | (247,017) | (469,800) | 310,418 | 180,923 | 78,331 |
| Preferred stock dividends (4) | — | (1,163) | (5,031) | (85) | — |
| Deemed dividend related to beneficial conversion feature of preferred stock (4) | — | (1,639) | (6,989) | (60) | — |
| Net income (loss) attributable to Ocwen common stockholders | $(247,017) | $(472,602) | $298,398 | $180,778 | $78,331 |
| Basic earnings (loss) per share attributable to Ocwen common stockholders | | | | | |
| Basic | $(1.97) | $(3.60) | $2.20 | $1.35 | $0.75 |
| Diluted | $(1.97) | $(3.60) | $2.13 | $1.31 | $0.71 |
| Weighted average common shares outstanding | | | | | |
| Basic | 125,315,899 | 131,362,284 | 135,678,088 | 133,912,643 | 104,507,055 |
| Diluted (8) | 125,315,899 | 131,362,284 | 139,800,506 | 138,521,279 | 111,855,961 |

(1) Includes the effects of significant business acquisitions, including ResCap (February 2013), Homeward (December 2012) and Litton Loan Servicing LP (September 2011). These transactions primarily involved the acquisition of residential MSRs and related servicing advances. The operating results of the acquired businesses have been included in our results since their respective acquisition dates. See Note 3 — Business Acquisitions to the Consolidated Financial Statements for additional information regarding the acquisition of ResCap.

(2) During 2013 and 2012, Ocwen completed sales of Rights to MSRs together with the related servicing advances. We accounted for the sales of Rights to MSRs as secured financings. As a result, the MSRs were not derecognized, and a liability was established equal to the sales price. The sales of advances in connection with sales of Rights to

MSRs met the requirements for sale accounting and the advances were derecognized at the time of the sale. Match funded liabilities were reduced in connection with these sales. See Note 4 — Sales of Advances and MSRs to the Consolidated Financial Statements for additional information.

(3) We recognized a goodwill impairment loss of $420.2 million in 2014, representing the entire carrying value of goodwill in our Servicing and Lending segments. See Note 12 — Goodwill for additional information.

(4) We issued 162,000 shares of Series A Perpetual Convertible Preferred Stock in December 2012 as partial consideration for the acquisition of Homeward. On September 23, 2013, 100,000 of the preferred shares were converted to 3,145,640 shares of Ocwen common stock, which we subsequently repurchased for $157.9 million. On July 14, 2014, the remaining 62,000 preferred shares were converted into 1,950,296 shares of common stock, which we subsequently repurchased for $72.3 million. See Note 16 — Equity to the Consolidated Financial Statements for additional information.

(5) We completed the repurchase of 625,705 shares, 10,420,396 shares and 1,125,707 shares under a common stock repurchase program announced in 2013 for a total purchase price of $4.1 million, $310.2 million and $60.0 million during 2015, 2014 and 2013, respectively. On March 28, 2012, we issued 4,635,159 shares of common stock upon redemption and conversion of the remaining balance of our 3.25% convertible notes that were due in 2024.

(6) During 2015, we sold certain of our Agency MSRs relating to loans with a UPB of $87.6 billion.

(7) Income tax expense for 2015 includes a $97.1 million provision to establish valuation allowances in connection with deferred tax assets in our U.S. and USVI tax jurisdictions. See Note 20 — Income Taxes for additional information.

(8) We computed the effect of preferred stock and convertible notes on diluted earnings per share using the if-converted method. However, we assumed no conversion of the Series A Perpetual Convertible Preferred Stock into common stock for 2013 or 2012 because the effect was anti-dilutive. For 2015 and 2014, we have excluded the effect of all dilutive or potentially dilutive shares from the computation of diluted earnings per share because of the anti-dilutive effect of our reported net loss.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousands, unless otherwise indicated)

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as other portions of this Form 10-K, may contain certain statements that constitute forward-looking statements within the meaning of the federal securities laws. You can identify forward-looking statements by terminology such as "may," "will," "should," "could", "intend," "consider," "expect," "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the ne terms or other comparable terminology. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Forward-looking statements involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those suggested by such statements. Our business has been undergoing substantial change, which has magnified such risks and uncertainties. You should bear these factors in mind when considering such statements and should not place undue reliance on such statements. In the past, actual results have differed from those suggested by forward-looking statements and this may happen again. You should consider all uncertainties and risks discussed or referenced in this report, including those under "Forward-Looking Statements" and Item 1A, Risk Factors, as well as those discussed in any subsequent SEC filings.

## OVERVIEW

We are a financial services company that services and originates loans.

We are a leader in the servicing industry in foreclosure prevention and loss mitigation, which helps families stay in their homes and improves financial outcomes for loan investors. Our leadership in the industry is evidenced by our high cure rate for delinquent loans and above average rate of continuing performance by homeowners whose loans we have modified. Ocwen has provided more loan modifications under the Federal Government's Home Affordable Modification Program (HAMP) than any other mortgage servicer and 50% more than the next highest servicer, according to data published in the U.S. Treasury's Making Home Affordable Third Quarter 2015 Program Performance Report. Overall, Ocwen completed nearly 644,000 loan modifications from January 1, 2008 to December 31, 2015, including over 54,000 modifications under the SAM program.

We primarily originate, purchase, sell and securitize conventional and government-insured forward mortgage loans and reverse mortgages.

As discussed in further detail under "Operations Summary" and "Segment Results of Operations" below, the key driver of our 2015 operating results as compared to 2014, was a decrease in servicing revenue, resulting from a decline in the total UPB of our residential servicing portfolio from $398.7 billion as of December 31, 2014 to $251.0 billion as of December 31, 2015 primarily due to asset sales and portfolio runoff, that was not accompanied by a corresponding

decrease in expenses.

In order to be profitable, we will need to decrease our expenses so that they are more appropriately aligned with our reduced revenue profile. Accordingly, during the third quarter, we announced a cost improvement initiative with the goal of reducing 2016 expenses by at least $150 million in comparison to 2015 expenses. The primary areas in which we expect to generate cost reductions are Servicing operations, professional services, technology costs and other expenses. As we take very seriously our commitments to enhancing the borrower experience, strengthening our risk and compliance infrastructure and delivering strong loss mitigation results, we will continue to invest in those important areas.

We have largely executed on our previously disclosed strategy to sell certain of our Agency MSRs with the intent of reducing our exposure to interest rate movements, monetizing significant unrealized value and generating significant liquidity. While almost all of our announced sales have now closed, if we view sale prices to be attractive, we may determine to sell additional Agency MSRs in the future. We anticipate that reducing the size of our Agency servicing portfolio will help simplify our operations and help improve our margins over time.

We will seek to increase our revenue through growing our lending business by reinvesting cash flows generated by our servicing business in asset generation businesses - namely businesses where we can not only originate new loans profitably but also potentially retain the servicing rights as well as the customer relationship. We are investing in our forward lending business to build competitive advantages around processes and technology, and we believe the reverse mortgage business is a substantially under-developed market relative to its potential. We will continue to evaluate new adjacent market opportunities that are consistent with our strategic goals where we believe we can capture competitive advantages and achieve attractive returns for our shareholders. These would include sustainable new opportunities that align with long-term macro trends; opportunities that can contribute meaningfully to our long-term growth and return on equity; and, generally, businesses where we feel we can capture and maintain a long-term competitive advantage (e.g., advantages related to operating efficiencies, our cost of capital or our tax structure).

With respect to our servicing business, our recent regulatory settlements have significantly limited our ability to grow our servicing portfolio, which naturally decreases over time through portfolio runoff. In order to grow our servicing portfolio through acquisitions, we will need to satisfy the conditions set forth in our consent orders with the NY DFS and CA DBO. It is not clear that there is a significant market for non-Agency MSR purchases, even if we are given the approval from NY DFS and CA DBO to resume those types of transactions. Nonetheless, we believe our significant investments in our servicing operations, risk and compliance infrastructure over the recent years will position us favorably relative to our peers should such transactions become available.

Our business continues to be impacted by our recent regulatory settlements and the current regulatory environment. We have faced, and expect to continue to face, regulatory and public scrutiny as well as stricter and more comprehensive regulation of our business. We continue to work diligently to assess the implications of the regulatory environment in which we operate and to meet the requirements of the current environment. We devote substantial resources to regulatory compliance, while, at the same time, striving to meet the needs and expectations of our customers, clients and other stakeholders.

Operations Summary

Our consolidated operating results for the past three years have been significantly impacted by sales of MSRs, portfolio and platform acquisitions, subsequent integrations, goodwill impairment and various regulatory settlement and monitoring costs. The operating results of the acquired businesses are included in our operating results since their respective acquisition dates.

The following table summarizes our consolidated operating results for the years ended December 31:

| | 2015 | 2014 | 2013 | % Change 2015 vs. 2014 | 2014 vs. 2013 |
|---|---|---|---|---|---|
| Consolidated: | | | | | |
| Revenue: | | | | | |
| Servicing and subservicing fees | $1,531,797 | $1,894,175 | $1,823,559 | (19)% | 4% |
| Gain on loans held for sale, net | 134,969 | 134,297 | 121,694 | 1 | 10 |
| Other | 74,332 | 82,853 | 93,020 | (10) | (11) |
| Total revenue | 1,741,098 | 2,111,325 | 2,038,273 | (18) | 4 |
| | | | | | |
| Expenses | 1,478,184 | 2,035,208 | 1,301,294 | (27) | 56 |
| | | | | | |
| Other income (expense): | | | | | |
| Interest expense | (482,373) | (541,757) | (395,586) | (11) | 37 |
| Gain on sale of mortgage servicing rights, net | 83,921 | — | — | n/m | n/m |
| Other | 5,677 | $22,481 | $11,086 | (75) | 103 |
| Other expense, net | (392,775) | (519,276) | (384,500) | (24) | 35 |
| | | | | | |
| Income (loss) before income taxes | (129,861) | (443,159) | 352,479 | (71) | (226) |
| Income tax expense | 116,851 | 26,396 | 42,061 | 343 | (37) |
| Net income (loss) | (246,712) | (469,555) | 310,418 | (47) | (251) |
| Net income attributable to non-controlling interests | (305) | (245) | — | 24 | n/m |
| Net income (loss) attributable to Ocwen stockholders | (247,017) | (469,800) | 310,418 | (47) | (251) |
| Preferred stock dividends | — | (1,163) | (5,031) | (100) | (77) |
| Deemed dividend related to beneficial conversion feature of preferred stock | — | (1,639) | (6,989) | (100) | (77) |
| Net income (loss) attributable to Ocwen common stockholders | $(247,017) | $(472,602) | $298,398 | (48) | (258) |
| | | | | | |
| Segment income (loss) before taxes: | | | | | |
| Servicing | $15,876 | (174,090) | 391,667 | (109)% | (144)% |
| Lending | 33,965 | (26,842) | 35,624 | (227) | (175) |
| Corporate Items and Other | (179,702) | (242,227) | (74,812) | (26) | 224 |
| | $(129,861) | $(443,159) | $352,479 | (71) | (226) |

n/m: not meaningful

Year Ended December 31, 2015 versus 2014

Servicing and subservicing fees for 2015 were 19% lower than 2014, primarily as a result of executing on our strategy to sell certain of our Agency MSRs, portfolio runoff and a decline in modifications. However, our sales of MSRs in 2015 allowed us to release significant unrealized value in our servicing portfolios as we recognized $83.9 million in net gains on the sale of MSRs relating to loans with a UPB of $87.6 billion.

Ultimately, we expect that reducing the size of our Agency servicing portfolio will help to simplify our operations and improve our margins; however, through December 31, 2015, we have not realized improved margins as rightsizing our servicing operations will lag the reductions in the size of our servicing portfolio and the related reductions in revenue. Workforce and servicing operations adjustments require time to implement properly, and we have certain

post-sale support obligations in connection with our MSR sales. For example, while we may continue to serve as interim servicer between transaction closing dates and servicing transfer dates, we earn a lower servicing fee and, in certain instances, we are no longer entitled to late fees.

If we were to undertake additional sales of MSRs, we would experience further reductions in revenue in future periods as a result of declining servicing fees. However, to the extent we were to sell MSRs for proceeds in excess of their carrying value, we would recognize net gains that would partly offset these declines in servicing fees.

Gain on loans held for sale from our lending operations increased $10.8 million primarily due to higher margin rates in all three forward lending channels and an increase in reverse lending origination volume. In our servicing business, gains on sales of loans repurchased from Ginnie Mae guaranteed securitizations declined by $10.5 million.

Expenses were $557.0 million or 27% lower in 2015 as compared to 2014. Results for 2014 include a $420.2 million goodwill impairment loss and a $150.0 million charge in connection with the NY DFS settlement. The decline from 2014 related to these expenses was offset in part by higher regulatory monitoring and compliance costs, litigation expenses and fees paid to advisers assisting us with strategic initiatives. Legal expenses increased primarily due to the costs of defending ourselves in proceedings alleging violations of federal, state and local laws and regulations, including proceedings relating to our lender placed insurance arrangements, proceedings brought under the False Claims Act by private citizens and proceedings brought derivatively by purported shareholders. In 2015, we engaged financial and legal advisers to assist us in evaluating and executing on adjustments to our capital structure and exploring other strategic options and incurred $25.1 million in connection with these initiatives. MSR amortization and valuation adjustments, including both fair value adjustments and impairment charges, decreased $57.7 million due to portfolio runoff and the effect of MSR sales offset in part by an impairment charge of $17.3 million.

Interest expense for 2015 decreased as compared to 2014 primarily as a result of reductions in the value of the NRZ financing liability based on the run-off of the underlying MSR servicing portfolio and a decrease in interest on the SSTL as a result of principal repayments during 2015 including required prepayments from proceeds of sales of MSRs and related advances as well as voluntary prepayments. These decreases were offset in part by additional debt issuance costs resulting from amendments to the SSTL in 2015 and the accelerated recognition of deferred debt issuance costs and unamortized discount resulting from the SSTL prepayments. Also, 2015 includes a full twelve months of interest expense on the $350.0 million Senior Unsecured Notes that we issued in May 2014.

Although we incurred a pre-tax loss of $129.9 million for the year ended December 31, 2015, we recognized income tax expense of $116.9 million due to recording a $97.1 million provision to establish valuation allowances in connection with deferred tax assets in our U.S. and USVI tax jurisdictions. Additional income tax expense was recorded in connection with uncertain tax positions and undistributed earnings of foreign subsidiaries. See Note 20 — Income Taxes for additional information.

Year Ended December 31, 2014 versus 2013

Servicing and subservicing fees for 2014 were 4% higher than 2013 primarily as a result of 2014 including a full year of revenue attributed to the ResCap Acquisition, which settled on February 15, 2013, and various asset acquisitions completed throughout 2013, and consistent with the 4% increase in the total average portfolio UPB.

Gains on loans held for sale increased in 2014 largely due to gains recognized in connection with three EBO transactions whereby we purchased delinquent FHA-insured loans out of Ginnie Mae guaranteed securitizations and immediately sold the loans and related advances. Gains on loans held for sale from our lending operations declined slightly in 2014 where lower origination volumes were largely offset by shifts in the origination mix from the lower margin correspondent channel to the higher margin retail channel.

Operating expenses increased 56% in 2014 as compared to 2013 due primarily to goodwill impairment losses, higher professional services expenses, including settlements, as well as platform integration costs and MSR valuation related impacts.

- We recognized a goodwill impairment loss of $420.2 million in 2014. In response to certain events, including significant declines in the market price of our common stock in reaction to the NY DFS settlement announced in December 2014 and the subsequent resignation of our former Executive Chairman, and the CA DBO settlement announced in January 2015 that related to events in 2014, we determined it was necessary to reassess goodwill impairment as of December 31, 2014. This reassessment resulted in the full impairment of the carrying value of goodwill in our Servicing and Lending segments. See Note 12 — Goodwill for additional information.
- Professional services increased primarily because of the $150.0 million charge we recognized in connection with a settlement reached with the NY DFS in December 2014 (2013 included the $53.5 million loss we recognized in

connection with the Ocwen National Mortgage Settlement), which are recorded in the Corporate Items and Other segment, and higher monitoring and compliance costs. See Note 27 — Contingencies for additional information regarding these settlements.

- Higher Servicing and origination expenses and Technology and communication expenses offset by lower Compensation and benefits expense are primarily attributable to the platform integrations during 2014.

- We recognized losses of $22.1 million in connection with changes in the value of our fair value elected MSRs during 2014 as primary mortgage rates decreased and recognized gains of $30.8 million during 2013 as primary mortgage rates increased.
- Amortization of MSRs decreased as a result of the effects of the change in accounting estimate in the first quarter of 2014, offset in part by the effects of asset and platform acquisitions completed throughout 2013.

We completed the integration of the ResCap platform onto the REALServicing platform in the fourth quarter of 2014, and therefore, continued to incur the operating costs of maintaining the ResCap platform throughout the year. Operating expenses for 2014 also include a full twelve months of costs attributed to the ResCap Acquisition, which closed February 15, 2013.

Interest expense for 2014 increased primarily as a result of the increase in outstanding borrowings. The average balance of borrowings increased as a result of the NRZ/HLSS Transactions completed during 2013, the issuance of Ocwen Asset Servicing Income Series (OASIS), Series 2014-1 Notes in February 2014 (OASIS transaction) and the $350.0 million Senior Unsecured Notes issued in May 2014. These increases were partly offset by a decline in interest on our match funded liabilities as we replaced facilities in 2013 with new facilities that featured lower spreads over LIBOR. Interest expense for 2013 included additional interest resulting from the accelerated write-off of facility costs in connection with the early termination of match funded facilities in connection with the NRZ/HLSS Transactions and payments made in connection with interest rate swaps, which were terminated in May 2013.

The effective tax rate for 2014 was (6.0)% as compared to 11.9% for 2013. This change occurred because although we incurred a pre-tax loss for 2014, we recognized income tax expense rather than a benefit because a greater proportion of our pre-tax earnings were earned in higher tax rate jurisdictions and because the $150.0 million NY DFS settlement, the $2.5 million CA DBO settlement and $263.0 million of the goodwill impairment loss were not deductible for tax purposes. Income tax expense for 2014 also includes a provision of $3.6 million to increase the valuation allowance on net deferred tax assets. This compares to a provision of $15.8 million recorded in 2013 to establish a valuation allowance on net deferred tax assets. Ocwen avails itself of certain tax benefits in the USVI and other international jurisdictions, which may have a favorable impact on our effective tax rate. To the extent that our pre-tax earnings are weighted more heavily in these lower tax rate jurisdictions, the effective tax rate decreases. If a greater proportion of our pre-tax earnings are earned in higher tax rate jurisdictions, the effective tax rate increases. See Note 20 — Income Taxes to the Consolidated Financial Statements for additional information.

Financial Condition Summary

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

| | 2015 | 2014 | $ Change | % Change |
|---|---|---|---|---|
| Cash | $257,272 | $129,473 | $127,799 | 99 % |
| Mortgage servicing rights ($761,190 and $93,901 carried at fair value) | 1,138,569 | 1,913,992 | (775,423) | (41) |
| Advances and match funded advances | 2,151,066 | 3,303,356 | (1,152,290) | (35) |
| Loans held for sale ($309,054 and $401,120 carried at fair value) | 414,046 | 488,612 | (74,566) | (15) |
| Loans held for investment - reverse mortgages, at fair value | 2,488,253 | 1,550,141 | 938,112 | 61 |
| Other ($14,352 and $7,335 carried at fair value) | 955,603 | 881,704 | 73,899 | 8 |
| Total assets | $7,404,809 | $8,267,278 | $(862,469) | (10)% |
| | | | | |
| Total Assets by Segment: | | | | |
| Servicing | $4,109,076 | $5,881,862 | $(1,772,786) | (30)% |
| Lending | 2,811,154 | 1,963,729 | 847,425 | 43 |
| Corporate Items and Other | 484,579 | 421,687 | 62,892 | 15 |
| | $7,404,809 | $8,267,278 | $(862,469) | (10)% |
| | | | | |
| Match funded liabilities | $1,584,049 | $2,090,247 | $(506,198) | (24) |
| Financing liabilities ($2,933,066 and $2,058,693 carried at fair value) | 3,089,255 | 2,258,641 | 830,614 | 37 |
| SSTL and other secured borrowings | 782,423 | 1,733,691 | (951,268) | (55) |
| Senior unsecured notes | 350,000 | 350,000 | — | — |
| Other | 744,444 | 793,534 | (49,090) | (6) |
| Total liabilities | 6,550,171 | 7,226,113 | (675,942) | (9) |
| | | | | |
| Total Ocwen stockholders’ equity | 851,562 | 1,038,394 | (186,832) | (18) |
| Non-controlling interest in subsidiaries | 3,076 | 2,771 | 305 | 11 |
| Total equity | 854,638 | 1,041,165 | (186,527) | (18) |
| Total liabilities and equity | $7,404,809 | $8,267,278 | $(862,469) | (10)% |
| | | | | |
| Total Liabilities by Segment: | | | | |
| Servicing | $3,437,739 | $4,986,877 | $(1,549,138) | (31)% |
| Lending | 2,751,667 | 1,900,672 | 850,995 | 45 |
| Corporate Items and Other | 360,765 | 338,564 | 22,201 | 7 |
| | $6,550,171 | $7,226,113 | $(675,942) | (9)% |

Changes in the composition and balance of our assets and liabilities during 2015 are primarily attributable to the execution of our strategy to sell certain of our Agency MSRs and related advances and repayments of the related borrowings. During 2015, we sold MSRs with a carrying value of $658.6 million and the related advances and match funded advances with a carrying value of $562.3 million. We prepaid $865.8 million of the SSTL principal balance during 2015, including $585.8 million of mandatory prepayments from proceeds of completed sales of MSRs and related advances and $280.0 million of voluntary prepayments. Loans held for investment and related financing liabilities increased as a result of our reverse mortgage securitizations accounted for as secured financings.

SEGMENT RESULTS OF OPERATIONS

Servicing

We earn contractual monthly servicing fees pursuant to servicing agreements (which are typically payable as a percentage of UPB) as well as ancillary fees, including HAMP fees, float earnings, REO referral commissions, Speedpay® fees and late fees, in connection with owned MSRs. We also earn fees under both subservicing and special servicing arrangements with banks and other institutions that own the MSRs. We typically earn these fees either as a percentage of UPB or on a per loan basis. Per loan fees typically vary based on delinquency status.

We recognize servicing fees as revenue when the fees are earned, which is generally when the borrower makes a payment or when a delinquent loan is resolved through modification (HAMP or non-HAMP), repayment plan, payoff or through the sale of the underlying mortgaged property following foreclosure.

Loan Resolutions (Modifications, Repayment Plans and REO Sales)

Loan resolution activities are important to our financial performance. We recognize delinquent servicing fees and late fees as revenue when we collect cash on resolved loans, where permitted. Loan resolution activities address the pipeline of delinquent loans and generally lead to (i) modification of the loan terms, (ii) repayment plan alternatives, (iii) a discounted payoff of the loan (e.g., a “short sale”) or (iv) foreclosure or deed-in-lieu-of-foreclosure and sale of the resulting REO. Loan modifications must be made in accordance with the applicable servicing agreement as such agreements may require approvals or impose restrictions upon, or even forbid, loan modifications.

The majority of loans that we modify are delinquent, although we do pro-actively modify some performing loans under the American Securitization Forum guidelines. To select the best loan modification option for a delinquent loan, using a proprietary model, we perform a structured analysis of all options using information provided by the borrower as well as external data, including recent broker price opinions to value the mortgaged property. Our proprietary model includes, among other things, an assessment of re-default risk.

The delinquency rate of our serviced portfolio as a percentage of UPB increased to 14% December 31, 2015 following a decline from 15% at December 31, 2013 to 13% at December 31, 2014. The increase in our delinquency rate in 2015 is primarily due to the sale of performing loans as part of our sales of Agency MSRs.

Advance Obligation

As a servicer, we are generally obliged to advance funds in the event borrowers are delinquent on their monthly mortgage related payments. We advance principal and interest (P&I Advances), taxes and insurance (T&I Advances) and legal fees, property valuation fees, property inspection fees, maintenance costs and preservation costs on properties that have been foreclosed (Corporate Advances). For loans in non-Agency securitization trusts, if we determine that our P&I Advances cannot be recovered from the projected future cash flows, we generally have the right to cease making P&I Advances, declare advances, where permitted including T&I and Corporate advances, in excess of net proceeds to be non-recoverable and, in most cases, immediately recover any such excess advances from the general collection accounts of the respective trust. With T&I and Corporate Advances, we continue to advance if net future cash flows exceed projected future advances without regard to advances already made. Most of our advances have the highest reimbursement priority (i.e., they are “top of the waterfall”) so that we are entitled to repayment from respective loan or REO liquidation proceeds before any interest or principal is paid on the bonds that were issued by the trust. In the majority of cases, advances in excess of respective loan or REO liquidation proceeds may be recovered from pool-level proceeds. The costs incurred in meeting these obligations consist principally of the interest expense incurred in financing the servicing advances. Most, but not all, subservicing agreements provide for more rapid reimbursement of any advances from the owner of the servicing rights.

Significant Variables

The key variables that have the most significant effect on our operating results in the Servicing segment are aggregate UPB, operating efficiency and delinquencies.

Aggregate UPB. Servicing and subservicing fees are generally expressed as a percentage of UPB, and growth in the portfolio generally means growth in servicing and subservicing fees. Conversely, if our portfolio decreases in size our servicing and subservicing fees will also generally decrease.

In 2015, aggregate UPB declined as a result of sales of certain of our Agency MSRs, portfolio run-off and restrictions on our ability to acquire MSRs under our regulatory settlements that limited acquisitions of replacement MSRs during 2015.

Operating Efficiency. Our operating results are heavily dependent on our ability to scale our operations to cost-effectively and efficiently perform servicing activities in accordance with our servicing agreements. To the extent we are unable to process a high volume of transactions consistently and systematically, the cost of our servicing activities increases and has a negative impact on our operating results. To the extent we are unable to complete servicing activities in accordance with the requirements of our servicing agreements, we may incur additional costs or fail to recover otherwise reimbursable costs and



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advances. As a result of process gaps and transitional operating inefficiencies, we have experienced significant charge-offs and provisions for losses on advances and receivables during 2015 and 2014.

Delinquencies. Delinquencies impact our results of operations and operating cash flows. Delinquencies affect the timing of revenue recognition because we recognize servicing fees as earned, which is generally upon collection of payments from the borrower.

Non-performing loans are also more expensive to service because the loss mitigation activities that we must undertake to keep borrowers in their homes or to foreclose, if necessary, are more costly than the activities required to service a performing loan. These loss mitigation activities include increased contact with the borrower for collection and the development of forbearance plans or loan modifications by highly skilled associates who command higher compensation. While the higher cost is somewhat offset by ancillary fees, for severely delinquent loans or loans that enter the foreclosure process the higher revenue opportunities are generally not sufficient.

In addition, when borrowers are delinquent, the amount of funds that we are required to advance to the investors increases. We incur significant costs to finance those advances. We utilize servicing advance financing facilities, which are asset-backed (i.e., match funded liabilities) securitization facilities, to finance a portion of our advances. As a result, increased delinquencies result in increased interest expense.

Prepayment Speed. The rate at which UPB declines for a pool, or pools of loans, can have a significant impact on our business. Items reducing UPB include normal principal payments (runoff), refinancing, loan modifications involving forgiveness of principal, voluntary property sales and involuntary property sales such as foreclosures. Prepayment speed impacts future servicing fees, amortization and valuation of MSRs, float earnings on float balances and interest expense on advances. Increases in prepayment speeds generally cause MSR valuation adjustments, including amortization expense, changes in fair value and impairment, to increase because MSRs are valued based on total expected servicing income over the life of a portfolio. The converse is true when expectations for prepayment speeds decrease.

The following table presents selected results of operations of our Servicing segment for the years ended December 31, 2015, 2014, and 2013. The amounts presented are before the elimination of balances and transactions with our other segments:

| | 2015 | 2014 | 2013 | % Change 2015 vs. 2014 | 2014 vs. 2013 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Servicing and subservicing fees: | | | | | |
| Residential | $1,519,945 | $1,877,843 | $1,800,598 | (19)% | 4% |
| Commercial | 11,539 | 16,305 | 17,907 | (29) | (9) |
| | 1,531,484 | 1,894,148 | 1,818,505 | (19) | 4 |
| Gain on loans held for sale, net | 40,208 | 50,748 | 39,490 | (21) | 29 |
| Other revenues | 41,845 | 40,540 | 37,926 | 3 | 7 |
| Total revenue | 1,613,537 | 1,985,436 | 1,895,921 | (19) | 5 |
| | | | | | |
| Expenses | | | | | |
| Compensation and benefits | 229,773 | 271,173 | 320,598 | (15) | (15) |
| Goodwill impairment loss | — | 371,079 | — | (100) | n/m |
| Amortization of mortgage servicing rights | 98,849 | 249,471 | 282,526 | (60) | (12) |
| Servicing and origination | 332,864 | 188,243 | 95,180 | 77 | 98 |
| Technology and communications | 92,189 | 130,359 | 114,385 | (29) | 14 |
| Professional services | 129,955 | 81,422 | 34,840 | 60 | 134 |
| Occupancy and equipment | 85,656 | 91,333 | 85,767 | (6) | 6 |
| Other | 252,593 | 260,243 | 162,788 | (3) | 60 |
| Total expenses | 1,221,879 | 1,643,323 | 1,096,084 | (26) | 50 |
| | | | | | |
| Other income (expense) | | | | | |
| Interest income | 1,044 | 2,981 | 1,599 | (65) | 86 |
| Interest expense | (446,377) | (515,141) | (381,477) | (13) | 35 |
| Gain on sale of mortgage servicing rights, net | 83,921 | — | — | n/m | n/m |
| Loss on debt redemption | — | — | (17,030) | n/m | (100) |
| Other, net | (14,370) | (4,043) | (11,262) | 255 | (64) |
| Total other expense, net | (375,782) | (516,203) | (408,170) | (27) | 26 |
| | | | | | |
| Income (loss) before income taxes | $15,876 | $(174,090) | $391,667 | (109) | (144) |

n/m: not meaningful

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The following table provides selected operating statistics at or for the years ended December 31:

| | 2015 | 2014 | 2013 | % Change 2015 vs. 2014 | 2014 vs. 2013 |
|---|---|---|---|---|---|
| Residential Assets Serviced | | | | | |
| Unpaid principal balance (UPB): | | | | | |
| Performing loans (1) | $216,505,262 | $345,918,430 | $397,462,893 | (37 )% | (13 )% |
| Non-performing loans | 28,599,543 | 44,672,737 | 59,425,722 | (36 ) | (25 ) |
| Non-performing real estate | 5,861,307 | 8,136,560 | 7,762,717 | (28 ) | 5 |
| Total (2) | $250,966,112 | $398,727,727 | $464,651,332 | (37 ) | (14 ) |
| | | | | | |
| Conventional loans (3) | $78,310,414 | $191,711,081 | $218,657,915 | (59 )% | (12 )% |
| Government-insured loans | 28,274,374 | 39,529,799 | 45,484,303 | (28 ) | (13 ) |
| Non-Agency loans | 144,381,324 | 167,486,847 | 200,509,114 | (14 ) | (16 ) |
| Total | $250,966,112 | $398,727,727 | $464,651,332 | (37 ) | (14 ) |
| | | | | | |
| Percent of total UPB: | | | | | |
| Servicing portfolio | 92 % | 91 % | 86 % | 1 % | 6 % |
| Subservicing portfolio | 8 % | 9 % | 14 % | (11 ) | (36 ) |
| Non-performing residential assets serviced | 14 % | 13 % | 15 % | 8 | (13 ) |
| | | | | | |
| Number of: | | | | | |
| Performing loans (1) | 1,452,560 | 2,220,301 | 2,511,675 | (35 )% | (12 )% |
| Non-performing loans | 141,815 | 221,763 | 308,468 | (36 ) | (28 ) |
| Non-performing real estate | 30,387 | 43,974 | 41,775 | (31 ) | 5 |
| Total (2) | 1,624,762 | 2,486,038 | 2,861,918 | (35 ) | (13 ) |
| | | | | | |
| Conventional loans (3) | 437,878 | 1,098,336 | 1,221,483 | (60 )% | (10 )% |
| Government-insured loans | 201,449 | 265,749 | 289,185 | (24 ) | (8 ) |
| Non-Agency loans | 985,435 | 1,121,953 | 1,351,250 | (12 ) | (17 ) |
| Total | 1,624,762 | 2,486,038 | 2,861,918 | (35 ) | (13 ) |
| | | | | | |
| Percent of total number: | | | | | |
| Servicing | 93 % | 91 % | 84 % | 2 % | 8 % |
| Subservicing | 7 % | 9 % | 16 % | (22 ) | (44 ) |
| Non-performing residential assets serviced | 11 % | 11 % | 12 % | — | (8 ) |

| | 2015 | 2014 | 2013 | % Change 2015 vs. 2014 | 2014 vs. 2013 |
|---|---|---|---|---|---|
| Residential Assets Serviced | | | | | |
| Average UPB | | | | | |
| Servicing | $291,678,530 | $377,040,219 | $320,907,907 | (23 )% | 17 % |
| Subservicing | 41,305,425 | 54,603,386 | 94,821,042 | (24 ) | (42 ) |
| | $332,983,955 | $431,643,605 | $415,728,949 | (23 ) | 4 |
| | | | | | |
| Prepayment speed (average CPR) | 14 % | 12 % | 17 % | 17 % | (29 )% |
| % Voluntary | 80 % | 78 % | 79 % | 3 % | (1 )% |
| % Involuntary | 20 % | 22 % | 21 % | (9 )% | 5 % |
| % CPR due to principal modification | 2 % | 3 % | 9 % | (33 )% | (67 )% |
| | | | | | |
| Average number | | | | | |
| Servicing | 1,859,828 | 2,336,379 | 1,997,691 | (20 )% | 17 % |
| Subservicing | 246,149 | 332,664 | 623,210 | (26 ) | (47 ) |
| | 2,105,977 | 2,669,043 | 2,620,901 | (21 ) | 2 |
| | | | | | |
| Residential Servicing and Subservicing Fees | | | | | |
| Loan servicing and subservicing fees: | | | | | |
| Servicing | $1,142,088 | $1,354,706 | $1,236,449 | (16 )% | 10 % |
| Subservicing | 58,384 | 128,153 | 146,576 | (54 ) | (13 ) |
| | 1,200,472 | 1,482,859 | 1,383,025 | (19 ) | 7 |
| HAMP fees | 135,037 | 141,115 | 152,081 | (4 ) | (7 ) |
| Late charges | 82,216 | 120,998 | 114,963 | (32 ) | 5 |
| Loan collection fees | 31,719 | 33,933 | 30,960 | (7 ) | 10 |
| Custodial accounts (float earnings) | 15,622 | 6,369 | 4,895 | 145 | 30 |
| Other | 54,879 | 92,569 | 114,674 | (41 ) | (19 ) |
| | $1,519,945 | $1,877,843 | $1,800,598 | (19 ) | 4 |
| | | | | | |
| Number of Completed Modifications | | | | | |
| HAMP | 40,757 | 42,189 | 47,758 | (3 )% | (12 )% |
| Non-HAMP | 43,731 | 61,145 | 66,592 | (28 ) | (8 ) |
| Total | 84,488 | 103,334 | 114,350 | (18 ) | (10 ) |

| | 2015 | 2014 | 2013 | % Change 2015 vs. 2014 | 2014 vs. 2013 |
|---|---|---|---|---|---|
| Financing Costs | | | | | |
| Average balance of advances and match funded advances | $2,548,055 | $3,291,329 | $2,844,865 | (23)% | 16% |
| Average borrowings | | | | | |
| Match funded liabilities | $1,735,232 | $2,065,465 | $1,535,736 | (16) | 34 |
| Financing liabilities | $760,774 | $795,636 | $514,539 | (4) | 55 |
| Other secured borrowings | $971,250 | $1,309,696 | $1,185,570 | (26) | 10 |
| Interest expense on borrowings | | | | | |
| Match funded liabilities | $65,248 | $61,576 | $75,979 | 6 | (19) |
| Financing liabilities | $292,306 | $371,824 | $228,586 | (21) | 63 |
| Other secured borrowings | $81,833 | $72,183 | $68,588 | 13 | 5 |
| Effective average interest rate | | | | | |
| Match funded liabilities | 3.76% | 3.00% | 4.95% | 25 | (39) |
| Financing liabilities (4) | 38.42% | 46.73% | 44.43% | (18) | 5 |
| Other secured borrowings | 8.43% | 5.51% | 5.79% | 53 | (5) |
| Facility costs included in interest expense | $62,166 | $20,255 | $18,917 | 207 | 7 |
| Discount amortization included in interest expense | $2,680 | $1,318 | $1,412 | 103 | (7) |
| Average 1-month LIBOR | 0.20% | 0.16% | 0.19% | 25 | (16) |
| | | | | | |
| Average Employment | | | | | |
| India and other | 6,719 | 6,385 | 4,873 | 5% | 31% |
| U. S. | 1,938 | 2,509 | 3,322 | (23) | (24) |
| Total | 8,657 | 8,894 | 8,195 | (3) | 9 |
| | | | | | |
| Collections on loans serviced for others | $62,973,718 | $75,513,073 | $84,484,413 | (17)% | (11)% |

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

(2) At December 31, 2015, we serviced 645,253 subprime loans with a UPB of $105.1 billion. This compares to 719,187 subprime loans with a UPB of $120.4 billion at December 31, 2014 and 834,734 subprime loans with a UPB of $146.0 billion at December 31, 2013.

(3) Conventional loans at December 31, 2015 include 199,546 prime loans with a UPB of $38.9 billion that we service or subservice. This compares to 236,276 prime loans with a UPB of $48.7 billion at December 31, 2014 and 254,304 prime loans with a UPB of $56.2 billion at December 31, 2013.

(4) The effective average interest rate on the financing liability that we recognize in connection with the NRZ/HLSS Transactions is 48.71%, 57.43% and 44.50% for the years ended December 31, 2015, 2014 and 2013, respectively. Interest expense on financing liabilities for 2015 includes $14.3 million of fees incurred in connection with our agreement to compensate NRZ for certain increased costs associated with its servicing advance financing facilities that are the direct result of a downgrade of our S&P servicer rating.

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

| | Amount of UPB | | | Count | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Portfolio at beginning of year | $398,727,727 | $464,651,332 | $203,665,716 | 2,486,038 | 2,861,918 | 1,219,956 |
| Additions | 8,137,772 | 7,475,234 | 370,803,318 | 41,284 | 45,051 | 2,191,064 |
| Sales (1) | (87,624,742) | (34,893) | — | (524,660) | (95) | — |
| Servicing transfers | (17,195,936) | (28,790,794) | (36,385,704) | (103,490) | (118,806) | (192,700) |
| Runoff | (51,078,709) | (44,573,152) | (73,431,998) | (274,410) | (302,030) | (356,402) |
| Portfolio at end of year | $250,966,112 | $398,727,727 | $464,651,332 | 1,624,762 | 2,486,038 | 2,861,918 |

(1) We retained the subservicing on MSRs that we sold in 2013.

Year Ended December 31, 2015 versus 2014

The key driver of our servicing segment operating results, as compared to 2014, was a decrease in servicing revenue, resulting from a 23% decline in the average UPB of our residential servicing portfolio primarily due to asset sales and portfolio runoff that was not accompanied by a corresponding decrease in expenses. In order to return to profitability, we need to decrease our expenses to a level more appropriately aligned with our reduced revenue profile. Accordingly, during the third quarter of 2015, we announced a cost improvement initiative with the goal of reducing 2016 expenses by at least $150 million in comparison to 2015 expenses.

Total residential servicing and subservicing fees of $1.5 billion decreased 19% primarily as a result of a 23% decline in the average UPB of our servicing and subservicing portfolio due to MSR sales, transfers and runoff. A 21% decline in the average number of assets in our portfolio contributed to declines in ancillary fees and other servicing revenue. Revenue associated with delinquent loan resolution strategies declined in line with an 18% decline in completed modifications. The portion of modifications completed under HAMP as a percentage of total modifications increased to 48% for 2015 as compared to 41% in 2014. The HAMP program expires on December 31, 2016. We recognized revenue of $235.6 million and $260.6 million during 2015 and 2014, respectively, in connection with loan modifications.

We estimate the balance of deferred servicing fees related to delinquent borrower payments was $458.7 million at December 31, 2015 compared to $527.6 million at December 31, 2014. The net decrease is primarily due to collections of loan principal and interest and resolutions of delinquent loans through modification, payoff or other resolution. We are contractually obligated to remit all deferred servicing fees collected in connection with MSRs underlying the sales of Rights to MSRs to NRZ. However, in addition to base servicing fees, we are entitled to performance fees that increase to the extent we collect deferred servicing fees. As such, the majority of the deferred servicing fees collected are recognized by us as revenue and as a reduction of interest expense related to the NRZ financing liability.

MSR valuation adjustments, including amortization, impairment and changes in fair value, decreased by $57.2 million as a result of MSR sales and lower mortgage interest rates during 2015. Declining interest rates typically result in increased prepayment activity for MSRs, which generally reduces the value of our MSRs as the underlying loans prepay faster. The fair value of our government-insured MSRs fell below their carrying value by $17.3 million at December 31, 2015, resulting in the recognition of an impairment charge.

While expenses, excluding the $371.1 million write-off of goodwill in 2014 and MSR related valuation adjustments, increased by only 1% in 2015, there were structural business dynamics that resulted in largely offsetting impacts. We realized integration benefits of $65.0 million in 2015, including a $41.4 million decline in compensation and benefits, reflecting a 23% reduction in average U.S. based headcount and the migration of certain operations offshore where we realize cost efficiencies while maintaining operational effectiveness, enabling a reduction in our servicing-related outsourcing expenses of $23.6 million.

We are continuing to review the efficiency of the servicing operations to take advantage of additional cost improvement strategies aimed at increasing operating margins and improving borrower experience. We were able to reduce servicing related expenses in connection with non-recoverable advances and receivables (Servicing and origination expense and Other expense) by $47.8 million, to $79.4 million in 2015 as compared to $127.2 million in

2014 through execution of process improvements and simplification of our operations in connection with the sale of Agency MSRs.

Offsetting the effects of the integration benefits and operational improvements were increases of $41.1 million in costs charged through corporate overhead allocations (excluding $39.1 million in technology allocations), $33.8 million in legal expenses and $31.3 million in Ginnie Mae claim losses. The higher overhead allocations reflect the investments we are making

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to build out our risk and compliance functions. Legal expenses increased primarily due to the costs of defending ourselves in proceedings alleging violations of federal, state and local laws and regulations governing our servicing activities, including proceedings relating to our lender placed insurance arrangements and proceedings brought under the False Claims Act by private citizens. Ginnie Mae claim losses increased in line with an 84% increase in the number of FHA claims completed during 2015.

Interest expense declined by $68.8 million, or 13%, in 2015 due principally to a $77.6 million decrease in interest on the NRZ financing liabilities (net of an increase of $14.3 million due to additional payments in connection with downgrades to our S&P servicer rating) and a $17.7 million decrease in interest on the SSTL as a result of mandatory and voluntary prepayments totaling $865.8 million during 2015. These decreases were partly offset by additional financing fees paid in connection with renewing and modifying our servicing advance financing facilities and accelerated amortization of financing fees on the SSTL as a result of the prepayments.

Under the agreements associated with the NRZ/HLSS Transactions, we remit servicing fees collected on the underlying MSRs, except for the ancillary fees (other than float earnings). The servicing fees that we remit, net of the subservicing and performance fees that we receive, are accounted for as a reduction of the NRZ financing liability and as interest expense. Changes in the fair value of the MSRs underlying the financing liability are also included in the amount reported as interest expense.

Other income for 2015 includes net gains of $83.9 million recognized on the sale of Agency MSRs relating to loans with a UPB of $87.6 billion.

Year Ended December 31, 2014 versus 2013

Residential servicing and subservicing revenue for 2014 was $1.9 billion, a 4% increase over 2013 due to a 4% increase in the average UPB of assets serviced.

Completed modifications decreased by 10% in 2014 versus an increase of 38% in 2013. Of the total modifications completed during 2014, 48% included principal modifications as compared to 55% in 2013. We recognized servicing fee, late charge and HAMP fee revenue of $260.6 million and $278.0 million during 2014 and 2013, respectively, in connection with modifications.

Overall, the non-performing delinquency rate based on UPB dropped from 15% at December 31, 2013 to 13% at December 31, 2014 largely due to improvements in our overall portfolio delinquency rates, which are driven by modifications, improvements in our early loss mitigation efforts, full-year realization of repayment plans and general improvements in the economic environment.

We estimate the balance of deferred servicing fees related to delinquent borrower payments was $527.6 million at December 31, 2014 compared to $583.0 million at December 31, 2013. The net decrease is primarily due to collections and resolutions of delinquent loans through modification, payoff or through the sale of the underlying mortgaged property following foreclosure.

Gain on loans held for sale, net includes $54.7 million and $35.1 million gains on the sale of modified FHA and VA loans during 2014 and 2013, respectively. Gains increased in 2014 largely due to gains recognized in connection with three EBO transactions whereby we purchased delinquent FHA-insured loans out of Ginnie Mae guaranteed securitizations and immediately sold the loans and related advances to third parties.

As a result of an interim evaluation of goodwill as of December 31, 2014, we recognized an impairment loss of $371.1 million in 2014 representing the full impairment of the carrying value of goodwill in the Servicing segment. See Note 12 — Goodwill for additional information.

MSR valuation adjustments, including amortization and changes in fair value, increased by $22.3 million in 2014. We recognized losses of $22.1 million during 2014 in connection with changes in the value of our fair value elected MSRs as primary mortgage rates fell 0.54%, and recognized gains of $30.8 million during 2013 on an increase in the primary mortgage rate of 0.87%. Amortization decreased $33.1 million as a result of the effects of the change in accounting estimate in the first quarter of 2014, which reduced amortization expense by $89.9 million during 2014, offset in part by a full year of amortization related to asset and platform acquisitions completed in 2013.

Expenses, excluding goodwill impairment and MSR valuation adjustments, increased by $153.9 million in 2014, or 18%, as compared to 2013 primarily due to platform integration costs and higher professional services expenses. We completed the integration of the ResCap platform in the fourth quarter of 2014 but continued to incur the operating

costs of maintaining the platform. Operating expenses for 2014 also included a full twelve months of costs attributed to the ResCap Acquisition, which closed on February 15, 2013.



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Higher Servicing and origination expenses and Technology and communication expenses and lower Compensation and benefit expenses are primarily attributable to the platform integrations during 2014. We also recognized $49.9 million of additional bad debt expense during 2014 as compared to 2013 largely in connection with a write-down of receivables and advances that became unrecoverable due to operating inefficiencies resulting from the platform and acquisition integrations.
Professional services expense increased largely because of higher legal costs and a decrease in amounts that we billed for reimbursement of transition services related to the ResCap Acquisition.
Overhead cost allocations for corporate support services, including law, human resources, compliance, accounting and finance, increased $65.2 million in 2014 as compared to 2013 mainly due to the integration of Homeward and ResCap support functions during 2013, which were previously charged directly to the Servicing segment, and higher regulatory compliance costs incurred by the corporate support groups.
Interest expense increased by $133.7 million, or 35%, during 2014 as compared to 2013, with $132.1 million attributable to a 22% increase in the average balance of the NRZ financing liabilities. This increase was partly offset by a $14.4 million decline in interest expense due to decreases in the average effective interest rate on our match funded advance financing facilities.

Lending

We originate and purchase conventional and government-insured forward mortgage loans through our Homeward forward lending operations. Loans are acquired through three primary channels: correspondent lender relationships, broker relationships and directly with mortgage customers (retail). Per-loan margins vary by channel, with correspondent typically being the lowest margin and retail the highest margin. After origination, we package and sell the loans in the secondary mortgage market, through GSE securitizations and whole loan transactions. We typically retain the associated MSRs as we view this as a low cost means to acquire MSRs with good return profiles. Lending revenues include interest income earned for the period the loans are held by us, gain on sale revenue which represents the difference between the origination value and the sale value of the loan, and fee income earned at origination.
Reverse mortgages are originated and purchased through our Liberty reverse lending operations under the guidelines of the HECM reverse mortgage insurance program of HUD. Loans originated under this program are guaranteed by the FHA, which provides investors with protection against risk of borrower default. We retain the servicing rights to reverse loans securitized through the Ginnie Mae HMBS program. We have originated variable rate HECM loans under which the borrowers have additional borrowing capacity of $922.8 million at December 31, 2015. These draws are funded by the servicer and can be subsequently securitized or sold (Future Value). We do not incur any substantive underwriting, marketing or compensation costs in connection with these future draws. We recognize this Future Value over time as future draws are securitized or sold. At December 31, 2015, Future Value is estimated to be $67.7 million. We use a third-party valuation expert to determine Future Value based on the net present value of the estimated future cash flows of the loans and utilizing a discount rate of 12% and projected performance assumptions in line with historical experience and industry benchmarks.
The UPB of our loan production, by channel, is as follows:

| | Correspondent | Wholesale | Retail | Total |
|---|---|---|---|---|
| Year Ended December 31, 2015 | | | | |
| Forward loans | $1,862,140 | $1,333,225 | $735,543 | $3,930,908 |
| Reverse loans | 284,147 | 371,406 | 154,120 | 809,673 |
| Total | $2,146,287 | $1,704,631 | $889,663 | $4,740,581 |
| | | | | |
| Year Ended December 31, 2014 | | | | |
| Forward loans | $2,299,273 | $856,468 | $1,102,126 | $4,257,867 |
| Reverse loans | 178,893 | 332,092 | 164,481 | 675,466 |
| Total | $2,478,166 | $1,188,560 | $1,266,607 | $4,933,333 |

We provide customary origination representations and warranties to investors in connection with our loan sales and securitization activities. We receive customary origination representations and warranties from our network of approved originators in connection with loans we purchase through our correspondent lending channel. We recognize

the fair value of the liability for our representations and warranties at the time of sale. In the event we cannot remedy a breach of a representation or warranty, we may be required to repurchase the loan or provide an indemnification payment to the investor. To the extent that we have recourse against a third-party originator, we may recover part or all of any loss we incur.

As noted above, our lending business represents an organic source of new MSRs for our servicing business through the MSRs retained from originated and purchased loans that we sell into the secondary market. A portion of our servicing portfolio is susceptible to refinance activity during periods of declining interest rates. This runoff results in a decline in the fair value of our conventional and prime non-Agency serviced portfolio. Our lending activity partially mitigates this risk. Origination volume and related gains have historically offset, to a degree, the economic impact of declining MSR values as interest rates decline.
We are subject to licensing requirements in the jurisdictions in which we originate and service mortgage loans.
Significant Variables
The key variables that have the most significant effect on our operating results in the Lending segment are changes in the aggregate forward and reverse mortgage market size, GSE and government programs and the cost to produce a loan. These variables impact our volume and margins.
Forward Mortgage Lending
Mortgage Rates. Changes in mortgage rates directly impact the demand for both purchase and refinance forward mortgages. Small changes in mortgage rates directly impact housing affordability for both first-time and move-up home buyers and affect their ability to purchase a home. For refinance loans, current market mortgage rates must be considered relative to the rates on the current mortgage debt outstanding. As the time and cost to refinance has decreased, relatively small reductions in mortgage rates can trigger higher refinancing activity. Given the large size of U.S. residential forward mortgage debt outstanding, the impact of mortgage rate changes can drive significant swings in mortgage refinance volume. The January 2016 Fannie Mae forecast projects a decline in refinance volume from 2015 to 2016 of approximately 42% after an estimated 50% increase in 2015.
In May 2015, the FHFA announced a one-year extension of HARP to December 31, 2016. This program allows borrowers with loans sold to Fannie Mae or Freddie Mac prior to June 1, 2009 to refinance through a simplified process with broader underwriting guidelines, most notably, higher loan to value (LTV) ratios. Since the HARP program was introduced, it has provided a boost to lending volumes and higher relative margins. HARP loans provide for broader refinance opportunities and for effective portfolio recapture. We originated loans with a total UPB of approximately $786.0 million through HARP in 2015, which represented approximately 20% of total forward loan originations for the year.
Economic Conditions. General economic conditions impact the capacity for consumer credit and the supply of capital. More specifically, employment and home prices are variables that can each have a material impact on mortgage volume. Employment levels, the level of wages and the stability of employment are underlying factors that impact credit qualification. While the economy has been improving, the rate of improvement in employment has not provided a significant lift in consumer credit capacity and may not in the near term. While the economy has been improving, the rate of improvement in employment has not provided a significant lift in consumer credit capacity and may not in the near term.
The effect of home prices on lending volumes is significant and complex. As home prices go up, home equity increases and this improves the position of existing homeowners either to refinance or to sell their home, which likely leads to a new home purchase and a new forward mortgage loan. However, if home prices increase rapidly, the effect on affordability for first-time and move-up buyers can dampen the demand for mortgage loans. The more restrictive standards for LTV ratios, debt to income (DTI) ratios and employment that characterize the current market amplify the significance and sensitivity of the housing market and related mortgage lending volumes to employment levels and home prices.
Secondary Market Liquidity. The liquidity of the secondary market impacts the size of the market by defining loan attributes and credit guidelines for loans that investors are willing to buy and at what price. In recent years, the GSEs have been the dominant providers of secondary market liquidity, keeping the product and credit spectrum relatively homogeneous and risk averse (higher credit standards). There is ongoing debate about the future role of the GSEs in the mortgage market, including winding down the GSEs and reducing (e.g., by lowering the loan and/or LTV limits) or eliminating over time the role of the GSEs in guaranteeing mortgages and providing funding for mortgage loans. The timing and magnitude of any potential change is difficult to predict but could have a material impact on secondary market liquidity and, therefore, mortgage market size and/or product composition.

Regulatory Environment. Ongoing regulatory development in the mortgage industry has resulted in added costs and complexity, including higher costs for operational support, risk and compliance monitoring and oversight, legal and technology. The CFPB adopted new regulations that went into effect in 2014 which require mortgage originators to evaluate a borrower's ability to repay their mortgage. Overall, these rules had the initial effect of increasing costs and constraining market size.

Margins. Changes in pricing margin are closely correlated with changes in market size. As loan demand and market capacity move out of alignment, pricing adjusts. In a growing market, margins expand and in a contracting market, margins tighten as lenders seek to keep their production at or close to full capacity. Managing capacity and cost is critical as volumes

change. The challenge is greatest in the higher cost channels. Among our channels, our costs per loan are highest in the retail channel and lowest in the correspondent channel. We work directly with the borrower to process, underwrite and close loans in our retail and wholesale channels. In our retail channel, we also identify the customer and take loan applications. As a result, our retail channel is the most people- and cost-intensive and also experiences the greatest volume volatility, as this channel is primarily focused on the refinance (recapture) market.

Reverse Mortgage Lending

The key variables that have the most significant effect on our reverse lending business are changes to programs with respect to HECM, reverse mortgage borrower and investor demand, margins and future value.

HECM Programs. Reverse mortgages are typically originated under the guidelines of the HECM reverse mortgage insurance program of HUD. Loans originated under this program are guaranteed by the FHA, which provides investors with protection against risk of borrower default. In addition, the FHA can be required to repurchase the underlying HECM when the loan reaches 98% loan to original value. The HUD guidelines require that the borrower meet certain requirements and pay annual mortgage insurance. The HUD guidelines also place limits on future borrowings. Changes in HUD guidelines impact our operations to the extent we must modify our business practices to meet these changing requirements. Changes can also increase competition and negatively impact margins.

Borrower and Investor Demand. Changes in HUD guidelines and costs can affect borrower demand for the reverse mortgage product. Borrower demand for the reverse mortgage product is also influenced by alternative financing sources such as traditional home equity loans. Investor demand has remained strong due to a number of factors, including FHA insurance, which protects investors against borrower performance risk, and the relatively lower prepayment risk when compared to other alternative financing sources.

Margins. Our wholesale channel has a largely variable cost structure; hence, gross margins are a function of competition and secondary market execution. Our retail channel gross margins are impacted by our lead throughput ratio (success in converting leads into originations), the cost per generated or purchased lead and productivity-based compensation. Because the retail channel has higher fixed selling and administrative costs, changes in loan volume can have a significant impact on our net margins.

Future Value. We retain the servicing rights to reverse loans securitized through the HMBS program. Variable rate HECM loans allow borrowers to make additional draws in the future. These draws are funded by us as the servicer and can be subsequently securitized or sold (Future Value). We do not incur any substantive underwriting, marketing or compensation costs in connection with these Future Value draws although we must maintain minimum capital requirements designed to ensure that we are able to fund these Future Value draws. We recognize the Future Value as borrowers make future draws.

The following table presents the results of operations of the Lending segment for the years ended December 31, 2015, 2014 and 2013. We acquired Liberty's reverse loan origination platform on April 1, 2013. The amounts presented are before the elimination of balances and transactions with our other segments:

| | 2015 | 2014 | 2013 | % Change 2015 vs. 2014 | 2014 vs. 2013 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Gain on loans held for sale, net | | | | | |
| Forward mortgages | $64,102 | $56,900 | $48,561 | 13 % | 17 % |
| Reverse mortgages | 30,233 | 26,649 | 33,645 | 13 % | (21 )% |
| | 94,335 | 83,549 | 82,206 | 13 % | 2 % |
| Other | 30,389 | 35,671 | 38,693 | (15 )% | (8 )% |
| Total revenue | 124,724 | 119,220 | 120,899 | 5 % | (1 )% |
| | | | | | |
| Expenses | | | | | |
| Compensation and benefits | 53,468 | 56,314 | 56,394 | (5 )% | — % |
| Goodwill impairment loss | — | 49,122 | — | (100 )% | n/m |
| Amortization of mortgage servicing rights | 345 | 705 | 255 | (51 )% | 176 % |
| Servicing and origination | 9,586 | 14,470 | 12,843 | (34 )% | 13 % |
| Technology and communications | 4,718 | 4,901 | 4,402 | (4 )% | 11 % |
| Professional services | 2,246 | 4,350 | 4,780 | (48 )% | (9 )% |
| Occupancy and equipment | 5,173 | 4,796 | 5,420 | 8 % | (12 )% |
| Other | 22,156 | 21,614 | 14,100 | 3 % | 53 % |
| Total expenses | 97,692 | 156,272 | 98,194 | (37 )% | 59 % |
| | | | | | |
| Other income (expense) | | | | | |
| Interest income | 14,669 | 16,459 | 16,295 | (11 )% | 1 % |
| Interest expense | (9,859 ) | (10,725 ) | (13,508 ) | (8 )% | (21 )% |
| Gain on debt redemption | — | 2,609 | 8,349 | (100 )% | (69 )% |
| Other, net | 2,123 | 1,867 | 1,783 | 14 % | 5 % |
| Other income (expense), net | 6,933 | 10,210 | 12,919 | (32 )% | (21 )% |
| | | | | | |
| Income (loss) before income taxes | $33,965 | $(26,842 ) | $35,624 | (227 )% | (175 )% |

n/m: not meaningful

Year Ended December 31, 2015 versus 2014

Lending pre-tax income improved by $60.8 million, or 227%, in 2015 as compared to 2014 due to a $54.4 million increase in pre-tax income of the Homeward forward lending operations and a $6.4 million improvement in pre-tax income of the Liberty reverse mortgage operations. Our forward lending operations generated $34.3 million of pre-tax income in 2015 while our reverse lending operations incurred a pre-tax loss of $0.3 million. Total funding decreased by $192.8 million, or 4%, due to a $327.0 million decrease in forward lending volume and a $134.2 million increase in reverse mortgage volume. Gains on loans held for sale, net increased $10.8 million primarily due to higher margins in forward lending and the increase in reverse lending origination volume.

Expenses related to the Homeward and Liberty platforms are driven largely by production volume, with direct acquisition costs offset by origination fee income that is included in Other revenue. The $58.6 million decline in total expenses in 2015 was largely due to the $49.1 million goodwill impairment loss recognized in 2014.

Interest income consists primarily of interest earned on newly originated and purchased loans prior to sale to investors. Interest income is offset by interest expense incurred to finance the mortgage loans. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, commonly referred

to as warehouse lines.



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The decline in interest income and expense in 2015 is principally driven by our operational decision to accelerate the turnover of loans originated in forward lending.

Homeward forward lending revenues increased by $3.2 million, or 4%, in 2015 from 2014 levels to a total of $77.1 million. The increase in revenue was due to the effect of higher margins in the correspondent and retail channels and higher volume in the wholesale channel, which were partially offset by volume declines in the retail and correspondent channels. Total forward mortgage originations decreased to $3.9 billion, which was $327.0 million, or 8%, lower than originations in 2014. Forward lending Other revenue declined by $4.0 million principally as a result of a $4.6 million decline in setup fees on originated loans as a result of in the change in the mix of originations, because of the declines in the retail and correspondent channels. Forward lending expenses of $48.2 million represented a decrease of $55.7 million, or 54%, from 2014, primarily because of the goodwill impairment loss of $46.2 million recognized in 2014. Also contributing to the decline in expenses were lower Compensation and benefits expense because of relatively greater use of offshore personnel and reduced use of temporary personnel and lower Servicing and origination expense that are primarily the result of lower volume and improved cost containment efforts.

Liberty reverse lending revenues of $47.7 million increased by $2.3 million, or 5%. Total expenses declined by $2.9 million, or 6%. The increase in revenue was primarily due to higher funded volume, predominantly in the wholesale and correspondent channels. Margin rate declines in the wholesale and correspondent channels were partially offset by a margin increase in the retail channel. Funded reverse mortgage volume of $809.7 million increased $134.2 million, or 19.9%, from 2014. The decline in expenses is primarily due to the $3.0 million goodwill impairment loss recognized in 2014. Results for 2014 were negatively impacted by HUD’s changes to the HECM program in 2013. The HECM program changes instituted by HUD resulted in the reverse mortgage market shifting from one that consisted primarily of fixed rate products to one where variable rate products predominated, which resulted in a consequent decrease in volumes and a lower loan size at origination for the industry and for Liberty.

Year Ended December 31, 2014 versus 2013

Lending pre-tax income declined by $62.5 million, or 175%, for 2014 as compared to 2013 due to a $54.9 million decline in pre-tax earnings of the Homeward forward lending operations and a $7.5 million decline in pre-tax earnings of the Liberty reverse mortgage operations. However, the overall margin rate increased in 2014 as compared to 2013 for both forward and reverse operations. Total funding declined by $2.8 billion, or 36.0%, due to a $2.5 billion reduction in forward lending volume and a $289.7 million reduction in reverse mortgage volume.

Total expenses increased by $58.1 million, or 59% as compared to 2013. As a result of an interim evaluation of goodwill as of December 31, 2014, we recognized an impairment loss of $49.1 million in 2014 representing the full impairment of the carrying value of goodwill in the Lending segment. See Note 12 — Goodwill for additional information.

Forward lending operations, in 2014, incurred a $20.1 million pre-tax loss, which was a decrease of $54.9 million, or 158%, from 2013 pre-tax earnings. This decrease occurred in spite of a shift in channel business mix from the lower margin correspondent channel to the higher margin retail channel, which resulted in better margin rates in 2014. In 2014, Homeward forward lending revenues increased by $0.6 million, or 1%, from 2013 levels to a total of $73.8 million. This increase occurred in spite of a decline in mortgage originations to $4.3 billion, which was $2.5 billion, or 37%, less than originations in 2013. However, forward lending expenses in 2014 of $103.9 million represented an increase of $53.3 million, or 106%, from 2013, principally because of the goodwill impairment loss of $46.2 million and a $4.2 million increase in overhead cost allocations for corporate support services as well as increases in Compensation and benefits and Servicing and origination expenses. The increase in overhead allocations is primarily due to the increase in regulatory compliance costs incurred by the corporate support groups in 2014.

As part of forward lending, we have, from time to time, sold to an unrelated third party MSRs for certain forward loans that may qualify for refinancing under the HARP program. We account for these transactions as secured financings. Upon repurchase of the MSRs related to those loans that were successfully refinanced, we recognize gains on the retirement of the related financing liabilities. Retirements of such financing liabilities during 2014 generated $2.6 million of such gains, a decline of $5.7 million as compared to 2013. The population of MSRs was sold in early 2013, and most of the high potential HARP refinances occurred within that year.

Reverse lending operations incurred a pre-tax loss of $6.7 million as compared to pre-tax income of $0.8 million in 2013. However, of the $6.7 million of losses in 2014, $6.3 million were incurred in the first quarter. Aggressive cost reduction efforts, and improved margins limited losses for the remainder of 2014. In 2014, Liberty reverse lending revenues of $45.4 million declined $2.3 million, or 5%, and funded reverse mortgage volume of $675.5 million declined $289.7 million, or 30%, from 2013. Expenses increased by $4.8 million in 2014 largely due to the goodwill impairment loss of $3.0 million.

Corporate Items and Other

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

New business activities that are currently insignificant include providing secured floor plan lending to used car dealerships through our ACS venture and providing financing to investors to purchase single-family homes and apartments for lease through our Liberty Rental Finance venture. Business activities that are not considered to be of continuing significance include residential subprime non-Agency loans held for sale (at lower of cost or fair value), investments in residential mortgage-backed securities and affordable housing investment activities. Corporate Items and Other also included the diversified fee-based businesses that we acquired as part of the Homeward and ResCap acquisitions and sold to Altisource in March and April 2013, respectively. Services provided by the diversified fee-based businesses included property valuation, REO management, title and closing services.

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

The following table presents selected results of operations of Corporate Items and Other for the years ended December 31, 2015, 2014 and 2013. The amounts presented are before the elimination of balances and transactions with our other segments:

| | 2015 | 2014 | 2013 | % Change 2015 vs. 2014 | 2014 vs. 2013 |
|---|---|---|---|---|---|
| Revenue | $2,895 | $6,825 | $22,092 | (58)% | (69)% |
| | | | | | |
| Expenses | | | | | |
| Compensation and benefits | 131,813 | 88,043 | 65,785 | 50% | 34% |
| Amortization of mortgage servicing rights | — | 199 | — | (100)% | n/m |
| Servicing and origination | 2,110 | 26 | 4,103 | n/m | (99)% |
| Technology and communications | 61,009 | 37,821 | 26,585 | 61% | 42% |
| Professional services | 144,192 | 240,894 | 84,267 | (40)% | 186% |
| Occupancy and equipment | 22,036 | 13,050 | 13,958 | 69% | (7)% |
| Other | 38,581 | 16,434 | 3,052 | 135% | 438% |
| Total expenses before corporate overhead allocations | 399,741 | 396,467 | 197,750 | 1% | 100% |
| Corporate overhead allocations | | | | | |
| Servicing segment | (235,407) | (155,230) | (90,073) | 52% | 72% |
| Lending segment | (5,663) | (5,468) | (489) | 4% | n/m |
| Total expenses | 158,671 | 235,769 | 107,188 | (33)% | 120% |
| | | | | | |
| Other income (expense), net | | | | | |
| Interest income | 2,607 | 3,551 | 4,461 | (27)% | (20)% |
| Interest expense | (26,137) | (15,891) | (601) | 64% | n/m |
| Other | (396) | (943) | 6,424 | (58)% | (115)% |
| Other income (expense), net | (23,926) | (13,283) | 10,284 | 80% | (229)% |
| | | | | | |
| Loss before income taxes | $(179,702) | $(242,227) | $(74,812) | (26)% | 224% |

n/m: not meaningful

Year Ended December 31, 2015 versus 2014

Total expenses decreased by $77.1 million in 2015 as compared to 2014. Professional services declined by $96.7 million due to the $150.0 million charge recognized during 2014 in connection with the NY DFS settlement, partially offset by

strategic advisor costs of $25.1 million incurred in 2015 and higher regulatory monitoring and compliance costs. The expenses we incurred for the three monitoring firms under our NY DFS, CA DBO and Ocwen National Mortgage Settlement settlements increased from $39.4 million in 2014 to $49.9 million in 2015. The decrease in Professional services was partially offset by higher Technology and communications and Other expenses, primarily as a result of costs to maintain and exit the legacy ResCap servicing platform, which were $18.4 million in 2015 versus $3.3 million in 2014. Additionally, in 2015, we completed the realignment of certain support group functions into Corporate Items and Other that had previously been charged directly to the Servicing and Lending segments. This realignment, coupled with increased investments in our risk and compliance infrastructure, accounts for the majority of the increases in the remaining expense categories. However, the increases are then largely offset by increased overhead allocations back to the Servicing and Lending segments.

Interest expense for 2015 and 2014 includes $26.3 million and $15.6 million, respectively, on the $350.0 million Senior Unsecured Notes that we issued on May 12, 2014.

Year Ended December 31, 2014 versus 2013

Revenues declined by $15.3 million as compared to 2013, which included $16.7 million related to the diversified fee-based businesses that we acquired as part of the Homeward and ResCap acquisitions and subsequently sold to Altisource in 2013.

Total expenses increased by $128.6 million in 2014 as compared to 2013. Professional services were higher by $156.6 million, driven by the $150.0 million charge we recognized in 2014 related to the NY DFS settlement, third-party monitoring costs of $39.4 million which have not been allocated to Servicing and Lending segments, a charge of $15.0 million to establish a liability for estimated costs associated with our plan to remediate the letter-dating issues raised by the NY DFS and a $2.5 million charge related to the CA DBO settlement. Partially offsetting these increases in Professional Services was the $53.5 million charge that we recorded in connection with the Ocwen National Mortgage Settlement in 2013. Compensation and benefits increased due in part to the accelerated recognition of $5.7 million of expenses related to the surrender of stock options, as well as the impact in 2014 of beginning the realignment of certain support group functions into Corporate Items and Other that had previously been charged directly to the Servicing and Lending segments. This realignment also accounts for the majority of the increases in the remaining expense categories, although the increases are then largely offset by higher overhead allocations back to the Servicing and Lending segments. Additionally, 2013 expenses included $15.3 million related to the diversified fee-based businesses that we sold to Altisource, comprised primarily of Compensation and benefits and Servicing and origination expenses. See Note 27 — Contingencies for additional information regarding regulatory settlements.

Interest expense increased in 2014 due to $15.6 million of interest expense on the $350.0 million Senior Unsecured Notes that we issued on May 12, 2014.

LIQUIDITY AND CAPITAL RESOURCES

Overview

At December 31, 2015, our cash position was $257.3 million compared to $129.5 million at December 31, 2014. We invest cash that is in excess of our immediate operating needs primarily in money market deposit accounts. Our priorities for deployment of excess cash are: (1) supporting our core servicing and lending businesses and investing in these core assets, (2) reducing corporate leverage, (3) reducing revolving lines of credit in order to reduce interest expense, (4) expanding into similar or complementary businesses that meet our return on capital requirements and (5) repurchasing shares of our common stock.

Our primary sources of funds for near-term liquidity are:

- Collections of servicing fees and ancillary revenues;
- Proceeds from match funded liabilities;
- Proceeds from other borrowings, including warehouse facilities;
- Proceeds from sales of MSRs and related servicing advances; and
- Proceeds from sales of originated loans and repurchased loans.

Our ability to finance servicing advances is a significant factor that affects our liquidity. Our use of advance financing facilities is integral to our servicing advance financing strategy. The revolving notes issued by our advance funding facilities generally have a 364-day revolving period, although we issue one- and two-year term notes with one- and

two-year maturities. The revolving periods for variable funding notes with a total borrowing capacity of $825.0 million as well as the term of $500.0 million of our one-year term notes end in 2016.

Borrowings under our advance financing facilities are incurred by special purpose entities (SPEs) that we consolidate because we have determined that Ocwen is the primary beneficiary of the SPE. We transfer the financed advances to the SPEs, and the SPEs issue debt supported by collections on the transferred advances. Holders of the debt issued by the SPEs have recourse only to the assets of the SPEs for satisfaction of the debt. In connection with our sale of servicing advances to these

advance financing SPEs and to NRZ in connection with the Rights to MSRs, we make certain representations, warranties and covenants primarily focused on the nature of the transferred advance receivables and on our servicing practices.

Advances and match funded advances comprised 29% of total assets at December 31, 2015. Our borrowings under our advance funding facilities are secured by pledges of servicing advances that are sold to the related SPE and by cash held in debt service accounts. During 2015, our investment in advances and match funded advances in our Servicing segment declined by $1.2 billion, principally as a result of our sales of MSRs. This allowed us to reduce the maximum borrowing capacity of our advance funding facilities by $700.0 million to $1.7 billion. This decrease was the result of:

- Our voluntary termination of a $50.0 million commercial advance funding facility;
- The scheduled $50.0 million reduction in the capacity of our OSART III facility;
- The negotiated decrease of $300.0 million in the capacity of our OMART facility ; and
- The scheduled decrease of $225.0 million in the capacity of our OFAF facility and a further negotiated decrease of $75.0 million.

As a result, our unused advance borrowing capacity decreased from $334.8 million to $141.0 million, as we were successful in adjusting the borrowing capacity of our advance facilities in response to our reduced financing needs. Our ability to continue to pledge collateral under each advance financing facility depends on the performance of the collateral. At December 31, 2015, only $24.5 million of the available borrowing capacity could be used based on the amount of available collateral.

We use mortgage loan warehouse facilities to fund newly originated loans on a short-term basis until they are sold to secondary market investors, including GSEs or other third-party investors. These warehouse facilities are structured as repurchase agreements or participation agreements under which ownership of the loans is temporarily transferred to a lender. The loans are transferred at a discount or “haircut” which serves as the primary credit enhancement for the lender. Currently, all of our master repurchase and participation agreements for financing new loan originations have 364-day terms. The funds are repaid using the proceeds from the sale of the loans to the secondary market investors, usually within 30 days. At December 31, 2015, we had total borrowing capacity under our warehouse facilities of $550.0 million. Of the borrowing capacity extended on a committed basis, $43.8 million was available at December 31, 2015, including our warehouse facilities for reverse mortgages. Of the borrowing capacity extended on an uncommitted basis or at the discretion of the lender, $163.9 million remained available at December 31, 2015. See Note 14 — Borrowings to our Consolidated Financial Statements for additional details.

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

Our debt agreements contain various qualitative and quantitative covenants including financial covenants, covenants to operate in material compliance with applicable laws, monitoring and reporting obligations and restrictions on our ability to engage in various activities, including but not limited to incurring additional debt, paying dividends, repurchasing or redeeming capital stock, transferring assets or making loans, investments or acquisitions. As a result of the covenants to which we are subject, we may be limited in the manner in which we conduct our business and may be limited in our ability to engage in favorable business activities or raise additional capital to finance future operations or satisfy future liquidity needs. In addition, breaches or events that may result in a default under our debt agreements include noncompliance with our covenants, nonpayment of principal or interest, material misrepresentations, the occurrence of a material adverse change, insolvency, bankruptcy, certain material judgments and litigation and changes of control. Covenants and default provisions of this type are commonly found in debt agreements such as ours. Certain of these covenants and default provisions are open to subjective interpretation and, if our interpretation were contested by a lender, a court may ultimately be required to determine compliance or lack thereof. In addition, our debt agreements generally include cross default provisions such that a default under one agreement could trigger defaults under other agreements. If we fail to comply with our debt agreements and are unable to avoid, remedy or secure a waiver of any resulting default, we may be subject to adverse action by our lenders, including termination of further funding, acceleration of outstanding obligations, enforcement of liens against the

assets securing or otherwise supporting our obligations, and other legal remedies.

Our SSTL contains a number of financial covenants, including a consolidated total debt to consolidated tangible net worth ratio and a loan to collateral value ratio. We currently project that we will breach the consolidated total debt to consolidated tangible net worth ratio financial covenant under our Senior Secured Term Loan (SSTL) during 2016, depending upon the decrease in our net worth resulting from losses in the year, the impact of higher debt balances under our warehouse lines from expansion of our lending business and movements in interest rates, among other factors. In order to avoid an event of default arising from a covenant breach, we intend to repay, refinance or amend the SSTL prior to September 30, 2016, assuming we continue to project any covenant compliance issues based on our ongoing business performance. There are a number of actions we could take in terms of how we run our business that will impact our covenant compliance under the SSTL, including

reducing our efforts to expand our lending business, reducing our planned investment in our ACS business and reducing the debt balances on our warehouse lines or paying down other debt. Alternately, in addition to the above-mentioned options for the SSTL, we have an ability to increase our tangible net worth by issuing common or preferred equity. Our ability to execute upon any planned course of action may be impacted by developments outside of our control such as developments in debt and equity capital markets. In the event we are not successful in completing these or other actions, we would likely be in default under the SSTL. In such circumstances, the SSTL lenders could accelerate our outstanding obligations under the SSTL and enforce their liens on the collateral securing the SSTL. An event of default under the SSTL, would trigger cross-defaults under other debt agreements meaning that the lenders under those facilities could accelerate outstanding obligations under those facilities and enforce any liens on the collateral securing such facilities. Accordingly, an event of default or acceleration of obligations under the SSTL would have a material adverse effect on our business operations and financial condition.

Use of Funds

Our primary uses of funds are:

- Payments for advances in excess of collections on existing servicing portfolios;
- Payment of interest and operating costs;
- Funding of originated and repurchased loans;
- Repayments of borrowings, including match funded liabilities and warehouse facilities; and
- Working capital and other general corporate purposes.

Under the terms of our SSTL facility agreement, we are required to prepay the SSTL with 100% of the net sales proceeds from certain permitted asset sales, which generally include our announced Agency MSR sales. Prior to October 21, 2015, we were required to apply only 75% of net sales proceeds to such prepayments. During 2015, we prepaid $865.8 million of the SSTL facility, comprised of $585.8 million from net proceeds from sales of MSRs and the related advances and $280.0 million of voluntary prepayments.

On October 31, 2013, we announced that our board of directors had authorized a share repurchase program for an aggregate of up to $500.0 million of our issued and outstanding shares of common stock. The purpose of this program is to provide a tax efficient way to return cash to shareholders when management believes the shares are attractively priced. During the year ended December 31, 2015, we completed the repurchase of 625,705 shares of common stock under a $500.0 million stock repurchase program authorized by our board of directors for a total purchase price of $4.1 million. As of December 31, 2015, the approximate remaining value of shares that may be repurchased under the program was $125.6 million. The share repurchase program expires on the earlier of repurchase of the $500.0 million amount or July 31, 2016.

Outlook

We closely monitor our liquidity position and ongoing funding requirements, and we regularly monitor and project cash flow by period to minimize liquidity risk.

In assessing our liquidity outlook, our primary focus is on six measures:

- Business financial projections for revenues, costs and net income;
- Requirements for maturing liabilities compared to amounts generated from maturing assets and operating cash flow;
- Projected future sales of MSRs and servicing advances;
- The change in advances and match funded advances compared to the change in match funded liabilities and available borrowing capacity;
- Projected future originations and purchases of forward and reverse mortgage loans; and
- Projected funding requirements of new business initiatives.

We have considered the impact of financial projections on our liquidity analysis and have evaluated the appropriateness of the key assumptions in our forecast such as revenues, overhead expenses, costs and sales of MSRs and other assets. We have analyzed our cash requirements and financial obligations. Based upon these evaluations and analyses, we believe that we have ample liquidity to meet our obligations and fund our operations through 2016.

Generally, the revolving notes issued by our advance funding facilities have a 364-day revolving period. The revolving periods end during 2016 for notes with a total borrowing capacity of $825.0 million and $684.0 million of outstanding borrowings at December 31, 2015 under these match funded notes. In the event we are unable to renew,

replace or extend the revolving period of one or more of these advance funding facilities, monthly amortization of the outstanding balance must generally begin at the end of the respective 364-day revolving period. In addition, we would be required to begin repaying $500.0 million of our one-year term notes if we do not renew, replace or extend these notes during 2016.

Similarly, all of our master repurchase and participation agreements for financing new loan originations have 364-day terms and mature in 2016. At December 31, 2015, we had $342.3 million outstanding under these financing arrangements.

We currently expect that we will be able to renew, replace or extend our debt agreements as they become due, consistent with our historical experience.

We remain actively engaged with our lenders, and recent financing developments include the following:

- We renewed three of our warehouse facilities that had a combined borrowing capacity of $460.0 million. We negotiated an increase in the borrowing capacity under one facility from $60.0 million to $100.0 million and a decrease in another facility from $300.0 million to $200.0 million. However, we increased the committed portion of the capacity of the second facility from $150.0 million to $200.0 million.
- We repaid as scheduled $225.0 million of term notes under our OFAF advance financing facility and negotiated a reduction in the borrowing capacity of the variable funding notes by $75.0 million.
- We renewed our OMART advance financing facility during the third quarter, as part of which we replaced one lender and issued new series of one- and two-year term notes. We also negotiated a series of reductions in the borrowing capacity of the OMART facility from $1.8 billion to $1.5 billion.
- We renewed our OSART III facility with a borrowing capacity of $75.0 million.

Our liquidity forecast requires management to use judgment and estimates and includes factors that may be beyond our control. Additionally our actual results could differ materially from our estimates. If we were to default under any of our debt agreements, it could become very difficult for us to renew, replace or extend our debt agreements. Challenges to our liquidity position could have a material adverse effect on our operating results and financial condition and could cause us to take actions that would be outside the normal course of our operations to generate additional liquidity.

Credit Ratings

Credit ratings are intended to be an indicator of the creditworthiness of a particular company, security or obligation. Lower ratings generally result in higher borrowing costs and reduced access to capital markets. The following table summarizes our current ratings and outlook by the respective nationally recognized rating agencies. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

| Rating Agency | Long-term Corporate Rating | Review Status / Outlook | Date of last action |
|---|---|---|---|
| Moody’s | B2 | Stable | June 3, 2015 |
| S&P | B | Stable | December 23, 2015 |
| Fitch | B- | Stable | June 24, 2015 |
| Kroll | B+ | Stable | January 4, 2016 |

Moody’s announced an upgrade of our corporate rating on June 3, 2015 and changed its outlook from negative to stable. On December 23, 2015, S&P changed its outlook from negative to stable. On June 24, 2015, Fitch affirmed our corporate rating and changed its outlook from negative to stable. On January 4, 2016, Kroll Bond Ratings initiated its corporate rating at B+ with a stable outlook. It is possible that additional actions by credit rating agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Cash Flows

Our operating cash flow is primarily impacted by the receipt of servicing fees, changes in our servicing advance balances, operating losses, the level of new loan production and the timing of sales and securitizations of forward mortgage loans. To the extent we sell MSRs related to delinquent loans, we accelerate the recovery of the related advances. We also receive any outstanding deferred servicing fees upon termination of a servicing agreement. We classify proceeds from the sale of servicing advances, including advances sold in connection with the sale of MSRs, as investing activity.

Cash flows for the year ended December 31, 2015

Our operating activities provided $581.6 million of cash largely due to $531.3 million of net collections of servicing advances and $124.5 million of net cash received on loans held for sale.

Our investing activities provided $280.4 million of cash. Cash inflows include the receipt of $686.8 million of net proceeds from the sale of Agency MSRs, $486.3 million of proceeds from the sale of advances and $151.1 million of reverse mortgages collections. These cash inflows were largely offset by reverse mortgage originations of $1.0 billion.

Our financing activities used $734.2 million of cash. Cash outflows were primarily comprised of $506.2 million of net repayments on match funded liabilities from net advance recoveries, $878.8 million of repayments on the SSTL, including $865.8 million of prepayments (of which $585.8 million were mandatory prepayments from proceeds of sales of MSRs and the related advances) and an $86.1 million net reduction in borrowings under mortgage warehouse facilities used to fund loan originations. These cash outflows were offset by $1.0 billion received in connection with our reverse mortgage securitizations, which are accounted for as secured financings.

Cash flows for the year ended December 31, 2014

Although we incurred a net loss of $469.6 million, our operating activities provided $352.5 million of cash after adjusting for goodwill impairment losses of $420.2 million, MSR amortization of $250.4 million and other non-cash items, and because of $292.0 million of net collections of servicing advances offset in part by the payment of $150.0 million in connection with the NY DFS settlement and the net payment of $66.9 million in connection with the Ocwen National Mortgage Settlement.

Our investing activities used $958.2 million of cash. Investing activities include cash outflows in connection with our reverse mortgage securitizations of $816.9 million accounted for as secured financings. In addition, we paid $222.7 million in connection with acquisitions completed during 2014.

Our financing activities provided $556.7 million of cash. Cash provided by our financing activities includes $783.0 million in connection with our reverse mortgage securitization activities. Financing activities also include $343.3 million of cash received in connection with the issuance of $350.0 million of Senior Unsecured Notes, net of the payment of $6.7 million of debt issuance costs. In addition, we received $123.6 million of proceeds from the OASIS transaction involving the financing of Freddie Mac MSRs and $89.0 million of proceeds from the sale of advances to NRZ acquired in connection with the Ginnie Mae EBO program, both of which we accounted for as financing transactions. These cash inflows were partially offset by a $274.6 million net paydown of match funded liabilities using a portion of the proceeds from the newly issued Senior Unsecured Notes and a $26.6 million net reduction in borrowings under mortgage warehouse facilities used to fund originated forward loans, which declined during the year. We also completed the repurchase of 12,370,692 shares of common stock for $382.5 million, including 10,420,396 shares for $310.2 million under our stock repurchase program and 1,950,296 shares for $72.3 million, which we issued upon conversion of the remaining 62,000 shares of outstanding preferred stock.

Cash flows for the year ended December 31, 2013

Our operating activities provided $884.4 million of cash largely due to $295.1 million of net collections of servicing advances and net income of $310.4 million adjusted for MSR amortization of $282.8 million and other non-cash items. Because we classify proceeds from the sale of servicing advances as investing activities, cash generated from our operations related to collections of servicing advances declined significantly in 2013 compared to 2012. Operating cash flows were used principally to fund the portions of acquisitions not funded through borrowings.

Our investing activities used $2.4 billion of cash. We paid $5.9 billion in connection with acquisitions completed during 2013, including the ResCap, Ally and OneWest acquisitions. Cash inflows from investing activities include $3.8 billion of proceeds from NRZ from the sale of advances and match-funded advances and $210.8 million of net proceeds from the sales to Altisource of the diversified fee-based businesses acquired in the Homeward and ResCap acquisitions. Investing activities also includes cash outflows in connection with our reverse mortgage securitizations of $609.6 million accounted for as secured financings. The related securitization liabilities and portion of the proceeds from the sales to NRZ to repay match funded liabilities and required prepayments of the SSTL are discussed below in financing activities.

Our financing activities provided $1.5 billion of cash. To finance the ResCap acquisition, we deployed $840.0 million of net additional capital from the proceeds of a new $1.3 billion SSTL facility and borrowed $1.2 billion pursuant to three servicing advance facilities, offset by our repayment of the old SSTL, which had an outstanding principal balance of $314.2 million at December 31, 2012. We also borrowed $1.9 billion under a new match funded advance facility primarily to finance advances acquired in connection with the OneWest MSR transaction. We received $447.8 million from the sale of Rights to MSRs to NRZ in transactions accounted for as financings. We used collections of servicing advances and $3.0 billion of the proceeds received from the NRZ/HLSS Transactions to repay match funded liabilities. Debt issuance costs paid on the new SSTL were $25.8 million. We also repaid the $75.0 million loan from

Altisource that we had used to fund a portion of the Homeward acquisition. Cash provided by our financing activities also includes $605.0 million in connection with our reverse mortgage securitization activities. We paid $157.9 million to repurchase the 3,145,640 shares of common stock we issued upon conversion of 100,000 of the outstanding shares of Series A Perpetual Convertible Preferred stock. We also repurchased 1,125,707 shares of common stock under the stock repurchase program, paying $60.0 million in connection with these repurchases.

RISK MANAGEMENT

Our risk management framework seeks to mitigate risk and appropriately balance risk and return. We have established

policies and procedures intended to identify, monitor and manage the types of risk to which we are subject, including market risk, credit risk, liquidity risk, reputational risk and operational risk. Market risk is the risk of loss arising from changes in the fair value of our assets or liabilities, including derivatives, caused by movements in market variables such as interest rates. Credit risk is the risk that a borrower or counterparty might default on any type of debt or obligation by failing to make required payments. Liquidity risk is the risk that our financial condition is adversely affected by an inability, or perceived inability, to meet our financial obligations, or to withstand unforeseen liquidity stress events. Reputational risk is the risk that our actions or actions of others such as regulators or counterparties cause damage to our reputation. Operational risk is the risk of loss arising from inadequate or failed processes or systems, human factors or external events, and includes regulatory compliance and legal risks.

We have substantially increased our investment in risk management over the last two years. In 2014, we instituted changes to our risk management function by hiring a new Chief Risk Officer and a number of experienced risk managers. We established a new set of management committees to oversee risk and related control functions across the company. The purpose of these committees is to provide a framework for potential issues to be identified, assessed and addressed under the direction of senior executives from our business, risk, audit, compliance, finance and law areas, as applicable. The committees have a hierarchical structure to provide for issues to be escalated as required. The most senior committee is the Enterprise Risk Management Committee, which is chaired by the Chief Risk Officer. The Enterprise Risk Management Committee allows for key issues from all management committees to be assessed and addressed by executive management. All business units and overhead functions are subject to unrestricted audits by our Internal Audit department. Internal Audit is granted unrestricted access to our records, physical properties, systems, management and employees in order to perform these audits. The Internal Audit department reports to the Audit Committee of the Board and assists the Audit Committee in fulfilling its governance and oversight responsibility.

Market Risk

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

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

Our Market Risk Committee establishes and maintains policies that govern our hedging program, including such factors as our target hedge ratio, the hedge instruments that we are permitted to use in our hedging activities and the counterparties with whom we are permitted to enter into hedging transactions. See Note 17 — Derivative Financial Instruments and Hedging Activities to the Consolidated Financial Statements for additional information regarding our use of derivatives.

Match Funded Liabilities

We monitor the effect of increases in interest rates on the interest paid on our variable rate advance financing debt. Earnings on cash and float balances are a partial offset to our exposure to changes in interest expense. To the extent the projected excess of our variable rate debt over cash and float balances require, we would consider hedging this exposure with interest rate swaps or other derivative instruments. We may purchase interest rate caps as economic hedges (not designated as a hedge for accounting purposes) as required by certain of our advance financing arrangements.

IRLCs and Loans Held for Sale

IRLCs represent an agreement to purchase loans from a third-party originator or an agreement to extend credit to a mortgage loan applicant, whereby the interest rate on the loan is set prior to funding. In our lending business, mortgage loans held for sale and IRLCs are subject to the effects of changes in mortgage interest rates from the date of the commitment through the sale of the loan into the secondary market. As a result, we are exposed to interest rate risk and related price risk during the period from the date of the lock commitment through (i) the lock commitment

cancellation or expiration date or (ii) through the date of sale of the resulting loan into the secondary mortgage market. Loan commitments for forward loans range from 5 to 90 days, but the majority of our commitments are for 15 days (in the correspondent and broker channels) or 60 days (for the retail channel). Our holding period for mortgage loans from funding to sale is typically less than 30 days. Our interest rate exposure on these derivative loan commitments is hedged with freestanding derivatives such as forward contracts. We enter into forward contracts with respect to both fixed and variable rate loan commitments.

For loans held for sale that we have elected to carry at fair value, we manage the associated interest rate risk through an active hedging program overseen by our Investment Committee. Our hedging policy determines the hedging instruments to be used in the mortgage loan hedging program, which include forward sales of agency "to be announced" securities (TBAs), whole loan forward sales, Eurodollar futures and interest rate options. Forward mortgage backed securities (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. Our hedging policy also stipulates the hedge ratio we must maintain in managing this interest rate risk, which is also monitored by our Investment Committee.

Fair Value MSRs

We have elected to account for two classes of MSRs at fair value. The first is a class of Agency MSRs, principally originated during 2012, for which we hedged the interest rate risk because the mortgage notes underlying the MSRs permit the borrowers to prepay the loans. Effective April 1, 2013, we modified our strategy for managing the risks of the portfolio of loans underlying this class of fair value MSRs and closed out the remaining economic hedge positions associated with this class. We terminated these hedges because we determined that they were ineffective for large movements in interest rates and only assured losses in substantial increasing-rate environments. The second class of MSRs at fair value was designated on January 1, 2015, when we elected fair value accounting for a newly created class of non-Agency MSRs that we previously accounted for using the amortization method.

Sensitivity Analysis

Fair Value MSRs, Loans Held for Sale and Related Derivatives

The following table summarizes the estimated change in the fair value of our MSRs and loans held for sale that we have elected to carry at fair value as well as any related derivatives at December 31, 2015 given hypothetical instantaneous parallel shifts in the yield curve. We used December 31, 2015 market rates to perform the sensitivity analysis. The estimates are based on the market risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves. These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship to the change in fair value may not be linear.

| | Change in Fair Value | |
|---|---|---|
| | Down 25 bps | Up 25 bps |
| Loans held for sale | $3,518 | $(4,239) |
| Forward MBS trades | (3,609) | 4,171 |
| Total loans held for sale and related derivatives | (91) | (68) |
| | | |
| Fair value MSRs | 12,208 | (12,268) |
| MSRs, embedded in pipeline | (62) | 52 |
| Total fair value MSRs | 12,146 | (12,216) |
| | | |
| Total, net | $12,055 | $(12,284) |

Borrowings

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

Based on December 31, 2015 balances, if interest rates were to increase by 1% on our variable rate debt and interest earning cash and float balances, we estimate a net positive impact of approximately $19.0 million resulting from an increase of $24.6 million in annual interest income and an increase of $5.7 million in annual interest expense. The increase in interest expense reflects the effect of our hedging activities, which would offset $6.3 million of the increase in interest on our variable rate debt.

Interest Rate Sensitive Financial Instruments

The tables below present the notional amounts of our financial instruments that are sensitive to changes in interest rates categorized by expected maturity and the related fair value of these instruments at December 31, 2015 and 2014. We use certain assumptions to estimate the expected maturity and fair value of these instruments. We base expected maturities upon contractual maturity and projected repayments and prepayments of principal based on our historical experience. The actual maturities of these instruments could vary substantially if future prepayments differ from our historical experience. Average interest rates are based on the contractual terms of the instrument and, in the case of variable rate instruments, reflect estimates of applicable forward rates. The average presented is the weighted average.

| | Expected Maturity Date at December 31, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | There- after | Total Balance | Fair Value (1) |
| Rate-Sensitive Assets: | | | | | | | | |
| Interest-earning cash | $67,001 | $— | $— | $— | $— | $— | $67,001 | $67,001 |
| Average interest rate | 0.92 % | — | — | — | — | — | 0.92 % | |
| Loans held for sale, at fair value | 309,054 | — | — | — | — | — | 309,054 | 309,054 |
| Average interest rate | 4.11 % | — | — | — | — | — | 4.11 % | |
| Loans held for sale, at lower of cost or fair value (2) | 1,704 | 69 | 93 | 383 | 437 | 102,306 | 104,992 | 104,992 |
| Average interest rate | 11.97 % | 12.27 % | 8.29 % | 10.17 % | 7.75 % | 4.42 % | 4.59 % | |
| Loans held for investment - reverse mortgages | 213,928 | 280,883 | 275,925 | 243,516 | 274,887 | 1,199,114 | 2,488,253 | 2,488,253 |
| Average interest rate | 3.21 % | 3.45 % | 3.45 % | 3.46 % | 3.46 % | 3.48 % | 3.43 % | |
| Interest–earning collateral and debt service accounts | 87,328 | — | — | — | — | — | 87,328 | 87,328 |
| Average interest rate | 0.84 % | — | — | — | — | — | 0.84 % | |
| Total rate-sensitive assets | $679,015 | $280,952 | $276,018 | $243,899 | $275,324 | $1,301,420 | $3,056,628 | $3,056,628 |
| Percent of total | 22.21 % | 9.19 % | 9.03 % | 7.98 % | 9.01 % | 42.58 % | 100.00 % | |
| | | | | | | | | |
| Rate-Sensitive Liabilities: | | | | | | | | |
| Match funded liabilities | $1,184,049 | $400,000 | $— | $— | $— | $— | $1,584,049 | $1,581,786 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Average interest rate | 3.04 % | 3.48 % | — | — | — | — | 3.15 % | |
| Senior unsecured notes | — | — | — | 350,000 | — | — | 350,000 | 318,063 |
| Average interest rate | — | — | — | 6.63 % | — % | — | 6.63 % | |
| SSTL and other borrowings (3) | 397,660 | 12,361 | 372,402 | — | — | — | 782,423 | 783,276 |
| Average interest rate | 3.29 % | 5.50 % | 5.50 % | — % | — | — | 4.38 % | |
| Total rate-sensitive liabilities | $1,581,709 | $412,361 | $372,402 | $350,000 | $— | $— | $2,716,472 | $2,683,125 |
| Percent of total | 58.23 % | 15.18 % | 13.71 % | 12.88 % | — % | — % | 100.00 % | |

| | Expected Maturity Date at December 31, 2015 (Notional Amounts) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | There-after | Total Balance | Fair Value (1) |
| Rate-Sensitive Derivative Financial Instruments: | | | | | | | | |
| Derivative Assets: | | | | | | | | |
| Interest rate caps | $733,333 | $1,376,667 | $— | $— | $— | $— | $2,110,000 | $2,042 |
| Average strike rate | 2.05 % | 1.49 % | — % | — | — | — | 1.68 % | |
| Forward MBS trades | 632,720 | — | — | — | — | — | $632,720 | $295 |
| Average coupon | 3.43 % | — | — | — | — | — | 3.43 % | |
| IRLCs | 278,317 | — | — | — | — | — | 278,317 | 6,080 |
| Total derivative assets | 1,644,370 | 1,376,667 | — | — | — | — | 3,021,037 | 8,417 |
| Forward LIBOR curve (4) | 0.43 % | 1.03 % | 1.57 % | 1.80 % | 2.02 % | 2.22 % | | |

| | Expected Maturity Date at December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | There- after | Total Balance | Fair Value (1) |
| Rate-Sensitive Assets: | | | | | | | | |
| Interest-earning cash | $75,101 | $— | $— | $— | $— | $— | $75,101 | $75,101 |
| Average interest rate | 1.16 % | — | — | — | — | — | 1.16 % | |
| Loans held for sale, at fair value | 401,120 | — | — | — | — | — | 401,120 | 401,120 |
| Average interest rate | 4.26 % | — | — | — | — | — | 4.26 % | |
| Loans held for sale, at lower of cost or fair value (2) | 2,051 | — | 55 | 98 | 420 | 84,868 | 87,492 | 87,492 |
| Average interest rate | 11.83 % | — | 8.78 % | 8.32 % | 10.01 % | 4.50 % | 4.74 % | |
| Loans held for investment - reverse mortgages | 114,933 | 146,053 | 156,746 | 147,330 | 162,021 | 823,058 | 1,550,141 | 1,550,141 |
| Average interest rate | 2.94 % | 2.93 % | 2.94 % | 2.95 % | 2.96 % | 3.02 % | 2.96 % | |
| Interest–earning collateral and debt service accounts | 97,029 | — | — | — | — | — | 97,029 | 97,029 |
| Average interest rate | 0.20 % | — | — | — | — | — | 0.20 % | |
| Total rate-sensitive assets | $690,234 | $146,053 | $156,801 | $147,428 | $162,441 | $907,926 | $2,210,883 | $2,210,883 |
| Percent of total | 31.22 % | 6.61 % | 7.09 % | 6.67 % | 7.35 % | 41.07 % | 100.00 % | |
| | | | | | | | | |
| Rate-Sensitive Liabilities: | | | | | | | | |
| Match funded liabilities | $2,090,247 | $— | $— | $— | $— | $— | $2,090,247 | $2,090,247 |
| Average interest rate | 1.97 % | — | — | — | — | — | 1.97 % | |
| Senior unsecured notes | — | — | — | — | 350,000 | — | 350,000 | 321,563 |
| Average interest rate | — | — | — | — | 6.63 % | — | 6.63 % | |
| | 472,160 | 11,701 | 11,714 | 1,238,116 | — | — | 1,733,691 | 1,658,699 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| SSTL and other borrowings (3) | | | | | | | | |
| Average interest rate | 2.53 % | 5.00 % | 5.00 % | 5.00 % | — | — | 4.33 % | |
| Total rate-sensitive liabilities | $2,562,407 | $11,701 | $11,714 | $1,238,116 | $350,000 | $— | $4,173,938 | $4,070,509 |
| Percent of total | 61.39 % | 0.28 % | 0.28 % | 29.66 % | 8.39 % | — % | 100.00 % | |

| | Expected Maturity Date at December 31, 2014 (Notional Amounts) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | There-after | Total Balance | Fair Value (1) |
| Rate-Sensitive Derivative Financial Instruments: | | | | | | | | |
| Derivative Assets: | | | | | | | | |
| Interest rate caps | $— | $733,332 | $995,666 | $— | $— | $— | $1,728,998 | $567 |
| Average strike rate | — | 3.00 % | 3.00 % | — | — | — | 3.00 % | |
| IRLCs | 239,406 | — | — | — | — | — | 239,406 | 6,065 |
| Total derivative assets | 239,406 | 733,332 | 995,666 | — | — | — | 1,968,404 | 6,632 |
| Derivative Liabilities: | | | | | | | | |
| Forward MBS trades | 703,725 | — | — | — | — | — | 703,725 | 2,854 |
| Average coupon | 3.54 % | — | — | — | — | — | 3.76 % | |
| Total derivative liabilities | 703,725 | — | — | — | — | — | 703,725 | 2,854 |
| Derivatives, net | $(464,319) | $733,332 | $995,666 | $— | $— | $— | $1,264,679 | $3,778 |
| Forward LIBOR curve (4) | 0.26 % | 0.91 % | 1.85 % | 2.35 % | 2.58 % | 2.69 % | | |

(1) See Note 5 — Fair Value to the Consolidated Financial Statements for additional fair value information on financial instruments.

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

(3) Excludes financing liabilities that result from sales of assets that do not qualify as sales for accounting purposes and, therefore, are accounted for as secured financings. These financing liabilities have no contractual maturity and are amortized over the life of the related assets.

(4) Average 1-Month LIBOR for the periods indicated.

Liquidity Risk

We are exposed to liquidity risk primarily because the cash required to support the Servicing business includes the requirement to make advances pursuant to servicing contracts and the need to retain MSRs. We are also exposed to liquidity risk by our need to originate and finance mortgage loans and sell mortgage loans into the secondary market as well as by our need to fund additional future draws by borrows under variable rate HECM loans.

We estimate how our liquidity needs may be impacted by a number of factors, including fluctuations in asset and liability levels due to our business strategy, changes in our business operations, levels of interest rates and unanticipated events. We also assess market conditions and capacity for debt issuance in the various markets that we access to fund our business needs.

Additionally, we have established internal processes to anticipate future cash needs and continuously monitor the availability of funds pursuant to our existing debt arrangements. We address liquidity risk by maintaining committed borrowing capacity in excess of our expected needs and by extending the tenor of our funding arrangements. For example, to fund additional advance obligations, we have typically "upsized" existing advance facilities or entered into new advance facilities in anticipation of the funding obligation and then pledged additional advances to support the borrowing. In general, we finance our operations through operating cash flow, advance financing facilities and other secured borrowings. See "Liquidity and Capital Resources" for additional discussion of liquidity.

Operational Risk

Operational risk is inherent in each of our business lines and related support activities. This risk can manifest itself in various ways, including process execution errors, clerical or technological failures or errors, business interruptions and frauds, all of which could cause us to incur losses. Operational risk includes the following key risks:

- legal risks, as we can have legal disputes with borrowers or counterparties;
- compliance risks, as we are subject to many federal and state rules and regulations;
- third-party risks, as we have many processes that have been outsourced to third parties;
- information technology risks, as we operate many information systems that depend on proper functioning of hardware and software;
- information security risk, as our information systems and associates handle personal financial data of borrowers.

To manage operational risk, we have a dedicated team of operational risk managers that oversees these risks on a daily basis, assisted by the third-party risk management and information security departments.

We have annual Risk Control Self-Assessment (RCSA) programs in which we map all company-wide business processes in order to identify risks and controls in each of them. These controls are tested for efficiency and efficacy and improved if necessary. We monitor these risks and controls on a daily basis through risk coverage teams.

In addition, we also have established policies and control frameworks designed to provide a sound and well-controlled operational environment. We mandate training for our employees in respect to these policies, require business line change control boards and conduct operating reviews on a regular basis. We have also an issue self-identification program, for employees to report to the central operational risk team operational and/or technological issues affecting their operations.

Compliance risk is managed through an enterprise-wide compliance risk management program designed to prevent, detect and deter compliance issues. Our compliance and risk management policies assign primary responsibility and accountability for the management of compliance risk in the lines of business to business line management. Our Chief Compliance Officer oversees the design, execution and administration of the enterprise-wide compliance program.

We seek to embed in our enterprise-wide approach toward risk management a culture of compliance and business line responsibility for managing operational and compliance risks. Ocwen has adopted a 'Three Lines of Defense' model to enable risks and controls to be properly managed on an on-going basis. The model delineates business line management's accountabilities and responsibilities over risk management and the control environment and includes mechanisms to assess the effectiveness of executing these responsibilities.

The first line of defense comprises predominantly business line management who are accountable and responsible for their day-to-day activities, processes and controls. The first line of defense is responsible for ensuring that key risks within their activities and operations are identified, mitigated and monitored by an appropriate control environment that is commensurate with the operations risk profile. The second line of defense comprises predominantly the corporate functions, such as Risk and Compliance, which are responsible for:

- providing assurance, oversight, and challenge over the effectiveness of the risk and control activities conducted by the first line;
- establishing frameworks to identify and measure the risks being taken by different parts of the business; and
- monitoring risk levels, through the key indicators and oversight/assurance programs.

The third line of defense, Internal Audit, provides independent assurance as to the effectiveness of the design, implementation and embedding of the risk management frameworks, as well as the management of the risks and controls by the first line and control oversight by the second line.

Credit Risk

Consumer Credit Risk

We are not subject to the majority of the credit-related risks inherent in maintaining a mortgage loan portfolio as an investment because we sell the mortgage loans that we originate in the secondary market shortly after origination. We are exposed to early payment defaults from the time that we originate a loan to the time that the loan is sold in the secondary



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market. Early payment defaults are monitored and loans are audited by our quality assurance teams for origination defects. Our exposure to early payment defaults remains very limited and we do not anticipate material losses from this exposure.

Even though we have no payment default exposure on the loans we sell in the secondary market, we have loan repurchase and indemnification obligations arising from potential breaches of the representation and warranty provisions of our loan sales agreements. In the event of a breach of these representations and warranties, we may be required to repurchase a mortgage loan or indemnify the purchaser, and we may bear any subsequent loss on the mortgage loan. If there is no breach of a representation and warranty provision, we have no obligation to repurchase the loan or indemnify the investor against loss.

There are federal and state legislative initiatives that could, once fully implemented, require us to retain a minimum beneficial interest in the RMBS that we sell through a securitization. Therefore, we may be subject to substantially more consumer credit risk in the future. For example, after the implementation of Dodd-Frank Act's credit risk retention rule, we may be required to retain not less than 5 percent of the credit risk of the assets collateralizing the RMBS that we sell, absent certain qualified residential mortgage exemptions.

Apart from the sales and securitization of the mortgage loans we originate, we may have exposure to representation, warranty and indemnification obligations through acquisitions to the extent we assume one or more of these obligations and in connection with our servicing practices. For example, in one of the servicing contracts that Homeward acquired in 2008 from Freddie Mac involving non-prime mortgage loans, Homeward assumed the origination representations and warranties even though it did not originate the loans.

We endeavor to minimize our losses from loan repurchases and indemnifications by focusing on originating high quality mortgage loans and closely monitoring investor and agency eligibility requirements for loan sales. Our quality assurance teams perform independent audits related to the processing and underwriting of mortgage loans prior to closing, as well as after the closing but before the sale of loans, to identify potential repurchase exposures due to breach of representations and warranties. In addition, we perform a comprehensive review of the loan files where we receive investor requests for repurchase and indemnification to establish the validity of the claims and determine our obligation. In limited circumstances, we may retain the full risk of loss on loans sold to the extent that the liquidation value of the asset collateralizing the loan is insufficient to cover the loan itself and associated servicing expenses. In instances where we have purchased loans from third parties, we usually have the ability to recover the loss from the third-party originator.

We maintain a liability for losses on loans that may be repurchased or indemnified as a result of breaches of representations and warranties. We base our loss estimate on our most recent data regarding loan repurchases and indemnity payments and actual credit losses and recoveries on repurchased loans, among other factors. Internal factors that affect our estimate include, among other things, the level of loan sales, the party to whom the loans are sold, the expectation of credit loss on repurchases and indemnifications, our success rate at appealing repurchase demands and our ability to recover any losses from third parties. External factors beyond our control that may affect our estimate include, among other things, the overall economic condition of the housing market, the economic condition of borrowers, the political environment at GSEs and the overall U.S. and world economy.

Consumer credit risk also affects the market value and profitability of our mortgage servicing portfolio. When a mortgage loan is in foreclosure, we are generally required to continue to advance delinquent principal and interest to the securitization trust and to make advances for delinquent taxes and insurance, foreclosure costs and the upkeep of vacant property in foreclosure to the extent that we determine that such amounts are recoverable. We use servicing advance financing facilities to fund a portion of our advance obligations. We repay the borrowed funds when the servicing advance receivable securing the borrowing is repaid, which is when the delinquency is resolved or when the property collateralizing the loan we service is liquidated through a foreclosure or REO sale. Therefore, servicing costs are generally higher on higher credit risk loans. In addition, higher credit risk loans are generally affected to a greater extent by an economic downturn or a deterioration of the housing market. An increase in delinquencies and foreclosure rates generally results in increased interest expense on advances and higher operating expenses, which decreases the value of our servicing portfolio. We endeavor to closely track the credit risk profile of our servicing portfolio with a view to ensuring that changes in portfolio credit risk are identified on a timely basis.

Counterparty Credit Risk & Concentration Risk

Counterparty credit risk represents the potential loss that may occur because a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. We manage counterparty credit risk by entering into financial instrument transactions through national exchanges, primary dealers or approved counterparties and the use of mutual margining agreements whenever possible to limit potential exposure. We regularly evaluate the financial position and creditworthiness of our counterparties. We do not currently anticipate material losses due to counterparty nonperformance.

Counterparty credit risk exists with our third-party originators from whom we purchase originated mortgage loans. The third-party originators incur a representation and warranty obligation when we acquire the mortgage loan from them, and they

agree to reimburse us for any losses incurred due to an origination defect. We become exposed to losses for origination defects if the third-party originator is not able to reimburse us for losses incurred for indemnification or repurchase. We mitigate this risk by monitoring purchase levels from our third-party originators (to reduce concentration risk), by performing regular quality control reviews of the third-party originators' underwriting standards and by regular reviews of the creditworthiness of third-party originators.

The mortgaged properties securing the residential loans that we service are geographically dispersed throughout all 50 states, the District of Columbia and two U.S. territories. The five largest concentrations of properties are located in California, Florida, New York, New Jersey and Texas which, taken together, comprise 40% of the number of loans serviced at December 31, 2015. California has the largest concentration with 14% of the total loans serviced.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET ARRANGEMENTS

Contractual Obligations

We believe that we have adequate resources to fund all unfunded commitments to the extent required and meet all contractual obligations as they come due. The following table sets forth certain information regarding amounts we owe to others under contractual obligations as of December 31, 2015:

| | Less Than One Year | After One Year Through Three Years | After Three Years Through Five Years | After Five Years | Total |
|---|---|---|---|---|---|
| Senior secured term loan and other secured borrowings (1) | $55,973 | $385,454 | $— | $— | $441,427 |
| Senior unsecured notes | — | — | 350,000 | — | 350,000 |
| Contractual interest payments (2) | 45,250 | 70,892 | 8,631 | — | 124,773 |
| Originate/purchase mortgages or securities | 278,021 | — | — | — | 278,021 |
| Reverse mortgage equity draws (3) | 763,071 | 29,970 | — | — | 793,041 |
| Operating leases | 17,664 | 18,585 | 4,367 | — | 40,616 |
| | $1,159,979 | $504,901 | $362,998 | $— | $2,027,878 |

(1) Amounts are exclusive of any related discount. Excludes match funded liabilities and borrowings under mortgage loan warehouse facilities as these represent debt where the holders only have recourse to the assets that collateralize the debt and such assets are not available to satisfy general claims against Ocwen. Also excludes financing liabilities that result from sales of assets that do not qualify as sales for accounting purposes and, therefore, are accounted for as secured financings. See Note 14 — Borrowings to the Consolidated Financial Statements for additional information related to these excluded borrowings.

(2) Represents estimated future interest payments on other secured borrowings, based on applicable interest rates as of December 31, 2015.

(3) Represents additional equity draw obligations in connection with reverse mortgage loans originated or purchased by Liberty. Because these draws can be made in their entirety, we have classified them as due in less than one year at December 31, 2015.

As of December 31, 2015, we had gross unrecognized tax benefits of $32.5 million and an additional $12.2 million for gross interest and penalties classified as liabilities. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years in connection with these tax liabilities; therefore, such amounts are not included in the above contractual obligation table.

Off-Balance Sheet Arrangements

In the normal course of business, we engage in transactions with a variety of financial institutions and other companies that are not reflected on our balance sheet. We are subject to potential financial loss if the counterparties to our off-balance sheet transactions are unable to complete an agreed upon transaction. We manage counterparty credit risk by entering into financial instrument transactions through national exchanges, primary dealers or approved counterparties and the use of mutual margining agreements whenever possible to limit potential exposure. We

regularly evaluate the financial position and creditworthiness of our counterparties. We have also entered into non-cancelable operating leases principally for our office facilities.

Derivatives. We record all derivative transactions at fair value on our consolidated balance sheets. We use these derivatives primarily to manage our interest rate risk. The notional amounts of our derivative contracts do not reflect our exposure to credit

loss. See Note 17 — Derivative Financial Instruments and Hedging Activities to the Consolidated Financial Statements for additional information.
Involvement with SPEs. We use SPEs for a variety of purposes but principally in the financing of our servicing advances and in the securitization of mortgage loans.
We generally use match funded securitization facilities to finance our servicing advances. The SPEs to which the receivables for servicing advances are transferred in the securitization transaction are included in our consolidated financial statements either because we have the majority equity interest in the SPE or because we are the primary beneficiary where the SPE is a variable interest entity (VIE). Holders of the debt issued by the SPEs have recourse only to the assets of the SPEs for satisfaction of the debt.
VIEs. If we determine that we are the primary beneficiary of a VIE, we include the VIE in our consolidated financial statements. We have interests in VIEs that we do not consolidate because we have determined that we are not the primary beneficiary of the VIEs. In addition, we have transferred forward and reverse mortgage loans in transactions accounted for as sales or as secured borrowings for which we retain the obligation for servicing and for standard representations and warranties on the loans. See Note 2 — Securitizations and Variable Interest Entities for additional information.
Mortgage Loan Repurchase and Indemnification Liabilities. We have exposure to representation, warranty and indemnification obligations in our capacity as a loan originator and servicer. We recognize the fair value of representation and warranty obligations in connection with originations upon sale of the loan or upon completion of an acquisition. Thereafter, the estimation of the liability considers probable future obligations based on industry data of loans of similar type segregated by year of origination and estimated loss severity based on current loss rates for similar loans. Our historical loss severity considers the historical loss experience that we incur upon sale or liquidation of a repurchased loan as well as current market conditions.
The underlying trends for loan repurchases and indemnifications are volatile, and there is significant uncertainty regarding our expectations of future loan repurchases and indemnifications and related loss severities. Due to the significant uncertainties surrounding estimates related to future repurchase and indemnification requests by investors and insurers as well as uncertainties surrounding home prices, it is possible that our exposure could exceed our recorded mortgage loan repurchase and indemnification liability. Our estimate of the mortgage loan repurchase and indemnification liability considers the current macro-economic environment and recent repurchase trends; however, if we experience a prolonged period of higher repurchase and indemnification activity or a decline in home values, then our realized losses from loan repurchases and indemnifications may ultimately be in excess of our recorded liability. Given the levels of realized losses in recent periods, there is a reasonable possibility that future losses may be in excess of our recorded liability. See Note 2 — Securitizations and Variable Interest Entities, Note 15 — Other Liabilities and Note 27 — Contingencies to the Consolidated Financial Statements for additional information.
CRITICAL ACCOUNTING POLICIES AND ESTIMATES
Our ability to measure and report our financial position and operating results is influenced by the need to estimate the impact or outcome of future events on the basis of information available at the time of the financial statements. Our significant accounting policies are described in Note 1 — Organization, Business Environment, Basis of Presentation and Significant Accounting Policies to the Consolidated Financial Statements. An accounting estimate is considered critical if it requires that management make assumptions about matters that were highly uncertain at the time the accounting estimate was made. If actual results differ from our judgments and assumptions, then it may have an adverse impact on the results of operations and cash flows. We have processes in place to monitor these judgments and assumptions, and management is required to review critical accounting policies with the Audit Committee of the Board of Directors.
Fair Value Measurements
We use fair value measurements to record fair value adjustments to certain instruments and to determine fair value disclosures. Refer to Note 5 — Fair Value to the Consolidated Financial Statements for the fair value hierarchy, descriptions of valuation methodologies used to measure material assets and liabilities at fair value and details of the valuation models, key inputs to those models, and significant assumptions utilized. We follow the fair value hierarchy in order to prioritize the inputs utilized to measure fair value. We review and modify, as necessary, our fair value

hierarchy classifications on a quarterly basis. As such, there may be reclassifications between hierarchy levels.

The following table summarizes assets and liabilities measured at fair value on a recurring and nonrecurring basis and the amounts measured using Level 3 inputs at December 31:

| | 2015 | 2014 |
|---|---|---|
| Loans held for sale | $414,046 | $488,612 |
| Loans held for investment - reverse mortgages | 2,488,253 | 1,550,141 |
| MSRs - recurring basis | 761,190 | 93,901 |
| MSRs - nonrecurring basis (1) | 146,461 | — |
| Derivative assets | 8,417 | 6,632 |
| Mortgage-backed securities | 7,985 | 7,335 |
| Assets at fair value | $3,826,352 | $2,146,621 |
| As a percentage of total assets | 52 % | 26 % |
| Financing liabilities | $2,933,066 | $2,058,693 |
| Derivative liabilities | — | 2,854 |
| Liabilities at fair value | $2,933,066 | $2,061,547 |
| As a percentage of total liabilities | 45 % | 29 % |
| Assets at fair value using Level 3 inputs | $3,364,462 | $1,739,436 |
| As a percentage of assets at fair value | 88 % | 81 % |
| Liabilities at fair value using Level 3 inputs | $2,933,066 | $2,058,693 |
| As a percentage of liabilities at fair value | 100 % | 100 % |

(1) The balance at December 31, 2015 represents our impaired government-insured stratum of amortization method MSRs, which is measured at fair value on a nonrecurring basis. The carrying value of this stratum is net of a valuation allowance of $17.3 million.

Level 3 assets and liabilities increased during 2015 primarily due to our election on January 1, 2015 to account for a newly-created class of non-Agency MSRs at fair value. Reverse mortgage originations also contributed to the increase in Level 3 assets at fair value. Liabilities at fair value using Level 3 inputs increased primarily in connection with reverse mortgage securitizations, which we account for as secured financings. Our net economic exposure to Loans held for investment - reverse mortgages and the related Financing liabilities (HMBS-related borrowings) is limited to the residual value we retain. Changes in inputs used to value the loans held for investment are largely offset by changes in the value of the related secured financing. We have numerous internal controls in place to ensure the appropriateness of fair value measurements. Significant fair value measures are subject to analysis and management review and approval. Additionally, we utilize a number of operational controls to ensure the results are reasonable, including comparison, or “back testing,” of model results against actual performance and monitoring the market for recent trades, including our own price discovery in connection with potential and completed sales, and other market information that can be used to benchmark inputs or outputs. Considerable judgment is used in forming conclusions about Level 3 inputs such as interest rate movements, prepayment speeds, delinquencies, credit losses and discount rates. Changes to these inputs could have a significant effect on fair value measurements.

Valuation and Amortization of MSRs

MSRs are an asset that represents the right to service a portfolio of mortgage loans. We originate MSRs from our lending activities and obtain MSRs through asset acquisitions or business combinations. For initial measurement, acquired and originated MSRs are initially measured at fair value. Subsequent to acquisition or origination, we account for MSRs using the amortization or fair value measurement method. For MSRs accounted for using the amortization measurement method, we assess servicing assets or liabilities for impairment or increased obligation based on fair value on a quarterly basis. We group our MSRs by stratum for impairment testing based on the predominant risk characteristics of the underlying mortgage loans. Historically, our strata had been defined as conventional loans (i.e. conforming to the underwriting standards of Fannie Mae or Freddie Mac), government-insured loans (insured by FHA or VA) and non-Agency loans (i.e. all private label primary and master serviced).

Effective January 1, 2015, we elected fair value accounting for a newly-created class of non-Agency MSRs, which were previously accounted for using the amortization method. This irrevocable election applies to all subsequently

acquired or originated servicing assets and liabilities that have characteristics consistent with this class. We recorded a cumulative-effect adjustment of $52.0 million (before deferred income taxes of $9.4 million) to retained earnings as of January 1, 2015 to reflect the excess of the fair value of these MSRs over their carrying amount. At December 31, 2014, the UPB of the related loans and

the carrying value of the non-Agency MSRs for which the fair value election was made was $195.3 billion and $787.1 million, respectively.
During 2015, we recognized a $17.3 million impairment charge on our government-insured MSRs, as the fair value for this stratum was less than its carrying value. This impairment was primarily due to lower interest rates and the FHA reducing its mortgage insurance premium rate by 50 basis points, the latter of which created a greater incentive for existing FHA borrowers to refinance their loan and in turn, generated higher projected prepayment speed and shorter asset life inputs used to value these MSRs. The carrying value of this stratum at December 31, 2015 was $146.5 million, net of the valuation allowance of $17.3 million. The impairment charge is recognized in Servicing and origination expense in the Consolidated Statements of Operations.
The determination of the fair value of MSRs requires management judgment due to the number of assumptions that underlie the valuation. We estimate the fair value of our MSRs by using a process that is based on the use of independent third-party valuation experts, and supported by commercially available discounted cash flow models and analysis of current market data to arrive at an estimate of fair value. The key assumptions used in the valuation of these MSRs include prepayment speeds, loan delinquency and discount rates.
The following table provides the range of key assumptions and weighted average (expressed as a percentage of UPB) by stratum projected for the five-year period beginning December 31, 2015:

| | Conventional | Government-Insured | Non-Agency |
|---|---|---|---|
| Prepayment speed | | | |
| Range | 8.5% to 13.5% | 10.1% to 19.2% | 12.7% to 23.1% |
| Weighted average | 11.3% | 14.3% | 17.3% |
| Delinquency | | | |
| Range | 6.7% to 6.9% | 19.2% to 19.8% | 26.9% to 33.0% |
| Weighted average | 6.8% | 19.5% | 30.1% |
| Cost to service | | | |
| Range | $44 to $76 | $91 to $153 | $217 to $330 |
| Weighted average | $56 | $115 | $288 |
| Discount rate | 9.4% | 9.6% | 14.9% |

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

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

The following table provides information related to the sensitivity of our MSR fair value estimate to a 10% adverse change in key valuation inputs as of December 31, 2015:

| | Conventional | Government-Insured | Non-Agency |
|---|---|---|---|
| Prepayment speed | $(26,267) | $ (19,325) | $(64,229) |
| Delinquency | (1,282) | (10,467) | (68,368) |
| Discount rate | (13,394) | (6,017) | (16,856) |
| Cost to service | (8,413) | (7,211) | (99,448) |

Income Taxes
We record a tax provision for the anticipated tax consequences of the reported results of operations. We compute the provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized

for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. We measure deferred tax assets and liabilities using the currently enacted tax rates in each jurisdiction that applies to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We record a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

We conduct periodic evaluations of positive and negative evidence to determine whether it is more likely than not that the deferred tax asset can be realized in future periods. In these evaluations, we gave more significant weight to objective evidence, such as our actual financial condition and historical results of operations, as compared to subjective evidence, such as projections of future taxable income or losses. As discussed in the Item 1, Business, we are diversifying our strategic focus due to both regulatory and market-based factors affecting the Servicing business, and we believe our residential lending business and other new business lines will be our primary driver of growth for the future. Despite having cumulative income incurred over the three-year period ended December 31, 2015 for the USVI filing jurisdiction, the significant driver of this cumulative income position is the positive income earned during 2013 when our business was growing rapidly through acquisitions of MSRs and our lending operations were comparatively less important to our overall business. There has also been a significant increase in monitoring costs required by regulators that has been a key factor impacting our Servicing business profitability. As a result, we are seeking to transform Ocwen over time by reinvesting cash flows generated by the Servicing business to grow not only our residential mortgage lending business but also to grow other new business lines, which we believe can diversify our income profile and assist us in returning Ocwen to profitability. Accordingly, we do not believe that our historical USVI sourced profitability is as indicative of our ability to generate income in future years as it was previously. Additionally, the U.S. jurisdiction is in a three-year cumulative loss as of December 31, 2015 due to poor operating results for the current period in addition to the significant goodwill impairment and NY DFS settlement from the prior year. Other factors considered in these evaluations are estimates of future taxable income, future reversals of temporary differences, tax character and the impact of tax planning strategies that may be implemented, if warranted. As a result of these evaluations, as of December 31, 2015, we have recorded a full valuation allowance for the $84.5 million of U.S. net deferred tax assets and for the $17.4 million of USVI net deferred tax assets as the U.S. and USVI jurisdictional deferred tax assets are not considered to be more likely than not realizable based on all available positive and negative evidence. We intend to continue maintaining a full valuation allowance on our deferred tax assets in both the U.S. and USVI until there is sufficient evidence to support the reversal of all or some portion of these allowances.

Indemnification Obligations

We have exposure to representation, warranty and indemnification obligations because of our lending, sales and securitization activities, our acquisitions to the extent we assume one or more of these obligations, and in connection with our servicing practices. We initially recognize these obligations at fair value. Thereafter, the estimation of the liability considers probable future obligations based on industry data of loans of similar type segregated by year of origination, to the extent applicable, and estimated loss severity based on current loss rates for similar loans, our historical rescission rates and the current pipeline of unresolved demands. Our historical loss severity considers the historical loss experience that we incur upon sale or liquidation of a repurchased loan as well as current market conditions. We monitor the adequacy of the overall liability and make adjustments, as necessary, after consideration of other qualitative factors including ongoing dialogue and experience with our counterparties.

Litigation

We monitor our litigation matters, including advice from external legal counsel, and regularly perform assessments of these matters for potential loss accrual and disclosure. We establish liabilities for settlements, judgments on appeal and filed and/or threatened claims for which we believe it is probable that a loss has been or will be incurred and the amount can be reasonably estimated.

RECENT ACCOUNTING DEVELOPMENTS

Recent Accounting Pronouncements

Listed below are recent Accounting Standards Updates (ASU) that we adopted on January 1, 2016. Our adoption of these standards did not have a material impact on our Consolidated Financial Statements.

- ASU 2014-13: Consolidation - Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity

- ASU 2015-01: Income Statement - Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items
- ASU 2015-02: Consolidation - Amendments to the Consolidation Analysis
- ASU 2015-03: Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs
- ASU 2015-05: Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement
- ASU 2015-15: Interest - Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements -- Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting

In addition to the above recently issued ASUs, listed below are ASUs that we adopted in 2015. None of these pronouncements had a material effect on our Consolidated Financial Statements.

- ASU 2014-01: Investments – Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects
- ASU 2014-04: Receivables – Troubled Debt Restructurings by Creditors – Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure
- ASU 2014-08: Presentation of Financial Statements and Property, Plant, and Equipment – Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity
- ASU 2014-11: Transfers and Servicing – Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures
- ASU 2014-12: Compensation – Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period
- ASU 2014-14: Receivables – Troubled Debt Restructurings by Creditors: Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure
- ASU 2015-08: Business Combinations - Pushdown Accounting: Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115

For additional information regarding the above pronouncements and other pronouncements which we have not yet adopted, see Note 1 — Organization, Business Environment, Basis of Presentation and Significant Accounting Policies.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to the Market Risk sections of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for our quantitative and qualitative disclosures about market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this section is contained in the Consolidated Financial Statements of Ocwen Financial Corporation and Report of Deloitte & Touche LLP, Independent Registered Public Accounting Firm, beginning on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this Annual Report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f).

Under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of our internal control over financial reporting as of December 31, 2015, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on that evaluation, our management concluded that, as of December 31, 2015, internal control over financial reporting is effective based on criteria established in Internal Control—Integrated Framework issued by the COSO.

The effectiveness of Ocwen's internal control over financial reporting as of December 31, 2015 has been audited by Deloitte & Touche LLP, an independent registered certified public accounting firm, as stated in their report that appears herein.

Limitations on the Effectiveness of Controls

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during our fiscal quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

There was no information required to be reported on Form 8-K during the fourth quarter of the year covered by this Form 10-K that was not so reported.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to the information contained under the captions "Election of Directors-Nominees for Director," "Executive Officers Who Are Not Directors," "Board of Directors and Corporate Governance-Committees of the Board of Directors-Audit Committee", "Security Ownership of Certain Beneficial Owners and Related Shareholder Matters-Section 16(a) Beneficial Ownership Reporting Compliance" and "Board of Directors and Corporate Governance-Code of Ethics" in our definitive Proxy Statement with respect to our 2016 Annual Meeting which will be filed with the SEC not later than April 30, 2016.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information contained under the captions "Executive Compensation" and "Board of Directors Compensation" in our definitive Proxy Statement with respect to our 2016 Annual Meeting, which will be filed with the SEC not later than April 30, 2016.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS