

OCWEN FINANCIAL CORP
Form 10-Q
May 07, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from: _____ to _____

Commission File Number: 1-13219

Ocwen Financial Corporation

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction
of incorporation or organization)

65-0039856
(I.R.S. Employer
Identification No.)

1661 Worthington Road, Suite 100, West Palm Beach, Florida 33409

(Address of principal executive offices) (Zip Code)

(561) 682-8000

(Registrant's telephone number, including area code)

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

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

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

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Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Number of shares of Common Stock, \$0.01 par value, outstanding as of April 30, 2010: 100,164,608 shares.

OCWEN FINANCIAL CORPORATION

FORM 10-Q

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FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, but not limited to the following:

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

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

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

Further information on the risks specific to our business are detailed within this report and our other reports and filings with the Securities and Exchange Commission, including our Annual report on Form 10-K for the year ended December 31, 2009, and our current reports on Form 8-K. Forward-looking statements speak only as of the date they are made and should not be relied upon. Ocwen Financial Corporation undertakes no obligation to update or revise forward-looking statements.

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

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

	March 31, 2010	December 31, 2009
Assets		
Cash	\$ 300,013	\$ 90,919
Restricted cash for securitization investors	1,378	
Trading securities, at fair value		
Auction rate	125,036	247,464
Subordinates and residuals	59	3,692
Loans held for resale, at lower of cost or fair value	32,934	33,197
Advances	137,675	145,914
Match funded advances	757,111	822,615
Loans, net restricted for securitization investors	71,336	
Mortgage servicing rights	111,721	117,802
Receivables, net	53,562	67,095
Deferred tax assets, net	115,142	132,683
Premises and equipment, net	3,385	3,325
Investments in unconsolidated entities	14,329	15,008
Other assets	91,778	89,636
Total assets	\$ 1,815,459	\$ 1,769,350
Liabilities and Equity		
Liabilities		
Match funded liabilities	\$ 556,485	\$ 465,691
Secured borrowings owed to securitization investors	68,996	
Lines of credit and other secured borrowings	118,509	55,810
Investment line		156,968
Servicer liabilities	21,251	38,672
Debt securities	82,634	95,564
Other liabilities	76,737	90,782
Total liabilities	924,612	903,487
Commitments and Contingencies (Note 23)		
Equity		
Ocwen Financial Corporation stockholders' equity		
Common stock, \$.01 par value; 200,000,000 shares authorized; 100,164,608 and 99,956,833 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	1,002	1,000
Additional paid-in capital	461,449	459,542
Retained earnings	428,332	405,198
Accumulated other comprehensive loss, net of income taxes	(180)	(129)
Total Ocwen Financial Corporation stockholders' equity	890,603	865,611
Non-controlling interest in subsidiaries	244	252
Total equity	890,847	865,863
Total liabilities and equity	\$ 1,815,459	\$ 1,769,350

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

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

For the three months ended March 31,	2010	2009
Revenue		
Servicing and subservicing fees	\$ 66,480	\$ 78,810
Process management fees	7,906	33,692
Other revenues	1,200	2,088
Total revenue	75,586	114,590
Operating expenses		
Compensation and benefits	12,777	28,545
Amortization of mortgage servicing rights	6,375	10,041
Servicing and origination	591	12,638
Technology and communications	5,664	4,808
Professional services	3,255	7,186
Occupancy and equipment	4,446	6,046
Other operating expenses	2,069	3,002
Total operating expenses	35,177	72,266
Income from operations	40,409	42,324
Other income (expense)		
Interest income	3,645	2,165
Interest expense	(12,471)	(16,663)
Gain (loss) on trading securities	765	(380)
Loss on loans held for resale, net	(1,038)	(4,554)
Equity in earnings of unconsolidated entities	735	27
Other, net	(600)	345
Other expense, net	(8,964)	(19,060)
Income from continuing operations before income taxes	31,445	23,264
Income tax expense	10,574	8,037
Income from continuing operations	20,871	15,227
Loss from discontinued operations, net of income taxes		(188)
Net income	20,871	15,039
Net loss (income) attributable to non-controlling interest in subsidiaries	(11)	70
Net income attributable to Ocwen Financial Corporation (OCN)	\$ 20,860	\$ 15,109
Basic earnings per share		
Income from continuing operations attributable to OCN	\$ 0.21	\$ 0.24
Loss from discontinued operations attributable to OCN		
Net income attributable to OCN	\$ 0.21	\$ 0.24

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Diluted earnings per share

Income from continuing operations attributable to OCN	\$	0.20	\$	0.24
Loss from discontinued operations attributable to OCN				

Net income attributable to OCN	\$	0.20	\$	0.24
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Weighted average common shares outstanding

Basic	99,975,881	62,750,010
Diluted	107,324,415	67,871,466

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

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

For the three months ended March 31,	2010	2009
Net income	\$ 20,871	\$ 15,039
Other comprehensive income, net of income taxes:		
Unrealized foreign currency translation loss arising during the quarter (1)	(70)	(40)
Comprehensive income	20,801	14,999
Comprehensive loss attributable to non-controlling interests	8	102
Comprehensive income attributable to OCN	\$ 20,809	\$ 15,101

(1) Net of income tax benefit of \$30 and \$23 for the three months ended March 31, 2010 and 2009, respectively.
The accompanying notes are an integral part of these consolidated financial statements.

**OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Dollars in thousands, except share data)**

OCN Shareholders

	Common Stock		Additional	Retained	Accumulated	Non-controlling	
	Shares	Amount	Paid-in	Earnings	Other	Interest in	Total
			Capital		Loss,	Subsidiaries	
					Net of Taxes		
Balance at December 31, 2009	99,956,833	\$ 1,000	\$ 459,542	\$ 405,198	\$ (129)	\$ 252	\$ 865,863
Adoption of ASC 810 (FASB Statement No. 167), net of tax				2,274			2,274
Net income				20,860		11	20,871
Exercise of common stock options	207,775	2	959				961
Equity-based compensation			94				