OCWEN FINANCIAL CORP
Form 10-Q
May 04, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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

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

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

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

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

Large accelerated filer S	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 S

Number of shares of Common Stock, $0.01 par value, outstanding as of May1, 2012: 134,847,475 shares.

OCWEN FINANCIAL CORPORATION

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Forward-Looking Statements

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

These statements include declarations regarding our management's beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could", "intend," "consider," "expec "intend," "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such terms or other comparable terminology. Such statements are not guarantees of future performance and involve a number of assumptions, risks and uncertainties that could cause actual results to materially differ from expected results. Important factors that could cause actual results to differ include, but are not limited to, the risks discussed in "Risk Factors" and the following:

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

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the Securities and Exchange Commission (SEC) including our Annual Report on Form 10-K for the year ended December 31, 2011 and our current reports on Form 8-K. Forward-looking statements speak only as of the date they were made and should not be relied upon. Ocwen Financial Corporation undertakes no obligation to update or revise forward-looking statements.

PART I – FINANCIAL INFORMATION

ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	March 31, 2012	December 31, 2011
Assets		
Cash	$683,946	$144,234
Restricted cash – for securitization investors	633	675
Loans held for resale, at lower of cost or fair value	20,203	20,633
Advances	98,398	103,591
Match funded advances	2,903,171	3,629,911
Loans, net – restricted for securitization investors	56,365	58,560
Mortgage servicing rights, net	277,716	293,152
Receivables, net	62,235	83,202
Deferred tax assets, net	106,376	107,968
Goodwill	78,432	78,432
Premises and equipment, net	17,178	7,350
Investments in unconsolidated entities	21,915	23,507
Other assets	167,943	185,942
Total assets	$4,494,511	$4,737,157
Liabilities and Stockholders' Equity		
Liabilities		
Match funded liabilities	$2,280,323	$2,558,951
Secured borrowings – owed to securitization investors	51,622	53,323
Lines of credit and other secured borrowings	550,618	540,369
Debt securities	26,119	82,554
Other liabilities	159,816	158,649
Total liabilities	3,068,498	3,393,846
Commitments and Contingencies (Note 22)		
Stockholders' Equity		
Common stock, $.01 par value; 200,000,000 shares authorized; 134,847,475 and 129,899,288 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	1,348	1,299
Additional paid-in capital	886,351	826,121
Retained earnings	543,136	523,787

Accumulated other comprehensive loss, net of income taxes	(4,822)	(7,896)
Total stockholders' equity	1,426,013	1,343,311
Total liabilities and stockholders' equity	$4,494,511	$4,737,157

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

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

For the three months ended March 31,	2012	2011
Revenue		
Servicing and subservicing fees	$155,103	$102,505
Process management fees	8,791	7,796
Other revenues	652	705
Total revenue	164,546	111,006
Operating expenses		
Compensation and benefits	30,783	14,787
Amortization of mortgage servicing rights	14,314	8,923
Servicing and origination	3,287	1,922
Technology and communications	9,349	6,872
Professional services	8,559	2,384
Occupancy and equipment	15,305	4,130
Other operating expenses	4,530	2,181
Total operating expenses	86,127	41,199
Income from operations	78,419	69,807
Other income (expense)		
Interest income	2,312	2,169
Interest expense	(46,924)	(37,543)
Loss on loans held for resale, net	(420)	(904)
Equity in earnings of unconsolidated entities	252	130
Other, net	(3,520)	830
Other expense, net	(48,300)	(35,318)
Income before income taxes	30,119	34,489
Income tax expense	10,770	12,425
Net income	19,349	22,064
Net income attributable to non-controlling interests	—	10
Net income attributable to Ocwen Financial Corporation	$19,349	$22,074
Earnings per share attributable to Ocwen Financial Corporation		
Basic	$0.15	$0.22
Diluted	$0.14	$0.21
Weighted average common shares outstanding		
Basic	130,649,595	100,762,446
Diluted	138,046,270	107,777,775

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

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

For the three months ended March 31,	2012	2011
Net income	$19,349	$22,064
Other comprehensive income (loss), net of income taxes:		
Unrealized foreign currency translation income arising during the period (1)	1	20
Change in deferred loss on cash flow hedges arising during the period (2)	(1,187)	1,945
Reclassification adjustment for losses on cash flow hedges included in net income (3)	4,259	155
Net change in deferred loss on cash flow hedges	3,072	2,100
Other (4)	1	1
Total other comprehensive income, net of income taxes	3,074	2,121
Comprehensive income	22,423	24,185
Comprehensive income attributable to non-controlling interest	—	—
Comprehensive income attributable to Ocwen Financial Corporation	$22,423	$24,185

(1) Net of income tax expense of $13 for the three months ended March 31, 2011.

(2) Net of income tax benefit (expense) of $704 and $(1,073) for the three months ended March 31, 2012 and 2011, respectively.

(3) Net of income tax expense of $2,408 and $88 for the three months ended March 31, 2012 and 2011, respectively.

(4) Net of income tax expense of $1 and $1 for the three months ended March 31, 2012 and 2011, respectively.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(Dollars in thousands)

	Ocwen Financial Corporation Stockholders						
	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Loss,	**Non-controlling Interest in**	
	Shares	Amount	Capital	Earnings	Net of Taxes	Subsidiaries	Total
Balance at December 31, 2011	129,899,288	$1,299	$826,121	$523,787	$(7,896)	$—	$1,343,311
Net income	—	—	—	19,349	—	—	19,349
Conversion of 3.25% Convertible Notes	4,635,159	46	56,364	—	—	—	56,410
Exercise of common stock options	313,028	3	1,016	—	—	—	1,019
Equity-based compensation	—	—	2,850	—	—	—	2,850
Other comprehensive income, net of income taxes	—	—	—	—	3,074	—	3,074
Balance at March 31, 2012	134,847,475	$1,348	$886,351	$543,136	$(4,822)	$—	$1,426,013

	Ocwen Financial Corporation Stockholders						
	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Loss,	**Non-controlling Interest in**	
	Shares	Amount	Capital	Earnings	Net of Taxes	Subsidiaries	Total
Balance at December 31, 2010	100,726,947	$1,007	$467,500	$445,456	$(9,392)	$246	$904,817
Net income (loss)	—	—	—	22,074	—	(10)	22,064
Exercise of common stock options	210,336	2	577	—	—	—	579

Equity-based compensation	—	—	886	—	—	—	886
Other comprehensive income, net of income taxes	—	—	—	—	2,111	10	2,121
Balance at March 31, 2011	100,937,283	$1,009	$468,963	$467,530	$(7,281)	$246	$930,467

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

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

For the three months ended March 31,	2012	2011
Cash flows from operating activities		
Net income	$19,349	$22,064
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of mortgage servicing rights	14,314	8,923
Amortization of debt discount	745	6,046
Amortization of debt issuance costs – senior secured term loans	920	7,771
Depreciation	833	750
Provision for (reversal of) valuation allowance on mortgage servicing assets	204	(214)
Loss on loans held for resale, net	420	904
Equity in earnings of unconsolidated entities	(252)	(130)
Unrealized losses on derivative financial instruments	3,262	353
Gain on extinguishment of debt	—	(1,246)
Increase in deferred tax assets, net	(112)	(10)
Net cash provided by loans held for resale activities	241	233
Changes in assets and liabilities:		
Decrease in advances and match funded advances	318,386	294,180
Decrease in receivables and other assets, net	15,055	38,393
Increase (decrease) in servicer liabilities	2,444	(425)
Decrease in other liabilities	(6,273)	(11,549)
Other, net	3,474	2,010
Net cash provided by operating activities	373,010	368,053
Cash flows from investing activities		
Proceeds from sale of advance financing subsidiary and special purpose entity	87,303	—
Distributions of capital from unconsolidated entities	1,688	1,458
Investment in unconsolidated entities	—	(1,025)
Additions to premises and equipment	(10,661)	(385)
Proceeds from sales of real estate	512	230
Decrease (increase) in restricted cash – for securitization investors	42	(278)
Principal payments received on loans – restricted for securitization investors	954	1,501
Net cash provided by investing activities	79,838	1,501
Cash flows from financing activities		
Proceeds from (repayment of) match funded liabilities	79,707	(193,400)
Repayment of secured borrowings – owed to securitization investors	(1,701)	(1,864)
Repayment of lines of credit and other secured borrowings	(52,169)	(173,163)
Proceeds from sale of mortgage servicing rights accounted for as a financing	62,495	—
Redemption of debt securities	(25)	—
Exercise of common stock options	1,023	836
Other	(2,466)	(672)
Net cash provided by (used in) financing activities	86,864	(368,263)

Net increase in cash	539,712	1,291
Cash at beginning of period	144,234	127,796
Cash at end of period	$683,946	$129,087
Supplemental non-cash investing and financing activities		
Conversion of 3.25% Convertible Notes to common stock	$56,410	$—
Supplemental disposition information		
Sale of mortgage servicing rights accounted for as a financing	$62,495	$—
Sale of Advance Financing Subsidiary and Special Purpose Entity:		
Match funded advances	424,303	—
Debt service account	16,587	—
Prepaid lender fees and debt issuance costs	5,765	—
Other prepaid expenses	2,214	—
Match funded liabilities	(360,658)	—
Accrued interest payable and other accrued expenses	(908)	—
Net assets of advance financing subsidiary and special purpose entity	87,303	—
Cash received at closing	149,798	—
Amount due to purchaser for post-closing adjustments	(11,006)	—
Purchase price, as adjusted	$138,792	$—

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

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OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012

(Dollars in thousands, except per share data or if otherwise indicated)

Note 1 Summary of Significant Accounting Policies

Organization

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

At March 31, 2012, Ocwen directly or indirectly owned all of the outstanding stock of its primary operating subsidiaries: OLS and Ocwen Financial Solutions Private Limited. Ocwen also holds a 49% equity interest in Correspondent One S.A. (Correspondent One), an entity formed with Altisource Portfolio Solutions S.A. (Altisource) in March 2011, a 27% interest in Ocwen Structured Investments, LLC (OSI) and an approximate 25% interest in Ocwen Nonperforming Loans, LLC (ONL) and Ocwen REO, LLC (OREO).

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

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in conformity with the instructions of the Securities and Exchange Commission (SEC) to Form 10-Q and SEC Regulation S-X, Article 10, Rule 10-01 for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In our opinion, the accompanying unaudited financial statements contain all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation. The results of operations and other data for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for any other interim period or for the entire year ending December 31, 2012. The unaudited interim consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

Principles of Consolidation

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

Variable Interest Entities

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

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

Securitizations or Asset Backed Financing Arrangements

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

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

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

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

For the three months ended March 31, 2012 and 2011, the four consolidated trusts generated a loss before income taxes of $571 and $219, respectively. In the Consolidated Balance Sheet, we report the loans held by the consolidated trusts as Loans – restricted for securitization investors and we report the certificates issued by the consolidated trusts as Secured borrowings – owed to securitization investors.

We also have continuing involvement with seven unconsolidated securitization trusts where we are the transferor and hold beneficial interests. For the quarters ended March 31, 2012 and 2011, respectively, we recorded $678 and $843 of servicing and subservicing fee revenues related to these trusts. At March 31, 2012 and December 31, 2011, respectively, we had advances of $12,346 and $12,627 and MSRs of $1,072 and $1,157 that were associated with these trusts. Although we are the servicer for these trusts, the residual interests that we hold in these entities have no value and no potential for return of significant cash flows. As a result, we have no exposure to loss from these holdings. Further, since our valuation of the residual interests is based on anticipated cash flows, we are unlikely to receive any future benefits from our residual interests in these trusts.

With regard to both the consolidated and the unconsolidated securitization trusts, we have no obligation to provide financial support to the trusts and have provided no such support. The creditors of the trusts can look only to the assets of the trusts themselves for satisfaction of the debt and have no recourse against the assets of Ocwen. Similarly, the general creditors of Ocwen have no claim on the assets of the trusts. Our exposure to loss as a result of our continuing involvement is limited to the carrying values of our investments in the residual and subordinate securities of the trusts, our MSRs that are related to the trusts and our advances to the trusts. We consider the probability of loss arising from our advances to be remote because of their position ahead of most of the other liabilities of the trusts. At March 31, 2012 and December 31, 2011, our investment in the securities of the trusts was $2,045 and $2,513, respectively, all of which is eliminated in consolidation.

Financings of Advances on Loans Serviced for Others. Match funded advances on loans serviced for others result from our transfers of residential loan servicing advances to SPEs in exchange for cash. These SPEs issue debt supported by collections on the transferred advances. We made these transfers under the terms of three advance facility agreements. We classify the transferred advances on our Consolidated Balance Sheet as Match funded advances and the related liabilities as Match funded liabilities. Collections on the advances pledged to the SPEs are used to repay principal and interest and to pay the expenses of the entity. Holders of the debt issued by these entities can look only to the assets of the entities themselves for satisfaction of the debt and have no recourse against Ocwen. However, OLS has guaranteed the payment of the obligations under the securitization documents of one of the entities, Ocwen Servicer Advance Funding (Wachovia), LLC (OSAFW). The maximum amount payable under the guarantee is limited to 10% of the notes outstanding at the end of the facility's revolving period on July 1, 2013. As of March 31, 2012, OSAFW had $149,805 of notes outstanding.

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

	March 31, 2012	December 31, 2011
Match funded advances	$2,903,171	$3,629,911
Other assets	118,696	139,352
Total assets	$3,021,867	$3,769,263
Match funded liabilities	$2,280,323	$2,558,951
Due to affiliates (1)	961,473	1,131,661
Other liabilities	1,587	1,985
Total liabilities	$3,243,383	$3,692,597

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

See Note 7 and Note 11 for additional information regarding Match funded advances and Match funded liabilities.

Reclassification

Within the operating activities section of the Consolidated Statement of Cash Flows for the three months ended March 31, 2011, we reclassified Unrealized losses on derivative financial instruments from Other, net to conform to the current year presentation.

Note 2 Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2011-03 (Accounting Standards Codification (ASC) 860, Transfers and Servicing): Reconsideration of Effective Control for Repurchase Agreements. ASC 860 prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. That determination is based, in part, on whether the entity has maintained effective control over the transferred financial assets. Repurchase agreements are accounted for as secured financings if the transferee has not surrendered control over the transferred assets. The amendments in this ASU remove from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The Financial Accounting Standards Board (FASB) concluded that this criterion is not a determining factor of effective control. Consequently, the amendments in this update also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Our adoption of the provisions in this ASU effective January 1, 2012 did not have a material impact on our consolidated financial statements.

ASU 2011-04 (ASC 820, Fair Value Measurement): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements and prescribe certain additional disclosures about fair value measurements, including: for fair value measurements within Level 3 of the fair value hierarchy, disclosing the valuation process used and the sensitivity of fair value measurement to changes in unobservable inputs; and for items not carried at fair value but for which fair value must be disclosed, categorization by level of the fair value hierarchy. Our adoption of this standard effective January 1, 2012 did not have a material impact on our consolidated financial statements. See Note 5 for our fair value disclosures.

ASU 2011-05 (ASC 220, Comprehensive Income): Presentation of Comprehensive Income, Current U.S. GAAP allows reporting entities three alternatives for presenting other comprehensive income and its components in financial statements. One of those presentation options is to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This ASU eliminates that option. This ASU also requires consecutive presentation of the statement of net income and other comprehensive income and requires that an entity present reclassification adjustments from other comprehensive income to net income by component on the face of both the statement in which net income is presented and the statement in which other comprehensive income is presented. ASU 2011-12, which was issued on December 23, 2011, defers indefinitely the provision regarding the presentation of reclassification adjustments. Our adoption of this standard effective January 1, 2012 did not have a material impact on our consolidated financial statements.

Note 3 business acquisition

As disclosed in Note 1, Ocwen completed its acquisition of the Litton Loan Servicing Business on September 1, 2011. The adjusted base purchase price for the Litton Acquisition was $247,369. In addition to the base purchase price, Ocwen repaid at closing Litton's $2,423,123 outstanding debt on an existing servicing advance financing facility and entered into a new advance financing facility under which it borrowed $2,126,742. Ocwen and certain of its subsidiaries also entered into a $575,000 senior secured term loan agreement to fund the base purchase price and the amount by which the repayment of Litton's advance financing facility debt exceeded the proceeds from the new advance financing facility. There were no adjustments to the purchase price during the first quarter of 2012 and we do not anticipate any such significant adjustments subsequent to March 31, 2012.

The transaction was accounted for using the acquisition method of accounting which requires, among other things, that Ocwen recognize the assets acquired and the liabilities assumed at their fair values as of the acquisition date. We recorded $65,622 of goodwill in our Servicing segment in connection with the Litton Acquisition. The allocation of the purchase price is considered preliminary and therefore subject to change until the end of the measurement period (up to one year from the acquisition date). There were no revisions to the allocation of the purchase price during the first quarter of 2012, and we do not anticipate any such significant adjustments subsequent to March 31, 2012.

Pro forma impact of the Litton Acquisition

The following table presents supplemental pro forma information for the three months ended March 31, 2011 as if the acquisition of Litton occurred on January 1, 2010. The pro forma consolidated results are not indicative of what Ocwen's consolidated net earnings would have been if Ocwen had completed the acquisition of Litton on January 1, 2010 because of differences in servicing practices and cost structure between Ocwen and Litton. In addition, the pro forma consolidated results do not purport to project the future results of Ocwen combined nor do they reflect the expected realization of any cost savings associated with the Litton Acquisition.

Revenues	$ 152,877
Net loss	$ (6,198)

Facility Closure Costs

Following the Litton Acquisition, we incurred severance and other benefits during 2011 related to the termination of former Litton employees. During the first quarter of 2012, we vacated one of the leased facilities acquired as part of the Litton Acquisition. During 2010, we incurred similar costs related to our acquisition of the U.S. non-prime mortgage servicing business known as "HomEq Servicing" (the HomEq Acquisition) when we terminated the former HomEq employees and vacated the leased facilities. The following table provides a reconciliation of the beginning and ending liability balances for employee termination benefits and lease termination costs related to the Litton and HomEq acquisitions:

	Employee termination benefits (1)	Lease termination costs (2)	Total
Liability balance at December 31, 2011 (3)	$ 5,163	$ 5,287	$ 10,450
Additions charged to operations (3)	1,896	4,779	6,675
Amortization of discount	—	52	52
Payments	(5,811)	(655)	(6,466)
Liability balance at March 31, 2012 (3)	$ 1,248	$ 9,463	$ 10,711

(1)

The remaining liability of $1,248 for employee termination benefits related to the Litton Acquisition represents unpaid severance. We expect to pay this liability during the second quarter of 2012. The remaining liability for employee termination benefits related to the HomEq Acquisition was paid during 2011.

(2) The lease agreements that we assumed associated with the former Litton facilities located in Houston, Texas and McDonough, Georgia expire in 2012 and 2017, respectively. In March 2012, we vacated the facility located in McDonough, Georgia and recorded a charge of $4,779 to establish a liability for the remaining lease payments discounted through the lease expiration date. This charge is reported in Occupancy and equipment expense. This lease does not contain an option for early termination, and we are actively attempting to sublease this space. The liability balance at December 31, 2011 relates to an accrual established in 2010 for the remaining lease payments on the vacated HomEq facilities discounted through the early termination date of the leases, including early termination penalties due in 2013.

(3) All charges were recorded in the Servicing segment. The liabilities are included in Other liabilities in the Consolidated Balance Sheet.

Note 4 asset sale

On March 5, 2012, Ocwen completed its sale to HLSS Holdings, LLC (HLSS Holdings), a wholly owned subsidiary of Home Loan Servicing Solutions, Ltd. (HLSS), of the right to receive the servicing fees, excluding ancillary income, relating to certain mortgage servicing (Rights to MSRs) for approximately $15.2 billion of UPB and related servicing advances that we acquired in connection with the HomEq Acquisition. HLSS Holdings also acquired HomEq Servicer Advance Facility Transferor, LLC and HomEq Servicer Advance Receivables Trust 2010-ADV1 (together the Advance SPEs). As a result of the acquisition of the Advance SPEs, HLSS Holdings assumed the related match funded liabilities, with the exception of the Class D Term Note which Ocwen agreed to repay prior to closing, under the structured servicing advance financing facility that we entered into to fund the advances that were acquired as part of the HomEq Acquisition (the HomEq Servicing advance facility). This sale to HLSS Holdings of the Rights to MSRs and related servicing advances and the assumption of the HomEq Servicing advance facility by HLSS Holdings is referred to as the HLSS Transaction. See Note 11 for additional information regarding the match funded liabilities assumed by HLSS Holdings.

Ocwen received proceeds of $149,798 at closing based on the estimated purchase price as of February 28, 2012. Of that amount, $37,449 was used to prepay a portion of Ocwen's senior secured term loan facility. On March 31, 2012, the purchase price was reduced to $138,792 as a result of post-closing adjustments that principally resulted from declines in match funded advances between February 28, 2012 and March 5, 2012. Ocwen recorded a liability of $11,006 payable to HLSS.

As part of the HLSS Transaction, Ocwen retains legal ownership of the MSRs and continues to service the related mortgage loans. However, Ocwen will service the loans for a reduced fee because HLSS Holdings has assumed the match funded liabilities as well as the obligation for future servicing advances related to the MSRs. Ocwen is obligated to transfer legal ownership of the MSRs to HLSS Holdings if and when the required third party consents are obtained. At that time, Ocwen would commence subservicing the MSRs under essentially the same terms and conditions pursuant to a subservicing agreement with HLSS Holdings which was also executed on February 10, 2012.

The following table summarizes the purchase price of the assets and liabilities sold to HLSS in connection with the HLSS Transaction:

Sale of MSRs accounted for as a financing	$ 62,458
Sale of Advance SPEs:	
Match funded advances	413,374
Debt service account	14,786
Prepaid lender fees and debt issuance costs	5,422
Other prepaid expenses	1,928
Match funded liabilities	(358,335)
Accrued interest payable and other accrued expenses	(841)
Net assets of Advance SPEs	76,334
Purchase price, as adjusted	138,792
Amount due HLSS for post-closing adjustments	11,006
Cash received at closing	$ 149,798

Because Ocwen has retained legal title to the MSRs, the sale of the Rights to MSRs to HLSS has been accounted for as a financing. As a result, we have not derecognized the MSRs, and we have established a liability equal to the sales price. If and when the third party consents are obtained, legal title will transfer to HLSS, and we expect to record a sale with the gain deferred and derecognize the MSRs. The sales proceeds represent the estimated fair value of the

MSRs. Our investment in the Advance SPEs was sold at carrying value and accounted for as a sale. The consolidated assets and liabilities of the advance SPEs were derecognized at the time of the sale.

We determined that the HLSS Transaction did not constitute the disposal of a business. Therefore, there was no need to consider goodwill in determining the gain on the sale. Because the HLSS Transaction resulted in the sale of a portion of the assets within the Residential Servicing reporting unit which is an indicator that goodwill for the reporting unit should be tested for impairment, we updated our qualitative assessment of whether it was more likely than not that the fair value of the Residential Servicing reporting unit was less than its carrying amount as of March 31, 2012. Our updated assessment indicated that goodwill was not impaired.

In 2010, Ocwen entered into a hedge of the effect of changes in interest rates on the total cash flows of the HomEq Servicing advance financing facility. With the assumption of the financing liabilities by HLSS, Ocwen terminated the hedging relationship and recognized in earnings $5,958 of hedge losses that were included in Accumulated other comprehensive loss. HLSS purchased the Rights to MSRs in March for $10,046 more than Ocwen's carrying value. This amount will be realized over time as the Rights to MSRs amortize.

Ocwen also entered into an agreement with HLSS Management, LLC (HLSS Management), a wholly owned subsidiary of HLSS, for the provision of certain professional services to us and the provision by us of certain professional services to HLSS Management. See Note 20 for additional information regarding this agreement.

Note 5 Fair Value of Financial Instruments

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

The three broad categories are:

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

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

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

		March 31, 2012		December 31, 2011	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Loans held for resale (1)	3	$20,203	$20,203	$20,633	$20,633
Loans, net – restricted for securitization investors (2)	3	56,365	52,905	58,560	55,165
Advances (2)	3	3,001,569	3,001,569	3,733,502	3,733,502
Receivables, net (2)	3	62,235	62,235	83,202	83,202
Financial liabilities:					
Match funded liabilities (2)	3	$2,280,323	$2,293,124	$2,558,951	$2,569,131
Lines of credit and other secured borrowings (2)	3	550,618	560,365	540,369	550,860
Secured borrowings – owed to securitization investors (2)	3	51,622	50,870	53,323	52,652
Debt securities (2)	2	26,119	24,682	82,554	92,125
Derivative financial instruments, net (3)	3	$(12,806)	$(12,806)	$(16,676)	$(16,676)

(1) Measured at fair value on a non-recurring basis.

(2) Financial instruments disclosed, but not carried, at fair value.

(3) Measured at fair value on a recurring basis.

The methodologies that we use and key assumptions that we make to estimate the fair value of instruments are described in more detail by instrument below:

Derivative Financial Instruments

Our derivatives are not exchange-traded and therefore quoted market prices or other observable inputs are not available. Fair value is based on information provided by third-party pricing sources. Third-party valuations are derived from proprietary models based on inputs that include yield curves and contractual terms such as fixed interest rates and payment dates. Although we do not adjust the information obtained from the third-party pricing sources, we review this information to ensure that it provides a reasonable basis for estimating fair value. Our review is designed to identify information that appears stale, information that has changed significantly from the prior period, and other indicators that the information may not be accurate. For interest rate contracts, significant increases or decreases in the unobservable portion of the yield curves in isolation will result in substantial changes in the fair value measurement. See Note 15 for additional information on derivative financial instruments.

Loans Held for Resale

Loans held for resale are reported at the lower of cost or fair value. We account for the excess of cost over fair value as a valuation allowance with changes in the valuation allowance included in Loss on loans held for resale, net, in the period in which the change occurs. All loans held for resale were measured at fair value because their cost of $34,164 exceeded their estimated fair value of $20,203 at March 31, 2012. At March 31, 2012 and December 31, 2011, the carrying value of loans held for resale is net of a valuation allowance of $13,961 and $14,257, respectively. Current market illiquidity has reduced the availability of observable pricing data.

When we enter into an agreement to sell a loan to an investor at a set price, the loan is valued at the commitment price. The fair value of loans for which we do not have a firm commitment to sell is based upon a discounted cash flow analysis. We stratify our fair value estimate of uncommitted loans held for resale based upon the delinquency status of the loans. We base the fair value of our loans on the expected future cash flows discounted at a rate commensurate with the risk of the estimated cash flows. The more significant inputs used in estimating future cash flows on performing loans are: historical default rates, re-performance rates on defaulted loans, loss severity on defaulted loans, average resolution timeline, average coupon; and a discount rate. The more significant inputs used in estimating future cash flows on non-performing loans are: the current market value, the resolution timeline; estimated foreclosure and disposition costs; and a discount rate.

The more significant assumptions used in the March 31, 2012 valuation of performing loans include: historical default rates of 5% to 10%; re-performance rates on defaulted loans of 35%; loss severity on defaulted loans of 20% to 50%; an average resolution timeline of 12 months; an average coupon of 7.8%; and a discount rate of 10%. Significant assumptions used in the March 31, 2012 valuation of nonperforming loans include: the current market value of the underlying collateral based on third party sources such as appraisals or broker price opinions; a resolution timeline of 10 to 42 months depending on the state in which the property is located and the type of property; estimated foreclosure and disposition costs that are based on historical experience and considering that state in which the property is located and the type of property; and a discount rate of 15%.

Loans – Restricted for Securitization Investors

Loans – restricted for securitization investors are reported at cost, less an allowance for loan losses and are comprised of loans that are secured by first or second liens on one- to four-family residential properties. We base the fair value of our loans on the expected future cash flows discounted at a rate commensurate with the risk of the estimated cash flows. Significant assumptions include expected prepayment rates and delinquency and cumulative loss curves. The more significant assumptions used in our March 31, 2012 valuations were: prepayment speeds of 3% to 6%; default rates of 20% to 28%; and a discount rate of 20% to 22%.

Mortgage Servicing Rights

We estimate the fair value of our MSRs by calculating the present value of expected future cash flows utilizing assumptions that we believe are used by market participants. The most significant assumptions used in our internal valuation are the speed at which mortgages prepay and delinquency experience, both of which we derive from our historical experience and available market data. Other assumptions used in our internal valuation are:

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

The significant components of the estimated future cash inflows for MSRs include servicing fees, late fees, prepayment penalties, float earnings and other ancillary fees. Significant cash outflows include the cost of servicing, the cost of financing servicing advances and compensating interest payments. We derive prepayment speeds and delinquency assumptions from historical experience adjusted for prevailing market conditions. We develop the discount rate internally, and we consider external market-based assumptions in determining the interest rate for the cost of financing advances, the interest rate for float earnings and the cost of servicing. The more significant assumptions used in the March 31, 2012 valuation include prepayment speeds ranging from 14.32% to 22.14% (depending on loan type) and delinquency rates ranging from 15.97% to 24.17% (depending on loan type). Other assumptions include an interest rate of 1-month LIBOR plus 4% for computing the cost of financing advances, an interest rate of 1-month LIBOR for computing float earnings and a discount rate of 20%.

We perform an impairment analysis based on the difference between the carrying amount and fair value after grouping our loans into the applicable strata based on one or more of the predominant risk characteristics of the underlying loans. The risk factors used to assign loans to strata include the credit score (FICO) of the borrower, the loan to value ratio and the default risk. Our strata include:

• Subprime	• Re-performing
• ALT A	• Special servicing
• High-loan-to-value	• Other

Advances

We value advances that we make on loans that we service for others at their carrying amounts because they have no stated maturity, generally are realized within a relatively short period of time and do not bear interest.

Receivables

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

Borrowings

We base the fair value of our debt securities on quoted prices in markets with limited trading activity. The carrying value of match funded liabilities and secured borrowings that bear interest at a rate that is adjusted regularly based on a market index approximates fair value. For other match funded or secured borrowings that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. We estimate principal repayments of match funded liabilities during the amortization period based on our historical advance collection rates and taking into consideration any plans to refinance the notes. The more significant assumptions used in the March 31, 2012 valuation of match funded liabilities bearing a fixed interest rate were a discount rate of 2.5% to 3.5% and estimated repayments using an advance reduction curve that is based on historical experience.

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

	Carrying value	Level 1	Level 2	Level 3
At March 31, 2012:				
Measured at fair value on a recurring basis:				

Derivative financial instruments, net	$(12,806)	—	—	$(12,806)
Measured at fair value on a non-recurring basis:				
Loans held for resale	20,203	—	—	20,203
MSRs (1)	204	—	—	204
At December 31, 2011:				
Measured at fair value on a recurring basis:				
Derivative financial instruments, net	$(16,676)	$ —	$ —	$(16,676)
Measured at fair value on a non-recurring basis:				
Loans held for resale	20,633	—	—	20,633
Mortgage servicing rights (1)	214	—	—	214

(1) Balances represent the carrying value of the impaired stratum of MSRs, net of a valuation allowance of $2,494 and $2,290 at March 31, 2012 and December 31, 2011, respectively. The estimated fair value exceeded amortized cost for all other strata.

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

For the three months ended March 31,	Derivative Financial Instruments 2012	2011
Beginning balance	$(16,676)	$(15,351)
Purchases, issuances, sales and settlements:		
Purchases	—	—
Issuances	—	—
Sales	—	—
Settlements	2,357	46
	2,357	46
Total realized and unrealized gains and (losses) (1):		
Included in Other, net	3,468	(353)
Included in Other comprehensive income (loss)	(1,955)	3,261
	1,513	2,908
Transfers in and / or out of Level 3	—	—
Ending balance	$(12,806)	$(12,397)

(1) Total net (losses) gains attributable to derivative financial instruments still held at March 31, 2012 and 2011 were $(4,272) and $(2,908), respectively.

Note 6 Advances

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

	March 31, 2012	December 31, 2011
Servicing:		
Principal and interest	$25,359	$30,462
Taxes and insurance	32,180	33,387
Foreclosure and bankruptcy costs	11,181	8,390
Other	25,803	27,442
	94,523	99,681
Corporate Items and Other	3,875	3,910
	$98,398	$103,591

Note 7 Match Funded Advances

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

	March 31, 2012	December 31, 2011
Principal and interest	$1,344,017	$1,679,536
Taxes and insurance	1,164,296	1,452,707
Foreclosure and bankruptcy costs	228,133	259,231
Real estate servicing costs	83,823	121,705
Other	82,902	116,732
	$2,903,171	$3,629,911

Note 8 Mortgage Servicing

Servicing Assets. Servicing assets, or MSRs, are comprised of a single residential class. MSRs are an intangible asset representing the right to service a portfolio of mortgage loans. We generally obtain MSRs by purchasing them from the owners of the mortgage loans. The following table summarizes the activity in the carrying value of residential servicing assets for the three months ended March 31, 2012:

Balance at December 31, 2011	$	293,152	
Purchases		—	
Increase in impairment valuation allowance		(204	)
Amortization (1)		(15,232	)
Balance at March 31, 2012	$	277,716	

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

As disclosed in Note 4, we sold certain Rights to MSRs related to serviced loans with a UPB of approximately $15.2 billion on March 5, 2012 as part of the HLSS Transaction. The sales price of $62,458 represents the fair value of the MSRs at the time of the sale. We accounted for this sale as a financing because we retained legal title to the MSRs. As a result, we did not derecognize the MSRs, and we established a liability equal to the sales price. If and when the third party consents are obtained, legal title will transfer to HLSS, and we expect to record a sale with the gain deferred and derecognize the MSRs. Until such time, we continue to recognize the full amount of servicing revenue and amortization of the MSRs. The carrying value of the MSRs at March 31, 2012 was $51,298.

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

UPB of Assets Serviced:	Residential	Commercial	Total
March 31, 2012:			
Servicing	$75,930,077	$ —	$75,930,077
Subservicing	22,510,389	367,356	22,877,745
	$98,440,466	$ 367,356	$98,807,822
December 31, 2011:			
Servicing	$78,675,160	$ —	$78,675,160
Subservicing	23,524,062	290,863	23,814,925
	$102,199,222	$ 290,863	$102,490,085

Residential assets serviced consist principally of mortgage loans, primarily subprime, but also include foreclosed real estate. Residential assets include small-balance commercial assets that are managed using the REALServicing™ application. Commercial assets subserviced consist of large-balance foreclosed real estate. Assets serviced for others are not included on our Consolidated Balance Sheet.

Custodial accounts, which hold funds representing collections of principal and interest we receive from borrowers, are held in escrow by an unaffiliated bank and excluded from our Consolidated Balance Sheet. Custodial accounts amounted to approximately $523,800 and $555,500 at March 31, 2012 and December 31, 2011, respectively.

Valuation Allowance for Impairment. During 2008, we established a valuation allowance for impairment of $3,624 on the high-loan-to-value stratum of our MSRs as the estimated fair value was less than the carrying value. Changes in the valuation allowance for impairment are reflected in Servicing and origination expenses in our Consolidated Statement of Operations. Net of the valuation allowance of $2,494 and $2,290, the carrying value of this stratum was $204 and $214 at March 31, 2012 and December 31, 2011, respectively. For all other strata, the fair value exceeded the carrying value at March 31, 2012.

The estimated fair value of residential MSRs at March 31, 2012 and December 31, 2011 was $316,078 and $340,015, respectively.

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

Note 9 Receivables

Receivables consisted of the following at the dates indicated:

	Receivables	Allowance for Credit Losses	Net
March 31, 2012			
Servicing (1)	$ 38,727	$ (2,576)	$36,151
Income taxes receivable	13,879	—	13,879
Affordable housing (2)	5,568	(5,019)	549
Due from HLSS (3)	4,550	—	4,550
Due from Altisource (3)	3,206	—	3,206
Derivatives, at fair value (4)	2,750	—	2,750
Other	2,848	(1,698)	1,150
	$ 71,528	$ (9,293)	$62,235
December 31, 2011			
Servicing (1)	$ 53,852	$ (1,648)	$52,204
Income taxes receivable	21,518	—	21,518
Affordable housing (2)	5,568	(5,019)	549
Due from Altisource (3)	2,309	—	2,309
Derivatives, at fair value (4)	3,600	—	3,600
Other	4,284	(1,262)	3,022
	$ 91,131	$ (7,929)	$83,202

(1) Balances arise from our Servicing business and primarily include reimbursable expenditures due from investors and amounts to be recovered from the custodial accounts of the trustees.

(2) Balances primarily represent payments to be received for proceeds from sales of investments in affordable housing properties. None of these receivables is delinquent.

(3) See Note 20 for additional information regarding transactions with HLSS and Altisource.

(4) Balances represent the fair value of the interest rate cap we entered into in 2011. See Note 15 for additional information regarding our use of derivative financial instruments.

Receivable balances are evaluated individually. The change in the allowance for credit losses for the three months ended March 31, 2012 and the balance of the related receivables at those dates were as follows (the disclosure requirements for the allowance for credit losses do not apply to mortgage banking activities, including the long-term servicing of loans, such as the activities of our Servicing segment):

	Affordable Housing	Other	Total
Allowance for credit losses balance at December 31, 2011	$ 5,019	$1,262	$6,281
Charge offs	—	—	—
Recoveries	—	—	—
Provision (reversal), net	—	455	455

Other	—	(19)	(19)
Allowance for credit losses balance at March 31, 2012	$ 5,019	$ 1,698	$ 6,717
Receivables balance at March 31, 2012	$ 5,568	$ 2,848	$ 8,416

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Note 10 Other Assets

Other assets consisted of the following at the dates indicated:

	March 31, 2012	December 31, 2011
Debt service accounts (1)	$ 106,679	$ 115,867
Interest earning collateral deposits (2)	29,675	27,191
Prepaid lender fees and debt issuance costs, net (3)	18,502	27,113
Real estate, net	3,061	3,368
Prepaid expenses and other	10,026	12,403
	$ 167,943	$ 185,942

(1) Under our three advance funding facilities, we are contractually required to remit collections on pledged advances to the trustee within two days of receipt. The collected funds are not applied to reduce the related match funded debt until the payment dates specified in the indenture. The balances also include amounts that have been set aside from the proceeds of our four match funded advance facilities to provide for possible shortfalls in the funds available to pay certain expenses and interest. These funds are held in interest earning accounts. As disclosed in Note 4, in March 2012 we transferred to HLSS the debt service account related to the match funded liabilities assumed by HLSS. This account had a balance of $14,786 at the time of the transfer.

(2) The balances include $19,528 and $19,623 of cash collateral held by the counterparties to certain of our derivative agreements at March 31, 2012 and December 31, 2011, respectively.

(3) Unamortized costs relate to match funded liabilities and other secured borrowings of the Servicing segment. We amortize these costs to the earlier of the scheduled amortization date, contractual maturity date or prepayment date of the debt. As disclosed in Note 4, we transferred $5,422 of deferred costs to HLSS in connection with their assumption of the related match funded liabilities in March 2012.

Note 11 Match Funded Liabilities

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

Borrowing Type	Interest Rate	Maturity (1)	Amortization Date (1)	Unused Borrowing Capacity (2)	Balance Outstanding March 31, 2012	Balance Outstanding December 31, 2011
Promissory Note (3)	3.3875%	Sept. 2013	Sept. 2013	$ 125,077	$ 1,767,723	$ 1,784,043
Advance Receivable Backed Note Series 2009-3 (4)	4.14%	July 2023	July 2012	—	210,000	210,000
Variable Funding Note Series 2009-2	1-Month LIBOR + 350 bps	Nov. 2023	Nov. 2012	100,000	—	—
Variable Funding Note Series 2009-1 (5)	Commercial paper rate + 200 bps or 1-Month LIBOR plus 325 bps	Dec. 2023	Dec. 2012	647,205	152,795	11,687
Advance Receivable Backed Note Series 2010-1 (4)(6)	3.59%	Sep. 2023	Feb. 2011	—	—	40,000
Class A-1 Term Note (7)	Commercial paper rate + 350 bps	Aug. 2043	Aug. 2013	—	—	340,185
Class A-2 Variable Funding Note (7)	Commercial paper rate + 350 bps	Aug. 2043	Aug. 2013	—	—	—
Class B Term Note (7)	Commercial paper rate + 525 bps	Aug. 2043	Aug. 2013	—	—	15,850
Class C Term Note (7)	Commercial paper rate + 625 bps	Aug. 2043	Aug. 2013	—	—	15,056
Class D Term Note (7)	1-Month LIBOR + 750 bps	Aug. 2043	Aug. 2013	—	—	11,638
Advance Receivable Backed Notes	1-Month LIBOR + 200 bps	Jan. 2014	July 2013	115,195	149,805	130,492
				$ 987,477	$ 2,280,323	$ 2,558,951

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

(2) Unused borrowing capacity is available to us provided that we have additional eligible collateral to pledge. Collateral may only be pledged to one facility. At March 31, 2012, we had no available unused collateral to pledge.

(3) This note was issued in connection with the financing of advances acquired in connection with the acquisition of Litton on September 1, 2011. Borrowing capacity under this facility declined to $1,892,800 on March 1, 2012 and will further decline to $1,637,591 on September 1, 2012, $1,403,650 on March 1, 2013 and $1,169,708 on

September 1, 2013.

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

(5) The interest rate for this note is determined using a commercial paper rate that reflects the borrowing costs of the lender plus a margin of 200 bps or 1-Month LIBOR plus 325 bps if the lender funds its lending other than through commercial paper. Effective March 12, 2012 the lender transferred this note from its commercial paper conduit and began charging interest based on 1-Month LIBOR. Beginning June 15, 2012, maximum borrowing capacity under this note will be reduced to the extent that the lender's commitment under any other advance facilities of Ocwen or its affiliates exceeds $200,000.

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

(7) These notes were issued in connection with the financing of advances acquired as part of the HomEq Acquisition. The Class D Term Note was repaid in full on March 2, 2012. On March 5, 2012, HLSS assumed the remaining balances as part of the HLSS Transaction.

Note 12 LINES OF CREDIT AND OTHER SECURED BORROWINGS

Lines of credit and other secured borrowings are comprised of the following:

				Unused	Balance Outstanding	
Borrowings	**Collateral**	**Interest Rate**	**Maturity**	**Borrowing Capacity**	**March 31, 2012**	**December 31, 2011**
<u>Servicing:</u>						
Senior secured term loan (1)	(1)	1-Month LIBOR + 550 bps with a LIBOR floor of 1.50% (1)	Sept. 2016	$ —	$ 494,426	