OCWEN FINANCIAL CORP
Form 10-Q
April 28, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
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 West Palm Beach, Florida	33409
(Address of principal executive office)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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
Number of shares of common stock outstanding as of April 25, 2016: 123,853,683 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 "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 from those suggested by such statements. 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" in our Annual Report on Form 10-K for the year ended December 31, 2015 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, including uncertainty related to past, present or future investigations and settlements with state regulators, the Consumer Financial Protection Bureau (CFPB), State Attorneys General, the Securities and Exchange Commission (SEC), Department of Justice or the Department of Housing and Urban Development (HUD) and actions brought under the False Claims Act by private parties on behalf of the United States of America regarding incentive and other payments made by governmental entities;
- 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 recent or future 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;
- 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 and our other reports and filings with the SEC including our Annual Report on Form 10-K for the year ended December 31, 2015 and our Current Reports on Form 8-K since such date. Forward-looking statements speak only as of the date they were made and we disclaim any obligation to update or revise forward-looking statements whether as a result of new information, future events or otherwise.

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

	March 31, 2016	December 31, 2015
Assets		
Cash	$280,513	$257,272
Mortgage servicing rights ($732,174 and $761,190 carried at fair value)	1,078,213	1,138,569
Advances, net	317,348	444,298
Match funded advances	1,720,897	1,706,768
Loans held for sale ($321,739 and $309,054 carried at fair value)	408,809	414,046
Loans held for investment - Reverse mortgages, at fair value	2,771,242	2,488,253
Receivables, net	237,583	286,981
Premises and equipment, net	72,323	57,626
Other assets ($22,501 and $14,352 carried at fair value)	520,182	586,495
Total assets	$7,407,110	$7,380,308
Liabilities and Equity		
Liabilities		
Match funded liabilities	$1,537,096	$1,584,049
Financing liabilities ($3,171,602 and $2,933,066 carried at fair value)	3,319,646	3,089,255
Other secured borrowings, net	718,830	762,411
Senior unsecured notes, net	345,847	345,511
Other liabilities	747,223	744,444
Total liabilities	6,668,642	6,525,670
Commitments and Contingencies (Notes 18 and 19)		
Equity		
Ocwen Financial Corporation (Ocwen) stockholders' equity		
Common stock, $.01 par value; 200,000,000 shares authorized; 123,853,683 and 124,774,516 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	1,239	1,248
Additional paid-in capital	522,222	526,148
Retained earnings	214,598	325,929
Accumulated other comprehensive loss, net of income taxes	(1,658)	(1,763)
Total Ocwen stockholders' equity	736,401	851,562
Non-controlling interest in subsidiaries	2,067	3,076
Total equity	738,468	854,638
Total liabilities and equity	$7,407,110	$7,380,308

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

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

	For the Three Months Ended March 31,	
	2016	2015
Revenue		
Servicing and subservicing fees	$297,496	$446,541
Gain on loans held for sale, net	15,572	44,504
Other revenues	17,689	19,399
Total revenue	330,757	510,444
Expenses		
Compensation and benefits	96,249	105,144
Amortization of mortgage servicing rights	12,806	38,494
Servicing and origination	95,692	101,802
Technology and communications	26,869	39,351
Professional services	70,907	56,931
Occupancy and equipment	24,745	25,714
Other	1,389	10,922
Total expenses	328,657	378,358
Other income (expense)		
Interest income	4,190	5,575
Interest expense	(106,089)	(119,396)
Gain on sale of mortgage servicing rights, net	1,175	26,406
Other, net	(3,501)	(1,842)
Total other expense, net	(104,225)	(89,257)
Income (loss) before income taxes	(102,125)	42,829
Income tax expense	9,076	8,440
Net income (loss)	(111,201)	34,389
Net income attributable to non-controlling interests	(130)	(34)
Net income (loss) attributable to Ocwen stockholders	$(111,331)	$34,355
Earnings (loss) per share attributable to Ocwen stockholders		
Basic	$(0.90)	$0.27
Diluted	$(0.90)	$0.27
Weighted average common shares outstanding		
Basic	124,093,339	125,272,228
Diluted	124,093,339	126,999,662

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

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

	For the Three Months Ended March 31,	
	2016	2015
Net income (loss)	$(111,201)	$34,389
Other comprehensive income, net of income taxes:		
Reclassification adjustment for losses on cash flow hedges included in net income (1)	105	418
Comprehensive income (loss)	(111,096)	34,807
Comprehensive income attributable to non-controlling interests	(130)	(34)
Comprehensive income (loss) attributable to Ocwen stockholders	$(111,226)	$34,773

(1) These losses are reclassified to Other, net in the Unaudited Consolidated Statements of Operations.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(Dollars in thousands)

	Ocwen Stockholders Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Non-controlling Interest in Subsidiaries	Total
Balance at December 31, 2015	124,774,516	$1,248	$526,148	$325,929	$ (1,763)	$ 3,076	$854,638
Net income (loss)	—	—	—	(111,331)	—	130	(111,201)
Repurchase of common stock	(991,985)	(10)	(5,880)	—	—	—	(5,890)
Exercise of common stock options	69,805	1	441	—	—	—	442
Equity-based compensation and other	1,347	—	1,513	—	—	—	1,513
Capital distribution to non-controlling interest	—	—	—	—	—	(1,139)	(1,139)
Other comprehensive income, net of income taxes	—	—	—	—	105	—	105
Balance at March 31, 2016	123,853,683	$1,239	$522,222	$214,598	$ (1,658)	$ 2,067	$738,468
Balance at December 31, 2014	125,215,615	$1,252	$515,194	$530,361	$ (8,413)	$ 2,771	$1,041,165
Net income	—	—	—	34,355	—	34	34,389
Cumulative effect of fair value election - Mortgage servicing rights, net of income taxes	—	—	—	42,846	—	—	42,846
Exercise of common stock options	85,173	1	508	—	—	—	509
Equity-based compensation and other	2,000	—	2,213	—	—	—	2,213
Other comprehensive income, net of income taxes	—	—	—	—	418	—	418
Balance at March 31, 2015	125,302,788	$1,253	$517,915	$607,562	$ (7,995)	$ 2,805	$1,121,540

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

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

	For the Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities		
Net income (loss)	$(111,201)	$34,389
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of mortgage servicing rights	12,806	38,494
Loss on valuation of mortgage servicing rights, at fair value	29,293	33,175
Impairment of mortgage servicing rights	29,953	17,769
Gain on sale of mortgage servicing rights	(1,175)	(26,406)
Realized and unrealized losses on derivative financial instruments	1,496	1,153
Provision for bad debts	11,382	14,170
Depreciation	5,039	4,344
Amortization of debt issuance costs	3,277	3,755
Increase in deferred tax assets	—	(890)
Equity-based compensation expense	1,416	2,117
Gain on loans held for sale, net	(15,572)	(44,504)
Origination and purchase of loans held for sale	(1,211,076)	(1,036,150)
Proceeds from sale and collections of loans held for sale	1,165,503	1,142,282
Changes in assets and liabilities:		
Decrease in advances and match funded advances	109,076	104,258
Decrease in receivables and other assets, net	84,512	1,330
Increase in other liabilities	21,473	20,127
Other, net	4,686	15,605
Net cash provided by operating activities	140,888	325,018
Cash flows from investing activities		
Origination of loans held for investment – reverse mortgages	(304,058)	(235,271)
Principal payments received on loans held for investment - reverse mortgages	87,237	26,170
Purchase of mortgage servicing rights, net	(4,263)	(3,267)
Proceeds from sale of mortgage servicing rights	15,305	49,465
Proceeds from sale of advances and match funded advances	41,003	1,765
Additions to premises and equipment	(19,800)	(3,918)
Other	1,624	301
Net cash used in investing activities	(182,952)	(164,755)
Cash flows from financing activities		
Repayment of match funded liabilities	(46,953)	(89,571)
Proceeds from other secured borrowings	1,902,472	1,858,258
Repayments of other secured borrowings	(2,014,474)	(2,042,969)
Payment of debt issuance costs	(2,242)	(12,643)
Proceeds from sale of loans accounted for as a financing	233,174	238,615
Proceeds from sale of advances accounted for as a financing	—	472
Repurchase of common stock	(5,890)	—
Proceeds from exercise of common stock options	406	413

Other	(1,188)	21
Net cash provided by (used in) financing activities	65,305	(47,404)
Net increase in cash	23,241	112,859
Cash at beginning of year	257,272	129,473
Cash at end of period	$280,513	$242,332

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2016
(Dollars in thousands, except per share data and unless otherwise indicated)

Note 1 – Organization, Business Environment and Basis of Presentation

Organization

Ocwen Financial Corporation (NYSE: OCN) (Ocwen, we, us and our) is a financial services holding company which, through its subsidiaries, originates and services loans. 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 is a Florida corporation organized in February 1988.

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

We perform primary and master servicer activities on behalf of investors and other servicers, including the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the GSEs), the Government National Mortgage Association (Ginnie Mae) and private-label securitizations (non-Agency). As primary servicer, we may be required to make certain payments of property taxes and insurance premiums, default and property maintenance payments, as well as advances of principal and interest payments before collecting them from borrowers. As master servicer, we collect mortgage payments from primary servicers and distribute the funds to investors in the mortgage-backed securities. To the extent the primary servicer does not advance the scheduled principal and interest, as master servicer we are responsible for advancing the shortfall subject to certain limitations.

We primarily originate, purchase, sell and securitize conventional (conforming to the underwriting standards of Fannie Mae or Freddie Mac; collectively referred to as Agency loans) and government-insured (Federal Housing Authority (FHA) or Department of Veterans Affairs (VA)) forward and reverse mortgages. The GSEs or Ginnie Mae guarantee these mortgage securitizations.

Business, Liquidity, Financing Activities and Management’s Plans

We are facing certain challenges and uncertainties that could have significant adverse effects on our business, liquidity and financing activities.

We have faced, and expect to continue to face, increased regulatory and public scrutiny as well as stricter and more comprehensive regulation of our business. We have entered into a number of regulatory settlements, which subject us to ongoing monitoring or reporting and which have significantly impacted our ability to grow our servicing portfolio. See Note 17 – Regulatory Requirements and Note 19 – Contingencies for further information regarding regulatory requirements, regulatory settlements and regulatory-related contingencies.

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, or if other regulatory actions are taken in the future against us of a similar or different nature, 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.

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.

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 Automotive Capital Services (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.

New Residential Investment Corp. (NRZ) is an important business partner to which we have sold rights to receive servicing fees, excluding ancillary income (other than net income on custodial and escrow accounts), with respect to certain non-Agency mortgage servicing rights (MSRs), which we refer to as Rights to MSRs. As of March 31, 2016, these Rights to MSRs relate to approximately $132.7 billion in unpaid principal balance (UPB) of our non-Agency MSRs. A level of future uncertainty exists regarding our relationship with NRZ, including with respect to the impact of our Standard & Poor's Ratings Services (S&P) servicer rating under our agreements with NRZ beginning April 7, 2017. Under the Master Servicing Rights Purchase Agreement and Sale Supplements with NRZ, if a termination event related to our servicer rating exists with respect to any servicing agreement, NRZ will have the right to direct the transfer of servicing with respect to any affected servicing agreement to a licensed replacement servicer that obtains all required third-party consents. As of March 31, 2016, a termination event exists because our 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 licensed servicer that obtains all required third-party consents. Following any such transfer, we would no longer be entitled to receive future servicing fee revenue with respect to any transferred servicing agreement. See Note 4 — Sales of Advances and MSRs for further information regarding our relationship with NRZ.

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 lenders can waive their contractual rights in the event of a default. Effective March 28, 2016 we entered into an amendment to our Senior Secured Term Loan (SSTL) which, among other things, removes in their entirety (including the consolidated total debt to consolidated tangible net worth ratio) or amends for the remaining term of the SSTL certain financial covenants and requires prepayments of $6.3 million on each of May 31, 2016, July 29, 2016 and September 30, 2016. As a result of this amendment, we project we will maintain compliance with our financial covenants during 2016. In order to avoid an event of default arising from a covenant breach, we could repay or refinance debt, among other actions. See Note 11 – Borrowings for further information regarding our debt agreements.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions of the Securities and Exchange Commission (SEC) to Form 10-Q and SEC Regulation S-X, Article 10, Rule 10-01 for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The results of operations and other data for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2016. The unaudited 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, 2015.

Reclassifications

As a result of our retrospective adoption on January 1, 2016 of FASB Accounting Standards Update (ASU) 2015-03, Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs, and 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, unamortized debt issuance costs that are not related to revolving line-of-credit arrangements have been reclassified from other assets to other secured borrowings and senior unsecured notes on the consolidated balance sheets, resulting in a reduction to the Company's assets and liabilities of $23.5 million and $24.5 million at March 31, 2016 and December 31, 2015, respectively.

Use of Estimates and Assumptions

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

Recently Issued Accounting Standards

Leases (ASU 2016-02)

In February 2016, the FASB issued ASU 2016-02 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key qualitative and quantitative information about leasing arrangements. A lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months, regardless of whether the lease is classified as a finance or operating lease. Additional disclosures will help investors and financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 will be effective for us on January 1, 2019, with early application permitted. We are currently evaluating the effect of adopting this standard.

Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (ASU 2016-05)

In March 2016, the FASB issued ASU 2016-05 to clarify that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under FASB Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging, does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-05 will be effective for us on January 1, 2017, with early adoption permitted, including adoption in an interim period. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments (ASU 2016-06)

In March 2016, the FASB issued ASU 2016-06 to clarify that in assessing whether embedded contingent put or call options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts, an entity is required to apply only the four-step decision sequence in FASB ASC 815-15-25-42 (as amended by this ASU). An entity does not have to separately assess whether the event that triggers its ability to exercise the contingent option is itself indexed only to interest rates or credit risk. ASU 2016-06 will be effective for us on January 1, 2017, with early adoption permitted, including adoption in an interim period. We are currently evaluating the effect of adopting this standard.

Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting (ASU 2016-07)

In March 2016, the FASB issued ASU 2016-07 to simplify the transition to the equity method of accounting as part of its simplification initiative to reduce cost and complexity in accounting standards while maintaining or improving the usefulness of the information provided to the users of financial statements. This standard requires that an equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment qualifies for equity method accounting, rather than adjusting the investment retroactively. This standard also requires that an entity that has an available-for-sale equity security that qualifies for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment qualifies for use of the equity method. ASU 2016-07 will be effective for us on January 1, 2017, with early application permitted. We are currently evaluating the effect of adopting this standard.

Revenue from Contracts with Customers: Principal versus Agent Considerations (ASU 2016-08)

In March 2016, the FASB issued ASU 2016-08 to clarify the implementation guidance included in FASB ASC Topic 606, Revenue from Contracts with Customers, related to principal versus agent considerations and add illustrative examples to assist in the application of the guidance. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is that of a principal -- providing the specified good or service itself, or that of an agent -- arranging for that good or service to be provided by the other party. An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. ASU 2016-08 will be effective for us on January 1, 2018, with early application permitted. We are currently evaluating the effect of adopting this standard.

Compensation - Stock Compensation: Improvements to Employee Shared-Based Payment Accounting (ASU 2016-09)

In March 2016, the FASB issued ASU 2016-09 to improve the accounting for employee share-based payments. This standard simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, as part of FASB's simplification initiative to reduce cost and complexity in accounting standards while maintaining or improving the usefulness of the information provided to the users of financial statements. ASU 2016-09 will be effective for us on January 1, 2017, with early adoption permitted. We are currently evaluating the effect of adopting this standard.

Note 2 – Securitizations and Variable Interest Entities

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

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

Securitizations of Residential Mortgage Loans

Currently, we securitize forward and reverse residential mortgage loans involving the GSEs and Ginnie Mae and loans insured by the FHA or VA. We retain the right to service these loans and receive servicing fees based upon the securitized loan balances and certain ancillary fees, all of which are reported in Servicing and subservicing fees in the Unaudited Consolidated Statements of Operations.

Transfers of Forward Loans

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

We report the gain or loss on the transfer of the loans held for sale in Gain on loans held for sale, net in the Unaudited Consolidated Statements of Operations along with the changes in fair value of the loans and the gain or loss on any related derivatives. We include all changes in loans held for sale and related derivative balances in operating activities in the Unaudited Consolidated Statements of Cash Flows.

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

	2016	2015
Proceeds received from securitizations	$1,009,264	$1,070,772
Servicing fees collected	3,124	347
Purchases of previously transferred assets, net of claims reimbursed	(13)	500
	$1,012,375	$1,071,619

In connection with these transfers, we retained MSRs of $7.2 million and $8.5 million during the three months ended March 31, 2016 and 2015, respectively.

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

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

	March 31, 2016	December 31, 2015
Carrying value of assets:		
Mortgage servicing rights, at amortized cost	$57,553	$ 54,729
Mortgage servicing rights, at fair value	200	236
Advances and match funded advances	26,789	26,968
UPB of loans transferred	8,101,276	7,471,025
Maximum exposure to loss	$8,185,818	$ 7,552,958

At March 31, 2016 and December 31, 2015, 7.4% and 8.2%, respectively, of the transferred residential loans that we service were 60 days or more past due.

Transfers of Reverse Mortgages

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

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

At March 31, 2016 and December 31, 2015, we had HMBS-related borrowings of $2.6 billion and $2.4 billion, respectively. HECM loans pledged as collateral to the pools were $2.8 billion and $2.5 billion at March 31, 2016 and December 31, 2015, respectively.

Financings of Advances on Loans Serviced for Others

Match funded advances on loans serviced for others result from our transfers of residential loan servicing advances to SPEs in exchange for cash. We consolidate these SPEs because we have determined that Ocwen is the primary beneficiary of the SPE. These SPEs issue debt supported by collections on the transferred advances, and we refer to this debt as Match funded liabilities.

We make the transfers to these SPEs under the terms of our advance financing facility agreements. We classify the transferred advances on our Unaudited Consolidated Balance Sheets as Match funded advances and the related liabilities as Match funded liabilities. The SPEs use collections of the pledged advances to repay principal and interest and to pay the expenses of the SPE. Holders of the debt issued by these entities have recourse only to the assets of the SPE for satisfaction of the debt. The assets and liabilities of the advance financing SPEs are comprised solely of

Match funded advances, Debt service accounts, Match funded liabilities and amounts due to affiliates. Amounts due to affiliates are eliminated in consolidation in our Unaudited Consolidated Balance Sheets.

Note 3 – Fair Value

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

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

The carrying amounts and the estimated fair values of our financial instruments and certain of our nonfinancial assets measured at fair value on a recurring or non-recurring basis or disclosed, but not carried, at fair value are as follows at the dates indicated:

		March 31, 2016		December 31, 2015	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Loans held for sale:					
Loans held for sale, at fair value (a)	2	$321,739	$321,739	$309,054	$309,054
Loans held for sale, at lower of cost or fair value (b)	3	87,070	87,070	104,992	104,992
Total Loans held for sale		$408,809	$408,809	$414,046	$414,046
Loans held for investment - Reverse mortgages, at fair value (a)	3	$2,771,242	$2,771,242	$2,488,253	$2,488,253
Advances and match funded advances (c)	3	2,038,245	2,038,245	2,151,066	2,151,066
Receivables, net (c)	3	237,583	237,583	286,981	286,981
Mortgage-backed securities, at fair value (a)	3	8,386	8,386	7,985	7,985
Financial liabilities:					
Match funded liabilities (c)	3	$1,537,096	$1,537,611	$1,584,049	$1,581,786
Financing liabilities:					
HMBS-related borrowings, at fair value (a)	3	$2,648,100	$2,648,100	$2,391,362	$2,391,362
Financing liability - MSRs pledged (a)	3	523,503	523,503	541,704	541,704
Other (c)	3	148,043	106,857	156,189	131,940
Total Financing liabilities		$3,319,646	$3,278,460	$3,089,255	$3,065,006
Other secured borrowings:					
Senior secured term loan (c)(d)	2	$359,428	$382,508	$377,091	$397,956
Other (c)	3	359,402	359,402	385,320	385,320
Total Other secured borrowings		$718,830	$741,910	$762,411	$783,276
Senior unsecured notes (c)(d)	2	$345,847	$294,350	$345,511	$318,063

	Level	March 31, 2016 Carrying Value	Fair Value	December 31, 2015 Carrying Value	Fair Value
Derivative financial instruments assets (liabilities) (a):					
Interest rate lock commitments	2	$13,545	$13,545	$6,080	$6,080
Forward mortgage-backed securities trades	1	(5,291)	(5,291)	295	295
Interest rate caps	3	570	570	2,042	2,042
Mortgage servicing rights:					
Mortgage servicing rights, at fair value (a)	3	$732,174	$732,174	$761,190	$761,190
Mortgage servicing rights, at amortized cost (c)(e)	3	346,039	390,970	377,379	461,555
Total Mortgage servicing rights		$1,078,213	$1,123,144	$1,138,569	$1,222,745

(a) Measured at fair value on a recurring basis.
(b) Measured at fair value on a non-recurring basis.
(c) Disclosed, but not carried, at fair value.
(d) The carrying values are net of unamortized debt issuance costs and discount. See Note 11 – Borrowings for additional information.
(e) The net carrying value at March 31, 2016 and December 31, 2015 is net of the valuation allowance on the impaired government-insured stratum of our amortization method MSRs, which is measured at fair value on a non-recurring basis. Before applying the valuation allowance of $47.3 million, the carrying value of this stratum at March 31, 2016 was $146.7 million. At December 31, 2015, the carrying value of this stratum was $146.5 million before applying the valuation allowance of $17.3 million.

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

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs	Total
Three months ended March 31, 2016							
Beginning balance	$2,488,253	$(2,391,362)	$ 7,985	$(541,704)	$ 2,042	$761,190	$326,404
Purchases, issuances, sales and settlements:							
Purchases	—	—	—	—	—	419	419
Issuances	304,058	(233,174)	—	—	—	—	70,884
Transfer from MSRs carried at amortized cost	—	—	—	—	—	—	—
Sales	—	—	—	—	—	(142)	(142)
Settlements (1)	(87,237)	39,654	—	18,201	(81)	—	(29,463)
	216,821	(193,520)	—	18,201	(81)	277	41,698
Total realized and unrealized gains and (losses) (2):							
Included in earnings	66,168	(63,218)	401	—	(1,391)	(29,293)	(27,333)
Included in Other comprehensive income	—	—	—	—	—	—	—
	66,168	(63,218)	401	—	(1,391)	(29,293)	(27,333)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—

Ending balance	$2,771,242	$(2,648,100)	$ 8,386	$(523,503)	$ 570	$732,174	$340,769

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs	Total
Three months ended March 31, 2015							
Beginning balance	$1,550,141	$(1,444,252)	$ 7,335	$(614,441)	$ 567	$93,901	$(406,749)
Purchases, issuances, sales and settlements:							
Purchases	—	—	—	—	—	—	—
Issuances	235,271	(238,615)	—	—	—	(1,169)	(4,513)
Transfer from MSRs carried at amortized cost	—	—	—	—	—	839,157	839,157
Sales	—	—	—	—		(917)	(917)
Settlements (1)	(26,233)	25,985	—	19,946	—	—	19,698
	209,038	(212,630)	—	19,946	—	837,071	853,425
Total realized and unrealized gains and (losses) (2):							
Included in earnings	48,962	(45,515)	366	—	(364)	(33,175)	(29,726)
Included in Other comprehensive income	—	—	—	—	—	—	—
	48,962	(45,515)	366	—	(364)	(33,175)	(29,726)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—
Ending balance	$1,808,141	$(1,702,397)	$ 7,701	$(594,495)	$ 203	$897,797	$416,950

(1) In the event of a transfer to another party of servicing related to Rights to MSRs, we are required to reimburse NRZ at predetermined contractual rates for the loss of servicing revenues. Settlements for Financing liability - MSRs pledged for the three months ended March 31, 2015 includes $2.2 million of such reimbursements.

(2) Total losses attributable to derivative financial instruments still held at March 31, 2016 and March 31, 2015 were $1.5 million and $0.4 million for the three months ended March 31, 2016 and 2015, respectively. Total losses attributable to MSRs still held at March 31, 2016 and March 31, 2015 were $29.1 million and $31.7 million for the three months ended March 31, 2016 and 2015, respectively.

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

Loans Held for Sale

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

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

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

Loans Held for Investment – Reverse Mortgages

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

The more significant assumptions used in the March 31, 2016 valuation include:

- Life in years ranging from 5.96 to 9.46 (weighted average of 6.52);
- Conditional repayment rate ranging from 4.92% to 53.75% (weighted average of 19.70%); and
- Discount rate of 2.74%.

Significant increases or decreases in any of these assumptions in isolation could result in a significantly lower or higher fair value, respectively. The effects of changes in the assumptions used to value the loans held for investment are largely offset by the effects of changes in the assumptions used to value the HMBS-related borrowings that are associated with these loans.

Mortgage Servicing Rights

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

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

We evaluate the reasonableness of our third-party experts' assumptions using historical experience adjusted for prevailing market conditions. Assumptions used in the valuation of MSRs include:

• Mortgage prepayment speeds	• Interest rate used for computing the cost of financing servicing advances
• Cost of servicing	• Interest rate used for computing float earnings
• Discount rate	• Compensating interest expense
• Delinquency rates	• Collection rate of other ancillary fees

Amortized Cost MSRs

We estimate the fair value of MSRs carried at amortized cost using a process that involves either actual sale prices obtained or the use of independent third-party valuation experts, supported by commercially available discounted cash flow models and analysis of current market data. To provide greater price transparency to investors, we disclose actual Ocwen sale prices for orderly transactions where available in lieu of third-party valuations.

The more significant assumptions used in the March 31, 2016 valuation include:

Weighted average prepayment speed	12.11 %
Weighted average delinquency rate	12.32 %
Advance financing cost	5-year swap
Interest rate for computing float earnings	5-year swap
Weighted average discount rate	9.33 %
Weighted average cost to service (in dollars)	$ 111

We perform an impairment analysis based on the difference between the carrying amount and fair value after grouping the underlying loans into the applicable strata. Our strata are defined as conventional and government-insured.

Fair Value MSRs

MSRs carried at fair value are classified within Level 3 of the valuation hierarchy. The fair value is equal to the mid-point of the range of prices provided by third-party valuation experts, without adjustment, except in the event we have a potential or completed Ocwen sale, including transactions where we have executed letters of intent, in which case the fair value of the MSRs is carried at the estimated sale price. Fair value reflects actual Ocwen sale prices for orderly transactions where available in lieu of independent third-party valuations. Our valuation process includes discussions of bid pricing with the third-party valuation experts and presumably are contemplated along with other market-based transactions in their model validation.

A change in the valuation inputs utilized by the valuation experts might result in a significantly higher or lower fair value measurement. Changes in market interest rates tend to impact the fair value for Agency MSRs via prepayment speeds by altering the borrower refinance incentive, and for Non-Agency MSRs via a market rate indexed cost of advance funding. Other key assumptions used in the valuation of these MSRs include delinquency rates and discount rates.

The primary assumptions used in the March 31, 2016 valuation include:

	Agency	Non Agency
Weighted average prepayment speed	13.27 %	16.83 %
Weighted average delinquency rate	0.99 %	27.42 %
Advance financing cost	5-year swap	1ML plus 3.5%
Interest rate for computing float earnings	5-year swap	1ML
Weighted average discount rate	9.00 %	14.68 %
Weighted average cost to service (in dollars)	$ 74	$ 313

Advances

We value advances at their net realizable value, which generally approximates fair value, because advances have no stated maturity, are generally 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.

Mortgage-Backed Securities (MBS)

Our subordinate and residual securities are not actively traded, and therefore, we estimate the fair value of these securities based on the present value of expected future cash flows from the underlying mortgage pools. We use our best estimate of the key assumptions we believe are used by market participants. We calibrate our internally developed discounted cash flow models for trading activity when appropriate to do so in light of market liquidity levels. Key inputs include expected prepayment rates, delinquency and cumulative loss curves and discount rates commensurate with the risks. Where possible, we use observable inputs in the valuation of our securities. However, the subordinate and residual securities in which we have invested trade infrequently and therefore have few or no observable inputs and little price transparency. Additionally, during periods of market dislocation, the observability of inputs is further reduced. Changes in the fair value of our investment in subordinate and residual securities are recognized in Other, net in the Unaudited Consolidated Statements of Operations.

Discount rates for the subordinate and residual securities are determined based upon an assessment of prevailing market conditions and prices for similar assets. We project the delinquency, loss and prepayment assumptions based on a comparison to actual historical performance curves adjusted for prevailing market conditions.

Match Funded Liabilities

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

Financing Liabilities

HMBS-Related Borrowings

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

The more significant assumptions used in the March 31, 2016 valuation include:

- Life in years ranging from 4.74 to 9.46 (weighted average of 5.40);
- Conditional repayment rate ranging from 4.92% to 53.75% (weighted average of 19.70%); and
- Discount rate of 2.17%.

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

MSRs Pledged

We periodically sell Rights to MSRs and the related servicing advances. Because we have retained legal title to the MSRs, the sales of Rights to MSRs are accounted for as financings. We initially establish the value of the Financing Liability - MSRs Pledged based on the price at which the Rights to MSRs are sold. Thereafter, the carrying value of the Financing Liability - MSRs pledged is adjusted to fair value at each reporting date. We determine fair value by applying the price of the underlying MSRs to the remaining principal balance related to the underlying MSRs. Since we have elected fair value for our portfolio of non-Agency MSRs, future fair value changes in the Financing Liability - MSRs Pledged will be largely offset by changes in the fair value of the related MSRs.

The more significant assumptions used in determination of the price of the underlying MSRs at March 31, 2016 include:

Weighted average prepayment speed	17.35 %
Weighted average delinquency rate	29.21 %
Advance financing cost	1 ML plus 3.5%
Interest rate for computing float earnings	1ML
Weighted average discount rate	14.54 %
Weighted average cost to service (in dollars)	$ 318

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

Secured Notes

We issued Ocwen Asset Servicing Income Series (OASIS), Series 2014-1 Notes secured by Ocwen-owned MSRs relating to Freddie Mac mortgages. We accounted for this transaction as a financing. We determine the fair value based on bid prices provided by third parties involved in the issuance and placement of the notes.

Other Secured Borrowings

The carrying value of secured borrowings that bear interest at a rate that is adjusted regularly based on a market index approximates fair value. For other secured borrowings that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. For the SSTL, we based the fair value on quoted prices in a market with limited trading activity.

Senior Unsecured Notes

We base the fair value on quoted prices in a market with limited trading activity.

Derivative Financial Instruments

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

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

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

Note 4 — Sales of Advances and MSRs

In order to efficiently finance our assets, streamline our operations and generate liquidity, we sell MSRs, Rights to MSRs and servicing advances to market participants. We may retain the right to subservice loans when we sell MSRs. In connection with sales of Rights to MSRs, we retain legal ownership of the MSRs and continue to service the related mortgage loans until such time as all necessary consents to a transfer of the MSRs are received. During the three months ended March 31, 2016 and 2015, we sold MSRs relating to loans with a UPB of $34.5 million (non-Agency) and $9.1 billion (Agency), respectively.

The following table provides a summary of the MSRs and advances sold during the three months ended March 31:

	2016		2015	
	MSRs	Advances and Match Funded Advances	MSRs	Advances and Match Funded Advances
Sales price of assets sold and adjustments:				
Accounted for as a sale	$1,162	$ 261	$97,530	$ 1,765
Amount due from purchaser at March 31 (1)	—	—	(48,065)	—
Amounts received from purchaser for items outstanding at the end of the previous year	14,143	40,742	—	—
Total net cash received	$15,305	$ 41,003	$49,465	$ 1,765

(1) There were no amounts due from purchaser at March 31, 2016 related to assets sold during the three months ended March 31, 2016. The total amount due at March 31, 2016 on sales of MSRs and advances, which consists only of amounts due on sales completed in 2015, is $39.7 million.

In 2012 and 2013, we sold Rights to MSRs and the related servicing advances to Home Loan Servicing Solutions, Ltd. (HLSS). On April 6, 2015, HLSS closed on the sale of substantially all of its assets to NRZ. References to NRZ in these unaudited consolidated financial statements 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 all rights and obligations under the associated agreements. We refer to the sale of Rights to MSRs and the related servicing advances as the NRZ/HLSS Transactions.

Pursuant to our agreements with NRZ, NRZ has assumed the obligation to fund new servicing advances with respect to the Rights to MSRs. 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 residential mortgage backed securitization trusts, we would be contractually obligated to fund such advances under those servicing agreements. At March 31, 2016, NRZ had outstanding advances of approximately $4.9 billion in connection with the Rights to MSRs.

The servicing fees payable under the servicing agreements underlying the Rights to MSRs are apportioned between NRZ and us 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 sale of each tranche of Rights to MSRs to NRZ, 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, OLS 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.

Beginning April 7, 2017, under the Master Servicing Rights Purchase Agreement and Sale Supplements with NRZ, if a termination event related to a servicer rating downgrade exists with respect to any servicing agreement, NRZ will have the right to direct the transfer of servicing with respect to any affected servicing agreement to a replacement servicer that obtains all required third-party consents and licenses. As of March 31, 2016, a termination event relating to a servicer rating downgrade exists because our 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 of an affected servicing agreement, we would no longer be entitled to receive future servicing fee revenue with respect to the transferred servicing agreement.

To the extent servicing agreements underlying Rights to MSRs are terminated as a result of a termination event, NRZ is entitled to payment of an amount equal to an amortized percentage of NRZ’s purchase price for the related Rights to MSRs. We paid NRZ $2.2 million during the three months ended March 31, 2015 in connection with the termination of four servicing agreements underlying the Rights to MSRs.

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 $6.2 million during the three months ended March 31, 2016 in connection with this agreement, and will continue to incur costs through June 2016. Actual future payments in connection with this agreement will vary based on NRZ's outstanding borrowings and movements in applicable floating interest rates.

The NRZ/HLSS Transactions are accounted for as financings. If and when transfer of legal ownership of the underlying MSRs occurs upon receipt of third-party consents, we would derecognize the related MSRs. Upon derecognition, any resulting gain or loss is deferred and amortized over the expected life of the related subservicing agreement. Until derecognition, we continue to recognize the full amount of servicing revenue and amortization of the MSRs.

The sales of advances in connection with MSR sales, including the NRZ/HLSS Transactions, meet the requirements for sale accounting, and the advances are derecognized from our consolidated financial statements at the servicing transfer date, or, in the case of advances sold in connection with the sale of Rights to MSRs, at the time of the sale.

In 2014, Ocwen sold advances related to certain FHA-insured mortgage loans to subsidiaries of NRZ. These advance sales did not qualify for sales treatment and were accounted for as financings (Financing liability - Advances pledged).

Note 5 – Loans Held for Sale

Loans Held for Sale - Fair Value

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

	2016	2015
Beginning balance	$309,054	$401,120
Originations and purchases	789,180	922,254
Proceeds from sales	(783,187)	(990,634)
Principal collections	(3,280)	(2,667)
Gain on sale of loans	7,646	15,265
Other (1)	2,326	(5,830)
Ending balance	$321,739	$339,508

(1) Other includes the increase (decrease) in fair value of $1.8 million and $(6.9) million for the three months ended March 31, 2016 and 2015, respectively.

At March 31, 2016, loans held for sale, at fair value with a UPB of $285.1 million were pledged to secure warehouse lines of credit in our Lending segment.

Loans Held for Sale - Lower of Cost or Fair Value

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

	2016	2015
Beginning balance	$104,992	$87,492
Purchases	421,896	113,896
Proceeds from sales	(372,583)	(140,948)
Principal collections	(6,453)	(13,863)
Transfers to accounts receivable	(61,212)	(16,572)
Transfers to real estate owned	(1,224)	(2,296)
Gain on sale of loans	5,010	17,271
Decrease (increase) in valuation allowance	(3,335)	19,728
Other	(21)	3,781
Ending balance (1)	$87,070	$68,489

(1) At March 31, 2016 and March 31, 2015, the balances include $55.5 million and $43.9 million, respectively, of loans that we were required to repurchase from Ginnie Mae guaranteed securitizations as part of our servicing obligations. Repurchased loans are modified or otherwise remediated through loss mitigation activities or are reclassified to receivables.

The change in the valuation allowance during the three months ended March 31 is as follows:

	2016	2015
Beginning balance	$14,658	$49,676
Provision	2,597	1,104
Transfer from liability for indemnification obligations	1,030	664
Sales of loans	—	(22,488)
Other	(292)	992
Ending balance	$17,993	$29,948

At March 31, 2016, Loans held for sale, at lower of cost or fair value with a UPB of $37.1 million were pledged to secure a warehouse line of credit in our Servicing segment.

In March 2015, we recognized a gain of $12.9 million on sales of loans with a total UPB of $42.7 million to an unrelated third party. We had repurchased these loans under the representation and warranty provisions of our contractual obligations to the GSEs as primary servicer of the loans.

Gain on Loans Held for Sale, Net

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

	2016	2015
Gain on sales of loans	$17,939	$51,400
Change in fair value of IRLCs	7,465	(2,233)
Change in fair value of loans held for sale	3,521	(4,008)
Loss on economic hedge instruments	(13,202)	(427)
Other	(151)	(228)
	$15,572	$44,504

Gain on loans held for sale, net include $6.5 million and $8.5 million for the three months ended March 31, 2016 and 2015, respectively, representing the value assigned to MSRs retained on transfers of forward loans.

Also included in Gains on loans held for sale, net are gains of $5.0 million and $4.3 million recorded during the three months ended March 31, 2016 and 2015, respectively, on sales of repurchased Ginnie Mae loans, which are carried at the lower of cost or fair value.

Fair value gains recognized in connection with transfers of reverse mortgages into Ginnie Mae guaranteed securitizations are also included in Gains on loans held for sale, net and amounted to $8.0 million and $25.6 million for the three months ended March 31, 2016 and 2015, respectively.

Note 6 – Advances

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

	March 31, 2016	December 31, 2015
Principal and interest	$58,290	$ 81,681
Taxes and insurance	233,202	278,487
Foreclosures, bankruptcy and other	68,379	126,031
	359,871	486,199
Allowance for losses	(42,523)	(41,901)
	$317,348	$ 444,298

Advances at March 31, 2016 include $79.6 million of previously sold advances that did not qualify for sales accounting.

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

	2016	2015
Beginning balance	$444,298	$893,914
Sales of advances	(261)	(1,765)
New advances (collections of advances), net	(126,067)	52,217
Increase in allowance for losses	(622)	(1,828)
Ending balance	$317,348	$942,538

The change in the allowance for losses during the three months ended March 31 is as follows:

	2016	2015
Beginning balance	$41,901	$70,034
Provision	3,483	4,960
Charge-offs and other	(2,861)	(3,132)
Ending balance	$42,523	$71,862

Note 7 – Match Funded Advances

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

	March 31, 2016	December 31, 2015
Principal and interest	$879,242	$ 948,376
Taxes and insurance	620,795	608,404
Foreclosures, bankruptcy, real estate and other	220,860	149,988
	$1,720,897	$ 1,706,768

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

	2016	2015
Beginning balance	$1,706,768	$2,409,442
New advances (collections of pledged advances), net	14,129	(156,475)
Ending balance	$1,720,897	$2,252,967

Note 8 – Mortgage Servicing

Mortgage Servicing Rights – Amortization Method

Servicing Assets. The following table summarizes the activity in the carrying value of amortization method servicing assets for the three months ended March 31. Amortization of mortgage servicing rights is reported net of the amortization of any servicing liabilities and includes the amount of charges we recognized to increase servicing liability obligations, if any.

	2016	2015
Beginning balance	$377,379	$1,820,091
Fair value election - transfer of MSRs carried at fair value (1)	—	(787,142)
Additions recognized in connection with asset acquisitions	4,263	3,267
Additions recognized on the sale of mortgage loans	7,156	8,528
Sales	—	(65,627)
	388,798	979,117
Amortization	(12,806)	(38,494)
Increase in impairment valuation allowance (2)	(29,953)	(17,769)
Ending balance	$346,039	$922,854
Estimated fair value at end of period	$390,970	$1,064,134

(1) 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, based on a different strategy for managing the risks of the underlying portfolio compared to our other MSR classes. 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 $9.2 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 loans related to the non-Agency MSRs for which the fair value election was made was $195.3 billion.

(2) Impairment of MSRs is recognized in Servicing and origination expense in the Unaudited Consolidated Statements of Operations.

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Servicing Liabilities. Servicing liabilities, if any, are included in Other liabilities.

Mortgage Servicing Rights – Fair Value Measurement Method

This portfolio comprises servicing rights for which we elected the fair value option and includes Agency residential mortgage loans for which we previously hedged the related market risks and a new class of non-Agency residential mortgage loans for which we elected fair value as of January 1, 2015.

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

2016			2015		
Agency	Non-Agency	Total	Agency	Non-Agency	Total