UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2020

OR

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

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 Par Value	OCN	New York Stock Exchange

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 ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Number of shares of common stock outstanding as of October 30, 2020: 8,683,994 shares

OCWEN FINANCIAL CORPORATION
FORM 10-Q
TABLE OF CONTENTS

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 statements regarding our financial position, business strategy and other plans and objectives for our future operations, are forward-looking statements.

Forward-looking statements may be identified by a reference to a future period or by the use of forward-looking terminology. Forward-looking statements are typically identified by words such as "expect", "believe", "foresee", "anticipate", "intend", "estimate", "goal", "strategy", "plan" "target" and "project" or conditional verbs such as "will", "may", "should", "could" or "would" or the negative of these terms, although not all forward-looking statements contain these words. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Readers should bear these factors in mind when considering forward-looking 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 or referenced under Item 1A, Risk Factors and the following:

- uncertainty relating to the continuing impacts of the COVID-19 pandemic, including with respect to the response of the U.S. government, state governments, the Federal National Mortgage Association (Fannie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac) (together, the GSEs), the Government National Mortgage Association (Ginnie Mae) and regulators;
- the potential for ongoing COVID-19 related disruption in the financial markets and in commercial activity generally, increased unemployment, and other financial difficulties facing our borrowers;
- the proportion of borrowers who enter into forbearance plans, the financial ability of borrowers to resume repayment and their timing for doing so;
- the adequacy of our financial resources, including our sources of liquidity and ability to sell, fund and recover servicing advances, forward and reverse whole loans, and HECM and forward loan buyouts and put backs, as well as repay, renew and extend borrowings, borrow additional amounts as and when required, meet our MSR or other asset investment objectives and comply with our debt agreements, including the financial and other covenants contained in them;
- increased servicing costs based on rising borrower delinquency levels or other factors;
- reduced collection of servicing fees and ancillary income and delayed collection of servicing revenue as a result of forbearance plans and moratoria on evictions and foreclosure proceedings;
- our ability to continue to improve our financial performance through cost re-engineering initiatives and other actions;
- our ability to continue to grow our lending business and increase our lending volumes in a competitive market and uncertain interest rate environment;
- uncertainty related to our long-term relationship and remaining agreements with New Residential Investment Corp. (NRZ), our largest servicing client;
- uncertainty related to claims, litigation, cease and desist orders 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, litigation, cease and desist orders and settlements with state regulators, the Consumer Financial Protection Bureau (CFPB), State Attorneys General, the Securities and Exchange Commission (SEC), the Department of Justice or the Department of Housing and Urban Development (HUD);
- adverse effects on our business as a result of regulatory investigations, litigation, cease and desist orders or settlements and the reactions of key counterparties, including lenders, the GSEs and Ginnie Mae;
- our ability to comply with the terms of our settlements with regulatory agencies and the costs of doing so;
- 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;
- uncertainty related to changes in legislation, regulations, government programs and policies, industry initiatives, best servicing and lending practices, and media scrutiny of our business and industry;
- our ability to interpret correctly and comply with liquidity, net worth and other financial and other requirements of regulators, the GSEs and Ginnie Mae, as well as those set forth in our debt and other agreements;
- our ability to comply with our servicing agreements, including our ability to comply with our agreements with, and the requirements of, the GSEs and Ginnie Mae and maintain our seller/servicer and other statuses with them;
- our servicer and credit ratings as well as other actions from various rating agencies, including the impact of prior or future downgrades of our servicer and credit ratings;
- failure of our information technology or other security systems or breach of our privacy protections, including any failure to protect customers' data;

- our reliance on our technology vendors to adequately maintain and support our systems, including our servicing systems, loan originations and financial reporting systems, and uncertainty relating to our ability to transition to alternative vendors, if necessary, without incurring significant cost or disruption to our operations;
- the loss of the services of our senior managers and key employees;
- uncertainty related to the actions of loan owners and guarantors, including mortgage-backed securities investors, the GSEs, Ginnie Mae and trustees regarding loan put-backs, penalties and legal actions;
- uncertainty related to the GSEs substantially curtailing or ceasing to purchase our conforming loan originations or the Federal Housing Administration (FHA) of the HUD or Department of Veterans Affairs (VA) ceasing to provide insurance;
- uncertainty related to our ability to continue to collect certain expedited payment or convenience fees and potential liability for charging such fees;
- uncertainty related to our reserves, valuations, provisions and anticipated realization of 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;
- the characteristics of our servicing portfolio, including prepayment speeds along with delinquency and advance rates;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;
- 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 ability to adequately manage and maintain real estate owned (REO) properties and vacant properties collateralizing loans that we service;
- our ability to realize anticipated future gains from future draws on existing loans in our reverse mortgage portfolio;
- our ability to effectively manage our exposure to interest rate changes and foreign exchange fluctuations;
- our ability to effectively transform our operations in response to changing business needs, including our ability to do so without unanticipated adverse tax consequences;
- uncertainty related to the political or economic stability of the United States and of the foreign countries in which we have operations; and
- our ability to maintain positive relationships with our large shareholders and obtain their support for management proposals requiring shareholder approval.

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, 2019 and our Quarterly Reports on Form 10-Q and 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 because of new information, future events or otherwise.

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

	September 30, 2020	December 31, 2019
Assets		
Cash and cash equivalents	$ 321,455	$ 428,339
Restricted cash (amounts related to variable interest entities (VIEs) of $13,108 and $20,434)	61,511	64,001
Mortgage servicing rights (MSRs), at fair value	1,069,013	1,486,395
Advances, net (amounts related to VIEs of $660,816 and $801,990)	832,604	1,056,523
Loans held for sale ($366,966 and $208,752 carried at fair value)	390,631	275,269
Loans held for investment, at fair value (amounts related to VIEs of $11,012 and $23,342)	6,860,942	6,292,938
Receivables, net	201,607	201,220
Premises and equipment, net	23,620	38,274
Other assets ($25,204 and $8,524 carried at fair value) (amounts related to VIEs of $7,584 and $4,078)	662,468	563,240
Total assets	$ 10,423,851	$ 10,406,199
Liabilities and Equity		
Liabilities		
Home Equity Conversion Mortgage-Backed Securities (HMBS) related borrowings, at fair value	$ 6,606,543	$ 6,063,435
Advance match funded liabilities (related to VIEs)	580,078	679,109
Other financing liabilities, at fair value (amounts related to VIEs of $11,012 and $22,002)	588,321	972,595
Other secured borrowings, net (amounts related to VIEs $186,986 and $240,893)	915,292	1,025,791
Senior notes, net	311,689	311,085
Other liabilities ($1,671 and $100 carried at fair value) (amounts related to VIEs of $93 and $144)	997,461	942,173
Total liabilities	9,999,384	9,994,188
Commitments and Contingencies (Notes 21 and 22)		
Stockholders' Equity		
Common stock, $.01 par value; 13,333,333 shares authorized; 8,672,272 and 8,990,816 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	87	90
Additional paid-in capital	556,176	558,057
Accumulated deficit	(124,459)	(138,542)
Accumulated other comprehensive loss, net of income taxes	(7,337)	(7,594)
Total stockholders' equity	424,467	412,011
Total liabilities and stockholders' equity	$ 10,423,851	$ 10,406,199

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 September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue				
Servicing and subservicing fees	$ 181,722	$ 248,517	$ 568,445	$ 745,093
Reverse mortgage revenue, net	14,499	20,260	51,055	72,876
Gain on loans held for sale, net	45,886	9,012	92,764	26,312
Other revenue, net	6,928	5,726	17,637	17,460
Total revenue	249,035	283,515	729,901	861,741
MSR valuation adjustments, net	(33,814)	134,561	(231,368)	(121,705)
Operating expenses				
Compensation and benefits	69,648	73,414	195,393	250,393
Servicing and origination	22,930	36,619	60,547	86,827
Professional services	28,361	36,628	77,816	77,205
Technology and communications	15,850	16,644	47,154	61,080
Occupancy and equipment	9,572	17,262	37,677	52,550
Other expenses	3,161	(1,282)	12,958	6,563
Total operating expenses	149,522	179,285	431,545	534,618
Other income (expense)				
Interest income	3,801	4,129	12,762	12,524
Interest expense	(26,815)	(29,506)	(83,557)	(84,636)
Pledged MSR liability expense	(57,404)	(256,416)	(105,684)	(303,302)
Gain on repurchase of senior secured notes	—	5,099	—	5,099
Other, net	3,345	(414)	4,616	1,163
Total other expense, net	(77,073)	(277,108)	(171,863)	(369,152)
Loss before income taxes	(11,374)	(38,317)	(104,875)	(163,734)
Income tax (benefit) expense	(1,954)	4,450	(71,920)	13,264
Net loss	$ (9,420)	$ (42,767)	$ (32,955)	$ (176,998)
Loss per share				
Basic	$ (1.09)	$ (4.77)	$ (3.76)	$ (19.76)
Diluted	$ (1.09)	$ (4.77)	$ (3.76)	$ (19.76)
Weighted average common shares outstanding				
Basic	8,669,550	8,973,053	8,770,102	8,955,288
Diluted	8,669,550	8,973,053	8,770,102	8,955,288

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Net loss	$ (9,420)	$ (42,767)	$ (32,955)	$ (176,998)
Other comprehensive income, net of income taxes:				
Reclassification adjustment for losses on cash flow hedges included in net income	42	38	118	108
Change in unfunded pension plan obligation liability	47	611	139	1,285
Other	—	8	—	21
Comprehensive loss	$ (9,331)	$ (42,110)	$ (32,698)	$ (175,584)

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 SEPTEMBER 30, 2020 AND 2019
(Dollars in thousands)

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Income Taxes	Total
Three Months Ended September 30, 2020 and 2019						
Balance at June 30, 2020	8,667,260	$ 87	$ 555,147	$ (115,039)	$ (7,426)	$ 432,769
Net loss	—	—	—	(9,420)	—	(9,420)
Additional shares issued on reverse stock split rounding	4,692	—	—	—	—	—
Equity-based compensation and other	320	—	1,029	—	—	1,029
Other comprehensive income, net of income taxes	—	—	—	—	89	89
Balance at September 30, 2020	8,672,272	$ 87	$ 556,176	$ (124,459)	$ (7,337)	$ 424,467
Balance at June 30, 2019	8,973,053	$ 90	$ 556,952	$ (130,648)	$ (3,500)	$ 422,894
Net loss	—	—	—	(42,767)	—	(42,767)
Equity-based compensation and other	—	—	401	—	—	401
Other comprehensive income, net of income taxes	—	—	—	—	657	657
Balance at September 30, 2019	8,973,053	$ 90	$ 557,353	$ (173,415)	$ (2,843)	$ 381,185

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(Dollars in thousands)

	Common Stock		Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss, Net of Income Taxes	Total
	Shares	Amount				
Nine Months Ended September 30, 2020 and 2019						
Balance at December 31, 2019	8,990,816	$ 90	$ 558,057	$ (138,542)	$ (7,594)	$ 412,011
Net loss	—	—	—	(32,955)	—	(32,955)
Cumulative effect of adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13	—	—	—	47,038	—	47,038
Repurchase of common stock	(377,484)	(4)	(4,601)	—	—	(4,605)
Additional shares issued on reverse stock split rounding	4,692	—	—	—	—	—
Equity-based compensation and other	54,248	1	2,720	—	—	2,721
Other comprehensive income, net of income taxes	—	—	—	—	257	257
Balance at September 30, 2020	8,672,272	$ 87	$ 556,176	$ (124,459)	$ (7,337)	$ 424,467
Balance at December 31, 2018	8,927,495	$ 89	$ 555,306	$ 3,567	$ (4,257)	$ 554,705
Net loss	—	—	—	(176,998)	—	(176,998)
Cumulative effect of adoption of FASB ASU No. 2016-02	—	—	—	16	—	16
Equity-based compensation and other	45,558	1	2,047	—	—	2,048
Other comprehensive income, net of income taxes	—	—	—	—	1,414	1,414
Balance at September 30, 2019	8,973,053	$ 90	$ 557,353	$ (173,415)	$ (2,843)	$ 381,185

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

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

	For the Nine Months Ended September 30,	
	2020	**2019**
Cash flows from operating activities		
Net loss	$ (32,955)	$ (176,998)
Adjustments to reconcile net loss to net cash provided by operating activities:		
MSR valuation adjustments, net	231,368	121,705
Gain on sale of MSRs, net	(48)	(571)
Provision for bad debts	18,801	26,971
Depreciation	15,398	26,020
Gain on repurchase of senior notes	—	(5,099)
Amortization of debt issuance costs	4,631	2,268
Equity-based compensation expense	2,392	1,890
(Gain) loss on valuation of Pledged MSR financing liability	(21,314)	123,721
Net gain on valuation of loans held for investment and HMBS-related borrowings	(14,410)	(50,221)
Gain on loans held for sale, net	(92,764)	(26,312)
Bargain purchase gain	—	381
Origination and purchase of loans held for sale	(4,378,999)	(872,914)
Proceeds from sale and collections of loans held for sale	4,259,127	787,683
Changes in assets and liabilities:		
Decrease in advances, net	210,688	189,876
Decrease in receivables and other assets, net	105,023	123,283
Decrease in other liabilities	(47,981)	(82,942)
Other, net	(10,918)	(4,671)
Net cash provided by operating activities	248,039	184,070
Cash flows from investing activities		
Origination of loans held for investment	(867,702)	(675,898)
Principal payments received on loans held for investment	619,486	383,806
Purchase of MSRs	(82,990)	(112,417)
Proceeds from sale of MSRs	—	1,159
Acquisition of advances in connection with the purchase of MSRs	—	(1,457)
Proceeds from sale of advances	561	2,876
Additions to premises and equipment	(3,394)	(1,342)
Proceeds from sale of real estate	5,123	5,572
Other, net	800	420
Net cash used in investing activities	(328,116)	(397,281)
Cash flows from financing activities		
Repayment of advance match funded liabilities, net	(99,031)	(90,787)
Repayment of other financing liabilities	(84,185)	(168,898)
Proceeds from mortgage loan warehouse facilities, net	109,538	87,484
Proceeds from MSR financing facilities	128,641	144,260
Repayment of MSR financing facilities	(208,996)	(6,648)
Repayment and repurchases of Senior notes	—	(131,791)
Proceeds from issuance of additional senior secured term loan (SSTL)	—	119,100
Repayment of SSTL borrowings	(136,066)	(19,074)
Payment of debt issuance costs	(7,522)	(1,284)
Proceeds from sale of MSRs accounted for as a financing	—	1,221
Proceeds from sale of Home Equity Conversion Mortgages (HECM, or reverse mortgages) accounted for as a financing (HMBS-related borrowings)	885,987	665,820
Repayment of HMBS-related borrowings	(613,026)	(377,094)
Repurchase of common stock	(4,605)	—
Other, net	(32)	(2,363)
Net cash (used in) provided by financing activities	(29,297)	219,946
Net (decrease) increase in cash, cash equivalents and restricted cash	(109,374)	6,735
Cash, cash equivalents and restricted cash at beginning of year	492,340	397,010
Cash, cash equivalents and restricted cash at end of period	$ 382,966	$ 403,745
Supplemental non-cash investing and financing activities:		
Deconsolidation of mortgage-backed securitization trusts (VIEs)		
Loans held for investment	$ (10,715)	$ —
Other financing liabilities	(9,519)	—
Derecognition of MSRs and financing liabilities:		
MSRs	$ (263,344)	$ —
Financing liability - MSRs pledged (Rights to MSRs)	(263,344)	

Financing liability - MSRs pledged (Rights to MSRs)	(263,344)	—
Recognition of future draw commitments for HECM loans at fair value upon adoption of FASB ASU No. 2016-13	$ 47,038	$ —
Recognition of gross right-of-use asset and lease liability:		
Right-of-use asset	$ 2,608	$ 66,231
Lease liability	2,597	66,247
Transfers of loans held for sale to real estate owned (REO)	$ 2,554	$ 4,240

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the unaudited consolidated balance sheets and the unaudited consolidated statements of cash flows:

	September 30, 2020	September 30, 2019
Cash and cash equivalents	$ 321,455	$ 345,084
Restricted cash and equivalents:		
Debt service accounts	14,873	17,026
Other restricted cash	46,638	41,635
Total cash, cash equivalents and restricted cash reported in the statements of cash flows	$ 382,966	$ 403,745

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

Note 1 - Organization and Basis of Presentation

Organization

Ocwen Financial Corporation (NYSE: OCN) (Ocwen, we, us and our) is a non-bank mortgage servicer and originator providing solutions to homeowners, investors and others through its primary operating subsidiary, PHH Mortgage Corporation (PMC). We are headquartered in West Palm Beach, Florida with offices and operations in the United States (U.S.), the United States Virgin Islands (USVI), India and the Philippines. Ocwen is a Florida corporation organized in February 1988.

Ocwen directly or indirectly owns all of the outstanding common stock of its operating subsidiaries, including PMC since its acquisition on October 4, 2018, Ocwen Financial Solutions Private Limited (OFSPL) and Ocwen USVI Services, LLC (OVIS). On March 13, 2020, as part of Ocwen's legal entity restructuring, Ocwen’s wholly-owned subsidiary Liberty Home Equity Solutions, Inc. (Liberty) and PMC entered into an amended asset purchase agreement pursuant to which Liberty transferred substantially all of its assets, liabilities, contracts and employees to PMC effective March 15, 2020. We continue to originate and service reverse mortgage loans under the brand name Liberty Reverse Mortgage.

We perform servicing activities related to our own MSR portfolio (primary) and on behalf of other servicers (subservicing), the largest being New Residential Investment Corp. (NRZ), and investors (primary and master servicing), 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 (PLS, or non-Agency). As a subservicer or primary servicer, we may be required to make advances for certain property tax and insurance premium payments, default and property maintenance payments and principal and interest payments on behalf of delinquent borrowers to mortgage loan investors before recovering them from borrowers. Most, but not all, of our subservicing agreements provide for us to be reimbursed for any such advances by the owner of the servicing rights. Advances made by us as primary servicer are generally recovered from the borrower or the mortgage loan investor. 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 source our servicing portfolio through multiple channels, including recapture, retail, wholesale, correspondent, flow MSR purchase agreements, the GSE Cash Window programs and bulk MSR purchases. We originate, sell and securitize conventional (conforming to the underwriting standards of Fannie Mae or Freddie Mac; collectively referred to as Agency or GSE loans) and government-insured (Federal Housing Administration (FHA) or Department of Veterans Affairs (VA)) forward mortgages, generally servicing retained. The GSEs or Ginnie Mae guarantee these mortgage securitizations. We originate Home Equity Conversion Mortgage (HECM) loans, or reverse mortgages, that are mostly insured by the FHA and we are an approved issuer of Home Equity Conversion Mortgage-Backed Securities (HMBS) that are guaranteed by Ginnie Mae. In addition to our originated MSRs, we acquire MSRs through flow purchase agreements, the GSE Cash Window and Co-issue programs and bulk MSR purchases, and we acquire new subservicing through our enterprise sales.

We had a total of approximately 5,200 employees at September 30, 2020 of which approximately 3,300 were located in India and approximately 400 were based in the Philippines. Our operations in India and the Philippines primarily provide internal support services, principally to our loan servicing business and our corporate functions. Of our foreign-based employees, approximately 74% were engaged in supporting our loan servicing operations as of September 30, 2020.

We are facing certain challenges and uncertainties that could have significant adverse effects on our business, financial condition, liquidity and results of operations, and some of these challenges and uncertainties are amplified by the Coronavirus Disease 2019 (COVID-19) pandemic. Historical losses have significantly eroded stockholders’ equity and weakened our financial condition. Our near-term priority is to return to sustainable profitability in the shortest timeframe possible within an appropriate risk and compliance environment. If we are able to execute on our key business initiatives, we believe we will drive stronger financial performance.

First, we must continue to expand our Originations business to replenish and grow our servicing portfolio and mitigate our client concentration risk with NRZ. Second, we must drive continuous cost improvement to maintain an industry competitive cost position. Third, we must manage our balance sheet to ensure adequate liquidity, finance our ongoing business needs and provide a solid platform for executing on our growth initiatives. To this end, we continue to explore all strategic options to efficiently finance growth and leverage our proven operating capability in this environment, including the potential launch of an

MSR funding vehicle. As previously disclosed, we have engaged bankers to support evaluation and execution of strategic options to fully realize the value of our platform. Finally, we must fulfill our regulatory commitments and resolve our remaining legal and regulatory matters on satisfactory terms.

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 and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2020. 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, 2019.

In August 2020, Ocwen implemented a reverse stock split of its shares of common stock in a ratio of one-for-15. The number of shares, loss per share amounts, repurchase price per share amounts, and Common stock and Additional paid-in capital balances have been retroactively adjusted for all periods presented in this Quarterly Report on Form 10-Q to give effect to the reverse stock split as if it occurred at the beginning of the first period presented. See Note 14 – Equity for additional information.

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 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. Such estimates and assumptions include, but are not limited to, those that relate to fair value measurements, income taxes, the provision for losses that may arise from litigation proceedings, and our going concern evaluation. In developing estimates and assumptions, management uses all available information; however, actual results could materially differ from those estimates and assumptions.

Reclassifications

Certain amounts in the unaudited consolidated balance sheet at December 31, 2019, the unaudited consolidated statement of operations for the three and nine months ended September 30, 2019 and the unaudited consolidated statement of cash flows for the nine months ended September 30, 2019 have been reclassified to conform to the current period presentation. The reclassifications had no impact on total assets or total liabilities in our unaudited consolidated balance sheets, no impact on net income (loss) or total revenue in our unaudited consolidated statements of operations and no impact on operating, investing and financing cash flows in our unaudited consolidated statements of cash flows.

We now present Reverse mortgage revenue, net as a separate revenue line item on the face of the unaudited consolidated statements of operations to provide a further breakdown of Other revenue, net and provide greater transparency on the performance associated with our portfolio of HECM loans, net of the HMBS-related borrowings that are both measured at fair value, as follows:

		Periods Ended September 30, 2019	
Reclassification within the Statement of Operations		**Three Months**	**Nine Months**
Revenue			
From	Gain on loans held for sale, net	$ 7,001	$ 22,371
From	Other revenue, net	14,062	52,839
From	Servicing and subservicing fees	(803)	(2,334)
To	Reverse mortgage revenue, net (New line item)	20,260	72,876
Total revenue		—	—

In addition to the above reclassifications, we have made the following presentation changes:

- In the unaudited consolidated statements of operations, we now separately present MSR valuation adjustments, net from Total expenses, renamed “Operating expenses”. The purpose of this reclassification is to separately present fair value changes from operating expenses and provide additional insights on the nature of our performance.

- Within Other income (expense), net on the unaudited consolidated statements of operations, we now present the expense related to the pledged MSR liability recorded at fair value separately from Interest expense. The purpose of this reclassification is to improve transparency between the interest expense associated with interest-bearing liabilities recorded on an accrual basis and expenses that are attributable to the pledged MSR liability recorded at fair value. The pledged MSR liability is the obligation to deliver to NRZ all contractual cash flows associated with the underlying MSR that did not meet the requirements for sale accounting treatment. The Pledged MSR liability expense reflects net servicing fee remittance and fair value changes.
- Within the Total assets section of our consolidated balance sheet, we reclassified Match funded advances to Advances to present all servicing-related advances as a single line item.
- Within the Cash flows from operating activities section, we now separately present Amortization of debt issuance costs which was previously included in Other, net.
- Within the Cash flows from investing activities section, we now separately present Proceeds from sale of real estate which was previously included in Other, net.
- Within the Cash flows from financing activities section, we now separately present proceeds and repayments on mortgage loan warehouse facilities, net, MSR financing facilities and other financing liabilities. These amounts were previously reported as Proceeds from (Repayment of) mortgage loan warehouse facilities and other secured borrowings.

Recently Adopted Accounting Standards

Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13 and ASU 2019-04)

This ASU requires the measurement and recording of expected lifetime credit losses on loans and other financial instruments measured at amortized cost and replaces the existing incurred loss model for credit losses. The new guidance requires an organization to measure all current expected credit losses (CECL) for financial assets held and certain off-balance sheet credit exposures at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This standard requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. Additionally, the new guidance amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

We adopted this standard on January 1, 2020 by applying the guidance at the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings. We used the modified retrospective method for all financial assets in scope of the standard. Our statements of operations for reporting periods beginning after January 1, 2020 are presented under the new guidance, while prior period amounts continue to be reported in accordance with previously applicable GAAP. As permitted by this standard, we made an irrevocable fair value election for certain financial instruments within the scope of the standard. We elected the fair value option for future draw commitments for HECM loans purchased or originated before January 1, 2019. For the HECM loan future draw commitments, we recorded a $47.0 million cumulative-effect transition gain adjustment (before income taxes) to retained earnings as of January 1, 2020 to recognize the fair value as of that date. We did not record any significant net tax effect related to this adjustment as the increase in the deferred tax liability was offset by a corresponding decrease to the valuation allowance. The transition adjustment related to financial instruments for which we are not electing the fair value option did not result in any significant adjustment to the opening balance of retained earnings. Our measurement of lifetime expected credit losses is based on relevant qualitative and quantitative information about past events, including historical loss experience, current conditions, and reasonable and supportable forecasts that affect collectability.

Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13)

This ASU modifies the disclosure requirements for fair value measurements in FASB ASC Topic 820, Fair Value Measurement. The main provisions in this ASU include removal of the following disclosure requirements: 1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, 2) the policy for timing of transfers between levels and 3) the valuation processes for Level 3 fair value measurements. This standard adds disclosure requirements to report the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and for certain unobservable inputs an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements.

Our adoption of this standard on January 1, 2020 did not have a material impact on our unaudited consolidated financial statements.

Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15)

This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this ASU. The amendments in this ASU require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments in this ASU require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in this ASU also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of operations as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element.

Upon adoption of this standard on January 1, 2020, we elected to apply the amendments in this ASU prospectively to all implementation costs incurred subsequent to that date. Our adoption of this standard did not have a material impact on our unaudited consolidated financial statements.

Accounting Standards Issued but Not Yet Adopted

Income Taxes: Simplifying the Accounting for Income Taxes (ASU 2019-12)

On December 18, 2019, the FASB issued this ASU to ASC Topic 740, Income Taxes, as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. Amendments include the removal of certain exceptions to the general principles of ASC 740 in such areas as intraperiod tax allocation, year to date losses in interim periods and deferred tax liabilities related to outside basis differences. Amendments also include simplification in other areas such as interim recognition of enactment of tax laws or rate changes and accounting for a franchise tax (or similar tax) that is partially based on income.

This standard will be effective for us on January 1, 2021. Early adoption is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. If an entity chooses to early adopt, it must adopt all changes as a result of the ASU. We are currently evaluating the effect of this standard. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04)

This standard provides for optional expedients and other guidance regarding the accounting related to modifications of contracts, hedging relationships and other transactions affected by the expected phase-out of the London Inter-bank Offered Rate (LIBOR) by the end of 2021. This guidance is effective upon issuance in March 2020 through December 31, 2022 and allows for retrospective application to contract modifications as early as January 1, 2020. We have elected to retrospectively adopt this ASU as of January 1, 2020 which resulted in no immediate impact on our consolidated financial statements. Although we do not have any hedge accounting relationships, many of our debt facilities and loan agreements incorporate LIBOR as referenced interest rate. Some of these facilities and loan agreements either mature prior to the end of 2021 or have terms in place that provide for an alternative to LIBOR upon its phase-out. We do not anticipate that this standard will have a material impact on our consolidated financial statements.

Note 2 - Severance and Restructuring Charges

In February 2020, we announced our intention to implement certain cost re-engineering initiatives in 2020 to generate further cost savings. During the second quarter of 2020, we executed certain of these cost re-engineering initiatives, some of which qualify as restructuring charges under GAAP, with the partial abandonment of one of our leased properties and additional severance costs. As a result of these initiatives, we accelerated the depreciation of the related facility lease right of use (ROU) asset and leasehold improvements by $2.9 million in the second quarter of 2020, recorded a $3.2 million facility exit cost liability and a $1.0 million employee severance cost liability. During the third quarter of 2020, we incurred an additional $0.9 million of employee severance costs. At September 30, 2020, our remaining facility exit cost liability and employee severance cost liability are $2.8 million and $0.7 million, respectively, and are included in Other accrued expenses, a component of Other liabilities.

In February 2019, we announced our intention to execute cost re-engineering opportunities in order to drive stronger financial performance and, in the longer term, simplify our operations. Our cost re-engineering plan extended beyond eliminating redundant costs through the integration process and addressed organizational, process and control redesign and automation, human capital planning, off-shore utilization, strategic sourcing and facilities rationalization. Costs for this plan included severance, retention and other incentive awards, facilities-related costs and other costs to execute the reorganization. While we continue to pursue additional cost re-engineering initiatives, this $65.0 million cost re-engineering plan announced in February 2019 was completed by December 31, 2019. Our remaining liability at September 30, 2020 is $2.2 million and is included in Other accrued expenses, a component of Other liabilities.

The following table provides a summary of plan costs incurred in 2019:

	Employee-related	Facility-related	Other	Total
First quarter	$ 20,787	$ —	$ 1,328	$ 22,115
Second quarter	3,460	3,047	3,619	10,126
Third quarter	7,266	3,596	7,485	18,347
Fourth quarter	4,191	3,490	6,700	14,381
Total costs incurred	$ 35,704	$ 10,133	$ 19,132	$ 64,969

The above 2019 and 2020 expenses were all incurred within the Corporate Items and Other segment. Employee-related costs and facility-related costs are reported in Compensation and benefits expense and Occupancy and equipment expense, respectively, in the unaudited consolidated statements of operations. Other costs are primarily reported in Professional services expense and Other expenses.

Note 3 – 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 using special purpose entities (SPEs) or variable interest entities (VIEs) into three groups: (1) securitizations of residential mortgage loans, (2) financings of advances and (3) MSR financings. Financing transactions that do not use SPEs or VIEs are disclosed in Note 12 – Borrowings.

From time to time, we may acquire beneficial interests issued in connection with mortgage-backed securitizations where we may also be the master and/or primary servicer. These beneficial interests consist of subordinate and residual interests acquired from third-parties in market transactions. We consolidate the VIE when we conclude we are the primary beneficiary.

Securitizations of Residential Mortgage Loans

Transfers of Forward Loans

We sell or securitize forward loans that we originate or purchase from third parties, generally in the form of mortgage-backed securities guaranteed by the GSEs or Ginnie Mae. Securitization typically occurs within 30 days of loan closing or purchase. 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.

The following table presents a summary of cash flows received from and paid to securitization trusts related to transfers of loans accounted for as sales that were outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Proceeds received from securitizations	$ 2,364,829	$ 235,175	$ 4,256,082	$ 674,108
Servicing fees collected (1)	12,561	8,866	35,204	37,610
Purchases of previously transferred assets, net of claims reimbursed	(2,061)	(2,093)	(6,338)	(3,140)
	$ 2,375,329	$ 241,948	$ 4,284,948	$ 708,578

(1) We 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.

In connection with these transfers, we retained MSRs of $22.1 million and $37.8 million, and $0.6 million and $2.2 million, during the three and nine months ended September 30, 2020 and 2019, respectively. We securitize forward and reverse residential mortgage loans involving the GSEs and loans insured by the FHA or VA through Ginnie Mae.

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 an estimate of our maximum exposure to loss including the UPB of the transferred loans:

	September 30, 2020	December 31, 2019
Carrying value of assets		
MSRs, at fair value	$ 101,506	$ 109,581
Advances	182,450	141,829
UPB of loans transferred	17,126,989	14,490,984
Maximum exposure to loss	$ 17,410,945	$ 14,742,394

At September 30, 2020 and December 31, 2019, 9.4% and 7.7%, respectively, of the transferred residential loans that we service were 60 days or more past due.

Transfers of Reverse Mortgages

We pool HECM loans into HMBS that we sell into the secondary market with servicing rights retained or we sell the loans to third parties with servicing rights released. 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, at fair value, on our unaudited consolidated balance sheets. 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. The changes in fair value of the HECM loans and HMBS-related borrowings are included in Reverse mortgage revenue, net in our unaudited consolidated statements of operations.

Financings of Advances using SPEs

Match funded advances, i.e., advances that are pledged as collateral to our advance facilities, 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 SPEs. These SPEs issue debt supported by collections on the transferred advances, and we refer to this debt as Advance match funded liabilities.

We make transfers to these SPEs in accordance with the terms of our advance financing facility agreements. Debt service accounts require us to remit collections on pledged advances to the trustee within two days of receipt. Collected funds that are not applied to reduce the related Advance match funded debt until the payment dates specified in the indenture are classified as debt service accounts within Restricted cash in our unaudited consolidated balance sheets. The balances also include amounts that have been set aside from the proceeds of our match funded advance facilities to provide for possible shortfalls in the funds available to pay certain expenses and interest, as well as amounts set aside as required by our warehouse facilities as security for our obligations under the related agreements. The funds are held in interest earning accounts and those amounts related to match funded advance facilities are held in the name of the SPE created in connection with the facility.

We classify the transferred advances on our unaudited consolidated balance sheets as a component of Advances, net and the related liabilities as Advance 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 Advances, Restricted cash (Debt service accounts), Advance match funded liabilities and amounts due to affiliates. Amounts due to affiliates are eliminated in consolidation in our unaudited consolidated balance sheets.

MSR Financings using SPEs

On July 1, 2019, we entered into a $300.0 million financing facility with a third-party secured by certain Fannie Mae and Freddie Mac MSRs (Agency MSRs). Two SPEs (trusts) were established in connection with this facility. On July 1, 2019, we also entered into an MSR Excess Spread Participation Agreement under which we created a 100% participation interest in the portfolio excess servicing fees, pursuant to which the holder of the participation interest is entitled to receive certain funds collected on the related portfolio of mortgage loans (other than ancillary income and advance reimbursement amounts) with respect to such Portfolio Excess Servicing Fees. This participation interest has been contributed to the trusts. On May 7, 2020 we renewed the facility through June 30, 2021 and reduced the borrowing capacity from $300.0 million to $250.0 million. We pledged the membership interest of the depositor for our OMART advance financing facility as additional collateral to this facility.

In connection with this facility, we entered into repurchase agreements with a third-party pursuant to which we sold trust certificates of the trusts representing certain indirect economic interests in the Agency MSRs and agreed to repurchase such certificates at a future date at the repurchase price set forth in the repurchase agreements. Our obligations under the facility are secured by a lien on the related Agency MSRs. In addition, Ocwen guarantees the obligations under the facility.

We determined that the trusts are VIEs for which we are the primary beneficiary. Therefore, we have included the trusts in our consolidated financial statements effective July 1, 2019. We have the power to direct the activities of the VIEs that most significantly impact the VIE's economic performance given that we are the servicer of the Agency MSRs that result in cash flows to the trusts. In addition, we have designed the trusts at inception to facilitate the third-party funding facility under which we have the obligation to absorb the losses of the VIEs that could be potentially significant to the VIEs.

The table below presents the carrying value and classification of the assets and liabilities of the Agency MSR financing facility:

	September 30, 2020	December 31, 2019
MSRs pledged (MSRs, at fair value)	$ 234,106	$ 245,533
Unamortized debt issuance costs (Other assets)	1,775	946
Debt service account (Restricted cash)	102	100
Outstanding borrowings (Other secured borrowings, net)	113,929	147,706

On November 26, 2019, we issued $100.0 million Ocwen Excess Spread-Collateralized Notes, Series 2019-PLS1 Class A (PLS Notes) secured by certain of PMC's private label MSRs (PLS MSRs). PMC PLS ESR Issuer LLC (PLS Issuer) was established in this connection as a wholly owned subsidiary of PMC. PMC entered into an MSR Excess Spread Participation Agreement with PLS Issuer. PMC created a participation interest in the excess servicing fees, related float and REO fees pursuant to which the holder of the participation interest will be entitled to receive such Excess Servicing Fees, related float and REO fees. PMC holds the MSRs and services the loans which create the related excess cash flows pledged under the MSR Excess Spread Participation Agreement. PLS Issuer's obligations under the facility are secured by a lien on the related PLS MSRs. PMC sold a participation certificate representing certain economic interests in the PLS MSRs and in order to secure its obligations under the participation certificate, it granted a security interest to PLS Issuer in the PLS MSRs. The PLS Issuer assigned the security interest in the PLS MSRs to the collateral agent for the noteholders. Ocwen guarantees the obligations of PLS Issuer under the facility.

We determined that PLS Issuer is a VIE for which we are the primary beneficiary. Therefore, we have included PLS Issuer in our consolidated financial statements effective November 26, 2019. We have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance given that we are the servicer of the MSRs that result in cash flows to PLS Issuer. In addition, PMC has designed PLS Issuer at inception to facilitate the funding for general corporate purposes. Separately, in return for the participation interests, PMC received the proceeds from issuance of the PLS Notes. PMC is the sole member of PLS Issuer, thus PMC has the obligation to absorb the losses of the VIE that could be potentially significant to the VIE.

The table below presents the carrying value and classification of the assets and liabilities of the PLS Notes facility:

	September 30, 2020	December 31, 2019
MSRs pledged (MSRs, at fair value)	$ 133,169	$ 146,215
Debt service account (Restricted cash)	2,549	3,002
Outstanding borrowings (Other secured borrowings, net)	74,021	94,395
Unamortized debt issuance costs (Other secured borrowings, net)	(964)	(1,208)

Mortgage-Backed Securitizations

The table below presents the carrying value and classification of the assets and liabilities of consolidated mortgage-backed securitization trusts included in our unaudited consolidated balance sheets as a result of residual securities we acquired which were issued by the trusts.

	September 30, 2020	December 31, 2019
Loans held for investment, at fair value - Restricted for securitization investors	$ 11,012	$ 23,342
Financing liability - Owed to securitization investors, at fair value	11,012	22,002

We concluded we are the primary beneficiary of certain residential mortgage-backed securitizations as a result of beneficial interests consisting of residual securities, which expose us to the expected losses and residual returns of the trust, and our role as master servicer, where we have the ability to direct the activities that most significantly impact the performance of the trust.

Holders of the debt issued by the consolidated securitization trust entities have recourse only to the assets of the SPE 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 securities of the trusts, our MSRs and related advances.

Note 4 – 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 measured, at fair value are as follows:

		September 30, 2020		December 31, 2019	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets					
Loans held for sale					
Loans held for sale, at fair value (a) (e)	3, 2	$ 366,966	$ 366,966	$ 208,752	$ 208,752
Loans held for sale, at lower of cost or fair value (b)	3	23,665	23,665	66,517	66,517
Total Loans held for sale		$ 390,631	$ 390,631	$ 275,269	$ 275,269
Loans held for investment					
Loans held for investment - Reverse mortgages (a)	3	$ 6,849,930	$ 6,849,930	$ 6,269,596	$ 6,269,596
Loans held for investment - Restricted for securitization investors (a)	3	11,012	11,012	23,342	23,342
Total loans held for investment		$ 6,860,942	$ 6,860,942	$ 6,292,938	$ 6,292,938
Advances, net (c)	3	$ 832,604	$ 832,604	$ 1,056,523	$ 1,056,523
Receivables, net (c)	3	201,607	201,607	201,220	201,220
Mortgage-backed securities (a)	3	2,150	2,150	2,075	2,075
Corporate bonds (a)	2	211	211	441	441

	Level	September 30, 2020 Carrying Value	September 30, 2020 Fair Value	December 31, 2019 Carrying Value	December 31, 2019 Fair Value
Financial liabilities:					
Advance match funded liabilities (c)	3	$ 580,078	$ 580,602	$ 679,109	$ 679,507
Financing liabilities:					
HMBS-related borrowings (a)	3	$ 6,606,543	$ 6,606,543	$ 6,063,435	$ 6,063,435
Financing liability - MSRs pledged (Rights to MSRs) (a)	3	577,309	577,309	950,593	950,593
Financing liability - Owed to securitization investors (a)	3	11,012	11,012	22,002	22,002
Total Financing liabilities		$ 7,194,864	$ 7,194,864	$ 7,036,030	$ 7,036,030
Other secured borrowings:					
Senior secured term loan (c) (d)	2	$ 183,822	$ 188,666	$ 322,758	$ 324,643
Other (c) (d)	3	731,470	701,037	703,033	686,146
Total Other secured borrowings		$ 915,292	$ 889,703	$ 1,025,791	$ 1,010,789
Senior notes:					
Senior unsecured notes (c) (d)	2	$ 21,278	$ 18,501	$ 21,046	$ 13,821
Senior secured notes (c) (d)	2	290,411	267,314	290,039	256,201
Total Senior notes		$ 311,689	$ 285,815	$ 311,085	$ 270,022
Derivative financial instrument assets (liabilities)					
Interest rate lock commitments (a) (f)	3, 2	$ 22,679	$ 22,679	$ 4,878	$ 4,878
Forward trades - Loans held for sale (a)	1	(83)	(83)	(21)	(21)
TBA / Forward mortgage-backed securities (MBS) trades and futures - MSR hedging (a)	1	(579)	(579)	1,121	1,121
Derivatives Futures (a)	1	(213)	(213)	—	—
MSRs (a)	3	$ 1,069,013	$ 1,069,013	$ 1,486,395	$ 1,486,395

(a) Measured at fair value on a recurring basis.
(b) Measured at fair value on a non-recurring basis.
(c) Disclosed, but not measured, at fair value.
(d) The carrying values are net of unamortized debt issuance costs and discount. See Note 12 – Borrowings for additional information.
(e) Loans repurchased from Ginnie Mae securitizations with a fair value of $26.4 million at September 30, 2020 are classified as Level 3. The remaining balance of loans held for sale at fair value at September 30, 2020 is classified as Level 2. The entire balance of Loans held for sale at fair value at December 31, 2019 was classified as Level 2.
(f) Level 3 at September 30, 2020 and Level 2 at December 31, 2019.

The following tables present a rollforward of the beginning and ending balances of Level 3 assets and liabilities that we measure at fair value on a recurring basis:

Three months ended September 30, 2020	Loans Held for Investment - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Loans Held for Sale - Fair Value	Mortgage-Backed Securities	IRLCs
Beginning balance	$ 11,664	$ (11,664)	$ 25,950	$ 1,726	$ 17,818
Purchases, issuances, sales and settlements					
Purchases	—	—	45,445	—	—
Issuances	—	—	—	—	87,311
Sales	—	—	(45,723)	—	—
Settlements	(652)	652	356	—	—
Transfers (to) from:					
Loans held for sale, at fair value	—	—	—	—	(77,785)
Receivables, net	—	—	157	—	—
	(652)	652	235	—	9,526
Change in fair value included in earnings	—	—	224	424	(4,665)
	—	—	224	424	(4,665)
Transfers in and / or out of Level 3	—	—	—	—	—
Ending balance	$ 11,012	$ (11,012)	$ 26,409	$ 2,150	$ 22,679

Three months ended September 30, 2019	Loans Held for Investment - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Mortgage-Backed Securities	Derivatives - Interest Rate Caps
Beginning balance	$ 25,324	$ (23,697)	$ 2,014	$ 47
Purchases, issuances, sales and settlements				
Purchases	—	—	—	—
Issuances	—	—	—	—
Sales	—	—	—	—
Settlements	(879)	870	—	—
	(879)	870	—	—
Change in fair value included in earnings	—	—	22	(47)
	—	—	22	(47)
Transfers in and / or out of Level 3	—	—	—	—
Ending balance	$ 24,445	$ (22,827)	$ 2,036	$ —

Nine Months Ended September 30, 2020	Loans Held for Investment - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Loans Held for Sale - Fair Value	Mortgage-backed Securities	IRLCs
Beginning balance	$ 23,342	$ (22,002)	$ —	$ 2,075	$ —
Purchases, issuances, sales and settlements					
Purchases	—	—	103,955	—	—
Issuances	—	—	—	—	144,931
Deconsolidation of mortgage-backed securitization trusts	(10,715)	9,519		—	—
Sales	—	—	(104,273)	—	—
Settlements	(1,615)	1,615	(70)	—	—
Transfers (to) from:					
Loans held for sale, at fair value	—	—	—	—	(128,224)
Receivables, net	—	—	(113)	—	—
	(12,330)	11,134	(501)	—	16,707
Change in fair value included in earnings	—	(144)	1,328	75	(4,506)
Transfers in and / or out of Level 3	—	—	25,582	—	10,478
Ending balance	$ 11,012	$ (11,012)	$ 26,409	$ 2,150	$ 22,679

Nine Months Ended September 30, 2019	Loans Held for Investment - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Mortgage-backed Securities	Derivatives - Interest Rate Caps
Beginning balance	$ 26,520	$ (24,815)	$ 1,502	$ 678
Purchases, issuances, sales and settlements				
Purchases	—	—	—	—
Issuances	—	—	—	—
Sales	—	—	—	—
Settlements	(2,075)	1,988	—	—
	(2,075)	1,988	—	—
Change in fair value included in earnings	—	—	534	(678)
	—	—	534	(678)
Transfers in and / or out of Level 3			—	—
Ending balance	$ 24,445	$ (22,827)	$ 2,036	$ —

A rollforward of the beginning and ending balances of Loans Held for Investment and HMBS-related borrowings, MSRs and Financing liability - MSRs pledged that we measure at fair value on a recurring basis is provided in Note 6 – Reverse Mortgages, Note 8 – Mortgage Servicing and Note 9 — Rights to MSRs, 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

Residential forward and reverse mortgage loans that we intend to sell 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 generally 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 purchase certain loans from Ginnie Mae guaranteed securitizations in connection with loan modifications, strategic early buyouts (EBO) and loan resolution activity as part of our contractual obligations as the servicer of the loans. On January 1, 2020, we elected to classify any repurchased loans on or after January 1, 2020 as loans held for sale at fair value. Modified and EBO loans purchased before January 1, 2020 are classified as loans held for sale at the lower of cost or fair value. We expect to redeliver (sell) the loans into new Ginnie Mae guaranteed securitizations (in the case of modified loans) or sell the loans to a private investor (in the case of EBO loans). The fair value of these loans was estimated using published forward Ginnie Mae prices or existing sale contracts at December 31, 2019. At September 30, 2020, as a result of the volatility of capital markets due to the COVID-19 pandemic, loans with a fair value of $26.4 million required the use of significant unobservable inputs, including the assumptions of the embedded MSR, margin and yield, and were classified as Level 3.

Loans repurchased in connection with loan resolution activities are classified as 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.

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, unless facts and circumstances exist that could impact deal economics, at which point we use judgment to determine appropriate adjustments to recorded fair value, if any. We determine the fair value of loans for which we have no agreement to sell on the expected future cash flows discounted at a rate commensurate with the risk of the estimated cash flows.

Loans Held for Investment

Loans Held for Investment - Reverse Mortgages

We measure these loans at fair value based 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, including all future draw commitments for HECM loans. On January 1, 2019, we made an irrevocable fair value election on all future draw commitments for HECM loans that were purchased or originated on or after January 1, 2019. In connection with our adoption of ASU 2016-13 on January 1, 2020, we made an irrevocable fair value election on all future draw commitments for HECM loans that were purchased or originated before January 1, 2019. Significant assumptions include expected future draws and 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.

Significant valuation assumptions	**September 30, 2020**	**December 31, 2019**
Life in years		
Range	1.0 to 8.2	2.4 to 7.8
Weighted average	6.1	6.0
Conditional repayment rate		
Range	10.4% to 34.1%	7.8% to 28.3%
Weighted average	14.3 %	14.6 %
Discount rate	1.8 %	2.8 %

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, excluding future draw commitments, are largely offset by the effects of changes in the assumptions used to value the HMBS-related borrowings that are associated with these loans.

Loans Held for Investment – Restricted for securitization investors

We have elected to measure loans held by consolidated mortgage-backed securitization trusts at fair value. The loans are secured by first liens on single family residential properties. Fair value is based on proprietary cash flow modeling processes from a third-party broker/dealer and a third-party valuation expert. Significant assumptions used in the valuation include projected monthly payments, projected prepayments and defaults, property liquidation values and discount rates.

MSRs

We determine the fair value of MSRs primarily using discounted cash flow methodologies. 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.

We engage third-party valuation experts who 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 and prepayment 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, incorporating available industry survey results and client feedback, and including risk premiums and liquidity adjustments. While the models and related assumptions used by the valuation experts are proprietary to them, we understand the methodologies 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 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
- Cost of servicing
- Discount rate
- Interest rate used for computing the cost of financing servicing advances
- Curtailment on advances
- Delinquency rates
- Interest rate used for computing float earnings
- Compensating interest expense
- Collection rate of other ancillary fees

MSRs are carried at fair value and classified within Level 3 of the valuation hierarchy. The fair value is determined using 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 sale, including transactions where we have executed letters of intent, in which case the fair value of the MSRs is recorded 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 are contemplated along with other market-based transactions in their model validation.

A change in the valuation inputs or assumptions might result in a significantly higher or lower fair value measurement. Changes in market interest rates predominantly impact the fair value for Agency MSRs via prepayment speeds by altering the borrower refinance incentive and the non-Agency MSRs due to the impact on advance costs. Other key assumptions used in the valuation of these MSRs include delinquency rates and discount rates.

	September 30, 2020		December 31, 2019	
Significant valuation assumptions	**Agency**	**Non-Agency**	**Agency**	**Non-Agency**
Weighted average prepayment speed	14.9 %	11.5 %	11.7 %	12.2 %
Weighted average delinquency rate	4.7 %	27.7 %	3.2 %	27.3 %
Advance financing cost	5-year swap	5-yr swap plus 2.00%	5-year swap	5-yr swap plus 2.00%
Interest rate for computing float earnings	5-year swap	5-yr swap minus 0.50%	5-year swap	5-yr swap minus 0.50%
Weighted average discount rate	9.5 %	11.4 %	9.3 %	11.3 %
Weighted average cost to service (in dollars)	$ 96	$ 271	$ 85	$ 277

Because the mortgages underlying these MSRs permit the borrowers to prepay the loans, the value of the MSRs generally tends to diminish in periods of declining interest rates, an improving housing market or expanded product availability (as prepayments increase) and increase in periods of rising interest rates, a deteriorating housing market or reduced product availability (as prepayments decrease). The following table summarizes the estimated change in the value of the MSRs as of September 30, 2020 given hypothetical shifts in lifetime prepayments and yield assumptions:

Adverse change in fair value	**10%**	**20%**
Weighted average prepayment speeds	$ (55,715)	$ (106,603)
Weighted average discount rate	(15,696)	(30,468)

The sensitivity analysis measures the potential impact on fair values based on hypothetical changes, which in the case of our portfolio at September 30, 2020 are increased prepayment speeds and an increase in the yield assumption.

Advances

We value advances at their net realizable value, which generally approximates fair value. Servicing advances have no stated maturity and do not bear interest. Principal and interest advances are generally realized within a relatively short period of time. The timing of recovery of taxes, insurance and other corporate advances depends on the underlying loan attributes, performance, and in many cases, foreclosure or liquidation timeline. The fair value adjustment to servicing advances associated with the estimated time to recover such advances is separately measured and reported as a component of the fair value of the associated MSR, consistent with actual market transactions. Refer to MSRs above for a description of the valuation methodology and assumptions related to the cost of financing servicing advances and discount rate, among other factors.

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 using a process based upon the use of an independent third-party valuation expert. Where possible, we consider observable trading activity in the valuation of our securities. 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. We classify subordinate and residual securities as trading securities and account for them at fair value on a recurring basis. 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.

Advance Match Funded Liabilities

For advance 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 advance 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 assume the notes are refinanced at the end of their revolving periods, consistent with how we manage our advance facilities.

Financing Liabilities

HMBS-Related Borrowings

We have elected to measure these borrowings at fair value. These borrowings are not actively traded, and therefore, quoted market prices are not available. We determine fair value by discounting the projected recovery of principal, interest and advances 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. 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.

Significant valuation assumptions	September 30, 2020	December 31, 2019
Life in years		
Range	1.0 to 8.2	2.4 to 7.8
Weighted average	6.1	6.0
Conditional repayment rate		
Range	10.4 % to 34.1%	7.8% to 28.3%
Weighted average	14.3 %	14.6 %
Discount rate	1.6 %	2.7 %

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

MSRs Pledged (Rights to MSRs)

We have elected to measure and record these borrowings at fair value. We recognize the proceeds received in connection with Rights to MSRs transactions as a secured borrowing that we account for at fair value. We determine the fair value of the pledged MSR liability following a similar approach as for the associated pledged MSRs. Fair value for the portion of the borrowing attributable to the MSRs underlying the Rights to MSRs is determined using the mid-point of the range of prices provided by third-party valuation experts. Fair value for the portion of the borrowing attributable to any lump sum payments received in connection with the transfer of MSRs underlying such Rights to MSRs to the extent such transfer is accounted for as a financing is determined by discounting the relevant future cash flows that were altered through such transfer using assumptions consistent with the mid-point of the range of prices provided by third-party valuation experts for the related MSR.

Significant valuation assumptions	September 30, 2020	December 31, 2019
Weighted average prepayment speed	11.6 %	11.9 %
Weighted average delinquency rate	29.4 %	20.3 %
Advance financing cost	5-year swap plus 0% to 2.00%	5-year swap plus 0% to 2.00%
Interest rate for computing float earnings	5-year swap minus 0% to 0.50%	5-year swap minus 0% to 0.50%
Weighted average discount rate	11.7 %	10.7 %
Weighted average cost to service (in dollars)	$ 286	$ 223

Significant increases or decreases in these assumptions in isolation would have resulted in a significantly higher or lower fair value.

Financing Liability – Owed to Securitization Investors

Consists of securitization debt certificates due to third parties that represent beneficial ownership interests in mortgage-backed securitization trusts that we include in our consolidated financial statements. We determine fair value using the measurement alternative to ASC Topic 820, *Fair Value Measurement* as disclosed in Note 3 – Securitizations and Variable Interest Entities. In accordance with the measurement alternative, the fair value of the consolidated securitization debt certificates is measured as the fair value of the loans held by the trust less the fair value of the beneficial interests held by us in the form of residual securities.

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 base the fair value on valuation data obtained from a pricing service.

Secured Notes

In 2014, we issued Ocwen Asset Servicing Income Series (OASIS), Series 2014-1 Notes secured by Ocwen-owned MSRs relating to Freddie Mac mortgages. In 2019, we issued Ocwen Excess Spread-Collateralized Notes, Series 2019-PLS1 notes secured by certain of PMC's private label MSRs. We determine the fair value of these notes based on bid prices provided by third parties involved in the issuance and placement of the notes.

Senior Notes

We base the fair value on quoted prices in a market with limited trading activity, or on valuation data obtained from a pricing service in the absence of trading data.

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. As of December 31, 2019, IRLCs were classified within Level 2 of the valuation hierarchy as the primary component of the price was 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. As of September 30, 2020, IRLCs are classified as Level 3 assets as historical fallout rates required significant unobservable adjustments to account for the COVID-19 uncertainties.

We use derivative instruments, including forward trades of MBS or Agency TBAs and exchange-traded interest rate swap futures, as economic hedging instruments. TBAs and interest rate swap futures 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 or three-month Eurodollar rate (1ML or 3ML, respectively) interest rates. The fair value for interest rate caps is based on counterparty market prices and adjusted for counterparty credit risk.

Note 5 – Loans Held for Sale

	Nine Months Ended September 30,	
Loans Held for Sale - Fair Value	**2020**	**2019**
Beginning balance	$ 208,752	$ 176,525
Originations and purchases (1)	4,378,999	615,303
Proceeds from sales	(4,190,355)	(581,678)
Principal collections	(21,479)	(17,155)
Transfers from (to):		
Loans held for investment, at fair value	1,900	1,405
Loans held for sale - Lower of cost or fair value	—	(1)
Receivables, net	(62,949)	(2,248)
REO (Other assets)	(2,554)	(1,501)
Gain on sale of loans	45,762	24,005
Increase (decrease) in fair value of loans	1,925	(197)
Other	6,965	(6,813)
Ending balance (1) (2) (3)	$ 366,966	$ 207,645

(1) We elected the fair value option for all newly repurchased loans after December 31, 2019, consistent with our fair value election of originated loans.
(2) At September 30, 2020 and 2019, the balances include $(5.8) million and $(7.4) million, respectively, of fair value adjustments.
(3) At September 30, 2020 and 2019, the balances include $26.4 million and zero, respectively, of loans that we repurchased from Ginnie Mae guaranteed securitizations pursuant to Ginnie Mae servicing guidelines. We may repurchase loans that have been modified, to facilitate loss reduction strategies, or as otherwise obligated as a Ginnie Mae servicer. Repurchased loans may be modified or otherwise remediated through loss mitigation activities, may be sold to a third party, or are reclassified to Receivables.

Loans Held for Sale - Lower of Cost or Fair Value	Nine Months Ended September 30, 2020	2019
Beginning balance	$ 66,517	$ 66,097
Purchases	—	257,611
Proceeds from sales	(45,974)	(183,048)
Principal collections	(1,319)	(5,802)
Transfers from (to):		
Receivables, net	61	(78,865)
REO (Other assets)	—	(2,739)
Loans held for sale - Fair value	—	1
Gain on sale of loans	474	3,364
Decrease in valuation allowance	412	4,473
Other	3,494	6,842
Ending balance (1)	$ 23,665	$ 67,934

(1) At September 30, 2020 and 2019, the balances include $14.8 million and $58.6 million, respectively, of loans that we repurchased from Ginnie Mae guaranteed securitizations pursuant to Ginnie Mae servicing guidelines. Loans repurchased after December 31, 2019 are classified as Loans Held for Sale - Fair Value since we elected the fair value option, consistent with our fair value election for originated or purchased loans.

Valuation Allowance - Loans Held for Sale at Lower of Cost or Fair Value	Three Months Ended September 30, 2020	2019	Nine Months Ended September 30, 2020	2019
Beginning balance	$ 6,400	$ 10,057	$ 6,643	$ 11,569
Provision	(45)	769	1,084	1,805
Transfer from Liability for indemnification obligations (Other liabilities)	42	266	117	340
Sales of loans	(166)	(3,996)	(1,613)	(6,618)
Ending balance	$ 6,231	$ 7,096	$ 6,231	$ 7,096

Gain on Loans Held for Sale, Net	Three Months Ended September 30, 2020	2019	Nine Months Ended September 30, 2020	2019
Gain on sales of loans, net				
MSRs retained on transfers of forward mortgage loans	$ 22,096	$ 605	$ 37,785	$ 2,249
Gain on sale of repurchased Ginnie Mae loans	4,663	1,364	11,036	3,154
Gain on sale of forward mortgage loans	11,897	5,896	35,201	23,102
	38,656	7,865	84,022	28,505
Change in fair value of IRLCs	4,828	697	16,876	401
Change in fair value of loans held for sale	3,061	610	3,367	936
Gain (loss) on economic hedge instruments	179	(106)	(10,141)	(3,344)
Other	(838)	(54)	(1,360)	(186)
	$ 45,886	$ 9,012	$ 92,764	$ 26,312

Note 6 – Reverse Mortgages

	Three Months Ended September 30,			
	2020		2019	
	Loans Held for Investment - Reverse Mortgages	HMBS - Related Borrowings	Loans Held for Investment - Reverse Mortgages	HMBS - Related Borrowings
Beginning balance	$ 6,718,992	$ (6,477,616)	$ 5,872,407	$ (5,745,383)
Originations	299,628	—	248,877	—
Securitization of HECM loans accounted for as a financing (incl. realized fair value changes)	—	(307,754)	—	(246,734)
Repayments (principal payments received)	(249,372)	247,793	(151,292)	149,079
Transfers to:				
Loans held for sale, at fair value	(781)	—	(521)	—
Receivables, net	105	—	(89)	—
REO (Other assets)	(38)	—	(211)	—
Change in fair value	81,396	(68,966)	80,071	(60,927)
Ending Balance	$ 6,849,930	$ (6,606,543)	$ 6,049,242	$ (5,903,965)
Securitized loans (pledged to HMBS-Related Borrowings)	$ 6,715,093	$ (6,606,543)	$ 5,960,959	$ (5,903,965)
Unsecuritized loans	134,837		88,283	
Total	$ 6,849,930		$ 6,049,242	

	Nine Months Ended September 30,			
	2020		2019	
	Loans Held for Investment - Reverse Mortgages	HMBS - Related Borrowings	Loans Held for Investment - Reverse Mortgages	HMBS - Related Borrowings
Beginning balance	$ 6,269,596	$ (6,063,435)	$ 5,472,199	$ (5,380,448)
Cumulative effect of fair value election (1)	47,038	—	—	—
Originations	867,702	—	675,169	—
Securitization of HECM loans accounted for as a financing (incl. realized fair value changes)	—	(914,559)	—	(681,681)
Repayments (principal payments received)	(619,486)	613,026	(383,806)	377,094
Transfers to:				
Loans held for sale, at fair value	(1,900)	—	(1,405)	—
Receivables, net	(181)	—	(202)	—
REO (Other assets)	(403)	—	(366)	—
Change in fair value	287,564	(241,575)	287,653	(218,930)
Ending Balance	$ 6,849,930	$ (6,606,543)	$ 6,049,242	$ (5,903,965)

(1) In conjunction with the adoption of ASU 2016-13, we elected the fair value option for future draw commitments (tails) on HECM reverse mortgage loans purchased or originated before December 31, 2018, which resulted in the recognition of the fair value of such tails through shareholders' equity on January 1, 2020.

Reverse Mortgage Revenue, net	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2020	**2019**	**2020**	**2019**
Gain on new originations (1)	$ 13,545	$ 5,075	$ 33,156	$ 10,422
Change in fair value of securitized loans held for investment and HMBS-related borrowings, net	(1,115)	14,069	12,832	58,301
Loan fees and other	2,069	1,116	5,067	4,153
	$ 14,499	$ 20,260	$ 51,055	$ 72,876

(1) Includes the changes in fair value of newly originated loans held for investment in the period through securitization date.

Note 7 – Advances

	September 30, 2020	**December 31, 2019**
Principal and interest	$ 299,355	$ 414,846
Taxes and insurance	342,704	422,383
Foreclosures, bankruptcy, REO and other	196,623	229,219
	838,682	1,066,448
Allowance for losses	(6,078)	(9,925)
Advances, net	$ 832,604	$ 1,056,523

The following table summarizes the activity in net advances:

	Nine Months Ended September 30,	
	2020	**2019**
Beginning balance	$ 1,056,523	$ 1,186,676
Asset acquisitions	14	1,457
New advances	667,577	394,964
Sales of advances	(604)	(747)
Collections of advances and other	(894,753)	(557,868)
Net decrease in allowance for losses (1)	3,847	13,962
Ending balance	$ 832,604	$ 1,038,444

(1) As disclosed in Note 1, there was no significant adjustment as of January 1, 2020 as a result of the adoption of ASU 2016-13. Servicing advances are generally expected to be fully reimbursed under the terms of the servicing agreements. The estimate for the allowance for losses is based on relevant qualitative and quantitative information about past events, including historical collection and loss experience, current conditions, and reasonable and supportable forecasts that affect collectability. The allowance for losses includes an estimate for claimable (with investors) but nonrecoverable expenses, for example due to servicer error, such as lack of reasonable documentation as to the type and amount of advances.

Allowance for Losses	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2020	**2019**	**2020**	**2019**
Beginning balance	$ 7,820	$ 27,653	$ 9,925	$ 23,259
Provision	2,173	729	5,944	4,532
Net charge-offs and other (1)	(3,915)	(19,085)	(9,791)	(18,494)
Ending balance	$ 6,078	$ 9,297	$ 6,078	$ 9,297

(1) $18.0 million allowance related to sold advances was reclassified in the third quarter of 2019 and presented as Other liabilities (Liability for indemnification obligations).

Note 8 – Mortgage Servicing

During each period, we remeasure our MSR at fair value, which contemplates the receipt or nonreceipt of the servicing income for that period. The servicing income, including expectations of future servicing cash flows, are inputs for the measurement of the MSR fair value. The net result on the statement of operations is that we record the contractual cash received in each period as revenue within Servicing and subservicing fees, partially offset by the remeasurement of the MSR fair value within MSR valuation adjustments, net.

MSRs – Fair Value Measurement Method	Three Months Ended September 30,					
	2020			2019		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	$ 305,085	$ 739,829	$ 1,044,914	$ 745,735	$ 566,898	$ 1,312,633
Sales and other transfers	—	(1)	(1)	—	(15)	(15)
Additions:						
Recognized on the sale of residential mortgage loans	22,096	—	22,096	1,235	—	1,235
Purchase of MSRs	32,249	—	32,249	9,298	1,268	10,566
Servicing transfers and adjustments	16	—	16	—	(3,105)	(3,105)
Changes in fair value (2):						
Changes in valuation inputs or other assumptions	4,074	13,749	17,823	(63,360)	252,293	188,933
Realization of expected future cash flows and other changes	(23,856)	(24,228)	(48,084)	(36,898)	(17,796)	(54,694)
Ending balance	$ 339,664	$ 729,349	$ 1,069,013	$ 656,010	$ 799,543	$ 1,455,553

MSRs – Fair Value Measurement Method	For the Nine Months Ended September 30,					
	2020			2019		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	$ 714,006	$ 772,389	$ 1,486,395	$ 865,587	$ 591,562	$ 1,457,149
Sales and other transfers	—	(108)	(108)	(29)	(556)	(585)
Additions:						
Recognized on the sale of residential mortgage loans	37,785	—	37,785	3,933	—	3,933
Purchase of MSRs	78,994	—	78,994	123,600	1,355	124,955
Servicing transfers and adjustments (1)	(263,830)	403	(263,427)	—	(7,872)	(7,872)
Changes in fair value (2):						
Changes in valuation inputs or other assumptions	(159,351)	20,679	(138,672)	(235,036)	264,876	29,840
Realization of expected future cash flows and other changes	(67,940)	(64,014)	(131,954)	(102,045)	(49,822)	(151,867)
Ending balance	$ 339,664	$ 729,349	$ 1,069,013	$ 656,010	$ 799,543	$ 1,455,553

(1) Servicing transfers and adjustments include a $263.7 million derecognition of MSRs/Rights to MSRs effective with the February 20, 2020 notice of termination of the subservicing agreement between NRZ and PMC. See Note 9 — Rights to MSRs for further information.
(2) Changes in fair value are recognized in MSR valuation adjustments, net in the unaudited consolidated statements of operations.

MSR UPB

	UPB at		
	September 30, 2020	December 31, 2019	September 30, 2019
Owned MSRs	$ 71,301,427	$ 70,973,496	$ 71,372,447
NRZ pledged MSRs (1)	66,782,351	108,837,877	113,441,618
Total recognized MSRs	$ 138,083,778	$ 179,811,373	$ 184,814,065

(1) MSRs subject to sale agreements with NRZ that do not meet sale accounting criteria. See Note 9 — Rights to MSRs.

We acquired MSRs with a UPB of $9.9 billion and $11.9 billion during the nine months ended September 30, 2020 and 2019, respectively. We sold MSRs with a UPB of $55.7 million during the nine months ended September 30, 2020, mostly to Freddie Mac under the Voluntary Partial Cancellation (VPC) program for delinquent loans. We sold non-Agency MSRs with a UPB of $116.1 million during the nine months ended September 30, 2019.

A significant portion of the servicing agreements for our non-Agency servicing portfolio contain provisions where we could be terminated as servicer without compensation upon the failure of the serviced loans to meet certain portfolio delinquency or cumulative loss thresholds. We have not had any terminations as servicer as a result of a breach of any of these provisions in 2020 and 2019.

At September 30, 2020, the S&P Global Ratings, Inc.'s (S&P's) servicer ratings outlook for PMC is stable. On March 24, 2020, Fitch Ratings, Inc. (Fitch) placed all U.S Residential Mortgage Backed Securities (RMBS) servicer ratings on Outlook Negative, resulting from a rapidly evolving economic and operating environment due to the sudden impact of the COVID-19 virus. Downgrades in servicer ratings could adversely affect our ability to service loans, sell or finance servicing advances and could impair our ability to consummate future servicing transactions or adversely affect our dealings with lenders, other contractual counterparties, and regulators, including our ability to maintain our status as an approved servicer by Fannie Mae and Freddie Mac. The servicer rating requirements of Fannie Mae do not necessarily require or imply immediate action, as Fannie Mae has discretion with respect to whether we are in compliance with their requirements and what actions it deems appropriate under the circumstances in the event that we fall below their desired servicer ratings.

Certain of our servicing agreements require that we maintain specified servicer ratings from rating agencies such as Moody's and S&P. No termination rights have been triggered as result of our servicer ratings in 2020 and 2019.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Servicing Revenue	2020	2019	2020	2019
Loan servicing and subservicing fees				
Servicing	$ 53,410	$ 61,485	$ 161,154	$ 170,054
Subservicing	10,324	1,365	26,143	11,775
NRZ	91,015	146,567	299,089	443,505
	154,749	209,417	486,386	625,334
Ancillary income				
Late charges	11,012	14,105	38,323	42,786
Custodial accounts (float earnings)	1,057	13,464	8,787	38,739
Loan collection fees	3,047	3,862	10,048	11,613
Home Affordable Modification Program (HAMP) fees (1)	104	1,216	532	4,558
Other, net	11,753	6,453	24,369	22,063
	26,973	39,100	82,059	119,759
	$ 181,722	$ 248,517	$ 568,445	$ 745,093

(1) The HAMP expired on December 31, 2016. Borrowers who had requested assistance or to whom an offer of assistance had been extended as of that date had until September 30, 2017 to finalize their modification. We continue to earn HAMP success fees for HAMP modifications that remain less than 90 days delinquent at the first-, second- and third-year anniversary of the start of the trial modification.

Float balances (balances in custodial accounts, which represent collections of principal and interest that we receive from borrowers) are held in escrow by unaffiliated banks and are excluded from our unaudited consolidated balance sheets. Float balances amounted to $2.0 billion, $1.7 billion and $2.1 billion at September 30, 2020, December 31, 2019 and September 30, 2019, respectively.

Note 9 — Rights to MSRs

Ocwen and PMC entered into agreements to sell MSRs or Rights to MSRs and the related servicing advances to NRZ, and in all cases have been retained by NRZ as subservicer. In the case of Ocwen Rights to MSRs transactions, while the majority of the risks and rewards of ownership were transferred in 2012 and 2013, legal title was retained by Ocwen, causing the Rights to MSRs transactions to be accounted for as secured financings. In the case of the PMC transactions, and for those Ocwen MSRs where consents were subsequently received and legal title was transferred to NRZ, due to the length of the non-cancellable term of the subservicing agreements, the transactions did not initially qualify for sale accounting treatment which resulted in such transactions being accounted for as secured financings. Until such time as the transaction qualifies as a sale for accounting purposes, we continue to recognize the MSRs and related financing liability on our consolidated balance sheets, as well as the full amount of servicing revenue and changes in the fair value of the MSRs and related financing liability in our unaudited consolidated statements of operations. Changes in fair value of the Rights to MSRs are recognized in MSR valuation adjustments, net in the unaudited consolidated statements of operations. Changes in fair value of the MSR related financing liability are reported in Pledged MSR liability expense.

The following tables present selected assets and liabilities recorded on our unaudited consolidated balance sheets as well as the impacts to our unaudited consolidated statements of operations in connection with our NRZ agreements.

Balance Sheets	**September 30, 2020**	**December 31, 2019**
MSRs, at fair value (1)	$ 577,309	$ 915,148
Due from NRZ (Receivables)		
Sales and transfers of MSRs (2)	$ —	$ 24,167
Subservicing fees and reimbursable expenses	2,364	9,197
	$ 2,364	$ 33,364
Due to NRZ (Other liabilities)	$ 95,803	$ 63,596
Financing liability - MSRs pledged, at fair value		
Original Rights to MSRs Agreements	$ 577,309	$ 603,046
2017 Agreements and New RMSR Agreements (3)	—	35,445
PMC MSR Agreements (1)	—	312,102
	$ 577,309	$ 950,593

(1) On February 20, 2020, we received a notice of termination from NRZ with respect to the PMC MSR Agreements. While the MSRs and the Rights to MSRs associated with these loans were derecognized from our balance sheet, we continued to service these loans until deboarding on October 1, 2020, and accounted for them as a subservicing relationship.
(2) Balance represents the holdback of proceeds from PMC MSR sales and transfers to address indemnification claims and mortgage loan document deficiencies. These sales were executed by PMC prior to Ocwen's acquisition of PHH.
(3) Income was recognized through April 30, 2020 as a reduction in the financing liability based on the term of the original agreements.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Statements of Operations				
Servicing fees collected on behalf of NRZ (1)	$ 91,015	$ 146,567	$ 299,089	$ 443,505
Less: Subservicing fee retained by Ocwen (1)	25,674	35,462	80,529	108,774
Net servicing fees remitted to NRZ	65,341	111,105	218,560	334,731
Less: Reduction (increase) in financing liability				
Changes in fair value:				
Original Rights to MSRs Agreements	(10,401)	(228,644)	(18,503)	(230,193)
2017 Agreements and New RMSR Agreements	—	(2,216)	(903)	(4,562)
PMC MSR Agreements (1)	—	30,156	40,720	111,034
	(10,401)	(200,704)	21,314	(123,721)
Runoff and settlement:				
Original Rights to MSRs Agreements	15,650	11,170	41,572	31,617
2017 Agreements and New RMSR Agreements	—	26,705	35,121	76,087
PMC MSR Agreements (1)	—	15,881	7,492	49,469
	15,650	53,756	84,185	157,173
Other	2,688	1,637	7,377	(2,023)
Pledged MSR liability expense	$ 57,404	$ 256,416	$ 105,684	$ 303,302

(1) On February 20, 2020, we received a notice of termination from NRZ with respect to the PMC MSR Agreements. As the MSRs and the Rights to MSRs associated with these loans were derecognized from our consolidated balance sheet on February 20, 2020, we do not report the associated servicing fees collected on behalf of, and remitted to NRZ, or the change in fair value, runoff and settlement of the financing liability subsequent to February 20, 2020.

	Three Months Ended September 30, 2020			
Financing Liability - MSRs Pledged	**Original Rights to MSRs Agreements**	**2017 Agreements and New RMSR Agreements**	**PMC MSR Agreements**	**Total**
Beginning Balance	$ 582,558	$ —	$ —	$ 582,558
Changes in fair value:				
Original Rights to MSRs Agreements	10,402	—	—	10,402
2017 Agreements and New RMSR Agreements	—	—	—	—
PMC MSR Agreements	—	—	—	—
Runoff and settlement:				
Original Rights to MSRs Agreements	(15,651)	—	—	(15,651)
2017 Agreements and New RMSR Agreements	—	—	—	—
PMC MSR Agreements	—	—	—	—
Balance at September 30, 2020	$ 577,309	$ —	$ —	$ 577,309

Financing Liability - MSRs Pledged	Three Months Ended September 30, 2019			
	Original Rights to MSRs Agreements	2017 Agreements and New RMSR Agreements	PMC MSR Agreements	Total
Beginning Balance	$ 412,909	$ 88,103	$ 343,901	$ 844,913
Additions	—	—	345	345
Changes in fair value:				
Original Rights to MSRs Agreements	228,643	—	—	228,643
2017 Agreements and New RMSR Agreements	—	2,216	—	2,216
PMC MSR Agreements	—	—	(30,156)	(30,156)
Runoff and settlement:				
Original Rights to MSRs Agreements	(11,170)	—	—	(11,170)
2017 Agreements and New RMSR Agreements	—	(26,705)	—	(26,705)
PMC MSR Agreements	—	—	(15,881)	(15,881)
Calls (1):				
Original Rights to MSRs Agreements	(3,095)	—	—	(3,095)
2017 Agreements and New RMSR Agreements	—	(2,169)	—	(2,169)
Balance at September 30, 2019	$ 627,287	$ 61,445	$ 298,220	$ 986,952

Financing Liability - MSRs Pledged	Nine Months Ended September 30, 2020			
	Original Rights to MSRs Agreements	2017 Agreements and New RMSR Agreements	PMC MSR Agreements	Total
Beginning Balance	$ 603,046	$ 35,445	$ 312,102	$ 950,593
Additions	—	—	—	—
Receipt of lump-sum cash payments	—	—	—	—
Sales	—	—	(226)	(226)
Changes in fair value:				
Original Rights to MSRs Agreements	18,503	—	—	18,503
2017 Agreements and New RMSR Agreements	—	903	—	903
PMC MSR Agreements	—	—	(40,720)	(40,720)
Runoff and settlement:				
Original Rights to MSRs Agreements	(41,572)	—	—	(41,572)
2017 Agreements and New RMSR Agreements	—	(35,121)	—	(35,121)
PMC MSR Agreements	—	—	(7,492)	(7,492)
Derecognition of Pledged MSR financing liability due to termination of PMC MSR Agreements	—	—	(263,664)	(263,664)
Calls (1):				
Original Rights to MSRs Agreements	(2,668)	—	—	(2,668)
2017 Agreements and New RMSR Agreements	—	(1,227)	—	(1,227)
Balance at September 30, 2020	$ 577,309	$ —	$ —	$ 577,309

Financing Liability - MSRs Pledged	Nine Months Ended September 30, 2019 Original Rights to MSRs Agreements	2017 Agreements and New RMSR Agreements	PMC MSR Agreements	Total
Beginning Balance	$ 436,511	$ 138,854	$ 457,491	$ 1,032,856
Purchases	—	—	1,221	1,221
Sales	—	—	11	11
Changes in fair value:				
Original Rights to MSRs Agreements	230,193	—	—	230,193
2017 Agreements and New RMSR Agreements	—	4,562	—	4,562
PMC MSR Agreements	—	—	(111,034)	(111,034)
Runoff and settlement:				
Original Rights to MSRs Agreements	(31,617)	—	—	(31,617)
2017 Agreements and New RMSR Agreements	—	(76,087)	—	(76,087)
PMC MSR Agreements	—	—	(49,469)	(49,469)
Calls (1):				
Original Rights to MSRs Agreements	(7,800)	—	—	(7,800)
2017 Agreements and New RMSR Agreements	—	(5,884)	—	(5,884)
Balance at September 30, 2019	$ 627,287	$ 61,445	$ 298,220	$ 986,952

(1) Represents the carrying value of MSRs in connection with call rights exercised by NRZ, for MSRs transferred to NRZ under the 2017 Agreements and New RMSR Agreements, or by Ocwen at NRZ's direction, for MSRs underlying the Original Rights to MSRs Agreements. Ocwen derecognizes the MSRs and the related financing liability upon collapse of the securitization.

Ocwen Transactions

Prior to the transfer of legal title under the Master Servicing Rights Purchase Agreement dated as of October 1, 2012, as amended, and certain Sale Supplements, as amended (collectively, the Original Rights to MSRs Agreements), Ocwen agreed to service the mortgage loans underlying the MSRs on the economic terms set forth in the Original Rights to MSRs Agreements. After the transfer of legal title as contemplated under the Original Rights to MSRs Agreements, Ocwen was to service the mortgage loans underlying the MSRs as subservicer on substantially the same economic terms.

On July 23, 2017 and January 18, 2018, we entered into a series of agreements with NRZ that collectively modify, supplement and supersede the arrangements among the parties as set forth in the Original Rights to MSRs Agreements. The July 23, 2017 agreements, as amended, include a Master Agreement, a Transfer Agreement and the Subservicing Agreement between Ocwen and New Residential Mortgage LLC (NRM), a subsidiary of NRZ, relating to non-agency loans (the NRM Subservicing Agreement) (collectively, the 2017 Agreements) pursuant to which the parties agreed, among other things, to undertake certain actions to facilitate the transfer from Ocwen to NRZ of Ocwen's legal title to the remaining MSRs that were subject to the Original Rights to MSRs Agreements and under which Ocwen would subservice mortgage loans underlying the MSRs for an initial term ending July 2022 (the Initial Term).

On January 18, 2018, the parties entered into new agreements (including a Servicing Addendum) regarding the Rights to MSRs related to MSRs that remained subject to the Original Rights to MSRs Agreements as of January 1, 2018 and amended the Transfer Agreement (collectively, New RMSR Agreements) to accelerate the implementation of certain parts of our arrangements in order to achieve the intent of the 2017 Agreements sooner. Under the new agreements, following receipt of the required consents and transfer of the MSRs, Ocwen subservices the mortgage loans underlying the transferred MSRs pursuant to the 2017 Agreements and the August 2018 subservicing agreement with NewRez LLC dba Shellpoint Mortgage Servicing (Shellpoint) described below.

Ocwen received lump-sum cash payments of $54.6 million and $279.6 million in September 2017 and January 2018 in accordance with the terms of the 2017 Agreements and New RMSR Agreements, respectively. These upfront payments generally represented the net present value of the difference between the future revenue stream Ocwen would have received under the Original Rights to MSRs Agreements and the future revenue stream Ocwen expected to receive under the 2017 Agreements and the New RMSR Agreements. We recognized the cash received as a financing liability that we accounted for at fair value through the term of the original agreements (April 2020). Changes in fair value were recognized in Pledged MSR liability expense in the unaudited consolidated statements of operations.

On August 17, 2018, Ocwen and NRZ entered into certain amendments (i) to the New RMSR Agreements to include Shellpoint, a subsidiary of NRZ, as a party to which legal title to the MSRs could be transferred after related consents are received, (ii) to add a Subservicing Agreement between Ocwen and Shellpoint relating to non-agency loans (the Shellpoint Subservicing Agreement), (iii) to add an Agency Subservicing Agreement between Ocwen and NRM relating to agency loans (the Agency Subservicing Agreement), and (iv) to conform the New RMSR Agreements and the NRM Subservicing Agreement to certain of the terms of the Shellpoint Subservicing Agreement and the Agency Subservicing Agreement.

At any time during the Initial Term, NRZ may terminate the Subservicing Agreements and Servicing Addendum for convenience, subject to Ocwen's right to receive a termination fee and 180 days' notice. The termination fee is calculated as specified in the Subservicing Agreements and Servicing Addendum, and is a discounted percentage of the expected revenues that would be owed to Ocwen over the remaining contract term based on certain portfolio run-off assumptions.

Following the Initial Term, NRZ may extend the term of the Subservicing Agreements and Servicing Addendum for additional three-month periods by providing proper notice. Following the Initial Term, the Subservicing Agreements and Servicing Addendum can be cancelled by Ocwen on an annual basis. NRZ and Ocwen have the ability to terminate the Subservicing Agreements and Servicing Addendum for cause if certain specified conditions occur. The terminations must be terminations in whole (i.e., cover all the loans under the relevant Subservicing Agreement or Servicing Addendum) and not in part, except for limited circumstances specified in the agreements. In addition, if NRZ terminates any of the NRM or Shellpoint Subservicing Agreements or the Servicing Addendum for cause, the other agreements will also terminate automatically.

Under the terms of the Subservicing Agreements and Servicing Addendum, in addition to a base servicing fee, Ocwen receives certain ancillary fees, primarily late fees, loan modification fees and convenience or Speedpay® fees. We may also receive certain incentive fees or pay penalties tied to various contractual performance metrics. NRZ receives all float earnings and deferred servicing fees related to delinquent borrower payments, as well as being entitled to receive certain REO related income including REO referral commissions.

As of September 30, 2020, the UPB of MSRs subject to the Servicing Agreements and the New RMSR Agreements is $69.1 billion, including $16.9 billion for which title has not transferred to NRZ. As the third-party consents required for title to the MSRs to transfer were not obtained by May 31, 2019, the New RMSR Agreements set forth a process under which NRZ's $16.9 billion Rights to MSRs may (i) be acquired by Ocwen at a price determined in accordance with the terms of the New RMSR Agreements, at the option of Ocwen, or (ii) be sold, together with Ocwen's title to those MSRs, to a third party in accordance with the terms of the New RMSR Agreements, subject to an additional Ocwen option to acquire at a price based on the winning third-party bid rather than selling to the third party. If the Rights to MSRs are not transferred pursuant to these alternatives, then the Rights to MSRs will remain subject to the New RMSR Agreements.

In addition, as noted above, during the Initial Term, NRZ has the right to terminate the $16.9 billion New RMSR Agreements for convenience, in whole but not in part, subject to payment of a termination fee and 180 days' notice. If NRZ exercises this termination right, NRZ has the option of seeking (i) the transfer of the MSRs through a sale to a third party of its Rights to MSRs (together with a transfer of Ocwen's title to those MSRs) or (ii) a substitute RMSR arrangement that substantially replicates the Rights to MSRs structure (a Substitute RMSR Arrangement) under which we would transfer title to the MSRs to a successor servicer and NRZ would continue to own the economic rights and obligations related to the MSRs. In the case of option (i), we have a purchase option as specified in the New RMSR Agreements. If NRZ is not able to sell the Rights to MSRs or establish a Substitute RMSR Arrangement with another servicer, NRZ has the right to revoke its termination notice and re-instate the Servicing Addendum or to establish a subservicing arrangement whereby the MSRs remaining subject to the New RMSR Agreements would be transferred to up to three subservicers who would subservice under Ocwen's oversight. If such a subservicing arrangement were established, Ocwen would receive an oversight fee and reimbursement of expenses. We may also agree on alternative arrangements that are not contemplated under our existing agreements or that are variations of those contemplated under our existing agreements.

PMC Transactions

On December 28, 2016, PMC entered into an agreement to sell substantially all of its MSRs, and the related servicing advances, to NRM (the 2016 PMC Sale Agreement). In connection with this agreement, on December 28, 2016, PMC also entered into a subservicing agreement with NRZ which was subsequently amended and restated as of March 29, 2019 (together with the 2016 PMC Sale Agreement, the PMC MSR Agreements). The PMC subservicing agreement had an initial term of three years from the initial transaction date of June 16, 2017, subject to certain transfer and termination provisions. The MSR sale transaction did not originally achieve sale accounting treatment.

On February 20, 2020, we received a notice of termination from NRZ with respect to the PMC MSR Agreements, which accounted for $37.1 billion loan UPB at June 30, 2020, and $16.0 billion at September 30, 2020. This termination was for convenience and not for cause, and provided for loan deboarding fees to be paid by NRZ. As the sale accounting criteria were met upon the notice of termination, the MSRs and the Rights to MSRs were derecognized from our balance sheet on February 20, 2020 without any gain or loss on derecognition. We continued to service these loans until deboarding, and accounted for them as a subservicing relationship. Accordingly, we recognized subservicing fees associated with the subservicing agreement subsequent to February 20, 2020 and have not reported any servicing fees collected on behalf of, and remitted to NRZ, any change in fair value, runoff and settlement in financing liability thereafter. On September 1, 2020, 133,718 loans were deboarded and the remaining 136,500 loans representing $16.0 billion of UPB were deboarded on October 1, 2020.

Note 10 – Receivables

	September 30, 2020	December 31, 2019
Servicing-related receivables:		
Government-insured loan claims - Forward	$ 107,917	$ 122,557
Government-insured loan claims - Reverse	43,681	14,123
Sales and transfers of MSRs - Due from NRZ	—	24,167
Subservicing fees and reimbursable expenses - Due from NRZ	2,364	9,197
Reimbursable expenses	5,604	13,052
Due from custodial accounts	8,212	27,175
Other	1,869	4,970
	169,647	215,241
Income taxes receivable (1)	68,683	37,888
Other receivables	4,795	5,963
	243,125	259,092
Allowance for losses	(41,518)	(57,872)
	$ 201,607	$ 201,220

(1) See Note 17 – Income Taxes

At September 30, 2020 and December 31, 2019, the allowance for losses primarily related to receivables of our Servicing business. The allowance for losses related to FHA- or VA-insured loans repurchased from Ginnie Mae guaranteed securitizations (government-insured loan claims) was $40.8 million and $56.9 million at September 30, 2020 and December 31, 2019, respectively. The government-insured loan claims are guaranteed by the U.S. government.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Allowance for Losses - Government-Insured Loan Claims	**2020**	**2019**	**2020**	**2019**
Beginning balance (1)	$ 53,310	$ 50,511	$ 56,868	$ 52,497
Provision	5,055	11,013	12,249	22,819
Charge-offs and other, net	(17,607)	(8,349)	(28,359)	(22,141)
Ending balance	$ 40,758	$ 53,175	$ 40,758	$ 53,175

(1) The adoption of ASU 2016-13 did not result in any significant change to the allowance for losses related to receivables as of January 1, 2020.

Note 11 – Other Assets

	September 30, 2020	December 31, 2019
Contingent loan repurchase asset	$ 580,599	$ 492,900
Derivatives, at fair value	22,843	6,007
Prepaid expenses	15,791	21,996
Prepaid representation, warranty and indemnification claims - Agency MSR sale	15,173	15,173
Prepaid lender fees, net	10,767	8,647
REO	8,354	8,556
Security deposits	2,181	2,163
Deferred tax asset, net	1,821	2,169
Mortgage backed securities, at fair value	2,150	2,075
Interest-earning time deposits	377	390
Other	2,412	3,164
	$ 662,468	$ 563,240

Note 12 – Borrowings

Advance Match Funded Liabilities

			Borrowing Capacity		September 30, 2020		December 31, 2019	
Borrowing Type	Maturity (1)	Amortization Date (1)	Total	Available (2)	Weighted Average Interest Rate	Balance	Weighted Average Interest Rate	Balance
Advance Receivables Backed Notes - Series 2015-VF5 (3)	Jun. 2051	Jun. 2021	$ 250,000	$ 158,080	4.28 %	$ 91,920	3.36 %	$ 190,555
Advance Receivables Backed Notes, Series 2019-T1 (4)	Aug. 2050	Aug. 2020	—	—	—	—	2.62 %	185,000
Advance Receivables Backed Notes, Series 2019-T2 (4)	Aug. 2051	Aug. 2021	—	—	—	—	2.53 %	285,000
Advance Receivables Backed Notes, Series 2020-T1 (4)	Aug. 2052	Aug. 2022	475,000	—	1.49 %	475,000	— %	—
Total Ocwen Master Advance Receivables Trust (OMART)			725,000	158,080	1.94 %	566,920	2.79 %	660,555
Ocwen Freddie Advance Funding (OFAF) - Advance Receivables Backed Notes, Series 2015-VF1 (5)	Jun. 2051	Jun. 2021	70,000	56,842	3.28 %	13,158	3.53 %	18,554
			$ 795,000	$ 214,922	1.97 %	$ 580,078	2.81 %	$ 679,109

(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 all of our 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 ratably to each outstanding amortizing note to reduce the balance and as such the collection of advances allocated to the amortizing note may not be used to fund new advances.

(2) Borrowing capacity under the OMART and OFAF facilities is available to us provided that we have sufficient eligible collateral to pledge. At September 30, 2020, $10.0 million and none of the available borrowing capacity of the OMART and OFAF advance financing notes, respectively, could be used based on the amount of eligible collateral.
(3) On May 7, 2020, we renewed this facility through June 30, 2021, and increased the total borrowing capacity of the Series 2015-VF5 variable notes from $200.0 million to $500.0 million, with interest computed based on the lender's cost of funds plus a margin of 400 bps. On August 17, 2020, we reduced the total borrowing capacity to $250.0 million in conjunction with the issuance of new fixed-rate term notes with a borrowing capacity of $475.0 million, as disclosed in (4) below.
(4) On August 12, 2020, we issued fixed-rate term notes with a total borrowing capacity of $475.0 million (Series 2020 T-1). The weighted average rate of the notes at September 30, 2020 is 1.49%, with rates on the individual classes of notes ranging from 1.28% to 5.42%. The Series 2019-T1 and 2019-T2 fixed-rate term notes were redeemed on August 17, 2020.
(5) On May 7, 2020, we renewed this facility through June 30, 2021 and increased the borrowing capacity from $60.0 million to $70.0 million with interest computed based on the lender's cost of funds plus a margin of 300 bps.

Financing Liabilities

Borrowing Type	Collateral	Interest Rate	Maturity	Outstanding Balance September 30, 2020	Outstanding Balance December 31, 2019
HMBS-related borrowings, at fair value (1)	Loans held for investment	1ML + 260 bps	(1)	$ 6,606,543	$ 6,063,435
Other financing liabilities, at fair value					
MSRs pledged (Rights to MSRs), at fair value:					
Original Rights to MSRs Agreements	MSRs	(2)	(2)	577,309	603,046
2017 Agreements and New RMSR Agreements	MSRs	(3)	(3)	—	35,445
PMC MSR Agreements	MSRs	(4)	(4)	—	312,102
				577,309	950,593
Financing liability - Owed to securitization investors, at fair value:					
IndyMac Mortgage Loan Trust (INDX 2004-AR11) (5)	Loans held for investment	(5)	(5)	—	9,794
Residential Asset Securitization Trust 2003-A11 (RAST 2003-A11) (5)	Loans held for investment	(5)	(5)	11,012	12,208
				11,012	22,002
Total Other financing liabilities, at fair value				588,321	972,595
				$ 7,194,864	$ 7,036,030

(1) Represents amounts due to the holders of beneficial interests in Ginnie Mae guaranteed HMBS which did not qualify for sale accounting treatment of HECM loans.
(2) This pledged MSR liability is recognized due to the accounting treatment of MSR sale transactions with NRZ which did not qualify as sales for accounting purposes. See Note 9 — Rights to MSRs for additional information.
(3) This financing liability arose in connection with lump sum payments received in 2017 upon transfer of legal title of the MSRs related to the Rights to MSRs transactions to NRZ and in 2018 in connection with the execution of the New RMSR Agreements as compensation for foregoing certain payments under the Original Rights to MSRs Agreements. See Note 9 — Rights to MSRs for additional information.
(4) Represented a liability for sales of MSRs to NRZ which did not qualify for sale accounting treatment and were accounted for as a secured borrowing which we assumed in connection with the acquisition of PHH Corporation (PHH). As disclosed in Note 9 — Rights to MSRs, the liability was derecognized upon termination of the agreement by NRZ on February 20, 2020.
(5) Consists of securitization debt certificates due to third parties that represent beneficial interests in trusts that we include in our unaudited consolidated financial statements, as more fully described in Note 3 – Securitizations and Variable Interest Entities. In June 2020, we sold the beneficial interests held in the INDX 2004-AR11 securitization trust and deconsolidated the trust. The certificates in the RAST 2003-A11 Trust pay interest based on fixed rates ranging between 4.25% and 5.75% and a variable rate based on 1ML plus 0.45%. The maturity of the certificates occurs upon maturity of the loans held by the trust. The remaining loans in the RAST 2003-A11 Trust have maturity dates extending through October 2033.

Other Secured Borrowings

Borrowing Type	Collateral	Interest Rate (1)	Maturity	Available Borrowing Capacity		Outstanding Balance	
				Uncommitted	Committed (2)	September 30, 2020	December 31, 2019
SSTL (3)	(3)	1-Month Euro-dollar rate + 600 bps with a Eurodollar floor of 100 bps (3)	May 2022	$ —	$ —	$ 190,000	$ 326,066
Master repurchase agreement (4)	Loans held for sale (LHFS)	1ML + 220 - 375 bps	June 2021	19,756	—	155,244	91,573
Mortgage warehouse agreement (5)	LHFS (reverse)	Greater of 1ML + 250 bps or 3.50%; LIBOR Floor 0%	August 2021	1,000	—	—	72,443
Master repurchase agreement (6)	LHFS (forward and reverse)	1ML + 225 bps forward; 1ML + 275 bps reverse	Dec. 2020	50,000	8,869	191,131	139,227
Master repurchase agreement (7)	LHFS (reverse)	Prime + 0.0%; 4.0% floor	January 2020	—	—	—	898
Master repurchase agreement (8)	N/A	1ML + 180 bps; LIBOR Floor 35 bps	N/A	50,000	—	—	—
Participation agreement (9)	LHFS	(9)	June 2021	120,000	—	—	17,304
Master repurchase agreement (9)	LHFS	(9)	June 2021	—	76,497	13,503	—
Master repurchase agreement	LHFS	1 ML + 250 bps	March 2021	—	1,000	—	—
Mortgage warehouse agreement (10)	LHFS	1ML + 350 bps; LIBOR Floor 525 bps	Dec. 2020	—	48,211	1,789	10,780
Mortgage warehouse agreement (11)	LHFS (reverse)	1ML + 250 bps; 3.50% floor	Nov. 2020	19,904	—	80,096	—
Mortgage warehouse agreement (12)	LHFS	(12)	N/A	100,000	—	—	—
Total mortgage loan warehouse facilities				360,660	134,577	441,763	332,225

Other Secured Borrowings				**Available Borrowing Capacity**		**Outstanding Balance**	
Borrowing Type	**Collateral**	**Interest Rate (1)**	**Maturity**	**Uncommitted**	**Committed (2)**	**September 30, 2020**	**December 31, 2019**
Agency MSR financing facility (13)	MSRs, Advances	1ML + 450 bps	June 2021	—	136,071	113,929	147,706
Ginnie Mae MSR financing facility (14)	MSRs, Advances	1ML + 395 bps	Dec. 2020	74,947	—	52,553	72,320
Ocwen Excess Spread-Collateralized Notes, Series 2019-PLS1 (15)	MSRs	5.07%	Nov. 2024	—	—	74,021	94,395
Secured Notes, Ocwen Asset Servicing Income Series, Series 2014-1 (16)	MSRs	(15)	Feb. 2028	—	—	50,168	57,594
Total MSR financing facilities				74,947	136,071	290,671	372,015
				$ 435,607	$ 270,648	922,434	1,030,306
Unamortized debt issuance costs - SSTL and PLS Notes						(6,712)	(3,381)
Discount - SSTL						(430)	(1,134)
						$ 915,292	$ 1,025,791
Weighted average interest rate						4.51 %	4.74 %

(1) 1ML was 0.15% and 1.76% at September 30, 2020 and December 31, 2019, respectively.
(2) Of the borrowing capacity on mortgage loan warehouse facilities extended on a committed basis, $34.1 million of the available borrowing capacity could be used at September 30, 2020 based on the amount of eligible collateral that could be pledged.
(3) On January 27, 2020, we entered into a Joinder and Second Amendment Agreement (the Amendment) which amends the Amended and Restated SSTL Facility Agreement dated as of December 5, 2016, as amended by a Joinder and Amendment Agreement dated as of March 18, 2019. The Amendment provided for a net prepayment of $126.1 million of the outstanding balance at December 31, 2019 such that the facility has a maximum outstanding balance of $200.0 million. The Amendment also (i) extended the maturity of the remaining outstanding loans under the SSTL to May 15, 2022, (ii) provides that the loans under the SSTL bear interest at the one-month Eurodollar Rate or the Base Rate (as defined in the SSTL), at our option, plus a margin of 6.00% per annum for Eurodollar Rate loans or 5.00% per annum for Base Rate loans (increasing to a margin of 6.50% per annum for Eurodollar Rate loans or 5.50% per annum for Base Rate loans on January 27, 2021), (iii) provides for a prepayment premium of 2.00% until January 27, 2022 and (iv) requires quarterly principal payments of $5.0 million.
(4) The maximum borrowing under this agreement is $175.0 million, of which $110.0 million is available on a committed basis and the remainder is available at the discretion of the lender.
(5) On March 12, 2020, we voluntarily reduced the maximum borrowing capacity from $100.0 million to $1.0 million in connection with Liberty's transfer of substantially all of its assets, liabilities, contracts and employees to PMC effective March 15, 2020. On August 10, 2020, the maturity date of this agreement was extended to August 13, 2021.
(6) The maximum borrowing under this agreement is $250.0 million, of which $200.0 million is available on a committed basis and the remainder is available on an uncommitted basis.
(7) This facility expired on January 22, 2020 and was not renewed.
(8) The lender provides financing for up to $50.0 million at the discretion of the lender. The agreement has no stated maturity date.
(9) Under the original terms, the lender provided $300.0 million of borrowing capacity on an uncommitted basis. On June 25, 2020, this facility was amended to be comprised of two lines, a $120.0 million uncommitted participation agreement and a $90.0 million committed repurchase agreement. The maturity date of the facility was extended to June 24, 2021. The agreements allow the lender to acquire a 100% beneficial interest in the underlying mortgage loans.
The transactions do not qualify for sale accounting treatment and are accounted for as secured borrowings. The lender earns the stated interest rate of the underlying mortgage loans less 35 bps, with a floor of 3.5%, while the loans are financed under both the participation and repurchase agreements.
(10) Under this agreement, the lender provides financing for up to $50.0 million on a committed basis.
(11) On March 12, 2020, we entered into a mortgage loan warehouse agreement to fund reverse mortgage loan draws by borrowers subsequent to origination. Under this agreement, the lender provides financing for up to $100.0 million on an uncommitted basis. In October 2020, the maturity date was extended to October 29, 2021 and the capacity was temporarily increased to $150.0 million until November 15, 2020 when it will be reduced to $100.0 million.
(12) On September 30, 2020, we entered into a $100.0 million uncommitted repurchase agreement to finance the purchase of EBO loans from Ginnie Mae. The agreement has no stated maturity date, however each transaction has a maximum duration of four years. The cost of this line is set at each transaction date and is based on the interest rate on the collateral.
(13) PMC's obligations under this facility are secured by a lien on the related MSRs. Ocwen guarantees the obligations of PMC under this facility. On May 7, 2020, we renewed the facility through June 30, 2021 and reduced the maximum amount which we may borrow pursuant to the repurchase agreements from $300.0 million to $250.0 million on a committed basis. We also pledged the membership interest of the depositor for our OMART advance financing facility as additional collateral to this facility. See Note 3 – Securitizations

and Variable Interest Entities for additional information. We are subject to daily margining requirements under the terms of our MSR financing facilities. Declines in fair value of our MSRs due to declines in market interest rates, assumption updates or other factors require that we provide additional collateral to our lenders under these facilities.

(14) PMC's obligations under this facility are secured by a lien on the related Ginnie Mae MSRs. Ocwen guarantees the obligations of PMC under the facility. On June 30, 2020, we amended the facility to increase the borrowing capacity from $100.0 million to $127.5 million on an uncommitted basis, accelerate the maturity date to December 27, 2020 and include Ginnie Mae servicing advances as additional collateral. The lender earns the stated interest rate of 1ML plus a margin of 395 bps on borrowings prior to June 1, 2020, with any subsequent borrowings at a stated interest of 1ML plus a margin of 700 bps. See (13) above regarding daily margining requirements.

(15) PLS Issuer's obligations under the facility are secured by a lien on the related PLS MSRs. Ocwen guarantees the obligations of PLS Issuer under the facility. The Class A PLS Notes issued pursuant to the credit agreement had an initial principal amount of $100.0 million and amortize in accordance with a pre-determined schedule subject to modification under certain events. See Note 3 – Securitizations and Variable Interest Entities for additional information. See (12) above regarding daily margining requirements.

(16) OASIS noteholders are entitled to receive a monthly payment equal to the sum of: (a) 21 basis points of the UPB of the reference pool of Freddie Mac mortgages; (b) any termination payment amounts; (c) any excess refinance amounts; and (d) the note redemption amounts, each as defined in the indenture supplement for the notes. Monthly amortization of the liability is estimated using the proportion of monthly projected service fees on the underlying MSRs as a percentage of lifetime projected fees, adjusted for the term of the notes.

			Outstanding Balance	
Senior Notes	**Interest Rate**	**Maturity**	**September 30, 2020**	**December 31, 2019**
Senior unsecured notes (1)	6.375%	Aug. 2021	$ 21,543	$ 21,543
			21,543	21,543
Senior secured notes	8.375%	Nov. 2022	291,509	291,509
			313,052	313,052
Unamortized debt issuance costs			(1,098)	(1,470)
Fair value adjustments (1)			(265)	(497)
			$ 311,689	$ 311,085

(1) These notes were assumed by Ocwen in connection with its acquisition of PHH. We are amortizing the fair value purchase accounting adjustments over the remaining term of the notes. We have the option to redeem the notes due in August 2021, in whole or in part, on or after January 1, 2019 at a redemption price equal to 100.0% of the principal amount plus any accrued and unpaid interest.

At any time, we may redeem all or a part of the 8.375% Senior secured notes, upon not less than 30 nor more than 60 days' notice at a specified redemption price, plus accrued and unpaid interest to the date of redemption. We may redeem all or a part of these notes at the redemption prices (expressed as percentages of principal amount) specified in the Indenture of 104.188% and 102.094% during the twelve-month periods beginning on November 15th of 2019 and 2020, respectively. Thereafter, the redemption price is 100%.

Upon a change of control (as defined in the Indenture), we are required to make an offer to the holders of the 8.375% Senior secured notes to repurchase all or a portion of each holder's notes at a purchase price equal to 101.0% of the principal amount of the notes purchased plus accrued and unpaid interest to the date of purchase.

Credit Ratings

Credit ratings are intended to be an indicator of the creditworthiness of a company's debt obligation. At September 30, 2020, the S&P issuer credit rating for Ocwen was "B-". On April 13, 2020, S&P placed Ocwen's ratings outlook on CreditWatch with negative implications due to the uncertain economic impact of COVID-19 on liquidity. The CreditWatch was removed on July 23, 2020 and the Outlook was revised to Negative. On August 21, 2020, Moody's reaffirmed their ratings. It is possible that additional actions by credit rating agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Covenants

Under the terms of our debt agreements, we are subject to various qualitative and quantitative covenants. Collectively, these covenants include:

- Financial covenants;
- Covenants to operate in material compliance with applicable laws;
- Restrictions on our ability to engage in various activities, including but not limited to incurring additional forms of debt, paying dividends or making distributions on or purchasing equity interests of Ocwen, repurchasing or redeeming capital stock or junior capital, repurchasing or redeeming subordinated debt prior to maturity, issuing preferred stock, selling or transferring assets or making loans or investments or acquisitions or other restricted payments, entering into

mergers or consolidations or sales of all or substantially all of the assets of Ocwen and its subsidiaries, creating liens on assets to secure debt of any guarantor, entering into transactions with affiliates;
- Monitoring and reporting of various specified transactions or events, including specific reporting on defined events affecting collateral underlying certain debt agreements; and
- Requirements to provide audited financial statements within specified timeframes, including requirements that Ocwen's financial statements and the related audit report be unqualified as to going concern.

Many of the restrictive covenants arising from the indenture for the Senior Secured Notes will be suspended if the Senior Secured Notes achieve an investment-grade rating from both Moody's and S&P and if no default or event of default has occurred and is continuing.

Financial covenants in certain of our debt agreements require that we maintain, among other things:

- a 40% loan to collateral value ratio (i.e., the ratio of total outstanding loans under the SSTL to certain collateral and other assets as defined under the SSTL), as of the last date of any fiscal quarter; and
- specified levels of tangible net worth and liquidity.

Certain financial covenants were added as part of the amendment and extension of our SSTL on January 27, 2020. These include i) maintaining a minimum unencumbered asset coverage ratio (i.e., the ratio of unrestricted cash and certain first priority perfected collateral to total outstanding loans under the SSTL) as of the last day of any fiscal quarter of 200% increasing to 225% after December 31, 2020 and ii) maintaining minimum unrestricted cash of $125.0 million as of the last day of each fiscal quarter.

As of September 30, 2020, the most restrictive consolidated tangible net worth requirements contained in our debt agreements were for a minimum of $200.0 million in consolidated tangible net worth, as defined, under certain of our advance match funded debt, MSR financing facilities and mortgage warehouse agreements. The most restrictive liquidity requirements were for a minimum of $125.0 million in consolidated liquidity, as defined, under certain of our advance match funded debt and mortgage warehouse agreements. In addition, as amended, the SSTL limits our capacity to repurchase our securities and prepay certain junior debt to a combined total of $10.0 million, among other restrictions. Our current repurchase capacity has been reduced to the extent of repurchases executed under Ocwen's share repurchase program announced in February 2020. See Note 14 – Equity for additional information regarding share repurchases.

As a result of the covenants to which we are subject, we may be limited in the manner in which we conduct our business and may be limited in our ability to engage in favorable business and investment activities or raise certain types of capital to finance future operations or satisfy future liquidity needs. In addition, breaches or events that may result in a default under our debt agreements include, among other things, nonpayment of principal or interest, noncompliance with our covenants, breach of representations, the occurrence of a material adverse change, insolvency, bankruptcy, certain material judgments and changes of control.

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

We believe we were in compliance with all of the qualitative and quantitative covenants in our debt agreements as of the date of these unaudited consolidated financial statements.

Collateral

Our assets held as collateral related to secured borrowings, committed under sale or other contractual obligations and which may be subject to secured liens under the SSTL and Senior Secured Notes are as follows at September 30, 2020:

		Collateral for Secured Borrowings				
	Total Assets	Advance Match Funded Liabilities	Financing Liabilities	Mortgage Loan Warehouse / MSR Facilities	Sales and Other Commitments (1)	Other (2)
Cash	$ 321,455	$ —	$ —	$ —	$ —	$ 321,455
Restricted cash	61,511	10,458	—	4,416	46,637	—
MSRs (3)	1,069,013	—	577,886	490,583	—	48
Advances, net	832,604	660,816	—	61,081	—	110,707
Loans held for sale	390,631	—	—	335,726	—	54,905
Loans held for investment	6,860,942	—	6,726,105	95,619	—	39,218
Receivables, net	201,607	—	—	52,417	—	149,190
Premises and equipment, net	23,620	—	—	—	—	23,620
Other assets	662,468	—	—	7,077	597,953	57,438
Total assets	$ 10,423,851	$ 671,274	$ 7,303,991	$ 1,046,919	$ 644,590	$ 756,581

(1) Sales and Other Commitments include Restricted cash and deposits held as collateral to support certain contractual obligations, and Contingent loan repurchase assets related to the Ginnie Mae EBO program for which a corresponding liability is recognized in Other liabilities.

(2) The borrowings under the SSTL are secured by a first priority security interest in substantially all of the assets of Ocwen, PHH, PMC and the other guarantors thereunder, excluding among other things, 35% of the voting capital stock of foreign subsidiaries, securitization assets and equity interests of securitization entities, assets securing permitted funding indebtedness and non-recourse indebtedness, REO assets, as well as other customary carve-outs (collectively, the Collateral). The Collateral is subject to certain permitted liens set forth under the SSTL and related security agreement. The Senior Secured Notes are guaranteed by Ocwen and the other guarantors that guarantee the SSTL, and the borrowings under the Senior Secured Notes are secured by a second priority security interest in the Collateral. Assets securing borrowings under the SSTL and Senior Secured Notes may include amounts presented in Other as well as certain assets presented in Collateral for Secured Borrowings and Sales and Other Commitments, subject to permitted liens as defined in the applicable debt documents. The amounts presented here may differ in their calculation and are not intended to represent amounts that may be used in connection with covenants under the applicable debt documents.

(3) MSRs pledged as collateral for secured borrowings in connection with the Rights to MSRs transactions with NRZ which are accounted for as secured financings. Certain MSR cohorts with a negative fair value of $0.5 million that would be presented as Other are excluded from the eligible collateral of the facilities and are comprised of $17.4 million of negative fair value related to RMBS and $17.9 million of positive fair value related to private EBO and PLS MSRs.

Note 13 – Other Liabilities

	September 30, 2020	December 31, 2019
Contingent loan repurchase liability	$ 580,599	$ 492,900
Due to NRZ - Advance collections, servicing fees and other	95,803	63,596
Other accrued expenses	71,093	67,241
Liability for indemnification obligations	44,170	52,785
Servicing-related obligations	40,659	88,167
Lease liability	34,426	44,488
Accrued legal fees and settlements	31,015	30,663
Checks held for escheat	29,106	31,959
Accrued interest payable	13,891	5,964
Liability for unfunded pension obligation	11,734	13,383
Liability for uncertain tax positions	17,123	17,197
Liability for unfunded India gratuity plan	5,416	5,331
Derivatives, at fair value	1,671	100
Liability for mortgage insurance contingency	—	6,820
Other	20,755	21,579
	$ 997,461	$ 942,173

Note 14 – Equity

On February 3, 2020, Ocwen's Board of Directors authorized a share repurchase program for an aggregate amount of up to $5.0 million of Ocwen's issued and outstanding shares of common stock. During the three months ended March 31, 2020, we completed the repurchase of 377,484 shares of common stock in the open market under this program at prevailing market prices for a total purchase price of $4.5 million for an average price paid per share of $11.90. In addition, Ocwen paid $0.1 million in commissions. The repurchased shares were formally retired as of March 31, 2020. At September 30, 2020, no additional shares were repurchased. Unless we amend the share repurchase program or repurchase the remaining $0.5 million by an earlier date, the share repurchase program will expire on February 3, 2021. No assurances can be given as to the amount of shares, if any, that we may repurchase in any given period.

On April 8, 2020, Ocwen was notified by the New York Stock Exchange (the NYSE) that the average per share trading price of its common stock was below the NYSE's continued listing standard rule relating to minimum average share price. The NYSE generally requires that a company's common stock trade at a minimum average closing price of $1.00 over a consecutive 30 trading-day period. Effective August 13, 2020, Ocwen implemented a one-for-15 reverse stock split of all outstanding shares of its common stock and reduced the number of authorized shares of common stock by the same proportion. No fractional shares were issued in connection with the reverse stock split. Shareholders otherwise entitled to receive fractional shares of common stock received shares rounded up to the nearest whole share in lieu of such fractional shares, with an aggregate 4,692 additional shares issued. The number of outstanding shares was reduced from 130,013,696 to 8,672,272 and the authorized shares from 200,000,000 to 13,333,333 effective August 13, 2020, with giving effect to the rounding up of fractional shares. The $0.01 par value per share of common stock remained unchanged. On September 1, 2020, Ocwen was notified by the NYSE that it has regained compliance with the NYSE's continued listing standard rule relating to minimum average share price.

Note 15 – Derivative Financial Instruments and Hedging Activities

The table below summarizes derivative activity, including the derivatives used in each of our identified hedging programs. The notional amount of our contracts does not represent our exposure to credit loss. None of the derivatives were designated as a hedge for accounting purposes as of, or during the nine months ended September 30, 2020 and 2019.

	September 30, 2020			December 31, 2019		
	Maturities	Notional	Fair value	Maturities	Notional	Fair value
Derivative Assets						
Forward sales of Reverse loans	Nov. 2020	$ 20,000	$ 31	Jan. 2020	$ 40,000	$ 8
Forward loans IRLCs	Oct. to Dec. 2020	857,257	21,606	Mar. 2020	204,020	4,745
Reverse loans IRLCs	Oct. 2020	30,977	1,073	Jan. 2020	28,546	133
TBA forward MBS trades	Oct. to Nov. 2020	400,000	117	Jan to Mar. 2020	1,200,000	1,121
Other	n/a	—	16	n/a	—	—
Total		$ 1,308,234	$ 22,843		$ 1,472,566	$ 6,007
Derivative Liabilities						
Forward sales of Reverse loans	Oct. 2020	$ 60,000	$ (114)	Jan. 2020	$ 20,000	$ (29)
TBA forward MBS trades	Oct. to Nov. 2020	190,000	(696)	n/a	—	—
Interest rate swap futures	Dec. 2020	355,000	(213)	n/a	—	—
Borrowings - interest rate caps	n/a	—	—	May 2020	27,083	—
Other	n/a	—	(648)	n/a	—	(71)
Total		$ 605,000	$ (1,671)		$ 47,083	$ (100)

We report derivatives at fair value in Other assets or in Other liabilities on our unaudited consolidated balance sheets. Derivative instruments are generally entered into as economic hedges against changes in the fair value of a recognized asset or liability and are not designated as hedges for accounting purposes. We generally report the changes in fair value of such derivative instruments in the same line item in the unaudited consolidated statement of operations as the changes in fair value of the related asset or liability. For all other derivative instruments not designated as a hedging instrument, we report changes in fair value in Other, net.

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Gain / (Loss)		Gain / (Loss)	
	Amount	Financial Statement Line	Amount	Financial Statement Line
Derivative Assets (Liabilities)				
Forward loans IRLCs	$ 16,860	Gain on loans held for sale, net	$ 401	Gain on loans held for sale, net
Reverse loans IRLCs	940	Reverse mortgage revenue, net	802	Reverse mortgage revenue, net
Forward LHFS trades	—		(3,689)	Gain on loans held for sale, net
Interest rate swap futures and TBA forward MBS trades	(9,564)	Gain on loans held for sale, net (Economic hedge)	345	Gain on loans held for sale, net (Economic hedge)
Interest rate swap futures and TBA forward MBS trades	39,258	MSR valuation adjustments, net	322	MSR valuation adjustments, net
Forward sales of Reverse loans	(62)	Reverse mortgage revenue, net	106	Reverse mortgage revenue, net
Borrowings - interest rate caps	—	Other, net	(358)	Other, net
Other	(561)	Gain on loans held for sale, net	(220)	
Total	$ 46,871		$ (2,291)	

Interest Rate Risk

MSR Hedging

MSRs are carried at fair value with changes in fair value being recorded in earnings in the period in which the changes occur. The fair value of MSRs is subject to changes in market interest rates and prepayment speeds, among other factors. Beginning in September 2019, management implemented a hedging strategy to partially offset the changes in fair value of our net MSR portfolio to interest rate changes. We define our net MSR portfolio exposure as follows:

- our more interest rate-sensitive Agency MSR portfolio,
- less the Agency MSRs subject to our agreements with NRZ (See Note 9 — Rights to MSRs),
- less the asset value for securitized HECM loans, net of the corresponding HMBS-related borrowings, and
- less the net value of our held for sale loan portfolio and interest rate lock commitments (pipeline).

We determine and monitor daily a hedge coverage based on the duration and interest rate sensitivity measures of our net MSR portfolio exposure, considering market and liquidity conditions. At September 30, 2020, our hedging strategy provides for a partial coverage of our net MSR portfolio exposure.

We use forward trades of MBS or Agency TBAs with different banking counterparties and exchange-traded interest rate swap futures as hedging instruments. These derivative instruments are not designated as accounting hedges. TBAs, or To-Be-Announced securities are actively traded, forward contracts to purchase or sell Agency MBS on a specific future date. Interest rate swap futures are exchange-traded and centrally cleared. We report changes in fair value of these derivative instruments in MSR valuation adjustments, net in our unaudited consolidated statements of operations.

The TBAs and interest rate swap futures are subject to margin requirements. Ocwen may be required to post or may be entitled to receive cash collateral with its counterparties, based on daily value changes of the instruments. Changes in market factors, including interest rates, and our credit rating could require us to post additional cash collateral and could have a material adverse impact on our financial condition and liquidity.

Interest Rate Lock Commitments

A loan commitment binds us (subject to the loan approval process) to fund the loan at the specified rate, regardless of whether interest rates have changed between the commitment date and the loan funding date. As such, outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of the commitment through the loan funding date or expiration date. The borrower is not obligated to obtain the loan; thus, we are subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. Our interest rate exposure on these derivative loan commitments had previously been economically hedged with freestanding derivatives such as forward contracts. Beginning in September 2019, this exposure is not individually hedged, but rather used as an offset to our MSR exposure and managed as part of our MSR hedging strategy described above.

Loans Held for Sale, at Fair Value

Mortgage loans held for sale that we carry at fair value are subject to interest rate and price risk from the loan funding date until the date the loan is sold into the secondary market. Generally, the fair value of a loan will decline in value when interest rates increase and will rise in value when interest rates decrease. To mitigate this risk, we had previously entered into forward MBS trades to provide an economic hedge against those changes in fair value on mortgage loans held for sale. Forward MBS trades were primarily used to fix the forward sales price that would be realized upon the sale of mortgage loans into the secondary market. Beginning in September 2019, this exposure is not individually hedged, but rather used as an offset to our MSR exposure and managed as part of our MSR hedging strategy described above.

Advance Match Funded Liabilities

When required by our advance financing arrangements, we purchase interest rate caps to minimize future interest rate exposure from increases in the interest on our variable rate debt as a result of increases in the index, such as 1ML, which is used in determining the interest rate on the debt. We currently do not hedge our fixed-rate debt.

Foreign Currency Exchange Rate Risk

Our operations in India and the Philippines expose us to foreign currency exchange rate risk to the extent that our foreign exchange positions remain unhedged. Depending on the magnitude and risk of our positions we may enter into any forward exchange contracts to hedge against the effect of changes in the value of the India Rupee or Philippine Peso.

Note 16 – Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Other secured borrowings	$ 12,246	$ 12,918	$ 39,171	$ 31,933
Senior notes	6,658	8,039	19,977	25,053
Advance match funded liabilities	6,565	6,165	19,541	20,862
Other	1,346	2,384	4,868	6,788
	$ 26,815	$ 29,506	$ 83,557	$ 84,636

Note 17 – Income Taxes

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act includes several significant business tax provisions that, among other things, temporarily repealed the taxable income limitation for certain net operating losses (NOL) and allows businesses to carry back NOLs arising in 2018, 2019, and 2020 tax years to the five prior tax years, accelerate refunds of previously generated corporate Alternative Minimum Tax (AMT) credits, and adjusts the business interest expense limitation under section 163(j) from 30% to 50% of Adjusted Taxable Income (ATI) for 2019 and 2020 tax years.

Based on information available at this time, we estimate that modifications to the tax rules for the carryback of NOLs and business interest expense limitations will result in U.S. and USVI federal net tax refunds of approximately $70.3 million and $1.2 million, respectively, and as such we recognized an income tax benefit of $71.5 million in our unaudited consolidated financial statements for the nine months ended September 30, 2020. We collected $51.4 million in the three months ended September 30, 2020, which represents the tax refund associated with the NOLs generated in 2018 carried back to prior tax years.

The income tax benefit recognized represents the release of valuation allowances against certain NOL and Section 163(j) deferred tax assets that are now more likely than not to be realizable as a result of certain provisions of the CARES Act as well as permanent income tax benefit related to the carryback of NOLs created in a tax year that was subject to U.S. federal tax at a 21% rate to a tax year subject to tax at a 35% rate. Our estimation of the impact of the CARES Act on our 2020 financial statements is subject to change.

Note 18 – Basic and Diluted Earnings (Loss) per Share

Basic earnings or loss per share excludes common stock equivalents and is calculated by dividing net income or loss attributable to Ocwen common stockholders by the weighted average number of common shares outstanding during the period. We calculate diluted earnings or loss per share by dividing net income or loss attributable to Ocwen by the weighted average number of common shares outstanding including the potential dilutive common shares related to outstanding stock options and restricted stock awards. For the three and nine months ended September 30, 2020 and 2019, we have excluded the effect of all stock options and common stock awards from the computation of diluted loss per share because of the anti-dilutive effect of our reported net loss.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Basic earnings (loss) per share				
Net loss	$ (9,420)	$ (42,767)	$ (32,955)	$ (176,998)
Weighted average shares of common stock	8,669,550	8,973,053	8,770,102	8,955,288
Basic loss per share	$ (1.09)	$ (4.77)	$ (3.76)	$ (19.76)
Diluted earnings (loss) per share				
Net loss	$ (9,420)	$ (42,767)	$ (32,955)	$ (176,998)
Weighted average shares of common stock	8,669,550	8,973,053	8,770,102	8,955,288
Effect of dilutive elements				
Stock option awards	—	—	—	—
Common stock awards	—	—	—	—
Dilutive weighted average shares of common stock	8,669,550	8,973,053	8,770,102	8,955,288
Diluted loss per share	$ (1.09)	$ (4.77)	$ (3.76)	$ (19.76)
Stock options and common stock awards excluded from the computation of diluted loss per share				
Anti-dilutive (1)	193,144	196,875	218,020	222,870
Market-based (2)	125,395	60,147	125,395	60,147

(1) Includes stock options that are anti-dilutive because their exercise price was greater than the average market price of Ocwen's stock, and stock awards that are anti-dilutive based on the application of the treasury stock method.
(2) Shares that are issuable upon the achievement of certain market-based performance criteria related to Ocwen's stock price.

As disclosed in Note 14 – Equity, Ocwen implemented a reverse stock split in a ratio of one-for-15 effective on August 13, 2020. The above computations of earnings (loss) per share reflect the number of common stock shares after consideration for the reverse stock split. All common share and loss per share amounts have been adjusted retrospectively to give effect to the reverse stock split as if it occurred at the beginning of the first period presented.

Note 19 – Business Segment Reporting

Our business segments reflect the internal reporting that we use to evaluate operating performance of services and to assess the allocation of our resources. A brief description of our current business segments is as follows:

Servicing. This segment is primarily comprised of our residential mortgage servicing business and currently accounts for most of our total revenues. We provide residential and commercial mortgage loan servicing, special servicing and asset management services. We earn fees for providing these services to owners of the mortgage loans and foreclosed real estate. In most cases, we provide these services either because we purchased the MSRs from the owner of the mortgage, retained the MSRs on the sale or securitization of residential mortgage loans or because we entered into a subservicing or special servicing agreement with the entity that owns the MSR. Our residential servicing portfolio includes conventional, government-insured and non-Agency loans. Non-Agency loans include subprime loans, which represent residential loans that generally did not qualify under GSE guidelines or have subsequently become delinquent.

Originations. The Originations segment (previously labeled as Lending) purchases and originates conventional and government-insured residential forward and reverse mortgage loans through multiple channels. The loans are typically sold shortly after origination on a servicing retained (securitization) or servicing released (sale to a third party) basis. We originate forward mortgage loans directly with customers (recapture channel) as well as through correspondent lending arrangements since the second quarter of 2019. We originate reverse mortgage loans in all three channels, through our correspondent lending arrangements, broker relationships (wholesale) and retail channels. In addition to our originated MSRs, we acquire MSRs through multiple channels, including flow purchase agreements, the GSE Co-issue and Cash Window programs and bulk MSR purchases, and we acquire new subservicing through our enterprise sales. The pricing and acquisition decisions are made relative to other originated MSR channels. Accordingly, as part of our internal management reporting we renamed the Lending segment as Originations effective in the first quarter 2020, without any other changes to our operating and reporting segments.

Corporate Items and Other. Corporate Items and Other includes revenues and expenses of corporate support services, CR Limited (CRL), our wholly-owned captive reinsurance subsidiary, discontinued operations and inactive entities, business activities that are individually insignificant, revenues and expenses that are not directly related to other reportable segments, interest income on short-term investments of cash and interest expense on corporate debt. Corporate Items and Other also includes severance, retention, facility-related and other expenses incurred in 2019 and 2020 related to our cost re-engineering plan and initiatives. Our cash balances are included in Corporate Items and Other. CRL provides re-insurance related to coverage on foreclosed real estate properties owned or serviced by us.

We allocate a portion of interest income to each business segment, including interest earned on cash balances. We also allocate certain expenses incurred by corporate support services that are not directly attributable to a segment to each business segment. Beginning in 2020, we updated our methodology to allocate overhead costs incurred by corporate support services to the Servicing and Originations segments which now incorporates the utilization of various measurements primarily based on time studies, personnel volumes and service consumption levels. In 2019, corporate support services costs were primarily allocated based on relative segment size. Support services costs not allocated to the Servicing and Originations segments are retained in the Corporate Items and Other segment along with certain other costs including certain litigation and settlement related expenses or recoveries, costs related to our re-engineering plan, and other costs related to operating as a public company.

Interest expense on direct asset-backed financings are recorded in the respective Servicing and Originations segments. Beginning in the third quarter of 2020, we began allocating interest expense on corporate debt, including the SSTL and Senior Notes, used to fund servicing advances and other servicing assets from Corporate Items and Other to Servicing. Amortization of debt issuance costs and discount are excluded from the interest expense allocation. The interest expense related to the corporate debt has been allocated to the Servicing segment for prior periods to conform to the current period presentation. The interest expense allocation for the nine months ended September 30, 2020 is $28.8 million, including $10.5 million, $9.5 million and $8.8 million for the three months ended March 31, 2020, June 30, 2020 and September 30, 2020, respectively. The interest expense allocation for the nine months ended September 30, 2019 is $43.3 million, including $13.8 million, $15.5 million and $14.0 million for the three months ended March 31, 2019, June 30, 2019 and September 30, 2019, respectively.

Financial information for our segments is as follows:

	Three Months Ended September 30, 2020			
Results of Operations	**Servicing**	**Originations**	**Corporate Items and Other**	**Business Segments Consolidated**
Revenue (1)	$ 185,892	$ 53,755	$ 9,388	$ 249,035
MSR valuation adjustments, net (1)	(38,356)	12,375	(7,833)	(33,814)
Operating expenses (2)	79,522	35,421	34,579	149,522
Other (expense) income:				
Interest income	872	2,717	212	3,801
Interest expense	(21,421)	(3,163)	(2,231)	(26,815)
Pledged MSR liability expense	(57,434)	—	30	(57,404)
Other	2,211	197	937	3,345
Other expense, net	(75,772)	(249)	(1,052)	(77,073)
Income (loss) before income taxes	$ (7,758)	$ 30,460	$ (34,076)	$ (11,374)

Results of Operations	Three Months Ended September 30, 2019			
	Servicing	Originations	Corporate Items and Other	Business Segments Consolidated
Revenue	$ 250,224	$ 29,502	$ 3,789	$ 283,515
MSR valuation adjustments, net	134,617	(56)	—	134,561
Operating expenses (2)	135,507	20,609	23,169	179,285
Other (expense) income:				
Interest income	2,105	1,688	336	4,129
Interest expense	(26,087)	(2,133)	(1,286)	(29,506)
Pledged MSR liability expense	(256,499)	—	83	(256,416)
Gain on repurchase of senior secured notes	—	—	5,099	5,099
Other	3,917	498	(4,829)	(414)
Other (expense) income, net	(276,564)	53	(597)	(277,108)
Income (loss) before income taxes	$ (27,230)	$ 8,890	$ (19,977)	$ (38,317)

Results of Operations	Nine Months Ended September 30, 2020			
	Servicing	Originations	Corporate Items and Other	Business Segments Consolidated
Revenue (1)	$ 579,883	$ 136,947	$ 13,071	$ 729,901
MSR valuation adjustments, net (1)	(249,396)	25,861	(7,833)	(231,368)
Operating expenses (2)	242,735	91,129	97,681	431,545
Other (expense) income:				
Interest income	4,196	6,857	1,709	12,762
Interest expense	(67,923)	(8,423)	(7,211)	(83,557)
Pledged MSR liability expense	(105,771)	—	87	(105,684)
Other	8,332	167	(3,883)	4,616
Other expense, net	(161,166)	(1,399)	(9,298)	(171,863)
Income (loss) before income taxes	$ (73,414)	$ 70,280	$ (101,741)	$ (104,875)

Results of Operations	Nine Months Ended September 30, 2019 Servicing	Originations	Corporate Items and Other	Business Segments Consolidated
Revenue	$ 752,010	$ 99,386	$ 10,345	$ 861,741
MSR valuation adjustments, net	(121,497)	(208)	—	(121,705)
Operating expenses (2) (3)	435,377	62,813	36,428	534,618
Other (expense) income:				
Interest income	6,270	4,783	1,471	12,524
Interest expense	(77,328)	(5,200)	(2,108)	(84,636)
Pledged MSR liability expense	(303,385)	—	83	(303,302)
Gain on repurchase of senior secured notes	—	—	5,099	5,099
Other	6,332	1,161	(6,330)	1,163
Other (expense) income, net	(368,111)	744	(1,785)	(369,152)
Income (loss) before income taxes	$ (172,975)	$ 37,109	$ (27,868)	$ (163,734)

(1) Revenue in the Corporate Items and Other segment for the three and nine months ended September 30, 2020 includes an inter-segment derivatives elimination of $7.8 million with a corresponding offset in MSR valuation adjustments, net.

(2) Compensation and benefits expense in the Corporate Items and Other segment for the three and nine months ended September 30, 2020 and 2019 includes $1.0 million and $2.6 million, and $(0.1) million and $19.1 million, respectively, of severance expense attributable to PHH integration-related headcount reductions of primarily U.S.-based employees in 2019, as well as our overall efforts to reduce costs.

(3) Included in the Corporate Items and Other segment for the nine months ended September 30, 2019, we recorded in Professional services expense a recovery from a service provider of $30.7 million during the first quarter of 2019 of amounts previously recognized as expense.

Total Assets	Servicing	Originations	Corporate Items and Other	Business Segments Consolidated
September 30, 2020	$ 2,694,561	$ 7,259,257	$ 470,033	$ 10,423,851
December 31, 2019	$ 3,378,515	$ 6,459,367	$ 568,317	$ 10,406,199
September 30, 2019	$ 3,227,245	$ 6,225,394	$ 504,014	$ 9,956,653

Depreciation and Amortization Expense	Servicing	Originations	Corporate Items and Other	Business Segments Consolidated
Three months ended September 30, 2020				
Depreciation expense	$ 219	$ 31	$ 4,055	$ 4,305
Amortization of debt issuance costs and discount	115	—	1,039	1,154
Three months ended September 30, 2019				
Depreciation expense	$ 105	$ (32)	$ 6,386	$ 6,459
Amortization of debt issuance costs and discount	—	—	1,146	1,146
Nine Months Ended September 30, 2020				
Depreciation expense	$ 652	$ 102	$ 14,644	$ 15,398
Amortization of debt issuance costs and discount	343	—	4,992	5,335
Nine months ended September 30, 2019				
Depreciation expense	$ 1,674	$ 49	$ 24,297	$ 26,020
Amortization of debt issuance costs and discount	—	—	3,299	3,299

Note 20 – Regulatory Requirements

Our business is subject to extensive regulation and supervision by federal, state and local governmental authorities, including the Consumer Financial Protection Bureau (CFPB), HUD, the SEC and various state agencies that license and conduct examinations of our servicing and lending activities. In addition, we operate under a number of regulatory settlements that subject us to ongoing reporting and other obligations. From time to time, we also receive requests (including requests in the form of subpoenas and civil investigative demands) from federal, state and local agencies for records, documents and information relating to our servicing and lending activities. The GSEs (and their conservator, the Federal Housing Finance Authority (FHFA)), Ginnie Mae, the United States Treasury Department, various investors, non-Agency securitization trustees and others also subject us to periodic reviews and audits.

We must comply with a large number of federal, state and local consumer protection and other laws and regulations, including, among others, the CARES Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the Telephone Consumer Protection Act (TCPA), the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act (FDCPA), the Real Estate Settlement Procedures Act (RESPA), the Truth in Lending Act (TILA), the Servicemembers Civil Relief Act, the Homeowners Protection Act, the Federal Trade Commission Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, as well as individual state and local laws, and federal and local bankruptcy rules. These laws and regulations apply to all facets of our business, including, but not limited to, licensing, loan originations, consumer disclosures, default servicing and collections, foreclosure, filing of claims, registration of vacant or foreclosed properties, handling of escrow accounts, payment application, interest rate adjustments, assessment of fees, loss mitigation, use of credit reports, and safeguarding of non-public personally identifiable information about our customers. These complex requirements can and do change as laws and regulations are enacted, promulgated, amended, interpreted and enforced, and the requirements applicable to our business have been changing especially rapidly in response to the COVID-19 pandemic. In addition, the actions of legislative bodies and regulatory agencies relating to a particular matter or business practice may or may not be coordinated or consistent. The general trend among federal, state and local legislative bodies and regulatory agencies as well as state attorneys general has been toward increasing laws, regulations, investigative proceedings and enforcement actions with regard to residential real estate lenders and servicers.

In addition, a number of foreign laws and regulations apply to our operations outside of the U.S., including laws and regulations that govern licensing, privacy, employment, safety, taxes and insurance and laws and regulations that govern the creation, continuation and the winding up of companies as well as the relationships between shareholders, our corporate entities, the public and the government in these countries.

Our licensed entities are required to renew their licenses, typically on an annual basis, and to do so they must satisfy the license renewal requirements of each jurisdiction, which generally include financial requirements such as providing audited financial statements and satisfying minimum net worth requirements and non-financial requirements such as satisfactory completion of examinations relating to the licensee's compliance with applicable laws and regulations. We are also subject to seller/servicer obligations under agreements with the GSEs, HUD, FHA, VA and Ginnie Mae, including capital requirements related to tangible net worth, as defined by the applicable agency, an obligation to provide audited financial statements within

90 days of the applicable entity's fiscal year end as well as extensive requirements regarding servicing, selling and other matters. We believe our licensed entities were in compliance with all of their minimum net worth requirements at September 30, 2020. Our non-Agency servicing agreements also contain requirements regarding servicing practices and other matters, and a failure to comply with these requirements could have a material adverse impact on our business. The most restrictive of the various net worth requirements for licensing and seller/servicer obligations referenced above is based on the UPB of assets serviced by PMC. Under the applicable formula, the required minimum net worth was $224.5 million at September 30, 2020. PMC's net worth was $376.5 million at September 30, 2020.

We have faced and expect to continue to face heightened regulatory and public scrutiny as an organization and have entered into a number of significant settlements with federal and state regulators and state attorneys general that have imposed additional requirements on our business. Our failure to comply with our settlement obligations to our regulators or with applicable federal, state and local laws, regulations, licensing requirements and agency guidelines could lead to (i) administrative fines, penalties, sanctions or litigation, (ii) loss of our licenses and approvals to engage in our servicing and lending businesses, (iii) governmental investigations and enforcement actions, (iv) civil and criminal liability, including class action lawsuits and actions to recover incentive and other payments made by governmental entities, (v) breaches of covenants and representations under our servicing, debt or other agreements, (vi) additional costs to address these matters and comply with the terms of any resulting resolutions, (vii) suspension or termination of our approved agency seller/servicer status, (viii) inability to raise capital or otherwise fund our operations and (ix) inability to execute on our business strategy, which could have a material adverse impact on our business, reputation, results of operations, liquidity and financial condition.

New York Department of Financial Services (NYDFS). We operate pursuant to certain regulatory requirements with the NYDFS, including obligations arising under a consent order entered into in March 2017 (the NY Consent Order) and the terms of the NY DFS' conditional approval in September 2018 of our acquisition of PHH. The conditional approval includes reporting obligations and record retention and other requirements relating to the transfer of loans collateralized by New York property (New York loans) onto our servicing system Black Knight MSP and certain requirements with respect to the evaluation and supervision of management of both Ocwen and PMC. In addition, we were prohibited from boarding any additional loans onto the REALServicing system and we were required to transfer all New York loans off the REALServicing system by April 30, 2020. The conditional approval also restricts our ability to acquire MSRs with respect to New York loans, so that Ocwen may not increase its aggregate portfolio of New York loans serviced or subserviced by Ocwen by more than 2% per year. This restriction will remain in place until the NY DFS determines that all loans serviced on the REALServicing system have been successfully migrated to Black Knight MSP and that Ocwen has developed a satisfactory infrastructure to board sizable portfolios of MSRs. We transferred all loans onto Black Knight MSP in 2019 and no longer service any loans on the REALServicing system. We believe we have complied with all terms of the PHH acquisition conditional approval to date. We continue to work with the NY DFS to address matters they raise with us as well as to fulfill our commitments under the NY Consent Order and PHH acquisition conditional approval.

California Department of Business Oversight (CA DBO). In January 2015 and February 2017, Ocwen Loan Servicing, LLC (OLS) entered into consent orders with the CA DBO relating to our alleged failure to produce certain information and documents during a routine licensing examination and relating to alleged servicing practices. We have completed all of our obligations under each of these consent orders. In October 2020, we entered into a consent order with the CA DBO in order to resolve a legacy PHH examination finding and, in conjunction therewith, agreed to pay $62,000 (sixty-two thousand dollars) in penalties. We continue to work with the CA DBO to address matters they raise with us as well as to fulfill our commitments under the consent order.

Note 21 — Commitments

Servicer Advance Obligations

In the normal course of business as servicer or master servicer, we are required to advance loan principal and interest payments (P&I), property taxes and insurance premiums (T&I) on behalf of the borrower to the investor of the loan, if delinquent or delinquent and under a forbearance plan. We also advance legal fees, inspection, maintenance, and preservation costs (Corporate advances) on properties that are in default or have been foreclosed. Our obligations to make these advances are governed by servicing agreements or guides, depending on investors or guarantor.

For PLS loans, generally, we may stop advancing for P&I once future advances are deemed non-recoverable from the net proceeds of the property, although we are generally obligated to continue T&I and Corporate advances until the loan is brought current or until completion of a foreclosure, in which case, we generally recover our advances from the net proceeds of the property or the pool level proceeds, i.e., generally after the completion of the foreclosure.

For Ginnie Mae loans, we are required to make advances for the life of the loan without regard to whether we will be able to recover those payments from cure, liquidation proceeds, insurance proceeds, or late payments. We may stop advancing P&I

by purchasing loans out of the pool when they are more than 90 days delinquent. To the extent there are excess funds in the custodial accounts, we are permitted to net for our P&I remittance. We are also required to advance both T&I and Corporate advances until cure or liquidation.

For GSE loans, we are required to advance interest payments until the borrower is 120 days delinquent for Freddie Mac loans and P&I until borrower resolution or liquidation for Fannie Mae loans. For Freddie Mac loans, servicers may submit claims for T&I and Corporate advances upon borrower resolution or liquidation. For Fannie Mae loans, we can submit reimbursement claims for certain T&I and Corporate advances after incurring the expense. T&I and Corporate advancing on GSE loans continues until the property is sold.

As subservicer, we are required to make P&I, T&I and Corporate advances on behalf of servicers following the servicing agreements or guides. Servicers are generally required to reimburse us within 30 days of our advancing under the terms of the subservicing agreements. We are generally reimbursed by NRZ the same day we fund P&I advances, or within no more than three days for servicing advances and certain P&I advances under the Ocwen agreements.

NRZ is obligated to fund new servicing advances with respect to the MSRs underlying the Rights to MSRs (RMSR), pursuant to the 2017 Agreements and New RMSR Agreements. NRZ has the responsibility to fund advances for loans where they own the MSR, i.e., are the servicer of record.

We are dependent upon NRZ for funding the servicing advance obligations for Rights to MSRs where we are the servicer of record. As the servicer of record, we are contractually required under our servicing agreements to make certain servicing advances even if NRZ does not perform its contractual obligations to fund those advances. NRZ currently uses advance financing facilities in order to fund a substantial portion of the servicing advances that they are contractually obligated to purchase pursuant to our agreements with them. If NRZ were unable to meet its advance funding obligations, we would remain obligated to meet any future advance financing obligations with respect to the loans underlying these Rights to MSRs for which legal title has not transferred, which could materially and adversely affect our liquidity, financial condition, results of operations and servicing business.

In addition, although we are not an obligor or guarantor under NRZ's advance financing facilities, we are a party to certain of the facility documents as the servicer of the underlying loans on which advances are being financed. As the servicer, we make certain representations, warranties and covenants, including representations and warranties in connection with advances subsequently sold to, or reimbursed by, NRZ. See Note 9 — Rights to MSRs for additional information.

As of September 30, 2020, the UPB of loans serviced on behalf of NRZ comprised the following:

Ocwen servicer of record (MSR title retained by Ocwen) - Ocwen MSR (1) (2)	$	15,060,347
NRZ servicer of record (MSR title transferred to NRZ) - Ocwen MSR (1)		51,722,004
NRZ PMC Subservicing Agreement subject to termination (3)		16,007,995
Ocwen subservicer		2,802,967
Total NRZ UPB at September 30, 2020	$	85,593,313

(1) The MSR sale transactions did not achieve sale accounting treatment.
(2) NRZ's associated outstanding servicing advances were approximately $584.6 million as of September 30, 2020.
(3) On October 1, 2020, these loans were transferred out in connection with the termination of the PMC servicing agreement by NRZ. See Note 9 — Rights to MSRs.

COVID-19 Update

On March 27, 2020, the CARES Act was signed into law. The CARES Act allows borrowers with federally backed mortgage loans who are affected by COVID-19 to request temporary loan forbearance. Servicers must provide such forbearance for up to 180 days if requested by the borrower. Borrowers may request an additional forbearance period of up to 180 days for FHA and VA guaranteed loans and GSE loans. Although PLS loans are not explicitly covered under the CARES Act, these loans are subject to various requirements and expectations from state Governors, regulators, and Attorneys General to assist borrowers enduring financial hardship due to COVID-19 with forbearance and other requirements. Ocwen provides payment relief to such borrowers in accordance with these requirements and expectations, as well as our servicing agreements. For example, we have granted eligible borrowers an initial three months of forbearance and related protection, including suspension of late fees, as well as suspension of foreclosure and eviction activity.

For eligible PLS loans that are not significantly delinquent at the time forbearance was applied to the account, Ocwen places these borrowers on initial forbearance plans of three months. Ocwen provides monthly payment deferrals throughout the forbearance period which advance the due date and move the resulting missed payments to or near the loan's maturity as a non-interest bearing balance. As such, Ocwen does not expect to be out of pocket cash for P&I and T&I advances for any more than one month for each of these eligible loans with forbearance protection.

For Ginnie Mae loans, advance requirements until cure or liquidation are mitigated by the ability to use excess funds in custodial accounts to cover principal and interest advances, though the remaining advances are covered by corporate cash. For loans in forbearance, we advance P&I while the forbearance plan is active. Reimbursement of such P&I advance is expected after the forbearance period ends, through loan resolution, cure or liquidation.

For GSE loans, once we have advanced four months of missed payments on a loan, we have no further obligation to advance scheduled payments as the loan will be moved into an "Actual/Actual" remittance status. Reimbursement of such P&I advance is expected after the forbearance period ends, through loan resolution, cure or liquidation. We are required to make T&I and Corporate advances until the property is sold but can submit reimbursement claims for certain T&I and Corporate advances after incurring the expense on Fannie Mae loans. Freddie Mac requires servicers to wait until borrower resolution or liquidation to submit claims for T&I and Corporate advances.

The below table shows the loans under forbearance and the associated P&I advances:

	As of September 30, 2020		As of June 30, 2020	
	Number of Forbearance Plans (3)	**Estimated Monthly P&I Advance Obligation ($ million)**	**Number of Forbearance Plans (3)**	**Estimated Monthly P&I Advance Obligation ($ million)**
GSE loans	5,300	$ 6.5	6,600	$ 8.3
Ginnie Mae loans	10,100	9.2	9,900	9.2
PLS loans	14,500	21.0	18,000	26.5
Servicer	29,900	$ 36.7	34,500	$ 44.0
GSE loans	900	$ 0.9	10,100	$ 11.0
PLS loans	64,100	60.0	73,800	70.8
NRZ's responsibility (1)	65,000	$ 60.9	83,900	$ 81.8
Subservicer (2)	8,000	$ 9.8	7,600	$ 10.1
No advance requirements	3,400	—	5,400	—
Total	**106,300**	**$ 107.4**	**131,400**	**$ 135.9**

(1) Ocwen is obligated to advance under the terms of the 2017 Agreements and New RMSR Agreements, and NRZ is obligated to reimburse Ocwen daily for PLS and weekly for Freddie Mac and Fannie Mae servicing advances. See above, Note 9 — Rights to MSRs for additional information, and below description of NRZ Relationship.
(2) Ocwen is obligated to advance under the terms of subservicing agreements, and subservicing clients (servicers) are generally obligated to reimburse Ocwen within one day to 30 days for P&I advances.
(3) Numbers have been rounded.

Unfunded Lending Commitments

We have originated floating-rate reverse mortgage loans under which the borrowers have additional borrowing capacity of $1.6 billion at September 30, 2020. This additional borrowing capacity is available on a scheduled or unscheduled payment basis. We also had short-term commitments to lend $857.3 million and $31.0 million in connection with our forward and reverse mortgage loan IRLCs, respectively, outstanding at September 30, 2020. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, commonly referred to as warehouse lines.

HMBS Issuer Obligations

As an HMBS issuer, we assume certain obligations related to each security issued. The most significant obligation is the requirement to purchase loans out of the Ginnie Mae securitization pools once the outstanding principal balance of the related HECM is equal to or greater than 98% of the maximum claim amount (MCA repurchases). Active repurchased loans are assigned to HUD and payment is received from HUD, typically within 60 days of repurchase. HUD reimburses us for the outstanding principal balance on the loan up to the maximum claim amount. We bear the risk of exposure if the amount of the outstanding principal balance on a loan exceeds the maximum claim amount. Inactive repurchased loans (the borrower is deceased, no longer occupies the property or is delinquent on tax and insurance payments) are generally liquidated through foreclosure and subsequent sale of REO, with a claim filed with HUD for recoverable remaining principal and advance balances. The recovery timeline for inactive repurchased loans depends on various factors, including foreclosure status at the time of repurchase, state-level foreclosure timelines, and the post-foreclosure REO liquidation timeline.

The timing and amount of our obligation with respect to MCA repurchases is uncertain as repurchase is dependent largely on circumstances outside of our control including the amount and timing of future draws and the status of the loan. MCA repurchases are expected to continue to increase due to the increased flow of HECMs and REO that are reaching 98% of their maximum claim amount. Activity with regard to HMBS repurchases, including MCA repurchases, follows:

	Nine Months Ended September 30, 2020					
	Active		Inactive		Total	
	Number	Amount	Number	Amount	Number	Amount
Beginning balance	62	$ 10,546	258	$ 25,147	320	$ 35,693
Additions (1)	159	40,875	219	32,789	378	73,664
Recoveries, net (2)	(7)	(9,492)	(26)	(8,480)	(33)	(17,972)
Transfers	(10)	(2,933)	10	2,933	—	—
Changes in value	—	43	—	(2,576)	—	(2,533)
Ending balance	204	$ 39,039	461	$ 49,813	665	$ 88,852

(1) Total repurchases during the nine months ended September 30, 2020 includes 308 loans totaling $66.9 million related to MCA repurchases.
(2) Includes amounts received upon assignment of loan to HUD, loan payoff, REO liquidation and claim proceeds less any amounts charged off as unrecoverable.

Active loan repurchases are classified as Receivables as reimbursement from HUD is generally received within 60 days and are initially recorded at fair value. Inactive loan repurchases are classified as Loans held for sale and recorded at fair value. Loans are reclassified to REO in Other assets or Receivables as the loans move through the resolution process and permissible claims are submitted to HUD for reimbursement. Receivables are valued at net realizable value. REO is valued at the estimated value of the underlying property less cost to sell.

NRZ Relationship

Our Servicing segment has exposure to concentration risk and client retention risk. As of September 30, 2020, our servicing portfolio included significant client relationships with NRZ which represented 46% and 54% of our servicing portfolio UPB and loan count, respectively, and approximately 62% of all delinquent loans that Ocwen services. The current terms of our agreements with NRZ extend through July 2022 (legacy Ocwen agreements). On February 20, 2020, we received a notice of termination from NRZ with respect to the subservicing agreement between NRZ and PMC, which accounted for $37.1 billion of our servicing portfolio UPB at June 30, 2020. The loans subject to termination were all deboarded and transferred to an affiliate of NRZ on September 1, 2020 and October 1, 2020. Currently, subject to proper notice (generally 180 days' notice), the payment of termination fees and certain other provisions, NRZ has rights to terminate the legacy Ocwen agreements for convenience. Because of the large percentage of our servicing business that is represented by agreements with NRZ, if NRZ exercised all or a significant portion of these termination rights, we might need to right-size or restructure certain aspects of our servicing business as well as the related corporate support functions.

The NRZ agreements affect our net earnings through the recognition of subservicing fees we retain, which amounted to $25.7 million and $80.5 million for the three and nine months ended September 30, 2020, respectively, and ancillary income. If NRZ were to exercise its termination rights, our net earnings would be affected by the loss of such subservicing revenue and a decrease in direct operating expenses for servicing the NRZ portfolio.

Selected assets and liabilities recorded on our consolidated balance sheets as well as the impacts to our unaudited consolidated statements of operations in connection with our NRZ agreements are disclosed in Note 9 — Rights to MSRs.

NRZ is obligated to fund new servicing advances with respect to the MSRs underlying the Rights to MSRs, pursuant to the 2017 Agreements and New RMSR Agreements. We are dependent upon NRZ for funding the servicing advance obligations for Rights to MSRs where we are the servicer. As part of our risk management practices, we closely monitor the counterparty exposure arising from the funding obligations of our servicer clients, including NRZ, to ensure timely advance remittance in accordance with contractual requirements. Refer to the Servicer Advance Obligations above.

Note 22 – Contingencies

When we become aware of a matter involving uncertainty for which we may incur a loss, we assess the likelihood of any loss. If a loss contingency is probable and the amount of the loss can be reasonably estimated, we record an accrual for the loss. In such cases, there may be an exposure to potential loss in excess of the amount accrued. Where a loss is not probable but is reasonably possible or where a loss in excess of the amount accrued is reasonably possible, we disclose an estimate of the amount of the loss or range of possible losses for the claim if a reasonable estimate can be made, unless the amount of such reasonably possible loss is not material to our financial position, results of operations or cash flows. If a reasonable estimate of loss cannot be made, we do not accrue for any loss or disclose any estimate of exposure to potential loss even if the potential loss could be material and adverse to our business, reputation, financial condition and results of operations. An assessment regarding the ultimate outcome of any such matter involves judgments about future events, actions and circumstances that are inherently uncertain. The actual outcome could differ materially. Where we have retained external legal counsel or other professional advisers, such advisers assist us in making such assessments.

Litigation

In the ordinary course of business, we are a defendant in, or a party or potential party to, many threatened and pending legal proceedings, including proceedings brought by regulatory agencies (discussed further under “Regulatory” below), those brought on behalf of various classes of claimants, and those brought derivatively on behalf of Ocwen against certain current or former officers and directors or others. In addition, we may be a party or potential party to threatened or pending legal proceedings brought by commercial counterparties, including claims by parties to whom we have sold MSRs or other assets, parties on whose behalf we service mortgage loans, and parties who provide ancillary services including property preservation and other post-foreclosure related services.

The majority of these proceedings are based on alleged violations of federal, state and local laws and regulations governing our mortgage servicing and lending activities, including, among others, the Dodd-Frank Act, the Gramm-Leach-Bliley Act, the FDCPA, the RESPA, the TILA, the Fair Credit Reporting Act, the Servicemembers Civil Relief Act, the Homeowners Protection Act, the Federal Trade Commission Act, the TCPA, the Equal Credit Opportunity Act, as well as individual state licensing and foreclosure laws and federal and local bankruptcy rules. Such proceedings include wrongful foreclosure and eviction actions, allegations of wrongdoing in connection with lender-placed insurance and mortgage reinsurance arrangements, claims relating to our property preservation activities, claims related to REO management, claims relating to our written and telephonic communications with our borrowers such as claims under the TCPA, claims related to our payment, escrow and other processing operations, claims relating to fees imposed on borrowers relating to payment processing, payment facilitation or payment convenience, claims related to ancillary products marketed and sold to borrowers, claims related to call recordings, and claims regarding certifications of our legal compliance related to our participation in certain government programs. In some of these proceedings, claims for substantial monetary damages are asserted against us. For example, we are currently a defendant in various matters alleging that (1) certain fees imposed on borrowers relating to payment processing, payment facilitation or payment convenience violate the FDCPA and similar state laws, (2) certain fees we assess on borrowers are marked up improperly in violation of applicable state and federal law, (3) we breached fiduciary duties we purportedly owe to benefit plans due to the discretion we exercise in servicing certain securitized mortgage loans and (4) certain legacy mortgage reinsurance arrangements violated RESPA. In the future, we are likely to become subject to other private legal proceedings alleging failures to comply with applicable laws and regulations, including putative class actions, in the ordinary course of our business.

In view of the inherent difficulty of predicting the outcome of any threatened or pending legal proceedings, particularly where the claimants seek very large or indeterminate damages, including punitive damages, or where the matters present novel legal theories or involve a large number of parties, we generally cannot predict what the eventual outcome of such proceedings will be, what the timing of the ultimate resolution will be, or what the eventual loss, if any, will be. Any material adverse resolution could materially and adversely affect our business, reputation, financial condition, liquidity and results of operations.

Where we determine that a loss contingency is probable in connection with a pending or threatened legal proceeding and the amount of our loss can be reasonably estimated, we record an accrual for the loss. We have accrued for losses relating to threatened and pending litigation that we believe are probable and reasonably estimable based on current information regarding these matters. Where we determine that a loss is not probable but is reasonably possible or where a loss in excess of the amount accrued is reasonably possible, we disclose an estimate of the amount of the loss or range of possible losses for the claim if a reasonable estimate can be made, unless the amount of such reasonably possible loss is not material to our financial position, results of operations or cash flows. It is possible that we will incur losses relating to threatened and pending litigation that materially exceed the amount accrued. Our accrual for probable and estimable legal and regulatory matters, including accrued legal fees, was $31.0 million at September 30, 2020. We cannot currently estimate the amount, if any, of reasonably possible losses above amounts that have been recorded at September 30, 2020.

As previously disclosed, we are subject to individual lawsuits relating to our FDCPA compliance and putative state law class actions based on state laws similar to the FDCPA. Ocwen has recently agreed to a settlement in principle of a putative class action*, Morris v. PHH Mortgage Corp.*, filed in March 2020 in the United States District Court for the Southern District of Florida, alleging that PMC’s practice of charging a fee to borrowers who voluntarily choose to use certain optional expedited payment options violates the FDCPA and its state law analogs. Several similar putative class actions have been filed against PMC and Ocwen since July 2019. Following mediation, PMC agreed to the terms of a settlement agreement to resolve all claims in the *Morris* matter. A motion requesting preliminary approval of the settlement was filed on August 25, 2020. If approved, settlement payments will be made via account credits for class members whose loans are currently serviced by PMC and via check payments for borrowers whose loans are no longer serviced by PMC and claim-in to the settlement. Ocwen expects final approval of the *Morris* settlement will resolve the claims of the substantial majority of the putative class members described in the other similar cases that Ocwen is defending. Counsel representing borrowers in other related class actions have attempted to intervene in the *Morris* settlement and could file objections to the proposed settlement. Ocwen cannot guarantee that the proposed settlement will receive final approval and in the absence of such approval, Ocwen cannot predict the eventual outcome of the *Morris* proceeding and similar putative class actions.

In addition, we continue to be involved in legacy matters arising prior to Ocwen's October 2018 acquisition of PHH, including a putative class action filed in 2008 in the United States District Court for the Eastern District of California against PHH and related entities in alleging that PHH's legacy mortgage reinsurance arrangements between its captive reinsurer, Atrium Insurance Corporation, and certain mortgage insurance providers violated RESPA. Following numerous pre-trial developments, trial in the case, captioned *Munoz v. PHH Corp. et al*., will likely be scheduled in 2021. PHH accrued $2.5 million when the case was filed in 2008 and that amount is included in the $31.0 million legal and regulatory accrual referenced above. At this time, Ocwen is unable to predict the outcome of this lawsuit or any additional lawsuits that may be filed, the possible loss or range of loss, if any, associated with the resolution of such lawsuits or the potential impact such lawsuits may have on us or our operations. Ocwen intends to vigorously defend against this lawsuit. If our efforts to defend this lawsuit are not successful, our business, financial condition liquidity and results of operations could be materially and adversely affected.

Ocwen is involved in a TCPA class action that involves claims against trustees of RMBS trusts based on vicarious liability for Ocwen's alleged non-compliance with the TCPA. The trustees have sought indemnification from Ocwen based on the vicarious liability claims. Additional lawsuits have been and may be filed against us in relation to our TCPA compliance. At this time, Ocwen is unable to predict the outcome of existing lawsuits or any additional lawsuits that may be filed, the possible loss or range of loss, if any, above the amount accrued or the potential impact such lawsuits may have on us or our operations. Ocwen intends to vigorously defend against these lawsuits. If our efforts to defend these lawsuits are not successful, our business, reputation, financial condition, liquidity and results of operations could be materially and adversely affected.

From time to time we are also subject to indemnification claims from contractual parties (i) on whose behalf we service or subservice loans, or did so in the past and (ii) to whom we sold loans or mortgage servicing rights. We are currently involved in a dispute with a former subservicing client, HSBC Bank USA, N.A. (HSBC), which filed a Summons with Notice in the Supreme Court of the State of New York, indicating its intent to file a complaint against PHH. HSBC's claims relate to alleged breaches of agreements entered into under a prior subservicing arrangement. We believe we have strong factual and legal defenses to all of HSBC's claims and we intend to vigorously defend ourselves. Ocwen is currently unable to predict the outcome of this dispute or estimate the size of any loss which could result from a potential resolution reached through litigation or otherwise. We have also received demands for indemnification for alleged breaches of representations and warranties from parties to whom we sold loans and we are currently a defendant in an adversary proceeding brought by a bankruptcy plan administrator seeking to enforce its right to contractual indemnification for the sale of allegedly defective mortgage loans.

Over the past several years, lawsuits have been filed by RMBS trust investors alleging that the trustees and master servicers breached their contractual and statutory duties by (i) failing to require loan servicers to abide by their contractual obligations; (ii) failing to declare that certain alleged servicing events of default under the applicable contracts occurred; and (iii) failing to demand that loan sellers repurchase allegedly defective loans, among other things. Ocwen has received several letters from trustees and master servicers purporting to put Ocwen on notice that the trustees and master servicers may ultimately seek indemnification from Ocwen in connection with the litigations. Ocwen has not yet been impleaded into any of these cases, but it has produced and continues to produce documents to the parties in response to third-party subpoenas.

Ocwen has, however, been impleaded as a third-party defendant into five consolidated loan repurchase cases first filed against Nomura Credit & Capital, Inc. in 2012 and 2013. Ocwen is vigorously defending itself in those cases against allegations by the mortgage loan seller-defendant that Ocwen failed to inform its contractual counterparties that it had discovered defective loans in the course of servicing them and had otherwise failed to service the loans in accordance with accepted standards. Ocwen is unable at this time to predict the ultimate outcome of these matters, the possible loss or range of loss, if any, associated with the resolution of these matters or any potential impact they may have on us or our operations. If, however, we were required to compensate claimants for losses related to the alleged loan servicing breaches, then our business, reputation, financial condition, liquidity and results of operations could be adversely affected.

In addition, several RMBS trustees have received notices of default alleging material failures by servicers to comply with applicable servicing agreements. Although Ocwen has not yet been sued by an RMBS trustee in response to a notice of default, there is a risk that Ocwen could be replaced as servicer as a result of said notices, that the trustees could take legal action on behalf of the trust certificate holders, or, under certain circumstances, that the RMBS investors who issue notices of default could seek to press their allegations against Ocwen, independent of the trustees. We are unable at this time to predict what, if any, actions any trustee will take in response to a notice of default, nor can we predict at this time the potential loss or range of loss, if any, associated with the resolution of any notices of default or the potential impact on our operations. If Ocwen were to be terminated as servicer, or other related legal actions were pursued against Ocwen, it could have an adverse effect on Ocwen's business, reputation, financial condition, liquidity and results of operations.

Regulatory

We are subject to a number of ongoing federal and state regulatory examinations, consent orders, inquiries, subpoenas, civil investigative demands, requests for information and other actions. Where we determine that a loss contingency is probable in connection with a regulatory matter and the amount of our loss can be reasonably estimated, we record an accrual for the loss. Where we determine that a loss is not probable but is reasonably possible or where a loss in excess of the amount accrued is reasonably possible, we disclose an estimate of the amount of the loss or range of possible losses for the claim if a reasonable estimate can be made, unless the amount of such reasonably possible loss is not material to our financial position, results of operations or cash flows. It is possible that we will incur losses relating to regulatory matters that materially exceed any accrued amount. Predicting the outcome of any regulatory matter is inherently difficult and we generally cannot predict the eventual outcome of any regulatory matter or the eventual loss, if any, associated with the outcome.

To the extent that an examination, audit or other regulatory engagement results in an alleged failure by us to comply with applicable laws, regulations or licensing requirements, or if allegations are made that we have failed to comply with applicable laws, regulations or licensing requirements or the commitments we have made in connection with our regulatory settlements (whether such allegations are made through administrative actions such as cease and desist orders, through legal proceedings or otherwise) or if other regulatory actions of a similar or different nature are taken in the future against us, this could lead to (i) administrative fines and penalties and litigation, (ii) loss of our licenses and approvals to engage in our servicing and lending businesses, (iii) governmental investigations and enforcement actions, (iv) civil and criminal liability, including class action lawsuits and actions to recover incentive and other payments made by governmental entities, (v) breaches of covenants and representations under our servicing, debt or other agreements, (vi) damage to our reputation, (vii) inability to raise capital or otherwise fund our operations and (viii) 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, liquidity and results of operations.

CFPB

In April 2017, the CFPB filed a lawsuit in the federal district court for the Southern District of Florida against Ocwen, Ocwen Mortgage Servicing, Inc. (OMS) and OLS alleging violations of federal consumer financial laws relating to our servicing business dating back to 2014. The CFPB's claims include allegations regarding (1) the adequacy of Ocwen's servicing system and integrity of Ocwen's mortgage servicing data, (2) Ocwen's foreclosure practices and (3) various purported servicer errors with respect to borrower escrow accounts, hazard insurance policies, timely cancellation of private mortgage insurance, handling of customer complaints, and marketing of optional products. The CFPB alleges violations of laws prohibiting unfair, deceptive or abusive acts or practices, as well as violations of other laws or regulations. The CFPB does not claim specific monetary damages, although it does seek consumer relief, disgorgement of allegedly improper gains, and civil money penalties. We believe we have factual and legal defenses to the CFPB's allegations and are vigorously defending ourselves. In September 2019, the court issued a ruling on our motion to dismiss, granting it in part and denying it in part. The court granted our motion dismissing the entire complaint without prejudice because the court found that the CFPB engaged in impermissible "shotgun pleading," holding that the CFPB must amend its complaint to specifically allege and distinguish the facts between all claims. The CFPB filed an amended complaint in October 2019, and we filed our answer and affirmative defenses in November 2019. Ocwen and the CFPB completed a summary judgment briefing on September 4, 2020, and the parties participated in a mediation session on October 23, 2020. The Court ordered the parties to mediate before ruling on the summary judgment briefs and setting a possible trial date. As a result, we do not anticipate a decision on summary judgment until late 2020 or 2021. To the extent the summary judgment ruling does not conclude the case and we do not otherwise resolve the matter before trial, we presently anticipate a trial will take place in the second half of 2021 or later.

Prior to the initiation of legal proceedings, we had been engaged with the CFPB in efforts to resolve the matter. We are taking all reasonable and prudent actions to resolve the CFPB matter in the shortest time frame possible that would result in an acceptable financial outcome for our stakeholders. The Court has consolidated both the CFPB and Florida matters for trial, but has removed them from the October 2020 trial calendar and will reset the trial for a later date. As noted below, however, because the Florida matter is now resolved, when the Court schedules the bench trial it will only include the claims of the CFPB. Our current accrual with respect to this matter is included in the $31.0 million legal and regulatory accrual referenced above. The outcome of the matters raised by the CFPB, whether through negotiated settlements, court rulings or otherwise, could potentially involve monetary fines or penalties or additional restrictions on our business and could have a material adverse impact on our business, reputation, financial condition, liquidity and results of operations.

State Licensing, State Attorneys General and Other Matters

Our licensed entities are required to renew their licenses, typically on an annual basis, and to do so they must satisfy the license renewal requirements of each jurisdiction, which generally include financial requirements such as providing audited financial statements or satisfying minimum net worth requirements and non-financial requirements such as satisfactorily completing examinations as to the licensee's compliance with applicable laws and regulations. Failure to satisfy any of the requirements to which our licensed entities are subject could result in a variety of regulatory actions ranging from a fine, a directive requiring a certain step to be taken, entry into a consent order, a suspension or ultimately a revocation of a license, any of which could have a material adverse impact on our results of operations and financial condition. In addition, we receive information requests and other inquiries, both formal and informal in nature, from our state financial regulators as part of their general regulatory oversight of our servicing and lending businesses. We also regularly engage with state attorneys general and the CFPB and, on occasion, we engage with other federal agencies, including the Department of Justice and various inspectors general on various matters, including responding to information requests and other inquiries. Many of our regulatory engagements arise from a complaint that the entity is investigating, although some are formal investigations or proceedings. The GSEs (and their conservator, FHFA), HUD, FHA, VA, Ginnie Mae, the United States Treasury Department, and others also subject us to periodic reviews and audits. We have in the past resolved, and may in the future resolve, matters via consent orders, payments of monetary amounts and other agreements in order to settle issues identified in connection with examinations or other oversight activities, and such resolutions could have material and adverse effects on our business, reputation, operations, results of operations and financial condition.

In April 2017 and shortly thereafter, mortgage and banking regulatory agencies from 29 states and the District of Columbia took administrative actions against OLS and certain other Ocwen companies that alleged deficiencies in our compliance with laws and regulations relating to our servicing and lending activities. An additional state regulator brought legal action together with that state's attorney general, as described below. These administrative actions were applicable to OLS, but additional Ocwen entities were named in some actions, including Ocwen Financial Corporation, OMS, Homeward, Liberty, OFSPL and Ocwen Business Solutions, Inc. (OBS).

As discussed further below, we have now resolved all of the state regulatory matters arising in April 2017. In resolving these matters, we entered into agreements containing certain restrictions and commitments with respect to the operation of our business and our regulatory compliance activities, including restrictions and conditions relating to acquisitions of MSRs, a transition to an alternate loan servicing system from the REALServicing system, engagement of third-party auditors, escrow and data testing, error remediation, and financial condition reporting. In some instances, we also provided borrower financial remediation and made payments to state regulators.

We have taken substantial steps toward fulfilling our commitments under the agreements described above, including completing the transfer of loans to Black Knight MSP, completing pre-transfer and post-transfer data integrity audits, developing and implementing certain enhancements to our consumer complaint process, engaging a third-party auditor who has issued its final report with respect to the escrow review and ongoing reporting and information sharing. We continue to be subject to obligations under these agreements, including completing the final phase of a data integrity audit under our agreement with the State of Massachusetts.

Concurrent with the initiation of the administrative actions and the filing of the CFPB lawsuit discussed above, two state attorneys general took actions against us relating to our servicing practices. The Florida Attorney General, together with the Florida Office of Financial Regulation, filed a lawsuit in the federal district court for the Southern District of Florida against Ocwen, OMS and OLS alleging violations of federal and state consumer financial laws relating to our servicing business. These claims are similar to the claims made by the CFPB. The Florida lawsuit seeks injunctive and equitable relief, costs, and civil money penalties in excess of $10,000 (ten thousand dollars) per confirmed violation of the applicable statute. In September 2019, the court issued its ruling on our motion to dismiss, granting it in part and denying it in part. The court granted our motion dismissing the entire complaint without prejudice because the court found that the plaintiffs engaged in impermissible "shotgun pleading," holding that the plaintiffs must amend their complaint to specifically allege and distinguish the facts between all claims. The plaintiffs filed an amended complaint in November 2019. We filed a partial motion to dismiss the amended complaint in December 2019. On April 22, 2020, the court granted our motion and dismissed Count V of the amended complaint with prejudice holding the plaintiff failed to plead an actionable claim under the Florida Deceptive and Unfair Trade Practices Act. On May 6, 2020, Ocwen filed its answer and affirmative defenses to the amended complaint. Ocwen and the plaintiffs completed a summary judgment briefing on September 4, 2020.

On October 15, 2020, we announced that we had reached an agreement to resolve the Florida plaintiffs' lawsuit. Pursuant to that agreement, Ocwen is required to pay the State of Florida $5.2 million within 60 days of the Court entering the final consent judgment between the parties. Ocwen then has an additional two years to provide debt forgiveness totaling at least $1.0 million to certain Florida borrowers. If Ocwen is unable to do so, then two years from now it will owe the State of Florida an additional $1.0 million. We anticipate that we will be able to satisfy the debt forgiveness obligation and therefore do not presently anticipate that the additional $1 million payment will be required. In addition, Ocwen has agreed to certain late fee waivers, a targeted loan modification program for certain eligible Florida borrowers, and certain non-monetary reporting and handling obligations. Ocwen did not admit any fault or liability as part of the settlement. The settlement amount is included in the $31.0 million litigation and regulatory matters accrual referenced above. Although we believe we had strong defenses to all of Florida's claims, this was an opportunity to resolve one of Ocwen's remaining significant legacy matters, and to do so without incurring further expense in preparing for trial next year.

Our accrual with respect to the administrative and legal actions initiated in April 2017 is included in the $31.0 million litigation and regulatory matters accrual referenced above. We have also incurred, and will continue to incur costs to comply with the terms of the settlements we have entered into, including the costs of conducting an escrow review, Maryland organizational assessments and Massachusetts data integrity audits, and costs relating to the transition to Black Knight MSP. With respect to the escrow review, the third-party auditor has issued its final report, which will require some additional remediation measures in connection with which we will incur costs that we expect will be immaterial to our overall financial condition. In addition, it is possible that legal or other actions could be taken against us with respect to such errors, which could result in additional costs or other adverse impacts. If we fail to comply with the terms of our settlements, additional legal or other actions could be taken against us. Such actions could have a materially adverse impact on our business, reputation, financial condition, liquidity and results of operations.

Certain of the state regulators' cease and desist orders referenced a confidential supervisory memorandum of understanding (MOU) that we entered into with the Multistate Mortgage Committee (MMC) and six states relating to a servicing examination from 2013 to 2015. Among other things, the MOU prohibited us from repurchasing stock during the development of a going forward plan and, thereafter, except as permitted by the plan. We submitted a plan in 2016 that contained no stock repurchase restrictions and, therefore, we do not believe we are currently restricted from repurchasing stock. We requested confirmation from the signatories of the MOU that they agree with this interpretation, and received affirmative responses from the MMC and five states, and a response declining to take a legal position from the remaining state.

On occasion, we engage with agencies of the federal government on various matters. For example, OLS received a letter from the Department of Justice, Civil Rights Division, notifying OLS that the Department of Justice had initiated a general investigation into OLS's policies and procedures to determine whether violations of the Servicemembers Civil Relief Act by OLS might exist. The Department of Justice has informed us that it has decided not to take enforcement action related to this matter at this time and has, consequently, closed its investigation. In addition, Ocwen was named as a defendant in a HUD administrative complaint filed by a non-profit organization alleging discrimination in the manner in which Ocwen maintains REO properties in minority communities. In February 2018, this matter was administratively closed, and similar claims were filed in federal court. We believe these claims are without merit and intend to vigorously defend ourselves.

In May 2016, Ocwen received a subpoena from the Office of Inspector General of HUD requesting the production of documentation related to HECM loans originated by Liberty. We understand that other lenders in the industry have received similar subpoenas. In April 2017, Ocwen received a subpoena from the Office of Inspector General of HUD requesting the production of documentation related to lender-placed insurance arrangements with a mortgage insurer and the amounts paid for such insurance. We understand that other servicers in the industry have received similar subpoenas. In May 2017, Ocwen received a subpoena from the Office of the Special Inspector General for the Troubled Asset Relief Program requesting documents and information related to Ocwen's participation from 2009 to the present in the Treasury Department's Making Home Affordable Program and its HAMP. We have been providing documents and information in response to these subpoenas. In April 2019, PMC received a subpoena from the VA Office of the Inspector General requesting the production of documentation related to the origination and underwriting of loans guaranteed by the Veterans Benefits Administration. We understand that other servicers in the industry have received similar subpoenas.

Loan Put-Back and Related Contingencies

Our contracts with purchasers of originated loans contain provisions that require indemnification or repurchase of the related loans under certain circumstances. While the language in the purchase contracts varies, they generally contain provisions that require us to indemnify purchasers of related loans or repurchase such loans if:

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

We received origination representations and warranties from our network of approved originators in connection with loans we purchased through our correspondent lending channel. To the extent that we have recourse against a third-party originator, we may recover part or all of any loss we incur.

We believe that, as a result of historical actions by investors, many purchasers of residential mortgage loans are particularly aware of the conditions under which originators must indemnify or repurchase loans and under which such purchasers would benefit from enforcing any indemnification rights and repurchase remedies they may have.

In our originations business, we have exposure to indemnification risks and repurchase requests. In our servicing business, claims alleging that we did not comply with our servicing obligations may require us to repurchase mortgage loans, make whole or otherwise indemnify investors or other parties. If home values were to decrease, our realized losses from loan repurchases and indemnifications may increase as well. As a result, our liability for repurchases may increase beyond our current expectations. If we are required to indemnify or repurchase loans that we originate and sell, or where we have assumed this risk on loans that we service, as discussed above, in either case resulting in losses that exceed our related liability, our business, financial condition and results of operations could be adversely affected.

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

At September 30, 2020 and September 30, 2019, we had outstanding representation and warranty repurchase demands of $45.2 million UPB (263 loans) and $49.9 million UPB (289 loans), respectively. We review each demand and monitor through resolution, primarily through rescission, loan repurchase or make-whole payment.

The following table presents the changes in our liability for representation and warranty obligations and similar indemnification obligations:

	Nine Months Ended September 30,	
	2020	2019
Beginning balance (1)	$ 50,838	$ 49,267
Provision (reversal) for representation and warranty obligations	(1,141)	(10,367)
New production reserves	1,361	186
Charge-offs and other (2)	(8,130)	14,887
Ending balance (1)	$ 42,928	$ 53,973

(1) The liability for representation and warranty obligations and compensatory fees for foreclosures is reported in Other liabilities (a component of Liability for indemnification obligations) on our unaudited consolidated balance sheets.
(2) Includes principal and interest losses realized in connection with repurchased loans, make-whole, indemnification and fee payments and settlements net of recoveries, if any.

We believe that it is reasonably possible that losses beyond amounts currently recorded for potential representation and warranty obligations and other claims described above could occur, and such losses could have an adverse impact on our results of operations, financial condition or cash flows. However, based on currently available information, we are unable to estimate a range of reasonably possible losses above amounts that have been recorded at September 30, 2020.

Other

Ocwen, on its own behalf and on behalf of various mortgage loan investors, is engaged in a variety of activities to seek payments from mortgage insurers for unpaid claims, including claims where the mortgage insurers paid less than the full claim amount. Ocwen believes that many of the actions by mortgage insurers were in violation of the applicable insurance policies and insurance law. In some cases, Ocwen has entered into tolling agreements, initiated arbitration or litigation, engaged in settlement discussions, or taken other similar actions. To date, Ocwen has settled with four mortgage insurers, and expects the ultimate outcome to result in recovery of additional unpaid claims, although we cannot quantify the likely amount at this time.

We may, from time to time, have affirmative indemnification and other claims against parties from whom we acquired MSRs or other assets. Although we pursue these claims, we cannot currently estimate the amount, if any, of further recoveries. Similarly, from time to time, indemnification and other claims are made against us by parties to whom we sold MSRs or other assets or by parties on whose behalf we service mortgage loans. We cannot currently estimate the amount, if any, of reasonably possible loss above amounts recorded.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in millions, except per share amounts and unless otherwise indicated)

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as other portions of this Form 10-Q, may contain certain statements that constitute forward-looking statements within the meaning of the federal securities laws. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "intend," "consider," "expect," "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such terms or other comparable terminology. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Our business has been undergoing substantial change, which has magnified such risks and uncertainties. You should bear these factors in mind when considering forward-looking 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. You should consider all uncertainties and risks discussed or referenced in this report, including those under "Forward-Looking Statements", as well as those discussed in our other reports and filings with the SEC, including those in our Annual Report on Form 10-K for the year ended December 31, 2019 and any subsequent SEC filings.

OVERVIEW

General

We are a financial services company that services and originates mortgage loans. We are a leading mortgage special servicer, servicing 1.2 million loans with a total UPB of $185.9 billion on behalf of more than 4,000 investors and 150 subservicing clients. We service all mortgage loan classes, including conventional, government-insured and non-Agency loans. Our originations business is part of our balanced business model to generate gains on loan sales and profitable returns, and to support the replenishment and the growth of our servicing portfolio. Through our recapture, retail, correspondent and wholesale channels, we originate and purchase conventional and government-insured forward and reverse mortgage loans that we sell or securitize on a servicing retained basis. In addition, we grow our mortgage servicing volume through servicing flow agreements, GSE Cash Window and Co-issue programs, opportunistic bulk purchase transactions, and new subservicing agreements.

We have built a multi-channel, scalable originations platform that creates sustainable sources of replenishment and growth of our servicing portfolio, as detailed in the table below. We determine our target returns for each channel, however, the channel and delivery selection is generally our clients' decision.

$ in billions	UPB			
	Quarter Ended September 30, 2020	**Quarter Ended June 30, 2020**	**Quarter Ended March 31, 2020**	**Quarter Ended December 31, 2019**
Mortgage servicing originations				
Recapture MSR (1)	$ 0.37	$ 0.32	$ 0.20	$ 0.17
Correspondent MSR (1)	1.93	0.66	0.51	0.40
Flow and GSE Cash Window MSR purchases (3)	4.20	2.84	1.34	0.79
Reverse mortgage servicing (2)	0.23	0.21	0.23	0.26
Total servicing originations	6.72	4.03	2.28	1.62
Bulk MSR purchases (3)	—	—	1.54	2.74
Total servicing additions	6.72	4.03	3.82	4.36
Subservicing additions (4)	4.43	4.59	3.14	3.79
Total servicing and subservicing UPB additions (2)	$ 11.15	$ 8.62	$ 6.96	$ 8.15

(1) Represents the UPB of loans that have been originated or purchased during the respective periods and for which we recognize a new MSR on our consolidated balance sheets upon sale or securitization.
(2) Represents the UPB of reverse mortgage loans that have been securitized on a servicing retained basis. The loans are recognized on our consolidated balance sheets under GAAP without any separate recognition of MSRs.
(3) Represents the UPB of loans for which the MSR is acquired.
(4) Excludes the volume UPB associated with short-term interim subservicing for some clients as a support to their originate-to-sell business, where loans are boarded and de-boarded within the same quarter.

COVID-19 Pandemic Update

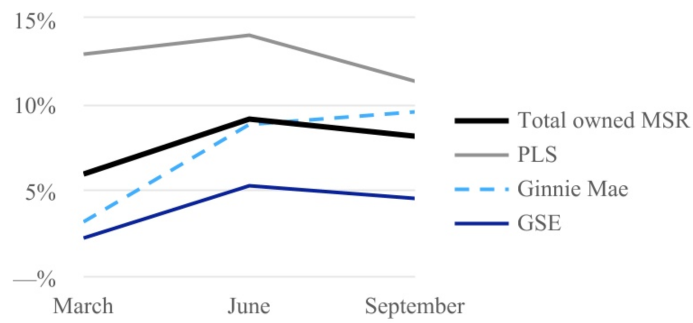
The COVID-19 pandemic has adversely affected economic conditions since March 2020, with high levels of unemployment, and are creating uncertainties about the duration and magnitude of the economic downturn. Our financial performance during the third quarter of 2020 reflects multiple offsetting factors, mainly due to the natural hedge between our growing Originations business and our Servicing business, i.e., the increased profitability of our Originations business largely offset the adverse COVID-19 conditions on our Servicing business and MSR portfolio.

First, the financial performance of our Servicing business was negatively affected by the loans placed under forbearance and the moratorium on foreclosures, resulting in lower ancillary income and deferral of servicing fee collections. The CARES Act signed in March 2020 allows borrowers with federally backed mortgage loans who are affected by COVID-19 to request temporary loan forbearance. Servicers must provide such forbearance for up to 180 days if requested by the borrower. Borrowers may request an additional forbearance period of up to 180 days for FHA and VA guaranteed loans. During any period of forbearance, servicers must also provide related protection, including, but not limited to, suspension of late fees, as well as foreclosure and eviction activity. In addition, servicers are restricted from pursuing certain foreclosure and eviction activity on all occupied, federally backed mortgage loans until at least December 31, 2020.

Although PLS loans are not explicitly covered under the CARES Act, these loans are subject to various requirements and expectations from state Governors, regulators, and Attorneys General to assist borrowers enduring financial hardship due to COVID-19 with forbearance, moratoria on foreclosure sales and evictions and other requirements, some of which apply regardless of whether the borrower has requested assistance. Ocwen provides payment relief to such borrowers in accordance with these requirements and expectations, as well as our servicing agreements. For example, we generally grant eligible borrowers an initial three months of forbearance and related protection, including suspension of late fees, as well as suspension of foreclosure and eviction activity.

Generally, borrowers are required to repay their suspended or reduced mortgage payments after the forbearance period ends unless an alternate loss mitigation solution is reached, which we anticipate will include extensions of forbearance, payment deferrals, repayment plans, and loan modifications, depending on the borrower’s situation, account status, and applicable investor guidelines. Before the completion of each period of forbearance, Ocwen attempts to contact the borrowers to assess their ability to resume making payments and discuss other options which may be available if their hardship persists.

As of September 30, 2020, we managed 106,300 loans under forbearance, 33,300 of which related to our owned MSRs (excluding NRZ), or 8.8% and 7.2% of the total portfolios, respectively. The number of loans under forbearance decreased in the quarter ended September 30, 2020, as illustrated by the below chart of forbearance plans during COVID-19 for our owned MSR portfolio (excluding NRZ) by investor. 64% of the total original or extended plans that ended in the third quarter of 2020 were extended, 28% exited forbearance plans as performing, 6% paid off, and 1% were converted into modification or repayment plans.



Second, the financial performance of our Servicing business was affected by the increased run-off of our MSR portfolio. As interest rates have remained relatively flat during the quarter at historical low levels, the refinancing boom continues and resulted in elevated runoff.

Third, the low interest rate environment discussed above and the continued execution of our originations strategy have led to increased originations volume. We continue to recapture, replenish and grow our owned MSR portfolio (excluding NRZ’s MSR portfolio), net of runoff and voluntary prepayments.

Ocwen continues to operate through a secure remote workforce model for approximately 98% of its global workforce and continues to adhere to COVID-19 health and safety-related requirements and best practices across all of our locations.

Looking ahead, the spread of the COVID-19 pandemic may continue, with the risk of resurgence in certain areas. The different responses from the government and other authorities to keep social distancing and to support individuals and companies experiencing financial hardship have continued to evolve. The disruption created by the pandemic and the measures being taken have given rise to elevated unemployment levels. As of today, uncertainties related to the duration and severity of the economic downturn remain, without any indications of a rapid recovery. The business disruption triggered by COVID-19 could ultimately have a material and adverse effect on our business, financial condition, liquidity or results of operations.

Business Initiatives

We are facing certain challenges and uncertainties that could have significant adverse effects on our business, financial condition, liquidity and results of operations, and some of these challenges and uncertainties are amplified by the Coronavirus Disease 2019 (COVID-19) pandemic. Historical losses have significantly eroded stockholders' equity and weakened our financial condition. Our near-term priority is to return to sustainable profitability. We have established a set of key business initiatives intended to achieve our objective of returning to sustainable profitability in the shortest timeframe possible within an appropriate risk and compliance environment. We are executing on each of these initiatives and believe we will continue to drive stronger financial performance. These initiatives include:

- Expanding our originations business to replenish and grow our servicing portfolio;
- Driving continuous cost improvement to maintain an industry cost competitive position;
- Effectively managing our balance sheet to ensure adequate liquidity, finance our ongoing business needs and provide a solid platform for executing on our growth initiatives; and,
- Fulfilling our regulatory commitments and resolving remaining legacy and regulatory matters.

First, we must continue to expand our Originations business to replenish and grow our servicing portfolio and mitigate our client concentration risk with NRZ. We expect to continue to focus on selectively acquiring Agency and government-insured MSR portfolios that meet or exceed our minimum targeted investment returns. We expect to grow our subservicing portfolio through alliances with new clients and continue to grow our existing relationships. We executed on our plans to re-enter the forward lending correspondent channel in the second quarter of 2019 and we have built a multi-channel, scalable originations platform.

Second, we must drive continuous cost improvement to maintain an industry competitive cost position. Our continuous cost improvement efforts are focused on reducing operating and overhead costs through facility rationalization, strategic sourcing and actions, off-shore utilization, lean process design, simplification, automation and other technology-enabled productivity enhancements. Our initiatives are targeted at delivering superior accuracy, cost, speed and customer satisfaction.

Third, we must manage our balance sheet to ensure adequate liquidity, finance our ongoing business needs and provide a solid platform for executing on our growth initiatives. To this end, we continue to explore all strategic options to efficiently finance growth and leverage our proven operating capability in this environment, including the potential launch of an MSR funding vehicle. As previously disclosed, we have engaged bankers to support evaluation and execution of strategic options to fully realize the value of our platform.

Finally, we must fulfill our regulatory commitments and resolve our remaining legal and regulatory matters on satisfactory terms, including the legacy CFPB matter. On October 15, 2020, we resolved our legacy regulatory matter with the State of Florida Office of the Attorney General and Office of Financial Regulation. Ocwen has now resolved all state actions from 2017.

Results of Operations and Financial Condition

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our unaudited consolidated financial statements and the related notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

The following discussion addresses each component of our statement of operations, and further detail related to our servicing, originations and corporate segments is provided in the discussion by segment.

Results of Operations Summary	Three Months Ended September 30, 2020	2019	% Change	Nine Months Ended September 30, 2020	2019	% Change
Revenue						
Servicing and subservicing fees	$ 181.7	$ 248.5	(27)%	$ 568.4	$ 745.1	(24)%
Reverse mortgage revenue, net	14.5	20.3	(29)	51.1	72.9	(30)%
Gain on loans held for sale, net	45.9	9.0	410	92.8	26.3	253
Other revenue, net	6.9	5.7	21	17.6	17.5	1
Total revenue	249.0	283.5	(12)	729.9	861.8	(15)
MSR valuation adjustments, net	(33.8)	134.6	(125)	(231.4)	(121.7)	90
Operating expenses						
Compensation and benefits	69.6	73.4	(5)	195.4	250.4	(22)
Servicing and origination	22.9	36.6	(37)	60.5	86.8	(30)
Professional services	28.4	36.6	(22)	77.8	77.2	1
Technology and communications	15.9	16.6	(4)	47.2	61.1	(23)
Occupancy and equipment	9.6	17.3	(45)	37.7	52.6	(28)
Other expenses	3.2	(1.3)	(346)	13.0	6.6	97
Total operating expenses	149.5	179.3	(17)	431.5	534.7	(19)
Other income (expense)						
Interest income	3.8	4.1	(7)	12.8	12.5	2
Interest expense	(26.8)	(29.5)	(9)	(83.6)	(84.6)	(1)
Pledged MSR liability expense, net	(57.4)	(256.4)	(78)	(105.7)	(303.3)	(65)
Gain on repurchase of senior secured notes	—	5.1	(100)	—	5.1	(100)
Other, net	3.3	(0.4)	(925)	4.6	1.2	283
Total other expense, net	(77.1)	(277.1)	(72)	(171.9)	(369.1)	(53)
Loss before income taxes	(11.4)	(38.3)	(70)	(104.9)	(163.7)	(36)
Income tax (benefit) expense	(2.0)	4.5	(144)	(71.9)	13.3	(641)
Net loss	$ (9.4)	$ (42.8)	(78)	$ (33.0)	$ (177.0)	(81)
Segment income (loss) before income taxes						
Servicing	$ (7.8)	$ (27.2)	(71)%	$ (73.4)	$ (173.0)	(58)%
Originations	30.5	8.9	243	70.3	37.1	89
Corporate Items and Other	(34.1)	(20.0)	71	(101.7)	(27.9)	265
	$ (11.4)	$ (38.3)	(70)%	$ (104.9)	$ (163.7)	(36)%

Total Revenue

Total revenue was $249.0 million in the third quarter of 2020, $34.5 million or 12% lower than the third quarter of 2019, mostly due to declines in servicing fee revenue and reverse mortgage revenue, offset in part by an increase in gain on loans held for sale. Servicing and subservicing fee revenue decreased $66.8 million, or 27%, as compared to the third quarter of 2019, including a $55.6 million decline in servicing fees collected on behalf of NRZ, primarily due to a lower serviced UPB and an increase in non-paying forbearance and delinquent loans as a result of the COVID-19 pandemic. The decline in servicing fees collected on behalf of NRZ is largely offset by a decline in servicing fees remitted to NRZ that are separately reported as Other expense - see further discussion under NRZ Servicing and subservicing fees. Reverse mortgage revenue, net decreased $5.8

million, or 28%, as compared to the third quarter of 2019 largely due to a $14.1 million fair value gain recorded in the third quarter of 2019, partially offset by an incremental $8.4 million origination gain in the third quarter of 2020. The $36.9 million, or 410%, increase in gain on loans held for sale is due to the increase in forward loan production, from both our correspondent channel that we re-started in the second quarter of 2019 and our recapture channel, fueled by industry-wide refinance activity.

Total revenue was $729.9 million for the nine months ended September 30, 2020, $131.8 million or 15% lower than the nine months ended September 30, 2019, primarily due to declines in servicing fee revenue and reverse mortgage revenue, offset in part by an increase in gain on loans held for sale. Servicing and subservicing fee revenue decreased $176.6 million, or 24%, as compared to the nine months ended September 30, 2019, including a $144.4 million decline in servicing fees collected on behalf of NRZ, primarily driven by the same factors as described in the three-month discussion. The decline in servicing fees collected on behalf of NRZ is largely offset by a decline in servicing fees remitted to NRZ that are separately reported as Other expense - see further discussion under NRZ Servicing and subservicing fees. Reverse mortgage revenue, net decreased $21.8 million, or 30%, as compared to the nine months ended September 30, 2019 largely due to $45.5 million lower fair value gains on our securitized reverse mortgage portfolio and HMBS related borrowings, partially offset by an incremental $22.8 million origination gain in the nine months ended September 30, 2020. The $66.5 million, or 253%, increase in gain on loans held for sale is mostly due to the same factors as described in the three-month discussion above.

See the respective Segment Results of Operations for additional information.

MSR Valuation Adjustments, Net

We reported a $33.8 million loss in MSR valuation adjustments, net in the third quarter of 2020, driven by a $48.1 million portfolio runoff, a $17.8 million gain due to changes in interest rates and assumptions and a $3.6 million hedging loss. The $168.4 million increase in loss as compared to the third quarter of 2019 is primarily due to a $256.9 million favorable assumption update recorded in the third quarter of 2019, partially offset by the derecognition of MSRs in February 2020 in connection with the termination of the PMC agreement by NRZ, the impact of interest rates and the effects of our MSR hedging strategy implemented in September 2019.

We reported a $231.4 million loss in MSR valuation adjustments, net in the nine months ended September 30, 2020, driven by a $138.7 million loss due to the decline in interest rates and $132.0 million portfolio runoff, partially offset by $39.3 million favorable fair value gain from our MSR hedging strategy. The $109.7 million increase in loss as compared to the nine months ended September 30, 2019 is primarily due to the same factors as described in the three-month discussion.

See Segment Results of Operations - Servicing and Originations for additional information.

Compensation and Benefits

Compensation and benefits expense declined $3.8 million, or 5%, as compared to the third quarter of 2019, as result of multiple offsetting factors. First, our cost re-engineering initiatives and the scaling of our workforce to our servicing volume resulted in an 11% decline in average headcount. Second, the third quarter of 2019 included $7.3 million of severance and retention costs. In addition, the ratio of offshore-to-total headcount increased from 69% to 72%, compared to the third quarter of 2019, driving down our average compensation cost. Third, these cost savings were partially offset in the third quarter of 2020 by $4.2 million incremental incentive compensation, $1.3 million additional commissions, $1.6 million additional compensation expenses related to COVID-19, and the recognition in the third quarter of 2020 of $3.1 million severance and retention costs related to our 2020 re-engineering initiatives.

Compensation and benefits expense declined $55.0 million, or 22%, as compared to the nine months ended September 30, 2019, largely due to a 19% decline in average headcount and an increase of our offshore-to total headcount ratio from 66% to 72%, driving down our average compensation cost. The decline is also explained by other partially offsetting factors. We recognized $31.5 million of severance and retention costs during the nine months ended September 30, 2019 in connection with our 2019 cost re-engineering plan. In the nine months ended September 30, 2020, we recognized $7.1 million severance and retention costs related to our 2020 re-engineering initiatives, $5.1 million incremental incentive compensation, and $4.7 million additional compensation expenses related to COVID-19.

Servicing and Origination Expense

Servicing and origination expense decreased $13.7 million, or 37%, as compared to the third quarter of 2019, primarily due to a $15.5 million decrease in servicing expenses largely as a result of a reduction in government-insured claim loss provisions and a general decline in servicer-related expenses that was primarily driven by a reduction in our servicing portfolio. The reduction in government-insured claim loss provisions is due to the combined effect of a decline in claims and lower loss severity, mostly driven by a reduction in the foreclosure and liquidation timeline of loans. Government-insured claim loss provisions are generally offset by changes in the fair value of the corresponding MSRs, which are recorded in MSR valuation adjustments, net.

Servicing and origination expense decreased $26.3 million, or 30%, as compared to the nine months ended September 30, 2019, primarily due to a $29.8 million decrease in servicing expenses largely as a result of a reduction in government-insured claim loss provisions and a general decline in servicer-related expenses that was primarily driven by a reduction in our servicing portfolio. The reduction in government-insured claim loss provisions is due to the combined effect of a decline in claims and lower loss severity, mostly driven by a reduction in the foreclosure and liquidation timeline of loans. The government-insured claim loss provisions recorded in 2019 included claims of a legacy portfolio with higher severity loans Government-insured claim loss provisions are generally offset by changes in the fair value of the corresponding MSRs, which are recorded in MSR valuation adjustments, net.

See Segment Results of Operations - Servicing for additional information.

Other Operating Expenses

Professional services expense decreased $8.3 million, or 22%, as compared to the third quarter of 2019, primarily due to a $3.9 million decline in legal fees and $4.0 million decline in other professional services. The expenses incurred in the third quarter of 2019 included PHH integration costs, legal entity reorganization and certain litigation costs that were not re-occurring. Professional services expenses in the third quarter of 2020 included $4.5 million legal expenses related to the CFPB and Florida matter, and $3.1 million costs related to our 2020 re-engineering initiatives.

Professional services expense increased $0.6 million, or 1%, as compared to the nine months ended September 30, 2019, primarily due to the offsetting impacts of a $30.7 million recovery in the first quarter of 2019 of amounts previously recognized as expense from a service provider, offset by a $23.5 million decline in legal fees largely due to a decline in legal expenses relating to the PHH integration, legal entity reorganization and litigation, and a $4.7 million decline in other professional fees. The expenses incurred in the nine months ended September 30, 2019 include PHH integration costs, legal entity reorganization and other re-engineering costs. Professional services expenses in the third quarter of 2020 include $5.3 million of costs related to our 2020 re-engineering initiatives and $4.7 million of COVID-19 related expenses.

Technology and communication expense declined $0.8 million, or 4%, as compared to the third quarter of 2019.

Technology and communication expense decreased $13.9 million, or 23%, as compared to the nine months ended September 30, 2019 primarily because we no longer license the REALServicing servicing system from Altisource following our transition to Black Knight MSP in June 2019, a decline in capitalized technology investments, our closure of U.S. facilities in 2019 and the effects of a decline in total average headcount and our other cost reduction efforts, which include bringing technology services in-house and re-engineering initiatives. Depreciation expense declined $4.2 million as compared to the nine months ended September 30, 2019.

Occupancy and equipment expense decreased $7.7 million, or 45%, as compared to the third quarter of 2019 primarily due to the results of our cost reduction efforts, which include consolidating vendors and closing and consolidating certain facilities, and the effect of the decline in the size of the servicing portfolio on various expenses such as postage and mailing services. Rent expense, depreciation expense, and postage and mailing costs declined $2.6 million, $2.4 million and $2.0 million, respectively, as compared to the third quarter of 2019.

Occupancy and equipment expense decreased $14.9 million, or 28%, as compared to the nine months ended September 30, 2019 primarily due to the same factors as described in the three-month discussion. Depreciation expense, postage and mailing costs, and rent expense declined $6.2 million, $3.8 million and $3.0 million, respectively, as compared to the nine months ended September 30, 2019. We partially abandoned one of our leased properties in the second quarter of 2020 resulting in the recognition of facility-related costs totaling $5.2 million, as compared to $6.6 million of similar costs recognized in 2019 in connection with our decision to vacate other leased properties prior to the contractual maturity date of the lease agreements.

In February 2020, we announced our intention to implement certain cost re-engineering initiatives in 2020 to generate further cost savings. As discussed under Business Initiatives above, our continuous cost improvement efforts are focused on reducing operating and overhead costs through facility rationalization, strategic sourcing and actions, off-shore utilization, lean process design, simplification, automation and other technology-enabled productivity enhancement. Estimated costs to execute these initiatives include severance, retention and other incentive awards, facilities-related costs, certain professional services expenses and other expenses. We have incurred $7.5 million and $21.7 million of such costs in the third quarter of 2020, and in the nine months ended September 30, 2020, respectively. The year-to-date costs include $5.4 million facility-related expenses reported as Occupancy and equipment, $7.1 million severance and retention costs and $5.3 million Professional services costs, as discussed above.

Other Income (Loss)

Pledged MSR liability expense decreased $199.0 million, as compared to the third quarter of 2019, mostly due to a $171.4 million fair value loss on pledged MSR liability recorded in the third quarter of 2019 and a $45.8 million lower net servicing fee remittance to NRZ in the third quarter of 2020. The pledged MSR liability expense also reflected in the third quarter of

2019 a $24.5 million 2017/18 lump sum amortization gain that ended in April 2020. The $171.4 million fair value loss recorded in the third quarter of 2019 was the offset of a fair value gain on the non-Agency MSR asset pledged to NRZ. The $45.8 million decline in net servicing fee remittance to NRZ was driven by the runoff of the portfolio and the termination of the PMC agreement by NRZ in February 2020, which also reduced by $55.6 million the servicing fees collected on behalf of NRZ.

Pledged MSR liability expense declined $197.6 million as compared to the nine months ended September 30, 2019, due to the same factors as described in the three-month discussion.

See Segment Results of Operations - Servicing for additional information.

Income Tax Benefit (Expense)

Although we incurred a pre-tax loss for the nine months ended September 30, 2020 of $104.9 million, we recorded an income tax benefit of $71.9 million primarily due to $71.5 million of estimated income tax benefit to be recognized under the CARES Act as a result of modification of the tax rules to allow the carryback of NOLs arising in 2018, 2019 and 2020 tax years to the five prior tax years and the increase to the business interest expense limitation under IRC Section 163(j). We collected $51.4 million in the three months ended September 30, 2020, which represents the tax refund associated with the NOLs generated in 2018 carried back to prior tax years. We recognized an income tax benefit, exclusive of the impact of the CARES Act, of $0.4 million during the nine months ended September 30, 2020, primarily due to the favorable resolution of an uncertain tax position offset by income tax expense related to our foreign operations.

Our overall effective tax rates for the nine months ended September 30, 2020 and 2019 were 68.6% and (8.1)%, respectively. Under our transfer pricing agreements, our operations in India and Philippines are compensated on a cost-plus basis for the services they provide, such that even when we have a consolidated pre-tax loss from continuing operations these foreign operations have taxable income, which is subject to statutory tax rates in these jurisdictions that are significantly higher than the U.S. statutory rate of 21%.

The $85.2 million change in income tax expense for the nine months ended September 30, 2020, compared with the same period in 2019, was primarily due to recognition of the estimated impact of the CARES Act as well as the favorable resolution of an uncertain tax position during the nine months ended September 30, 2020. See Note 17 – Income Taxes for additional information.

Financial Condition Summary	September 30, 2020	December 31, 2019	$ Change	% Change
Cash	$ 321.5	$ 428.3	$ (106.8)	(25)%
Restricted cash	61.5	64.0	(2.5)	(4)
MSRs, at fair value	1,069.0	1,486.4	(417.4)	(28)
Advances, net	832.6	1,056.5	(223.9)	(21)
Loans held for sale	390.6	275.3	115.3	42
Loans held for investment, at fair value	6,860.9	6,292.9	568.0	9
Receivables	201.6	201.2	0.4	—
Other assets	686.1	601.5	84.6	14
Total assets	$ 10,423.9	$ 10,406.2	$ 17.7	— %
Total Assets by Segment				
Servicing	$ 2,694.6	$ 3,378.5	$ (683.9)	(20)%
Originations	7,259.3	6,459.4	799.9	12
Corporate Items and Other	470.0	568.3	(98.3)	(17)
	$ 10,423.9	$ 10,406.2	$ 17.7	— %
HMBS-related borrowings, at fair value	$ 6,606.5	$ 6,063.4	$ 543.1	9 %
Advance match funded liabilities	580.1	679.1	(99.0)	(15)
Other financing liabilities, at fair value	588.3	972.6	(384.3)	(40)
SSTL and other secured borrowings, net	915.3	1,025.8	(110.5)	(11)
Senior notes, net	311.7	311.1	0.6	—
Other liabilities	997.5	942.2	55.3	6
Total liabilities	9,999.4	9,994.2	5.2	— %
Total stockholders' equity	424.5	412.0	12.5	3
Total liabilities and equity	$ 10,423.9	$ 10,406.2	$ 17.7	— %
Total Liabilities by Segment				
Servicing	$ 2,297.5	$ 2,862.1	$ (564.6)	(20)%
Originations	7,058.1	6,347.2	710.9	11
Corporate Items and Other	643.7	785.0	(141.3)	(18)
	$ 9,999.4	$ 9,994.2	$ 5.2	— %
Book value per share (1)	$ 48.95	$ 45.83	$ 3.12	7 %

(1) The Common shares outstanding were retroactively adjusted for the effect of the 1-for-15 reverse stock split completed in August 2020.

Total assets remained mostly flat between December 31, 2019 and September 30, 2020, despite multiple offsetting changes within our assets. First, our cash balance decreased by $126.1 million to prepay a portion of the outstanding SSTL balance on January 27, 2020. Second, the MSR portfolio decreased by $417.4 million or 28%, due to the $263.7 million derecognition of MSRs in February 2020 upon termination by NRZ of the PMC subservicing agreement, a $231.4 million MSR valuation loss due to the decline in interest rates, mostly recognized in the first quarter of 2020 due to the distressed COVID-19 market conditions, partially offset by our MSR replenishment. Third, our total assets increased with an additional $568.0 million loans held for investment due to the continued growth of our reverse mortgage business. Fourth, the $84.6 million increase in other assets is mostly attributable to the increase in the Ginnie Mae contingent repurchase rights of loans under forbearance.

Total liabilities remained mostly flat, with similar effects as described above. First, the $384.3 million decline in Other financing liabilities is mostly due to the $263.7 million derecognition of NRZ pledged MSR liability in February 2020 upon termination of the PMC subservicing agreement, and MSR valuation adjustments due to interest rates. Second, the SSTL liability decreased as a result of our $126.1 million prepayment on January 27, 2020. Third, our HMBS-related borrowings increased by $543.1 million due to the continued growth of our reverse mortgage business and its securitization. Fourth, the

$55.3 million increase in other liabilities is mostly attributable to the increase in the Ginnie Mae contingent repurchase rights of loans under forbearance.

Total equity increased $12.5 million due to a $47.0 million adjustment to stockholders' equity on January 1, 2020 as a result of our election to measure future reverse mortgage draw commitments at fair value in conjunction with the application of the new credit loss accounting standard, offset by the $33.0 million net loss for the nine months ended September 30, 2020, and our repurchase of shares of our common stock during the first quarter.

SEGMENT RESULTS OF OPERATIONS

Our activities are organized into two reportable business segments that reflect our primary lines of business - Servicing and Originations - as well as a Corporate Items and Other segment.

SERVICING

We earn contractual monthly servicing fees pursuant to servicing agreements, which are typically payable as a percentage of UPB, as well as ancillary fees, including late fees, modification incentive fees, REO referral commissions, float earnings and Speedpay/collection fees. We also earn fees under both subservicing and special servicing arrangements with banks and other institutions that own the MSRs. Subservicing and special servicing fees are earned either as a percentage of UPB or on a per-loan basis. Per loan fees typically vary based on delinquency status. As of September 30, 2020, we serviced 1.2 million loans with an aggregate UPB of $185.9 billion. The average UPB of loans serviced during the third quarter of 2020 decreased by 10% or $21.2 billion compared to the third quarter of 2019, mostly due to portfolio runoff, net of newly originated and acquired MSRs and certain servicing transfers since the third quarter of 2019.

NRZ is our largest servicing client, accounting for 46% and 54% of the UPB and loans in our servicing portfolio as of September 30, 2020, respectively. NRZ servicing fees retained by Ocwen represented approximately 23% of the total servicing and subservicing fees earned by Ocwen, net of servicing fees remitted to NRZ and excluding ancillary income, for both the three and nine months ended September 30, 2020, and 26% for both the three and nine months ended September 30, 2019. Consistent with a subservicing relationship, NRZ is responsible for funding the advances related to loans serviced for NRZ.

On February 20, 2020, we received a notice of termination from NRZ with respect to the PMC MSR Agreements, which accounted for $37.1 billion loan UPB at June 30, 2020 and $16.0 billion at September 30, 2020. All remaining loans were deboarded on October 1, 2020. This termination was for convenience and not for cause.

Our MSR portfolio is carried at fair value, with changes in fair value recorded in MSR valuation adjustments, net. The value of our MSRs is typically correlated to changes in interest rates; as interest rates decrease, the value of the servicing portfolio typically decreases as a result of higher anticipated prepayment speeds. The sensitivity of MSR fair value to interest rates is typically higher for higher credit quality loans, such as our Agency loans. Our Non-Agency portfolio is significantly seasoned, with an average loan age of approximately 14 years, exhibiting little response to movements in market rates. Valuation is also impacted by loan delinquency rates whereby as delinquency rates rise, the value of the servicing portfolio declines.

Third-Party Servicer Ratings

Like other servicers, we are the subject of mortgage servicer ratings or rankings (collectively, ratings) issued and revised from time to time by rating agencies including Moody's, S&P and Fitch. Favorable ratings from these agencies are important to the conduct of our loan servicing and lending businesses.

The following table summarizes our key servicer ratings:

	PHH Mortgage Corporation		
	Moody's	S&P	Fitch
Residential Prime Servicer	SQ3	Average	RPS3
Residential Subprime Servicer	SQ3	Average	RPS3
Residential Special Servicer	SQ3	Average	RSS3
Residential Second/Subordinate Lien Servicer	SQ3	Average	RPS3
Residential Home Equity Servicer	—	—	RPS3
Residential Alt-A Servicer	—	—	RPS3
Master Servicer	SQ3	Average	RMS3
Ratings Outlook	N/A	Stable	Negative
Date of last action	August 29, 2019	December 27, 2019	March 24, 2020

In addition to servicer ratings, each of the agencies will from time to time assign an outlook (or a ratings watch such as Moody's review status) to the rating status of a mortgage servicer. A negative outlook is generally used to indicate that a rating "may be lowered," while a positive outlook is generally used to indicate a rating "may be raised." On March 24, 2020, Fitch placed all U.S RMBS servicer ratings on Negative outlook resulting from a rapidly evolving economic and operating environment due to the sudden impact of the COVID-19 virus.

Downgrades in servicer ratings could adversely affect our ability to service loans, sell or finance servicing advances and could impair our ability to consummate future servicing transactions or adversely affect our dealings with lenders, other contractual counterparties, and regulators, including our ability to maintain our status as an approved servicer by Fannie Mae and Freddie Mac. The servicer rating requirements of Fannie Mae do not necessarily require or imply immediate action, as Fannie Mae has discretion with respect to whether we are in compliance with their requirements and what actions it deems appropriate under the circumstances if we fall below their desired servicer ratings.

The following table presents selected results of operations of our Servicing segment. The amounts presented are before the elimination of balances and transactions with our other segments:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	% Change	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	% Change
Revenue						
Servicing and subservicing fees						
Residential	$ 177.3	$ 247.1	(28)	$ 562.5	$ 740.8	(24)
Commercial	1.1	1.1	—	2.5	3.0	(17)
	178.4	248.2	(28)	565.0	743.8	(24)
Gain on loans held for sale, net	6.2	1.1	464	11.7	4.1	185
Other revenue, net	1.2	0.9	33	3.2	4.2	(24)
Total revenue	185.9	250.2	(26)	579.9	752.0	(23)
MSR valuation adjustments, net	(38.4)	134.6	(129)	(249.4)	(121.5)	105
Operating expenses						
Compensation and benefits	28.9	35.1	(18)	84.4	116.3	(27)
Servicing and origination	16.2	31.6	(49)	43.9	73.7	(40)
Occupancy and equipment	6.8	10.7	(36)	24.1	35.1	(31)
Professional services	5.6	12.8	(56)	19.5	35.3	(45)
Technology and communications	6.0	6.5	(8)	20.0	23.6	(15)
Corporate overhead allocations	14.4	45.6	(68)	48.3	156.9	(69)
Other expenses	1.7	(6.8)	(125)	2.6	(5.7)	(146)
Total operating expenses	79.5	135.5	(41)	242.7	435.4	(44)
Other income (expense)						
Interest income	0.9	2.1	(57)	4.2	6.3	(33)
Interest expense (1)	(21.4)	(26.1)	(18)	(67.9)	(77.3)	(12)
Pledged MSR liability expense	(57.4)	(256.5)	(78)	(105.8)	(303.4)	(65)
Other, net	2.2	3.9	(44)	8.3	6.3	32
Total other expense, net	(75.8)	(276.6)	(73)	(161.2)	(368.1)	(56)
Loss before income taxes	$ (7.8)	$ (27.2)	(71)%	$ (73.4)	$ (173.0)	(58)%

(1) Beginning in the third quarter of 2020, we began allocating interest expense, excluding amortization of debt issuance costs and discount, on the corporate debt used to fund servicing advances and other servicing assets from Corporate Items and Other to Servicing. The interest expense related to the corporate debt has been allocated from Corporate Items and Other to the Servicing segment for prior periods to conform to the current period presentation. See Note 19 – Business Segment Reporting.

The following tables provide selected operating statistics:

	September 30, 2020	September 30, 2019	% Change
Residential Assets Serviced			
Unpaid principal balance (UPB) in billions:			
Performing loans (2)	$ 173.6	$ 204.4	(15)%
Non-performing loans	11.1	10.0	11
Non-performing real estate	1.2	2.3	(48)
Total (1)	185.9	216.8	(14)%
Conventional loans (3)	$ 72.9	$ 97.0	(25)%
Government-insured loans	33.9	29.8	14
Non-Agency loans	79.0	89.9	(12)
Total (1)	$ 185.9	$ 216.8	(14)%
Servicing portfolio	$ 78.5	$ 76.5	3 %
Subservicing portfolio	21.8	23.2	(6)
NRZ (4)	85.6	117.1	(27)
Total (1)	$ 185.9	$ 216.8	(14)
Prepayment speed (CPR) (5):			
3-month % Voluntary CPR	17.6 %	14.1 %	25
9-month % Voluntary CPR	14.2	10.8	31
3-month % Involuntary CPR	1.8	1.4	29
9-month % Involuntary CPR	1.4	1.5	(7)
Total 3-month % CPR	23.0 %	18.8 %	22
Total 9-month % CPR	19.1 %	15.5 %	23
Number:			
Performing loans (2)	1,138,040	1,371,781	(17)%
Non-performing loans	55,886	66,003	(15)
Non-performing real estate	8,305	13,869	(40)
Total (1)	1,202,231	1,451,653	(17)%
Conventional loans (3)	430,824	618,505	(30)%
Government-insured loans	198,941	187,568	6
Non-Agency loans	572,466	645,580	(11)
Total (1)	1,202,231	1,451,653	(17)%
Servicing portfolio	462,864	471,500	(2)%
Subservicing portfolio	88,103	111,506	(21)
NRZ (4)	651,264	868,647	(25)
Total (1)	1,202,231	1,451,653	(17)

(1) Includes 33,991 and 31,738 reverse mortgage loans, recorded on our balance sheet and classified as Loans held for investment, at fair value with a UPB of $6.2 billion and $5.5 billion at September 30, 2020 and 2019, respectively.
(2) Performing loans include those loans that are less than 90 days past due and those loans for which borrowers are making scheduled payments under loan modification, forbearance or bankruptcy plans. We consider all other loans to be non-performing.
(3) Conventional loans include 98,461 and 115,587 prime loans with a UPB of $18.0 billion and $21.4 billion at September 30, 2020 and 2019, respectively. Prime loans are generally good credit quality loans that meet GSE underwriting standards.
(4) Loans serviced or subserviced pursuant to our agreements with NRZ.
(5) Average CPR includes voluntary and involuntary prepayments and scheduled principal amortization (not reflected in the above table).

	September 30, 2020				December 31, 2019			
Advances by investor type	**Principal and Interest**	**Taxes and Insurance**	**Foreclosures, bankruptcy, REO and other**	**Total**	**Principal and Interest**	**Taxes and Insurance**	**Foreclosures, bankruptcy, REO and other**	**Total**
Conventional	$ 3	$ 19	$ 7	$ 29	$ 4	$ 20	$ 27	$ 51
Government-insured	2	38	29	69	—	47	26	73
Non-Agency	295	285	155	734	410	354	168	932
Total, net	$ 299	$ 342	$ 191	$ 833	$ 415	$ 420	$ 221	$ 1,056

	September 30, 2020		December 31, 2019	
Advances by MSR ownership	**Advances**	**UPB ($ in billions) (3)**	**Advances**	**UPB ($ in billions) (3)**
Servicer	$ 787	$ 72.2	$ 976	$ 67.6
Master Servicer (1)	3	1.1	—	1.8
Subservicer	32	21.8	38	17.3
NRZ (2)	10	85.6	42	118.6
Total, net (3)	$ 833	$ 180.7	$ 1,056	$ 205.3

(1) Excludes relationships where we are both master servicer and servicer (included in Servicer).
(2) Pursuant to the 2017 Agreements and New RMSR Agreements, NRZ is obligated to fund new servicing advances with respect to the MSRs underlying the Rights to MSRs. Refer to Note 21 — Commitments.
(3) Excludes reverse mortgage loans reported on our unaudited consolidated balance sheets and classified as loans held for investment. No separate MSRs or advances are recognized in our unaudited consolidated balance sheets.

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

	Amount of UPB (*$ in billions*)		Count	
	2020	2019	2020	2019
Portfolio at January 1	$ 212.4	$ 256.0	1,419,943	1,562,238
Additions	6.9	4.7	28,781	16,419
Sales	(0.1)	(0.1)	(720)	(723)
Servicing transfers	(2.2)	(0.4)	(8,527)	(3,092)
Runoff	(8.2)	(9.1)	(43,161)	(40,491)
Portfolio at March 31	$ 208.8	$ 251.1	1,396,316	1,534,351
Additions	8.5	8.9	28,949	34,123
Sales	(0.1)	(0.2)	(720)	(1,288)
Servicing transfers	(0.9)	(20.7)	(3,862)	(29,625)
Runoff	(10.2)	(9.8)	(53,271)	(46,532)
Portfolio at June 30	$ 206.0	$ 229.3	1,367,412	1,491,029
Additions (1) (2)	11.7	3.6	39,877	13,764
Sales	—	(0.3)	(85)	(2,403)
Servicing transfers (2) (3)	(20.4)	(6.6)	(149,602)	(4,246)
Runoff	(11.4)	(9.2)	(55,371)	(46,491)
Portfolio at September 30	$ 185.9	$ 216.8	1,202,231	1,451,653

(1) Additions include purchased MSRs on portfolios consisting of 262 loans with a UPB of $81.6 million that have not yet transferred to the Black Knight MSP servicing system as of September 30, 2020. Because we have legal title to the MSRs, the UPB and count of the loans are included in our reported servicing portfolio. The seller continues to subservice the loans on an interim basis until the servicing transfer date.

(2) Excludes the volume UPB associated with short-term interim subservicing for some clients as a support to their originate-to-sell business, where loans are boarded and deboarded within the same quarter. To conform to the current period presentation, 8,378 short-term interim subservicing loans with a UPB of $1.9 billion previously reported as additions and servicing transfers for the quarter ended September 30, 2019 are not reflected in the table above.

(3) Includes 136,500 deboarded loans with a UPB of $16.0 billion related to the termination of the subservicing agreement between NRZ and PMC. Refer to Note 9 — Rights to MSRs.

Servicing and Subservicing Fees

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Loan servicing and subservicing fees:						
Servicing	$ 52.9	$ 60.6	(13)%	$ 159.7	$ 168.1	(5)%
Subservicing	10.3	1.3	692	26.1	11.8	121
NRZ	91.0	146.6	(38)	299.1	443.5	(33)
Servicing and subservicing fees	154.2	208.5	(26)	484.9	623.3	(22)
Ancillary income	23.1	38.6	(40)	77.6	117.5	(34)
	$ 177.3	$ 247.1	(28)	$ 562.5	$ 740.8	(24)%

The 28% and 24% declines in total servicing and subservicing fees for the third quarter and nine months ended September 30, 2020, respectively, as compared to the same periods in 2019 are driven by two main factors: the reduction in fees collected on behalf of NRZ -as further discussed below - and the reduction in ancillary income, mostly due to the COVID-19 environment.

Servicing fees declined by $7.8 million and $8.4 million as compared to the third quarter of 2019 and the nine months ended September 30, 2019, respectively. As our volume serviced (MSR Owned) remained mostly stable, the decline in revenue is mostly due to the servicing fees of loans under forbearance that were not paying during the second and third quarter of 2020, and higher collection of deferred servicing fees in 2019. We do not recognize any servicing fees on GSE loans under forbearance and have a shortfall of one month of servicing fees for PLS loans under forbearance. We typically collect deferred servicing fees upon loan liquidations and the moratorium on foreclosures reduced our collection in 2020 as compared to the respective periods in 2019. The deferral of servicing fee collections due to forbearance is not expected to significantly impact our total cumulative revenue over the life of the loan but will reduce near term revenue and cash flow. The delay in servicing fee collection is expected to be partially offset by lower runoff in our MSR portfolio, as the deferred servicing fees generally remain projected as future cash flows. See Note 21 - Commitments, Servicer Advance Obligations.

Subservicing fees increased by $9.0 million and $14.4 million as compared to the third quarter of 2019 and the nine months ended September 30, 2019, respectively, mostly explained by the PMC subservicing agreement with NRZ. Upon notice of termination by NRZ on February 20, 2020, the servicing fee collected on behalf of NRZ net of the remittance to NRZ has been reported as subservicing fee, with $6.9 million and $17.0 million for the three and nine-month periods ended September 30, 2020, respectively. Ocwen will not perform any subservicing of these loans subject to termination and will not earn any subservicing fee after loan deboarding, which occurred on September 1 and October 1, 2020.

The following table below presents the respective drivers of residential loan servicing and subservicing fees.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Servicing and subservicing fee						
Servicing fee	$ 52.9	$ 60.6	(13)%	$ 159.7	$ 168.1	(5)%
Average servicing fee (% of UPB)	0.27	0.31	(13)%	0.28	0.29	(3)%
Subservicing fee (1)	$ 10.3	$ 1.3	692	$ 26.1	$ 11.8	121
Average monthly fee per loan (in dollars)	$ 10	$ 4	150	$ 8	$ 10	(20)
Residential assets serviced						
Average UPB ($ in billions):						
Servicing portfolio	$ 77.1	$ 77.4	— %	$ 76.7	$ 76.3	1 %
Subservicing portfolio	21.0	24.2	(13)	18.8	38.2	(51)
NRZ	101.7	119.4	(15)	109.5	123.9	(12)
Total	$ 199.8	$ 221.0	(10)%	$ 205.0	$ 238.4	(14)%
Average number:						
Servicing portfolio	463,744	475,810	(3)%	469,723	473,303	(1)%
Subservicing portfolio	84,403	109,853	(23)	78,199	127,587	(39)
NRZ	765,364	883,406	(13)	813,933	910,407	(11)
	1,313,511	1,469,069	(11)%	1,361,855	1,511,297	(10)%

(1) Subservicing fees includes of $6.9 million and $17.0 million of fees earned on the NRZ PMC MSR Agreements upon receiving the notice of cancellation in February 2020 for the three and nine months ended September 30, 2020, respectively.

The NRZ servicing fee includes the servicing fee collected on behalf of NRZ relating to the MSR sold but not derecognized from our balance sheet. Under GAAP, we present servicing fee collected and remitted on a gross basis, with the servicing fee remitted to NRZ reported as Pledged MSR liability expense. The NRZ collected fee declined by $55.6 million and $144.4 million, as compared to the third quarter of 2019 and the nine months ended September 30, 2019.

The decline in the NRZ fee collection is driven by the decline in the average UPB by 15% as compared to the third quarter of 2019 and 12% as compared to the nine months ended September 30, 2019. The volume decline is mostly explained by the NRZ portfolio runoff and the derecognition of the MSRs in connection with the termination of the PMC agreement by NRZ on February 20, 2020. As the NRZ relationship is effectively a subservicing agreement, the COVID-19 environment, loans under forbearance and the fee collection do not impact our financial results to the same extent as for serviced loans with our owned MSR.

The following table presents both servicing fees collected and subservicing fees retained by Ocwen under the NRZ agreements, together with the previously recognized amortization gain of the lump-sum payments received in connection with the 2017 Agreements and New RMSR Agreements:

NRZ servicing and subservicing fees	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2020	**2019**	**2020**	**2019**
Servicing fees collected on behalf of NRZ	$ 91.0	$ 146.6	$ 299.1	$ 443.5
Servicing fees remitted to NRZ (3)	(65.3)	(111.1)	(218.6)	(334.7)
Retained subservicing fees on NRZ agreements (1)	$ 25.7	$ 35.5	$ 80.5	$ 108.8
Amortization gain of lump-sum cash payments received (including fair value change) (3)(4)	—	24.5	34.2	71.5
Total retained subservicing fees and amortization gain of lump-sum cash payments (including fair value change)	$ 25.7	$ 60.0	$ 114.7	$ 180.3
Average NRZ UPB ($ in billions) (2)	$ 70.77	$ 119.40	$ 74.24	$ 123.87
Average annualized retained subservicing fees as a % of NRZ UPB (excluding amortization gain of lump-sum cash payments)	0.15 %	0.12 %	0.14 %	0.12 %

(1) Excludes the servicing fees of loans under the PMC Servicing Agreement after February 20, 2020 due to the notice of termination by NRZ, and subservicing fees earned under subservicing agreements.
(2) Excludes the UPB of loans subserviced under the PMC Servicing Agreement after February 20, 2020 due to the notice of termination by NRZ, and excludes the UPB of loans under subservicing agreements.
(3) Reported within Pledged MSR liability expense.
(4) In 2017 and early 2018, we renegotiated the Ocwen agreements with NRZ to more closely align with a typical subservicing arrangement whereby we receive a base servicing fee and certain ancillary fees, primarily late fees, loan modification fees and Speedpay fees. We may also receive certain incentive fees or pay penalties tied to various contractual performance metrics. We received upfront cash payments in 2018 and 2017 of $279.6 million and $54.6 million, respectively, from NRZ in connection with the resulting 2017 and New RMSR Agreements. These upfront payments generally represented the net present value of the difference between the future revenue stream Ocwen would have received under the original agreements and the future revenue Ocwen received under the renegotiated agreements. These upfront payments received from NRZ were deferred and recorded within Other income (expense), Pledged MSR liability expense, as they amortized through the term of the original agreements (April 2020). See Note 9 — Rights to MSRs for further information.

The following table presents the detail of our ancillary income for the three and nine months ended September 30, 2020 and 2019:

Ancillary Income	**Three Months Ended September 30,**			**Nine Months Ended September 30,**		
	2020	**2019**	**% Change**	**2020**	**2019**	**% Change**
Late charges	$ 11.0	$ 14.0	(22)%	$ 38.2	$ 42.5	(10)%
Custodial accounts (float earnings)	1.1	13.5	(92)	8.8	38.7	(77)
Loan collection fees	3.0	3.9	(21)	10.0	11.5	(13)
HAMP fees	0.1	1.2	(91)	0.5	4.6	(88)
Other	7.9	6.0	32	20.1	20.2	—
Ancillary income	$ 23.1	$ 38.6	(40)%	$ 77.6	$ 117.5	(34)%
Number of completed modifications	6,977	6,245	12 %	22,565	19,831	14 %
Revenue recognized in connection with loan modifications	$ 10.6	9.8	8	20.5	29.2	(30)

Ancillary income declined by $15.5 million, as compared to the third quarter of 2019. primarily due to a $12.4 million, or 92% decline in float income that was mainly due to lower interest rates. The average 1-month LIBOR rate dropped nearly 190 basis points as compared to the third quarter of 2019. The combined effect of lower servicing volume, the COVID-19 environment with no late fees or collection fees on loans under forbearance and lower modification fees also contributed to the decline in ancillary income.

Ancillary income declined by $39.9 million, as compared to the nine months ended September 30, 2019, primarily driven by the same factors as in the three-month discussion, with a $29.9 million, or 77% decline in float income. The average 1-month LIBOR rate dropped more than 170 basis points in the first nine months of 2020 as compared to the same period of 2019. Revenue recognized in connection with loan modification HAMP fees decreased $4.0 million due to the expiration of the program.

MSR Valuation Adjustments, Net

The following tables summarize the MSR valuation adjustments, net reported in our Servicing segment for the three and nine months ended September 30, 2020 and 2019, with the breakdown of the total MSRs recorded on our balance sheet between our owned MSR and the pledged MSRs sold to NRZ that did not achieve sale accounting treatment:

	For the Three Months Ended September 30, 2020			For the Nine Months Ended September 30, 2020		
	Total (1)	**Owned MSR (1)**	**Pledged MSR (NRZ) (2)**	**Total (1)**	**Owned MSR (1)**	**Pledged MSR (NRZ) (2)**
Runoff	$ (48.1)	$ (32.5)	$ (15.6)	$ (131.9)	$ (82.9)	$ (49.1)
Rate and assumption change (1)	5.5	(4.9)	10.4	(164.5)	(142.3)	(22.2)
Hedging gain (loss)	4.3	4.3	—	47.1	47.1	—
Total	$ (38.4)	$ (33.1)	$ (5.2)	$ (249.4)	$ (178.1)	$ (71.3)

	For The Three Months Ended September 30, 2019			For the Nine Months Ended September 30, 2019		
	Total (1)	**Owned MSR**	**Pledged MSR (NRZ) (2)**	**Total (1)**	**Owned MSR**	**Pledged MSR (NRZ) (2)**
Runoff	$ (54.6)	$ (27.6)	$ (27.1)	$ (151.7)	$ (70.6)	$ (81.1)
Rate and assumption change	188.9	(9.6)	198.5	29.8	(89.3)	119.2
Hedging gain (loss)	0.3	0.3	—	0.3	0.3	—
Total	$ 134.6	$ (36.9)	$ 171.4	$ (121.5)	$ (159.6)	$ 38.1

(1) Excludes gains of $12.4 million and $25.9 million in the three and nine months ended September 30, 2020, respectively, on the revaluation of MSR purchased in a disorderly market, that is reported in the Originations segment.

(2) For those MSR sale transactions with NRZ that do not achieve sale accounting treatment, we present gross the pledged MSR as an asset and the corresponding liability amount pledged MSR liability on our balance sheet. Because we record both our pledged MSRs with NRZ and the associated MSR liability at fair value, the changes in fair value of the pledged MSR liability are offset by the changes in fair value of the associated pledged MSR asset, presented in MSR valuation adjustments, net. Although fair value changes are separately presented in our statement of operations, we are not exposed to any fair value changes of the MSR pledged to NRZ. See Note 9 — Rights to MSRs for further information.

We reported a $38.4 million loss in MSR valuation adjustments, net in the third quarter of 2020. The fair value decline is driven by $48.1 million portfolio runoff, partially offset by a $5.5 million gain due to changes in interest rates and assumptions and a $4.3 million favorable fair value gain from our MSR hedging strategy. The 10-year swap rate increased 7 basis points in the third quarter of 2020, as compared to a 40 basis-point decline in the third quarter of 2019. The fair value loss reported in MSR valuation adjustments, net, increased $173.0 million, as compared to the third quarter of 2019, primarily due to a $252.3 million favorable valuation adjustment to our non-Agency MSR fair value in the third quarter of 2019. The adjustment in 2019 was associated with continued improved collateral performance confirmed by market trade activity. The termination of the PMC servicing agreement by NRZ on February 20, 2020 and a lower UPB serviced also contributed to the decline in runoff and volatility of interest rate and assumption updates.

The following table provides information regarding the changes in the fair value and the UPB of our portfolio of owned MSRs during the third quarter of 2020, with the breakdown by investor type.

	Fair Value				UPB ($ in billions)			
	GSEs	**Ginnie Mae**	**Non-Agency**	**Total**	**GSEs**	**Ginnie Mae**	**Non-Agency**	**Total**
Beginning balance	$ 231.7	$ 75.9	$ 154.8	$ 462.4	$ 30.8	$ 14.7	$ 24.7	$ 70.2
Additions								
New cap.	19.8	2.3	—	22.1	2.0	0.2	—	2.2
Purchases	32.2	—	—	32.2	4.2	—	—	4.2
Change in fair value:								
Runoff	(21.7)	(2.3)	(8.5)	(32.5)	(3.3)	(1.0)	(1.0)	(5.3)
Assumptions (1)	5.8	(1.7)	3.4	7.5	—	—	—	—
Ending balance	$ 267.8	$ 74.2	$ 149.7	**$ 491.7**	$ 33.7	$ 13.9	$ 23.7	**$ 71.3**
Fair value (% of UPB)	0.79 %	0.53 %	0.63 %	0.69 %				

(1) Includes gains of $12.4 million on the revaluation of MSRs purchased in a disorderly market, that is reported in the Originations segment.

The majority of runoff and valuation assumption updates during the third quarter of 2020 related to our less seasoned GSE portfolio, as generally more sensitive to interest rates and behavioral changes due to the COVID-19 environment. The GSE portfolio experienced a historical high 33.4% CPR in the third quarter of 2020. The MSR assumption update in the third quarter of 2020 reflects elevated short-term prepayments as the refinancing boom continues in a record low rate environment. Ocwen replenished and grew its GSE portfolio in the third quarter of 2020 with a total origination and acquisition of $6.2 billion UPB of MSR or 18% of the GSE portfolio at September 30, 2020. Newly originated loans in the nine months ended September 30, 2020 represented 31% of the total GSE MSR portfolio at September 30, 2020. Comparatively, 94% of the non-Agency MSR portfolio relates to loans originated pre-2008 financial crisis, between 2003 and 2007, and exhibited a 17.6% CPR during the third quarter of 2020.

As it relates to the nine months ended September 30, 2020, we reported a $249.4 million loss in MSR valuation adjustments, net. This loss is driven by a $164.5 million loss due to changes in interest rates and assumptions, a $131.9 million portfolio runoff, partially offset by a $47.1 million favorable fair value gain from our MSR hedging strategy. Refer to Item 3 - Quantitative and qualitative disclosures about market risk for further detail on our hedge strategy and its effectiveness. The 10-year swap rate declined 119 basis points during the nine months ended September 30, 2020, as compared to a 115 basis-point decline for the nine months ended September 30, 2019. The fair value loss reported in MSR valuation adjustments, net, increased $127.9 million, as compared to the nine months ended September 30, 2019, primarily due to the same factors as described in the three-month discussion above.

The $249.4 million loss reported in MSR valuation adjustments, net for the nine months ended September 30, 2020 includes a $71.3 million loss on the MSR sold to NRZ and is offset by a $71.3 million gain on the associated pledged MSR liability, reported as Pledged MSR liability expense.

Compensation and Benefits

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Compensation and benefits	$ 28.9	$ 35.1	(18)%	$ 84.4	$ 116.3	(27)%
Average Employment						
India and other	2,890	3,272	(12)%	2,968	3,465	(14)
U.S.	711	1,099	(35)	736	1,281	(43)
Total	3,601	4,371	(18)	3,704	4,746	(22)

Compensation and benefits expense declined $6.2 million, or 18%, as compared to the third quarter of 2019, due to our efforts to re-engineer our cost structure and align headcount in our servicing operations with the size of our servicing portfolio, including the termination of the PMC servicing agreement by NRZ. Our average total servicing headcount decreased 18% compared to the third quarter of 2019. The decline in compensation and benefits is also due to the change in the composition of our headcount with relatively more offshore, and less U.S. resources. Offshore headcount, whose average compensation cost is relatively lower, increased from 75% to 80% of total headcount, compared to the third quarter of 2019.

Compensation and benefits expense declined $32.0 million, or 27%, as compared to the nine months ended September 30, 2019, primarily as a result of the same factors as described in the three-month discussion. Our average total servicing headcount decreased 22% compared to the nine months ended September 30, 2019. Offshore headcount increased from 73% to 80% of total headcount as compared to the nine months ended September 30, 2019. A $3.6 million lower benefit allocation from Corporate Items and Other, and a $3.2 million decline in commissions also contributed to the decline in expense. Partially offsetting the effects of the declines discussed above, the nine months ended September 30, 2020 include $2.9 million of compensation expenses related to COVID-19 and $1.0 million of severance and retention costs related to our 2020 re-engineering initiatives.

Servicing Expense

Servicing expense primarily includes claim losses on government-insured loans and provision expense for advances and servicing representation and warranties. Servicing expense declined $15.5 million, or 49%, as compared to the third quarter of 2019, primarily due to a $9.1 million reduction in government-insured claim loss provisions on reinstated or modified loans and a general decline in other servicer-related expenses that was primarily driven by a 11% reduction in the average number of loans in our servicing portfolio. The reduction in government-insured claim loss provisions is due to the combined effect of a decline in claims, mostly due to the COVID-19 moratorium, and lower loss severity, mostly driven by a reduction in the foreclosure and liquidation timeline of loans. Government-insured claim loss provisions are generally offset by changes in the fair value of the corresponding MSRs, which are recorded in MSR valuation adjustments, net.

Servicing expense declined $29.8 million, or 40%, as compared to the nine months ended September 30, 2019, primarily due to a $15.2 million reduction in government-insured claim loss provisions. The decline is primarily driven by the same factors as described in the three-month discussion, including a 10% reduction in the average number of loans in our servicing portfolio. The reduction in government-insured claim loss provisions is due to the combined effect of a decline in claims and lower loss severity, mostly driven by a reduction in the foreclosure and liquidation timeline of loans. The government-insured claim loss provisions recorded in 2019 included claims of a legacy portfolio with higher severity loans.

Other Operating Expenses

Occupancy and equipment expense decreased $3.9 million, or 36% in the third quarter of 2020, as compared to the third quarter of 2019, and $11.0 million, or 31% in the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The decreases are largely due to the effect of the decline in the size of the servicing portfolio on various direct and allocated expenses, including postage and mailing services, and the decline in our overall occupancy and equipment expenses due to certain facility closures as part of the integration of PHH.

Professional services expense declined $7.2 million, or 56% in the third quarter of 2020, as compared to the third quarter of 2019, and $15.8 million, or 45% in the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019 primarily due to a $5.4 million and $15.2 million decline in legal fees largely due to declines in legal expenses relating to the PHH integration and litigation and a decline in fees incurred in connection with the conversion of NRZ's Rights to MSRs to fully-owned MSRs.

Technology and communication expense declined $0.5 million or 8% in the third quarter of 2020, as compared to the third quarter of 2019, and $3.7 million or 15% in the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The costs savings were driven by our servicing platform integration as we no longer license the REALServicing servicing system from Altisource following our transition to Black Knight MSP beginning June 2019.

Corporate overhead allocations declined $31.2 million, as compared to the third quarter of 2019, primarily due to lower compensation and benefits, occupancy and equipment costs, and technology expenses. The relative weight of average headcount to the consolidated organization declined as compared to the third quarter of 2019. Furthermore, the allocation methodology of corporate overhead was updated in the first quarter 2020 and resulted in lower expenses being allocated to the Servicing segment. Refer to the Corporate Items and Other segment discussion.

Corporate overhead allocations declined $108.7 million, as compared to the nine months ended September 30, 2019, primarily due to lower compensation and benefits, technology expenses, legal fees, and occupancy and equipment costs. The change in allocation methodology of corporate overhead in the first quarter 2020 and a reduction in the relative weight of average headcount to the consolidated organization also contributed to the decline.

Other Income (Expense)

Other income (expense) includes primarily net interest expense and the pledged MSR liability expense.

	Three Months Ended September 30,		% Change	Nine Months Ended September 30,		% Change
	2020	2019		2020	2019	
Interest Expense						
Advance match funded liabilities	$ 6.6	$ 6.2	6 %	$ 19.5	$ 20.9	(7)%
Other secured borrowings	4.7	3.5	34	14.8	6.4	131
Corp. debt interest exp. allocation	8.8	14.0	(37)	28.8	43.3	(33)
Escrow and other	1.3	2.4	(46)	4.9	6.8	(28)
Total interest expense	**$ 21.4**	**$ 26.1**	(18)%	**$ 67.9**	**$ 77.3**	(12)%
Average balances						
Average balance of advances	$ 798.6	$ 1,018.5	(22)%	$ 924.2	$ 1,059.8	(13)%
Advance match funded liabilities	581.2	629.6	(8)	626.8	664.2	(6)
Other secured borrowings	354.7	271.7	31	521.1	236.4	120 %
Effective average interest rate						
Advance match funded liabilities	4.52 %	3.92 %	15 %	4.16 %	4.19 %	(1)%
Other secured borrowings	5.31	5.15	3	3.78	3.62	4
Average 1ML	0.16 %	2.04 %	(92)%	0.65 %	2.37 %	(73)%

Interest expense declined by $4.7 million, or 18% in the third quarter of 2020, as compared to the third quarter of 2019, and $9.4 million, or 12% in the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The decline in interest expense is primarily due to the decline in the amount financed, specifically the average balance of servicing advances which decreased by 22% and 13% in the third quarter and nine months ended September 30, 2020. The decline in interest expense is reflected in the decline in the interest expense allocation from the Corporate segment, offset in part by interest expense on new MSR financing facilities entered into during the third and fourth quarters of 2019.

Pledged MSR liability expense relates to the MSR sale agreements with NRZ that do not achieve sale accounting and are presented on a gross basis in our financial statements. See Note 9 — Rights to MSRs to the Unaudited Consolidated Financial

Statements. Pledged MSR liability expense includes the servicing fee remittance to NRZ and the fair value changes of the pledged MSR liability.

	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
	2020	2019	2020 vs 2019	2020	2019	2020 vs 2019
Net servicing fee remittance to NRZ (a)	$ 65.3	$ 111.1	$ (45.8)	$ 218.6	$ 334.7	$ (116.1)
Pledged MSR liability fair value (gain) loss (b)	(5.2)	171.4	(176.7)	(71.3)	38.1	(109.4)
2017/2018 lump sum amortization gain	—	(24.5)	24.5	(34.2)	(71.5)	37.3
Other	(2.7)	(1.6)	(1.1)	(7.3)	2.1	(9.4)
Pledged MSR liability expense	$ 57.4	$ 256.5	$ (199.1)	$ 105.8	$ 303.4	$ (197.6)

(a) Offset by corresponding amount recorded in Servicing and subservicing fee - See table below.
(b) Offset by corresponding amount recorded in MSR valuation adjustments, net - See table below.

Pledged MSR liability expense decreased $199.1 million, as compared to third quarter of 2019, largely due to a $171.4 million unfavorable fair value adjustment in the third quarter of 2019 related to the Original Rights to MSRs Agreements and a $45.8 million decline in servicing fee remittance. Similarly, Pledged MSR liability expense decreased $197.6 million, as compared to the nine months ended September 30, 2019, primarily as a result of the same drivers. Refer to the above discussions of MSR valuation adjustments, net (Pledged MSR to NRZ) and Servicing and subservicing fee (NRZ).

Partially offsetting the decreases in Pledged MSR liability expense were $24.5 million and $37.3 million changes to the amortization gain related to the lump-sum cash payments received from NRZ in 2017 and 2018. These changes are due to the lump-sum payments being fully amortized at the end of the second quarter of 2020. Refer to the above discussion of NRZ servicing fee.

The table below reflects the condensed consolidated statement of operations together with the amounts related to the NRZ pledged MSRs that offset each other (nil impact on net income/loss). The table provides information related to the impact of the accounting for the NRZ relationship that did not meet sale treatment, and is not intended to reflect the profitability of the NRZ relationship. Net servicing fee remittance and pledged MSR fair value changes are presented on a gross basis and are offset by corresponding amounts presented in other statement of operations line items. In addition, because we record both our pledged MSRs and the associated pledged MSR liability at fair value, the changes in fair value of the pledged MSR liability were offset by the changes in fair value of the MSRs pledged, presented in MSR valuation adjustments, net. Accordingly, only the lump sum amortization gain and the amount reported in “Other” in the table above affect our net earnings.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Statement of Operations	NRZ Pledged MSR-related Amounts (a)	Statement of Operations	NRZ Pledged MSR-related Amounts (a)	Statement of Operations	NRZ Pledged MSR-related Amounts (a)	Statement of Operations	NRZ Pledged MSR-related Amounts (a)
Total revenue	$ 249.0	$ 65.3	$ 283.5	$ 111.1	$ 729.9	$ 218.6	$ 861.8	$ 334.7
MSR valuation adjustments, net	(33.8)	(5.2)	134.6	171.4	(231.4)	(71.3)	(121.7)	38.1
Total operating expenses	149.5	—	179.3	—	431.5	—	534.7	—
Total other expense, net	(77.1)	(60.1)	(277.1)	(282.5)	(171.9)	(147.3)	(369.1)	(372.8)
Loss before income taxes	$ (11.4)	$ —	$ (38.3)	$ —	$ (104.9)	$ —	$ (163.7)	$ —

ORIGINATIONS

We originate and acquire loans and MSRs through multiple channels, including recapture, retail, wholesale, correspondent, flow MSR purchase agreements, the GSE Cash Window and Co-issue programs and bulk MSR purchases. We originate, sell and securitize conventional (conforming to the underwriting standards of Fannie Mae or Freddie Mac; collectively referred to as Agency loans) and government-insured (FHA or VA) forward mortgages, generally servicing retained. The GSEs or Ginnie

Mae guarantee these mortgage securitizations. We originate HECM loans, or reverse mortgages, that are mostly insured by the FHA and we are an approved issuer of HMBS that are guaranteed by Ginnie Mae. In addition to our originated MSRs, we acquire MSRs through flow purchase agreements, the GSE Cash Window and Co-Issue programs and bulk MSR purchases, and we acquire new subservicing through our enterprise sales.

We originate and purchase conventional and government-insured forward mortgage loans through our recapture and correspondent lending channels. Our recapture channel focuses on targeting existing Ocwen customers by offering them competitive mortgage refinance opportunities (i.e., portfolio recapture), where permitted by the governing servicing and pooling agreement. In doing so, we generate revenues for our forward lending business and protect the servicing portfolio by retaining these customers. In addition, we re-entered the forward lending correspondent channel in the second quarter of 2019 to drive higher servicing portfolio replenishment. As of September 30, 2020, we have client relationships with 119 approved correspondent sellers, or 73 new sellers since December 31, 2019.

A portion of our servicing portfolio is susceptible to refinance activity during periods of declining interest rates. Our recapture lending activity partially mitigates this risk. Origination volume and related gains are a natural economic hedge, to a certain degree, to the impact of declining MSR values as interest rates decline. Effective June 1, 2019, we no longer perform any portfolio recapture on behalf of NRZ. Previously under the terms of our agreements with NRZ, to the extent we refinanced a loan underlying the MSRs subject to these agreements, we were obligated to transfer such recaptured MSR to NRZ under the terms of a separate subservicing agreement.

We originate and purchase reverse mortgages through our retail, wholesale and correspondent lending channels under the guidelines of the HECM reverse mortgage insurance program of HUD. Loans originated under this program are generally guaranteed by the FHA, which provides investors with protection against risk of borrower default. In the second half of 2019, we started originating proprietary reverse mortgage loans that are not FHA-guarantee eligible and are sold servicing-released to third parties. We retain the servicing rights to reverse HECM loans securitized through the Ginnie Mae HMBS program. We have originated HECM loans under which the borrowers have additional borrowing capacity of $1.6 billion at September 30, 2020. These draws are funded by the servicer and can be subsequently securitized. We do not incur any substantive underwriting, marketing or compensation costs in connection with any future draws, although we must maintain sufficient capital resources and available borrowing capacity to ensure that we are able to fund these future draws.

After origination, we package and sell the loans in the secondary mortgage market, through GSE and Ginnie Mae securitizations on a servicing retained basis and through whole loan transactions on a servicing released basis. Origination revenues mostly include gain on sale, which represents the difference between the origination or acquisition value and the sale value of the loan including its MSR value, fee income earned at origination, and interest income earned for the period the loans are held by us. As the securitizations of reverse mortgage loans do not achieve sale accounting treatment, reverse mortgage revenue includes the fair value changes of the loan from lock date net of the fair value changes of the MBS-related borrowings.

We provide customary origination representations and warranties to investors in connection with our loan sales and securitization activities. We receive customary origination representations and warranties from our network of approved correspondent lenders. We recognize the fair value of the liability for our representations and warranties at the time of the loan sale. In the event we cannot remedy a breach of a representation or warranty, we may be required to repurchase the loan or provide an indemnification payment to the mortgage loan investor. To the extent that we have recourse against a third-party originator, we may recover part or all of any loss we incur. We actively monitor our counterparty risk associated with our network of correspondent lenders-sellers. We do not provide any origination representations and warranties in connection with our MSR acquisitions through MSR flow purchase agreements or GSE Cash Window programs.

As an HMBS issuer, we assume certain obligations related to each security issued. In addition to our obligation to fund tails, the most significant obligation is the requirement to purchase loans out of the Ginnie Mae securitization pools once the outstanding principal balance of the related HECM is equal to or greater than 98% of the maximum claim amount (MCA repurchases). Active repurchased loans are assigned to HUD and payment is received from HUD, typically within 60 days of repurchase. HUD reimburses us for the outstanding principal balance on the loan up to the maximum claim amount. We bear the risk of exposure if the amount of the outstanding principal balance on a loan exceeds the maximum claim amount. Inactive repurchased loans (the borrower is deceased, no longer occupies the property or is delinquent on tax and insurance payments) are generally liquidated through foreclosure and subsequent sale of real estate owned. State specific foreclosure and REO liquidation timelines have a significant impact on the timing and amount of our recovery. If we are unable to sell the property underlying an inactive reverse loan for an acceptable price within the timeframe established by HUD, we are required to make an appraisal-based claim to HUD. In such cases, HUD reimburses us for the loan balance, eligible expenses and interest, less the appraised value of the underlying property. Thereafter, all the risks and costs associated with maintaining and liquidating the property remains with us. We may incur additional losses on REO properties as they progress through the claims and liquidation processes. The significance of future losses associated with appraisal-based claims is dependent upon the volume of inactive loans, condition of foreclosed properties and the general real estate market.

For the three months ended September 30, 2020, our Originations business originated or purchased forward and reverse mortgage loans with a UPB of $2.3 billion and $230.0 million, respectively. In addition, we opportunistically purchased $4.2 billion UPB MSR through the GSE Cash Window during the three months ended September 30, 2020.

The following table presents the results of operations of our Originations segment. The amounts presented are before the elimination of balances and transactions with our other segments:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Revenue						
Gain on loans held for sale, net	$ 31.8	$ 7.9	304	$ 73.3	$ 22.2	230
Reverse mortgage revenue, net	14.5	20.3	(28)	51.1	72.9	(30)
Other revenue, net	7.4	1.4	448	12.6	4.3	195
Total revenue	53.8	29.5	82	136.9	99.4	38
MSR valuation adjustments, net	12.4	(0.1)	n/m	25.9	(0.2)	n/m
Operating expenses						
Compensation and benefits	17.4	9.9	77	43.7	33.8	29
Servicing and origination	6.4	4.7	36	15.4	12.6	23
Occupancy and equipment	1.4	1.4	(1)	4.2	4.9	(13)
Technology and communications	1.4	0.6	137	3.5	2.4	45
Professional services	3.0	0.1	n/m	6.0	1.0	523
Corporate overhead allocations	4.5	1.4	222	13.7	4.8	187
Other expenses	1.2	2.5	(52)	4.6	3.4	34
Total operating expenses	35.4	20.6	72	91.1	62.8	45
Other income (expense)						
Interest income	2.7	1.7	61	6.9	4.8	43
Interest expense	(3.2)	(2.1)	48	(8.4)	(5.2)	62
Other, net	0.2	0.5	(60)	0.2	1.2	(86)
Total other income (expense), net	(0.2)	0.1	(570)	(1.4)	0.7	(288)
Income before income taxes	$ 30.5	$ 8.9	243 %	$ 70.3	$ 37.1	89 %

n/m: not meaningful

The following table provides selected operating statistics for our Originations segment:

	September 30, 2020	September 30, 2019	% Change	December 31, 2019	% Change
Short-term loan funding commitments					
Forward loans	$ 857,257	$ 140,644	510 %	$ 204,021	320 %
Reverse loans	30,977	32,971	(6)	28,545	9
Future Value (1)	—	55,502	(100)%	47,038	(100)
Future draw commitment (UPB) (2)	1,618.2	1,495.0	8 %	1,502.2	8

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	% Change	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	% Change
Originations by Channel						
Forward loans (3)						
Correspondent	$ 1,926.1	$ 92.9	n/m	$ 3,100.2	$ 96.2	n/m
Recapture	369.4	131.2	181 %	883.9	489.8	80
GSE Cash Window / Flow MSR	4,197.5	117.5	n/m	8,381.7	122.2	n/m
	$ 6,493.0	$ 341.6	n/m	$ 12,365.8	$ 708.2	n/m
% Purchase loan production	24	24	—	22	30	(25)
% Refinance loan production	76	76	—	78	70	11
Reverse loans (4)						
Correspondent	$ 119.7	$ 106.9	12 %	$ 336.3	$ 278.8	21 %
Wholesale	65.1	59.1	10	225.8	145.4	55
Retail	45.2	22.1	104	107.7	46.4	132
	$ 230.0	$ 188.1	22 %	$ 669.9	$ 470.6	42 %
Average Employment						
U.S.	456	318	43	440	393	12
India and other	197	86	129	152	106	43
Total	653	404	62	592	499	19

(1) Future Value represented the unrecognized net present value of estimated future cash flows from customer draws of the reverse mortgage loans (tails) and projected performance assumptions based on historical experience and industry benchmarks discounted at 12% related to HECM loans originated prior to January 1, 2019. On January 1, 2020, we made an irrevocable fair value election of tails and recognized $47.0 million Future Value through stockholders' equity.
(2) Includes all future draw commitments.
(3) Includes the UPB of loans funded through the recapture channel, the UPB of loans acquired through the correspondent forward channel, and the UPB of loans for which MSRs were acquired through the GSE Cash Window and flow purchases.
(4) New loan production excludes reverse tail draws by borrowers disbursed subsequent to origination of $68.1 million and $73.5 million for the three months ended September 30, 2020 and 2019, and $206.4 million and $220.1 million for the nine months ended September 30, 2020 and 2019, respectively.

Gain on Loans Held for Sale

The following table provides information regarding Gain on loans held for sale by channel and the related origination volume and margins for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Gain on Loans Held-for-Sale (1)						
Correspondent	$ 7.7	$ (0.1)	n/m	$ 12.6	$ (0.1)	n/m
Recapture	24.2	8.0	204	60.7	22.3	172
	$ 31.8	$ 7.9	304 %	$ 73.3	$ 22.2	230 %
% Gain on Sale Margin (2)						
Correspondent	0.34 %	(0.06)%	(667)	0.36 %	(0.06)%	(700)
Recapture	5.85 %	2.82 %	108	5.44 %	4.52 %	21
	1.19 %	1.97 %	(40)	1.58 %	3.59 %	(56)%
Origination UPB (3)						
Correspondent	$ 2,261.6	$ 117.1	n/m	$ 3,521.4	$ 124.4	n/m
Recapture	413.2	282.3	46	1,114.7	494.2	126
	$ 2,674.8	$ 399.4	570 %	$ 4,636.1	$ 618.6	649 %

(1) Includes gains on loan sales and related new MSR capitalization, changes in fair value of IRLCs, changes in fair value of loans held for sale and economic hedging gains and losses.
(2) Ratio of gain on Loans held for sale to volume UPB -see (3) below. Note that the ratio differs from the day-one gain on sale margin.
(3) Defined as the UPB of loans funded in the period plus the change in the period in the pull-through adjusted UPB of IRLCs.

Gain on loans held for sale, net increased $23.9 million, or 304%, as compared to the third quarter of 2019, mostly due to the $2.1 billion, or 924% increase in total forward loan production, partially offset by a lower average gain on sale margin. The volume increase in the third quarter of 2020 is predominantly driven by our correspondent channel that we re-started in the second quarter of 2019. Our pipeline, or lock commitments, significantly increased in the third quarter of 2020 mostly due to refinance opportunities in the market driven by the mortgage rate decrease. The lower average gain on sale margin is mainly due to our channel mix, with an increased relative weight of our lower-margin correspondent production. Both margins in the correspondent and recapture channels were higher in the third quarter of 2020, as compared to the third quarter of 2019.

Gain on loans held for sale, net increased $51.0 million, or 230%, as compared to the nine months ended September 30, 2019, mostly due to the $3.4 billion, or 580% increase in total forward loan production, partially offset by a lower average gain on sale margin. The volume increase in the nine months ended in 2020 is predominantly driven by our correspondent channel that we re-started in the second quarter of 2019. Our pipeline, or lock commitments, significantly increased in the first nine months of 2020 mostly due to refinance opportunities in the market driven by the mortgage rate decrease. The lower average gain on sale margin is mainly due our channel mix, with an increased relative weight of our lower-margin correspondent production. Both margins in the correspondent and recapture channels were higher in the nine months ended September 30, 2020, as compared to the same period in 2019.

Reverse Mortgage Revenue, Net

The following table provides information regarding Reverse mortgage revenue, net that comprise fair value changes of loans held for investment and the HMBS-related borrowings, for the three and nine months ended September 30, 2020 and 2019. The information differentiates fair value changes of loans pre-securitization, as origination gains, together with volume and margin, and the change in fair value of the securitized loan and HMBS-related borrowing portfolio:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Origination volume UPB (1)	$ 230.2	$ 197.3	$ 660.8	$ 484.2
Origination margin (2)	6.78 %	3.14 %	5.80 %	3.02 %
Gain on new originations (3)	$ 13.5	$ 5.1	$ 33.2	$ 10.4
Change in fair value of securitized HECM loans Held-for-Investment and HMBS-related borrowings, net	(1.1)	14.1	12.8	58.3
Other (3)	2.1	1.1	5.1	4.2
Total reverse mortgage revenue, net	**$ 14.5**	**$ 20.3**	**$ 51.1**	**$ 72.9**

(1) Defined as the UPB of loans funded in the period plus the change in the period in the pull-through adjusted UPB of IRLCs.
(2) Ratio of gain on new originations and other to origination volume UPB - see (1) above.
(3) Gain on new originations includes the change in fair value of new unsecuritized reverse loans held for investment until securitization. Changes in fair value of interest rate lock commitments and hedging gains/losses are reported as Other.
(4) Includes the change in fair value of those loans that have been securitized and the change in fair value of the related HMBS borrowings.

We reported $14.5 million Reverse mortgage revenue, net in the third quarter of 2020, driven by a $13.5 million gain on originations and a $1.0 million fair value gain due to rates and other factors. The $5.8 million decrease in Reverse mortgage revenue, net in the third quarter of 2020 as compared to the third quarter of 2019 is primarily the result of a $14.1 million fair value gain recorded in the third quarter of 2019 on the securitized portfolio, net of the HMBS-related borrowings, partially offset by a $8.4 million increase in the gain on new originations. As interest rates remain relatively flat in the third quarter of 2020, we did not report any significant fair value change on our portfolio. The $14.1 million favorable fair value adjustments recognized in the third quarter of 2019 included $3.6 million in connection with the fair value election for future draw commitments on HECM reverse mortgage loans purchased or originated after December 31, 2018 and $2.9 million related to lower interest rates. Lower interest rates generally result in favorable net fair value impacts on our HECM reverse mortgage loans and the related HMBS financing liability and higher interest rates generally result in unfavorable net fair value impacts. We increased our reverse origination volume in the third quarter of 2020 by $32.9 million, or 17%, as compared to the third quarter of 2019, and generated higher margins through securitization. The higher margins in the third quarter of 2020 drove most of the increased gain on new originations. According to the HUD HECM Endorsement Summary Report, industry endorsements, or the number of new HECM loans insured by the FHA, increased from 7,515 to 12,200, or 62%, when comparing the three months ended September 30, 2020 and 2019. Since January 1, 2020, the fair value of tail draws associated with all loans is included in the fair value of the portfolio.

We reported $51.1 million Reverse mortgage revenue, net for the nine months ended September 30, 2020, driven by a $33.2 million gain on originations and a $12.8 million fair value gain on the securitized portfolio of loans net of the HMBS related borrowings due to rates and other factors. The $21.8 million decrease in Reverse mortgage revenue, net in the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019 is primarily the result of a $45.5 million lower fair value gain on the portfolio partially offset by a $22.8 million increase in the gain on new originations. The $58.3 million favorable fair value adjustments for the nine months ended September 30, 2019 includes $9.2 million in connection with the fair value election for future draw commitments on HECM reverse mortgage loans purchased or originated after December 31, 2018, $16.9 million related to lower interest rates and $11.5 million driven by an update in the first quarter of 2019 of the financing assumption for active HECM reverse mortgage loan repurchases in connection with our HMBS Issuer obligations. As these repurchases have become more prevalent, a more liquid market for financing has developed, resulting in a lower financing cost assumption. We increased our reverse lending volume by $176.6 million, or 36%, as compared to the nine months ended September 30, 2019, and generated higher margins on securitization. The higher margins in the nine months ended September 30, 2020 drove the majority of the increased gain on new originations. Industry endorsements per the HUD HECM Endorsement Summary Report increased from 23,883 to 33,266, or 39%, when comparing the nine months ended September 30, 2020 and 2019.

MSR Valuation Adjustments, Net

MSR valuation adjustments, net include a gain of $12.4 million in the third quarter of 2020 due to the revaluation gains on certain MSRs opportunistically purchased through the GSE Cash Window. Due to the market dislocation created by the COVID-19 environment, we seized the opportunity to purchase certain MSRs with a purchase price at a discount to fair value. In addition, as an aggregator of MSRs, we recognized valuation adjustments for differences in exit markets in accordance with the accounting fair value guidance. We record such valuation adjustments as MSR valuation adjustments, net within the Originations segment since the segment’s business objective is the sourcing of new MSRs at targeted returns.

MSR valuation adjustments, net gain of $25.9 million for the nine months ended September 30, 2019 is due to the same factors as described for the third quarter of 2020. Opportunities for fair value discount or margins were larger in the early period of the pandemic and have reduced as markets start to normalize.

Operating Expenses

Operating expenses increased $14.8 million, or 72%, as compared to the third quarter of 2019, primarily due to increases in our direct expenses, including a $7.6 million increase in Compensation and benefits, and a $3.1 million increase in corporate overhead allocations. Certain expenses are variable, and as a result, as origination volume increased so did the related expenses. Examples include commissions, recorded in Compensation and benefits expense, certain outsourced services to support the surge in our Originations business recorded in Professional services, and advertising expense, recorded in Other expenses. Total average headcount increased 62% as compared to the third quarter of 2019, reflecting increases in staffing levels as part of our initiative to increase volume, including our re-entry into the forward lending correspondent channel in the second quarter of 2019. Compensation expense as compared to the third quarter of 2019 increased by $7.6 million, or 77%, due to increased headcount and higher commissions on higher origination volume. The $3.1 million increase in corporate overhead allocations is mostly attributed to the increase in our origination volume and the increase in the relative weight of average headcount to the consolidated organization, as compared to the third quarter of 2019. The increase in corporate overhead allocations due to the allocation drivers is partially offset by the effects of our cost re-engineering initiatives.

Operating expenses increased $28.3 million, or 45%, as compared to the nine months ended September 30, 2019, primarily due to increases in our direct expenses, including a $9.9 million increase in Compensation and benefits and a $5.0 million increase in Professional Services, and a $8.9 million increase in corporate overhead allocations. Total average headcount increased 19% as compared to the nine months ended September 30, 2019, reflecting an increase in headcount to support the increase in origination volume, offset in part by our PHH integration and cost re-engineering initiatives. Compensation expense as compared to the nine months ended September 30, 2019 increased by $9.9 million, or 29%, largely due to increased headcount and higher commissions on higher origination volume. The $8.9 million increase in corporate overhead allocations is mostly attributed to the same factors as described in the three-month discussion.

Other Income (Expense)

Interest income consists primarily of interest earned on newly-originated and purchased loans prior to sale to investors. Interest expense is incurred to finance the mortgage loans. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, commonly referred to as warehouse lines. The increase in interest income and interest expense as compared to the third quarter of 2019 and the nine months ended September 30, 2019 is primarily the result of the increase in loan production.

CORPORATE ITEMS AND OTHER

Corporate Items and Other includes revenues and expenses of corporate support services, our reinsurance business CRL, discontinued operations and inactive entities, and our other business activities that are currently individually insignificant, revenues and expenses that are not directly related to other reportable segments, interest income on short-term investments of cash, gain on repurchases of debt, interest expense on corporate debt and foreign currency exchange gains or losses. Interest expense on direct asset-backed financings are recorded in the respective Servicing and Originations segments, while interest expense on the SSTL and the Senior Notes is recorded in Corporate Items and Other and was not allocated. Beginning in the third quarter of 2020, we began allocating interest expense, excluding amortization of debt issuance costs and discount, on such corporate debt used to fund servicing advances and other servicing assets from Corporate Items and Other to Servicing. The interest expense related to the corporate debt has been allocated to the Servicing segment for prior periods to conform to the current period presentation. Our cash balances are included in Corporate Items and Other.

Corporate support services include finance, facilities, human resources, internal audit, legal, risk and compliance and technology functions. Corporate support services costs, specifically compensation and benefits and professional services expense, have been, and continue to be, significantly impacted by regulatory actions against us and by significant litigation matters. As part of our need to return to sustainable profitability as soon as possible, we seek to reduce our corporate support services expenses while complying with our legal and regulatory obligations. We anticipate that our ability to return to sustainable profitability will be significantly impacted by the degree to which we can reduce these costs going forward. Corporate Items and Other also includes severance, retention, facility-related and other expenses incurred related to our re-engineering plans and have not been allocated to other segments.

CRL, our wholly-owned captive reinsurance subsidiary, provides re-insurance related to coverage on REO properties owned or serviced by us. CRL assumes a quota share of REO insurance coverage written by a third-party insurer under a blanket policy issued to PMC (formerly OLS). The underlying REO policy provides coverage for direct physical loss on commercial and residential properties, subject to certain limitations. Under the terms of the reinsurance agreement, CRL assumes a 40% share of all related losses and loss adjustment expenses incurred by the third-party insurer. The reinsurance agreement excludes properties located in the State of New York and the initial term expires December 31, 2020, although it may be terminated by either party at any time with 30 days' advance written notice. Subsequent to the initial term, the reinsurance agreement will automatically renew for an additional one-year term unless either party provides 60 days' advance written notice prior to renewal. On April 28, 2020, the reinsurance agreement was amended to increase the quota share to 50% for both premiums and losses effective beginning with the month of June 2020.

Certain expenses incurred by corporate support services that are not directly attributable to a segment are allocated to the Servicing and Originations segments. Beginning in the first quarter of 2020, we updated our methodology to allocate overhead costs incurred by corporate support services to the Servicing and Originations segments which now incorporates the utilization of various measurements primarily based on time studies, personnel volumes and service consumption levels. In 2019, corporate support services costs were primarily allocated based on relative segment size. Support services costs not allocated to the Servicing and Originations segments are retained in the Corporate Items and Other segment along with certain other costs including certain litigation and settlement related expenses or recoveries, costs related to our re-engineering plan, and other costs related to operating as a public company.

The following table presents selected results of operations of Corporate Items and Other. The amounts presented are before the elimination of balances and transactions with our other segments:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Revenue						
Premiums (CRL)	$ 1.6	$ 3.8	(59)%	$ 5.2	$ 10.2	(49)%
Other revenue	—	—	—	0.1	0.1	(50)
Total revenue	1.6	3.8	(59)	5.2	10.3	(49)
Operating expenses						
Compensation and benefits	23.3	28.4	(18)	67.3	100.2	(33)
Professional services	19.7	23.7	(17)	52.3	40.9	28
Technology and communications	8.4	9.6	(12)	23.7	35.0	(32)
Occupancy and equipment	1.5	5.2	(72)	9.3	12.5	(26)
Servicing and origination	0.4	0.3	39	1.2	0.6	118
Other expenses	0.3	3.0	(90)	5.8	8.8	(34)
Total operating expenses before corporate overhead allocations	53.5	70.2	(24)	159.6	198.1	(19)
Corporate overhead allocations						
Servicing segment	(14.4)	(45.6)	(68)	(48.3)	(156.9)	(69)
Originations segment	(4.5)	(1.4)	222	(13.7)	(4.8)	187
Total operating expenses	34.6	23.2	49	97.7	36.4	168
Other income (expense), net						
Interest income	0.2	0.3	(37)	1.7	1.5	16
Interest expense	(2.2)	(1.3)	73	(7.2)	(2.1)	242
Gain on repurchase of senior secured notes	—	5.1	(100)	—	5.1	(100)
Other, net	1.0	(4.7)	(120)	(3.8)	(6.2)	(39)
Total other expense, net	(1.1)	(0.6)	76	(9.3)	(1.8)	421
Loss before income taxes	$ (34.1)	$ (20.0)	71 %	$ (101.7)	$ (27.9)	265 %

n/m: not meaningful

Revenue

CRL premium revenue declined $2.2 million, or 59% in the third quarter of 2020, as compared to the third quarter of 2019, and $5.0 million, or 49% in the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The revenue decline is primarily due to a 72% and 51% decline in the number of covered REO properties in our servicing portfolio in the quarter and in the nine months ended September 30, 2020, respectively. Factors contributing to the decline in covered properties include the current moratoria and restrictions on foreclosure procedures due to COVID-19, a declining servicing portfolio, and the GSE removal of REO coverage requirements.

Compensation and Benefits

Compensation and benefits expense declined $5.1 million, or 18%, as compared to the third quarter of 2019, due to several factors. First, our cost re-engineering initiatives have resulted in a decline in average corporate headcount of 14% with a change in the mix of onshore/offshore. The decline in our headcount mostly affected our onshore resources whose average compensation cost is relatively higher. The average onshore headcount decreased by 33% from 439 to 295, as compared to the third quarter of 2019. Second, the third quarter of 2019 included $7.3 million of severance and retention costs related to our PHH integration and cost re-engineering plan. Third, these cost savings were partially offset in the third quarter of 2020 by $1.2 million incremental incentive compensation, the recognition of $1.8 million severance and retention costs related to our 2020 re-engineering initiatives, and a $1.6 million reduction in the allocation of benefits to other segments.

Compensation and benefits expense declined $32.9 million, or 33%, as compared to the nine months ended September 30, 2019, primarily due to $31.5 million of severance and retention expenses recognized in the nine months ended September 30, 2019 in connection with the PHH integration and cost re-engineering plan and a decline in average corporate headcount of 20%, including a 42% decrease in average onshore headcount from 553 to 322. These cost savings were partially offset in the nine months ended September 30, 2020 by the same factors as described for the third quarter of 2020, with $2.9 million incremental incentive compensation, $1.2 million additional compensation expenses related to COVID-19, $4.8 million severance and retention costs related to our 2020 re-engineering initiatives, and a $3.4 million lower allocation of benefits to other segments.

Professional Services

Professional services expense declined $4.0 million, or 17%, as compared to the third quarter of 2019, primarily due to a $5.1 million decline in other professional fees offset in part by a $1.4 million increase in legal fees. The expenses incurred in the third quarter of 2019 included PHH integration costs, legal entity reorganization and certain litigation costs that were not re-occurring. Professional services expenses in the third quarter of 2020 include $2.5 million of costs related to our 2020 re-engineering initiatives and $2.2 million of COVID-19 related expenses.

Professional services expense increased $11.4 million, or 28%, as compared to the nine months ended September 30, 2019, primarily due to the $30.7 million recovery in 2019 of amounts previously recognized as expense from a service provider offset in part by an $8.5 million net decline in legal fees and an $8.9 million decline in other professional services. Expenses incurred in the nine months ended September 30, 2019 included costs related to our 2019 cost re-engineering plan. Professional services expenses for the nine months ended September 30, 2020 include $3.3 million of costs related to our 2020 re-engineering initiatives and $3.2 million of COVID-19 related expenses. The net decline in legal fees is largely due to a $16.7 million decline in legal expenses relating to the PHH integration, legal entity reorganization and litigation, partially offset by an $8.2 million increase to our accrual related to the CFPB and Florida matters in the first nine months of 2020.

Other Operating Expenses

Technology and communications expense decreased $1.2 million, or 12% in the third quarter of 2020, as compared to the third quarter of 2019, and $11.4 million, or 32% in the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The expense reduction is primarily due to a decline in capitalized technology investments and the closure of U.S. facilities in 2019, as well as the effects of a decline in average headcount and our other cost reduction efforts which included bringing technology services in-house and re-engineering initiatives. Depreciation expense decreased $3.5 million in the nine months ended September 30, 2020.

Occupancy and equipment expense declined $3.8 million, or 72% in the third quarter of 2020, as compared to the third quarter of 2019, and $3.2 million, or 26% in the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The expense reduction is primarily due to the results of our cost reduction efforts, which include consolidating vendors and closing and consolidating certain facilities. Rent expense and depreciation expense declined $2.5 million and $2.4 million, respectively, as compared to the third quarter of 2019, partially offset by a $1.6 million reduction in the allocation of occupancy costs to other segments. As compared to the nine months ended September 30, 2019, rent expense and depreciation expense declined $2.7 million and $6.2 million, respectively, and the allocation of occupancy costs to other segments was $6.8 million lower. As disclosed in Note 2 - Severance and Restructuring Charges to the Unaudited Consolidated Financial Statements, we partially abandoned one of our leased properties in the second quarter of 2020 resulting in the recognition of facility-related costs totaling $5.2 million, versus $6.6 million of similar costs recognized in the nine months ended September 30, 2019 in connection with our decision to vacate leased properties prior to the contractual maturity date of the lease agreements.

Total expenses, after corporate overhead allocation, increased by $11.4 million, or 49%, as compared to the third quarter of 2019, primarily due to our updated methodology to allocate overhead costs which we implemented in 2020. Total expenses, after corporate overhead allocation, increased by $61.3 million, or 168%, as compared to the nine months ended September 30, 2019, primarily due to the $30.7 million recovery in 2019 of amounts previously recognized as expense from a service provider, which was not allocated, the $8.2 million increase to our accrual related to the CFPB and Florida matters in the first quarter of 2020, costs related to our 2020 re-engineering initiatives, and the effect of our updated methodology to allocate overhead costs which we implemented in 2020.

Other Income (Expenses)

Interest expense increased $0.9 million, or 73%, as compared to the third quarter of 2019. Interest expense allocated to the Servicing segment amounted to $8.8 million and $14.0 million in the third quarter of 2020 and 2019, respectively, a decrease of $5.2 million. The interest allocation represents a charge for the financing of MSRs and servicing advances which are funded by corporate debt. The $126.1 million prepayment of the outstanding SSTL balance in January 2020, the maturity of $97.5 million of our 7.375% senior unsecured notes in September 2019, and the repurchase of $39.4 million of our 8.375% senior secured notes in July and August 2019 resulted in a $4.3 million decline in interest expense before allocation.

Interest expense increased $5.1 million, or 242%, as compared to the nine months ended September 30, 2019 primarily due to the same factors as described in the three-month discussion. The interest allocation to the Servicing segment for the nine months ended September 30, 2020 and 2019 is $28.8 million and $43.3 million, respectively, a decline of $14.5 million. Interest expense on corporate debt before allocation declined $12.8 million. Amortization of debt issuance costs and discount, which is not allocated, increased $3.8 million as compared to the nine months ended September 30, 2019.

Other expense, net decreased $5.8 million, or 120% in the third quarter of 2020, as compared to the third quarter of 2019, and $2.5 million, or 40% in the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The expense reduction is mostly due to the write-off of $2.2 million of capitalized software in the third quarter of 2019 and $1.5 million of government service export incentives recognized in the third quarter of 2020 related to our operations in India. The nine month expense reduction is also due to a $1.2 million decrease in pension costs and other income related to our India operations as described above.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We are actively engaged with our lenders and as a result, have successfully completed at market terms the following with respect to our current and anticipated financing needs:

- On January 22, 2020, we did not renew and let terminate a $50.0 million uncommitted warehouse facility used to fund reverse mortgage loan draws.
- On January 27, 2020, we executed an amendment to the SSTL agreement which reduced the maximum borrowing capacity to $200.0 million, extended the maturity date to May 15, 2022, reduced the contractual quarterly principal payment from $6.4 million to $5.0 million and modified the interest rate.
- On March 12, 2020, we entered into a mortgage loan warehouse agreement to fund reverse mortgage loan draws by borrowers subsequent to origination. Under this agreement, the lender provides financing for up to $100.0 million to PMC on an uncommitted basis. In October 2020, the maturity date was extended to October 29, 2021 and the capacity was temporarily increased to $150.0 million until November 15, 2020 when it will be reduced to $100.0 million. Concurrently, we reduced the maximum borrowing capacity of another reverse mortgage loan warehouse agreement from $100.0 million to $1.0 million in connection with Liberty’s transfer of substantially all of its assets, liabilities, contracts and employees to PMC effective March 15, 2020. On August 10, 2020, the maturity date of this agreement was extended to August 13, 2021.
- On May 7, 2020, we renewed the OMART variable funding advance financing facility through June 30, 2021 and increased the borrowing capacity from $200.0 million to $500.0 million.
- On May 7, 2020, we renewed the OFAF advance financing facility through June 30, 2021and increased the borrowing capacity from $60.0 million to $70.0 million.
- On May 7, 2020, we renewed a mortgage loan warehouse agreement with a maximum borrowing capacity of $175.0 million ($110.0 million of which is committed) through June 30, 2021.
- On May 7, 2020 we renewed the Agency MSR financing facility through June 30, 2021 and reduced the borrowing capacity from $300.0 million to $250.0 million.

- On June 25, 2020, we renewed and amended a mortgage loan warehouse agreement with an original maximum borrowing capacity of $300.0 million through June 24, 2021 and reduced the borrowing capacity to $210.0 million (a $90 million committed repurchase agreement and a $120.0 million uncommitted participation agreement).
- On June 30, 2020, we amended the Ginnie Mae MSR facility to include servicing advances as eligible collateral, upsized the borrowing capacity to $127.5 million from $100 million, and accelerated the maturity to December 20, 2020.
- On August 12, 2020, we issued new OMART fixed-rate term notes with a total borrowing capacity of $475.0 million and an amortization date of August 15, 2022. The existing fixed-rate term notes with a total borrowing capacity of $470.0 million were redeemed on August 17, 2020.
- On August 17, 2020, we reduced the total borrowing capacity of the OMART variable-rate notes from $500.0 million to $250.0 million in conjunction with the issuance of new fixed-rate term notes disclosed above.
- On September 30, 2020, we entered into a $100.0 million uncommitted repurchase agreement to finance the purchase of EBO loans from Ginnie Mae. This agreement does not have any stated maturity date, however, each transaction has a maximum duration of four years. The cost of this line is set at each transaction date and is based on the interest rate on the collateral.

See Note 12 – Borrowings to the Unaudited Consolidated Financial Statements for additional information.

A summary of borrowing capacity under our advance facilities, mortgage warehouse facilities and MSR financing facilities is as follows at the dates indicated:

	September 30, 2020			December 31, 2019		
	Total Borrowing Capacity	Available Borrowing Capacity - Committed	Available Borrowing Capacity - Uncommitted	Total Borrowing Capacity	Available Borrowing Capacity - Committed	Available Borrowing Capacity - Uncommitted
Advance facilities	$ 795.0	$ 214.9	$ —	$ 730.0	$ 50.9	$ —
Mortgage loan warehouse facilities	937.0	134.6	360.7	1,125.0	108.4	684.4
MSR financing facilities	377.5	136.1	74.9	400.0	180.0	—
Total	$ 2,109.5	$ 485.6	$ 435.6	$ 2,255.0	$ 339.3	$ 684.4

The available borrowing capacity under our advance financing facilities increased by $164.0 million as compared to December 31, 2019 due to the $65.0 million net increase in total borrowing capacity and the $99.0 million decline in outstanding borrowings. At September 30, 2020, $10.0 million could be funded under the available borrowing capacity based on the amount of eligible collateral that had been pledged to our advance financing facilities.

We may utilize committed borrowing capacity under our mortgage warehouse facilities and MSR financing facilities to the extent we have sufficient eligible collateral to borrow against and otherwise satisfy the applicable conditions to funding. At September 30, 2020, we had a $34.1 million committed borrowing capacity, based on the amount of eligible collateral, and an additional $47.6 million uncommitted borrowing capacity. Uncommitted amounts can be advanced at the discretion of the lender, and there can be no assurance that any uncommitted amounts will be available to us at any particular time.

At September 30, 2020, our unrestricted cash position was $321.5 million compared to $428.3 million at December 31, 2019. In addition, we had voluntarily paid down or foregone borrowings on our facilities to reduce interest costs. We typically invest cash in excess of our immediate operating needs in deposit accounts and other liquid assets.

We closely monitor our liquidity position and ongoing funding requirements, and we regularly monitor and project cash flows over various time horizons as a way to anticipate and mitigate liquidity risk. As uncertainties in market conditions decline, we will continue to seek to optimize our cash management and may reduce our unrestricted cash position to further fund our growth.

In assessing our liquidity outlook, our primary focus is on available cash on hand, unused available funding and the following six forecast measures:

- Financial projections for ongoing net income, excluding the impact of non-cash items, and working capital needs including loan repurchases;
- Requirements for amortizing and maturing liabilities compared to sources of cash;
- The projected change in advances compared to the projected borrowing capacity to fund such advances under our facilities, including capacity for monthly peak needs;
- Projected funding requirements for acquisitions of MSRs and other investment opportunities;
- Potential payments or recoveries related to legal and regulatory matters, insurance, taxes and MSR transactions; and

- Funding capacity for whole loans and tail draws under our reverse mortgage commitments subject to warehouse eligibility requirements.

COVID-19 Liquidity Update and Outlook

The COVID-19 environment created unprecedented changes in the economy, volatility in the capital markets, and uncertainties in the mortgage industry. As of today, while market conditions have stabilized and our prior scenario planning has proven somewhat conservative, uncertainties related to the duration, severity and impact of the economic downturn remain. Two critical factors have the most effect on our liquidity management in the current COVID-19 environment: our increased advancing requirements as servicer during each investor remittance period, and the uncertainties of daily margin calls on our collateralized debt facilities and derivative instruments.

First, as servicer, we are required to advance to investors the loan P&I installments not collected from borrowers for those delinquent loans, including those on forbearance. We also advance T&I and Corporate advances on properties that are in default or have been foreclosed. Our obligations to make these advances are governed by servicing agreements or guides, depending on investors or guarantor. Refer to Note 21 — Commitments to the Unaudited Consolidated Financial Statements for further description of servicer advance obligations.

Second, we are generally subject to daily margining requirements under the terms of our MSR financing facilities and daily cash calls for our TBAs and interest rate swap futures. Declines in fair value of our MSRs due to declines in market interest rates, assumption updates or other factors require that we provide additional collateral to our lenders under MSR financing facilities. Similarly, declines in fair value of our derivative instruments require that we provide additional collateral to the clearing counterparties.

We are focused on ensuring that we have sufficient liquidity sources to continue to operate through the pandemic as well as after. As such, in 2020 we increased the total borrowing capacity of our OMART and OFAF advance financing facilities from $730.0 million to $795.0 million and extended the amortization dates to June 2021 and August 2022. We also amended our Ginnie Mae MSR facility to include servicing advances as eligible collateral and increased the total borrowing capacity from $100.0 million to $127.5 million. We continuously evaluate alternative financings to diversify our sources of funds, optimize maturities and reduce our funding cost.

Regarding the current maturities of our borrowings, as of September 30, 2020, we have approximately $780.6 million of debt outstanding that would either come due, begin amortizing or require partial repayment in the next 12 months. This amount is comprised of $20.0 million in contractual repayments of our SSTL, $441.8 million of borrowings under forward and reverse mortgage warehouse facilities, $105.1 million of variable funding and term notes under advance financing facilities that will enter their respective amortization periods, $166.5 million outstanding under our Agency and Ginnie Mae MSR financing facilities and $25.8 million of scheduled principal amortization on the PLS Notes secured by PLS MSRs.

We have considered the impact of financial projections on our liquidity analysis and have evaluated the appropriateness of the key assumptions in our financial forecasts. As part of this analysis, we have also assessed the cash requirements to operate our business and service our financial obligations coming due. We have assessed the range of potential impacts of the COVID-19 pandemic on our financial projections and projected liquidity under base case, adverse and severely adverse scenarios. We believe the recent issuances, renewals and amendments we have executed will provide sufficient liquidity in all of these scenarios. We expect to renew, replace or extend our borrowings to the extent necessary to finance our business on or prior to their respective maturities consistent with our historical experience.

Use of Funds

Our primary uses of funds in normal course include:

- Payment of operating costs and corporate expenses;
- Payments for advances in excess of collections;
- Investing in our servicing and originations businesses, including MSR and other asset acquisitions;
- Originated and repurchased loans, including scheduled and unscheduled equity draws on reverse mortgage loans;
- Payment of margin calls under our MSR financing facilities and derivative instruments;
- Repayments of borrowings, including under our MSR financing, advance financing and warehouse facilities, and payment of interest expense; and
- Net negative working capital and other general corporate cash outflows.

Under the terms of our SSTL facility agreement, subject to certain exceptions, we are required to prepay the SSTL with certain percentage amounts of excess cash flow as defined and 100% of the net cash proceeds from certain permitted asset sales, subject to our ability to reinvest such proceeds in our business within 270 days of receipt.

Sources of Funds

Our primary sources of funds for near-term liquidity in normal course include:

- Collections of servicing fees and ancillary revenues;
- Collections of advances in excess of new advances;
- Proceeds from match funded advance financing facilities;
- Proceeds from other borrowings, including warehouse facilities and MSR financing facilities;
- Proceeds from sales and securitizations of originated loans and repurchased loans; and
- Net positive working capital from changes in other assets and liabilities.

Servicing advances are an important component of our business and represent amounts that we, as servicer, are required to advance to, or on behalf of, our servicing clients if we do not receive such amounts from borrowers. Our use of advance financing facilities is integral to our cash and liquidity management strategy. Revolving variable funding notes issued by our advance financing facilities to financial institutions typically have a revolving period of 12 months. Term notes are generally issued to institutional investors with one-, two- or three-year revolving periods. Additionally, certain of our financing and subservicing agreements permit us to retain advance collections for a period ranging from one to two business days before remittance, thus providing a source of short-term liquidity.

We use mortgage loan repurchase and participation facilities (commonly called warehouse lines) to fund newly-originated loans on a short-term basis until they are sold to secondary market investors, including GSEs or other third-party investors, and to fund repurchases of certain Ginnie Mae forward loans, HECM loans, second-lien loans and other types of loans. Warehouse facilities are structured as repurchase or participation agreements under which ownership of the loans is temporarily transferred to the lender. These facilities contain eligibility criteria that include aging and concentration limits by loan type among other provisions. Currently, our master repurchase and participation agreements generally have maximum terms of 364-days. The funds are typically repaid using the proceeds from the sale of the loans to the secondary market investors, usually within 30 days.

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

We regularly evaluate financing structure options that we believe will most effectively provide the necessary capacity to support our investment plans, address upcoming debt maturities and accommodate our business needs. We are actively pursuing the launch of an MSR funding vehicle with third-party investors to accelerate the growth of our servicing volume. Our financing structure actions are targeted at optimizing access to capital and debt financing, improving our cost of funds, enhancing financial flexibility, bolstering liquidity and reducing funding risk while maintaining leverage within our risk tolerances. Historical losses have significantly eroded our stockholders’ equity and weakened our financial condition. To the extent we are not successful in achieving our objective of returning to profitability, funding continuing losses will limit our opportunities to grow our business through capital investment.

Collateral

Our assets held as collateral related to secured borrowings, committed under sale or other contractual obligations and which may be subject to a secured lien under the SSTL are as follows at September 30, 2020:

		Collateral for Secured Borrowings				
Assets	**Total**	**Advance Match Funded Liabilities**	**Financing Liabilities**	**Mortgage Loan Warehouse/MSR Facilities**	**Sales and Other Commitments**	**Other**
Cash	$ 321.5	$ —	$ —	$ —	$ —	$ 321.5
Restricted cash	61.5	10.5	—	4.4	46.6	—
MSRs (1)	1,069.0	—	577.9	490.6	—	—
Advances, net	832.6	660.8	—	61.1	—	110.7
Loans held for sale	390.6	—	—	335.7	—	54.9
Loans held for investment	6,860.9	—	6,726.1	95.6	—	39.2
Receivables, net	201.6	—	—	52.4	—	149.2
Premises and equipment, net	23.6	—	—	—	—	23.6
Other assets	662.5	—	—	7.1	598.0	57.4
Total Assets	$ 10,423.9	$ 671.3	$ 7,304.0	$ 1,046.9	$ 644.6	$ 756.6
Liabilities						
HMBS - related borrowings	$ 6,606.5	$ —	$ 6,606.5	—	$ —	$ —
Other financing liabilities	588.3	—	588.3	—	—	—
Advance match funded liabilities	580.1	580.1	—	—	—	—
Other secured borrowings, net	915.3	—	—	607.0	—	308.3
Senior notes, net	311.7	—	—	—	—	311.7
Other liabilities	997.5	—	—	—	598.0	399.5
Total Liabilities	$ 9,999.4	$ 580.1	$ 7,194.9	$ 607.0	$ 598.0	$ 1,019.5
Total Equity	$ 424.5					

(1) Certain MSR cohorts with a net negative fair value of $0.5 million that would be presented as Other are excluded from the eligible collateral of the facilities and are comprised of $17.4 million of negative fair value related to RMBS and $17.9 million of positive fair value related to private EBO and PLS MSRs.

See Note 12 – Borrowings for information on assets held as collateral related to secured borrowings, committed under sale or other contractual obligations and which may be subject to a secured lien under the SSTL.

Covenants

Our debt agreements contain various qualitative and quantitative covenants including financial covenants, covenants to operate in material compliance with applicable laws and regulations, monitoring and reporting obligations and restrictions on our ability to engage in various activities, including but not limited to incurring additional debt, paying dividends, repurchasing or redeeming capital stock, transferring assets or making loans, investments or acquisitions. Because of the covenants to which we are subject, we may be limited in the manner in which we conduct our business and may be limited in our ability to engage in favorable business activities or raise additional capital to finance future operations or satisfy future liquidity needs. In addition, breaches or events that may result in a default under our debt agreements include, among other things, nonpayment of principal or interest, noncompliance with our covenants, breach of representations, the occurrence of a material adverse change, insolvency, bankruptcy, certain material judgments and litigation and changes of control. See Note 12 – Borrowings for additional information regarding our covenants.

Covenants and default provisions of this type are commonly found in debt agreements such as ours. Certain of these covenants and default provisions are open to subjective interpretation and, if our interpretation were contested by a lender, a court may ultimately be required to determine compliance or lack thereof. In addition, our debt agreements generally include cross default provisions such that a default under one agreement could trigger defaults under other agreements. If we fail to comply with our debt agreements and are unable to avoid, remedy or secure a waiver of any resulting default, we may be subject to adverse action by our lenders, including termination of further funding, acceleration of outstanding obligations, enforcement of liens against the assets securing or otherwise supporting our obligations, and other legal remedies, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations. We believe that we are in compliance with the qualitative and quantitative covenants in our debt agreements as of the date this Quarterly Report on Form 10-Q is filed with the SEC. Given the current market conditions created by the COVID-19 pandemic, there are no assurances we will be able to maintain compliance with our covenants.

Credit Ratings

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

Rating Agency	Long-term Corporate Rating	Review Status / Outlook	Date of last action
Moody's	Caa1	Negative	September 11, 2019
S&P	B –	Negative	July 23, 2020

On July 23, 2020, S&P removed the CreditWatch with negative implications that was placed on our ratings on April 3, 2020 as a result of uncertainty around the financial impacts resulting from COVID-19. S&P revised the rating to a Negative Outlook based on our reported preliminary results for the second quarter that showed sufficient liquidity to manage servicing advance requirements from COVID-19-related forbearances, including nearly $314 million of cash and over $750 million of credit availability on our servicing advance, MSR, and mortgage warehouse lines. On August 21, 2020, Moody's reaffirmed their ratings. In addition, Ocwen has been able to maintain cushion on its tangible net worth debt covenants. It is possible that additional actions by credit rating agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Cash Flows

Our operating cash flow is primarily impacted by operating results, changes in our servicing advance balances, the level of mortgage loan production, the timing of sales and securitizations of mortgage loans, and the margin calls required under our MSR financing facilities or derivative instruments. We classify proceeds from the sale of servicing advances, including advances sold in connection with the sale of MSRs, purchase of MSRs through flow purchase agreements, GSE Cash Window and bulk acquisitions as investing activity. We classify changes in HECM loans held for investment as investing activity and changes in the related HMBS borrowings as financing activity.

Our NRZ agreements have a significant impact on our consolidated statements of cash flows. Because the lump-sum payments we received in connection with our 2017 Agreements and New RMSR Agreements were recorded as secured financings, additions to, and reductions in, the balance of those secured financings were recognized as financing activity in our consolidated statements of cash flows through April 2020. Excluding the impact of changes to the secured financings attributed to changes in fair value, changes in the balance of these secured financings are reflected in cash flows from operating activities despite having no impact on our consolidated cash balance. Net cash provided by operating activities for the nine months ended September 30, 2020 and 2019 includes $35.1 million and $76.1 million, respectively, of such cash flows and they were offset by corresponding amounts in net cash used in financing activities in the same periods.

Cash flows for the nine months ended September 30, 2020

Our operating activities provided $248.0 million of cash including $349.9 million net collections of servicing fee and ancillary income and $210.7 million of net collections of servicing advances, mostly P&I advances, partially offset by net cash paid on loans held for sale of $119.9 million for the nine months ended September 30, 2020.

Our investing activities used $328.1 million of cash. The primary uses of cash in our investing activities include net cash outflows in connection with our HECM reverse mortgages of $248.2 million. Cash outflows also include $83.0 million to purchase MSRs.

Our financing activities used $29.3 million of cash. Cash outflows include repayments of $136.1 million on the SSTL, $99.0 million of net repayments on advance match funded liabilities and $84.2 million of net payments on the financing liabilities related to MSRs pledged. In addition, we also paid $7.4 million of debt issuance costs related to our SSTL facility amendment and repurchased shares of our common stock for $4.6 million. Cash inflows include $886.0 million received in connection with our reverse mortgage securitizations, which are accounted for as secured financings, less repayments on the related financing liability of $613.0 million, and a $28.2 million net increase in borrowings under our mortgage warehouse and MSR financing facilities.

Cash flows for the nine months ended September 30, 2019

Our operating activities provided $184.1 million of cash largely due to $189.9 million of net collections of servicing advances, offset in part by net cash paid on loans held for sale during the nine months ended September 30, 2019 of $85.2 million.

Our investing activities used $397.3 million of cash. The primary uses of cash in our investing activities include net cash outflows in connection with our HECM reverse mortgages of $292.1 million. Cash outflows also include $112.4 million to purchase MSRs.

Our financing activities provided $219.9 million of cash. Cash inflows include $665.8 million received in connection with our reverse mortgage securitizations less repayments on the related financing liability of $377.1 million. We increased borrowings under the SSTL through the issuance of an additional term loan of $120.0 million (before a discount of $0.9 million), less $19.1 million of quarterly repayments. In addition, we increased borrowings under our mortgage loan warehouse facilities by $87.5 million and borrowed $137.6 million under a new Agency MSR financing facility. Cash outflows include $90.8 million of net repayments on advance match funded liabilities as a result of advance recoveries, $157.2 million of net payments on the financing liabilities related to MSRs pledged and $131.8 million to redeem and repurchase Senior notes.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

Contractual Obligations

We have certain contractual obligations which require us to make future cash payments. At September 30, 2020, such contractual obligations were primarily comprised of secured and unsecured borrowings, interest payments, leases and commitments to originate or purchase loans, including equity draws on reverse mortgages. There were no material changes to the table of specified contractual obligations contained in our Annual Report on Form 10-K during the nine months ended September 30, 2020, other than changes related to our secured borrowings.

During the nine months ended September 30, 2020, we executed an amendment to the SSTL agreement which reduced the maximum borrowing capacity to $200.0 million, extended the maturity date to May 15, 2022, reduced the contractual quarterly principal payment from $6.4 million to $5.0 million and modified the interest rate. See Note 12 – Borrowings to the Unaudited Consolidated Financial Statements and “Liquidity and Capital Resources - Outlook” for additional information.

In addition to the contractual obligations described above, our obligations to make future cash payments include our commitments related to off-balance-sheet and other arrangements, which are excluded from the table of specified contractual obligations contained in our Annual Report on Form 10-K, including but not limited to servicing advance obligations, margin calls associated with our asset-backed financing facilities and margin calls associated with our derivative instruments. See Note 21 — Commitments to the Unaudited Consolidated Financial Statements for additional information.

Our forecasting with respect to our ability to satisfy our contractual obligations, including but not limited to our servicing advance obligations, requires management to use judgment and estimates and includes factors that may be beyond our control, such as the conditions created by the COVID-19 pandemic. Our actual results could differ materially from our estimates, and if this were to occur, it could have a material adverse effect on our business, financial condition, liquidity and results of operations.

Off-Balance Sheet Arrangements

In the normal course of business, we engage in transactions with a variety of financial institutions and other companies that are not reflected on our balance sheet. We are subject to potential financial loss if the counterparties to our off-balance sheet transactions are unable to complete an agreed upon transaction. We manage counterparty credit risk by entering into financial instrument transactions through national exchanges, primary dealers or approved counterparties and through the use of mutual margining agreements whenever possible to limit potential exposure. We regularly evaluate the financial position and creditworthiness of our counterparties. Our off-balance sheet arrangements include mortgage loan repurchase and indemnification obligations, unconsolidated SPEs (a type of VIE) and notional amounts of our derivatives.

Mortgage Loan Repurchase and Indemnification Liabilities. We have exposure to representation, warranty and indemnification obligations in our capacity as a loan originator and servicer. We recognize the fair value of representation and warranty obligations in connection with originations upon sale of the loan or upon completion of an acquisition. Thereafter, the estimation of the liability considers probable future obligations based on industry data of loans of similar type segregated by year of origination and estimated loss severity based on current loss rates for similar loans. Our historical loss severity considers the historical loss experience that we incur upon sale or liquidation of a repurchased loan as well as current market conditions. See Note 3 – Securitizations and Variable Interest Entities, Note 13 – Other Liabilities and Note 22 – Contingencies to the Unaudited Consolidated Financial Statements for additional information.

Unfunded Lending Commitments. We have originated floating-rate reverse mortgage loans under which the borrowers have additional borrowing capacity of $1.6 billion at September 30, 2020. This additional borrowing capacity is available on a scheduled or unscheduled payment basis. See Note 21 — Commitments to the Unaudited Consolidated Financial Statements for additional information.

HMBS Issuer Obligations. As an HMBS issuer, we assume certain obligations related to each security issued. The most significant obligation is the requirement to purchase loans out of the Ginnie Mae securitization pools once the outstanding principal balance of the related HECM is equal to or greater than 98% of the maximum claim amount (MCA repurchases). Active repurchased loans are assigned to HUD and payment is received from HUD, typically within 60 days of repurchase. HUD reimburses us for the outstanding principal balance on the loan up to the maximum claim amount. We bear the risk of exposure if the amount of the outstanding principal balance on a loan exceeds the maximum claim amount. Inactive repurchased loans (the borrower is deceased, no longer occupies the property or is delinquent on tax and insurance payments) are generally liquidated through foreclosure and subsequent sale of REO, with a claim filed with HUD for recoverable remaining principal and advance balances. See Note 21 — Commitments to the Unaudited Consolidated Financial Statements for additional information.

Involvement with VIEs. We use SPEs and VIEs for a variety of purposes but principally in the financing of our servicing advances, in the securitization of mortgage loans and in the financing of our MSRs. We include VIEs in our consolidated financial statements if we determine we are the primary beneficiary. See Note 3 – Securitizations and Variable Interest Entities to the Unaudited Consolidated Financial Statements for additional information.

We generally use match funded securitization facilities to finance our servicing advances. The SPEs to which the receivables for servicing advances are transferred in the securitization transaction are included in our consolidated financial statements either because we have the majority equity interest in the SPE or because we are the primary beneficiary where the SPE is a VIE. Holders of the debt issued by the SPEs have recourse only to the assets of the SPEs for satisfaction of the debt.

Derivatives. We record all derivatives at fair value on our consolidated balance sheets. We use these derivatives primarily to manage our interest rate risk. The notional amounts of our derivative contracts do not reflect our exposure to credit loss. Generally, our derivative instruments require daily margin calls. See Note 15 – Derivative Financial Instruments and Hedging Activities to the Unaudited Consolidated Financial Statements for additional information.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our ability to measure and report our financial position and operating results is influenced by the need to estimate the impact or outcome of future events based on information available at the date of the financial statements. An accounting estimate is considered critical if it requires that management make assumptions about matters that were highly uncertain at the time the accounting estimate was made. If actual results differ from our judgments and assumptions, then it may have an adverse impact on the results of operations and cash flows. We have processes in place to monitor these judgments and assumptions, and management is required to review critical accounting policies and estimates with the Audit Committee of the Board of Directors. Our significant accounting policies and critical accounting estimates are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019 in Note 1 to the Consolidated Financial Statements and in Management’s Discussion and Analysis of Financial Condition and Results of Operations under “Critical Accounting Policies and Estimates.”

Fair Value Measurements

We use fair value measurements to record fair value adjustments to certain instruments in our statement of operations and to determine fair value disclosures. Refer to Note 4 – Fair Value to the Unaudited Consolidated Financial Statements for the fair value hierarchy, descriptions of valuation methodologies used to measure significant assets and liabilities at fair value and details of the valuation models, key inputs to those models, and significant assumptions utilized. We follow the fair value hierarchy to prioritize the inputs utilized to measure fair value. We review and modify, as necessary, our fair value hierarchy classifications on a quarterly basis. As such, there may be reclassifications between hierarchy levels.

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

	September 30, 2020	December 31, 2019
Loans held for sale	$ 390.6	$ 275.3
Loans held for investment - Reverse mortgages	6,849.9	6,269.6
Loans held for investment - Restricted for securitization investors	11.0	23.3
MSRs	1,069.0	1,486.4
Derivative assets	22.8	6.0
Mortgage-backed securities	2.2	2.1
Corporate bonds	0.2	0.4
Assets at fair value	$ 8,345.7	$ 8,063.1
As a percentage of total assets	80 %	77 %
Financing liabilities		
HMBS-related borrowings	6,606.5	6,063.4
Financing liability - MSRs pledged	577.3	950.6
Financing liability - Owed to securitization investors	11.0	22.0
	7,194.8	7,036.0
Derivative liabilities	1.0	—
Liabilities at fair value	$ 7,195.8	$ 7,036.0
As a percentage of total liabilities	72 %	70 %
Assets at fair value using Level 3 inputs	$ 8,004.9	$ 7,847.9
As a percentage of assets at fair value	96 %	97 %
Liabilities at fair value using Level 3 inputs	$ 7,194.9	$ 7,036.0
As a percentage of liabilities at fair value	100 %	100 %

Assets at fair value using Level 3 inputs decreased during the nine months ended September 30, 2020 primarily due to the derecognition of the MSR related to the PMC servicing agreement terminated by NRZ and a decline in the fair value of MSRs, offset in part by reverse mortgage originations. Liabilities at fair value using Level 3 inputs remained mostly flat due to the increase of reverse mortgage securitizations, which we account for as secured financings, partially offset by the derecognition of the pledged MSR financing liability related to PMC servicing agreement terminated by NRZ, which we accounted for as secured financings. Our net economic exposure to Loans held for investment - Reverse mortgages and the related Financing liabilities (HMBS-related borrowings) is limited to the residual value we retain. Changes in inputs used to value the loans held for investment are largely offset by changes in the value of the related secured financing. In addition, we have no net fair value exposure to the MSR pledged to NRZ and the related pledged MSR financing liability, both reported at fair value.

We have various internal controls in place to ensure the appropriateness of fair value measurements. Significant fair value measures are subject to analysis and management review and approval. Additionally, we utilize a number of operational controls to ensure the results are reasonable, including comparison, or "back testing," of model results against actual performance and monitoring the market for recent trades, including our own price discovery in connection with potential and completed sales, and other market information that can be used to benchmark inputs or outputs. Considerable judgment is used in forming conclusions about Level 3 inputs such as interest rate movements, prepayment speeds, delinquencies, credit losses and discount rates. Changes to these inputs could have a significant effect on fair value measurements.

Valuation of MSRs

MSRs are assets that represent the right to service a portfolio of mortgage loans. We originate MSRs from our multi-channel lending activities and source MSRs through flow purchase agreements, GSE Cash Window, or bulk acquisitions. We elected to account for MSRs using the fair value measurement method.

The determination of the fair value of MSRs requires management judgment due to the number of assumptions that underlie the valuation. We determine the fair value of MSRs primarily using discounted cash flow methodologies. 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.

We engage third-party valuation experts who 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 and a prepayment 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, incorporating available industry survey results and client feedback, and including risk premiums and liquidity adjustments. While the models and related assumptions used by the valuation experts are proprietary to them, we understand the methodologies 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 verification and analytical procedures, provide reasonable assurance that the prices used in our 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. The following table provides the range and weighted average of key assumptions used as of September 30, 2020:

	Conventional	Government-Insured	Non-Agency
Prepayment speed			
Range	11.2% to 28.8%	11.0% to 23.1%	8.8% to 15.0%
Weighted average	18.6%	17.1%	11.5%
Delinquency			
Range	1.4% to 5.7%	7.0% to 19.4%	27.7% to 30.2%
Weighted average	2.2%	9.5%	28.2%
Cost to service (in dollars)			
Range	$66 to $69	$111 to $136	$229 to $273
Weighted average	$67	$116	$263
Discount rate	9.1%	10.3%	11.4%

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

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

Allowance for Losses on Servicing Advances and Receivables

Advances are generally fully reimbursed. However, servicing advances may include claimable (with investors) but non-recoverable expenses, for example due to servicer error, such as lack of reasonable documentation as to the type and amount of advances. We record an allowance for losses on servicing advances as a charge to earnings to the extent we believe that a portion of advances are uncollectible under the provisions of each servicing contract taking into consideration, among other factors, our historical collection rates, probability of default, cure or modification, length of delinquency and the amount of the advance. We continually assess collectability using proprietary cash flow projection models that incorporated a number of different factors, depending on the characteristics of the mortgage loan or pool, including, for example, the probable loan liquidation path, estimated time to a foreclosure sale, estimated costs of foreclosure action, estimated future property tax payments and the estimated value of the underlying property net of estimated carrying costs, commissions and closing costs. At September 30, 2020, the allowance for losses on servicing advances was $6.1 million, which represents 0.7% of advances.

We record an allowance for losses on receivables in our Servicing business, including related to defaulted FHA or VA insured loans repurchased from Ginnie Mae guaranteed securitizations (government-insured loan claims). This allowance represents management's estimate of expected lifetime credit losses and is maintained at a level that management considers adequate based upon continuing assessments of collectability, current trends, historical loss experience, and reasonable and supportable forecasts. At September 30, 2020, the allowance for losses on receivables related to government-insured claims was $40.8 million, which represents 27% of the total balance of government-insured claims receivables.

We adopted ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, as amended, on January 1, 2020. The ASU requires the measurement and recording of expected lifetime credit losses on loans and other financial instruments measured at amortized cost and replaces the existing incurred loss model for credit losses. The new guidance requires an organization to measure all current expected credit losses (CECL) for financial assets held and certain off-balance sheet credit exposures at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts.

We applied the guidance at the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings on January 1, 2020. As permitted by this standard, we made an irrevocable fair value election for certain financial instruments within the scope of the standard. The transition adjustment related to financial instruments for which we are not electing the fair value option did not result in any significant adjustment to the opening balance of retained earnings. Our measurement of lifetime expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect collectability.

Determining an allowance for losses involves degrees of judgment and assumptions that, given similar information at any given point, may result in a different but reasonable estimate.

Income Taxes

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

We conduct periodic evaluations of positive and negative evidence to determine whether it is more likely than not that the deferred tax asset can be realized in future periods. In these evaluations, we gave more significant weight to objective evidence, such as our actual financial condition and historical results of operations, as compared to subjective evidence, such as projections of future taxable income or losses.

For the three-year periods ended December 31, 2019 and 2018, the USVI filing jurisdiction was in a material cumulative loss position. The U.S. jurisdiction was also in a three-year cumulative loss position as of December 31, 2019 and 2018. We recognize that cumulative losses in recent years is an objective form of negative evidence in assessing the need for a valuation allowance and that such negative evidence is difficult to overcome. Other factors considered in these evaluations are estimates of future taxable income, future reversals of temporary differences, tax character and the impact of tax planning strategies that may be implemented, if warranted.

As a result of these evaluations, we recognized a full valuation allowance of $199.5 million and $46.3 million on our U.S. deferred tax assets at December 31, 2019 and 2018, respectively, and a full valuation allowance of $0.4 million and $21.3 million on our USVI deferred tax assets at December 31, 2019 and 2018, respectively. The U.S. and USVI jurisdictional deferred tax assets are not considered to be more likely than not realizable based on all available positive and negative evidence. We intend to continue maintaining a full valuation allowance on our deferred tax assets in both the U.S. and USVI until there is sufficient evidence to support the reversal of all or some portion of these allowances. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period in which the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change based on the profitability that we achieve.

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

NOL carryforwards may be subject to annual limitations under Internal Revenue Code Section 382 (Section 382) (or comparable provisions of foreign or state law) in the event that certain changes in ownership were to occur. In addition, tax credit carryforwards may be subject to annual limitations under Internal Revenue Code Section 383 (Section 383). We periodically evaluate our NOL and tax credit carryforwards and whether certain changes in ownership have occurred as measured under Section 382 that would limit our ability to utilize a portion of our NOL and tax credit carryforwards. If it is determined that an ownership change(s) has occurred, there may be annual limitations on the use of these NOL and tax credit carryforwards under Sections 382 and 383 (or comparable provisions of foreign or state law).

As previously disclosed in prior filings, Ocwen and PHH have both experienced historical ownership changes that have caused the use of certain tax attributes to be limited and have resulted in the write-off of certain of these attributes based on our inability to use them in the carryforward periods defined under the tax laws. Ocwen continues to monitor the ownership in its stock to evaluate whether any additional ownership changes have occurred that would further limit its ability to utilize certain tax attributes. As such, our analysis regarding the amount of tax attributes that may be available to offset taxable income in the future without restrictions imposed by Section 382 may continue to evolve.

Indemnification Obligations

We have exposure to representation, warranty and indemnification obligations because of our lending, sales and securitization activities, our acquisitions to the extent we assume one or more of these obligations, and in connection with our servicing practices. We initially recognize these obligations at fair value. Thereafter, the estimation of the liability considers probable future obligations based on industry data of loans of similar type segregated by year of origination, to the extent applicable, and estimated loss severity based on current loss rates for similar loans, our historical rescission rates and the current pipeline of unresolved demands. Our historical loss severity considers the historical loss experience that we incur upon sale or liquidation of a repurchased loan as well as current market conditions. We monitor the adequacy of the overall liability and make adjustments, as necessary, after consideration of other qualitative factors including ongoing dialogue and experience with our counterparties. As of September 30, 2020, we have recorded a liability for representation and warranty obligations, and similar indemnification obligations of $42.9 million. See Note 22 – Contingencies to the Unaudited Consolidated Financial Statements for additional information.

Litigation

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

Going Concern

In accordance with ASC 205-40, *Presentation of Financial Statements - Going Concern*, we evaluate whether there are conditions that are known or reasonably knowable that raise substantial doubt about our ability to continue as a going concern within one year after the date that our financial statements are issued. We perform a detailed review and analysis of relevant quantitative and qualitative information from across our organization in connection with this evaluation. To support this effort, senior management from key business units reviews and assesses the following information:

- our current financial condition, including liquidity sources at the date that the financial statements are issued (e.g., available liquid funds and available access to credit, including covenant compliance);
- our conditional and unconditional obligations due or anticipated within one year after the date that the financial statements are issued (regardless of whether those obligations are recognized in our financial statements);
- funds necessary to maintain operations considering our current financial condition, obligations and other expected cash flows within one year after the date that the financial statements are issued (i.e., financial forecasting); and
- other conditions and events, when considered in conjunction with the above items, that may adversely affect our ability to meet obligations within one year after the date that the financial statements are issued (e.g., negative financial trends, indications of possible financial difficulties, internal matters such as a need to significantly revise operations and external matters such as adverse regulatory or legal proceedings, adverse counterparty actions or rating agency decisions, and our client concentration).

Our evaluation of whether it is probable that we will be unable to meet our obligations as they become due within one year after the date that our financial statements are issued involves a degree of judgment, including about matters that are, to different degrees, uncertain.

If such conditions exist, management evaluates its plans that when implemented would mitigate the condition(s) and alleviate the substantial doubt about our ability to continue as a going concern. Such plans are considered only if information available as of the date that the financial statements are issued indicates both of the following are true:

- it is probable management’s plans will be implemented within the evaluation period; and
- it is probable management’s plans, when implemented individually or in the aggregate, will mitigate the condition(s) that raise substantial doubt about our ability to continue as a going concern in the evaluation period.

Our evaluation of whether it is probable that management’s plans will be effectively implemented within the evaluation period is based on the feasibility of implementation of management’s plans in light of our specific facts and circumstances.

Our evaluation of whether it is probable that our plans, individually or in the aggregate, will be implemented in the evaluation period involves a degree of judgment, including about matters that are, to different degrees, uncertain.

In March 2020, the WHO categorized COVID-19 as a pandemic and the COVID-19 outbreak was declared a national emergency in the U.S. The COVID-19 pandemic is adversely affecting economic conditions, including an increase in unemployment, and is creating significant uncertainty about the duration and magnitude of the downturn in the economy.

Based on our evaluation, we have determined that there are no conditions that are known or reasonably knowable that raise substantial doubt about our ability to continue as a going concern within one year after the date that our Unaudited Consolidated Financial Statements for the three and nine months ended September 30, 2020 are issued.

RECENT ACCOUNTING DEVELOPMENTS

Recent Accounting Pronouncements

We adopted new credit loss guidance (ASU 2016-13, as amended) on January 1, 2020 by applying the guidance at the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The transition adjustment resulted in an adjustment to the opening balance of retained earnings of $47.0 million and we increased our loans held for investment by $47.0 million, representing the recognition of the fair value of certain non-cancellable draw commitments (tails) associated with our reverse mortgage loans. See Note 1 – Organization, Business Environment and Basis of Presentation to the Unaudited Consolidated Financial Statements for additional information.

Our adoption of the standards listed below on January 1, 2020 did not have a material impact on our unaudited consolidated financial statements:

- Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15)
- Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13)

See Note 1 - Organization and Basis of Presentation to the Unaudited Consolidated Financial Statements for information related to recently issued accounting pronouncements and the expected impact on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Dollars in millions unless otherwise indicated)

Interest Rates

Our principal market risk exposure is the impact of interest rate changes on our mortgage-related assets and commitments, including MSRs, loans held for sale, loans held for investment and IRLCs. In addition, changes in interest rates could materially and adversely affect our volume of mortgage loan originations or result in MSR fair value changes. We also have exposure to the effects of changes in interest rates on our floating-rate borrowings, including advance financing facilities.

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

Our management-level Market Risk Committee establishes and maintains policies that govern our hedging program, including such factors as market volatility, duration and interest rate sensitivity measures, targeted hedge ratios, the hedge instruments that we are permitted to use in our hedging activities and the counterparties with whom we are permitted to enter into hedging transactions and our liquidity risk profile. See Note 15 – Derivative Financial Instruments and Hedging Activities to the Unaudited Consolidated Financial Statements for additional information regarding our use of derivatives.

Our market risk exposure may also be affected by the phase-out of LIBOR, expected to occur by the end of 2021. Many of our debt facilities incorporate LIBOR. These facilities either mature prior to the end of 2021 or have terms in place that provide for an alternative to LIBOR upon its phase-out. As we renew or replace these debt facilities, we will need to work with our counterparties to incorporate alternative benchmarks. There is presently substantial uncertainty relating to the process and timeline for developing LIBOR alternatives, how widely any given alternative will be adopted by parties in the financial markets, and the extent to which alternative benchmarks may be subject to volatility or present risks and challenges that LIBOR does not. Consequently, it is difficult to predict what effect, if any, the phase-out of LIBOR and the use of alternative benchmarks may have on our business or on the overall financial markets. If LIBOR alternatives re-allocate risk among parties in a way that is disadvantageous to market participants such as Ocwen, or if uncertainty relating to the LIBOR phase-out disrupts financial markets, it could have a material adverse effect on our financial position, results of operations, and liquidity.

MSR Hedging Strategy

MSRs are carried at fair value with changes in fair value being recorded in earnings in the period in which the changes occur. The fair value of MSRs is subject to changes in market interest rates and prepayment speeds. Beginning in September

2019, management implemented a hedging strategy to partially offset the changes in fair value of our net MSR portfolio attributable to interest rate changes. As a general matter, the impact of interest rates on the fair value of our MSR portfolio is naturally offset by other exposures, including our loan pipeline and our economic MSR value embedded in our reverse mortgage loan portfolio. Our hedging strategy is targeted at mitigating the residual exposure, which we refer to as our net MSR portfolio exposure. We define our net MSR portfolio exposure as follows:

- our more interest rate-sensitive Agency MSR portfolio,
- less the Agency MSRs subject to our agreements with NRZ (See Note 9 — Rights to MSRs),
- less the unsecuritized reverse mortgage loans and tails classified as held-for-investment,
- less the asset value for securitized HECM loans, net of the corresponding HMBS-related liability, and
- less the net value of our held for sale loan portfolio and lock commitments (pipeline).

We determine and monitor daily the hedge coverage based on the duration and interest rate sensitivity measures of our net MSR portfolio exposure, considering market and liquidity conditions. During the third quarter of 2020, our hedging strategy provided for a partial coverage of our net MSR portfolio exposure of approximately 37%. The changes in fair value of our hedging instruments may not fully offset the changes in fair value of our net MSR portfolio exposure attributable to interest rate changes due to the partial hedge coverage and other factors.

The following table illustrates the composition of our net MSR portfolio exposure at September 30, 2020 with the associated interest rate sensitivity for a hypothetical, instantaneous decrease in interest rate of 25 basis points assuming a parallel shift in interest rate yield curves (refer to the description below under Sensitivity Analysis). The amounts based on market risk sensitive measures are hypothetical and presented for illustrative purposes only. Changes in fair value cannot be extrapolated because the relationship to the change in fair value may not be linear.

	Fair value at September 30, 2020	Hypothetical change in fair value due to 25 bps rate decrease
Agency MSR - interest rate sensitive	$ 339.7	$ (23.3)
Asset value of securitized HECM loans, net of HMBS-related borrowing	$ 108.6	3.4
Loans held for investment - Unsecuritized HECM loans and tails	134.8	0.1
Loans held for sale	367.0	6.8
Pipeline IRLCs	22.7	(0.5)
Natural hedges (sum of the above)		9.8
Hypothetical 30% offset by hedging instruments (1)		4.1
Total hedge position (2) (3)		$ 13.9
Hypothetical residual exposure to changes in interest rates		$ (9.4)

(1) Hypothetical 30% offset is calculated in the above table as a percentage of the net MSR exposure, that is, the Agency MSR less natural hedges, i.e., pipeline and economic MSR of reverse mortgage loans.
(2) Total hedge position is defined as the sum of the fair value changes of hedging derivatives and the fair value changes of natural hedges due to interest rate risks, i.e., pipeline and economic MSR of reverse mortgage loans.
(3) We define our hedge coverage ratio as the total hedge position (derivatives and natural hedges) as a percentage of the Agency MSR exposure, or 59% in the above table.

We use forward trades of MBS or Agency TBAs with different banking counterparties and exchange-traded interest rate swap futures as hedging instruments. These derivative instruments are not designated as accounting hedges. TBAs, or To-Be-Announced securities are actively traded, forward contracts to purchase or sell Agency MBS on a specific future date. We report changes in fair value of these derivative instruments in MSR valuation adjustments, net in our consolidated statements of operations.

The TBAs and Interest rate swap futures are subject to margin requirements. Ocwen may be required to post or may be entitled to receive cash collateral with its counterparties, based on daily value changes of the instruments. Changes in market factors, including interest rates, and our credit rating could require us to post additional cash collateral and could have a material adverse impact on our financial condition and liquidity.

MSRs and MSR Financing Liabilities

Our entire portfolio of MSRs is accounted for using the fair value measurement method. MSRs are subject to interest rate risk as the mortgage loans underlying the MSRs permit borrowers to prepay their loans. The fair value of MSRs generally decreases in periods where interest rates are declining, as prepayments increase, and generally increases in periods where interest rates are increasing, as prepayments decrease.

While the majority of our non-Agency MSRs have been sold to NRZ, these transactions did not initially qualify as sales and are accounted for as secured financings until such time as the transactions meet the requirements for sale accounting treatment and are derecognized from our consolidated balance sheet. We have elected fair value accounting for these MSR financing liabilities. Through these transactions, the majority of the risks and rewards of ownership of the MSRs transferred to NRZ, including interest rate risk. Changes in the fair value of the MSRs sold to NRZ are offset by a corresponding change in the fair value of the MSR financing liabilities, which are recognized as a component of interest expense in our consolidated statements of operations.

Loans Held for Sale, Loans Held for Investment and IRLCs

In our Originations business, newly-originated forward mortgage loans held for sale and newly originated reverse mortgage loans held for investment that we have elected to carry at fair value and IRLCs are subject to the effects of changes in mortgage interest rates from the date of the commitment through the sale of the loan into the secondary market. IRLCs represent an agreement to purchase loans from a third-party originator or an agreement to extend credit to a mortgage loan applicant, whereby the interest rate on the loan is set prior to funding. We are exposed to interest rate risk and related price risk during the period from the date of the lock commitment through (i) the lock commitment cancellation or expiration date or (ii) through the date of sale of the resulting loan into the secondary mortgage market. Loan commitments for forward loans range from 5 to 90 days, but the majority of our commitments are for 60 days. Our holding period for forward mortgage loans from funding to sale is typically less than 30 days. Loan commitments for reverse mortgage loans range from 10 to 30 days. The majority of our reverse loans are variable-rate loan commitments. This interest rate exposure had historically been economically hedged with freestanding derivatives, including forward sales of agency TBAs and forward mortgage-backed securities (Forward MBS). Beginning in September 2019, this exposure is not individually hedged, but rather used as an offset to our MSR exposure and managed as part of our MSR hedging strategy described above.

We elected fair value accounting for newly repurchased loans from securitization trusts or investors after January 1, 2020. We may repurchase loans that have been modified, to facilitate loss reduction strategies, or as otherwise obligated as a Ginnie Mae servicer.

Loans Held for Investment and HMBS-related Borrowings

We elected fair value accounting for the entire reverse mortgage HECM loans, which are held for investment, together with the HMBS-related borrowings. We also elected fair value accounting for non-cancellable draw commitments (tails) of our HECM loans. The fair value of our HECM loan portfolio decreases as market interest rates rise and increases as market rates fall. As our HECM loan portfolio is predominantly comprised of ARMs, higher interest rates cause the loan balance to accrue and reach a 98% maximum claim amount liquidation event more quickly, with lower interest rates extending the timeline to liquidation.

The fair value of our HECM loan portfolio net of the fair value of the HMBS-related borrowings comprise the fair value of reverse mortgage loans and tails that are unsecuritized at the balance sheet date (reverse pipeline) and the fair value of securitized HECM loans net of the corresponding HMBS-related borrowings that represent the reverse mortgage economic MSR (HMSR) for risk management purposes. Both reverse assets (reverse pipeline and HMSR) act as a partial hedge for our forward MSR value sensitivity. Due to this characteristic, beginning in September 2019, this exposure is used as an offset to our MSR exposure and managed as part of our MSR hedging strategy described above.

Advance Match Funded Liabilities

We monitor the effect of increases in interest rates on the interest paid on our variable-rate advance financing debt. Earnings on cash and float balances are a partial offset to our exposure to changes in interest expense. We purchase interest rate caps as economic hedges (not designated as a hedge for accounting purposes) when required by our advance financing arrangements.

Interest Rate-Sensitive Financial Instruments

The tables below present the notional amounts of our financial instruments that are sensitive to changes in interest rates and the related fair value of these instruments at the dates indicated. We use certain assumptions to estimate the fair value of these instruments. See Note 4 – Fair Value to the Unaudited Consolidated Financial Statements for additional information regarding fair value of financial instruments.

	September 30, 2020		December 31, 2019	
	Balance	Fair Value (1)	Balance	Fair Value (1)
Rate-Sensitive Assets:				
Interest-earning cash	$ 288.1	$ 288.1	$ 433.2	$ 433.2
Loans held for sale, at fair value	367.0	367.0	208.8	208.8
Loans held for sale, at lower of cost or fair value (2)	23.7	23.7	66.5	66.5
Loans held for investment, at fair value	6,849.9	6,849.9	6,269.6	6,269.6
Debt service accounts and time deposits	15.3	15.3	23.7	23.7
Total rate-sensitive assets	$ 7,544.0	$ 7,544.0	$ 7,001.8	$ 7,001.8
Rate-Sensitive Liabilities:				
Advance match funded liabilities	$ 580.1	$ 580.6	$ 679.1	$ 679.5
HMBS-related borrowings, at fair value	6,606.5	6,606.5	6,063.4	6,063.4
SSTL and other secured borrowings (3) (4)	922.4	889.7	1,030.3	1,010.8
Senior notes (4)	313.1	285.8	313.1	270.0
Total rate-sensitive liabilities	$ 8,422.1	$ 8,362.6	$ 8,085.9	$ 8,023.7

	September 30, 2020		December 31, 2019	
	Notional Balance	Fair Value	Notional Balance	Fair Value
Rate-Sensitive Derivative Financial Instruments:				
Derivative assets (liabilities):				
Interest rate caps	$ —	$ —	$ 27.1	$ —
IRLCs	888.2	22.7	232.6	4.9
Forward trades	80.0	(0.1)	60.0	—
Interest rate swap futures	355.0	(0.2)	—	—
TBA / Forward MBS trades	590.0	(0.6)	1,200.0	1.1
Derivatives, net		$ 21.8		$ 6.0

(1) See Note 4 – Fair Value to the Unaudited Consolidated Financial Statements for additional fair value information on financial instruments.
(2) Net of valuation allowances and including non-performing loans.
(3) Excludes financing liabilities that result from sales of assets that do not qualify as sales for accounting purposes and, therefore, are accounted for as secured financings, which have no contractual maturity and are amortized over the life of the related assets.
(4) Balances are exclusive of any related discount or unamortized debt issuance costs.

Sensitivity Analysis

Fair Value MSRs, Loans Held for Sale, Loans Held for Investment and Related Derivatives

The following table summarizes the estimated change in the fair value of our MSRs, HECM loans held for investment and loans held for sale that we have elected to carry at fair value as well as any related derivatives at September 30, 2020, given hypothetical instantaneous parallel shifts in the yield curve. We used September 30, 2020 market rates to perform the sensitivity analysis. The estimates are based on the interest rate risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves. These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship to the change in fair value may not be linear.

	Change in Fair Value	
	Down 25 bps	Up 25 bps
Asset value of securitized HECM loans, net of HMBS-related borrowing	$ 3.4	$ (3.2)
Loans held for investment - Unsecuritized HECM loans and tails	0.1	—
Loans held for sale	6.8	(9.1)
TBA / Forward MBS trades / Interest rate swap futures	(3.7)	5.1
Total	6.6	(7.2)
MSRs (1)	(22.8)	25.4
MSRs, embedded in pipeline	(0.5)	0.3
Total MSRs (2)	(23.3)	25.7
Total, net	$ (16.7)	$ 18.5

(1) Primarily reflects the impact of market interest rate changes on projected prepayments on the Agency MSR portfolio and on advance funding costs on the non-Agency MSR portfolio carried at fair value. Fair value adjustments to our MSRs are offset, in part, by fair value adjustments related to the NRZ financing liabilities, which are recorded in Pledged MSR liability expense.
(2) Forward mortgage loans only.

Borrowings

The majority of the debt used to finance much of our operations is exposed to interest rate fluctuations. We may purchase interest rate swaps and interest rate caps to minimize future interest rate exposure from increases in interest rates, or when required by the financing agreements.

Based on September 30, 2020 balances, if interest rates were to increase by 1% on our variable-rate debt and interest earning cash and float balances, we estimate a net positive impact of approximately $16.8 million resulting from an increase of $26.0 million in annual interest income and an increase of $9.2 million in annual interest expense.

Foreign Currency Exchange Rate Risk

Our operations in India and the Philippines expose us to foreign currency exchange rate risk to the extent that our foreign exchange positions remain unhedged. Depending on the magnitude and risk of our positions we may enter into forward exchange contracts to hedge against the effect of changes in the value of the India Rupee or Philippine Peso.

Home Prices

Inactive reverse mortgage loans for which the maximum claim amount has not been met are generally foreclosed upon on behalf of Ginnie Mae with the REO remaining in the related HMBS until liquidation. Inactive MCA repurchased loans are generally foreclosed upon and liquidated by the HMBS issuer. Although active and inactive reverse mortgage loans are insured by FHA, we may incur expenses and losses in the process of repurchasing and liquidating these loans that are not reimbursable by FHA in accordance with program guidelines. In addition, in certain circumstances, we may be subject to real estate price risk to the extent we are unable to liquidate REO within the FHA program guidelines. As our reverse mortgage portfolio seasons, and the volume of MCA repurchases increases, our exposure to this risk will increase.

ITEM 4. CONTROLS AND PROCEDURES

Our management, under the supervision of and with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), as of September 30, 2020.

Based on such evaluation, management concluded that our disclosure controls and procedures as of September 30, 2020 were (1) designed and functioning effectively to ensure that material information relating to Ocwen, including its consolidated subsidiaries, is made known to our principal executive officer and principal financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) operating effectively in that they provided reasonable assurance that information required to be disclosed by Ocwen in the reports that it files or submits under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in the

SEC's rules and forms and (ii) accumulated and communicated to management, including our principal executive officer or principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There have not been any changes in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 20 – Regulatory Requirements and Note 22 – Contingencies to the Unaudited Consolidated Financial Statements. That information is incorporated into this item by reference.

ITEM 1A. RISK FACTORS

An investment in our common stock involves significant risk. We describe the most significant risks that management believes affect or could affect us under Part I of our Annual Report on Form 10-K for the year ended December 31, 2019 and in Item 1A. Risk Factors under Part II of our Quarterly Report on Form 10-Q for the period ended March 31, 2020. Understanding these risks is important to understanding any statement in such reports and in our subsequent SEC filings (including this Form 10-Q) and to evaluating an investment in our common stock. You should carefully read and consider the risks and uncertainties described therein together with all the other information included or incorporated by reference in such Annual Report and in our subsequent SEC filings before you make any decision regarding an investment in our common stock. You should also consider the information set forth under "Forward-Looking Statements." If any of the risks actually occur, our business, financial condition, liquidity and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could significantly decline, and you could lose some or all of your investment.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer and Affiliates

On February 3, 2020, Ocwen's Board of Directors authorized a share repurchase program for an aggregate amount of up to $5.0 million of Ocwen's issued and outstanding shares of common stock. Repurchases may be made in open market transactions at prevailing market prices. The timing and execution of any related share repurchases is subject to market conditions, among other factors. Unless we amend the share repurchase program or repurchase the full $5.0 million amount by an earlier date, the share repurchase program will continue through February 3, 2021. No assurances can be given as to the amount of shares, if any, that we may repurchase in any given period.

Information regarding repurchases of our common stock during the first quarter of 2020 is as follows:

Period	Total number of shares purchased (1)	Average price paid per share (1) (2)	Total number of shares purchased as part of a publicly announced repurchase program (1)	Approximate dollar value of shares that may yet be purchased under the repurchase program
January 1 - January 31	—	$ —	—	$ 5.0 million
February 1 - February 29	—	$ —	—	$ 5.0 million
March 1 - March 31	377,484	$ 11.8995	377,484	$ 0.5 million
Total	377,484	$ 11.8995	377,484	

(1) Adjusted retroactively to give effect to the 1-for-15 reverse stock split which became effective on August 13, 2020.

(2) Price paid per share does not reflect payment of commissions totaling $0.1 million.

We did not repurchase any shares of our common stock under this program during the second or third quarter of 2020.

ITEM 6. EXHIBITS

3.1	Amended and Restated Articles of Incorporation, as amended (filed herewith)
3.2	Amended and Restated Bylaws of Ocwen Financial Corporation (1)
4.1	The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to the issuance of long-term debt of the Company and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of the Company and its subsidiaries.
10.1*	Amendment to April 17, 2018 Offer Letter between Ocwen Financial Corporation and Glen Messina, effective September 15, 2020 (filed herewith)
10.2*	Form of Cash Award granted September 10, 2020 (filed herewith)
10.3*	Form of Restricted Stock Unit Award granted September 10, 2020 (filed herewith)
10.4†	Amendment No. 2, dated as of October 5, 2020, to New RMSR Agreement dated as of January 18, 2018 by and among Ocwen Loan Servicing, LLC, HLSS Holdings, LLC, HLSS MSR - EBO Acquisition LLC, and New Residential Mortgage LLC (filed herewith)
10.5†	Amendment No. 2, dated as of October 5, 2020, to Subservicing Agreement dated as of July 23, 2017 between New Residential Mortgage LLC and Ocwen Loan Servicing, LLC (filed herewith)
10.6†	Amendment No. 1, dated as of October 5, 2020, Subservicing Agreement dated as of August 17, 2018 between New Penn Financial, LLC and Ocwen Loan Servicing, LLC (filed herewith)
10.7††	Binding Term Sheet dated as of February 22, 2019 between Altisource S.à r.l., Ocwen Financial Corporation and Ocwen Mortgage Servicing, Inc. (2)
31.1	Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of the principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of the principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 were formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Changes in Equity, (v) Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Consolidated Financial Statements, tagged as blocks of text and including detailed tags.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in Inline XBRL (Included as Exhibit 101).

* Management contract or compensatory plan or agreement.

† Certain schedules and exhibits have been omitted in accordance with Item 601(a)(5) of Regulation S-K. A copy of any referenced schedules will be furnished supplementally to the SEC upon request.

†† Certain information in this exhibit has been omitted pursuant to Item 601(b)(10) of Regulation S-K and the exhibits to the agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted exhibit will be furnished supplementally to the SEC upon request.

(1) Incorporated by reference to the similarly described exhibit to the Registrant's Form 8-K filed on February 25, 2019.

(2) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2019 filed on May 7, 2019. Filed herewith to correct formatting error resulting in omission of footnotes in prior exhibit.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Ocwen Financial Corporation

By: /s/ June C. Campbell

Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and as its principal financial officer)

Date: November 3, 2020

Exhibit 3.1

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
OCWEN FINANCIAL CORPORATION

ARTICLE I

CORPORATE NAME

The name of this corporation is:

Ocwen Financial Corporation

ARTICLE II

PRINCIPAL OFFICE

The address of the principal office and the mailing address of this corporation are:

1675 Palm Beach Lakes Boulevard
West Palm Beach, Florida 33401

ARTICLE III

CAPITAL STOCK

The total number of shares of all classes of capital stock that this corporation shall have authority to issue shall be 220,000,000, of which 200,000,000 shares shall be shares of Common Stock, par value $.01 per share, and 20,000,000 shares shall be shares of Preferred Stock, par value $.01 per share.

The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of the Preferred Stock shall be as follows:

(A) The Board of Directors is expressly authorized at any time, and from time to time, to provide for the issuance of shares of Preferred Stock in one or more series, with such voting powers, full or limited, or without voting powers, and with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolutions providing for the issue thereof adopted by the Board of Directors, and as are not stated and expressed in these Articles of Incorporation, or any amendment thereto, including (but without limiting the generality of the foregoing) the following:
(1) the designation of and number of shares constituting such series;

(2) the dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the preference or relation which such dividends shall bear to the dividends payable on any other class or classes or of any other series of capital stock, and whether such dividends shall be cumulative or non-cumulative;

(3) whether the shares of such series shall be subject to redemption by this corporation, and, if made subject to such redemption, the times, prices and other terms and conditions of such redemption;

(4) the terms and amounts of any sinking fund, if any, provided for the purchase or redemption of the shares of such series;

(5) whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes or of any other series of any class or classes of capital stock of this corporation, and, if provision be made for conversion or exchange, the times, prices, rates, adjustments and other terms and conditions of such conversion or exchange;

(6) the extent, if any, to which the holders of the shares of such series shall be entitled to vote as a class or otherwise with respect to the election of the directors or otherwise;

(7) the restrictions, if any, on the issue or reissue of any additional Preferred Stock; and

(8) the rights of the holders of the shares of such series upon the dissolution of, or upon the distribution of assets of, this corporation.

(B) Except as otherwise required by law and except for such voting powers with respect to the election of directors or other matters as may be stated in the resolutions of the Board of Directors creating any series of Preferred Stock, the holder of any such series shall have no voting power whatsoever.

ARTICLE IV

AFFILIATE TRANSACTIONS; CONTROL-SHARE ACQUISITIONS

This corporation hereby expressly elects not to be governed by Fla. Stat. Section 607.0901, as the same may be amended or supplemented.

Fla. Stat. Section 607.0902, as amended or supplemented, shall not apply to control-share acquisitions of shares of this corporation.

ARTICLE V

INDEMNIFICATION

This corporation shall, to the fullest extent permitted by the provisions of Fla. Stat. Section 607.0850, as the same may be amended and supplemented, indemnify any and all persons whom it shall have power to indemnify under said section from and against any and all of the expenses, liabilities, or other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any rights to which those indemnified may be entitled under any Bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

The undersigned have executed, subscribed and acknowledged these Amended and Restated Articles of Incorporation on July 23, 1996.

/s/ William C. Erbey
William C. Erbey, President

ARTICLES OF AMENDMENT
TO
AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF
OCWEN FINANCIAL CORPORATION

Ocwen Financial Corporation, a Florida corporation (the "Corporation"), acting pursuant to the provisions of Section 607.1006 of the Florida Statutes, does hereby adopt the following Articles of Amendment to its Amended and Restated Articles of Incorporation:

FIRST: The name of the Corporation is: Ocwen Financial Corporation.

SECOND: That at a regular meeting of the members of the Board of Directors of the Corporation held on March 8, 2006, resolutions were duly adopted proposing to amend Article III of the Amended and Restated Articles of Incorporation of the Corporation and declaring such amendment to be advisable.

THIRD: The amendment to the Amended and Restated Articles of Incorporation set forth below does not adversely affect the rights or preferences of the holders of outstanding shares of any class or series and does not materially result in the percentage of authorized shares that remain unissued after the combination exceeding the percentage of authorized shares that were unissued before the combination.

FOURTH: Each ten (10) shares of issued common stock par value $0.01 per share of the Corporation ("Common Stock") are to be combined into one (1) share of Common Stock, provided that no fractional shares are to be issued to any holder of fewer than ten (10) shares of Common Stock.

FIFTH: Article III of the Amended and Restated Articles of Incorporation shall be deleted in its entirety and replaced with the following:

"ARTICLE III
CAPITAL STOCK

The total number of shares of all classes of capital stock that this corporation shall have authority to issue shall be 220,000,000, of which 200,000,000 shares shall be shares of Common Stock, par value $.01 per share, and 20,000,000 shares shall be shares of Preferred Stock, par value $.01 per share. The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of the Preferred Stock shall be as follows:

(A) The Board of Directors is expressly authorized at any time, and from time to time, to provide for the issuance of shares of Preferred Stock in one or more series, with such voting powers, full or limited, or without voting powers, and with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolutions providing for the issue thereof adopted by the Board of Directors, and as are not stated and expressed in these Articles of Incorporation, or any amendment thereto, including (but without limiting the generality of the foregoing) the following:

(1) the designation of and number of shares constituting such series;

(2) the dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the preference or relation which such dividends shall bear to the dividends payable on any other class or classes or of any other series of capital stock, and whether such dividends shall be cumulative or non-cumulative;

(3) whether the shares of such series shall be subject to redemption by this corporation, and, if made subject to such redemption, the times, prices and other terms and conditions of such redemption;

(4) the terms and amounts of any sinking fund, if any, provided for the purchase or redemption of the shares of such series;

(5) whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes or of any other series of any class or classes of capital stock of this corporation, and, if provision be made for conversion or exchange, the times, prices, rates, adjustments and other terms and conditions of such conversion or exchange;

(6) the extent, if any, to which the holders of the shares of such series shall be entitled to vote as a class or otherwise with respect to the election of the directors or otherwise;

(7) the restrictions, if any, on the issue or reissue of any additional Preferred Stock; and

(8) the rights of the holders of the shares of such series upon the dissolution of, or upon the distribution of assets of, this corporation.

(B) Except as otherwise required by law and except for such voting powers with respect to the election of directors or other matters as may be stated in the resolutions of the Board of Directors creating any series of Preferred Stock, the holder of any such series shall have no voting power whatsoever.

Without regard to any other provision of these Articles of Incorporation (all of which are hereby amended as and to the extent necessary to allow the matters and transactions contemplated and effected hereby), each ten (10) shares of Common Stock, either issued and outstanding or held by the Corporation as treasury stock, immediately prior to the time this amendment becomes effective shall be and are hereby automatically reclassified and changed (without any further act) into one fully-paid and non-assessable share of Common Stock, without increasing or decreasing the amount of stated capital or paid-in surplus of the Corporation, provided that no fractional shares be issued to any holder of fewer than ten (10) shares of Common Stock immediately prior to the time this amendment becomes effective, and that instead of issuing fractional shares to such holders, the Corporation shall pay in cash the fair value of such fractions of a share as of the time when this amendment becomes effective."

SIXTH: That at the annual meeting of shareholders held on May 4, 2006, said amendments were duly adopted by a sufficient number of shareholders in accordance with Section 1003 of the Florida Statutes.

SEVENTH: That these Articles of Amendment shall become effective at 4:59 p.m. eastern time on May 12, 2006, in accordance with the applicable provisions of the Florida Statutes.

IN WITNESS WHEREOF, Ocwen Financial Corporation has caused this certificate to be signed by its Corporate Secretary this 12th day of May, 2006.

By: /s/ Ronald M. Faris
Ronald M. Faris
President

Articles of Amendment
to
Articles of Incorporation
of
Ocwen Financial Corporation
(Name of Corporation as currently filed with the Florida Dept. of State)
S75556
(Document Number of Corporation (if known)

Pursuant to the provisions of section 607.1006, Florida Statutes, this ***Florida Profit Corporation*** adopts the following amendment(s) to its Articles of Incorporation:

A. If amending name, enter the new name of the corporation:

____ *The new name must be distinguishable and contain the word "corporation," "company," or "incorporated" or the abbreviation "Corp.," "Inc.," or Co.," or the designation "Corp," "Inc," or "Co". A professional corporation name must contain the word "chartered," "professional association," or the abbreviation "P.A."*

B. Enter new principal office address, if applicable: 2002 Summit Boulevard, Suite 600
(Principal office address MUST BE A STREET ADDRESS) Atlanta, GA 30319

C. Enter new mailing address, if applicable:
(Mailing address MAY BE A POST OFFICE BOX) ____

D. If amending the registered agent and/or registered office address in Florida, enter the name of the new registered agent and/or the new registered office address:

Name of New Registered Agent: ______________________________

New Registered Office Address: ______________________________
(Florida street address)

______________________________, Florida ______________________________
(City) *(Zip Code)*

New Registered Agent's Signature, if changing Registered Agent:
I hereby accept the appointment as registered agent. I am familiar with and accept the obligations of the position.

Signature of New Registered Agent, if changing

If amending the Officers and/or Directors, enter the title and name of each officer/director being removed and title, name, and address of each Officer and/or Director being added:
(*Attach additional sheets, if necessary)*

Title	Name	Address	Type of Action
____________	____________	____________ ____________	oAdd oRemove
____________	____________	____________ ____________	oAdd oRemove
____________	____________	____________ ____________ ____________	oAdd oRemove

If amending or adding additional Articles, enter change(s) here:
(a*ttach additional sheets, if necessary). (Be specific)*

____

____

____

If an amendment provides for an exchange, reclassification, or cancellation of issued shares, provisions for implementing the amendment if not contained in the amendment itself:
(*if not applicable, indicate N/A*)

____

____

____

The date of each amendment(s) adoption: July 29, 2010

Effective date if applicable: December 28, 2010
(no more than 90 days after amendment file date)

Adoption of Amendment(s) **(CHECK ONE)**

o The amendment(s) was/were adopted by the shareholders. The number of votes cast for the amendment(s) by the shareholders was/were sufficient for approval.

o The amendment(s) was/were approved by the shareholders through voting groups. *The following statement must be separately provided for each voting group entitled to vote separately on the amendment(s):*

"The number of votes cast for the amendment(s) was/were sufficient for approval

by ____."

(voting group)

x The amendment(s) was/were adopted by the board of directors without shareholder action and shareholder action was not required.

o The amendment(s) was/were adopted by the incorporators without shareholder action and shareholder action was not required.

Dated: December 28, 2010

Signature: /s/ Ronald M. Faris

(By a director, president or other officer – if directors or officers have not been selected, by an incorporator – if in the hands of a receiver, trustee, or other court appointed fiduciary by that fiduciary)

Ronald M. Faris

(Typed or printed name of person signing)

President and Chief Operating Officer

(Title of person signing)

ARTICLES OF CORRECTION
for
Ocwen Financial Corporation

Document Number (if known): S75556

Pursuant to the provisions of Section 607.0124 or 617.0124, Florida Statutes, this corporation files these Articles of Correction within 30 days of the file date of the document being corrected.

These articles of correction correct the Articles of Amendment to Articles of Incorporation, filed with the Department of State on December 28, 2010.

Specify the inaccuracy, incorrect statement, or defect: The effective date of the Articles of Amendment to Articles of Incorporation of Ocwen Financial Corporation was incorrectly stated as December 28, 2010.

Correct the inaccuracy, incorrect statement, or defect: The effective date of the Articles of Amendment to Articles of Incorporation of Ocwen Financial Corporation is January 1, 2011.

/s/ Kristen Wagner

(Signature of a director, president or other officer – if directors or officers have not been selected, by an incorporator - if in the hands of the receiver, trustee, or other court appointed fiduciary, by that fiduciary.)

Kristen Wagner

(Typed or printed name of person signing)

Assistant Secretary

(Title of person signing)

ARTICLES OF AMENDMENT
TO THE
AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF
OCWEN FINANCIAL CORPORATION

ARTICLES OF DESIGNATION, PREFERENCES, AND RIGHTS OF
SERIES A PERPETUAL CONVERTIBLE PREFERRED STOCK

Pursuant to Sections 607.0602 and 607.1006
of the Florida Business Corporation Act

Ocwen Financial Corporation, a Florida corporation (the "Company"), certifies that pursuant to the authority contained in its Amended and Restated Articles of Incorporation (the "Articles of Incorporation"), and in accordance with the provisions of Sections 607.0602 and 607.1006 of the Florida Business Corporation Act, the Board of Directors of the Company (the "Board of Directors") at a meeting duly called and held on October 2, 2012 duly approved and adopted the following resolution, which resolution remains in full force and effect on the date hereof:

RESOLVED, that pursuant to the authority vested in the Board of Directors by the Articles of Incorporation, the Board of Directors does hereby designate, create, authorize and provide for the issue of a series of preferred stock having a par value of $0.01 per share, with a liquidation preference of $1,000 per share (the "Liquidation Preference"), which shall be designated as Series A Perpetual Convertible Preferred Stock, consisting of Two Hundred Thousand (200,000) shares having the following voting powers, preferences and relative, participating, optional and other special rights, and qualifications, limitations and restrictions:

1. Designation and Number of Shares. The series of preferred stock shall be designated as "Series A Perpetual Convertible Preferred Stock", with a par value of $0.01 per share (the "Series A Preferred Stock"), and the number of shares so authorized and designated shall be Two Hundred Thousand (200,000). At all times the Company will have sufficient shares authorized and will take all actions necessary to authorize additional shares if required, in each case, to meet its obligations hereunder.

2. Ranking. The Series A Preferred Stock shall, with respect to payment of dividends, redemption and distributions upon the liquidation, winding-up and dissolution of the Company, rank (i) senior to all classes of Common Stock of the Company and to each other class of capital stock or series of preferred stock established after the date hereof by the Board of Directors, the terms of which do not expressly provide that it ranks senior to or on a parity with the Series A Preferred Stock as to dividends, redemptions and distributions upon the liquidation, winding-up and dissolution of the Company (collectively referred to with the Common Stock of the Company as "Junior Securities"); (ii) on a parity with any additional shares of Series A Preferred Stock issued by the Company in the future (subject to compliance with Section 8) and any other class of capital stock or series of preferred stock issued by the Company, the terms of which expressly provide that such class or series will rank on a parity with the Series A Preferred Stock as to dividends, redemptions and distributions upon the liquidation, winding-up and dissolution of the Company (collectively referred to as "Parity Securities"); and (iii) junior to each class of capital stock or series of preferred stock issued by the Company (subject to compliance with Section 8), the terms of which expressly provide that such class or series will rank senior to the Series A Preferred Stock as to dividends, redemptions and distributions upon the liquidation, winding-up and dissolution of the Company (collectively referred to as "Senior Securities"). For the avoidance of doubt, a security shall not be deemed a Parity Security unless the dividend is payable in kind when the dividend of the Series A Preferred Stock is paid in kind, and a security shall not be deemed not to be a Parity Security solely because the dividend on such security has a coupon equal to or greater than the Series A Preferred Stock.

3. Dividends.

(a) Dividends. Holders of Series A Preferred Stock shall be entitled to receive, to the fullest extent permitted by law, mandatory and cumulative dividends payable quarterly in arrears with respect to each dividend period ending on and including the last calendar day of each quarter ending December 31, March 31, June 30 and September 30, respectively (each such period, a "Dividend Period" and each such date, a "Dividend Payment Date"), at the rate per share equal to the greater of (x) 3.75% per annum multiplied by the Liquidation Preference and (y) in the event the Company pays a regular quarterly dividend on its Common Stock in such quarter, the rate per share payable in respect of such quarterly dividend (treating each holder of shares of Series A Preferred Stock as being the holder of the number of shares of Common Stock into which such holder's shares would be converted if such shares were converted pursuant to the provisions of Section 5 hereof as of the record date for the determination of holders of Common Stock entitled to receive such dividend); provided that the initial Dividend Period will commence on the Series A Preferred Stock Issue Date and end on the second Dividend Payment Date thereafter. The record date for payment of quarterly dividends on the Series A Preferred Stock will be the 15th day of the calendar month of the applicable Dividend Payment Date, whether or not such date is a Trading Day. If any Dividend Payment Date is not a Trading Day, the applicable payment shall be due on the next succeeding Trading Day.

(b) Special Dividends. If and to the extent the Company intends to pay any dividend or make a distribution on shares of Common Stock (whether or not in the form of cash, but excluding any dividend which results in an adjustment to the Conversion Price as described below) other than a dividend as provided in 3(a) above (a "Special Dividend"), then any such dividend shall be payable to the holders of shares of Common Stock and Series A Preferred Stock on a *pari passu*, pro rata basis (treating each holder of shares of Series A Preferred Stock as being the holder of the number of shares of Common Stock into which such holder's shares of Series A Preferred Stock had been converted if such shares were converted pursuant to the provisions of Section 5 hereof as of the record date for the determination of holders of Common Stock entitled to receive such dividend). The record date for payment of any Special Dividend will be the same date as the record date for payment of the Special Dividend to holders of Common Stock, whether or not such date is a Trading Day. The payment date of any Special Dividend will be the same date on which payment of such dividend is made to holders of Common Stock ("Special Dividend Payment Date").

(c) Company's Ability to Pay Dividends in Cash or Kind. Dividends shall be paid in full, in cash ("Cash Dividend") for each Dividend Period on the applicable Dividend Payment Date; provided, that at the Company's option, the Company may pay all or any percentage of the dividends contemplated by paragraphs (a) and (b) above in cash or additional shares of Series A Preferred Stock ("PIK Dividends"). The Company shall provide the holders with at least five (5) Trading Days' notice of its election to pay all or any percentage of such dividend in shares of Series A Preferred Stock (the Company may indicate in such notice that the election contained in such notice shall continue for later periods until revised by a subsequent notice). If and to the extent that the Company does not for any reason pay the entire dividend payable for a particular Dividend Period either as a Cash Dividend, or a combination of Cash Dividend and PIK Dividend, on the applicable Dividend Payment Date for such period (whether or not the payment of dividends is permitted under applicable law or such dividends are declared by the Board of Directors of the Company), such unpaid dividends shall be paid in kind by issuance of additional Series A Preferred Stock (the "Additional PIK Dividends") to the holders of the Series A Preferred Stock as of the record date for the applicable Dividend Payment Date, on the first date on which such Additional PIK Dividend can be paid in accordance with applicable law.

(d) Dividend Calculations. Dividends on the Series A Preferred Stock shall be calculated on the basis of a 360-day year, consisting of twelve (12), thirty (30) calendar day periods, and shall accrue daily commencing on the Series A Preferred Stock Issue Date, and shall be deemed to accrue from such date whether or not earned or declared and whether or not there are profits, surplus or other funds of the Company legally available for the payment of dividends. Except as otherwise provided herein, if at any time the Company pays dividends partially in cash and partially in shares of Series A Preferred Stock, then such payment shall be distributed ratably among the holders of Series A Preferred Stock based upon the number of shares of Series A Preferred Stock held by each such holder on such Dividend Payment Date or Special Dividend Payment Date, as applicable. When a dividend or part thereof is paid in additional shares of Series A Preferred Stock, such number of additional shares shall be calculated by dividing the amount of such dividend or part thereof that would otherwise be paid in cash by the Liquidation Preference of a share of Series A Preferred Stock. For purposes of determining whether funds are legally available for any dividends pursuant to this Section 3, the assets of the Company shall, to the fullest extent permitted by law, be valued at the highest amount permissible under applicable law.

(e) Conversion Prior to or Following a Record Date. If the Conversion Date for any shares of Series A Preferred Stock is prior to the close of business on the record date for a dividend as provided in paragraphs (a) or (b) above, the holder of such shares shall not be entitled to any dividend in respect of such record date. If the Conversion Date for any shares of Series A Preferred Stock is after the close of business on the record date for a dividend as provided in paragraphs (a) or (b) above but prior to the corresponding Dividend Payment Date or Special Dividend Payment Date, as applicable, the holder of such shares as of the applicable record date shall be entitled to receive such dividend, notwithstanding the conversion of such shares prior to the applicable Dividend Payment Date or Special Dividend Payment Date, as applicable.

4. Transfer. The holders of shares of Series A Preferred Stock shall only be permitted to Transfer such shares of Series A Preferred Stock to a Permitted Transferee.

5. Conversion Rights.

(a) At the option of the holder, each share of Series A Preferred Stock may be converted into Common Stock at any time, unless previously redeemed (the "Conversion Right"). Upon exercise of the Conversion Right as provided in this Section 5, the Company shall deliver to the holder the number of shares of Common Stock equal to the quotient obtained by dividing (i) the value of a share of Series A Preferred Stock, which shall be the Liquidation Preference (plus any accrued but unpaid dividends thereon, whether or not declared) on the Conversion Date, by (ii) the Conversion Price in effect on the Conversion Date to determine the number of shares of Common Stock issuable upon conversion of each share of Series A Preferred Stock. Immediately following such conversion, the rights of the holders of converted Series A Preferred Stock shall cease and the persons entitled to receive the Common Stock upon the conversion of Series A Preferred Stock shall be treated for all purposes as having become the owners of such Common Stock.

(b) To convert Series A Preferred Stock, a holder must (A) surrender the certificate or certificates evidencing the shares of Series A Preferred Stock to be converted, duly endorsed in a form satisfactory to the Company, at the office of the Company or Transfer Agent for the Series A Preferred Stock, (B) notify the Company at such office that he elects to convert Series A Preferred Stock and the number of shares he wishes to convert, (C) state in writing the name or names in which he wishes the certificate or certificates for shares of Common Stock to be issued, and (D) pay any transfer or similar tax required by clause (d) below to be paid by the holder. In the event that a holder fails to notify the Company of the number of shares of Series A Preferred Stock which he wishes to convert, he shall be deemed to have elected to convert all shares represented by the certificate or certificates surrendered for conversion. The date on which the holder satisfies all those requirements is the "Conversion Date." As soon as practical following the Conversion Date, the Company shall deliver a certificate for the number of full shares of Common Stock issuable upon the conversion, and a new certificate representing the unconverted portion, if any, of the shares of Series A Preferred Stock represented by the certificate or certificates surrendered for conversion. The person in whose name the Common Stock certificate is registered shall be treated as the stockholder of record on and after the Conversion Date. The holder of record of a share of Series A Preferred Stock at the close of business on a record date with respect to the payment of dividends on the Series A Preferred Stock in accordance with Section 3 hereof will be entitled to receive such dividends with respect to such share of Series A Preferred Stock on the corresponding Dividend Payment Date, notwithstanding the conversion of such share after such record date and prior to such dividend payment date. If a holder of Series A Preferred Stock converts more than one share at a time, the number of full shares of Common Stock issuable upon conversion shall be based on the total Liquidation Preferences of all shares of Series A Preferred Stock converted.

(c) The Company shall not issue any fractional shares of Common Stock upon conversion of Series A Preferred Stock. Instead the Company shall pay a cash adjustment based upon the closing price of the Common Stock on the principal securities exchange on which the Common Stock is then listed on the Business Day prior to the Conversion Date.

(d) If a holder converts shares of Series A Preferred Stock, the Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of Common Stock upon the conversion. However, the holder shall pay any such tax that is due because the shares are issued in a name other than the holder's name.

(e) The Company has reserved (and shall keep available and free from preemptive rights) and shall continue to reserve out of its authorized but unissued Common Stock or its Common Stock held in treasury a sufficient number of shares of Common Stock to permit the conversion of the Series A Preferred Stock in full. All shares of Common Stock that may be issued upon conversion of Series A Preferred Stock shall be fully paid and nonassessable. The Company shall use commercially reasonable efforts to comply with all securities laws regulating the offer and delivery of shares of Common Stock upon conversion of Series A Preferred Stock and shall endeavor to list such shares on each national securities exchange or automated quotation system on which the Common Stock is listed. All shares of Common Stock that are issued upon the exercise of Series A Preferred Stock shall, upon issuance, be validly issued, not subject to any preemptive rights, and, be free from all taxes, liens, security interests, charges, and other encumbrances with respect to the issuance thereof (collectively, "Encumbrances"), other than taxes in respect of any transfer occurring contemporaneously with such issue and Encumbrances created by the holder.

(f) In case the Company shall pay or make a dividend or other distribution on any outstanding class of capital stock of the Company payable in Common Stock, the Conversion Price in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be reduced by multiplying such Conversion Price by a fraction the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination and the denominator of which shall be the sum of such number of shares outstanding at the close of business on the date fixed for such determination and the total number of shares constituting such dividend or other distribution, such reduction to become effective retroactively to a date immediately following the close of business on the record date for the determination of the holders entitled to such dividends and distributions. For the purposes of this Section 5(f), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(g) In case the Company shall issue or sell Common Stock or Common Stock Equivalents at a price per share less than 95% of the Current Market Price per share of the Common Stock on the date fixed for the determination of stockholders entitled to receive such Common Stock or Common Stock Equivalents (treating the price per share of Common Stock, in the case of the issuance of any Common Stock Equivalent, as equal to (x) the sum of the price for such Common Stock Equivalent plus any additional consideration payable (without regard to any anti dilution adjustments) upon the conversion, exchange or exercise of such Common Stock Equivalent divided by (y) the number of shares of Common Stock initially underlying such Common Stock Equivalent), the Conversion Price in effect at the opening of business on the day following the date fixed for such determination shall be reduced by multiplying such Conversion Price by a fraction (I) the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so offered for subscription, purchase or acquisition would purchase at such Current Market Price (or, in the case of Common Stock Equivalents, the number of shares of Common Stock which the aggregate consideration received by the Company upon the issuance of such Common Stock Equivalents and receivable by the Company upon the conversion, exchange or exercise of such Common Stock Equivalents would purchase at the Current Market Price of one share of Common Stock on the Relevant Date) and (II) the denominator of which shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock so offered for subscription, purchase or acquisition (or, in the case of Common Stock Equivalents, the maximum number of shares of Common Stock into which such Common Stock Equivalents initially may convert, exchange or be exercised).

Such reduction shall become effective immediately on the issuance or sale of such Common Stock or Common Stock Equivalents. However, upon the expiration of any Common Stock Equivalent to purchase Common Stock, the issuance of which resulted in an adjustment in the Conversion Price pursuant to this Section 5(g), if any such Common Stock Equivalent shall expire and shall not have been exercised, the Conversion Price shall be recomputed immediately upon such expiration and effective immediately upon such expiration shall be increased to the price it would have been (but reflecting any other adjustments to the Conversion Price made pursuant to the provisions of this Section 5 after the issuance of such Common Stock Equivalents) had the adjustment of the Conversion Price made upon the issuance of such Common Stock Equivalents been made on the basis of offering for subscription or purchase only that number of shares of Common Stock actually purchased upon the exercise of such Common Stock Equivalents. No further adjustment shall be made upon exercise of any Common Stock Equivalent if any adjustment shall be made upon the issuance of such security. For the purposes of this Section 5(g), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company. The Company will not issue any Common Stock Equivalents in respect of shares of Common Stock held in the treasury of the Company. In case at any time any shares of Common Stock or Common Stock Equivalents or any rights or options to purchase any shares of Common Stock or Common Stock Equivalents shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Company therefor, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions or discounts paid or allowed by the Company in connection therewith. In case any shares of Common Stock or Common Stock Equivalents or any rights or options to purchase any Common Stock or Common Stock Equivalents shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Company shall be deemed to be the fair market value of such consideration, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions or discounts paid or allowed by the Company in connection therewith, as determined by a nationally recognized appraiser selected by the Board of Directors.

(h) In case the outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock or the outstanding shares of Common Stock shall be combined into a smaller number of shares, then the Conversion Price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be reduced, and, conversely, in case the outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be increased to equal the product of the Conversion Price in effect on such date and a fraction the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such subdivision or combination, as the case may be, and the denominator of which shall be the number of shares of Common Stock outstanding immediately after such subdivision or combination, as the case may be. Such reduction or increase, as the case may be, shall become effective retroactively to the close of business on the day upon which such subdivision or combination becomes effective.

(i) In case a tender offer, exchange offer or other offer to repurchase made by the Company or any subsidiary of the Company for all or any portion of the Common Stock shall expire and such tender offer, exchange offer or other offer to repurchase shall involve the payment by the Company or such subsidiary of consideration per share of Common Stock having a fair market value (as determined by the Board of Directors or, to the extent permitted by applicable law, a duly authorized committee thereof, whose determination shall be conclusive and described in a resolution of the Board of Directors or such duly authorized committee thereof, as the case may be) at the last time (the "Expiration Time") tenders or exchanges may be made pursuant to such tender or exchange offer (as it shall have been amended) that exceeds by 5% or more the current market price per share of the Common Stock on the Trading Day next succeeding the Expiration Time, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the Expiration Time by a fraction of which (I) the numerator shall be the number of shares of Common Stock outstanding (including any tendered or exchanged shares) on the Expiration Time multiplied by the Current Market Price per share of the Common Stock on the Trading Day next succeeding the Expiration Time and (II) the denominator shall be the sum of (x) the fair market value (determined as aforesaid) of the aggregate consideration payable to stockholders based on the acceptance (up to any maximum specified in the terms of the tender or exchange offer) of all shares validly tendered or exchanged and not withdrawn as of the Expiration Time (the shares deemed so accepted, up to any such maximum, being referred to as the "Purchased Shares") and (y) the product of the number of shares of Common Stock outstanding (less any Purchased Shares) on the Expiration Time and the Current Market Price per share of the Common Stock on the Trading Day next succeeding the Expiration Time, such reduction to become effective immediately prior to the opening of business on the day following the Expiration Time. For the purposes of this Section 5(i), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company.

(j) In case the Company shall issue to one or more Affiliates (other than (a) persons or entities who become Affiliates only as a result of such issuance, (b) directors, officers or employees of the Company under bona fide compensation or benefit arrangements or (c) upon the exercise of options or warrants or the conversion of convertible securities, issued for fair value at the time of any such issuance of options, warrants or convertible securities) Common Stock at a price per share less than the Current Market Price per share of the Common Stock on the date of such issuance (the "Issue Date"), the Conversion Price in effect at the opening of business on the day following the Issue Date shall be reduced by multiplying such Conversion Price by a fraction the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the Issue Date plus the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so issued would purchase at such Current Market Price and the denominator of which shall be the number of shares of Common Stock outstanding at the close of business on the Issue Date plus the number of shares of Common Stock so issued, such reduction to become effective immediately after the opening of business on the day following the Issue Date. For the purposes of this Section 5(j), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(k) In case the Company at any time or from time to time shall take any action affecting its Common Stock similar to or having an effect similar to any of the actions described in any of Sections 5(f) through 5(j) (but not including any action described in any such Section) then, and in each such case, the Conversion Price shall be adjusted in such manner and at such time as determined in good faith by the Board of Directors (and, for so long as the Initial Holders constitute the Majority Holders, the Majority Holders).

(l) The reclassification or change of Common Stock into securities, including securities other than Common Stock (other than any reclassification upon a consolidation or merger to which Section 6(a) below shall apply), shall be deemed to involve (A) a distribution of such securities other than Common Stock to all holders of Common Stock, and (B) a subdivision or combination, as the case may be, of the number of shares of Common Stock outstanding immediately prior to such reclassification into the number of Common Shares outstanding immediately thereafter (and the effective date of such reclassification shall be deemed to be "the day upon which such subdivision becomes effective" or "the day upon which such combination becomes effective," as the case may be, and "the day upon which such subdivision or combination becomes effective" within the meaning of Section 5(h) above).

(m) All calculations under this Section 5 shall be made to the nearest $1/10{,}000^{th}$ of a cent or to the nearest $1/10{,}000^{th}$ of a share, as the case may be.

(n) The Company from time to time may reduce the Conversion Price if it considers such reductions to be advisable in order that any event treated for federal income tax purposes as a dividend of stock or stock rights will not be taxable to the holders of Common Stock by any amount.

(o) For purposes of this Section 5, "Common Stock" includes any stock of any class of the Company which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and which is not subject to redemption by the Company. However, subject to the provisions of Section 6(a) below, shares issuable on conversion of shares of Series A Preferred Stock shall include only shares of the class designated as Common Stock of the Company on the Series A Preferred Stock Issue Date or shares of any class or classes resulting from any reclassification thereof and which have no preferences in respect of dividends or amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and which are not subject to redemption by the Company; provided that, if at any time there shall be more than one such resulting class, the shares of each such class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

(p) No adjustment in the Conversion Price shall reduce the Conversion Price below the then par value of the Common Stock.

(q) If: (A) the Company takes any action which requires an adjustment in the Conversion Price pursuant to Section 5; (B) the Company consolidates or merges with, or transfers all or substantially all of its assets to, another corporation, and stockholders of the Company must approve the transaction; or (C) there is a dissolution or liquidation of the Company; the Company shall mail to holders of the Series A Preferred Stock, first class, postage prepaid, a notice stating the proposed record or effective date, as the case may be. The Company shall mail the notice at least ten (10) days before such date. However, failure to mail the notice or any defect in it shall not affect the validity of any transaction referred to in clause (A), (B) or (C) of this Section. Whenever the Conversion Price is adjusted, the Company shall promptly mail to holders of Series A Preferred Stock, first class, postage prepaid, a notice of the adjustment. The Company shall file with the Transfer Agent for the Series A Preferred Stock, if other than the Company, a certificate from the Company's chief financial officer briefly stating the facts requiring the adjustment and the manner of computing it.

(r) In any case in which this Section 5 shall require that an adjustment as a result of any event becomes effective from and after a record date, the Company may elect to defer until after the occurrence of such event the issuance to the holder of any shares of Series A Preferred Stock converted after such record date and before the occurrence of such event of the additional shares of Common Stock issuable upon such conversion over and above the shares issuable on the basis of the Conversion Price in effect immediately prior to adjustment; provided, however, that if such event shall not have occurred and authorization of such event shall be rescinded by the Company, the Conversion Price shall be recomputed immediately upon such rescission to the price that would have been in effect had such event not been authorized, provided that such rescission is permitted by and effective under applicable laws.

6. Change of Control; Liquidation Event.

(a) Change of Control. In the case of any Change in Control of the Company, then, upon consummation of such transaction, each holder of a share of Series A Preferred Stock shall be entitled to receive in respect of such share the greater of (i) the Liquidation Preference plus accrued and unpaid dividends thereon, whether or not declared, if any, or (ii) the amount such holder would receive if such holder converted such share of Series A Preferred Stock into the kind and amount of securities, cash or other assets receivable upon the consummation of the Change in Control by a holder of the number of shares of Common Stock into which such share of Series A Preferred Stock might have been converted immediately prior to such Change in Control (assuming such holder of Common Stock failed to exercise any rights of election and received per share the kind and amount of consideration receivable per share by a plurality of non-electing shares). Appropriate adjustment (as determined by the Board of Directors) shall be made in the application of the provisions herein set forth with respect to the rights and interests thereafter of the holders of Series A Preferred Stock, to the end that the provisions set forth herein (including provisions with respect to changes in and other adjustment of the Conversion Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other securities or property thereafter deliverable upon the conversion of Series A Preferred Stock. If this Section 6(a) applies, Sections 5(f), 5(h) and 5(l) do not apply.

(b) Liquidation Event. Upon any Liquidation Event of the Company, each holder of shares of the Series A Preferred Stock will be entitled to payment out of the assets of the Company available for distribution, before any distribution or payment out of such assets may be made to the holders of any Junior Securities, and subject to the rights of the holders of any Senior Securities or Parity Securities upon liquidation and the rights of the Company's creditors, of an amount equal to the Liquidation Preference plus accrued and unpaid dividends thereon, whether or not declared. After payment in full of the Liquidation Preference plus accrued and unpaid dividends thereon to which holders of Series A Preferred Stock are entitled, such holders will not be entitled to any further participation in any distribution of assets of the Company. If, upon any Liquidation Event of the Company, the amounts payable with respect to the Series A Preferred Stock and any other Parity Securities are not paid in full, the holders of the Series A Preferred Stock and such Parity Securities will share equally and ratably in any distribution of assets of the Company in proportion to the full liquidation preference and accumulated and unpaid dividends, if any, and other amounts payable in such event, to which each is entitled. The following shall be regarded as "Liquidation Events" within the meaning of this Section 5 (without limitation): (a) the commencement of a voluntary or involuntary case with respect to the Company or any subsidiary holding all or substantially all of the Company's assets (on a consolidated basis) pursuant to or within the meaning of Title 11 of the United States Code, (b) the appointment of a custodian for all or substantially all of the assets of the Company and its Subsidiaries, taken as a whole, and (c) a general assignment by the Company for the benefit of its creditors. To the maximum extent that any liquidating distribution is made in a combination of cash and property other than cash, the liquidating distributions to the holders of the Series A Preferred shall be made in cash to the maximum extent possible, in preference and priority to the liquidating distribution payable to any other capital stock, other than Parity Stock (in which case, such distribution in cash shall be made pro rata) or Senior Stock. Whenever the distribution provided for in this Section shall be payable in property other than cash, the value of such distribution shall be the fair market value of such property as determined in good faith by the Board of Directors.

7. Redemptions.

(a) The shares of Series A Preferred Stock shall be redeemable, at the option of the Company, in whole, or, from time to time, in part, at any time beginning on the second anniversary of the Series A Preferred Stock Issue Date, payable by the Company through the issuance of shares of Common Stock. The number of shares of Common Stock to be delivered by the Company with respect to the shares of Series A Preferred Stock being redeemed (the "Redemption Payment"), shall be equal to (1) the Applicable Redemption Amount (as defined below) per share of the Series A Preferred Stock being redeemed, divided by (2) the Current Market Price on the Redemption Date.

(b) The "Applicable Redemption Amount" shall mean:

(i) on and after the second anniversary of the Series A Preferred Stock Issue Date and prior to the third anniversary of the Series A Preferred Stock Issue Date, an amount per share of Series A Preferred Stock being redeemed equal to the product of (i) 103% and (ii) the Liquidation Preference (up to and including the Redemption Date), plus all accrued and unpaid dividends thereon, whether or not declared;

(ii) on and after the third anniversary of the Series A Preferred Stock Issue Date and prior to the fourth anniversary of the Series A Preferred Stock Issue Date, an amount per share of Series A Preferred Stock being redeemed equal to the product of (i) 102% and (ii) the Liquidation Preference (up to and including the Redemption Date) plus all accrued and unpaid dividends thereon, whether or not declared;

(iii) on and after the fourth anniversary of the Series A Preferred Stock Issue Date and prior to the fifth anniversary of the Series A Preferred Stock Issue Date, an amount per share of Series A Preferred Stock being redeemed equal to product of (i) 101% and (ii) the Liquidation Preference (up to and including the Redemption Date) plus all accrued and unpaid dividends thereon, whether or not declared; and

(iii) on and after the fifth anniversary of the Series A Preferred Stock Issue Date and thereafter, at an amount per share of Series A Preferred Stock being redeemed equal to the Liquidation Preference (up to and including the Redemption Date) plus all accrued and unpaid dividends thereon, whether or not declared.

(c) If fewer than all of the outstanding shares of Series A Preferred Stock are to be redeemed pursuant to Section 7(a) hereof, the number of shares to be so redeemed shall be determined by the Board of Directors and the shares to be redeemed shall be pro rata from each holder of Series A Preferred Stock, based upon the number of shares of Series A Preferred Stock held by each holder.

(d) At least thirty (30) days prior to the date fixed for the redemption of shares of Series A Preferred Stock, a written notice shall be mailed in postage prepaid envelope to each holder of record of the shares of Series A Preferred Stock to be redeemed, addressed to such holder at his or her post office address as shown on the records of the Company (or other Transfer Agent), notifying such holder that its shares are subject to redemption, stating the date fixed for redemption thereof (the "Redemption Date"), and calling upon such holder to surrender to the Company, on the Redemption Date at the place designated in such notice, his or her certificate or certificates representing the number of shares specified in such notice of redemption; provided, however, that such notice shall not prohibit any holder from exercising its Conversion Right at any time prior to the Redemption Date. On or after the Redemption Date, such holder of shares of Series A Preferred Stock to be redeemed shall present and surrender his or her certificate or certificates for such shares to the Company at the place designated in such notice and thereupon the Redemption Payment in respect of such shares shall be paid to the order of the person whose name appears on such certificate or certificates as the owner thereof and such surrendered certificate shall be cancelled. In case less than all the shares represented by any such certificates are redeemed, a new certificate shall be issued representing the unredeemed shares.

(e) From and after the Redemption Date (unless the Company defaults in payment of the Redemption Payment), all dividends on the shares of Series A Preferred Stock designated for redemption in such notice shall cease to accrue, and all rights of the holders thereof as stockholders of the Company, except the right to receive the Redemption Payment in respect of such shares (including an amount equal to all accrued and unpaid dividends thereon, whether or not declared, if any, up to the Redemption Date) upon the surrender of certificates representing the same, shall cease and terminate and such shares shall not thereafter be transferred (except with the consent of the Company) on the books of the Company, and such shares shall not be deemed to be outstanding for any purpose whatsoever; provided however, in the case of the Redemption Date falling after a dividend payment record date and prior to the related Dividend Payment Date or Special Dividend Payment Date, the holders of Series A Preferred Stock at the close of business on such record date will be entitled to receive the dividend payable on such shares on the corresponding Dividend Payment Date or Special Dividend Payment Date, notwithstanding the redemption of such shares following such dividend payment record date, but such dividend amount shall not be deemed accumulated and unpaid for purposes of calculating the Applicable Redemption Amount hereunder.

(f) If a notice of redemption has been given pursuant to this Section 7 and any holder of shares of Series A Preferred Stock shall, prior to the close of business on the day preceding the Redemption Date, given written notice to the corporation pursuant to Section 5 above of the conversion of any or all of the shares to be redeemed held by such holder (accompanied by a certificate or certificates for such shares, duly endorsed or assigned to the Company, and any necessary transfer tax payment, as required by Section 5 above), then such redemption shall not become effective as to such shares to be converted, such conversion shall become effective as provided in Section 5 above, and any moneys set aside by the Company for the redemption of such shares of converted Series A Preferred Stock shall revert to the general funds of the Company.

8. Voting Rights.

(a) The holders of Series A Preferred Stock shall be entitled to notice of all stockholders meetings in accordance with the Company's bylaws and the FBCA, and except as otherwise required by applicable law, the holders of the Series A Preferred Stock shall be entitled to vote on all matters submitted to the stockholders for a vote, voting together with the holders of the Common Stock as a single class, with each share of Common Stock entitled to one vote per share and each share of Series A Preferred Stock entitled to one vote for each share of Common Stock issuable upon conversion of the Series A Preferred Stock as of the record date for such vote or, if no record date is specified, as of the date of such vote.

(b) So long as any shares of Series A Preferred Stock are outstanding, the Company shall not, either directly or indirectly, by amendment, merger, reorganization, reclassification, recapitalization, conversion, consolidation or otherwise, do any of the following without (in addition to any other vote required by law or the Articles of Incorporation) the affirmative vote or consent of the Majority Holders, given in person or by proxy, either in writing by consent or by resolution adopted at an annual or special meeting and any act or transaction entered into without such vote or consent shall be void ab initio and of no force and effect:

(i) authorize, create (by way of reclassification or otherwise) or issue any Senior Securities or any obligation or security convertible or exchangeable into or evidencing the right to purchase, shares of any class or series of Senior Securities;

(ii) reclassify, alter or amend any authorized Parity Securities, Senior Securities or Junior Securities of the Company, if such reclassification, alteration or amendment would render such other security senior to (or, in the case of Senior Securities, senior in additional respects to) the Series A Preferred Stock;

(iii) issue any Series A Preferred Stock other than (A) the Series A Preferred Stock issued on the Series A Preferred Stock Issue Date and (B) PIK Dividends;

(iv) prior to the third anniversary of the Series A Preferred Stock Issue Date, issue any Parity Securities or any obligation or security convertible or exchangeable into or evidencing the right to purchase, shares of any class or series of Parity Securities, in each case, to the extent that the aggregate liquidation preference in respect of all Parity Securities then outstanding (other than the Series A Preferred Stock) would exceed $325,000,000;

(v) amend or otherwise alter these Articles of Designation or the Articles of Incorporation in any manner that under the FBCA requires the prior vote as a separate class of the holders of Series A Preferred Stock;

(vi) amend or otherwise alter these Articles of Designation or the Articles of Incorporation in any manner that would adversely affect the rights, privileges or preferences of the Series A Preferred Stock;

(vii) pay any dividend in cash to the Common Stock, other Junior Securities or Parity Securities in respect of any quarterly dividend unless the dividend payable in respect of such quarter on the Series A Preferred Stock is also paid in cash to the same extent; or

(viii) waive compliance with any provision of these Articles of Designation or take any actions intended to circumvent the provisions of these Articles of Designations.

(c) Without the consent of each holder affected, an amendment or waiver of the Company's Articles of Incorporation or of these Articles of Designation may not (with respect to any shares of Series A Preferred Stock held by a non-consenting holder):

(i) alter the voting rights with respect to the Series A Preferred Stock or reduce the number of shares of Series A Preferred Stock whose holders must consent to an amendment, supplement or waiver;

(ii) reduce the Liquidation Preference or alter the provisions with respect to the redemption of the Series A Preferred Stock;

(iii) alter the conversion rights of the holders of Series A Preferred Stock set forth in Section 5 hereof;

(iv) reduce the rate of payment of dividends on any share of Series A Preferred Stock;

(v) waive the consequences of any failure to pay dividends on the Series A Preferred Stock;

(vi) make any share of Series A Preferred Stock payable in any form other than that stated in these Articles of Designation;

(vii) make any change in the provisions of these Articles of Designation relating to waivers of the rights of holders of Series A Preferred Stock to receive the Liquidation Preference and dividends on the Series A Preferred Stock; or

(viii) waive a redemption payment with respect to any share of Series A Preferred Stock.

(d) Notwithstanding the foregoing, nothing herein or otherwise in the Company's Articles of Incorporation or bylaws shall limit or prevent the right of the holders of the Series A Preferred Stock from, to the fullest extent allowed by law, exercising the voting rights provided in this Section by written consent of the Majority Holders.

9. Board Observer; Information Rights.

(a) The Initial Holders shall have the right to appoint one individual (the "Board Observer") to attend as a nonvoting observer all meetings of the Company's Board of Directors and each committee thereof, except for any portion of a meeting of the Board of Directors that intends to consider, or any committee formed to consider, a transaction between the Company and the Initial Holders, any of their Affiliates or any holder that is Affiliated with the Board Observer or an Affiliate of any holder that is Affiliated with the Board Observer, and provided that the Board Observer is subject to a customary non-disclosure agreement. The Company shall provide the Board Observer with (i) notice of all meetings of the Board of Directors and (ii) all information delivered to the members of such Board of Directors (or committees thereof) prior to such meetings, and all other materials, including proposed written consent actions, otherwise provided to the Board of Directors, at the same time such notice and information is delivered to the members of the Board of Directors. Notwithstanding the above, the Company has the right to withhold any information from the Board Observer and to exclude the Board Observer from any meeting or portion thereof of the Board of Directors or committees thereof if access to such information or attendance at such meeting, could:

(1) remove the attorney-client privilege between the Company and its counsel;

(2) cause the Board of Directors to breach its duties to the Company and its stockholders; or

(3) result in a direct conflict between interests of the Company, on the one hand, and those of the Board Observer or its Affiliates, on the other hand.

The Company will use its reasonable efforts to ensure that any withholding of information or any restriction on attendance is limited only to the extent necessary set forth in the preceding sentence. Notwithstanding anything in the foregoing to the contrary, the Company shall be entitled to take actions and establish procedures to the extent reasonably required to restrict the access of the Board Observer to any restricted national security data of the Company or of any other Person whose national security data is in the possession or control of the Company. The Board Observer shall not have any authority to bind the Company.

(b) The Company shall permit the Initial Holders, at the Initial Holders' expense and upon reasonable prior notice and such other reasonable conditions as requested by the Company, to visit and inspect the Company's properties, to examine its books of account and records and to discuss its affairs, finances and accounts with such officers as are designated by the Company, all at such reasonable times as may be requested by the Initial Holders; provided, however, that the Company shall not be obligated pursuant to this Section 9(b) to provide access to any information which it reasonably considers to be a trade secret or similar confidential information or such other information as is contemplated by Section 9(a) above.

(c) Notwithstanding the foregoing, at such time as the aggregate amount of outstanding shares of Series A Preferred Stock Beneficially Owned by the Initial Holders is less than 50% of the shares of Series A Preferred Stock issued to the Initial Holders on the Original Issuance Date, the Initial Holders shall no longer be entitled to appoint the Board Observer under Section 9(a) or receive the information and access rights under Section 9(b).

10. Amendment. These Articles of Designation shall not be amended, either directly or indirectly, or through merger or consolidation with another entity or otherwise, in any manner that would alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the Majority Holders, voting separately as a class.

11. Exclusion of Other Rights. Except as may otherwise be required by law, the shares of Series A Preferred Stock shall not have any voting powers, preferences and relative, participating, optional or other special rights, other than those specifically set forth in this resolution (as such resolution may be amended from time to time) and in the Articles of Incorporation. The shares of Series A Preferred Stock shall have no preemptive or subscription rights.

12. Headings of Subdivisions. The headings of the various subdivisions hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

13. Severability of Provisions. If any voting powers, preferences and relative, participating, optional and other special rights of the Series A Preferred Stock and qualifications, limitations and restrictions thereof set forth in this resolution (as such resolution may be amended from time to time) is invalid, unlawful or incapable of being enforced by reason of any rule of law or public policy, all other voting powers, preferences and relative, participating, optional and other special rights of Series A Preferred Stock and qualifications, limitations and restrictions thereof set forth in this resolution (as so amended) which can be given effect without the invalid, unlawful or unenforceable voting powers, preferences and relative, participating, optional or other special rights of Series A Preferred Stock and qualifications, limitations and restrictions thereof shall, nevertheless, remain in full force and effect and no voting powers, preferences and relative, participating, optional or other special rights of Series A Preferred Stock and qualifications, limitations and restrictions thereof herein set forth shall be deemed dependent upon any other such voting powers, preferences and relative, participating, optional or other special rights of Series A Preferred Stock and qualifications, limitations and restrictions thereof unless so expressed herein.

14. Re-issuance of Series A Preferred Stock. Shares of Series A Preferred Stock that have been issued and reacquired in any manner, including shares purchased or redeemed or exchanged or converted, shall (upon compliance with any applicable provisions of the laws of Florida) have the status of authorized but unissued shares of preferred stock of the Company undesignated as to series and may be designated or re-designated and issued or reissued, as the case may be, as part of any series of preferred stock of the Company, provided that any issuance of such shares as Series A Preferred Stock must be in compliance with the terms hereof.

15. Mutilated or Missing Series A Preferred Stock Certificates. If physical certificates are issued for the Series A Preferred Stock and if any of such Series A Preferred Stock certificates shall be mutilated, lost, stolen or destroyed, the Company shall issue, at the holder's expense, in exchange and in substitution for and upon cancellation of the mutilated Series A Preferred Stock certificate, or in lieu of and substitution for the Series A Preferred Stock certificate lost, stolen or destroyed, a new Series A Preferred Stock certificate of like tenor and

representing an equivalent amount of shares of Series A Preferred Stock, but only upon receipt of evidence of such loss, theft or destruction of such Series A Preferred Stock certificate and indemnity, if requested, satisfactory to the Company and the Transfer Agent (if other than the Company).

16. Transfer Agent, Conversion Agent, Registrar and Paying Agent. The Transfer Agent, conversion agent, registrar and paying agent shall initially be the Company. The Company may appoint a successor to any one or more of such roles (and may remove any such successor in accordance with any agreement with such successor and appoint a new successor). Upon any such removal or appointment, the Company shall notify the holders of the Series A Preferred Stock thereof.

17. Withholding Taxes. All payments and distributions (or deemed distributions) on the shares of Series A Preferred Stock (and any shares of Common Stock issued upon conversion thereof) shall be subject to withholding and backup withholding of tax to the extent required by law, and such amounts withheld, if any, shall be treated as received by the holders of Series A Preferred Stock.

18. Waiver. Except to the extent expressly provided herein, any provision contained herein and any right of the holders of Series A Preferred Stock granted hereunder may be waived as to all shares of Series A Preferred Stock (and the holders thereof) upon the written consent of the Board (or an authorized committee thereof) and the Majority Holders.

19. Certain Definitions. As used in these Articles of Designation, the following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa), unless the context otherwise requires:

"Affiliate" means, with respect to any specified Person, any Person that, directly or indirectly, controls, is controlled by, or is under common control with, such specified Person, through one or more intermediaries or otherwise. For purposes hereof, "control" (including, with correlative meaning, the terms "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Beneficially Owned" means with respect to any securities having "beneficial ownership" of such securities (as determined pursuant to Rule 13d-3 under the Exchange Act).

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or required by Law to close.

"Change in Control" means the occurrence of any of the following events: (a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person shall be deemed to have "beneficial ownership" of all securities that such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50% of the total voting capital stock of the Company after the date hereof; (b) the Company consolidates with, or merges with or into, or enters into any other business combination with, another Person or sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any Person, or any Person consolidates with, or merges with or into, the Company, in any such event in a transaction in which the outstanding voting capital stock of the Company is converted into or exchanged for cash, securities or other property, provided that following such transaction the holders of voting stock of the Company immediately prior to such transaction do not own more than 50% of the voting stock of the company surviving such transaction or to which such assets are transferred (unless the Majority Holders elect not to treat such transaction as a Change in Control), or (c) any merger, consolidation or other business combination of the Company with or into another Person that results in the cancellation of any shares of Series A Preferred Stock or that results in the conversion or exchange of any shares of Series A Preferred Stock into or for (1) shares of any other class or series of capital stock of the Company, (2) capital stock of the Company or any other Person (or the right to receive any such capital stock), (3) any property (including, without limitation, cash and the right to receive cash or property) or (4) any combination of the foregoing (unless the Majority Holders elect not to treat such transaction as a Change in Control).

"Common Stock" means the Common Stock, par value $.01 per share, of the Company as presently constituted.

"Common Stock Equivalent" means any security or obligation which is by its terms, directly or indirectly, convertible into or exchangeable or exercisable for shares of Common Stock, including, without limitation, any option, warrant or other subscription or purchase right with respect to Common Stock or any Common Stock Equivalent.

"Conversion Price" shall initially equal 110% of the lower of (a) $28.90 and (b) the Thirty Day VWAP prior to the Series A Preferred Stock Issue Date, and thereafter shall be subject to adjustment from time to time pursuant to the terms of Section 5 hereof.

"Current Market Price" per share of Common Stock on any day shall be deemed to be the average of the closing prices of the Common Stock for the twenty (20) consecutive Trading Days ending the day before the day in question, except with respect to issuances of Common Stock or Common Stock Equivalent to employees, directors and consultants, in which case Current Market Price shall be the fair market value of such Common Stock or Common Stock Equivalent on the date of issuance as calculated in accordance with standard Company practices.

"Daily VWAP" means the volume-weighted average price per share of Common Stock as displayed under the heading "Bloomberg VWAP" on the Bloomberg page for the "<equity> AQR" page corresponding to the "ticker" for such Common Stock (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading until the scheduled close of trading of the primary trading session on such Trading Day (or if such volume-weighted average price is unavailable, the market value of one share of such Common Stock on such Trading Day. The "volume weighted average price" shall be determined without regard to after-hours trading or any other trading outside of the regular trading session trading hours.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"FBCA" means the Florida Business Corporation Act, as amended.

"Initial Holders" means the recipients of the Series A Preferred Stock on the Series A Preferred Stock Issue Date.

"Liquidation Preference" means $1,000 per share of Series A Preferred Stock.

"Majority Holders" means the holders who at any point in time hold at least 50.1% of the then outstanding shares of the Series A Preferred Stock.

"Person" means any individual, firm, corporation, partnership, limited liability company, incorporated or unincorporated association, joint venture, joint stock company, Governmental Authority or other entity of any kind.

"Permitted Transfer" means a transfer by the holder of Series A Preferred Stock in accordance with all applicable laws and regulations.

"Permitted Transferee" means the recipient of a Permitted Transfer.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended.

"Series A Preferred Stock Issue Date" means the date on which the Series A Preferred Stock was originally issued by the Company to the Initial Holders under these Articles of Designation.

"Thirty Day VWAP" means, with respect to a security, the average of the Daily VWAP of such security for each day during a thirty (30) consecutive Trading Day period ending immediately prior to the date of determination.

"Trading Day" means any day on which the New York Stock Exchange or other applicable stock exchange or market is open for business.

"Transfer" means, as a noun, any voluntary or involuntary transfer, sale, pledge, hypothecation, gift, or other disposition and, as a verb, voluntarily or involuntarily to transfer, sell, pledge, hypothecate, give, or otherwise dispose of. A Transfer of shares of Series A Preferred Stock held by a stockholder shall also include any Transfer of such stockholder or any direct or indirect interest in a stockholder that constitutes a direct or indirect change of control of the stockholder.

"Transfer Agent" shall be the Company unless and until a successor is selected by the Company as provided herein.

IN WITNESS WHEREOF, the Company has caused these Articles of Amendment to be executed by its duly authorized officer.

Dated: December 13, 2012

OCWEN FINANCIAL CORPORATION

By: /s/ John V. Britti

Name: John V. Britti

Title: Chief Financial Officer

**ARTICLES OF AMENDMENT TO
AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF OCWEN FINANCIAL CORPORATION**

Ocwen Financial Corporation, a Florida corporation (the "Corporation"), acting pursuant to the provisions of Sections 607.1006 and 607.10025 of the Florida Business Corporation Act, does hereby adopt the following Articles of Amendment to its Amended and Restated Articles of Incorporation:

FIRST: The name of the Corporation is: Ocwen Financial Corporation.

SECOND: These Articles of Amendment have been adopted and approved in connection with a share division pursuant to Section 607.10025 of the Florida Business Corporation Act. The resolutions approving the division of shares were adopted and approved by the Board of Directors of the Corporation on July 27, 2020, without shareholder action. Shareholder action was not required pursuant to Section 607.10025(2) of the Florida Business Corporation Act.

THIRD: The amendment to the Amended and Restated Articles of Incorporation set forth below does not adversely affect the rights or preferences of the holders of outstanding shares of the Corporation's common stock, and the percentage of authorized shares of the Corporation's common stock remaining unissued after the division will not exceed the percentage of authorized shares of the Corporation's common stock that were unissued before the division.

FOURTH: Paragraph one (1) of Article III of the Amended and Restated Articles of Incorporation shall be deleted in its entirety and replaced with the following:

"The total number of shares of stock of all classes and series the Company shall have authority to issue is 33,333,333 shares consisting of (i) 13,333,333 shares of common stock, par value of $0.01 per share, and (ii) 20,000,000 shares of preferred stock, par value $0.01 per share, with such rights, preferences and limitations as may be set from time to time by resolution of the board of directors and the filing of Articles of Amendment as required by the Florida Business Corporation Act. Upon the filing and effectiveness (the "Effective Time") pursuant to the Florida Business Corporation Act of these Articles of Amendment, each fifteen (15) shares of Common Stock either issued and outstanding immediately prior to the Effective Time shall, automatically and without any action on the part of the respective holders thereof, be combined and converted into one (1) share of Common Stock (the "Reverse Stock Split"). No fractional shares shall be issued in connection with the Reverse Stock Split. Shareholders who otherwise would be entitled to receive fractional shares of Common Stock shall be entitled to receive shares rounded up to the nearest whole share. Each certificate that immediately prior to the Effective Time represented shares of Common Stock ("Old Certificates"), shall from and after the Effective Time, automatically and without the necessity of presenting the same for exchange, represent that number of shares of Common Stock into which the shares of Common Stock represented by the Old Certificate shall have been combined, subject to the elimination of fractional share interests as described above."

FIFTH: That these Articles of Amendment shall become effective at 5:00 P.M. eastern time on August 13, 2020, in accordance with the applicable provisions of the Florida Statutes.

IN WITNESS WHEREOF, the undersigned duly authorized officer of the Corporation has executed these Articles of Amendment as of this 4th day of August, 2020.

OCWEN FINANCIAL CORPORATION

By: /s/ Joseph J. Samarias
Name: Joseph J. Samarias
Title: Secretary

Ocwen Financial Corporation
1661 Worthington Road, Suite 100
West Palm Beach, FL 33409

September 15, 2020

Re: Third Amendment to April 17, 2018 Offer Letter

Dear Glen:

On behalf of Ocwen Financial Corporation ("the Company" or "Ocwen"), I am writing to confirm the terms of your compensation arrangement following recent determinations by the Compensation and Human Capital Committee of our Board of Directors. As you know, in February 2019, you voluntarily agreed to reduce your compensation in support of the Company's ongoing cost re-engineering efforts. In recognition of your contributions and to ensure your compensation arrangements adequately reflect best market practice, including with respect to severance practices, the Company desires to restore your incentive compensation targets to the terms initially agreed to in the employment offer letter between you and the Company dated April 17, 2018 (the "Offer Letter") and to implement the other modifications set forth below:

Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Offer Letter.

You and the Company hereby agree to modify your compensation as follows:

1. Your annual cash target incentive shall be restored to 150% of your base salary ($1,350,000), effective October 1, 2020, and your 2020 target will be prorated based on time spent at the current and new target levels, totaling $1,181,557.38;

2. Your annual long-term incentive equity grant shall be restored to a grant date fair value of not less than 350% of your base salary ($3,150,000), effective January 1, 2021; and

3. In the event your employment is terminated without Cause, or for Good Reason, within two years following a change in control of the Company (such change in control to be defined as a "change in ownership" as described in Treasury Regulation 1.409A-3(i)(5)(v), a "change in the effective control" under Treasury Regulation 1.409A-3(i)(5)(vi)(A)(1), or a change "in the ownership of a substantial portion of the assets" under Treasury Regulation 1.409A-3(i)(5)(vii)), you will be entitled to receive from the Company: (a) a lump sum termination payment in the amount equivalent to two times the sum of your then-current base salary plus annual target incentive amount, (b) a lump sum payment equivalent to the estimated cost of two years' COBRA benefits, such aggregate lump sum under clauses (a) and (b) to be paid within 30 days after your employment termination date, and (c) continued bonus eligibility in the amounts and on the terms set forth in the Offer Letter. This change will apply as of the effective date of this letter.

All other terms of your employment remain unchanged. This letter, the Offer Letter and any documents incorporated herein or therein constitute the entire agreement between the parties pertaining to the subject matter contained herein, and supersede any and all prior or contemporaneous oral or written negotiations, agreements, representations, and understandings with regard to such subject matter. In the event of any conflict between this letter and the Offer Letter, the terms of this letter shall prevail.

Ocwen thanks you for your commitment to the Company.

Sincerely,

/s/ Dennis Zeleny
Dennis Zeleny
Executive Vice President and Chief Administrative Officer

Acknowledged and Agreed:

/s/ Glen A. Messina
Glen A. Messina

Cc: Dr. DeForest B. Soaries
Chairperson, Compensation and Human Capital Committee

OCWEN

September 10, 2020

INDIVIDUAL SPECIAL CASH AWARD AGREEMENT

Dear [ ],

This document outlines your eligibility for a Special Cash Award ("Award") to be earned and payable to you in cash by Ocwen Financial Corporation ("Ocwen" or "the Company") upon your fulfillment of the terms and conditions set forth herein. Eligibility for the Award is subject to continued at-will employment through **March 10, 2022** (the "Vesting Period") and to ensure the protection of the Company's confidential information, trade secrets, and other legitimate business interests. Your eligibility for this Award does not affect your eligibility for any other payments you may be entitled to, including without limitation any benefit under a corporate severance plan.

Please note this agreement applies only to the cash-based Award described herein. Any other award granted to you, including a cash-settled restricted stock unit award, will be subject to its own terms pursuant to the applicable agreement.

Subject to the terms and conditions outlined in this letter, the Award consists of the following:

Award Value: $[ ]

Vesting Schedule: Subject to the terms and conditions outlined in this Agreement, including the requirement that you remain continuously employed with the Company through **March 10, 2022**, your right to receive payment of the Award shall become vested and earned on that date

Settlement: Except as otherwise provided by the Agreement, you will receive a cash payment of any vested and earned Award within thirty (30) days following the vesting date as a lump-sum payment, less all applicable withholdings and taxes.

Your right to receive payment of this Award is expressly conditioned on your continued employment, compliance with all of Ocwen's workplace policies and procedures, and your compliance with all of the terms and conditions of this Agreement through the entire Vesting Period. In the event that, during the Vesting Period, you voluntarily resign from your employment for whatever reason or are involuntarily terminated due to poor job performance or for "Cause" as defined herein, you shall not earn or receive payment of any unvested portion of the Award.

To accept the terms and conditions of this Award, a signed and dated copy of this agreement letter must be received by Friday, September 25; otherwise, this Agreement will be null and void and you will not be eligible for the Award. Documents (in PDF format) and any questions should be emailed to [ ].

TERMS AND CONDITIONS

A) Conditions for Vesting and Earning of Award. The Award shall vest and become payable to you only upon your fulfillment of each of the following conditions: (i) you remain continuously employed by the Company throughout the Vesting Period; (ii) you are not terminated for sub-standard performance or for “Cause” (defined below) during the Vesting Period; and (iii) you fully comply with Sections C and D of this Agreement throughout the Vesting Period. For purposes of this Agreement, “Cause” means any one of the following, the existence of which shall be finally determined by the Company in its sole good faith discretion: (1) a material failure of you to substantially perform your job duties with the Company or its Subsidiaries (other than failure resulting from incapacity due to physical or mental illness); (2) any act of fraud, misappropriation, dishonesty, embezzlement or similar conduct against, or relating to the assets of, the Company or its Subsidiaries; (3) conviction (or plea of nolo contendere) of a felony, any crime involving moral turpitude or any other offense that reflects negatively on the Company; (4) repeated instances of negligence in the performance of your job or any instance of gross negligence in the performance of your job duties as an employee of the Company or one of its Subsidiaries; (5) any breach of any fiduciary obligation owed to the Company or any Subsidiary; (6)any material violation of the Company’s Code of Business Ethics and Conduct or other applicable workplace policies; or (7) failure to perform your job duties for the Company or any Subsidiary in accordance with reasonable instructions and directions from your managers, and the reasonable workplace policies and procedures established by the Company or any Subsidiary, as applicable, from time to time.

B) Payment Upon Involuntary Termination Not For “Cause” During the Vesting Period. Notwithstanding anything to the contrary in this Agreement, if you are involuntarily terminated due to a job elimination, reduction in force or group layoff during the Vesting Period, the Award shall vest and become earned and payable to you as if you worked the entire Vesting Period. This payment of the Award will not be pro-rated. Payment will be made within 30 days of your effective date of termination.

C) Receipt and Protection of Confidential Information.

a) You acknowledge that you hold a position of trust and confidence with the Company and that, during the Vesting Period, you will receive access to Confidential Information and Trade Secrets necessary for the performance of your assigned duties, including information that is new and ever-changing as the Company continues to do business. For purposes of this Agreement, “Trade Secrets and Confidential Information” means and includes any information or data (or compilation thereof) concerning the business of the Company, as well as its subsidiaries and clients, that has not been made public through authorized disclosure and that is not generally known in Company’s industry through proper means, regardless of whether such information is in oral, written, electronic, or other tangible or intangible form, and regardless of who conceived, developed, or discovered such information by or for the Company. Without limiting the foregoing definition, Trade Secrets and Confidential Information include non-public information regarding the Company’s: financial performance and projections (including revenue reports, profit-and-loss reports, budgets, and all other non-public financial reports and data), lists of current and/or prospective clients, identities of key contacts within client organizations, client preferences and financial services needs, client-specific pricing arrangements and proposals, contracts with clients and vendors, and other non-public client-related information, identities and performance data of key employees of the Company and its Subsidiaries, business plans and strategies, marketing plans and strategies, capital expenditures and acquisitions, proprietary software and databases, other proprietary business or technical processes and training, accounting and tax information, and other non-public business secrets related to the Company’s business or contemplated expansions of the Company’s business. Notwithstanding the foregoing, the term “Trade Secrets and Confidential Information” shall not include the general knowledge, skills, and experience that you have acquired in the course of your employment with the Company, and the identity of any clients or key client contacts with whom you worked prior to joining the Company.

b) You agree and covenant that you have not and will not remove from the Company premises any item belonging to the Company and its affiliates, including office equipment, files, business records or correspondence, customer lists, computer data and any other Trade Secrets and Confidential Information and that you have not and will not disclose or use any Trade Secrets or Confidential Information of the Company and its affiliates except in the performance of your authorized duties for the Company. To the extent you have Trade Secrets or Confidential Information in your possession, you agree to return to the Company upon the Termination Date all such information and all other Company property, as well as all copies or excerpts of any property, files, or Trade Secrets and Confidential Information obtained as a result of employment with the Company, except those items that the Company specifically agrees in writing to permit you to retain. You agree to keep all Trade Secrets and Confidential Information confidential and not disclose or use that information for any purpose, or divulge or disclose that information to any person other than employees of the Company who have a need to receive it, except as compelled by legal process or with the prior written approval of a duly authorized officer of the Company. In addition, you reaffirm your obligations pursuant to the Intellectual Property Agreement signed by you.

c) Federal Defend Trade Secrets Act. Notwithstanding the confidentiality and non-disclosure obligations in this Agreement and otherwise, you understand that as provided by the Federal Defend Trade Secrets Act, you will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret made: (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (2) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

D) Non-Interference with the Company's Legitimate Business Interests. In consideration of your eligibility for the Award, your continued at-will employment, and the Company entrusting you with some or all of the foregoing Trade Secrets and Confidential Information during the Vesting Period, you agree that the following restrictions are reasonable and no broader than necessary to protect the Company's legitimate business interests, including the Company's need to protect its Trade Secrets and Confidential Information, goodwill, and client relationships. You agree as follows:

a) For so long as you remain employed with the Company, you shall not engage in any activity to advise or assist or to otherwise provide work or services for the Company's competitors or to the Company's vendors, suppliers, clients, or customers unless you have advised your manager or supervisor of such activities and your manager or supervisor has approved such activities in writing. Without limiting the foregoing, you are and shall be prohibited from engaging in the following activities while you are employed by the Company: (a) providing services or selling products similar to those provided or sold by the Company; (b) offering, or soliciting or accepting an offer, to provide such services or to sell such products; or (c) taking any action to engage in the business of providing such services or sell such products; provided, however, nothing in this Agreement shall be construed as limiting your ability to engage in any lawful off-duty conduct.

b) For a period of two (2) years immediately following the date of this Agreement, regardless of whether you remain employed by the Company during that entire period or not, you agree that you will not, directly or indirectly for yourself or others, interfere with the Company's business relationship with any Covered Client (defined below), by soliciting or communicating with any such client (regardless of who initiates the communication) to induce or encourage the client to cease its business with the Company, to divert business opportunities away from the Company, to reduce its business with the Company, to otherwise detrimentally change its business relationship with the Company, or to purchase or lease from another person or entity any product or service the Company offers to its clients or prospective clients. For purposes of this Agreement, “Covered Client” means and includes the Company clients that, in the one (1) year period preceding the end of your employment with the Company, you had material contact by: (a) participating in selling products or services to the client; (b) having other business-related contact or dealings with the client; or (iii) receiving access to Trade Secrets or Confidential Information about the client. “Covered Client” shall also include prospects with which the Company negotiated to do business or to which the Company submitted a proposal within the one (1) year period preceding the end of your employment, so long as you received Trade Secrets or Confidential Information related to the negotiations or participated in the proposal.

c) For a period of two (2) years immediately following the date of this Agreement, regardless of whether you remain employed by the Company during the entire period or not, you agree that you will not, directly or indirectly: (a) recruit, induce, cause, encourage, or otherwise solicit a Covered Employee (defined below) to terminate his or her employment with the Company to perform work for, enter employment with, or otherwise provides services to any competing business; or (b) assist any competing business in hiring or evaluating a Covered Employee for employment. For purposes of this “Agreement,” a Covered Employee means and includes any employee of the Company or its subsidiaries with whom you personally worked, whom you directly or indirectly supervised, or about whom you received access to Trade Secrets or Confidential Information during your employment with the Company

d) In the event that you fail to comply with the restrictions contained in Paragraphs D(2) or D(3), above, the stated time period for those restrictions shall be tolled and extended by one day for each day you have breached it and for each day that the breach by you continues.

e) <u>FOR EMPLOYEES RESIDING IN CALIFORNIA</u>: For so long as you reside in and are subject to the laws of California, the provisions of Paragraphs D(2), D(3), and D(4) shall not apply.

E) <u>Withholding</u>. Ocwen retains the right to withhold from any amounts due under this letter agreement, any income, employment, payroll, excise and other taxes as Ocwen may, in its sole discretion, deem necessary.

F) <u>Integration with Other Benefit Programs</u>. Benefits payable under this Award will not increase or decrease or duplicate the benefits otherwise available to you under any of the Company’s retirement plans, welfare plans or any other employee benefit plans or programs unless otherwise expressly provided in any particular plan or program.

G) <u>No Contract of Employment</u>. Nothing in this letter agreement should be construed by you to be a contract of employment for any specific term or to otherwise alter your status as an at-will employee of the Company. In addition, this letter in no way obligates you to remain employed with Ocwen (and does not obligate Ocwen to continue to employ you).

H) <u>Payment Upon Death or Disability</u>. If you become disabled or die during the Vesting Period, you will receive an award that is pro-rated, corresponding to the portion of the Vesting Period prior to death or disability. For purposes of this letter, “Disability” means a mental or physical impairment that would entitle you to benefits under the Company’s long-term disability plan (without regard to any elimination period that may apply).

I) <u>Notices</u>. Notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States certified mail, return receipt requested, or by overnight courier, postage prepaid, as follows:

if to the Company,

Ocwen Financial Corporation
1661 Worthington Road, Suite 100
West Palm Beach, FL 33409
Attn: Human Resources

if to you, at the home address which you most recently communicated to Ocwen in writing.

Either party may provide the other with notice of a change of address, which shall be effective upon receipt.

J) Governing Law.

a) This Agreement and any disputes arising out or of related to this Agreement shall be construed, admin istered and enforced in accordance with the laws of the State of Florida, without regard to any conflicts of law principles.

b) FOR EMPLOYEES RESIDING IN CALIFORNIA: Notwithstanding Paragraph J(1), any disputes arising out of or related to this Agreement shall be construed, administered and enforced in accordance with the laws of the State of California.

K) Jury Trial Waiver.

a) THE PARTIES HERETO WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION TO ENFORCE OR DEFEND ANY MATTER ARISING FROM OR RELATED TO THIS AGREEMENT.

b) FOR EMPLOYEES RESIDING IN CALIFORNIA AND GEORGIA: Paragraph K(1) shall not apply and the parties do not waive their rights to a jury trial.

L) Amendment and Termination. This letter of agreement may not be amended or terminated without written consent by both you and the President of Ocwen Financial Corporation or his/her designee.

M) Severability/Judicial Modification. Each of your obligations under Sections C and D of this Agreement shall be considered a separate and severable obligation. If a court of competent jurisdiction determines that any restrictions contained within Sections C and D cannot be enforced as written due to an overbroad limitation (such as time, geography, or scope of restricted activity), you and the Company agree that the court shall modify or reform such restrictions or enforce them to such lesser extent as is allowed by law. If, despite the foregoing, any provision of this letter agreement is held to be invalid or unenforceable by a court of competent jurisdiction, then the remaining provisions of this letter agreement shall remain operative and in full force and effect.

N) Successors/Assignment. This letter agreement shall automatically inure to the benefit of, be assigned to, and be binding upon, each successor of Ocwen Financial Corporation and its subsidiaries, whether by merger, consolidation, transfer of all or substantially all of its assets or otherwise, and you acknowledge and agree that this letter agreement may be assigned by Ocwen to any such successor which shall upon such assignment succeed to the rights and responsibilities of Ocwen hereunder without your further approval or consent. This Agreement shall likewise inure to the benefit of the Company's parent, subsidiary and otherwise affiliated entities as express third-party beneficiaries of the rights and protections afforded the Company under this Agreement.

O) Award Exempt Under Section 409A. All payments under this Agreement are intended to be exempt from Section 409A of the Internal Revenue Code by reason of the “short-term deferral” rules set out in Treasury Regulation section 1.409A-1(b)(4) and shall be interpreted in all regards consistent with such intent.

P) Entire Agreement. This Agreement contains the entire agreement and understanding of the parties relating to the subject matter hereof, and merges and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature relating to the subject matter, with the exception of any Restrictive Covenant and/or Non-Solicitation Agreement, Jury Waiver, or Intellectual Property Agreement (collectively “Prior Agreements”), you may have executed prior to receiving this Award, which Prior Agreements shall survive execution of this Agreement and remain enforceable independent of the terms of this Agreement. In no event shall the existence of any Prior Agreements be construed so as to reduce or limit the restrictions and obligations independently imposed by this Agreement.

Q) Counterparts. For convenience of the parties and to facilitate execution, this letter agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same document. Transmission by facsimile of an executed counterpart signature page hereof by a party hereto shall constitute due execution and delivery of this letter agreement by such party.

Signed: ______________________________

Name: ______________________________

Date: ______________________________

CASH-SETTLED STOCK UNIT AWARD AGREEMENT

THIS CASH-SETTLED STOCK UNIT AWARD AGREEMENT (this “Agreement”) is made as of September 10, 2020 (the “Award Date”) between Ocwen Financial Corporation, a Florida corporation (the “Corporation”), and [ ], an employee of the Corporation or of a Subsidiary (the “Participant”).

WHEREAS, the Corporation desires, by granting to the Participant an award of cash-settled stock units pursuant to the Corporation’s 2017 Performance Incentive Plan (the “2017 Plan”), to further the objectives of the 2017 Plan;

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, and intending to be legally bound hereby, the parties hereto have agreed, and do hereby agree, as follows:

1. STOCK UNIT GRANT

The Corporation hereby grants to the Participant, pursuant to and subject to the 2017 Plan, an aggregate of **[ ]** stock units (the “Stock Units”), on the terms and conditions herein set forth (the “Award”). As used herein, the term “stock unit” shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of the Corporation’s Common Stock (subject to adjustment as provided in Section 7.1 of the 2017 Plan) solely for purposes of the 2017 Plan and this Agreement. The Stock Units shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such Stock Units vest pursuant to Paragraph 2 below. The Stock Units shall not be treated as property or as a trust fund of any kind. Capitalized terms used herein and not otherwise defined herein shall have the meaning assigned to such terms in the 2017 Plan.

2. VESTING OF STOCK UNITS

A. Generally

Subject to the following provisions of this Paragraph 2 and Paragraph 4, the total number of Stock Units subject to the award will vest on the date that is eighteen (18) months following the Award Date (the “Vesting Date”, and with the Vesting Date subject to adjustment as set forth in Paragraph 2 hereof).

B. Retirement or Termination by the Corporation Without Cause

If the Participant’s employment with the Corporation or any of its Subsidiaries terminates by reason of the Participant’s (i) Retirement or (ii) termination by the Participant’s employer without Cause (other than following a Change in Control (as defined below)) at any time on or before the Vesting Date, the Award shall immediately vest on a pro-rata basis in proportion to the percentage of the vesting period the Participant was employed by the Corporation or one of its Subsidiaries prior to such termination of the Participant’s employment, provided that the Participant satisfies the release requirement set forth in the following sentence. As a condition of any such vesting, the Participant shall, not later than 21 days after the Separation Date (or such longer period as may be required under applicable law for the Participant to consider the release in order for the release to be effective) provide the Corporation with a valid, executed written release of claims in a form acceptable to the Corporation, and such release shall not have been revoked by the Participant pursuant to any revocation rights afforded by applicable law.

Such Stock Units shall be paid in accordance with Paragraph 7 hereof, provided that the Vesting Date as to such Stock Units shall be deemed to be the Separation Date. Any remaining unvested portion of the Award after giving effect to such acceleration shall terminate and be cancelled as of the Separation Date. (For clarity, if the Participant’s employment with the Corporation or any of its Subsidiaries terminated as set forth above mid-way between the Award Date and the Vesting Date, the Participant would vest in one-half of the number of Stock Units subject to the Award, and any remaining unvested portion of the Award would terminate and be cancelled.)

For purposes of this Agreement, “Retirement” shall mean termination (other than by reason of death, Disability (as defined below) or by the Participant’s employer for Cause) of the Participant's employment with the Corporation or one of its Subsidiaries; provided, however, that for purposes of this Agreement only, the Participant must have attained the age of 60 and been an employee of the Corporation or any of its Subsidiaries for not less than 5 years as of the date of termination of employment by reason of Retirement.

For purposes of this Agreement, “Cause” shall mean that the Administrator, acting in good faith based on the information then available to it, determines that the Participant: (a) has been convicted of, or has pled guilty to, a felony (under the laws of the United States or any state thereof or other applicable jurisdiction); (b) has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of the Participant’s duties for the Corporation or any of its Subsidiaries; (c) the Participant has willfully failed to substantially perform the Participant’s duties for the Corporation or any of its Subsidiaries; (d) has materially breached any of the provisions of any agreement to which the Participant is a party with the Corporation or any of its Subsidiaries; or (e) has materially breached any written policy of the Corporation or any of its Subsidiaries that is applicable to the Participant in the course of the Participant’s employment and has been communicated to the Participant; provided, however, as to clauses (c), (d) and (e) only, that Cause shall only exist if the Corporation or a Subsidiary (as the case may be) shall have provided written notice to the Participant of the condition(s) claimed to constitute Cause under such clause and the Participant shall have failed to remedy such circumstance(s) within 30 days following the date of such notice.

For clarity, for purposes of this Agreement no termination of the Participant’s employment shall be deemed to have occurred if the Participant ceases to be employed by the Corporation or a Subsidiary but, immediately thereafter, continues in the employ of another Subsidiary or the Corporation.

C. Death or Disability

If the Participant’s employment with the Corporation or any of its Subsidiaries is terminated by reason of the Participant’s death or Disability on or before the Vesting Date, the Award shall immediately vest on a pro-rata basis in proportion to the percentage of the vesting period the Participant was employed by the Corporation or one of its Subsidiaries prior to such termination of the Participant’s employment. Such Stock Units shall be paid in accordance with Paragraph 7 hereof, provided that the Vesting Date as to such Stock Units shall be deemed to be the Separation Date. Any remaining unvested portion of the Award after giving effect to such acceleration shall terminate and be cancelled as of the Separation Date. (For clarity, if the Participant’s employment with the Corporation or any of its Subsidiaries terminated by reason of the Participant’s death or Disability mid-way between the Award Date and the Vesting Date, the

Participant would vest in one-half of the number of Stock Units subject to the Award, and any remaining unvested portion of the Award would terminate and be cancelled.)

For purposes of this Agreement, "Disability" shall mean a physical or mental impairment which, as reasonably determined by the Administrator, renders the Participant unable to perform the essential functions of his employment with the Corporation or such Subsidiary, even with reasonable accommodation that does not impose an undue hardship on the Corporation or Subsidiary, for more than 180 days in any 12-month period, unless a longer period is required by federal or state law, in which case that longer period would apply.

D. Change in Control

If a Change in Control occurs, the Award, to the extent then outstanding and unvested, shall remain outstanding and eligible to vest on the Vesting Date. Such Stock Units shall be paid in accordance with Paragraph 7 hereof. As used herein, "Change in Control" shall mean the occurrence of (a) a "change in the ownership" of the Corporation within the meaning of Treasury Regulation 1.409A-3(i)(5)(v) (which, for illustrative purposes, is generally triggered if any one person (or persons acting as a group) acquire ownership of Corporation stock which constitutes more than 50% of the total fair market value or total voting power of the stock of the Corporation), (b) a "change in the effective control" of the Corporation within the meaning of Treasury Regulation 1.409A-3(i)(5)(vi)(A)(1) (which, for illustrative purposes, is generally triggered if any one person (or persons acting as a group) acquire during a period of not more than twelve months ownership of stock of the Corporation possessing 30% or more of the total voting power of the stock of the Corporation; or certain majority changes in the membership of the Board occur over a period of not more than twelve months), or (c) a change "in the ownership of a substantial portion of the assets" of the Corporation within the meaning of Treasury Regulation 1.409A-3(i)(5)(vii) (which, for illustrative purposes, is generally triggered if any one person (or persons acting as a group) acquire during a period of not more than twelve months assets from the Corporation that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all assets of the Corporation immediately before such acquisition(s)).

Except as expressly otherwise provided in this Paragraph 2, the Participant's continued employment on the Vesting Date shall be a condition to the vesting of the Award and the rights and benefits under this Agreement.

E. Post Change in Control Termination by the Corporation Without Cause or Resignation for Good Reason

If, following a Change in Control, (i) the Corporation (or Subsidiary that employs the Participant, as the case may be) terminates the Participant's employment for any reason other than Cause or (ii) the Participant resigns employment with the Corporation (or Subsidiary that employs the Participant, as the case may be) for Good Reason, the Stock Units subject to the Award that are outstanding and unvested as of such termination of the Participant's employment shall vest as of the Separation Date and such Stock Units shall be paid in accordance with Paragraph 7 hereof except that the Vesting Date shall be deemed to be the Separation Date as to such Stock Units, subject, however, to the Participant satisfying the release requirement set forth in the following sentence. As a condition of any such vesting, the Participant shall, not later than 21 days after such a termination of the Participant's employment (or such longer period as may be required under applicable law for the Participant to consider the release in order for the release to be effective) provide the Corporation with a valid, executed written release of claims in a form acceptable to the Corporation, and such release shall not have been revoked by the Participant pursuant to any revocation rights afforded by applicable law.

For the purposes of this Agreement, “Good Reason” may be deemed to exist if, absent the Participant’s written consent, any of the following events occur during the two-year period following a Change in Control with respect to a Participant holding the title of Executive Vice President: (a) there is a material diminution in title and/or duties, responsibilities, or authority of the Participant, including a change in reporting responsibilities as in effect immediately prior to the Change in Control (except that a decrease in job grade, standing alone, will not qualify as a material diminution pursuant to this subparagraph); (b) there is a willful failure or refusal by the Corporation to perform any material obligation under such Participant’s employment agreement with the Corporation (or Subsidiary that employs the Participant, as the case may be), if the Participant and the Corporation (or Subsidiary) have entered into a written employment agreement; or (c) there is a reduction in the Participant’s annual salary as in effect immediately prior to the Change in Control, or annual bonus (with “bonus” understood to include both cash bonus payments and equity incentive compensation, regardless of whether such incentive compensation is settled in cash or equity) target percentage of Base Pay (as defined below) as in effect immediately prior to the Change in Control (the “Target Bonus Percentage”), other than a reduction that is part of a general cost reduction affecting at least 90% of the executives of the Corporation holding a title of Executive Vice President and which does not exceed 10% of the Participant’s Base Pay and Target Bonus Percentage, in the aggregate, when combined with any such prior reductions. “Base Pay” means an employee’s annual salary or wages from the Corporation (or Subsidiary, as the case may be) at the time of termination. Base Bay shall be determined as reflected on the Corporation’s (or Subsidiary’s) payroll and shall not include bonuses, overtime pay, shift premiums, commissions, employer contributions for benefits, incentive or deferred compensation or other additional compensation in any form.

The occurrence of any event which would permit the Participant to terminate his or her employment for Good Reason as described above shall constitute a “Good Reason Event”. Upon receipt of notice (whether oral or written) by the Participant of a Good Reason Event, the Participant shall have 90 days to provide the Corporation with written notice specifying the grounds for a Good Reason termination of employment, and the Corporation shall have a period of 30 days after the receipt of such written notice to cure the existence of such Good Reason Event. Resignation by a Participant following the Corporation’s cure of a Good Reason Event before the expiration of the 30-day cure period shall constitute a voluntary resignation and not a termination for Good Reason.

F. Continued Employment

Except as expressly otherwise provided in this Paragraph 2, continued employment through the Vesting Date is a condition to the vesting of the Award and the rights and benefits under this Agreement. Except as expressly otherwise provided in this Paragraph 2, employment for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment as provided in Paragraph 4 below or under the 2017 Plan. As used in this Agreement, references to the Participant’s “employment” (and similar references to the Participant’s being “employed” and an “employee”) shall include any period when the Participant is either (i) an employee of the Corporation or any of its Subsidiaries or (ii) a member of the Board.

3. DIVIDEND AND VOTING RIGHTS

The Participant shall have no rights as a stockholder of the Corporation, no dividend rights, and no voting rights with respect to the Stock Units.

4. TERMINATION OF AWARD

If, prior to vesting of the entire Award, the Participant's employment with the Corporation or any of its Subsidiaries terminates other than under circumstances described in Paragraph 2, above (or if the termination occurs in circumstances described in Paragraph 2 above but a release or other condition to the treatment otherwise provided for in Paragraph 2 above in the circumstances is not satisfied), the Award, to the extent then outstanding and unvested, shall terminate and be cancelled as of the last day of the Participant's employment with the Corporation or such Subsidiary. If any unvested Stock Units are terminated hereunder (including, without limitation, pursuant to Paragraph 2 or this Paragraph 4), such Stock Units shall automatically terminate and be cancelled as of the applicable termination date without payment of any consideration by the Corporation and without any other action by the Participant, or the Participant's beneficiary or personal representative, as the case may be.

5. CONDITIONS UPON RETIREMENT

If the Participant's employment with the Corporation or any of its Subsidiaries terminates by reason of Retirement, the rights of the Participant with respect to the Award shall be subject to the conditions that until the Award is vested, he/she shall (a) not engage, either directly or indirectly, in any manner or capacity as advisor, principal, agent, partner, officer, director, employee, member of any association or otherwise, in any business or activity which is at the time competitive with any business or activity conducted by the Corporation or any of its direct or indirect Subsidiaries, and (b) be available, unless he/she shall have died, at reasonable times for consultations at the request of the Corporation's management with respect to phases of the business with which he/she was actively connected during his/her employment, but such consultations shall not be required to be performed during usual vacation periods or periods of illness or other incapacity or without reasonable compensation and cost reimbursement. In the event that either of the above conditions is not fulfilled, the Participant shall forfeit all rights to any outstanding and unvested portion of the Award, as of the date of the breach of the conditions of this Paragraph 5. Any determination by the Board that the Participant is or has engaged in a competitive business or activity as aforesaid or has not been available for consultations as aforesaid shall be conclusive.

6. NO EMPLOYMENT COMMITMENT

Nothing contained in this Agreement or the 2017 Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Participant's status as an employee at will who is subject to termination with or without Cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or services, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation or benefits. Nothing in this Agreement, however, is intended to adversely affect any independent contractual right of the Participant without his or her consent thereto.

7. TIMING AND MANNER OF PAYMENT OF STOCK UNITS

On or as soon as administratively practical following the Vesting Date as provided in Paragraph 2 hereof (and in all events not later than 60 days after the Vesting Date), the Corporation shall deliver to the Participant a cash payment (subject to any withholding for taxes pursuant to Paragraph 8) equal to the number of Stock Units that vested on such Vesting Date multiplied by the applicable Payment Value. The “Payment Value” as of the Vesting Date is the sum of: (a) the closing price (in regular trading) for a share of Common Stock on the principal stock exchange on which the Common Stock is then listed or admitted to trade (the “Exchange”) for the Vesting Date or, if no sales of Common Stock were reported on the Exchange on that date, the closing price (in regular trading) for a share of Common Stock on the Exchange for the next preceding day on which sales of Common Stock were reported on the Exchange, plus (b) the amount of regular cash dividends paid by the Corporation on a share of Common Stock as to which the applicable ex-dividend date(s) are after the Award Date and on or before the Vesting Date; provided, however, that if the Corporation’s Common Stock is not listed or admitted to trade on any national securities exchange on such Vesting Date, the Payment Value with respect to such Vesting Date shall be either (i) if a Change in Control has occurred on or prior to the Vesting Date and the Corporation’s Common Stock has ceased to be so listed or admitted to trade in connection with such Change in Control, the amount of the cash consideration paid for a share of Corporation Common Stock in such transaction plus the amount of regular cash dividends paid by the Corporation on a share of Common Stock as to which the applicable ex-dividend date(s) are after the Award Date and before the date of such Change in Control, or (ii) if clause (i) is not applicable, such other amount as the Administrator determines, in its sole and absolute discretion, to be fair and reasonable and consistent with the purposes of the Award. The Participant shall have no further rights with respect to any Stock Units that are paid or that terminate pursuant to Paragraph 2 or Paragraph 4.

If the Participant is a “specified employee” within the meaning of Treasury Regulation Section 1.409A-1(i) as of the date of the Participant’s separation from service with the Corporation, and payment pursuant to the preceding paragraph is to be made in connection with such separation from services, the Participant shall not be entitled to any payment or benefit pursuant to the preceding paragraph until the earlier of (i) the date which is six (6) months after the Participant’s separation from service for any reason other than death, or (ii) the date of the Participant’s death. The provisions of this paragraph shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Code Section 409A. Any amounts otherwise payable to the Participant upon or in the six (6) month period following the Participant’s separation from service that are not so paid by reason of this paragraph shall be paid as soon as practicable (and in all events within thirty (30) days) after the date that is six (6) months after the Participant’s separation from service (or, if earlier, as soon as practicable, and in all events within thirty (30) days, after the date of the Participant’s death). If, in connection with the Participant’s separation from service, the Participant is required to provide the Corporation with a release of claims and the maximum period in which the Participant has to consider, execute, and revoke such release of claims spans two calendar years, any payment of the Stock Units vesting in connection with such separation from service shall be made in the second of such two calendar years.

The timing of payment of any Stock Units may not be changed by the Corporation (including pursuant to any provision of the Plan), except as would satisfy Treasury Regulation Section 1.409A-3(j)(4).

8. TAX WITHHOLDING

Upon any payment in respect of the Stock Units, the Corporation shall be entitled to reduce the amount of the cash payment to the Participant with respect of the Award by the amount of any tax withholding obligations of the Corporation or its Subsidiaries with respect to such payment.

9. ADJUSTMENT UPON SPECIFIED EVENTS

Upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the 2017 Plan (including, without limitation, an extraordinary cash dividend on such stock), the Administrator shall make adjustments in accordance with such section to the number of Stock Units (or the consideration that may become payable with respect to a vested Stock Unit) then outstanding in respect of the Award. No such adjustment shall be made, however, as to any cash dividend or distribution that has already been taken into account in determining the Payment Value pursuant to Section 7.

10. NON-TRANSFERABILITY OF THE AWARD

The Award shall not be transferable otherwise than by will or by the applicable laws of descent and distribution. More particularly (but without limiting the generality of the foregoing), the Award may not be assigned, transferred (except as aforesaid), pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the Award contrary to the provisions hereof, and the levy of any execution, attachment or similar process upon the Award, shall be null and void and without effect.

11. AMENDMENT

In the event that the Board amends the 2017 Plan and such amendment modifies or otherwise affects the subject matter of this Agreement, this Agreement shall, to that extent, be deemed to be amended by such amendment to the 2017 Plan. However, the timing of payment of the Award (to the extent it becomes vested) shall be as set forth in this Award Agreement and may not be changed (pursuant to the Plan, any amendment thereto, or otherwise) except as would be compliant with (and not result in any tax, penalty or interest under) Section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

12. CONSTRUCTION

In the event of any conflict between the 2017 Plan and this Agreement, the provisions of the 2017 Plan shall control. If any provision of this Agreement is held to be invalid or unenforceable for any reason, such provision shall be conformed to prevailing law rather than voided, if possible, in order to achieve the intent of the parties and, in any event, the remaining provisions of this Agreement shall remain in full force and effect and shall be binding upon the parties hereto. This Agreement shall be governed in all respects by the laws of the State of Florida.

13. ENTIRE AGREEMENT

This Agreement constitutes the entire agreement between the Corporation and the Participant and supersedes all other discussions, correspondence, representations, understandings and agreements between the parties, with respect to the subject matter hereof.

14. HEADINGS

The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed a part hereof.

15. CLAWBACK POLICY

The Stock Units are subject to the terms of the Corporation's recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or forfeiture of the Stock Units or cash received with respect to the Stock Units.

16. SECTION 409A

It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) so as not to subject the Participant to payment of any additional tax, penalty or interest imposed under Code Section 409A. The provisions of this Agreement shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Participant.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

OCWEN FINANCIAL CORPORATION

By: ___________________________________

PARTICIPANT

By: ___________________________________

Exhibit 10.4
EXECUTION VERSION

CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY [***], HAS BEEN OMITTED BECAUSE IT IS BOTH (i) NOT MATERIAL AND (ii) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED.

AMENDMENT NUMBER TWO
New RMSR Agreement
by and among
NEW RESIDENTIAL MORTGAGE LLC
HLLS HOLDINGS, LLC
HLSS MSR - EBO ACQUISITION LLC
and
PHH MORTGAGE CORPORATION
(as successor by merger to OCWEN LOAN SERVICING, LLC)

This AMENDMENT NUMBER TWO is made this 5th day of October, 2020, by and between PHH MORTGAGE CORPORATION (as successor by merger to OCWEN LOAN SERVICING, LLC), as seller (the "Seller"), HLSS HOLDINGS, LLC ("Holdings"), HLSS MSR – EBO ACQUISITION LLC, ("MSR – EBO" and together with Holdings, the "Purchasers") and NEW RESIDENTIAL MORTGAGE LLC ("NRM"), to that certain New RMSR Agreement, dated as of January 18, 2018 (the "Agreement"), by and among the Seller, the Purchasers and NRM.

RECITALS

WHEREAS, the Seller, the Purchasers and NRM desire to amend the Agreement, subject to the terms hereof, to modify the Agreement as specified herein; and

WHEREAS, the Seller, the Purchasers and NRM each have agreed to execute and deliver this Amendment Number Two on the terms and conditions set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Amendments. Effective as of June 1, 2019 or, with respect to any individual Mortgage Loan that became serviced on the Black Knight Platform prior to June 1, 2019, the first Business Day the Mortgage Loan was serviced on such platform, prior to June 1, 2019, the Agreement is hereby amended as follows:

(a) The Agreement is hereby amended by deleting Exhibit E-1 of Annex 1 in its entirety and replacing it with Exhibit E-1 attached hereto.

(b) The Agreement is hereby amended by deleting Exhibit E-2 of Annex 1 in its entirety and replacing it with Exhibit E-2 attached hereto.

SECTION 2. Additional Amendment. Effective as of August 17, 2018, the Agreement is hereby amended as follows:

(a) The Agreement is hereby amended by deleting Section 5.4(a) to Annex I in its entirety and replacing it with the following (modified text underlined for review purposes):

(a) If Holdings:

(i) terminates this Addendum "for cause" pursuant to Section 5.3(a) (other than pursuant to Section 5.3(a)(xxiii)), Seller (A) shall reimburse the Purchasers for Purchasers' Servicing Transfer Costs incurred in connection with transferring the servicing to a successor servicer or subservicer, (b) shall reimburse the Purchasers for any boarding fees of the subsequent servicer which shall be capped at [***] per Mortgage Loan/REO Property and (C) shall not be entitled to any Termination Fee, deboarding fees or reimbursement of its Servicing Transfer Costs;

(ii) terminates this Addendum "for convenience" pursuant to Section 5.1(b), Holdings shall remit to the Seller (A) solely if the Effective Date of Termination occurs during the Initial Term, an amount equal to the applicable Termination Fee and (B) irrespective of whether the Effective Date of Termination occurs during the Initial Term, the greater of [***] per Mortgage Loan/REO Property and Seller's Servicing Transfer Costs incurred in connection with transferring the servicing to a successor servicer or subservicer;

(iii) does not extend the term of this Addendum at the end of the Initial Term or any three-month renewal term thereafter, (A) Seller shall not be entitled to any Termination Fee; (B) neither party shall be responsible for paying any deboarding or boarding fees, and (C) (I) each of Seller and Holdings shall pay 50% of the aggregate Servicing Transfer Costs incurred by such parties in connection with transferring the servicing to a successor servicer or subservicer if either (I) the NRM Subservicing Agreement has not been terminated or (ii) such costs are incurred on or prior to 90 days following the Effective Date of Termination of the NRM Subservicing Agreement and (II) thereafter, Holdings shall pay all Servicing Transfer Costs incurred by such parties in connection with transferring the servicing to a successor servicer or subservicer; or

(iv) terminates this Addendum "for cause" pursuant to Section 5.3(a)(xxiii), (A) the Servicing Transfer Costs incurred by such parties in connection with transferring the servicing to a successor servicer or subservicer following such termination shall be paid by Seller to the extent such Servicing Transfer Costs are incurred on or prior to July 22, 2019, and any Servicing Transfer Costs incurred thereafter shall be paid by the Purchasers, (B) neither party shall be responsible for paying any deboarding or boarding fees, and (C) Seller shall not be entitled to any Termination Fee.

To the extent Holdings is obligated to pay the Termination Fee set forth above, (i) if Seller purchases the related Servicing Assets or the related Rights to MSRs and Transferred Receivables Assets under Section 5.4(c)(i)(A) or (B), such Termination Fee shall, to the extent possible, be netted against the applicable Option Price or purchase price, respectively and otherwise be paid to Seller on the applicable Termination Date and (ii) if Seller is not purchasing the related Servicing Assets or the related Rights to MSRs and Transferred Receivables Assets under Section 5.4(c)(i)(A) or (B), Holdings shall remit to the Escrow Agent, to be held by the Escrow Agent in accordance with the Escrow Agreement, one-hundred percent (100%) of the applicable Termination Fee Deposit Amount (as defined and calculated in accordance with Exhibit C-2) in immediately available funds at least one (1) Business Day prior to the Seller sending the related transferor's notice of transfer of servicing or "goodbye letter" in accordance with the requirements of applicable law solely to the extent the Seller has complied and completed all of the servicing transfer requirements set forth in Part I of Exhibit S required to be performed on or before such date thereof; provided that Seller shall have no obligation to send any such notices until the Escrow Agent verifies to Seller that the Termination Fee Deposit Amount has been received. The Escrow Agent shall pay the Seller (i) fifty percent (50%) of the applicable Termination Fee Deposit Amount in immediately available funds within two (2) Business Days after its receipt, with a copy to Holdings, from the Seller of a certification by the Seller and its third party vendor handling the mailing that the Seller has sent the related transferor's notice of transfer of servicing or "goodbye letter" and (ii) the remaining fifty percent (50%) of the applicable Termination Fee Deposit Amount in immediately available funds within two (2) Business Days after its receipt, with a copy to Holdings, from the Seller of a certification by the Seller that the Seller has completed the Servicing Transfer Requirements set forth in Part III of Exhibit S attached hereto and including the federal reference numbers and wire amounts for the funds required to be remitted in accordance with such Servicing Transfer Requirements. The Seller shall send a copy of each of the deliverables under the Servicing Transfer Requirements to Holdings at the same time it delivers such deliverable to the applicable successor servicer or subservicer. Holdings may elect to wait to transfer the servicing with respect to certain Servicing Agreements if the transfer of such Servicing Agreements would result in the unpaid principal balance of the Mortgage Loans that would remain subject to this Addendum following such transfer to be less than ten percent (10%) of the unpaid principal balance of all of the Mortgage Loans subject to this Addendum on the Effective Date of Termination. The Seller and Holdings shall use their best efforts to cooperate to enter into an Escrow Agreement containing the terms as set forth in this paragraph prior to the applicable date a payment is required to be made to the Escrow Agent as described in this paragraph and, to the extent such actions have been taken by any NRZ O/S Entity pursuant to any NRZ Servicing/Subservicing Agreement (other than the NRM Agency Subservicing Agreement), Holdings and Seller may agree to aggregate such actions. Notwithstanding anything to the contrary set forth in this Addendum, the Seller shall not be entitled to receive any Termination Fee to the extent the Effective Date of Termination occurs after the Initial Term or the parties are unable to effectuate the transfer of servicing to a successor servicer or subservicer.

In addition, in connection with any of the terminations described in this Section 5.4(a), (i) to the extent not previously purchased, Holdings shall purchase, in accordance with the terms and requirements of this Addendum, all Servicing Advances and P&I Advances for which Purchaser has not purchased prior to the Effective Date of Termination (other than any amounts being disputed in accordance with Section 4.3) and (ii) Holdings shall pay to the Seller all unpaid Seller Economics which have accrued as of the date the servicing transfers to a successor servicer or subservicer ("Successor Transfer Date") (other than any amounts being disputed in accordance with Section 4.3) or the Termination Date, as applicable. Other than with respect to the Termination Fee, if applicable, all amounts payable or reimbursable under this Section 5.4(a) shall be paid or reimbursed on the Successor Transfer Date or the Termination Date, as applicable based on customary practices of estimation and true-up. To the extent that any such amounts are not known and/or invoiced by the party entitled to payment prior to the Successor Transfer Date, or the Termination Date, as applicable, such amounts shall be paid or reimbursed to the party entitled to payment within ten (10) Business Days of the other party's receipt of an invoice therefore, together with any documentation required pursuant to this Addendum.

In addition, upon termination of this Addendum, subject to the foregoing, Holdings and the Seller shall pay or reimburse the other party any other amounts due under this Addendum.

SECTION 3. Defined Terms. Any terms capitalized but not otherwise defined herein shall have the respective meanings set forth in the Agreement.

SECTION 4. Limited Effect. Except as amended hereby, the Agreement shall continue in full force and effect in accordance with its terms. Reference to this Amendment Number Two need not be made in the Agreement or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to, or with respect to, the Agreement, any reference in any of such items to the Agreement being sufficient to refer to the Agreement as amended hereby.

SECTION 5. Governing Law. This Amendment Number Two shall be construed in accordance with the laws of the State of New York and the obligations, rights, and remedies of the parties hereunder shall be determined in accordance with such laws without regard to conflict of laws doctrine applied in such state (other than Section 5-1401 or 5-1402 of the New York General Obligations Law which shall govern).

SECTION 6. Counterparts. This Amendment Number Two may be executed by each of the parties hereto on any number of separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same instrument. The parties agree that this Amendment Number Two and signature pages may be transmitted between them by facsimile or by electronic mail and that faxed and PDF signatures may constitute original signatures and that a faxed or PDF signature page containing the signature (faxed, PDF or original) is binding upon the parties.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment Number Two to be executed and delivered by their duly authorized officers as of the day and year first above written.

PHH MORTGAGE CORPORATION

By: /s/ Curtis J. Schares

Name: Curtis J. Schares
Title: Vice President

Signed: October 5, 2020

HLSS HOLDINGS, LLC

By: HLSS Roswell, LLC, its sole member

By: /s/ Nicola Santoro, Jr.

Name: Nicola Santoro, Jr.
Title: Chief Financial Officer

HLSS MSR – EBO ACQUISITION LLC

By: New Residential Investment Corp., its sole member

By: /s/ Nicola Santoro, Jr.

Name: Nicola Santoro, Jr.
Title: Chief Financial Officer

NEW RESIDENTIAL MORTGAGE LLC

By: New Residential Investment Corp., its sole member

By: /s/ Nicola Santoro, Jr.

Name: Nicola Santoro, Jr.
Title: Chief Financial Officer

Signature Page to Amendment Number Two to New RMSR Agreement

Exhibit E-1

LIST OF SERVICING REPORTS

Critical Report	Regulatory Report	Name of Report	Report #	Updates #	Frequency	Implementation
Yes	No	Servicing Delta Daily Data Feed	E-1	*	Daily (by noon ET)	
Yes	No	Service Fee Reports ("Service Fee Daily Report")	E-2(a)	*	Daily (by noon ET)	
Yes	No	Service Fee Reports ("Daily Balances File")	E-2(b)	*	Daily (by noon ET)	
Yes	No	Remittance File	E-3	*	Daily (by noon ET)	
Yes	No	Servicing Monthly Data Feed	E-4	*	Monthly by 5th BU day	
Yes	No	Reconciliation Report	E-5	*	As specified Section 4.1	
Yes	No	Advance Reports ("MRA AF Daily File")	E-6(a)	*	Daily (by noon ET)	
Yes	No	Advance Reports ("NRZ NBB Loan Level File")	E-6(b)	*	Monthly (by 7th BU day)	
Yes	No	Portfolio Strat Reports	E-7	*	Monthly (by 7th BU day)	
No	No	Mortgagor Litigation Report	E-8	*	Monthly (by 5th BU day)	
No	No	Corporate Matters Report	E-9	*	Monthly (by 15th)	
No	No	Performance Reports	E-10	*	Monthly (by 20th)	
No	No	Material Changes to Subservicer's, Subservicer's Parents or any of their respective Affiliates' Policies and Procedures	*	E-A1	Monthly (by 20th)	
		[Reserved]	E-11			
No	No	Basic Complaint Report	E-12(a)	*	Monthly (by 5th BU day)	
No	No	Escalated Complaint Case Data Report	E-12(b)	*	Monthly (by 5th BU day)	
No	No	Request for Information Report	E-13	*	Monthly (by 7th BU day)	
No	No	Portfolio Roll Rate Reports	E-14	*	Monthly (by 7th BU day)	
No	No	Monthly Financial Covenant Certification	*	E-A2	As provided in Section 2.22	
No	No	Advance Threshold Report	E-15	*	Monthly (by 20th)	
No	No	Back-up Servicer Files	E-16	*	As agreed to with the Back-up Servicer	
No	No	MI Rescission Report	E-17	*	Monthly (by 15th)	
No	No	Land Title Adjustment Report	E-18	*	Monthly (by 7th BU day)	

No	No	Ancillary Income Report	E-19	*	Monthly (by 15th)	
No	No	Exhibit Q Information	*	E-A3	Quarterly (by 45th calendar day)	
No	No	Provide Fidelity and Errors and Omissions Insurance	*	E-A4	Quarterly (by 45th calendar day)	
		[Reserved]	E-20			
		[Reserved]	E-21			
No	No	Customer Service Statistics	E-22	*	Quarterly (by 45th calendar day	
No	No	Tracking Report regarding Privacy Notices	E-23	*	Quarterly (by 20th)	
No	Yes	NYS VOSR Template	E-24	*	Quarterly (20 days after Quarter-End)	
No	Yes	MBFRF Template	E-25	*	Quarterly (20 days after Quarter-End)	
No	Yes	MCR Template	E-26	*	Quarterly (30 days after Quarter-End)	
No	Yes	Illinois Default and Foreclosure Template	E-27	*	Semi-Annual (by 20th calendar day of July)	
No	Yes	California CRMLA Template	E-28	*	Annual (by 45th calendar day after fiscal year-end)	
No	Yes	Illinois Report of Servicing Activity Template	E-29	*	Annual (by 45th calendar day after fiscal year-end)	
No	Yes	Michigan Mortgage Brokers, Lenders and Servicers Template	E-30	*	Annual (by 45th calendar day after fiscal year-end)	
No	Yes	Missouri Report of Residential Mortgage Loan Broker Activity Template	E-31	*	Annual (by 45th calendar day after fiscal year-end)	
No	Yes	Washington Consumer Loan Assessment Report Template	E-32	*	Annual (by 45th calendar day after fiscal year-end)	
No	Yes	Washington Consumer Loan Assessment Report Template	E-33	*	Annual (by 45th calendar day after fiscal year-end)	
No	No	Regulation AB Compliance Report	*	E-A5	As defined in Agreement	
No	No	Uniform Single Attestation Program Compliance Report	*		As defined in Agreement	
No	No	SOC 1 Type II of Critical Vendors of Subservicer (or such other Type as may be reasonably satisfactory to Owner/Servicer)	*	E-A6	Within 30 days of receipt, but no later than January 31	

No	No	SOC 1 Type II of Subservicer covering a minimum period of nine (9) months	*	E-A7	Within 30 days of receipt, but no later than January 31	
No	No	SOC 1 Type II Bridge Letter of Subservicer covering a maximum period of three (3) months	*	E-A8	No later than January 31	
No	No	MI Report	E-34		Monthly (by 6th BU day)	
No	No	MERS to LPS Data Reconciliation Report	E-35		Monthly (by 6th BU day after MERS cut-off)	
No	No	Servicing Transactions Delta Daily Data Feed	E-36		Daily (by noon ET)	
No	No	Call Center Report	E-37		Weekly (Monday)	
No	No	Lien Release Report	E-38		Monthly (by 6th BU day)	
No	No	FC FHA Pipeline	E-39		Monthly (by 6th BU day)	
No	No	FC VA Pipeline	E-40		Monthly (by 6th BU day)	
No	No	FC Conventional Pipeline	E-41		Monthly (by 6th BU day)	
No	No	MODS Pipeline	E-42		Monthly (by 6th BU day)	
No	No	Claims Report	E-43		Monthly (by 6th BU day)	
No	No	Liquidations Approvals	E-44		Monthly (by 6th BU day)	
No	No	Liquidations Closings	E-45		Monthly (by 6th BU day)	
No	No	Call QA Reporting	E-46		Quarterly (by 10th BU days after Quarter-End)	
		[Reserved]	E-47			
No	No	Metro II	E-48		Monthly (by 6th BU day)	
		[Reserved]	E-49			

Exhibit E-2

FORMATTED SERVICING REPORTS

[OMITTED]

Exhibit 10.5
EXECUTION VERSION

AMENDMENT NUMBER TWO
Subservicing Agreement
by and between
NEW RESIDENTIAL MORTGAGE LLC
and
PHH MORTGAGE CORPORATION (as successor by merger to
OCWEN LOAN SERVICING, LLC)

This AMENDMENT NUMBER TWO is made this 5th day of October, 2020, by and between PHH MORTGAGE CORPORATION (as successor by merger to Ocwen Loan Servicing, LLC), as subservicer (the "Subservicer"), and NEW RESIDENTIAL MORTGAGE LLC, as owner/servicer (the "Owner/Servicer"), to that certain Subservicing Agreement, dated as of July 23, 2017 (the "Agreement"), by and between the Subservicer and the Owner/Servicer.

RECITALS

WHEREAS, the Subservicer and the Owner/Servicer desire to amend the Agreement, subject to the terms hereof, to modify the Agreement as specified herein; and

WHEREAS, the Subservicer and the Owner/Servicer each have agreed to execute and deliver this Amendment Number Two on the terms and conditions set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Amendments. Effective as of June 1, 2019 or, with respect to any individual Mortgage Loan that became serviced on the Black Knight Platform prior to June 1, 2019, the first Business Day the Mortgage Loan was serviced on such platform, prior to June 1, 2019, the Agreement is hereby amended as follows:

(a) The Agreement is hereby amended by deleting Exhibit E-1 in its entirety and replacing it with Exhibit E-1 attached hereto.

(b) The Agreement is hereby amended by deleting Exhibit E-2 in its entirety and replacing it with Exhibit E-2 attached hereto.

SECTION 2. Defined Terms. Any terms capitalized but not otherwise defined herein shall have the respective meanings set forth in the Agreement.

SECTION 3. Limited Effect. Except as amended hereby, the Agreement shall continue in full force and effect in accordance with its terms. Reference to this Amendment Number Two need not be made in the Agreement or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to, or with respect to, the Agreement, any reference in any of such items to the Agreement being sufficient to refer to the Agreement as amended hereby.

SECTION 4. <u>Governing Law.</u> This Amendment Number Two shall be construed in accordance with the laws of the State of New York and the obligations, rights, and remedies of the parties hereunder shall be determined in accordance with such laws without regard to conflict of laws doctrine applied in such state (other than Section 5-1401 or 5-1402 of the New York General Obligations Law which shall govern).

SECTION 5. <u>Counterparts.</u> This Amendment Number Two may be executed by each of the parties hereto on any number of separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same instrument. The parties agree that this Amendment Number Two and signature pages may be transmitted between them by facsimile or by electronic mail and that faxed and PDF signatures may constitute original signatures and that a faxed or PDF signature page containing the signature (faxed, PDF or original) is binding upon the parties.

[Signature Page Follows]

IN WITNESS WHEREOF, the Owner/Servicer and the Subservicer have caused this Amendment Number Two to be executed and delivered by their duly authorized officers as of the day and year first above written.

PHH MORTGAGE CORPORATION
(Subservicer)

By:_/s/ Curtis J. Schares_____________
Name: Curtis J. Schares
Title: Vice President

Signed: October 5, 2020

NEW RESIDENTIAL MORTGAGE LLC
(Owner/Servicer)

By:_/s/ Nicola Santoro, Jr. ____________
Name: Nicola Santoro, Jr.
Title: Chief Financial Officer and Chief Operating Officer

Exhibit E-1

LIST OF SERVICING REPORTS

Critical Report	Regulatory Report	Name of Report	Report #	Updates #	Frequency	Implementation
Yes	No	Servicing Delta Daily Data Feed	E-1	*	Daily (by noon ET)	
Yes	No	Service Fee Reports ("Service Fee Daily Report")	E-2(a)	*	Daily (by noon ET)	
Yes	No	Service Fee Reports ("Daily Balances File")	E-2(b)	*	Daily (by noon ET)	
Yes	No	Remittance File	E-3	*	Daily (by noon ET)	
Yes	No	Servicing Monthly Data Feed	E-4	*	Monthly by 5th BU day	
Yes	No	Reconciliation Report	E-5	*	As specified Section 4.1	
Yes	No	Advance Reports ("MRA AF Daily File")	E-6(a)	*	Daily (by noon ET)	
Yes	No	Advance Reports ("NRZ NBB Loan Level File")	E-6(b)	*	Monthly (by 7th BU day)	
Yes	No	Portfolio Strat Reports	E-7	*	Monthly (by 7th BU day)	
No	No	Mortgagor Litigation Report	E-8	*	Monthly (by 5th BU day)	
No	No	Corporate Matters Report	E-9	*	Monthly (by 15th)	
No	No	Performance Reports	E-10	*	Monthly (by 20th)	
No	No	Material Changes to Subservicer’s, Subservicer’s Parents or any of their respective Affiliates’ Policies and Procedures	*	E-A1	Monthly (by 20th)	
		[Reserved]	E-11			
No	No	Basic Complaint Report	E-12(a)	*	Monthly (by 5th BU day)	
No	No	Escalated Complaint Case Data Report	E-12(b)	*	Monthly (by 5th BU day)	
No	No	Request for Information Report	E-13	*	Monthly (by 7th BU day)	
No	No	Portfolio Roll Rate Reports	E-14	*	Monthly (by 7th BU day)	
No	No	Monthly Financial Covenant Certification	*	E-A2	As provided in Section 2.22	
No	No	Advance Threshold Report	E-15	*	Monthly (by 20th)	
No	No	Back-up Servicer Files	E-16	*	As agreed to with the Back-up Servicer	
No	No	MI Rescission Report	E-17	*	Monthly (by 15th)	
No	No	Land Title Adjustment Report	E-18	*	Monthly (by 7th BU day)	

No	No	Ancillary Income Report	E-19	*	Monthly (by 15th)	
No	No	Exhibit Q Information	*	E-A3	Quarterly (by 45th calendar day)	
No	No	Provide Fidelity and Errors and Omissions Insurance	*	E-A4	Quarterly (by 45th calendar day)	
		[Reserved]	E-20			
		[Reserved]	E-21			
No	No	Customer Service Statistics	E-22	*	Quarterly (by 45th calendar day	
No	No	Tracking Report regarding Privacy Notices	E-23	*	Quarterly (by 20th)	
No	Yes	NYS VOSR Template	E-24	*	Quarterly (20 days after Quarter-End)	
No	Yes	MBFRF Template	E-25	*	Quarterly (20 days after Quarter-End)	
No	Yes	MCR Template	E-26	*	Quarterly (30 days after Quarter-End)	
No	Yes	Illinois Default and Foreclosure Template	E-27	*	Semi-Annual (by 20th calendar day of July)	
No	Yes	California CRMLA Template	E-28	*	Annual (by 45th calendar day after fiscal year-end)	
No	Yes	Illinois Report of Servicing Activity Template	E-29	*	Annual (by 45th calendar day after fiscal year-end)	
No	Yes	Michigan Mortgage Brokers, Lenders and Servicers Template	E-30	*	Annual (by 45th calendar day after fiscal year-end)	
No	Yes	Missouri Report of Residential Mortgage Loan Broker Activity Template	E-31	*	Annual (by 45th calendar day after fiscal year-end)	
No	Yes	Washington Consumer Loan Assessment Report Template	E-32	*	Annual (by 45th calendar day after fiscal year-end)	
No	Yes	Washington Consumer Loan Assessment Report Template	E-33	*	Annual (by 45th calendar day after fiscal year-end)	
No	No	Regulation AB Compliance Report	*	E-A5	As defined in Agreement	
No	No	Uniform Single Attestation Program Compliance Report	*		As defined in Agreement	
No	No	SOC 1 Type II of Critical Vendors of Subservicer (or such other Type as may be reasonably satisfactory to Owner/Servicer)	*	E-A6	Within 30 days of receipt, but no later than January 31	

No	No	SOC 1 Type II of Subservicer covering a minimum period of nine (9) months	*	E-A7	Within 30 days of receipt, but no later than January 31	
No	No	SOC 1 Type II Bridge Letter of Subservicer covering a maximum period of three (3) months	*	E-A8	No later than January 31	
No	No	MI Report	E-34		Monthly (by 6th BU day)	
No	No	MERS to LPS Data Reconciliation Report	E-35		Monthly (by 6th BU day after MERS cut-off)	
No	No	Servicing Transactions Delta Daily Data Feed	E-36		Daily (by noon ET)	
No	No	Call Center Report	E-37		Weekly (Monday)	
No	No	Lien Release Report	E-38		Monthly (by 6th BU day)	
No	No	FC FHA Pipeline	E-39		Monthly (by 6th BU day)	
No	No	FC VA Pipeline	E-40		Monthly (by 6th BU day)	
No	No	FC Conventional Pipeline	E-41		Monthly (by 6th BU day)	
No	No	MODS Pipeline	E-42		Monthly (by 6th BU day)	
No	No	Claims Report	E-43		Monthly (by 6th BU day)	
No	No	Liquidations Approvals	E-44		Monthly (by 6th BU day)	
No	No	Liquidations Closings	E-45		Monthly (by 6th BU day)	
No	No	Call QA Reporting	E-46		Quarterly (by 10th BU days after Quarter-End)	
		[Reserved]	E-47			
No	No	Metro II	E-48		Monthly (by 6th BU day)	
		[Reserved]	E-49			

Exhibit E-2

FORMATTED SERVICING REPORTS

[OMITTED]

Exhibit 10.6
EXECUTION VERSION

AMENDMENT NUMBER ONE
Subservicing Agreement
by and between
PHH MORTGAGE CORPORATION (as successor by merger to
OCWEN LOAN SERVICING, LLC)
and
NEW PENN FINANCIAL, LLC, D/B/A SHELLPOINT MORTGAGE SERVICING

This AMENDMENT NUMBER ONE is made this 5th day of October, 2020, by and between PHH MORTGAGE CORPORATION (as successor by merger to OCWEN LOAN SERVICING, LLC), as subservicer (the "Subservicer"), and NEWREZ, LLC (as successor-in-interest to NEW PENN FINANCIAL, LLC) D/B/A SHELLPOINT MORTGAGE SERVICING, as owner/servicer (the "Owner/Servicer"), to that certain Subservicing Agreement, dated as of August 17, 2018 (the "Agreement"), by and between the Subservicer and the Owner/Servicer.

RECITALS

WHEREAS, the Subservicer and the Owner/Servicer desire to amend the Agreement, subject to the terms hereof, to modify the Agreement as specified herein; and

WHEREAS, the Subservicer and the Owner/Servicer each have agreed to execute and deliver this Amendment Number One on the terms and conditions set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Amendments. Effective as of June 1, 2019 or, with respect to any individual Mortgage Loan that became serviced on the Black Knight Platform prior to June 1, 2019, the first Business Day the Mortgage Loan was serviced on such platform, prior to June 1, 2019, the Agreement is hereby amended as follows:

(a) The Agreement is hereby amended by deleting Exhibit E-1 in its entirety and replacing it with Exhibit E-1 attached hereto.

(b) The Agreement is hereby amended by deleting Exhibit E-2 in its entirety and replacing it with Exhibit E-2 attached hereto.

SECTION 2. Defined Terms. Any terms capitalized but not otherwise defined herein shall have the respective meanings set forth in the Agreement.

SECTION 3. Limited Effect. Except as amended hereby, the Agreement shall continue in full force and effect in accordance with its terms. Reference to this Amendment Number One need not be made in the Agreement or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to, or with respect to, the Agreement, any reference in any of such items to the Agreement being sufficient to refer to the Agreement as amended hereby.

SECTION 4. Governing Law. This Amendment Number One shall be construed in accordance with the laws of the State of New York and the obligations, rights, and remedies of the parties hereunder shall be determined in accordance with such laws without regard to conflict of laws doctrine applied in such state (other than Section 5-1401 or 5-1402 of the New York General Obligations Law which shall govern).

SECTION 5. Counterparts. This Amendment Number One may be executed by each of the parties hereto on any number of separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same instrument. The parties agree that this Amendment Number One and signature pages may be transmitted between them by facsimile or by electronic mail and that faxed and PDF signatures may constitute original signatures and that a faxed or PDF signature page containing the signature (faxed, PDF or original) is binding upon the parties.

[Signature Page Follows]

IN WITNESS WHEREOF, the Owner/Servicer and the Subservicer have caused this Amendment Number One to be executed and delivered by their duly authorized officers as of the day and year first above written.

PHH MORTGAGE CORPORATION
(Subservicer)

By: /s/ Curtis J. Schares
Name: Curtis J. Schares
Title: Vice President

Signed: October 5, 2020

NEWREZ LLC, D/B/A SHELLPOINT MORTGAGE SERVICING
(Owner/Servicer)

By: /s/ Nicola Santoro, Jr.
Name: Nicola Santoro, Jr.
Title: Authorized Signatory

Exhibit E-1

LIST OF SERVICING REPORTS

Critical Report	Regulatory Report	Name of Report	Report #	Updates #	Frequency	Implementation
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Yes	No	Service Fee Reports ("Daily Balances File")	E-2(b)	*	Daily (by noon ET)	
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Yes	No	Reconciliation Report	E-5	*	As specified Section 4.1	
Yes	No	Advance Reports ("MRA AF Daily File")	E-6(a)	*	Daily (by noon ET)	
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Yes	No	Portfolio Strat Reports	E-7	*	Monthly (by 7th BU day)	
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No	No	SOC 1 Type II of Critical Vendors of Subservicer (or such other Type as may be reasonably satisfactory to Owner/Servicer)	*	E-A6	Within 30 days of receipt, but no later than January 31	

No	No	SOC 1 Type II of Subservicer covering a minimum period of nine (9) months	*	E-A7	Within 30 days of receipt, but no later than January 31	
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No	No	Call QA Reporting	E-46		Quarterly (by 10th BU days after Quarter-End)	
		[Reserved]	E-47			
No	No	Metro II	E-48		Monthly (by 6th BU day)	
		[Reserved]	E-49			

Exhibit E-2

FORMATTED SERVICING REPORTS

[OMITTED]

Certain Information in this Exhibit marked by [***] has been redacted pursuant to Item 601(b)(10) of Regulation S-K because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

February 22, 2019

Confidential Information

Ocwen Financial Corporation
1661 Worthington Road, Suite 100
West Palm Beach, Florida 33409

Ocwen Mortgage Servicing, Inc.
(mailing address)
1108 King Street, Suite 3
Christiansted, VI 00820
(physical address)
Hamilton House, 56 King Street, 3rd Floor
Christiansted, St. Croix VI 00820

c/o Scott Anderson
Ocwen Financial Corporation
Executive Vice President and Chief Servicing Officer

Sent via email

RE: Binding Term Sheet

Dear Scott:

Thank you for taking the time to continue our discussions regarding amendments to the terms of certain agreements between Altisource and Ocwen. Our organizations have been discussing these amendments for several months now, and I am pleased that we were able to come to an agreement to resolve several of the open items, as set forth in this binding term sheet (the "Binding Term Sheet").

While there are additional details to be worked out between the parties, we have agreed to sign this Binding Term Sheet to resolve the most significant of the outstanding issues, pursuant to the terms set forth herein. We further agreed that both parties will undertake diligent, good faith efforts to resolve the remaining issues and negotiate more detailed agreements that reflect the terms of this Binding Term Sheet and resolution of the remaining open issues in the form of a Fourth Amendment to the Services Agreement (such open issues as identified below in Section D include amendments to applicable performance standards), the "Detailed Agreement") to be signed on or before March 14, 2019. Notwithstanding the immediately preceding sentence, however, the failure of the parties to sign the

Detailed Agreement as contemplated by such sentence will have no effect on the validity, applicability or enforceability of this Binding Term Sheet. Should the business units and law departments of the respective parties fail to finalize the Detailed Agreement by March 1, 2019, the parties agree to the following escalation procedures:

- On March 1, 2019, the remaining open issues will be escalated to Ocwen's Chief Servicing Officer and Altisource's Chief Executive Officer;
- If Ocwen's Chief Servicing Officer and Altisource's Chief Executive Officer are unable to reach an agreement by March 14, 2019, the parties may submit to non-binding mediation to help resolve the remaining open issues.
- If the parties are unable to reach agreement during non-binding mediation, the parties reserve any rights to pursue any remedies pursuant to the Applicable Services Agreements (as defined below), as amended hereby, and/or that certain Agreement among Ocwen Financial Corporation, Ocwen Mortgage Servicing, Inc. and Altisource Solutions S.à r.l. dated April 12, 2013.

By signing this Binding Term Sheet, Altisource and Ocwen agree that the terms herein will be immediately binding on them and will supersede and control over any conflicting or inconsistent terms and conditions in any other agreements between the parties other than any agreements signed substantially contemporaneously herewith (including the letter agreement regarding reservation of rights dated on or about the date hereof). Subject to the immediately preceding sentence, all terms and conditions in agreements between the parties as of the date of this Binding Term Sheet that are not otherwise in conflict or inconsistent with this Binding Term Sheet will remain in full force and effect.

This Binding Term Sheet will constitute joint Confidential Information of the parties and is subject to the confidentiality obligations in effect between the parties as set forth in the Services Agreements dated August 10, 2009 and October 1, 2012, as amended, that Altisource has with Ocwen Financial Corporation and Ocwen Mortgage Servicing, Inc. (the "Services Agreements") and the Technology Products Services Agreements dated August 10, 2009 and October 1, 2012, as amended, that Altisource has with Ocwen Financial Corporation and Ocwen Mortgage Servicing, Inc. (collectively, the "TPSAs" and together with the Services Agreements, the "Applicable Services Agreements"). This Binding Term Sheet will be governed by the law and jurisdiction clauses in the Services Agreements, at Sections 9(d) and 9(m) respectively, and will extend through August 31, 2025, pursuant to the Services Agreements.

As used herein, the term "Ocwen" will collectively mean Ocwen Financial Corporation and Ocwen Mortgage Servicing, Inc., together with their affiliates. As used herein, the term "Altisource" shall mean Altisource S.à r.l., successor in interest to Altisource Solutions S.à r.l.

Section A. REALServicing Technology

1) For the avoidance of doubt, the parties' rights and obligations under Sections A and B and Exhibit 2 hereunder are governed by the TPSAs, to the extent not in conflict with the terms herein. Altisource will consent to Ocwen's transition off of the REALServicing Technology on the terms and conditions set forth in this Binding Term Sheet. "REALServicing Technology" consists of the technology and applications described in Exhibit 1 hereto.

2) Ocwen will pay all reasonable time (at US$[***]/hour) and materials costs, software and hardware licensing fees and other out-of-pocket costs (such hourly charges, costs and fees collectively referred to as "Costs") incurred by Altisource in connection with or related to the REALServicing Technology transition and/or for any continued access to REALServicing Technology following the transition as

specified in Section A.3 below. Altisource will use commercially reasonable efforts to minimize such Costs.

a) Ocwen will pay Altisource for all Costs incurred through the REALServicing Initial Access Period (as defined below) and the REALDoc Initial Access Period (as described in Section B.1 and B.2 below); provided, however, Ocwen will not be required to pay Costs during such periods in excess of [***] (the "Cap"). Prior to the end of the REALServicing Initial Access Period, Ocwen will notify Altisource in writing if it believes there has been any material REALServicing Data not delivered by Altisource or any material error in the REALServicing Data delivered to Ocwen ("Incomplete REALServicing Data"). Altisource will remediate such Incomplete REALServicing Data (to the extent necessary), and, Ocwen will pay Altisource for all Costs associated with providing the Incomplete REALServicing Data subject to the Cap (irrespective of when these Costs are incurred by Altisource). Notwithstanding the immediately prior three sentences, the following will not be counted for purposes of determining payments subject to the Cap: (i) the per loan per month and other fees that are payable under the TPSAs and Servicing SOW (as defined in Exhibit 1 and which will not constitute Costs); and (ii) Costs incurred other than the costs for services for items 1-5 in the attached Exhibit 2 ("Out-of-Scope Costs"). Altisource will not be obligated to provide services as part of the transition off of REALServicing Technology other than all in-scope services identified in the attached Exhibit 2, and Ocwen will not be obligated to pay for Out-of-Scope Costs unless mutually agreed upon by the parties.

b) Altisource will invoice the Costs on a monthly basis, and Ocwen will pay the Costs reflected on such invoice within thirty (30) days following receipt of such invoice. Upon request, Altisource will provide reasonable supporting documentation for the Costs set forth in an invoice.

c) Ocwen will pay fifty percent (50%) of payments and costs for employees in accordance with the Request for Services (Resource Retention) document (including such payments and costs already incurred by Altisource) negotiated between Ocwen and Altisource, and each of Ocwen and Altisource will sign such document simultaneously with the signing of this Binding Term Sheet. For the avoidance of doubt, these payments and costs will not be subject to the Cap (as defined herein).

3) Ocwen's current access rights to the REALServicing Technology and Altisource's obligations to provide the same pursuant to the TPSAs and Servicing SOW will cease as of the earlier of (1) midnight U.S. Eastern time on [***] or (2) the date on which Ocwen has de-boarded all loans from the REALServicing Technology (the "REALServicing Termination Date"). Altisource will reasonably cooperate with Ocwen in moving loans off of the REALServicing Technology. Beginning on the REALServicing Termination Date and thereafter, Ocwen will be permitted only to access the data stored within REALServicing as provided herein and will not be permitted to add, delete, modify or otherwise change data contained therein; however Ocwen will be permitted to query, view, read, and extract REALServicing system data, reporting and tools (to the extent consistent with access rights in effect as of the date of this Binding Term Sheet and without manipulating or changing any data) (the "REALServicing Limited Access"). Notwithstanding the foregoing, Ocwen may, upon written advance notice, extend the REALServicing Termination Date. The notice must specify the duration of the extension. Ocwen will use reasonable efforts to provide thirty (30) days advance written notice, but Ocwen will provide at least fifteen (15) days advance written notice.

a) Following the REALServicing Termination Date (to the extent not already commenced), Altisource will use commercially reasonable, diligent efforts to deliver to Ocwen the

REALServicing Data, as defined in Exhibit 2 within [***] of the REALServicing Termination Date. The date on which such REALServicing Data is delivered to Ocwen will be the "REALServicing Delivery Date."

b) Altisource will maintain the REALServicing Limited Access for [***] following the REALServicing Delivery Date (the "REALServicing Initial Access Period"). During the REALServicing Initial Access Period, Ocwen will use reasonable efforts to evaluate the REALServicing Data to determine whether there is Incomplete REALServicing Data and Ocwen will promptly notify Altisource in writing of Incomplete REALServicing Data, with sufficient specificity for Altisource to validate the existence of Incomplete REALServicing Data, upon discovery.

c) The REALServicing Initial Access Period may be extended beyond the [***] REALServicing Initial Access Period if, prior to the end of the REALServicing Initial Access Period, Ocwen notifies Altisource in writing of any remaining material unremediated Incomplete REALServicing Data with sufficient specificity for Altisource to validate the existence of Incomplete REALServicing Data. If Altisource is able to validate the existence of Incomplete REALServicing Data, Altisource will use commercially reasonable efforts to correct such Incomplete REALServicing Data (with reasonable cooperation from Ocwen in identifying, validating and correcting such Incomplete REALServicing Data) and deliver corrected REALServicing Data to Ocwen. Following such delivery (and within [***] if possible), Ocwen will reevaluate whether Altisource has remediated the Incomplete REALServicing Data and either accept the data or notify Altisource in writing of any unremediated issues. Once Altisource has remediated the Incomplete REALServicing Data, the REALServicing Initial Access Period will end on the day that is [***] following Altisource's delivery of corrected REALServicing Data to Ocwen. Notwithstanding the foregoing, if the REALServicing Initial Access Period is extended beyond [***], the REALServicing End Date (as defined below) will be extended by a period of time equal to the number of days between [***] and the last day of the REALServicing Initial Access Period. Notwithstanding the foregoing, to the extent that it is determined that any Incomplete REALServicing Data is permanently destroyed, lost or otherwise not recoverable, or that continued provision of the REALServicing Limited Access would otherwise not provide Ocwen with access to such Incomplete REALServicing Data ("Unresolved REALServicing Data"), then (i) continued unavailability of such Incomplete REALServicing Data will not cause any further extensions to the REALServicing Initial Access Period, and (ii) the parties may seek to resolve any dispute regarding such Unresolved REALServicing Data under the terms of the TPSAs.

d) Ocwen may extend the period of REALServicing Limited Access for additional periods of time upon written notice provided to Altisource. Ocwen will use reasonable efforts to provide such notice at least fifteen (15) days prior to expiration of the REALServicing Limited Access period, but in no event will such notice be less than seven (7) days prior to such expiration, and will specify the length of the extension (each being a "REALServicing Additional Access Period"); provided that unless otherwise agreed upon by the parties no REALServicing Additional Access Period may continue beyond [***] (except to the extent that the REALServicing Termination Date has been extended pursuant to A.3.) (the "REALServicing End Date"). Notwithstanding the foregoing, if the REALServicing Delivery Date occurs after [***], the REALServicing End Date will be extended by a period of time equal to the number of days between [***] and the last day of the REALServicing Initial Access Period. Ocwen will pay to Altisource the Costs (excluding any data center costs) incurred (on an uncapped basis) during all REALServicing Additional Access Periods.

e) Following the REALServicing Termination Date, Ocwen will pay to Altisource a monthly access fee (in addition to applicable Costs, if any, and prorated for partial months) as set forth below:

i) Prior to the REALServicing Delivery Date a fee in the amount of [***] per month for up to [***];

ii) During the REALServicing Initial Access Period, a fee in the amount of [***] per month for [***]; and

iii) During REALServicing Additional Access Periods (if any), a fee in the amount of [***] per month.

f) Following expiration of the REALServicing Initial Access Period (or, if applicable, the last REALServicing Additional Access Period), Altisource will have no responsibility to provide Ocwen with access to REALServicing Technology or any data or to maintain the same on Ocwen's behalf.

g) If the REALServicing Termination Date is extended by Ocwen beyond [***], the following fees will apply:

i) REALServicing Termination Date between [***] and [***]: the per month per loan fee for all periods through [***] will be the greater of (a) [***] and (b) the per month per loan fee pursuant to the Servicing SOW (nothing herein will limit any other amounts due and payable under the terms of the Servicing SOW);

ii) REALServicing Termination Date on or after [***]: the per month per loan fee for all periods before [***] will be the same as that set forth in A.3.g(i) above and the per month per loan fee for all periods after [***] will be the greater of (a) [***] and (b) the per month per loan fee pursuant to the Servicing SOW (nothing herein will limit any other amounts due and payable under the terms of the Servicing SOW);

iii) Notwithstanding anything in paragraph A.3.e. above, the monthly access fee for [***] and [***] will be [***]. However, under this section A.3.g(iii), to the extent the REALServicing Initial Access Period is longer than [***], the monthly fee for the portion of the REALServicing Initial Access Period that exceeds sixty [***] will be [***] per month; and

iv) Notwithstanding anything in paragraph A.3.e. above, the monthly access fee for [***] and all subsequent months through the REALServicing End Date will be [***]. However, under this section A.3.g(iv), to the extent the REALServicing Initial Access Period is longer than [***], the monthly fee for the portion of the REALServicing Initial Access Period that exceeds [***] will be [***] per month.

4) Ocwen will cooperate, and use commercially reasonable efforts to cause third party technology providers (including, but not limited to, the provider of Ocwen's servicing platform that replaces REALServicing Technology) to cooperate, with Altisource's interconnection efforts to the technology of such providers.

5) Ocwen will pay all undisputed amounts due to Altisource as of the REALServicing Termination Date within thirty (30) days of receipt of invoice. The parties will work together in good faith to resolve any disputed amounts for the first sixty (60) days following the REALServicing Termination Date. After such sixty (60) day period, upon request by either party, the parties will promptly submit to binding mediation to resolve any amounts that remain disputed; upon request by either party, binding mediation will also be applied to any disputes involving amounts invoiced after the REALServicing Termination Date which are not resolved within sixty (60) days of the invoice date. Mediator fees will be borne equally by the parties.

Section B. REALDoc Technology

1) Ocwen will pay all Costs incurred by Altisource in connection with or related to the REALDoc Technology transition and/or for any continued access to REALDoc Technology following the transition as specified in Section B.2 below. Altisource will use commercially reasonable efforts to minimize such Costs.

   i. Ocwen will pay Altisource for all Costs incurred through the REALDoc Initial Access Period (as defined below), subject to the Cap set forth in Section A.2.a. Prior to the end of the REALDoc Initial Access Period, Ocwen will notify Altisource in writing if it believes there has been any material REALDoc Data not delivered by Altisource or any material error in the REALDoc Data delivered to Ocwen ("Incomplete REALDoc Data"). Altisource will remediate such Incomplete REALDoc Data (to the extent necessary), and, Ocwen will pay Altisource for all Costs associated with providing the Incomplete REALDoc Data subject to the Cap (irrespective of when these Costs are incurred by Altisource). Notwithstanding the immediately prior three sentences, the following will not be counted for purposes of determining payments subject to the Cap: (i) the fees payable through the REALDoc Termination Date under the Imaging SOW (defined below) and which will not constitute Costs; and (ii) Costs that are Out-of-Scope Costs. Altisource will not be obligated to provide services as part of the transition off of REALDoc other than all the in-scope transition services identified in the attached Exhibit 2, and Ocwen will not be obligated to pay for Out-of-Scope Costs unless mutually agreed upon by the parties.

   ii. Altisource will invoice the Costs on a monthly basis, and Ocwen will pay the Costs reflected on such invoice within thirty (30) days following receipt of such invoice. Upon request, Altisource will provide reasonable supporting documentation for the Costs set forth in an invoice.

2) Ocwen's current access rights to the REALDoc technology (including REALDoc Capture, REALDoc Correspondence and REALDoc Vault as those terms are defined in that certain Statement of Work – Imaging, Document Management, and Correspondence Systems dated February 17, 2017 (the "Imaging SOW")) and Altisource's obligations to provide the same pursuant to the TPSAs and Imaging SOW will cease as of the earlier of (1) midnight U.S. Eastern time on [***] or (2) the date on which Ocwen has de-boarded all loans from the REALServicing Technology (the "REALDoc Termination Date"). Beginning on the REALDoc Termination Date and thereafter, Ocwen will be permitted only to access the data stored within REALDoc as provided herein and will not be permitted to add, delete, modify or otherwise change data contained therein, however Ocwen will be permitted to query, view, read, and extract REALDoc system data, reporting and tools (to the extent consistent with access rights in effect as of the date of this Binding Term Sheet and without manipulating or changing any data) (the "REALDoc Limited Access"). Notwithstanding the foregoing, Ocwen may, upon written advance notice, extend the REALDoc Termination Date. The notice must specify the duration of the extension. Ocwen will use reasonable efforts to provide thirty

(30) days advance written notice, but Ocwen will provide at least fifteen (15) days advance written notice.

iii. Following the REALDoc Termination Date (to the extent not already commenced), Altisource will use commercially reasonable, diligent efforts to deliver to Ocwen the REALDoc Data (as defined in Exhibit 2) within [***] to the extent stored in REALDoc Vault as of the REALDoc Termination Date. The date on which Altisource notifies Ocwen that such REALDoc Data has been delivered to Ocwen will be the "REALDoc Delivery Date." Additionally, without limiting the foregoing, Altisource will use commercially reasonable efforts to provide [***], in each case after considering any Accessible Provided Data (as defined in Exhibit 2) (the "Interim Vault Image Milestones") according to the process in Exhibit 2. Notwithstanding the foregoing, each of the Interim Vault Image Milestones is contingent in all respects on Ocwen ensuring that Altisource has at least five (5) Snowball (as defined in Exhibit 2) devices in Altisource's designated data center at all times beginning on March 8, 2019, with such Snowball devices being procured by Ocwen. For each day that the foregoing sentence is not satisfied, the Interim Vault Image Milestones are each extended by one (1) day.

iv. Altisource will maintain the REALDoc Limited Access for [***] following the REALDoc Delivery Date (the "REALDoc Initial Access Period"). During the REALDoc Initial Access Period, Ocwen will use reasonable efforts to evaluate the REALDoc Data to determine whether there is Incomplete REALDoc Data and Ocwen will promptly notify Altisource in writing of Incomplete REALDoc Data, with sufficient specificity for Altisource to validate the existence of Incomplete REALDoc Data, upon discovery.

v. The REALDoc Initial Access Period may be extended beyond the [***] REALDoc Initial Access Period if, prior to the end of the REALDoc Initial Access Period, Ocwen notifies Altisource in writing of any remaining material unremediated Incomplete REALDoc Data with sufficient specificity for Altisource to validate the existence of Incomplete REALDoc Data. If Altisource is able to validate the existence of Incomplete REALDoc Data, Altisource will use commercially reasonable efforts to correct such Incomplete REALDoc Data (with reasonable cooperation from Ocwen in identifying, validating and correcting such Incomplete REALDoc Data) and deliver corrected REALDoc Data to Ocwen. Following such delivery (and within [***] if possible), Ocwen will reevaluate whether Altisource has remediated the Incomplete REALDoc Data and either accept the data or notify Altisource in writing of any unremediated issues. Once Altisource has remediated the Incomplete REALDoc Data, the REALDoc Initial Access Period will end on the day that is [***] following Altisource's delivery of corrected REALDoc Data to Ocwen. Notwithstanding the foregoing, if the REALDoc Initial Access Period is extended beyond [***], the REALDoc End Date will be extended by a period of time equal to the number of days between [***] and the last day of the REALDoc Initial Access Period. Notwithstanding the foregoing, to the extent that it is determined that any Incomplete REALDoc Data is permanently destroyed, lost or otherwise not recoverable, or that continued provision of the REALDoc Limited Access would otherwise not provide Ocwen with access to such Incomplete REALDoc Data ("Unresolved REALDoc Data"), then (i) continued unavailability of such Incomplete REALDoc Data will not cause any further extensions to the REALDoc Initial Access Period, and (ii) the parties may seek to resolve any dispute regarding such Unresolved REALDoc Data under the terms of the TPSAs.

vi. Ocwen may extend the period of REALDoc Limited Access for additional periods of time upon written notice provided to Altisource. Ocwen will use reasonable efforts to provide such notice at least fifteen (15) days prior to expiration of the REALDoc Limited Access period, but in no event will such notice be less than seven (7) days prior to such expiration, and will specify the length of the extension (each being a "REALDoc Additional Access Period"); provided that unless otherwise agreed upon by the parties no REALDoc Additional Access Period may continue beyond [***] (except to the extent that the REALDoc Termination Date has been extended pursuant to B.2.) (the "REALDoc End Date"). Notwithstanding the foregoing, if the REALDoc Delivery Date occurs after [***], the REALDoc End Date will be extended by a period of time equal to the number of days between [***] and the last day of the REALDoc Initial Access Period. Ocwen will pay to Altisource the Costs (excluding any data center costs) incurred (on an uncapped basis) during all REALDoc Additional Access Periods.

v. Following the REALDoc Termination Date, Ocwen will pay to Altisource a monthly access fee (in addition to applicable Costs, if any, and prorated for partial months) as set forth below:

1. Prior to the REALDoc Delivery Date a fee in the amount of [***] per month for up to [***];

2. During the REALDoc Initial Access Period, a fee in the amount of [***] per month for [***]; and

3. During REALDoc Additional Access Periods (if any), a fee in the amount of [***] per month; provided, however, that for each day that Altisource is not compliant with the Interim Vault Image Milestones, such fee will be reduced to [***] per month.

vi. Following expiration of the REALDoc Initial Access Period (or, if applicable, the last REALDoc Additional Access Period), Altisource will have no responsibility to provide Ocwen with access to REALDoc Technology or any data or to maintain the same on Ocwen's behalf.

2) Ocwen will pay all undisputed amounts due to Altisource as of the REALDoc Termination Date within thirty (30) days of receipt of invoice. The parties will work together in good faith to resolve any disputed amounts for the first sixty (60) days following the REALDoc Termination Date. After such sixty (60) day period, upon request by either party, the parties will promptly submit to binding mediation to resolve any amounts that remain disputed; upon request by either party, binding mediation will also be applied to any disputes involving amounts invoiced after the REALDoc Termination Date which are not resolved within sixty (60) days of the invoice date. Mediator fees will be borne equally by the parties.

Section C. Altisource as Ocwen's Strategic Service Provider

1) After the transition events in Section C.13 have occurred, Altisource will become the Strategic Provider (as defined below) of Standard Services (as defined below) on any and all portfolios, mortgage servicing rights, economic rights in mortgage servicing rights and similar or associated rights (collectively, "Portfolios") for which Ocwen[1] is a Servicer. For purposes of this Section C, "Servicer" means mortgage servicer, subservicer or other party performing tasks typically associated with mortgage servicers or subservicers.

[1] Including, without limitation, PHH Mortgage Corporation (together with its affiliates, "PHH").

2) As used herein, "Strategic Provider" means that, with respect to referrals for which Ocwen has the right to select the services provider[2], Altisource will be the provider of each Standard Service for the Portfolios, and with the number of referrals, as described in Section C.6.

3) Referrals relate to all service descriptions referenced in Exhibit 4 (the "Standard Services"). The services within Standard Services constitute the "Services", or individually, a "Service."

4) The following terms are used for identifying the specific Portfolios referenced in this Binding Term Sheet, including in order to determine the number of referrals.

   a) "HR Portfolio(s)" means the Portfolios Ocwen acquired, directly or indirectly, through its acquisitions of loan servicing under agreements (I) acquired by Ocwen from the Homeward Residential, Inc. acquisition or (II) assigned to and assumed by Ocwen pursuant to the ResCap Sale Order[3] (which, for the avoidance of doubt, collectively include all Portfolios that Ocwen acquired, directly or indirectly, through its acquisitions of the equity, assets and/or other business rights of Homeward Residential, Inc. (and any affiliates thereof) and Residential Capital, LLC (and any affiliates thereof)).

   b) "HRN Portfolio(s)" means the HR Portfolios and the Ocwen-NRZ Portfolios.

   c) "Ocwen-NRZ Portfolio(s)" means Portfolios for which any rights thereto or interests therein were acquired from Ocwen, excluding PHH, by New Residential Investment Corp or any affiliates or predecessors in interest thereof (collectively, "NRZ") prior to the date of this Binding Term Sheet.

   d) "Other Portfolio(s)" means Portfolios in which Ocwen has an interest or for which Ocwen is a Servicer, including the PHH Portfolios but excluding the HRN Portfolios and any Pending Portfolios.

   e) "PHH Portfolio(s)" means Portfolios in which PHH has an interest or for which PHH is a Servicer, but excluding any Portfolios in which Ocwen[4] has an interest or for which Ocwen is a Servicer; provided however that any such Portfolios in which PHH acquired such interest or for which PHH became such a Servicer due to a merger of an Ocwen entity into PHH occurring on or before [***] will not be a PHH Portfolio.

5) The number of referrals will be calculated on a Standard Service-by-Standard Service basis.

6) For each Standard Service, the number of referrals from HRN Portfolios and Other Portfolios where Ocwen has the right to select the Services provider for which Altisource will be the provider on a monthly basis will be equal to or greater than the amount determined by the following calculations:

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[2] As used in this Binding Term Sheet, the right to select the Services provider means that Ocwen has the right to control the selection of the Services provider, or a party other than Ocwen has the right to control the selection of the Services provider but has not exercised such right.

[3] "ResCap Sale Order" means the order entered by the United States Bankruptcy Court for the Southern District of New York on November 21, 2012 in re Residential Capital, LLC, et al (Case No 12-12020)(ECF Doc #2246).

[4] For purposes of this definition, "Ocwen" includes any of its affiliates other than PHH.

a) the total number of referrals from the HRN Portfolio for such Standard Service where Ocwen has the right to select the Services provider; ***plus***

b) ninety percent (90%) of the referrals from the Other Portfolios for such Standard Service where Ocwen has the right to select the Services provider, ***plus***

c) the lesser of

i) the total number of referrals from the HRN Portfolio and the Other Portfolios for such Standard Service, made to a non-Altisource services provider, where Ocwen does not have the right to select the Services provider, and

ii) ten percent (10%) of the referrals from the Other Portfolios for such Standard Service where Ocwen has the right to select the Services provider.

7) Notwithstanding the foregoing, with respect to referrals for which Ocwen has the right to select the Services provider, the actual referrals for which Altisource will be the provider on a monthly basis will include all referrals of Standard Services for the HR Portfolios. Until such time as the transition events in Section C.13. have occurred, Ocwen will continue to use Altisource as the service provider for the Standard Services. Referrals of Standard Services to Altisource will be done in a manner that allocates incoming referrals at random and is intended to (and is reasonably designed to) yield a representative sample of referrals across each Service and all applicable Portfolios in a manner that does not prejudice Altisource in any way.

8) For all Portfolios acquired by Ocwen after the date of this Binding Term Sheet, Ocwen will use commercially reasonable efforts to cause Altisource to be designated as the provider of Standard Services for such Portfolio in accordance with the provisions of Section C.1.

9) Ocwen will not be required to use Altisource as Service provider on a given Portfolio until such Portfolio is boarded onto Ocwen's loan servicing platform (during such status, the Portfolio is a "Pending Portfolio") and such Portfolios will be excluded for purposes of calculating the referrals referenced in Section C.6. For avoidance of doubt, if Ocwen acquires one or more entities or businesses that own Portfolios, Ocwen will use commercially reasonable efforts to provide referrals on such Portfolios in compliance with Section C.1 of this Binding Term Sheet promptly thereafter.

10) To the extent the actual referrals to Altisource in a given calendar month for a given Standard Service from Portfolios identified in Section C.6 are less than required by Section C.6. (each a "Monthly Deficit", and collectively, the "Monthly Deficits"), Ocwen will cause the referrals of such Standard Service to Altisource to be increased in each following month until such Monthly Deficit and any prior outstanding Monthly Deficits are satisfied. To the extent Ocwen is unable to remedy a Monthly Deficit in such immediately subsequent calendar month, Ocwen will use its commercial best efforts to increase the number of referrals for such Standard Service until such time as no cumulative Monthly Deficits remain for such Standard Service in as short a time as possible.

11) For the avoidance of doubt, Ocwen's sale of Portfolios to third parties will not be limited by this Binding Term Sheet in any way. If Ocwen transfers a Portfolio to a third party in a transaction in which Ocwen will remain as a Servicer following the transaction (including, for the avoidance of doubt, as a sub-servicer), to the extent Altisource is performing in compliance with the Services Agreements with respect to a given Standard Service, Ocwen will use commercially reasonable efforts to recommend that Altisource is designated as the provider for such Portfolio for such

Standard Service and will ensure that any non-Altisource provider selected for such Portfolio will be subject to the same vendor oversight policies and at least as stringent performance standards as Altisource.

12) Within [***] following the end of each calendar month, Ocwen will accurately calculate and report to Altisource, the Monthly Deficit calculation with respect to each Standard Service. The form of the reporting will be reasonably agreed upon by the parties.[5] As reasonably requested by Altisource (to the extent that such requests would not pose an unreasonable and undue hardship on Ocwen), Ocwen will provide to Altisource written reports to enable it to budget and forecast resources needed to provide the Services.

13) In accordance with the provisions set forth in Section C.1 above, Ocwen will begin using Altisource as the provider of Standard Services for the PHH Portfolios by [***]. Notwithstanding the prior sentence, Ocwen will use commercially reasonable efforts to refer all new Standard Services for REO Sales and Management Services as set forth in the 24th Amendment to the Services Letter under the Services Agreements to Altisource beginning on or before March 1, 2019. Ocwen's obligations set forth in this Section shall be subject to Ocwen's ability to terminate the current service providers for the PHH Portfolios in accordance with the provisions set forth the agreements with such service providers.

For the avoidance of doubt, Section 8 of the Services Agreements pertaining to Altisource's "Right of First Opportunity," will remain in effect.

Section D. Additional Modifications to Applicable Services Agreements

1) Assignments: Ocwen will promptly review and act reasonably to approve requests by Altisource to assign any contracts between the parties (in whole or in part) to (a) Altisource affiliates and (b) one or more third parties in connection with one or more transactions involving (whether by merger, acquisition of equity, acquisition of assets and/or other similar transactions) one or more lines of business, provided that the assignee is able to satisfy the reasonable and applicable vendor qualifications as generally applied by Ocwen without discrimination. In the event a Detailed Agreement has not been executed at the time of the assignment, the assigned contract will be timely amended to include the relevant terms of this Binding Term Sheet. Except as provided in the immediately preceding sentence, such assignments cannot be conditioned upon modifications or amendments to such contract (or related documents), and Ocwen will reasonably and promptly cooperate in the execution of documents necessary to effectuate such assignments or acquisitions. With respect to mortgage charge-off collection Services, this Section D.1 will be further subject to Section D.3 below.

2) Performance standards.

   a) Except to the extent otherwise agreed by the parties in the Detailed Agreement or in a subsequent definitive agreement between the parties:

[5] Certain classifications may be confidential and, as such, Ocwen may not be allowed to disclose the same to Altisource. Notwithstanding the foregoing, information will be subject to verification by an independent third party auditor engaged by Altisource who may review such information on a confidential, "auditors' eyes only basis."

i) [***]

ii) [***]

iii) [***]

b) [***]

c) The Initial Performance Standards and any performance standards in the Detailed Agreement will be subject to periodic revision, as reasonably agreed by the parties in light of investor, GSE, regulatory, and servicing agreement requirements, changing characteristics of properties within the Portfolios, the macroeconomic environment, and industry practices.

d) Commencing with the first calendar month following execution of this Binding Term Sheet, the following termination rights will override the termination rights pertaining to Performance Standards and Critical Performance Standards within the Services Agreements. To the extent Altisource fails any Initial Performance Standard that is (a) a Critical Performance Standard for a period of [***], and Altisource continues to fail such Initial Performance Standard for [***], or (b) a Performance Standard for a period of [***], and Altisource continues to fail such Initial Performance Standard for [***], then Ocwen will be permitted to terminate Altisource as a provider for only such applicable Service(s) [***]. Notwithstanding the foregoing, to the extent Altisource fails any performance standard in any month due to any actions or inactions by Ocwen, or any breach of any of Ocwen's obligations, such performance standard will be deemed not to have failed in such month. For each Service, Altisource will have [***] to cure each corresponding Critical Performance Standard or Performance Standard failure in any [***] period; provided however, Ocwen will reasonably consider agreeing, on a case-by-case basis, to waive repeat failure(s) of any performance standard which in Ocwen's management opinion is [***].

3) Specifically, with respect to mortgage charge-off collection services:

(a) Upon execution of this Binding Term Sheet, the parties will have agreed upon the terms set forth in the NCI Services Agreement with respect to the contemplated sale of the mortgage charge-off collection services to an unrelated third party attached hereto as Exhibit 6, and Ocwen agrees to sign such NCI Services Agreement promptly following Altisource's request.

(b) Notwithstanding anything to the contrary in Section D.1, to the extent Altisource desires to consummate such a sale or substantially similar transaction with another unrelated third party (an "Other Transaction"), Ocwen will comply with the requirements of Section D.1. Provided that such other unrelated third party is able to satisfy the reasonable and applicable vendor qualifications as generally applied by Ocwen without discrimination referenced in Section D.1. Ocwen agrees to sign an agreement substantially similar to such NCI Services Agreement to facilitate such Other Transaction promptly following Altisource's request.

(c) Notwithstanding the foregoing, Sections 2 and 5 of such NCI Services Agreement will be deemed effective upon execution of this Binding Term Sheet regardless of whether such NCI Services Agreement has been executed. Upon execution of the NCI Services Agreement, the NCI Services Agreement will govern the mortgage charge-off collections Services and this Binding Term Sheet will not apply to such Services. Until such time that the NCI Services Agreement is executed, the terms of this Binding Term Sheet will apply to the mortgage charge-off collections Services.

Notwithstanding the foregoing, and for the avoidance of doubt, Section 2 of such NCI Services Agreement will control with respect to any conflict with the terms of Section C of this Binding Term Sheet, and the provisions of Section C.1-C.12 of this Binding Term Sheet will not impact Ocwen's obligations or Altisource's rights as to the mortgage charge-off collection services identified on Exhibit 4.

4) Additional changes to the Services Agreements

a) Section 14 of the Services Agreements is deleted in its entirety and replaced with the attached Exhibit 5, but solely with respect to claims arising from referrals received by Altisource on or after the effective date of this Binding Term Sheet. Notwithstanding the foregoing, nothing in this Binding Term Sheet, including the amendment herein to Section 14 of the Services Agreement, shall be deemed to impact, amend or otherwise modify Section 5.7 of the 16th and 17th Amendments to the Services Letters to the Services Agreements.

b) Ocwen will conduct a benchmarking study of pricing and performance standards prior to Altisource providing any services to the NY PHH Portfolio (as defined below) contemplated herein, which services will be charged to New York borrowers or to investors on New York property, as required by the Conditional Approval dated September 27, 2018 issued by the New York Department of Financial Services to Ocwen. Ocwen will use commercially reasonable efforts to initiate such benchmarking study promptly and to complete such study prior to [***]. As used herein, "NY PHH Portfolio" means loans and REO related to New York borrowers or investors on New York properties in those Portfolios serviced by PHH prior to February 1, 2019.

We very much appreciate the constructive dialogue and resolution of the open items set forth in the Binding Term Sheet.

Best regards,

William B. Shepro

Accepted and agreed to by Ocwen Financial Corporation and Ocwen Mortgage Servicing, Inc.

Ocwen Financial Corporation

By: _/s/ Scott W. Anderson (Feb 22, 2019)____
Name: Scott W. Anderson
Title: EVP, Chief Servicing Officer

Ocwen Mortgage Servicing, Inc.

By: __/s/ John P. Kim________
Name: John P. Kim
Title: President and Chief Executive Officer

The exhibits listed below have been omitted pursuant to Item 601(a)(5) of Regulation S-K and the Company agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted exhibit upon request.

Exhibit 1 — REALServicing Technology
Exhibit 2 — Technology Transition Services
Exhibit 2A — Ocwen Structured Data List
Exhibit 2B — Ocwen Shared Drives and Sharepoint Data
Exhibit 3 — [Reserved]
Exhibit 4 — List of Services
Exhibit 6 — Nationwide Credit, Inc. Services Agreement

Exhibit 5 to Binding Term Sheet

14. Warranties; Limitation of Liability; Indemnity.

(a) Other than the statements expressly made by the Providing Party in this Agreement or in any SOW on or after the date of the Binding Term Sheet, the Providing Party makes no representation or warranty, express or implied, with respect to the Services and, except as provided in Section 14(b) hereof, the Customer Party hereby waives, releases and renounces all other representations, warranties, obligations and liabilities of the Providing Party, and any other rights, claims and remedies of the Customer Party against the Providing Party, express or implied, arising by law or otherwise, with respect to any nonconformance, durability, error, omission or defect in any of the Services, including (i) any implied warranty of merchantability, fitness for a particular purpose or non- infringement, (ii) any implied warranty arising from course of performance, course of dealing or usage of trade and (iii) any obligation, liability, right, claim or remedy in tort, whether or not arising from the negligence of the Providing Party.

(b) Indemnity from Providing Party to Customer Party. Providing Party shall indemnify, defend, and hold harmless Customer Party, its affiliated companies, and the officers, directors, agents, employees, authorized personnel, authorized users and assigns of each (individually, an “Ocwen Indemnitee”; collectively, the "Ocwen Indemnitees") from and against any and all losses, damages, claims, suits, judgments or expenses of any nature, including without limitation those arising pursuant to any obligation of an Ocwen Indemnitee to indemnify, defend or hold harmless a third party, whatsoever incurred or suffered directly or indirectly, including reasonable attorneys' fees and costs actually incurred (each, an "Ocwen Loss”) by the Ocwen Indemnitees, to the extent the Ocwen Loss arises directly or indirectly from or out of or relating to: (a) negligence, gross negligence or willful misconduct of Providing Party and/or its employees, vendors, subcontractors and/or agents (individually, an “Altisource Party”; together, the “Altisource Parties”) in the performance of the Services under this Agreement or any SOW; (b) any acts by any Altisource Party beyond the scope of its authority under this Agreement or any SOW; (c) any claims or actions whatsoever brought by a Providing Party employee, subcontractor or vendor (or an employee, subcontractor or vendor of any such Providing Party subcontractor or vendor) involved directly or indirectly in the provision of the Services under this Agreement or any SOW; (d) a breach of any Providing Party’s representations, warranties, or obligations under this Agreement or any SOW in connection with performance of the Services under this Agreement or any SOW; (e) a determination by any court, tribunal or agency that an employment relationship has or will be established by the performance of this Agreement or any SOW; (f) any violation of a law, rule, ordinance, guideline, or regulation, as amended from time to time (a “Legal Violation”), by an Altisource Party in the provision of the obligations of the Altisource Parties under this Agreement or any SOW (but specifically excluding any Legal Violation for which such Altisource Party was not permitted to take or was prevented from taking remediative action related thereto); or (g) in connection with performance of the Services in this Agreement or in any SOW, any infringement or violation of privacy right, or the copyright, trademark, patent, trade secret, or other intellectual property rights of a third party.

Without otherwise limiting the obligations of Providing Party pursuant to this Section 14(b), in the event that the use of any deliverable provided by Providing Party under this Agreement or any SOW is enjoined, Providing Party shall (1) procure for Customer Party, at no cost to Customer Party, the right to continue usage of the deliverable, (2) replace or modify the deliverable to make it non-infringing, at no cost to Customer Party, provided that the functionality of the deliverable remains essentially unchanged, or (3) if the right to continue usage cannot be procured for Customer Party or the deliverable cannot reasonably be modified to make it non-infringing, promptly provide Customer Party with a refund of all applicable fees and costs under this Agreement or any SOW attributable to such deliverable.

(c) In no event shall: (i) the amount of damages or losses for which the Providing Party and the Customer Party may be liable under this Agreement exceed the fees due to the Providing Party for the most recent six (6) month period under the applicable Service or SOW(s); provided that if Services have been performed for less than six (6) months, then the damages or losses will be limited to the value of the actual Services performed during such period; or (ii) the aggregate amount of all such damages or losses for which the Providing Party may be liable under this Agreement exceed one million dollars ($1,000,000); provided that no such cap shall apply to liability for damages or losses arising from or relating to breaches of Section 12 (Confidentiality), Section 15(d) (Protection of Consumer Information), infringement of Intellectual Property, or fraud or criminal acts; provided further that the liability caps in this Section 14(c) will not apply to any Ocwen Loss that any Ocwen Indemnitee suffers, incurs or becomes subject to as a result of third party claims, or to any Altisource Loss that any Altisource Indemnitee suffers, incurs or becomes subject to as a result of third party claims. Except as provided in Section 14(b) hereof, none of the Providing Party or any of its Affiliates or any of its or their respective officers, directors, employees, agents, attorneys-in-fact, contractors, or other representatives shall be liable for any action taken or omitted to be taken by, or the negligence, gross negligence, or willful misconduct of, any third party.

(d) Notwithstanding anything to the contrary herein, neither Party nor any of their Affiliates or any of their respective officers, directors, employees, agents, attorneys-in-fact, contractors or other representatives shall be liable for damages or losses to the extent arising from the negligence, gross negligence or willful misconduct of the other Party or any of the other Party's Affiliates.

(e) Indemnity from Customer Party to Providing Party. Customer Party shall indemnify, defend, and hold harmless Providing Party, its affiliated companies, and the officers, directors, agents, employees, authorized personnel, authorized users and assigns of each (the "Altisource Indemnitees"; together, collectively, with the "Ocwen Indemnitees" as the "Indemnitees", or individually, as an "Indemnitee") from and against any and all losses, damages, claims, suits, judgments or expenses of any nature whatsoever incurred or suffered directly or indirectly, including reasonable attorneys' fees and costs actually incurred (each, an "Altisource Loss"; together, collectively, with the Ocwen Losses, as the "Losses", or, individually, as a "Loss"), by the Altisource Indemnitees, to the extent the Altisource Loss arises directly or indirectly from or out of or relating to: (a) the negligence, gross negligence or willful misconduct of Customer Party and/or its employees, vendors, subcontractors and/or agents (individually, an "Ocwen Party"; together, the "Ocwen Parties"; provided that the "Ocwen Party" shall specifically exclude any Altisource Indemnitee or Altisource Party in the provision of any services to Customer Party) in connection with this Agreement or any SOW; or (b) any violation of a law, rule, ordinance, guideline or regulation by an Ocwen Party in connection with this Agreement or any SOW. For the avoidance of doubt and notwithstanding any other terms in this Section 14(e) to the contrary herein, Customer Party will defend Providing Party in relation to Providing Party's provision of trustee Services (except to the extent such arises from Altisource's negligence, willful misconduct or breach of this Agreement or any SOW).

(f) Limitations. The foregoing indemnities shall not be limited by the insurance requirements set forth in this Agreement or in any SOW and shall extend to Losses relating to any event in time on or after the date of the Binding Term Sheet whenever they may arise, so long as, on and after the date of the Binding Term Sheet, notice is provided in accordance with the indemnification procedures described in Section 14(h) below.

(g) Without limiting Section 14(b) hereof, no Party hereto or any of its Affiliates or any of its or their respective officers, directors, employees, agents, attorneys-in-fact, contractors or other representatives shall in any event have any obligation or liability to the other party hereto or any such other person whether arising in contract (including warranty), tort (including active, passive or imputed negligence) or otherwise for consequential, incidental, indirect, special or punitive damages, whether foreseeable or not, arising out of the performance of the Services or this Agreement, including any loss of revenue or profits, even if a Party hereto has been notified about the possibility of such damages; provided, however, that the provisions of this Section 14(g) shall not limit the indemnification obligations hereunder of either party hereto with respect to any liability that the other party hereto may have to any third party not affiliated with any member of the Providing Party's Group or the Customer Party's Group for any incidental, consequential, indirect, special or punitive damages.

(h) Indemnification Procedure. Each Party agrees to give the other Party prompt written notice of any legal claim, demand, right or cause of action asserted for which the Party is seeking indemnification or defense pursuant to Sections 14(b) or 14(e) (a "Claim"); provided, however, any failure by a Party to provide such notice will not relieve the other Party of its indemnification obligations under this Agreement or any SOW except to the extent the other Party is prejudiced as a result of such failure. The indemnifying Party may thereafter assume control of the defense of such Claim, including but not limited to responsibility for retention, management and payment of outside counsel, provided that the indemnified Party shall have the right to participate in the defense or settlement of such Claim, or to retain counsel to defend the interests of the indemnified Party, at its own cost or expense, and further provided that the indemnifying Party may not settle such Claim or consent to any judgment with respect thereto without the written consent of the indemnified Party (which consent may not be unreasonably withheld or delayed). If the indemnifying Party does not assume control of the defense of such Claim, the indemnified Party may defend and/or settle the Claim in such manner as they deem appropriate, at the cost and expense of the indemnifying Party, including payment of any settlement, fine, assessment, judgment or award and the costs (including but not limited to legal fees) of defending or settling the Claim. Each Party shall fully cooperate with the investigation and defense of all matters which may result in a Loss.

EXHIBIT 31.1

CERTIFICATIONS

I, Glen A. Messina, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Ocwen Financial Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and the other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(f) and 15d—15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2020

/s/ Glen A. Messina

Glen A. Messina, President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, June C. Campbell, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Ocwen Financial Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and the other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(f) and 15d—15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2020

/s/ June C. Campbell

June C. Campbell, Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATIONS

I, Glen A. Messina, state and attest that:

(1) I am the principal executive officer of Ocwen Financial Corporation (the Registrant).

(2) I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that

- the Quarterly Report on Form 10-Q of the Registrant for the quarter ended September 30, 2020 (the periodic report) containing financial statements fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

- the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name:	/s/ Glen A. Messina
Title:	President and Chief Executive Officer
Date:	November 3, 2020

EXHIBIT 32.2

CERTIFICATIONS

I, June C. Campbell, state and attest that:

(1) I am the principal financial officer of Ocwen Financial Corporation (the Registrant).

(2) I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that

- the Quarterly Report on Form 10-Q of the Registrant for the quarter ended September 30, 2020 (the periodic report) containing financial statements fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

- the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ June C. Campbell
Title: Executive Vice President and Chief Financial Officer
Date: November 3, 2020