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 June 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 o

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 o

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. o

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 July 31, 2020: 130,013,696 shares

OCWEN FINANCIAL CORPORATION
FORM 10-Q
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FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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. As a result of the global Coronavirus Disease 2019 (COVID-19) pandemic we are in a period of capital markets volatility and rapidly evolving mortgage lending and servicing ecosystem which have magnified such uncertainties. 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 impacts of the COVID-19 pandemic, including with respect to the response of the U.S. government, state governments, Fannie Mae, Freddie Mac, 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;
- impacts on our operations resulting from employee illness, social distancing measures and our shift to greater utilization of remote work arrangements;
- 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;
- uncertainty relating to the size and timing of a potential issuance of new term notes under our OMART advance financing facility;
- 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 a result of forbearance plans and moratoria on evictions and foreclosure proceedings;
- the impact of our planned reverse stock split on our stock price, market capitalization, and the trading market for our common stock;
- our ability to regain and maintain compliance with the continued listing standards of the New York Stock Exchange;
- uncertainty related to our ability to execute on our cost re-engineering initiatives and take the other actions we believe are necessary for us to improve our financial performance;
- uncertainty related to our ability 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;
- our ability to execute an orderly and timely transfer of responsibilities in connection with the termination by NRZ of our legacy PHH Mortgage Corporation (PMC) subservicing agreement, including our ability to respond to any concerns raised by regulators, lenders and other contractual counterparties in connection with such transfer;
- 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) and actions brought under the False Claims Act regarding incentive and other payments made by governmental entities;
- adverse effects on our business as a result of regulatory investigations, litigation, cease and desist orders or settlements;

- reactions to the announcement of such investigations, litigation, cease and desist orders or settlements by key counterparties, including lenders, the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Government National Mortgage Association (Ginnie Mae);
- our ability to comply with the terms of our settlements with regulatory agencies and the costs of doing so;
- increased regulatory scrutiny and media attention;
- 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;
- our ability to interpret correctly and comply with liquidity, net worth and other financial and other requirements of regulators, Fannie Mae, Freddie Mac 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, Fannie Mae, Freddie Mac 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, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the GSEs), Government National Mortgage Association (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;
- uncertainty related to legislation, regulations, regulatory agency actions, regulatory examinations, government programs and policies, industry initiatives and evolving best servicing practices;
- 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.

PART I – FINANCIAL INFORMATION
ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2020	December 31, 2019
Assets		
Cash and cash equivalents	$ 313,736	$ 428,339
Restricted cash (amounts related to variable interest entities (VIEs) of $17,373 and $20,434)	63,813	64,001
Mortgage servicing rights (MSRs), at fair value	1,044,914	1,486,395
Advances, net (amounts related to VIEs of $726,856 and $801,990)	901,009	1,056,523
Loans held for sale ($253,037 and $208,752 carried at fair value)	278,517	275,269
Loans held for investment, at fair value (amounts related to VIEs of $11,664 and $23,342)	6,730,656	6,292,938
Receivables, net	247,616	201,220
Premises and equipment, net	29,695	38,274
Other assets ($24,788 and $8,524 carried at fair value) (amounts related to VIEs of $8,301 and $4,078)	700,482	563,240
Total assets	$ 10,310,438	$ 10,406,199
Liabilities and Equity		
Liabilities		
Home Equity Conversion Mortgage-Backed Securities (HMBS) related borrowings, at fair value	$ 6,477,616	$ 6,063,435
Advance match funded liabilities (related to VIEs)	612,650	679,109
Other financing liabilities, at fair value (amounts related to VIEs of $11,664 and $22,002)	594,222	972,595
Other secured borrowings, net (amounts related to VIEs $184,129 and $240,893)	847,331	1,025,791
Senior notes, net	311,484	311,085
Other liabilities ($1,033 and $100 carried at fair value) (amounts related to VIEs of $95 and $144)	1,034,366	942,173
Total liabilities	9,877,669	9,994,188
Commitments and Contingencies (Notes 20 and 21)		
Stockholders' Equity		
Common stock, $.01 par value; 200,000,000 shares authorized; 130,008,898 and 134,862,232 shares issued and outstanding at June 30, 2020 and December 31, 2019 respectively	1,300	1,349
Additional paid-in capital	553,934	556,798
Accumulated deficit	(115,039)	(138,542)
Accumulated other comprehensive loss, net of income taxes	(7,426)	(7,594)
Total stockholders' equity	432,769	412,011
Total liabilities and stockholders' equity	$ 10,310,438	$ 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 June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue				
Servicing and subservicing fees	$ 175,240	$ 239,960	$ 386,723	$ 496,576
Reverse mortgage revenue, net	13,759	20,493	36,556	52,616
Gain on loans held for sale, net	33,547	8,318	46,878	17,300
Other revenue, net	4,478	5,567	10,709	11,734
Total revenue	227,024	274,338	480,866	578,226
MSR valuation adjustments, net	(23,434)	(147,268)	(197,554)	(256,266)
Operating expenses				
Compensation and benefits	65,017	82,283	125,745	176,979
Servicing and origination	17,361	21,510	37,617	50,208
Professional services	23,818	37,136	49,455	40,577
Technology and communications	16,111	20,001	31,304	44,436
Occupancy and equipment	16,136	18,699	28,105	35,288
Other expenses	6,366	4,597	9,797	7,845
Total operating expenses	144,809	184,226	282,023	355,333
Other income (expense)				
Interest income	3,566	3,837	8,961	8,395
Interest expense	(26,760)	(28,641)	(56,742)	(55,130)
Pledged MSR liability expense	(41,686)	(2,930)	(48,280)	(46,886)
Other, net	(57)	557	1,271	1,577
Total other expense, net	(64,937)	(27,177)	(94,790)	(92,044)
Loss before income taxes	(6,156)	(84,333)	(93,501)	(125,417)
Income tax (benefit) expense	(8,110)	5,404	(69,966)	8,814
Net income (loss)	$ 1,954	$ (89,737)	$ (23,535)	$ (134,231)
Earnings (loss) per share				
Basic	$ 0.02	$ (0.67)	$ (0.18)	$ (1.00)
Diluted	$ 0.02	$ (0.67)	$ (0.18)	$ (1.00)
Weighted average common shares outstanding				
Basic	129,769,092	134,465,741	132,313,964	134,193,874
Diluted	129,922,343	134,465,741	132,313,964	134,193,874
Pro forma earnings (loss) per share assuming a one-for-15 reverse stock split (1)				
Basic	$ 0.23	$ (10.01)	$ (2.67)	$ (15.00)
Diluted	$ 0.23	$ (10.01)	$ (2.67)	$ (15.00)

(1) See Note 17 – Basic and Diluted Earnings (Loss) per Share regarding the reverse stock split expected to be effective in August 2020.

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 June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Net income (loss)	$ 1,954	$ (89,737)	$ (23,535)	$ (134,231)
Other comprehensive income, net of income taxes:				
Reclassification adjustment for losses on cash flow hedges included in net income	40	36	76	70
Change in unfunded pension plan obligation liability	46	337	92	674
Other	—	7	—	13
Comprehensive income (loss)	$ 2,040	$ (89,357)	$ (23,367)	$ (133,474)

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 JUNE 30, 2020 AND 2019
(Dollars in thousands, except per share data)

	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 June 30, 2020 and 2019						
Balance at March 31, 2020	129,582,259	$ 1,296	$ 553,066	$ (116,993)	$ (7,512)	$ 429,857
Net income	—	—	—	1,954	—	1,954
Equity-based compensation and other	426,639	4	868	—	—	872
Other comprehensive income, net of income taxes	—	—	—	—	86	86
Balance at June 30, 2020	130,008,898	$ 1,300	$ 553,934	$ (115,039)	$ (7,426)	$ 432,769
Balance at March 31, 2019	133,946,055	$ 1,339	$ 555,046	$ (40,911)	$ (3,880)	$ 511,594
Net loss	—	—	—	(89,737)	—	(89,737)
Equity-based compensation and other	649,743	7	650	—	—	657
Other comprehensive income, net of income taxes	—	—	—	—	380	380
Balance at June 30, 2019	134,595,798	$ 1,346	$ 555,696	$ (130,648)	$ (3,500)	$ 422,894

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 SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(Dollars in thousands, except per share data)

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss, Net of Income Taxes	Total
Six Months Ended June 30, 2020 and 2019						
Balance at December 31, 2019	134,862,232	$ 1,349	$ 556,798	$ (138,542)	$ (7,594)	$ 412,011
Net loss	—	—	—	(23,535)	—	(23,535)
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	(5,662,257)	(57)	(4,548)	—	—	(4,605)
Equity-based compensation and other	808,923	8	1,684	—	—	1,692
Other comprehensive income, net of income taxes	—	—	—	—	168	168
Balance at June 30, 2020	130,008,898	$ 1,300	$ 553,934	$ (115,039)	$ (7,426)	$ 432,769
Balance at December 31, 2018	133,912,425	$ 1,339	$ 554,056	$ 3,567	$ (4,257)	$ 554,705
Net loss	—	—	—	(134,231)	—	(134,231)
Cumulative effect of adoption of FASB ASU No. 2016-02	—	—	—	16	—	16
Equity-based compensation and other	683,373	7	1,640	—	—	1,647
Other comprehensive income, net of income taxes	—	—	—	—	757	757
Balance at June 30, 2019	134,595,798	$ 1,346	$ 555,696	$ (130,648)	$ (3,500)	$ 422,894

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 Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities		
Net loss	$ (23,535)	$ (134,231)
Adjustments to reconcile net loss to net cash provided by operating activities:		
MSR valuation adjustments, net	197,554	256,266
Gain on sale of MSRs, net	(161)	(869)
Provision for bad debts	11,939	17,158
Depreciation	11,093	19,563
Amortization of debt issuance costs	3,538	1,451
Equity-based compensation expense	1,523	1,664
Gain on valuation of financing liability	(31,716)	(76,981)
Net gain on valuation of loans held for investment and HMBS-related borrowings	(15,351)	(37,201)
Gain on loans held for sale, net	(46,878)	(17,300)
Bargain purchase gain	—	381
Origination and purchase of loans held for sale	(1,949,022)	(501,696)
Proceeds from sale and collections of loans held for sale	1,936,204	513,706
Changes in assets and liabilities:		
Decrease in advances, net	144,020	91,679
Decrease in receivables and other assets, net	39,998	79,931
Decrease in other liabilities	(45,533)	(79,753)
Other, net	(8,854)	(4,965)
Net cash provided by operating activities	224,819	128,803
Cash flows from investing activities		
Origination of loans held for investment	(568,074)	(427,021)
Principal payments received on loans held for investment	370,114	232,514
Purchase of MSRs	(48,014)	(99,382)
Proceeds from sale of MSRs	—	1,401
Proceeds from sale of advances	443	2,132
Additions to premises and equipment	(2,756)	(1,133)
Proceeds from sale of real estate	4,350	3,166
Proceeds from sale of premises and equipment	674	—
Other, net	(122)	534
Net cash used in investing activities	(243,385)	(287,789)
Cash flows from financing activities		
Repayment of advance match funded liabilities, net	(66,459)	(106,488)
Proceeds from mortgage loan warehouse facilities and other secured borrowings	2,696,563	1,137,418
Repayment of mortgage loan warehouse facilities and other secured borrowings	(2,808,581)	(1,222,471)
Proceeds from issuance of additional senior secured term loan (SSTL)	—	119,100
Repayment of SSTL borrowings	(131,066)	(12,716)
Payment of debt issuance costs	(7,451)	(1,284)
Proceeds from sale of MSRs accounted for as a financing	—	876
Proceeds from sale of Home Equity Conversion Mortgages (HECM, or reverse mortgages) accounted for as a financing (HMBS-related borrowings)	590,640	425,106
Repayment of HMBS-related borrowings	(365,233)	(228,015)
Repurchase of common stock	(4,605)	—
Other, net	(33)	(1,118)
Net cash provided by (used in) financing activities	(96,225)	110,408
Net decrease in cash, cash equivalents and restricted cash	(114,791)	(48,578)
Cash, cash equivalents and restricted cash at beginning of year	492,340	397,010
Cash, cash equivalents and restricted cash at end of period	$ 377,549	$ 348,432
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)		—
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)	$	841	$	3,153

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the unaudited consolidated balance sheets that sums to the total of the same such amounts reported in the unaudited consolidated statements of cash flows:

	June 30, 2020		June 30, 2019	
Cash and cash equivalents	$	313,736	$	287,724
Restricted cash and equivalents:				
Debt service accounts		18,757		19,588
Other restricted cash		45,056		41,120
Total cash, cash equivalents and restricted cash reported in the statements of cash flows	$	377,549	$	348,432

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 subsidiaries, PHH Mortgage Corporation (PMC) and Liberty Home Equity Solutions, Inc. (Liberty). We are headquartered in West Palm Beach, Florida with offices in the United States (U.S.) and the United States Virgin Islands (USVI) and operations in 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, Liberty, Ocwen Financial Solutions Private Limited (OFSPL) and Ocwen USVI Services, LLC (OVIS). On March 13, 2020, as part of Ocwen's legal entity restructuring, 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 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 5,500 employees at June 30, 2020 of which approximately 3,500 were located in India and approximately 500 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, more than 76% were engaged in supporting our loan servicing operations as of June 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 these challenges and uncertainties have been amplified by the Coronavirus Disease 2019 (COVID-19) pandemic. See Note 20 — Commitments relating to our advance obligations in the COVID-19 environment. 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 continue to re-engineer our cost structure 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 have engaged bankers to assist us in exploring all strategic options to leverage our proven operating capability in this environment as we seek 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 six months ended June 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.

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 six months ended June 30, 2019 and the unaudited consolidated statement of cash flows for the six months ended June 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 June 30, 2019	
Reclassification within the Statement of Operations		**Three Months**	**Six Months**
Revenue			
From	Gain on loans held for sale, net	$ 6,757	$ 15,370
From	Other revenue, net	14,514	38,777
From	Servicing and subservicing fees	(778)	(1,531)
To	Reverse mortgage revenue, net (New line item)	20,493	52,616
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 at December 31, 2019, 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 reclassified Amortization of debt issuance costs of $1.5 million from Other, net to a new separate line item.
- Within the Cash flows from operating activities section, we reclassified Gain on loans held for sale, net of $2.6 million related to reverse mortgages to Other, net.
- Within the Cash flows from investing activities section, we reclassified Proceeds from sale of real estate of $3.2 million from Other, net to a new separate line.

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.

Note 2 - Cost Re-Engineering Plan

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 some of these cost re-engineering initiatives 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 recorded a $1.0 million employee severance cost liability.

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 June 30, 2020 is $3.3 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 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 11 – Borrowings.

We have determined that the SPEs created in connection with our match funded advance financing facilities are VIEs for which we are the primary beneficiary.

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Proceeds received from securitizations	$ 1,071,252	$ 195,973	$ 1,891,253	$ 438,933
Servicing fees collected (1)	10,391	12,826	22,643	28,744
Purchases of previously transferred assets, net of claims reimbursed	(1,669)	(143)	(4,277)	(1,047)
	$ 1,079,974	$ 208,656	$ 1,909,619	$ 466,630

(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 $9.1 million and $15.7 million, and $0.8 million and $1.6 million, during the three and six months ended June 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:

	June 30, 2020	December 31, 2019
Carrying value of assets		
MSRs, at fair value	$ 104,967	$ 109,581
Advances	167,262	141,829
UPB of loans transferred	17,531,932	14,490,984
Maximum exposure to loss	$ 17,804,161	$ 14,742,394

At June 30, 2020 and December 31, 2019, 9.3% 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 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:

	June 30, 2020	December 31, 2019
MSRs pledged (MSRs, at fair value)	$ 192,904	$ 245,533
Unamortized debt issuance costs (Other assets)	2,270	946
Debt service account (Restricted cash)	101	100
Outstanding borrowings (Other secured borrowings, net)	105,070	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:

	June 30, 2020	December 31, 2019
MSRs pledged (MSRs, at fair value)	$ 135,672	$ 146,215
Debt service account (Restricted cash)	2,529	3,002
Outstanding borrowings (Other secured borrowings, net)	80,138	94,395
Unamortized debt issuance costs (Other secured borrowings, net)	(1,080)	(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.

	June 30, 2020	December 31, 2019
Loans held for investment, at fair value - Restricted for securitization investors	$ 11,664	$ 23,342
Financing liability - Owed to securitization investors, at fair value	11,664	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.

Upon consolidation of the securitization trusts, we elected to apply the measurement alternative to ASC Topic 820, *Fair Value Measurement* for collateralized financing entities. The measurement alternative requires a reporting entity to use the more observable of the fair value of the financial assets or the financial liabilities to measure both the financial assets and the financial liabilities of the entity. We determined that the fair value of the loans held by the trusts is more observable than the fair value of the debt certificates issued by the trusts. Through the application of the measurement alternative, the fair value of the financial liabilities of the trusts are measured as the difference between the fair value of the financial assets and the fair value of our investment in the residual securities of the trusts.

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.

In June 2020, we sold beneficial interests consisting of residual securities with a fair value of $1.2 million that we held in one of two consolidated securitization trusts. Effective with the sale, Ocwen deconsolidated the trust as it is no longer the primary beneficiary and recognized a gain of $26 thousand.

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:

		June 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) (f)	3, 2	$ 253,037	$ 253,037	$ 208,752	$ 208,752
Loans held for sale, at lower of cost or fair value (b)	3	25,480	25,480	66,517	66,517
Total Loans held for sale		$ 278,517	$ 278,517	$ 275,269	$ 275,269
Loans held for investment					
Loans held for investment - Reverse mortgages (a)	3	$ 6,718,992	$ 6,718,992	$ 6,269,596	$ 6,269,596
Loans held for investment - Restricted for securitization investors (a)	3	11,664	11,664	23,342	23,342
Total loans held for investment		$ 6,730,656	$ 6,730,656	$ 6,292,938	$ 6,292,938
Advances, net (c)	3	$ 901,009	$ 901,009	$ 1,056,523	$ 1,056,523
Receivables, net (c)	3	247,616	247,616	201,220	201,220
Mortgage-backed securities (a)	3	1,726	1,726	2,075	2,075
Corporate bonds (a)	2	211	211	441	441
Financial liabilities:					
Advance match funded liabilities (c)	3	$ 612,650	$ 617,950	$ 679,109	$ 679,507
Financing liabilities:					
HMBS-related borrowings (a)	3	$ 6,477,616	$ 6,477,616	$ 6,063,435	$ 6,063,435
Financing liability - MSRs pledged (Rights to MSRs) (a) (e)	3	582,558	582,558	950,593	950,593
Financing liability - Owed to securitization investors (a)	3	11,664	11,664	22,002	22,002
Total Financing liabilities		$ 7,071,838	$ 7,071,838	$ 7,036,030	$ 7,036,030
Other secured borrowings:					
Senior secured term loan (c) (d)	2	$ 187,986	$ 172,121	$ 322,758	$ 324,643
Other (c)	3	659,345	629,305	703,033	686,146
Total Other secured borrowings		$ 847,331	$ 801,426	$ 1,025,791	$ 1,010,789
Senior notes:					
Senior unsecured notes (c) (d)	2	$ 21,205	$ 12,765	$ 21,046	$ 13,821
Senior secured notes (c) (d)	2	290,279	222,276	290,039	256,201

Total Senior notes		$ 311,484	$ 235,041	$ 311,085	$ 270,022
Derivative financial instrument assets (liabilities)					
Interest rate lock commitments (a) (g)	3, 2	$ 17,818	$ 17,818	$ 4,878	$ 4,878
Forward trades - Loans held for sale (a)	1	(1,017)	(1,017)	(92)	(92)
TBA / Forward mortgage-backed securities (MBS) trades and futures - MSR hedging (a)	1	5,019	5,019	1,121	1,121
MSRs (a) (e)	3	$ 1,044,914	$ 1,044,914	$ 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 11 – Borrowings for additional information**.**
(e) A rollforward of the beginning and ending balances of MSRs and Financing liability - MSRs pledged that we measure at fair value on a recurring basis is provided in Note 7 – Mortgage Servicing and Note 8 — Rights to MSRs, respectively.
(f) Loans repurchased from Ginnie Mae securitizations with a fair value of $26.0 million at June 30, 2020 are classified as Level 3. The remaining balance of loans held for sale at fair value at June 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.
(g) Level 3 at June 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:

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Loans Held for Inv. - Restricted for Securitization Investors	Financing Liability - Owed to Securit - ization Investors	Loans Held for Sale - Fair Value	Mortgage-Backed Securities	IRLCs
Three months ended June 30, 2020							
Beginning balance	$ 6,568,821	$ (6,323,091)	$ 22,561	$ (21,365)	$ 25,582	$ 1,670	$ 10,478
Purchases, issuances, sales and settlements							
Purchases	—	—	—	—	58,510	—	—
Issuances	273,142	(278,391)	—	—	—	—	69,504
Deconsolidation of mortgage-backed securitization trusts	—	—	(10,715)	9,519	—	—	—
Sales	—	—	—	—	(58,550)	—	—
Settlements	(195,019)	192,804	(182)	326	(426)	—	(62,323)
Transfers (to) from:							
Loans held for sale, at fair value	(541)	—	—	—	—	—	—
Other assets	(100)	—	—	—	—	—	—
Receivables, net	(157)	—	—	—	(270)	—	—
	77,325	(85,587)	(10,897)	9,845	(736)	—	7,181
Total realized and unrealized gains (losses)							
Included in earnings:							
Change in fair value	72,846	(68,938)	—	(144)	1,104	56	159
Calls and other	—	—	—	—	—	—	—
Included in Other comprehensive income	—	—	—	—	—	—	—
	72,846	(68,938)	—	(144)	1,104	56	159
Transfers in and / or out of Level 3	—	—	—	—	—	—	—
Ending balance	$ 6,718,992	$ (6,477,616)	$ 11,664	$ (11,664)	$ 25,950	$ 1,726	$ 17,818

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Loans Held for Inv. - Restricted for Securitiza-tion Investors	Financing Liability - Owed to Securit - ization Investors	Mortgage-Backed Securities	Derivatives - Interest Rate Caps
Three months ended June 30, 2019						
Beginning balance	$ 5,726,917	$ (5,614,688)	$ 26,237	$ (24,562)	$ 1,786	$ 276
Purchases, issuances, sales and settlements						
Purchases	—	—	—	—	—	—
Issuances	217,757	(214,543)	—	—	—	—
Sales	—	—	—	—	—	—
Settlements	(127,884)	125,626	(913)	865	—	—
Transfers (to) from:						
Loans held for sale, at fair value	(488)	—	—	—	—	—
Other assets	(36)	—	—	—	—	—
Receivables, net	(45)	—	—	—	—	—
	89,304	(88,917)	(913)	865	—	—
Total realized and unrealized gains (losses)						
Included in earnings:						
Change in fair value	56,186	(41,778)	—	—	228	(229)
Calls and other	—	—	—	—	—	—
Included in Other comprehensive income	—	—	—	—	—	—
	56,186	(41,778)	—	—	228	(229)
Transfers in and / or out of Level 3	—	—	—	—	—	—
Ending balance	$ 5,872,407	$ (5,745,383)	$ 25,324	$ (23,697)	$ 2,014	$ 47

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Loans Held for Inv. - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Loans Held for Sale - Fair Value	Mortgage-backed Securities	IRLCs
Six Months Ended June 30, 2020							
Beginning balance	$ 6,269,596	$ (6,063,434)	$ 23,342	$ (22,002)	$ —	$ 2,075	$ —
Cumulative effect of fair value election	47,038	—	—	—	—	—	—
Purchases, issuances, sales and settlements							
Purchases	—	—	—	—	58,510	—	—
Issuances	568,074	(590,640)	—	—	—	—	69,504
Deconsolidation of mortgage-backed securitization trusts	—	—	(10,715)	9,519		—	—
Sales	—	—	—	—	(58,550)	—	—
Settlements	(370,114)	365,233	(963)	963	(426)	—	(62,323)
Transfers (to) from:							
Loans held for sale, at fair value	(1,119)	—	—	—	—	—	—
Other assets	(365)	—	—	—	—	—	—
Receivables, net	(286)	—	—	—	(270)	—	—
	243,228	(225,407)	(11,678)	10,482	(736)	—	7,181
Total realized and unrealized gains (losses) included in earnings							
Included in earnings:							
Change in fair value	206,168	(188,775)	—	(144)	1,104	(349)	159
Calls and other	—	—	—	—	—	—	—
	206,168	(188,775)	—	(144)	1,104	(349)	159
Transfers in and / or out of Level 3	—	—	—	—	25,582	—	10,478
Ending balance	$ 6,718,992	$ (6,477,616)	$ 11,664	$ (11,664)	$ 25,950	$ 1,726	$ 17,818

	Loans Held for Investment - Reverse Mortgages		HMBS-Related Borrowings		Loans Held for Inv. - Restricted for Securitization Investors		Financing Liability - Owed to Securitization Investors		Mortgage-backed Securities		Derivatives
<u>Six Months Ended June 30, 2019</u>											
Beginning balance	$	5,472,199	$	(5,380,448)	$	26,520	$	(24,815)	$	1,502	$	678
Purchases, issuances, sales and settlements												
Purchases		—		—		—		—		—		—
Issuances		427,021		(425,106)		—		—		—		—
Sales		—		—		—		—		—		—
Settlements		(232,514)		228,015		(1,196)		1,118		—		—
Transfers (to) from:												
Loans held for sale, at fair value		(884)		—		—		—		—		—
Other assets		(155)		—		—		—		—		—
Receivables, net		(113)		—		—		—		—		—
		193,355		(197,091)		(1,196)		1,118		—		—
Total realized and unrealized gains (losses) included in earnings												
Included in earnings:												
Change in fair value		206,853		(167,844)		—		—		512		(631)
Calls and other		—		—		—		—		—		—
		206,853		(167,844)		—		—		512		(631)
Transfers in and / or out of Level 3		—		—						—		—
Ending balance	$	5,872,407	$	(5,745,383)	$	25,324	$	(23,697)	$	2,014	$	47

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 March 31, 2020 and June 30, 2020, as a result of the volatility of capital markets due to the COVID-19 pandemic, loans with a fair value of $26.0 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	**June 30, 2020**	**December 31, 2019**
Life in years		
Range	0.6 to 8.4	2.4 to 7.8
Weighted average	6.5	6.0
Conditional repayment rate		
Range	8.2% to 29.3%	7.8% to 28.3%
Weighted average	13.3%	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.

	June 30, 2020		December 31, 2019	
Significant valuation assumptions	**Agency**	**Non-Agency**	**Agency**	**Non-Agency**
Weighted average prepayment speed	15.7%	11.8%	11.7%	12.2%
Weighted average delinquency rate	5.1%	28.1%	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)	$ 100	$ 273	$ 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 June 30, 2020 given hypothetical shifts in lifetime prepayments and yield assumptions:

Adverse change in fair value	10%	20%
Weighted average prepayment speeds	$ (86,826)	$ (165,611)
Weighted average discount rate	(33,066)	(64,206)

The sensitivity analysis measures the potential impact on fair values based on hypothetical changes, which in the case of our portfolio at June 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	**June 30, 2020**	**December 31, 2019**
Life in years		
Range	0.6 to 8.4	2.4 to 7.8
Weighted average	6.5	6.0
Conditional repayment rate		
Range	8.2% to 29.3%	7.8% to 28.3%
Weighted average	13.3%	14.6%
Discount rate	1.7%	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	June 30, 2020	December 31, 2019
Weighted average prepayment speed	11.9%	11.9%
Weighted average delinquency rate	29.7%	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	11.5%	10.7%
Weighted average cost to service (in dollars)	$ 288	$ 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 June 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

	Six Months Ended June 30,	
Loans Held for Sale - Fair Value	**2020**	**2019**
Beginning balance	$ 208,752	$ 176,525
Originations and purchases (1)	1,949,022	370,207
Proceeds from sales	(1,872,776)	(405,999)
Principal collections	(15,758)	(11,046)
Transfers from (to):		
Loans held for investment, at fair value	1,119	884
Loans held for sale - Lower of cost or fair value	—	(2,866)
Receivables, net	(48,226)	(746)
REO (Other assets)	(841)	(866)
Gain on sale of loans	28,253	18,148
Decrease in fair value of loans	(2,295)	(292)

Other	5,787	(8,258)
Ending balance (1) (2) (3)	$ 253,037	$ 135,691

(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 June 30, 2020 and 2019, the balances include $(10.1) million and $(7.5) million, respectively, of fair value adjustments.
(3) At June 30, 2020 and 2019, the balances include $26.0 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.

	Six Months Ended June 30,	
Loans Held for Sale - Lower of Cost or Fair Value	**2020**	**2019**
Beginning balance	$ 66,517	$ 66,097
Purchases	—	131,489
Proceeds from sales	(46,865)	(92,478)
Principal collections	(805)	(4,183)
Transfers from (to):		
Receivables, net	61	(53,657)
REO (Other assets)	—	(2,287)
Loans held for sale - Fair value	—	2,866
Gain on sale of loans	1,615	1,815
Decrease in valuation allowance	243	1,512
Other	4,714	9,206
Ending balance (1)	$ 25,480	$ 60,380

(1) At June 30, 2020 and 2019, the balances include $15.4 million and $34.9 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 June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Beginning balance	$ 6,781	$ 10,863	$ 6,643	$ 11,569
Provision	559	394	1,129	1,036
Transfer from Liability for indemnification obligations (Other liabilities)	50	7	75	74
Sales of loans	(990)	(1,207)	(1,447)	(2,622)
Ending balance	$ 6,400	$ 10,057	$ 6,400	$ 10,057

Gain on Loans Held for Sale, Net	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Gain on sales of loans, net				
MSRs retained on transfers of forward mortgage loans	$ 9,128	$ 816	$ 15,689	$ 1,644
Gain on sale of repurchased Ginnie Mae loans	4,531	1,252	6,373	1,790
Gain on sale of forward mortgage loans	16,886	6,762	23,304	17,206
	30,545	8,830	45,366	20,640
Change in fair value of IRLCs	6,334	45	12,048	(296)
Change in fair value of loans held for sale	147	468	306	326
Loss on economic hedge instruments	(3,128)	(968)	(10,320)	(3,238)
Other	(351)	(57)	(522)	(132)
	$ 33,547	$ 8,318	$ 46,878	$ 17,300

Note 6 – Advances

	June 30, 2020	December 31, 2019
Principal and interest	$ 336,783	$ 414,846
Taxes and insurance	356,092	422,383
Foreclosures, bankruptcy, REO and other	215,954	229,219
	908,829	1,066,448
Allowance for losses	(7,820)	(9,925)
Advances, net	$ 901,009	$ 1,056,523

The following table summarizes the activity in net advances:

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Beginning balance	$ 1,056,523	$ 1,186,676
Asset acquisitions	—	688
New advances	469,028	254,000
Sales of advances	(454)	(707)
Collections of advances and other	(626,193)	(331,764)
Net decrease (increase) in allowance for losses (1)	2,105	(4,394)
Ending balance	$ 901,009	$ 1,104,499

(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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Beginning balance	$ 7,373	$ 23,135	$ 9,925	$ 23,259
Provision	4,532	2,041	3,771	3,803
Net charge-offs and other	(4,085)	2,477	(5,876)	591
Ending balance (1)	$ 7,820	$ 27,653	$ 7,820	$ 27,653

(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 7 – 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 June 30,					
	2020			2019		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	$ 294,227	$ 756,001	$ 1,050,228	$ 825,692	$ 574,499	$ 1,400,191
Sales and other transfers	—	(51)	(51)	406	(409)	(3)
Additions:						
Recognized on the sale of residential mortgage loans	9,128	—	9,128	1,188	—	1,188
Purchase of MSRs	15,255	—	15,255	59,892	87	59,979
Servicing transfers and adjustments (1)	11	1,296	1,307	—	(1,454)	(1,454)
Changes in fair value (2):						
Changes in valuation inputs or other assumptions	3,711	(3,462)	249	(107,559)	12,739	(94,820)
Realization of expected future cash flows and other changes	(17,247)	(13,955)	(31,202)	(33,884)	(18,564)	(52,448)
Ending balance	$ 305,085	$ 739,829	$ 1,044,914	$ 745,735	$ 566,898	$ 1,312,633

MSRs – Fair Value Measurement Method	Six months ended June 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	—	(107)	(107)	(29)	(541)	(570)
Additions:						
Recognized on the sale of residential mortgage loans	15,689	—	15,689	2,698	—	2,698
Purchase of MSRs	46,745	—	46,745	114,302	87	114,389
Servicing transfers and adjustments (1)	(263,846)	403	(263,443)	—	(4,767)	(4,767)
Changes in fair value (2):						
Changes in valuation inputs or other assumptions	(163,425)	6,930	(156,495)	(171,676)	12,583	(159,093)
Realization of expected future cash flows and other changes	(44,084)	(39,786)	(83,870)	(65,147)	(32,026)	(97,173)
Ending balance	$ 305,085	$ 739,829	$ 1,044,914	$ 745,735	$ 566,898	$ 1,312,633

(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 8 — 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.

Portfolio of Assets Serviced

The following table presents the composition of our primary servicing and subservicing portfolios as measured by UPB. The UPB amounts in the table below are not included on our unaudited consolidated balance sheets, with the exception of the Reverse mortgage loans.

	UPB at		
	June 30, 2020	December 31, 2019	June 30, 2019
Servicing	$ 70,463,896	$ 70,428,208	$ 74,320,255
Reverse mortgage loan servicing (1)	6,521,219	6,229,724	5,820,873
Subservicing	20,007,180	17,120,905	27,432,019
NRZ (2) (3)	109,020,760	118,587,594	121,709,898
	$ 206,013,055	$ 212,366,431	$ 229,283,045

(1) Reverse mortgage loans are reported on our unaudited consolidated balance sheets at fair value and are classified as loans held for investment. No separate MSRs are recognized in our unaudited consolidated balance sheets.
(2) UPB of loans for which the Rights to MSRs have been sold to NRZ, including $54.0 billion for which third-party consents have been received and the MSRs have been transferred to NRZ (the MSRs remain on balance sheet as the transactions do not achieve sale accounting treatment).
(3) Includes $37.1 billion of servicing UPB at June 30, 2020 pursuant to the subservicing agreement between NRZ and PMC for which we received a notice of termination from NRZ on February 20, 2020. While the MSRs and the Rights to MSRs associated with these loans are derecognized from our consolidated balance sheet, we continue to service these loans until deboarding. See Note 8 — Rights to MSRs.

We acquired MSRs with a UPB of $5.7 billion and $10.8 billion during the six months ended June 30, 2020 and 2019, respectively. We sold MSRs with a UPB of $41.7 million and $100.1 million during the six months ended June 30, 2020 and 2019, respectively.

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 June 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. As a result of our current servicer ratings, termination rights have been triggered in some non-Agency servicing agreements. To date, terminations as servicer as a result of a breach of any of these provisions have been minimal.

Servicing Revenue	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Loan servicing and subservicing fees				
Servicing	$ 52,336	$ 55,387	$ 107,745	$ 108,569
Subservicing	10,630	4,203	15,820	10,410
NRZ	88,405	141,091	208,073	296,938
	151,371	200,681	331,638	415,917
Late charges	12,672	13,242	27,311	28,682
Custodial accounts (float earnings)	1,590	13,341	7,731	25,275
Loan collection fees	2,744	3,401	7,000	7,750
Home Affordable Modification Program (HAMP) fees (1)	20	1,565	428	3,342
Other, net	6,843	7,730	12,615	15,610
	$ 175,240	$ 239,960	$ 386,723	$ 496,576

(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 $1.9 billion, $1.7 billion and $2.0 billion at June 30, 2020, December 31, 2019 and June 30, 2019, respectively.

Note 8 — Rights to MSRs

Ocwen and PMC have 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	**June 30, 2020**	**December 31, 2019**
MSRs, at fair value (1)	$ 582,558	$ 915,148
Due from NRZ (Receivables)		
Sales and transfers of MSRs (2)	$ —	$ 24,167
Subservicing fees and reimbursable expenses	1,160	9,197
	$ 1,160	$ 33,364
Due to NRZ (Other liabilities)	$ 106,295	$ 63,596
Financing liability - MSRs pledged, at fair value		
Original Rights to MSRs Agreements	$ 582,558	$ 603,046
2017 Agreements and New RMSR Agreements (3)	—	35,445
PMC MSR Agreements (1)	—	312,102
	$ 582,558	$ 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 are derecognized from our balance sheet at June 30, 2020, we continue to service these loans until deboarding, and account 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 June 30,		**Six Months Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Statements of Operations				
Servicing fees collected on behalf of NRZ (1)	$ 88,405	$ 141,091	$ 208,073	$ 296,938
Less: Subservicing fee retained by Ocwen (1)	25,523	35,905	54,855	73,312
Net servicing fees remitted to NRZ	62,882	105,186	153,218	223,626
Less: Reduction (increase) in financing liability				
Changes in fair value:				
Original Rights to MSRs Agreements	1,019	(1,671)	(8,101)	(1,550)
2017 Agreements and New RMSR Agreements	—	4,634	(903)	(2,346)
PMC MSR Agreements (1)	—	47,782	40,720	80,878
	1,019	50,745	31,716	76,982
Runoff and settlement:				
Original Rights to MSRs Agreements	8,128	11,412	25,921	20,447
2017 Agreements and New RMSR Agreements	9,979	26,062	35,121	49,382
PMC MSR Agreements (1)	—	15,814	7,492	33,588
	18,107	53,288	68,534	103,417
Other	2,070	(1,777)	4,688	(3,659)
Pledged MSR liability expense	$ 41,686	$ 2,930	$ 48,280	$ 46,886

(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 June 30, 2020			
Financing Liability - MSRs Pledged	**Original Rights to MSRs Agreements**	**2017 Agreements and New RMSR Agreements**	**PMC MSR Agreements**	**Total**
Beginning Balance	$ 591,705	$ 9,979	$ —	$ 601,684
Changes in fair value:				
Original Rights to MSRs Agreements	(1,019)	—	—	(1,019)
2017 Agreements and New RMSR Agreements	—	—	—	—
PMC MSR Agreements	—	—	—	—
Runoff and settlement:				
Original Rights to MSRs Agreements	(8,128)	—	—	(8,128)
2017 Agreements and New RMSR Agreements	—	(9,979)	—	(9,979)
PMC MSR Agreements	—	—	—	—
Balance at June 30, 2020	$ 582,558	$ —	$ —	$ 582,558

	Three Months Ended June 30, 2019			
Financing Liability - MSRs Pledged	**Original Rights to MSRs Agreements**	**2017 Agreements and New RMSR Agreements**	**PMC MSR Agreements**	**Total**
Beginning Balance	$ 424,086	$ 119,932	$ 407,198	$ 951,216
Additions	—	—	299	299
Changes in fair value:				
Original Rights to MSRs Agreements	1,671	—	—	1,671
2017 Agreements and New RMSR Agreements	—	(4,634)	—	(4,634)
PMC MSR Agreements	—	—	(47,782)	(47,782)
Runoff and settlement:				
Original Rights to MSRs Agreements	(11,412)	—	—	(11,412)
2017 Agreements and New RMSR Agreements	—	(26,062)	—	(26,062)
PMC MSR Agreements	—	—	(15,814)	(15,814)
Calls (1):				
Original Rights to MSRs Agreements	(1,436)	—	—	(1,436)
2017 Agreements and New RMSR Agreements	—	(1,133)	—	(1,133)
Balance at June 30, 2019	$ 412,909	$ 88,103	$ 343,901	$ 844,913

Financing Liability - MSRs Pledged	Six Months Ended June 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
Sales	—	—	(226)	(226)
Changes in fair value:				
Original Rights to MSRs Agreements	8,101	—	—	8,101
2017 Agreements and New RMSR Agreements	—	903	—	903
PMC MSR Agreements	—	—	(40,720)	(40,720)
Runoff and settlement:				
Original Rights to MSRs Agreements	(25,921)	—	—	(25,921)
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 June 30, 2020	$ 582,558	$ —	$ —	$ 582,558

Financing Liability - MSRs Pledged	Six Months Ended June 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	—	—	876	876
Changes in fair value:				
Original Rights to MSRs Agreements	1,550	—	—	1,550
2017 Agreements and New RMSR Agreements	—	2,346	—	2,346
PHH MSR Agreements	—	—	(80,878)	(80,878)
Runoff and settlement:				
Original Rights to MSRs Agreements	(20,447)	—	—	(20,447)
2017 Agreements and New RMSR Agreements	—	(49,382)	—	(49,382)
PHH MSR Agreements	—	—	(33,588)	(33,588)
Calls (1):				
Original Rights to MSRs Agreements	(4,705)	—	—	(4,705)
2017 Agreements and New RMSR Agreements	—	(3,715)	—	(3,715)
Balance at June 30, 2019	$ 412,909	$ 88,103	$ 343,901	$ 844,913

(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 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 June 30, 2020, the UPB of MSRs subject to the Servicing Agreements and the New RMSR Agreements is $71.4 billion, including $17.4 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 $17.4 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 $17.4 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, or 285,237 loans at June 30, 2020. In connection with the termination, we are entitled to loan deboarding fees from NRZ. Loan deboarding is under discussion with NRZ and is currently planned for September and October 2020, though is subject to various requirements that may delay the process. This termination is for convenience and not for cause. As the sale accounting criteria were met upon the notice of termination, the MSRs and the Rights to MSRs associated with the $37.1 billion loan UPB were derecognized from our balance sheet on February 20, 2020 without any gain or loss on derecognition. We continue to service these loans until deboarding, and account for them as a subservicing relationship. Accordingly, we recognize subservicing fees associated with the subservicing agreement subsequent to February 20, 2020 and do not report any servicing fees collected on behalf of, and remitted to NRZ, any change in fair value, runoff and settlement in financing liability thereafter.

Note 9 – Receivables

	June 30, 2020	December 31, 2019
Servicing-related receivables:		
Government-insured loan claims	$ 123,781	$ 122,557
Sales and transfers of MSRs - Due from NRZ	—	24,167
Subservicing fees and reimbursable expenses - Due from NRZ	1,160	9,197
Reimbursable expenses	6,925	13,052
Due from custodial accounts	18,511	27,175
Other	2,475	4,970
	152,852	201,118
Income taxes receivable (1)	110,142	37,888
Other receivables	39,004	20,086
	301,998	259,092
Allowance for losses	(54,382)	(57,872)
	$ 247,616	$ 201,220

(1) See Note 16 – Income Taxes

At June 30, 2020 and December 31, 2019, the allowance for losses related to receivables of our Servicing business. The allowance for losses related to defaulted FHA- or VA-insured loans repurchased from Ginnie Mae guaranteed securitizations and not subsequently sold to third-party investors (government-insured loan claims) was $53.3 million and $56.9 million at June 30, 2020 and December 31, 2019, respectively. The government-insured loan claims are guaranteed by the U.S. government.

	Three Months Ended June 30,		Six Months Ended June 30,	
Allowance for Losses - Government-Insured Loan Claims	**2020**	**2019**	**2020**	**2019**
Beginning balance (1)	$ 58,103	$ 51,280	$ 56,868	$ 52,497
Provision	2,122	4,561	7,194	11,806
Charge-offs and other, net	(6,915)	(5,330)	(10,752)	(13,792)
Ending balance	$ 53,310	$ 50,511	$ 53,310	$ 50,511

(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 10 – Other Assets

	June 30, 2020	December 31, 2019
Contingent loan repurchase asset	$ 614,447	$ 492,900
Derivatives, at fair value	22,852	6,007
Prepaid expenses	17,692	21,996
Prepaid representation, warranty and indemnification claims - Agency MSR sale	15,173	15,173
Prepaid lender fees, net	13,214	8,647
REO	7,469	8,556
Security deposits	2,141	2,163
Deferred tax asset, net	1,742	2,169
Mortgage backed securities, at fair value	1,726	2,075
Interest-earning time deposits	369	390
Other	3,657	3,164
	$ 700,482	$ 563,240

Advance Match Funded Liabilities

				June 30, 2020		December 31, 2019	
Borrowing Type	Maturity (1)	Amortization Date (1)	Available Borrowing Capacity (2)	Weighted Average Interest Rate	Balance	Weighted Average Interest Rate (3)	Balance
Advance Financing Facilities:							
Advance Receivables Backed Notes - Series 2015-VF5 (3)	Jun. 2051	Jun. 2021	$ 370,802	4.61%	$ 129,198	3.36%	$ 190,555
Advance Receivables Backed Notes, Series 2019-T1 (4)	Aug. 2050	Aug. 2020	—	2.62	185,000	2.62	185,000
Advance Receivables Backed Notes, Series 2019-T2 (4)	Aug. 2051	Aug. 2021	—	2.53	285,000	2.53	285,000
Total Ocwen Master Advance Receivables Trust (OMART)			370,802	3.01	599,198	2.79	660,555
Ocwen Freddie Advance Funding (OFAF) - Advance Receivables Backed Notes, Series 2015-VF1 (5)	Jun. 2051	Jun. 2021	56,548	3.60	13,452	3.53	18,554
			$ 427,350	3.02%	$ 612,650	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 June 30, 2020, none of the available borrowing capacity of our advance financing notes 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.

(4) On August 14, 2019, we issued two fixed-rate term notes of $185.0 million (Series 2019 T-1) and $285.0 million (Series 2019-T2) with amortization dates of August 17, 2020 and August 16, 2021, respectively, for a total combined borrowing capacity of $470.0 million. The weighted average rate of the notes is 2.57% with rates on the individual classes of notes ranging from 2.42% to 4.44%.

(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.

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. As of June 30, 2020, we were the servicer of Rights to MSRs sold to NRZ pertaining to $17.4 billion in UPB, which excludes those Rights to MSRs where legal title has transferred to NRZ. NRZ's associated outstanding servicing advances were approximately $637.1 million and $704.2 million as of June 30, 2020 and December 31, 2019, respectively. We are dependent upon NRZ for funding the servicing advance obligations for Rights to MSRs where we are the servicer. As the servicer, 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. See Note 8 — Rights to MSRs for additional information.

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.

Financing Liabilities				Outstanding Balance	
Borrowing Type	**Collateral**	**Interest Rate**	**Maturity**	**June 30, 2020**	**December 31, 2019**
HMBS-Related Borrowings, at fair value (1)	Loans held for investment	1ML + 260 bps	(1)	$ 6,477,616	$ 6,063,435
Other Financing Liabilities					
MSRs pledged (Rights to MSRs), at fair value:					
Original Rights to MSRs Agreements	MSRs	(2)	(2)	582,558	603,046
2017 Agreements and New RMSR Agreements	MSRs	(3)	(3)	—	35,445
PMC MSR Agreements	MSRs	(4)	(4)	—	312,102
				582,558	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)	11,664	12,208
				11,664	22,002
Total Other Financing Liabilities				594,222	972,595
				$ 7,071,838	$ 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. Under this accounting treatment, the HECM loans securitized with Ginnie Mae remain on our consolidated balance sheet and the proceeds from the sale are recognized as a secured liability. The beneficial interests have no maturity dates, and the borrowings mature as the related loans are repaid. We elected to record the HMBS-related borrowings at fair value consistent with the related HECM loans. Changes in fair value are reported within Reverse mortgage revenue, net.

(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. Under this accounting treatment, the MSRs transferred to NRZ remain on the consolidated balance sheet and the proceeds from the sale are recognized as a secured liability. This financing liability has no contractual maturity or repayment schedule. We elected to record the liability at fair value consistent with the related MSRs. The balance of the liability is adjusted each reporting period to its fair value based on the present value of the estimated future cash flows underlying the related MSRs. Changes in fair value are reported within Pledged MSR liability expense, and are offset by corresponding changes in fair value of the MSR pledged to NRZ within MSR valuation adjustments, net.

(3) This financing liability arose in connection with lump sum payments of $54.6 million received upon transfer of legal title of the MSRs related to the Rights to MSRs transactions to NRZ in September 2017. In connection with the execution of the New RMSR Agreements in January 2018, we received a lump sum payment of $279.6 million as compensation for foregoing certain payments under the Original Rights to MSRs Agreements. We recognized the cash received as a financing liability that we are accounting for at fair value through the remaining term of the original agreements (April 2020). The balance of the liability was adjusted each reporting period to its fair value based on the present value of the estimated future cash flows, with changes in fair value recognized in Pledged MSR liability expense in the unaudited consolidated statements of operations.

(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. Under this accounting treatment, the MSRs transferred to NRZ remained on the consolidated balance sheet and the proceeds from the sale were recognized as a secured liability. We elected to record the liability at fair value consistent with the related MSRs. As disclosed in Note 8 — 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. The holders of these certificates have no recourse against the assets of Ocwen. 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 (2)	Outstanding Balance June 30, 2020	Outstanding Balance December 31, 2019
SSTL (3)	(3)	1-Month Euro-dollar rate + 600 bps with a Eurodollar floor of 100 bps (3)	May 2022	$ —	$ 195,000	$ 326,066
Mortgage loan warehouse facilities						
Master repurchase agreement (4)	Loans held for sale (LHFS)	1ML + 220 - 375 bps	Jun. 2021	18,933	91,067	91,573
Mortgage warehouse agreement (5)	LHFS (reverse)	Greater of 1ML + 250 bps or 3.50%; Libor Floor 0%	Aug. 2020	—	—	72,443
Master repurchase agreement (6)	LHFS (forward and reverse)	1ML + 225 bps forward; 1ML + 275 bps reverse	Dec. 2020	83,249	116,751	139,227
Master repurchase agreement (7)	LHFS (reverse)	Prime + 0.0%; 4.0% floor	Jan. 2020	—	—	898
Master repurchase agreement (8)	N/A	1ML + 170 bps; Libor Floor 35 bps	N/A	—	—	—
Participation agreement (9)	LHFS	(9)	June 2021	—	—	17,304
Master repurchase agreement (9)	LHFS	(9)	June 2021	57,458	32,542	—
Mortgage warehouse agreement (10)	LHFS	1ML + 350 bps; Libor Floor 175 bps	Dec. 2020	42,086	7,914	10,780
Mortgage warehouse agreement (11)	LHFS (reverse)	1ML + 250 bps; 3.50% floor	Aug. 2020	—	77,070	—
				201,726	325,344	332,225
Agency MSR financing facility (12)	MSRs, Advances	1ML + 450 bps	Jun. 2021	144,930	105,070	147,706
Ginnie Mae MSR financing facility (13)	MSRs, Advances	1ML + 395 bps	Dec. 2020	—	97,060	72,320
Ocwen Excess Spread-Collateralized Notes, Series 2019-PLS1 (14)	MSRs	5.07%	Nov. 2024	—	80,138	94,395
Secured Notes, Ocwen Asset Servicing Income Series, Series 2014-1 (15)	MSRs	(15)	Feb. 2028	—	52,813	57,594
				144,930	335,081	372,015
				$ 346,656	855,425	1,030,306
Unamortized debt issuance costs - SSTL and PLS Notes					(7,603)	(3,381)
Discount - SSTL					(491)	(1,134)
					$ 847,331	$ 1,025,791
Weighted average interest rate					4.30%	4.74%

(1) 1ML was 0.16% and 1.76% at June 30, 2020 and December 31, 2019, respectively.

(2) Available borrowing capacity for our mortgage loan warehouse facilities does not consider the amount of the facility that the lender has extended on an uncommitted basis. Of the borrowing capacity extended on a committed basis, none of the available borrowing capacity could be used at June 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) Under this participation agreement, the lender provides financing for $1.0 million on a committed basis. The participation agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing. 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.

(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. The agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing.

(7) Under this agreement, the lender provides financing for up to $50.0 million on an uncommitted basis. This facility expired on January 22, 2020 and was not renewed.

(8) This agreement was originally entered into by PHH and subsequently assumed by Ocwen in connection with its acquisition of PHH. The lender provides financing for up to $200.0 million at the discretion of the lender. The agreement has no stated maturity date.

(9) We entered into this master participation agreement on February 4, 2019, under which the lender provided $300.0 million of borrowing capacity to PMC on an uncommitted basis. On June 25, 2020, this facility was amended to be comprised of two lines, a $120.0 million participation agreement and a $90.0 million repurchase agreement. The maturity date of the facility was extended to June 24, 2021. The participation agreement is uncommitted and allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The repurchase agreement is committed and allows 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. The lender earns the stated interest rate of 1ML plus a margin of 350 bps.

(11) On March 12, 2020, PMC 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 and the lender earns the stated interest rate of 1ML plus a margin of 250 bps.

(12) Financing facility entered into by PMC that is secured by certain Fannie Mae and Freddie Mac MSRs. In connection with this facility, PMC entered into repurchase agreements pursuant to which PMC sold trust certificates representing certain indirect economic interests in the MSRs and agreed to repurchase such trust certificates at a future date at the repurchase price set forth in the repurchase agreements. 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. The lender earns the stated interest rate of 1ML plus a margin of 450 bps. 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.

(13) Financing facility entered into by PMC that is secured by certain Ginnie Mae MSRs. In connection with the facility, PMC entered into a repurchase agreement pursuant to which PMC has sold a participation certificate representing certain economic interests in the Ginnie Mae MSRs and has agreed to repurchase such participation certificate at a future date at the repurchase price set forth in the repurchase agreement. PMC's obligations under the 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 (12) above regarding daily margining requirements.

(14) PMC issued the PLS Notes secured by certain of PMC's MSRs (PLS MSRs) pursuant to a credit agreement. 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 have an initial principal amount of $100.0 million and amortize in accordance with a pre-determined schedule subject to modification under certain events. The notes have a stated coupon rate of 5.07%. See Note 3 – Securitizations and Variable Interest Entities for additional information. See (12) above regarding daily margining requirements.

(15) 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**	**June 30, 2020**	**December 31, 2019**
Senior unsecured notes:				
PHH (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			(1,230)	(1,470)
Fair value adjustments (1)			(338)	(497)
			$ 311,484	$ 311,085

(1) These notes were originally issued by PHH and subsequently assumed by Ocwen in connection with its acquisition of PHH. We recorded the notes at their respective fair values on the date of acquisition, and we are amortizing the resulting 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. The redemption prices during the twelve-month periods beginning on November 15th of each year are as follows:

Year	**Redemption Price**
2019	104.188%
2020	102.094%
2021 and thereafter	100.000%

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 June 30, 2020, the S&P issuer credit rating for Ocwen was "B-". On July 3, 2019, S&P assigned a B- issuer credit rating with Negative outlook to PMC. 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. 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 at the consolidated Ocwen level.

Certain new financial covenants were added as part of the amendment and extension of our SSTL which closed on January 27, 2020. These include i) maintain 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) maintain minimum unrestricted cash of $125.0 million as of the last day of each fiscal quarter.

As of June 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 13 – 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 June 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	$ 313,736	$ —	$ —	$ —	$ —	$ 313,736
Restricted cash	63,813	14,742	—	4,015	45,056	—
MSRs (3)	1,044,914	—	583,315	460,869	—	43
Advances, net	901,009	726,856	—	61,081	—	113,072
Loans held for sale	278,517	—	—	244,015	—	34,502
Loans held for investment	6,730,656	—	6,599,607	98,590	—	32,459
Receivables, net	247,616	—	—	42,443	—	205,173
Premises and equipment, net	29,695	—	—	—	—	29,695
Other assets	700,482	—	—	5,575	631,761	63,146
Total assets	$ 10,310,438	$ 741,598	$ 7,182,922	$ 916,588	$ 676,817	$ 791,826

(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 includes MSRs pledged to NRZ in connection with the Rights to MSRs transactions which are accounted for as secured financings and MSRs securing the financing facilities. Certain MSR cohorts with a negative fair value of $0.7 million that would be presented as Other are excluded from the eligible collateral of the facilities and are comprised of $20.0 million of negative fair value related to RMBS and $20.7 million of positive fair value related to private EBO and PLS MSRs.

Note 12 – Other Liabilities

	June 30, 2020	December 31, 2019
Contingent loan repurchase liability	$ 614,447	$ 492,900
Due to NRZ - Advance collections, servicing fees and other	106,295	63,596
Other accrued expenses	68,967	67,241
Liability for indemnification obligations	45,601	52,785
Servicing-related obligations	42,383	88,167
Lease liability	39,761	44,488
Checks held for escheat	30,178	31,959
Accrued legal fees and settlements	27,801	30,663
Liability for unfunded pension obligation	12,626	13,383
Liability for uncertain tax positions	10,786	17,197
Accrued interest payable	7,302	5,964
Liability for unfunded India gratuity plan	5,256	5,331
Derivatives, at fair value	1,033	100
Liability for mortgage insurance contingency	—	6,820
Other	21,930	21,579
	$ 1,034,366	$ 942,173

Note 13 – 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 5,662,257 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 $0.79. In addition, Ocwen paid $0.1 million in commissions. The repurchased shares were formally retired as of March 31, 2020. No additional shares were repurchased during the three months ended June 30, 2020. 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. Companies have six months from receipt of the notice to regain compliance with the NYSE's price condition. Receipt of the NYSE notification does not conflict with nor cause an event of default under any of Ocwen's debt agreements. Pursuant to the NYSE's rules, during the cure period, Ocwen's common stock will continue to be listed and trade on the NYSE. On April 21, 2020, the NYSE announced that, due to market-wide declines brought about by the extraordinary circumstances of the COVID-19 pandemic, it would toll until July 1, 2020 the running of cure periods for companies not in compliance with the minimum share price standard. As a result, the remainder of Ocwen's cure period was tolled until July 1, 2020 and Ocwen must regain compliance with the NYSE's share price standard by December 17, 2020.

At Ocwen's Annual Meeting of Shareholders held on May 27, 2020, its shareholders approved, on a non-binding advisory basis, an amendment to our Articles of Incorporation to effect a reverse split of all outstanding shares of our common stock at a ratio of any amount between, and including, one-for-five and one-for-25, and reduce the number of authorized shares of our common stock by the same proportion as the ratio of the reverse stock split. As authorized by the Board of Directors, on July 28, 2020, Ocwen determined to implement a reverse stock split in a ratio of one-for-15, which is expected to take effect in August 2020. See Note 22 – Subsequent Events and Note 17 – Basic and Diluted Earnings (Loss) per Share.

Note 14 – Derivative Financial Instruments and Hedging Activities

The following table 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 six months ended June 30, 2020 and 2019:

		Interest Rate Risk		
		MSR Hedging	IRLCs and Loans Held for Sale	Borrowings
	IRLCs	TBA / Forward MBS Trades and Futures (1)	Forward Trades	Interest Rate Caps
Notional balance at June 30, 2020 (2)	$ 507,632	$ 395,000	$ 80,000	$ —
Notional balance at December 31, 2019	232,566	1,200,000	60,000	27,083
Maturity	July 2020 - Sept. 2020	Sept. 2020	July 2020 - Aug. 2020	N/A
Fair value of derivative assets (liabilities) at:				
June 30, 2020	$ 17,818	$ 5,019	$ (1,017)	$ —
December 31, 2019	4,878	1,121	(92)	—
Gains (losses) on derivatives during the six months ended:	**Gain on loans held for sale, net**	**MSR valuation adjustments, net**	**Gain on loans held for sale, net**	**Other, net**
June 30, 2020	$ 12,048	$ 42,811	$ (10,320)	$ —
June 30, 2019	(296)	$ —	(3,238)	(335)

(1) The June 30, 2020 balance is comprised of $395.0 million notional balance and $5.0 million fair value, of interest rate swap futures (zero at December 31, 2019). The related gain on these interest rate futures for the six months ended June 30, 2020 was $5.0 million.

(2) Includes $30.2 million IRLC and $80.0 million forward trades related to reverse mortgage loans, for which we recorded a $0.7 million hedging gain in Reverse mortgage revenue, net for the six months ended June 30, 2020.

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 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.

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. We have not entered into any forward exchange contracts during the reported periods to hedge against the effect of changes in the value of the India Rupee or Philippine Peso. Foreign currency remeasurement exchange (losses) gains were $(0.1) million and $(0.9) million, and $(0.1) million and $0.1 million, during the three and six months ended June 30, 2020 and 2019, respectively, and are reported in Other, net in the unaudited consolidated statements of operations.

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 8 — 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 June 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.

Note 15 – Interest Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Other secured borrowings	$ 11,633	$ 9,245	$ 26,925	$ 17,123
Senior notes	6,658	8,502	13,319	17,014
Advance match funded liabilities	7,311	7,045	12,976	14,697
Other	1,158	3,849	3,522	6,296
	$ 26,760	$ 28,641	$ 56,742	$ 55,130

Note 16 – 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 $63.1 million and $1.9 million, respectively, and as such we recognized an income tax benefit of $65.0 million in our unaudited consolidated financial statements for the six months ended June 30, 2020.

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.

The determination of the refund potential associated with the NOL carryback provision of the CARES Act is subject to change as we continue to wait upon further guidance from the IRS and analyze additional information necessary to finalize the calculations and maximize the long-term value to Ocwen. As we await further guidance and continue to analyze our options, our determination of the impact of the CARES Act on our 2020 financial statements is preliminary at this time.

We recognized an income tax benefit, exclusive of the impact of the CARES Act related to tax years 2018 and 2019, of $5.0 million primarily due to the favorable resolution of an uncertain tax position during the six months ended June 30, 2020.

Note 17 – 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 six months ended June 30, 2020 and three and six months ended June 30, 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Basic earnings (loss) per share				
Net income (loss)	$ 1,954	$ (89,737)	$ (23,535)	$ (134,231)
Weighted average shares of common stock	129,769,092	134,465,741	132,313,964	134,193,874
Basic income (loss) per share	$ 0.02	$ (0.67)	$ (0.18)	$ (1.00)
Diluted earnings (loss) per share				
Net income (loss)	$ 1,954	$ (89,737)	$ (23,535)	$ (134,231)
Weighted average shares of common stock	129,769,092	134,465,741	132,313,964	134,193,874
Effect of dilutive elements				
Stock option awards	—	—	—	—
Common stock awards	153,251	—	—	—
Dilutive weighted average shares of common stock	129,922,343	134,465,741	132,313,964	134,193,874
Diluted earnings (loss) per share	$ 0.02	$ (0.67)	$ (0.18)	$ (1.00)
Stock options and common stock awards excluded from the computation of diluted earnings (loss) per share				
Anti-dilutive (1)	3,175,931	4,107,485	3,681,157	4,126,819
Market-based (2)	1,880,954	854,181	1,880,954	854,181

(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 13 – Equity, on July 28, 2020, Ocwen determined to implement a reverse stock split in a ratio of one-for-15, which is expected to take effect in August 2020. The above computation of earnings (loss) per share reflects the number of common stock without consideration for the reverse stock split, because it is not effective as of the date the financial statements are issued.

The below pro-forma computation of earnings (loss) per share reflects the number of common stock shares giving consideration for the one-for-15 reverse stock split assuming it was retroactively effective for each of the periods presented:

Pro-forma computation of earnings (loss) per share assuming a one-for-15 reverse stock split:	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Basic earnings (loss) per share				
Net income (loss)	$ 1,954	$ (89,737)	$ (23,535)	$ (134,231)
Weighted average shares of common stock	8,651,273	8,964,383	8,820,931	8,946,258
Basic income (loss) per share	$ 0.23	$ (10.01)	$ (2.67)	$ (15.00)
Diluted earnings (loss) per share				
Net income (loss)	$ 1,954	$ (89,737)	$ (23,535)	$ (134,231)
Weighted average shares of common stock	8,651,273	8,964,383	8,820,931	8,946,258
Effect of dilutive elements				
Stock option awards	—	—	—	—
Common stock awards	10,217	—	—	—
Dilutive weighted average shares of common stock	8,661,490	8,964,383	8,820,931	8,946,258
Diluted earnings (loss) per share	$ 0.23	$ (10.01)	$ (2.67)	$ (15.00)

Note 18 – 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 core 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 into a liquid market 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, while interest expense on the SSTL and Senior Notes is recorded in Corporate Items and Other and is not allocated.

Financial information for our segments is as follows:

	Three Months Ended June 30, 2020			
Results of Operations	**Servicing**	**Originations**	**Corporate Items and Other**	**Business Segments Consolidated**
Revenue	$ 180,436	$ 45,545	$ 1,043	$ 227,024
MSR valuation adjustments, net	(36,604)	13,170	—	(23,434)
Operating expenses (1)	82,740	28,750	33,319	144,809
Other (expense) income:				
Interest income	1,438	1,874	254	3,566
Interest expense	(12,890)	(2,399)	(11,471)	(26,760)
Pledged MSR liability expense	(41,714)	—	28	(41,686)
Other	2,459	(1)	(2,515)	(57)
Other expense, net	(50,707)	(526)	(13,704)	(64,937)
Income (loss) before income taxes	$ 10,385	$ 29,439	$ (45,980)	$ (6,156)

	Three Months Ended June 30, 2019			
Results of Operations	**Servicing**	**Originations**	**Corporate Items and Other**	**Business Segments Consolidated**
Revenue	$ 242,510	$ 28,794	$ 3,034	$ 274,338
MSR valuation adjustments, net	(147,199)	(69)	—	(147,268)
Operating expenses (1)	142,888	20,957	20,381	184,226
Other (expense) income:				
Interest income	1,872	1,546	419	3,837
Interest expense	(11,261)	(1,399)	(15,981)	(28,641)
Pledged MSR liability expense	(2,930)	—	—	(2,930)
Other	890	444	(777)	557
Other (expense) income, net	(11,429)	591	(16,339)	(27,177)
Income (loss) before income taxes	$ (59,006)	$ 8,359	$ (33,686)	$ (84,333)

	Six Months Ended June 30, 2020			
Results of Operations	**Servicing**	**Originations**	**Corporate Items and Other**	**Business Segments Consolidated**
Revenue	$ 393,991	$ 83,192	$ 3,683	$ 480,866
MSR valuation adjustments, net	(211,040)	13,486	—	(197,554)
Expenses (1)	163,213	55,708	63,102	282,023
Other (expense) income:				
Interest income	3,324	4,140	1,497	8,961
Interest expense	(26,557)	(5,260)	(24,925)	(56,742)
Pledged MSR liability expense	(48,337)	—	57	(48,280)
Other	6,121	(30)	(4,820)	1,271
Other expense, net	(65,449)	(1,150)	(28,191)	(94,790)
Income (loss) before income taxes	$ (45,711)	$ 39,820	$ (87,610)	$ (93,501)

	Six months ended June 30, 2019			
Results of Operations	**Servicing**	**Originations**	**Corporate Items and Other**	**Business Segments Consolidated**
Revenue	$ 501,784	$ 69,885	$ 6,557	578,226
MSR valuation adjustments, net	(256,113)	(153)	—	(256,266)
Expenses (1) (2)	299,871	42,204	13,258	355,333
Other (expense) income:				
Interest income	4,165	3,095	1,135	8,395
Interest expense	(22,003)	(3,067)	(30,060)	(55,130)
Pledged MSR liability expense	(46,886)	—	—	(46,886)
Other	2,416	663	(1,502)	1,577
Other (expense) income, net	(62,308)	691	(30,427)	(92,044)
Income (loss) before income taxes	$ (116,508)	$ 28,219	$ (37,128)	$ (125,417)

(1) Compensation and benefits expense in the Corporate Items and Other segment for the three and six months ended June 30, 2020 and 2019 includes $1.3 million and $1.5 million, and $0.8 million and $19.2 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.

(2) Included in the Corporate Items and Other segment for the six months ended June 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
June 30, 2020	$ 2,835,486	$ 6,965,683	$ 509,269	$ 10,310,438
December 31, 2019	$ 3,378,515	$ 6,459,367	$ 568,317	$ 10,406,199
June 30, 2019	$ 3,195,218	$ 5,978,325	$ 454,250	$ 9,627,793

Depreciation and Amortization Expense	Servicing	Originations	Corporate Items and Other	Business Segments Consolidated
Three months ended June 30, 2020				
Depreciation expense	$ 218	$ 34	$ 6,844	$ 7,096
Amortization of debt discount	—	—	(286)	(286)
Amortization of debt issuance costs	116	—	1,689	1,805
Three months ended June 30, 2019				
Depreciation expense	$ 761	$ 46	$ 10,205	$ 11,012
Amortization of debt discount	—	—	350	350
Amortization of debt issuance costs	—	—	751	751
Six Months Ended June 30, 2020				
Depreciation expense	$ 433	$ 71	$ 10,589	$ 11,093
Amortization of debt discount	—	—	643	643
Amortization of debt issuance costs	228	—	3,310	3,538
Six months ended June 30, 2019				
Depreciation expense	$ 1,569	$ 81	$ 17,913	$ 19,563
Amortization of debt discount	—	—	701	701
Amortization of debt issuance costs	—	—	1,451	1,451

Note 19 – Regulatory Requirements

Our business is subject to extensive regulation 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.

In the current regulatory environment, we have faced and expect to continue to face heightened regulatory and public scrutiny as an organization as well as stricter and more comprehensive regulation of the entire mortgage sector. In addition, the rules and regulations applicable to mortgage servicers and lenders, including relevant agency and investor requirements, are changing rapidly in response to the COVID-19 pandemic. We continue to work diligently to assess and understand the implications of the evolving regulatory environment in which we operate and to meet its requirements. We devote substantial resources to regulatory compliance, while, at the same time, striving to meet the needs and expectations of our customers, clients and other stakeholders. Our failure to comply with applicable federal, state and local laws, regulations and licensing requirements could lead to (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. In addition to amounts paid to resolve regulatory matters, we have in the past incurred, and may in the future incur, costs to comply with the terms of such resolutions, including staffing costs, legal costs and, in certain cases the costs of audits, reviews and third-party firms to monitor our compliance with such resolutions.

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 licensing and foreclosure laws, individual state and local laws relating to registration of vacant or foreclosed properties, and federal and local bankruptcy rules. These laws and regulations apply to many facets of our business, including loan origination, default servicing and collections, use of credit reports, safeguarding of non-public personally identifiable information about our customers, foreclosure and claims handling, investment of, and interest payments on, escrow balances and escrow payment features and fees assessed on borrowers, and they mandate certain disclosures and notices to borrowers. These requirements can and do change as laws and regulations are enacted, promulgated, amended, interpreted and enforced, including through CFPB interpretive bulletins and other regulatory pronouncements, 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. As a result, ensuring ongoing compliance with applicable legal and regulatory requirements can be challenging. Over the past decade, 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. New regulatory and legislative measures, or changes in enforcement practices, including those related to the technology we use, could, either individually or in the aggregate, require significant changes to our business practices, impose additional costs on us, limit our product offerings, limit our ability to efficiently pursue business opportunities, negatively impact asset values or reduce our revenues. Accordingly, they could materially and adversely affect our business, financial condition, liquidity and results of operations.

As further described below and in Note 21 – Contingencies, in recent years Ocwen has entered into a number of significant settlements with federal and state regulators and state attorneys general that have imposed additional requirements on our business. For example, we made various commitments relating to the process of transferring loans off the REALServicing® servicing system and onto the Black Knight Financial Services, Inc. (Black Knight) LoanSphere MSP® servicing system (Black Knight MSP), we have engaged a third-party auditor to perform an analysis with respect to our compliance with certain federal and state laws relating to the escrow of mortgage loan payments, we have revised various aspects of our complaint handling processes and we have extensive review and reporting obligations to various regulatory bodies with respect to various matters, including our financial condition. We devote significant management time and resources to compliance with these additional requirements. These requirements are generally unique to Ocwen and, while certain of our competitors may have entered into regulatory-related settlements of their own, our competitors are generally not subject to either the same specific or the same breadth of additional requirements to which we are subject.

Ocwen has various subsidiaries that are licensed to originate and/or service forward and reverse mortgage loans in those jurisdictions in which they operate, and which require licensing. 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. 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 business, reputation, results of operations and financial condition. The minimum net worth requirements to which our licensed entities are subject are unique to each state and type of license. We believe our licensed entities were in compliance with all of their minimum net worth requirements at June 30, 2020.

PMC and Liberty are also subject to seller/servicer obligations under agreements with one or more of the GSEs, HUD, FHA, VA and Ginnie Mae. These seller/servicer obligations contain financial requirements, including capital requirements related to tangible net worth, as defined by the applicable agency, an obligation to provide audited consolidated financial statements within 90 days of the applicable entity's fiscal year end as well as extensive requirements regarding servicing, selling and other matters. To the extent that these requirements are not met or waived, the applicable agency may, at its option, utilize a variety of remedies including requirements to provide certain information or take actions at the direction of the applicable agency, requirements to deposit funds as security for our obligations, sanctions, suspension or even termination of approved seller/servicer status, which would prohibit future originations or securitizations of forward or reverse mortgage loans or servicing for the applicable agency. Any of these actions could have a material adverse impact on us. To date, none of these counterparties has communicated any material sanction, suspension or prohibition in connection with our seller/servicer obligations. We believe we were in compliance with applicable net worth requirements at June 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 $225.4 million at June 30, 2020. PMC's net worth was $328.8 million at June 30, 2020.

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. Non-compliance with these laws and regulations could result in adverse actions against us, including (i) restrictions on our operations in these countries, (ii) fines, penalties or sanctions or (iii) reputational damage.

New York Department of Financial Services. In March 2017, we entered into a consent order with the NY DFS (the 2017 NY Consent Order) that provided for the termination of the engagement of a monitor appointed pursuant to an earlier 2014 consent order and for us to address certain concerns raised by the NY DFS that primarily relate to our servicing operations, as well as for us to comply with certain reporting and other obligations. In addition, in connection with the NY DFS' approval in September 2018 of our acquisition of PHH, we agreed to satisfy certain post-closing requirements, including reporting obligations and record retention and other requirements relating to the transfer of loans collateralized by New York property (New York loans) onto 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 modified a preexisting restriction on our ability to acquire MSRs such that the restriction applies only to New York loans and, with respect to New York loans, provides that Ocwen may not increase its aggregate portfolio of New York loans serviced or subserviced by Ocwen by more than 2% per year (based on the unpaid principal balance of loans serviced at the prior calendar year-end). 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 have transferred all loans onto Black Knight MSP and no longer service any loans on the REALServicing system.

We continue to work with the NY DFS to address matters they continue to raise with us as well as to fulfill our commitments under the 2017 NY Consent Order and PHH acquisition conditional approval. To the extent that we fail to address adequately any concerns raised by the NY DFS or fail to fulfill our commitments to the NY DFS, the NY DFS could take regulatory action against us, including imposing fines or penalties or otherwise further restricting our business activities. Any such actions could have a material adverse impact on our business, financial condition, liquidity and results of operations.

California Department of Business Oversight. In January 2015, Ocwen Loan Servicing, LLC (OLS) entered into a consent order (the 2015 CA Consent Order) with the CA DBO relating to our alleged failure to produce certain information and documents during a routine licensing examination. In February 2017, we entered into another consent order with the CA DBO (the 2017 CA Consent Order) that terminated the 2015 CA Consent Order and resolved open matters between us and the CA DBO. We have completed all of our obligations under the 2017 CA Consent Order. Pursuant to the 2017 CA Consent Order, the CA DBO engaged a third-party administrator to confirm, at the expense of the CA DBO, that Ocwen completed certain commitments under the 2017 CA Consent Order, specifically including our obligation to complete $198.0 million in debt forgiveness for California borrowers by June 30, 2019. This third-party administrator has issued its final report, which confirms that we have completed all obligations under the 2017 CA Consent Order, including the debt forgiveness obligation.

Note 20 — 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. As the servicer, 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. See Note 8 — Rights to MSRs and Note 11 – Borrowings for additional information. As of June 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)	$	17,424,584
NRZ servicer of record (MSR title transferred to NRZ) - Ocwen MSR (1)		91,419,371
Ocwen subservicer		176,805
Total NRZ UPB at June 30, 2020	$	109,020,760

(1) The MSR sale transactions did not achieve sale accounting treatment.

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. 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.

In June 2020, Fannie Mae and Freddie Mac announced a new servicer incentive related to their previously announced COVID-19 payment deferral, and temporary updates to other servicer incentives, which became effective on July 1, 2020. Subject to certain eligibility criteria, servicers will receive incentive fees of $500 for repayment plans with a first payment due date on or after July 1, 2020 and for payment deferrals completed on or after July 1, 2020, and will receive an incentive fee of $1,000 for completed Flex Modifications® with a trial plan period effective date on or after July 1, 2020. Total servicer incentives per mortgage loan will be cumulatively capped at $1,000.

The below table shows the requests for forbearance plans and the estimated obligation to advance monthly P&I:

	As of June 30, 2020		As of March 31, 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	6,600	$ 8.3	1,400	$ 1.8
Ginnie Mae loans	9,900	9.2	400	0.5
PLS loans	18,000	26.5	3,700	5.8
Servicer	34,500	$ 44.0	5,500	$ 8.1
GSE loans	10,100	$ 11.0	2,300	$ 2.6
PLS loans	73,800	70.8	14,500	14.0
NRZ’s responsibility (1)	83,900	$ 81.8	16,800	$ 16.6
Subservicer (2)	7,600	$ 10.1	3,900	$ 4.5
No advance requirements	5,400	—	1,300	—
Total	**131,400**	**$ 135.9**	**27,500**	**$ 29.2**

(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 8 — Rights to MSRs and Note 11 – Borrowings 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 June 30, 2020. This additional borrowing capacity is available on a scheduled or unscheduled payment basis. We also had short-term commitments to lend $477.5 million and $30.2 million in connection with our forward and reverse mortgage loan IRLCs, respectively, outstanding at June 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:

	Six Months Ended June 30, 2020					
	Active		Inactive		Total	
	Number	Amount	Number	Amount	Number	Amount
Beginning balance	62	$ 10,546	258	$ 25,147	320	$ 35,693
Additions (1)	111	27,464	157	18,780	268	46,244
Recoveries, net (2)	(5)	(6,872)	(16)	(5,588)	(21)	(12,460)
Transfers	(2)	(958)	2	958	—	—
Changes in value	—	43	—	(1,842)	—	(1,799)
Ending balance	166	$ 30,223	401	$ 37,455	567	$ 67,678

(1) Total repurchases during the six months ended June 30, 2020 includes 207 loans totaling $42.3 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 June 30, 2020, our servicing portfolio included significant client relationships with NRZ which represented 53% and 60% of our servicing portfolio UPB and loan count, respectively. The NRZ servicing portfolio accounts for approximately 65% 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 18% of our servicing portfolio UPB at June 30, 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.

We currently account for the MSR sale agreements with NRZ as secured financings as the transactions did not achieve sale accounting treatment, except for the PMC agreement since February 2020. Accordingly, our balance sheet reflects a $582.6 million MSR asset pledged to NRZ out of a total $1.0 billion MSRs at fair value at June 30, 2020, and a corresponding $582.6 million pledged MSR liability at fair value within Other financing liabilities. Similarly, our unaudited consolidated statement of operations reflects $62.9 million and $153.2 million net servicing fees collected on behalf of, and remitted to, NRZ out of a total $175.2 million and $386.7 million Servicing and subservicing fees for the three and six months ended June 30, 2020, respectively, and a corresponding $62.9 million and $153.2 million expense reported within Pledged MSR liability expense. The net servicing fees collected on behalf of, and remitted to, NRZ did not affect our net earnings. In addition, we recognized amortization income related to lump sum payments we received from NRZ in 2017 and 2018, through April 2020. The reporting of MSRs and revenue gross versus net in our financial statements is required until sale accounting criteria are met, upon the earliest of the terms of the agreements or any termination notice.

The NRZ agreements affect our net earnings through the recognition of subservicing fees we retain, which amounted to $25.5 million and $54.9 million for the three and six months ended June 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 8 — 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 21 – 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, 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 $27.8 million at June 30, 2020. We cannot currently estimate the amount, if any, of reasonably possible losses above amounts that have been recorded at June 30, 2020.

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 on whose behalf we service or subservice loans. We are currently involved in a dispute with a former subservicing client relating to alleged violations of our contractual agreements, including that we did not properly submit mortgage insurance and other claims for reimbursement. Ocwen has contested these allegations. We are presently engaged in a dispute resolution process relating to these claims. 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 mediation, following litigation or otherwise.

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 on November 1, 2019.

Prior to the initiation of legal proceedings, we had been engaged with the CFPB in efforts to resolve the matter and recorded $12.5 million as of December 31, 2016 as a result of these discussions. We are taking all reasonable and prudent actions to resolve the CFPB matter, along with the Florida matter discussed below, 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. In addition, the Court has ordered the parties to mediation once summary judgment briefing is completed in September 2020. We increased our accrual related to the CFPB and Florida matters by $4.4 million in the first quarter of 2020. Our current accrual with respect to this matter is included in the $27.8 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 regulatory 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. In general, the regulatory actions took the form of orders styled as "cease and desist orders," and we use that term to refer to all of the orders for ease of reference; for ease of reference we also include the District of Columbia as a state when we reference states below. All of the cease and desist orders were applicable to OLS, but additional Ocwen entities were named in some orders, including Ocwen Financial Corporation, OMS, Homeward, Liberty, OFSPL and Ocwen Business Solutions, Inc. (OBS).

We entered into agreements with all 29 states plus the District of Columbia to resolve these regulatory actions. These agreements generally contained the following key terms (the Multi-State Common Settlement Terms):

- Ocwen would not acquire any new residential MSRs until April 30, 2018.
- Ocwen would develop a plan of action and milestones regarding its transition from the REALServicing servicing system to an alternate servicing system and, with certain exceptions, would not board any new loans onto the REALServicing system.
- In the event that Ocwen chose to merge with or acquire an unaffiliated company or its assets in order to effectuate a transfer of loans from the REALServicing system, Ocwen was required to comply with regulatory notice and waiting period requirements.
- Ocwen would engage a third-party auditor to perform an analysis with respect to our compliance with certain federal and state laws relating to escrow by testing approximately 9,000 loan files relating to residential real property in various states, and Ocwen would develop corrective action plans for any errors identified by the third-party auditor.
- Ocwen would develop and submit for review a plan to enhance our consumer complaint handling processes.
- Ocwen would provide financial condition reporting on a confidential basis as part of each state's supervisory framework through September 2020.

In addition to the terms described above, Ocwen entered into settlements with certain states on different or additional terms, which include making additional communications with and for borrowers, certain restrictions, certain review, reporting and remediation obligations, and the following additional terms:

- Ocwen agreed with the Connecticut Department of Banking to pay certain amounts only in the event we fail to comply with certain requirements under our agreement with Connecticut.
- In its agreement with the Maryland Office of the Commissioner of Financial Regulation, Ocwen agreed to complete an independent management assessment and enterprise risk assessment and to a prohibition, with certain *de minimis* exceptions, on repurchases of our stock until December 7, 2018. Ocwen also agreed to make certain payments to Maryland, to provide remediation to certain borrowers in the form of cash payments or credits and to pay certain amounts only in the event we fail to comply with certain requirements under our agreement with Maryland.
- Ocwen agreed with the Massachusetts Division of Banks to pay $1.0 million to the Commonwealth of Massachusetts Mortgage Education Trust. Ocwen and the Massachusetts regulatory agency also agreed on a schedule pursuant to which we would regain eligibility to acquire residential MSRs on Massachusetts loans (including loans originated by Ocwen) as we met certain thresholds in our transition to a new servicing system. Pursuant to this agreement, all restrictions on Massachusetts MSR acquisitions would be lifted when Ocwen completed the second phase of a three-phase data integrity audit. Having now completed the first and second phases of this audit, Ocwen is no longer bound by any restriction on the volume of MSR acquisitions in Massachusetts.
- Ocwen agreed with the Nebraska Department of Banking and Finance until April 30, 2019, to limit its growth through acquisition from correspondent relationships to no more than ten percent per year for Nebraska loans (based on the total number of loans held at the prior calendar year-end).

Accordingly, we have now resolved all of the administrative actions (but not all of the legal actions, which are described below) taken by state regulators in April 2017 and shortly thereafter.

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 as described above, 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.

Concurrent with the issuance of the cease and desist orders 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 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. We believe we have factual and legal defenses to the remaining allegations raised in this lawsuit and are vigorously defending ourselves. The outcome of this lawsuit, whether through a negotiated settlement, court rulings or otherwise, could potentially involve monetary fines or penalties or additional restrictions on our business and could be materially adverse to our business, reputation, financial condition, liquidity and results of operations. Our accrual with respect to this matter is included in the $27.8 million litigation and regulatory matters accrual referenced above. We cannot currently estimate the amount, if any, of reasonably possible loss above the amount currently accrued.

Our accrual with respect to the administrative and legal actions initiated in April 2017 is included in the $27.8 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 the company 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 June 30, 2020 and June 30, 2019, we had outstanding representation and warranty repurchase demands of $43.7 million UPB (262 loans) and $48.3 million UPB (297 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:

	Six Months Ended June 30,	
	2020	2019
Beginning balance (1)	$ 50,838	$ 49,267
Provision (reversal) for representation and warranty obligations	1,725	(3,831)
New production reserves	522	132
Charge-offs and other (2)	(8,673)	(2,718)
Ending balance (1)	$ 44,412	$ 42,850

(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 June 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.

Note 22 – Subsequent Events

Reverse Stock Split

On July 28, 2020, Ocwen determined to implement a reverse stock split in a ratio of one-for-15, which is expected to take effect in August 2020. See Note 13 – Equity and Note 17 – Basic and Diluted Earnings (Loss) per Share for additional information.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousands, 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" and Part II, Item 1A. Risk Factors, 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 1.4 million loans with a total UPB of $206.0 billion on behalf of more than 4,000 investors and 179 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.

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

Amounts in billions	UPB			
	Quarter Ended June 30, 2020	Quarter Ended March 31, 2020	Quarter Ended December 31, 2019	Quarter Ended September 30, 2019
Mortgage servicing originations				
Recapture MSR (1)	$ 0.32	$ 0.20	$ 0.17	$ 0.13
Correspondent MSR (1)	0.66	0.51	0.40	0.09
Flow purchases MSR (3)	0.51	0.82	0.24	—
GSE Cash Window MSR (3)	2.33	0.52	0.55	0.12
Reverse mortgage servicing (2)	0.21	0.23	0.26	0.19
Total servicing originations	4.03	2.28	1.62	0.53
Bulk MSR purchases (3)	—	1.54	2.74	1.03
Total servicing additions	4.03	3.82	4.36	1.56
Subservicing additions (4)	4.59	3.14	3.79	3.75
Total servicing and subservicing UPB additions (2)	$ 8.62	$ 6.96	$ 8.15	$ 5.31

(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

In March 2020, the World Health Organization (WHO) categorized COVID-19 as a pandemic and the COVID-19 outbreak was declared a national emergency. The efforts to contain the spread of the COVID-19 pandemic have adversely affected economic conditions, including high levels of unemployment, and are creating uncertainties about the duration and magnitude of the economic downturn. Ocwen has rapidly adapted to the COVID-19 global pandemic and is currently operating through a secure remote workforce model for approximately 98% of its global workforce. We adhere to COVID-19 health and safety-related requirements and best practices across all of our locations.

Ocwen is an experienced special servicer with proven capability to assist borrowers who are facing financial difficulties and generate positive outcomes for mortgage loan investors. During the second quarter of 2020, we have demonstrated we had the necessary operating processes, practices and systems to track large servicer advance balances at a detailed level and drive strong advance recoveries within elevated delinquency and forbearance portfolios.

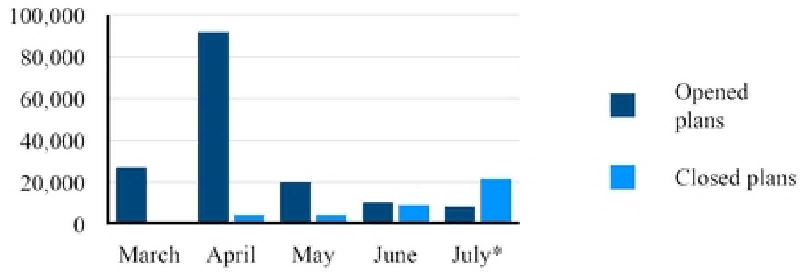
The CARES Act signed in March 2020 allows borrowers with federally backed mortgage loans who are affected by COVID-19 to request temporary loan forbearance. Servicers must provide such forbearance for up to 180 days if requested by the borrower. Borrowers may request an additional forbearance period 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. Servicers are restricted from pursuing certain foreclosure and eviction activity on all occupied, federally backed mortgage loans until at least August 31, 2020, regardless of whether the borrower has requested assistance.

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. Ocwen conducts different outreach events, in partnership with non-profit housing advocacy groups to further assist borrowers.

On June 10, 2020, Fannie Mae and Freddie Mac announced the servicer incentive for their previously announced COVID-19 payment deferral, and temporary updates to other servicer incentives, which became effective on July 1, 2020. Subject to certain eligibility criteria, servicers will receive incentive fees of $500 for repayment plans with a first payment due date on or after July 1, 2020 and for payment deferrals completed on or after July 1, 2020, and will receive an incentive fee of $1,000 for completed Flex Modifications with a trial plan period effective date on or after July 1, 2020. Total servicer incentives per mortgage loan will be cumulatively capped at $1,000.

Loans under forbearance rose significantly in April 2020, in response to the increase in unemployment claims and to a lesser impact, in May 2020. Consistent with the industry trend, the volume of forbearance plans stabilized in June 2020 and started decreasing in July 2020. In addition, 35% of borrowers under forbearance plans continued to make payments as of June 30, 2020. As of June 30, 2020, we managed 131,400 loans under forbearance, 39,900 of which related to our owned MSRs excluding NRZ, or 9.6% and 8.5% of the total portfolios, respectively. See below chart of new and closed forbearance plans during COVID-19 for our total serviced and subserviced portfolios:



(*): through July 29, 2020

Determining the COVID-19 impact on our financial performance in the second quarter of 2020 requires management to use judgment, including the estimation of those variances that are directly attributable to COVID-19 factors. The below discussion includes some comparisons with the financial performance of the first quarter of 2020 to isolate the impact of certain COVID-19 factors. We estimate that the overall impact of COVID-19 on our financial performance during the second quarter of 2020 has not been as significant as previously anticipated, due to 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 in the second quarter of 2020.

The COVID-19 environment has resulted in reduced servicing revenue during the second quarter of 2020. Our ancillary income decreased in the second quarter of 2020 by approximately $5.4 million as a result of the significant drop in interest rates (specifically, 1-month LIBOR). In addition, we did not collect any servicing fees and certain ancillary income, including late and collection fees, on non-paying forbearance loans and on loan foreclosures and liquidations due to the foreclosure moratorium. We estimate our servicing fees declined by $3.1 million in the second quarter of 2020 due to COVID-19 (excluding NRZ). Our subservicing fees were not significantly impacted by the COVID-19 environment because the borrower's delinquency or forbearance does not affect the collection of our compensation. As such, subservicing fees and net servicing fees related to NRZ (collection on behalf of NRZ), net of remittances to NRZ (recorded as MSR pledged liability expense) relating to the $20.0 billion and $109.0 billion UPB respectively, were not significantly impacted by the COVID-19 environment as per the terms of the subservicing agreements, whereby borrower's delinquency or forbearance does not affect the collection of our subservicing fee.

The decrease or delay in servicing fee collection where we operate as servicer, i.e., relating to the $70.5 billion UPB, was partially offset by the lower runoff of loans in forbearance in our MSR portfolio in the second quarter of 2020, as the deferred servicing fees or GSE incentive fees generally remain projected as future cash flows. The MSR runoff of forbearance loans was partially offset by higher prepayments in our GSE portfolios, with historically high voluntary CPRs due to lower mortgage interest rates.

The overall fair value changes of our MSR portfolio during the second quarter of 2020 attributable to rates and assumptions were also not significantly impacted by the COVID-19 environment, due to certain offsetting factors. Rates declined modestly during the second quarter of 2020 (8 basis point decline in the 10-year swap rate) and we previously increased the coverage ratio of our macro-hedging strategy to mitigate our exposure to rates. In addition, the fair value changes of the NRZ MSR are offset in our income statement by the fair value changes of the pledged MSR liability. We also recorded a $13.2 million MSR valuation gain in the second quarter of 2020 relating to certain MSRs that we opportunistically purchased in a disorderly market due to the COVID-19 environment.

Our cost to service and operating expenses were not significantly impacted by COVID-19 during the second quarter of 2020 due to two main offsetting factors. Loans in forbearance required more intensive effort and, as forbearance periods end, additional efforts may be required to establish repayment plans, loan modifications, extensions of forbearance, payment deferrals, or other loss mitigation solutions. During the second quarter of 2020, we incurred $6.1 million additional expense related to COVID-19, including $2.8 million stipend and overtime, $1.6 million staff augmentation to manage our call center increased activity, and $1.2 million technology costs to adapt to our remote working model. The temporary moratorium on evictions and foreclosure sales reduced our expenses, for example due to lower conveyance volumes with Ginnie Mae loans.

Furthermore, we did not incur any significant change to our interest expense. The increase in our servicing advances for loans in forbearance was more than offset by our collection and recovery efforts and by the surge in prepayments. In addition, the moratorium on evictions and foreclosures delayed certain corporate advances.

The recent declines in interest rates and the continued execution of our originations strategy have led to an increase in our originations volume and improved margins. We continue to replenish and grow our owned MSR portfolio despite the significant runoff and voluntary prepayments (excluding NRZ's MSR portfolio). Refer to the discussion below of our Originations segment.

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 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 our business, financial condition, liquidity or results of operations.

Business Initiatives

We have established a set of key business initiatives to achieve our objective of returning to 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;
- Re-engineering our cost structure 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 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, with the launch of the FNMA SMP program in June 2020.

Second, we must continue to re-engineer our cost structure. 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 have engaged bankers to assist us in exploring all strategic options to leverage our proven operating capability in this environment as we seek 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 and Florida matters.

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.

	Three Months Ended June 30,			Six Months Ended June 30,		
Results of Operations Summary	**2020**	**2019**	**% Change**	**2020**	**2019**	**% Change**
Revenue						
Servicing and subservicing fees	$ 175,240	$ 239,960	(27)%	$ 386,723	$ 496,576	(22)%
Reverse mortgage revenue, net	13,759	20,493	(33)	36,556	52,616	(31)%
Gain on loans held for sale, net	33,547	8,318	303	46,878	17,300	171
Other revenue, net	4,478	5,567	(20)	10,709	11,734	(9)
Total revenue	227,024	274,338	(17)	480,866	578,226	(17)
MSR valuation adjustments, net	(23,434)	(147,268)	(84)	(197,554)	(256,266)	(23)
Operating expenses						
Compensation and benefits	65,017	82,283	(21)	125,745	176,979	(29)
Servicing and origination	17,361	21,510	(19)	37,617	50,208	(25)
Professional services	23,818	37,136	(36)	49,455	40,577	22
Technology and communications	16,111	20,001	(19)	31,304	44,436	(30)
Occupancy and equipment	16,136	18,699	(14)	28,105	35,288	(20)
Other expenses	6,366	4,597	38	9,797	7,845	25
Total operating expenses	144,809	184,226	(21)	282,023	355,333	(21)
Other income (expense)						
Interest income	3,566	3,837	(7)	8,961	8,395	7
Interest expense	(26,760)	(28,641)	(7)	(56,742)	(55,130)	3
Pledged MSR liability expense, net	(41,686)	(2,930)	n/m	(48,280)	(46,886)	3
Other, net	(57)	557	(110)	1,271	1,577	(19)
Total other expense, net	(64,937)	(27,177)	139	(94,790)	(92,044)	3
Loss before income taxes	(6,156)	(84,333)	(93)	(93,501)	(125,417)	(25)
Income tax (benefit) expense	(8,110)	5,404	(250)	(69,966)	8,814	(894)
Net income (loss)	$ 1,954	$ (89,737)	(102)	(23,535)	(134,231)	(82)
Segment income (loss) before income taxes						
Servicing	$ 10,385	$ (59,006)	(118)%	$ (45,711)	$ (116,508)	(61)%
Originations	29,439	8,359	252	39,820	28,219	41
Corporate Items and Other	(45,980)	(33,686)	36	(87,610)	(37,128)	136
	$ (6,156)	$ (84,333)	(93)%	$ (93,501)	$ (125,417)	(25)%

n/m: not meaningful

Three Months Ended June 30, 2020 versus 2019

We reported net income of $2.0 million in the second quarter of 2020 versus a net loss of $89.7 million in the second quarter of 2019.

Total revenue was $227.0 million in the second quarter of 2020, $47.3 million or 17% lower than the second quarter of 2019, mostly due to declines in servicing fee revenue and reverse mortgage revenue, offset in part by an increase in gains on loans held for sale. Servicing and subservicing fee revenue decreased $64.7 million, or 27%, as compared to the second quarter of 2019, with a $52.7 million decline in NRZ servicing fees, 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. Reverse mortgage revenue, net decreased $6.7 million, or 33%, as compared to the second quarter of 2019 largely due to the decline in fair value of our reverse mortgage portfolio due to rates and assumptions and the impact of the fair value election on January 1, 2020 of tail draws. The $25.2 million, or 303%, increase in gains on loans held for sale is due to the increase in forward loan production, from both our recapture channel, fueled by industry-wide refinance activity, and our correspondent channel that we re-started in the second quarter of 2019. See Segment Results of Operations for additional information.

We reported a $23.4 million loss in MSR valuation adjustments, net in the second quarter of 2020, mostly driven by $31.2 million portfolio runoff partially offset by a $7.5 million favorable fair value gain from our MSR hedging strategy and $13.2 million valuation gain on certain MSRs opportunistically purchased in a disorderly market. The $123.8 million reduction in loss as compared to the second quarter of 2019 is primarily due to a lower decline in market interest rates, derecognition of MSRs in connection with the termination of the PMC agreement by NRZ on February 20, 2020 and the effects of the MSR hedging program implemented on September 1, 2019. See Segment Results of Operations - Servicing for additional information.

Total operating expenses decreased $39.4 million, or 21%, as compared to the second quarter of 2019 and the decrease is the result of multiple variances, as discussed below.

Compensation and benefits expense declined $17.3 million, or 21%, as compared to the second quarter of 2019, primarily due to our cost re-engineering initiatives that resulted in a 19% decline in average headcount and the recognition in the second quarter of 2019 of $3.5 million of severance and retention costs. Offshore headcount, whose average compensation cost is relatively lower, increased from 65% to 72% of average total headcount, compared to the second quarter of 2019.

Servicing and origination expense decreased $4.1 million, or 19%, as compared to the second quarter of 2019, primarily due to a $4.3 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. See Segment Results of Operations - Servicing for additional information.

Professional services expense decreased $13.3 million, or 36%, as compared to the second quarter of 2019, primarily due to a $13.0 million decline in legal fees relating to the PHH integration, legal entity reorganization and litigation.

Technology and communication expense declined $3.9 million, or 19%, as compared to the second quarter of 2019 primarily because we no longer license the REALServicing servicing system from Altisource following our transition to Black Knight MSP in June 2019, a $1.8 million reduction in depreciation expense that is largely the result of 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.

Occupancy and equipment expense decreased $2.6 million, or 14%, as compared to the second 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. Depreciation expense declined $2.2 million as compared to the second quarter of 2019.

Pledged MSR liability expense increased $38.8 million, as compared to the second quarter of 2019, largely due to fair value gains and runoff related to the PMC MSR Agreements in the second quarter of 2019 and a lower 2017/18 lump sum amortization gain, offset in part by lower net servicing fee remittance to NRZ. These changes were mostly due to termination of the PMC servicing agreement by NRZ on February 20, 2020, final amortization of the 2017/2018 upfront cash payments in April 2020 and a lower UPB serviced. See Segment Results of Operations - Servicing for additional information.

Six Months Ended June 30, 2020 versus 2019

We reported a net loss of $23.5 million in the six months ended June 30, 2020, as compared to a net loss of $134.2 million in the six months ended June 30, 2019. The net loss reported in the six months ended June 30, 2020 is driven in large part by two partially offsetting effects of the COVID-19 pandemic environment. First, the fair value of our MSRs and related MSR financing liability at fair value decreased by $123.9 million due to the decline in market interest rates, offset in part by $42.8 million gains of our hedging derivatives. Second, we recognized a $70.0 million income tax benefit for the six months ended June 30, 2020 as the CARES Act allows the carryback of tax net operating losses (NOL) and the associated refund of taxes that we paid in prior years.

Total revenue was $480.9 million for the six months ended June 30, 2020, $97.4 million or 17% lower than the six months ended June 30, 2019, primarily due to declines in servicing fee revenue and reverse mortgage revenue, offset in part by an increase in gains on loans held for sale. Servicing and subservicing fee revenue decreased $109.9 million, or 22%, as compared to the six months ended June 30, 2019, with an $88.9 million decline in NRZ servicing fees, 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. Reverse mortgage revenue, net decreased $16.1 million, or 31%, as compared to the six months ended June 30, 2019 largely due to the decline in fair value of our reverse mortgage portfolio. The $29.6 million, or 171%, increase in gains on loans held for sale is mostly due to the increase in forward loan production, from both our recapture channel, fueled by industry-wide refinance activity, and from our correspondent channel that we re-started in the second quarter of 2019. See Segment Results of Operations for additional information.

We reported a $197.6 million loss in MSR valuation adjustments, net in the six months ended June 30, 2020, mostly driven by a $156.5 million loss due to the decline in interest rates and $83.9 million portfolio runoff, partially offset by $42.8 million favorable fair value gain from our MSR hedging strategy. The $58.7 million reduction in loss as compared to the six months ended June 30, 2019 is primarily due to derecognition of MSRs in connection with the termination of the PMC agreement by NRZ on February 20, 2020 and the effects of the MSR hedging program, offset in part by the impact of the additional decline in interest rates (126 basis-point decline in the 10-year swap rate). See Segment Results of Operations - Servicing for additional information.

Total operating expenses declined $73.3 million, or 21%, as compared to the six months ended June 30, 2019 and the decrease is the result of multiple, offsetting variances, as discussed below.

Compensation and benefits expense declined $51.2 million, or 29%, as compared to the six months ended June 30, 2019, primarily due to a 21% decline in average headcount and the recognition during the six months ended June 30, 2019 of $24.2 million of severance and retention costs incurred in connection with our 2019 cost re-engineering plan. Offshore headcount increased from 65% to 72% of average total headcount, compared to the six months ended June 30, 2019.

Servicing and origination expense decreased $12.6 million, or 25%, as compared to the six months ended June 30, 2019, primarily due to a $14.3 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. See Segment Results of Operations - Servicing for additional information.

Professional services expense increased $8.9 million, or 22%, as compared to the six months ended June 30, 2019, primarily due to the $30.7 million recovery in the first quarter of 2019 of amounts previously recognized as expense from a service provider and a $4.4 million increase to our accrual related to the CFPB and Florida matters in the first quarter of 2020, offset in part by a $24.0 million decline in legal fees largely due to a decline in legal expenses relating to the PHH integration, legal entity reorganization and litigation.

Technology and communication expense decreased $13.1 million, or 30%, as compared to the six months ended June 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 $4.6 million reduction in depreciation expense that is largely the result of a decline in capitalized technology investments, our closure of U.S. facilities in 2019, the effects of a decline in total average headcount and our other cost reduction efforts and re-engineering actions.

Occupancy and equipment expense decreased $7.2 million, or 20%, as compared to the six months ended June 30, 2019 primarily due to the results of our cost reduction efforts and the effect of the decline in the size of the servicing portfolio on various expenses, particularly mailing services. Depreciation expense declined $3.8 million as compared to the six months ended June 30, 2019.

Pledged MSR liability expense increased $1.4 million, or 3%, as compared to the six months ended June 30, 2019, largely due to a decline in fair value gains and runoff related to the PMC MSR Agreements and lower 2017/18 lump sum amortization gain, offset by a lower net servicing fee remittance to NRZ. These changes were primarily attributed to termination of the PMC servicing agreement by NRZ on February 20, 2020, final amortization of the 2017/2018 upfront cash payments in April 2020 and a lower UPB serviced. See Segment Results of Operations - Servicing for additional information.

Although we incurred a pre-tax loss for the six months ended June 30, 2020 of $93.5 million, we recorded an income tax benefit of $70.0 million primarily due to $65.0 million of estimated income tax benefit to be recognized under the CARES Act related to tax years 2018 and 2019 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 recognized an income tax benefit, exclusive of the impact of the CARES Act to tax years 2018 and 2019, of $5.0 million primarily due to the favorable resolution of an uncertain tax position during the six months ended June 30, 2020.

Our overall effective tax rates for the six months ended June 30, 2020 and 2019 were 74.8% and (7.0)%, 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 $78.8 million change in income tax expense for the six months ended June 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 six months ended June 30, 2020. See Note 16 – Income Taxes for additional information.

Financial Condition Summary	**June 30, 2020**	**December 31, 2019**	**$ Change**	**% Change**
Cash	$ 313,736	$ 428,339	$ (114,603)	(27)%
Restricted cash	63,813	64,001	(188)	—
MSRs, at fair value	1,044,914	1,486,395	(441,481)	(30)
Advances, net	901,009	1,056,523	(155,514)	(15)
Loans held for sale	278,517	275,269	3,248	1
Loans held for investment, at fair value	6,730,656	6,292,938	437,718	7
Receivables	247,616	201,220	46,396	23
Other assets	730,177	601,514	128,663	21
Total assets	$ 10,310,438	$ 10,406,199	$ (95,761)	(1)%
Total Assets by Segment				
Servicing	$ 2,835,486	$ 3,378,515	$ (543,029)	(16)%
Originations	6,965,683	6,459,367	506,316	8
Corporate Items and Other	509,269	568,317	(59,048)	(10)
	$ 10,310,438	$ 10,406,199	$ (95,761)	(1)%
HMBS-related borrowings, at fair value	$ 6,477,616	$ 6,063,435	414,181	7 %
Advance match funded liabilities	612,650	679,109	(66,459)	(10)
Other financing liabilities, at fair value	594,222	972,595	(378,373)	(39)
SSTL and other secured borrowings, net	847,331	1,025,791	(178,460)	(17)
Senior notes, net	311,484	311,085	399	—
Other liabilities	1,034,366	942,173	92,193	10
Total liabilities	9,877,669	9,994,188	(116,519)	(1)%
Total stockholders' equity	432,769	412,011	20,758	5
Total liabilities and equity	$ 10,310,438	$ 10,406,199	$ (95,761)	(1)%
Total Liabilities by Segment				
Servicing	$ 2,444,558	$ 2,862,063	$ (417,505)	(15)%
Originations	6,794,256	6,347,159	447,097	7
Corporate Items and Other	638,855	784,966	(146,111)	(19)
	$ 9,877,669	$ 9,994,188	$ (116,519)	(1)%
Book value per share	$ 3.33	$ 3.06	$ 0.27	9 %
Pro forma book value per share (1)	$ 49.93	$ 45.83	$ 4.10	9 %

(1) Pro forma book value per share reflects the number of common stock shares giving consideration for the 1-to-15 reverse stock split approved on July 28, 2020 and expected to be effective in August 2020, assuming it was retroactively effective as of each of the dates presented. See Note 13 – Equity and Note 17 – Basic and Diluted Earnings (Loss) per Share to the Unaudited Consolidated Financial Statements for additional information.

The $95.8 million decrease in our balance sheet for the six months ended June 30, 2020 is attributable to multiple offsetting changes. First, the MSR portfolio decreased by $441.5 million or 30%. The decrease is mostly due to the $263.7 million derecognition of NRZ related MSRs effective with the February 20, 2020 notice of termination of the subservicing agreement between NRZ and PMC, and a $197.6 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. Second, our cash balance decreased by $126.1 million to prepay a portion of the outstanding SSTL balance on January 27, 2020. Third, our total assets increased with an additional $437.7 million loans held for investment due to the continued growth of our reverse mortgage business. Fourth, the $128.7 million increase in other assets is mostly attributable to the increase in the Ginnie Mae contingent repurchase rights of loans under forbearance.

Total liabilities decreased by $116.5 million with similar effects as described above. First, the $378.4 million decline in Other financing liabilities is mostly due to the $263.7 million derecognition of NRZ pledged MSR liability on February 20, 2020 upon termination of the subservicing agreement between NRZ and PMC, 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 $414.2 million due to the continued growth of our reverse mortgage business and its securitization. Fourth, the $92.2 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 $20.8 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 $23.5 million net loss for the six months ended June 30, 2020, and our repurchase of 5.7 million 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 June 30, 2020, we serviced 1.4 million loans with an aggregate UPB of $206.0 billion. The average UPB of loans serviced during the second quarter of 2020 decreased by 14% or $34.0 billion compared to the second quarter of 2019, mostly due to portfolio runoff, net of newly originated and acquired MSRs and certain servicing transfers in the second quarter of 2019.

NRZ is our largest servicing client, accounting for 53% and 60% of the UPB and loans in our servicing portfolio as of June 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 six months ended June 30, 2020, and 27% for both the three and six months ended June 30, 2019. Consistent with a subservicing relationship, NRZ is responsible for funding the advances we service for NRZ.

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).

The following table presents subservicing fees retained by Ocwen under the NRZ agreements and the amortization gain (including fair value change) of the lump-sum payments received in connection with the 2017 Agreements and New RMSR Agreements:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Retained subservicing fees on NRZ agreements (1)	$ 25,523	$ 35,905	$ 54,855	$ 73,312
Amortization gain of the lump-sum cash payments received (including fair value change) recorded as a reduction of Pledged MSR liability expense	9,979	30,696	34,218	47,036
Total retained subservicing fees and amortization gain of lump-sum payments (including fair value change)	$ 35,502	$ 66,601	$ 89,073	$ 120,348
Average NRZ UPB (2)	$ 72,878,102	$ 123,856,714	$ 75,886,160	$ 126,114,653
Average annualized retained subservicing fees as a % of NRZ UPB	0.14%	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.

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. Valuation is also impacted by loan delinquency rates whereby as delinquency rates rise, the value of the servicing portfolio declines.

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. Similarly, we present the total servicing fees and the fair value changes related to the MSR sale transactions with NRZ within Servicing and subservicing fees, net and MSR valuation adjustments, net, respectively. Net servicing fee remittance to NRZ and the fair value changes of the pledged MSR liability are separately presented within Pledged MSR liability expense and are offset by the two corresponding amounts presented in other statement of operations line items. 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 were offset by the changes in fair value of the associated MSRs pledged, 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 related to 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, or 285,237 loans at June 30, 2020. In connection with the termination, we are entitled to loan deboarding fees from NRZ. Loan deboarding is under discussion with NRZ and is currently planned for September and October 2020, though is subject to various requirements that may delay the process. This termination is for convenience and not for cause. As the sale accounting criteria were met upon the notice of termination, the MSRs and the Rights to MSRs associated with the $37.1 billion loan UPB were derecognized from our balance sheet on February 20, 2020 without any gain or loss on derecognition. We continue to service these loans until deboarding, and account for them as a subservicing relationship. Accordingly, we recognize subservicing fees associated with the subservicing agreement subsequent to February 20, 2020 and do not report any servicing fees collected on behalf of, and remitted to NRZ, any change in fair value, runoff and settlement in financing liability thereafter.

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 June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Revenue						
Servicing and subservicing fees						
Residential	$ 174,361	$ 238,536	(27)%	$ 385,188	$ 493,747	(22)%
Commercial	687	616	12	1,414	1,843	(23)
	175,048	239,152	(27)	386,602	495,590	(22)
Gain on loans held for sale, net	4,572	1,723	165	5,414	2,939	84
Other revenue, net	816	1,635	(50)	1,975	3,255	(39)
Total revenue	180,436	242,510	(26)	393,991	501,784	(21)
MSR valuation adjustments, net	(36,604)	(147,199)	(75)	(211,040)	(256,113)	(18)
Operating expenses						
Compensation and benefits	28,675	40,834	(30)	55,461	81,237	(32)
Servicing and origination	12,811	17,157	(25)	27,745	42,043	(34)
Occupancy and equipment	8,345	11,868	(30)	17,375	24,475	(29)
Professional services	8,802	11,037	(20)	13,873	22,460	(38)
Technology and communications	6,701	7,649	(12)	13,956	17,149	(19)
Corporate overhead allocations	16,081	53,721	(70)	33,874	111,315	(70)
Other expenses	1,325	622	113	929	1,192	(22)
Total operating expenses	82,740	142,888	(42)	163,213	299,871	(46)
Other income (expense)						
Interest income	1,438	1,872	(23)	3,324	4,165	(20)
Interest expense	(12,890)	(11,261)	14	(26,557)	(22,003)	21
Pledged MSR liability expense	(41,714)	(2,930)	n/m	(48,337)	(46,886)	3
Other, net	2,459	890	176	6,121	2,416	153
Total other expense, net	(50,707)	(11,429)	344	(65,449)	(62,308)	5
Income (loss) before income taxes	$ 10,385	$ (59,006)	(118)%	$ (45,711)	$ (116,508)	(61)%

n/m: not meaningful

The following tables provide selected operating statistics:

	June 30,		
	2020	2019	% Change
Residential Assets Serviced			
Unpaid principal balance (UPB) in billions:			
Performing loans (2)	$ 191.9	$ 220.7	(13)%
Non-performing loans	12.5	6.5	92
Non-performing real estate	1.6	2.1	(24)
Total (1)	206.0	229.3	(10)%
Conventional loans (3)	$ 90.8	$ 106.4	(15)%
Government-insured loans	33.4	29.2	14
Non-Agency loans	81.8	93.7	(13)
Total (1)	$ 206.0	$ 229.3	(10)%
Servicing portfolio	$ 77.0	$ 80.2	(4)%
Subservicing portfolio	20.0	27.4	(27)
NRZ (4)	109.0	121.7	(10)
Total (1)	$ 206.0	$ 229.3	(10)
Number:			
Performing loans (2)	1,293,817	1,443,253	(10)%
Non-performing loans	63,819	36,860	73
Non-performing real estate	9,776	10,916	(10)
Total (1)	1,367,412	1,491,029	(8)%
Conventional loans (3)	576,361	639,648	(10)%
Government-insured loans	199,034	187,527	6
Non-Agency loans	592,017	663,854	(11)
Total (1)	1,367,412	1,491,029	(8)%
Servicing portfolio	471,811	487,933	(3)%
Subservicing portfolio	81,210	105,060	(23)
NRZ (4)	814,391	898,036	(9)
Total (1)	1,367,412	1,491,029	(8)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Residential Assets Serviced						
Average UPB:						
Servicing portfolio	$ 77.4	$ 78.9	(2)%	$ 75.5	$ 76.3	(1)%
Subservicing portfolio	18.6	38.6	(52)	17.7	44.6	(60)
NRZ (4)	111.5	123.9	(10)	114.9	126.1	(9)
Total	$ 207.5	$ 241.4	(14)%	$ 208.1	$ 247.0	(16)%
Prepayment speed (CPR) (5)	18.9%	15.2%	24 %	17.1%	13.8%	24 %
% Voluntary CPR (5)	14.5	10.5	38	12.5	9.1	37
% Involuntary CPR (5)	1.3	1.2	8	1.2	1.6	(25)
Average number:						
Servicing portfolio	476,118	484,538	(2)%	462,415	473,961	(2)%
Subservicing portfolio	77,714	122,013	(36)	75,084	134,503	(44)
NRZ (5)	828,116	910,325	(9)	852,774	924,069	(8)
	1,381,948	1,516,876	(9)%	1,390,273	1,532,533	(9)%
Residential Servicing and Subservicing Fees						
Loan servicing and subservicing fees:						
Servicing	$ 51,737	$ 54,942	(6)%	$ 106,817	$ 107,457	(1)%
Subservicing	10,623	4,203	153	15,812	10,410	52
NRZ	88,405	141,091	(37)	208,073	296,938	(30)
	150,765	200,236	(25)	330,702	414,805	(20)
Late charges	12,619	13,182	(4)	27,217	28,520	(5)
Custodial accounts (float earnings)	1,590	13,288	(88)	7,720	25,198	(69)
Loan collection fees	2,741	3,395	(19)	6,993	7,657	(9)
HAMP fees	20	1,565	(99)	428	3,342	(87)
Other	6,626	6,870	(4)	12,128	14,225	(15)
	$ 174,361	$ 238,536	(27)%	$ 385,188	$ 493,747	(22)%
Number of Completed Modifications						
Non-HAMP	7,263	5,051	44	15,588	13,083	19
HAMP	—	250	(100)%	—	503	(100)%
Total	7,263	5,301	37 %	15,588	13,586	15 %

n/m: not meaningful

(1) Includes 35,214 and 33,521 reverse mortgage loans, recorded on our balance sheet and classified as loans held for investment, with a UPB of $6.5 billion and $5.8 billion at June 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 103,611 and 123,747 prime loans with a UPB of $18.9 billion and $28.1 billion at June 30, 2020 and 2019, respectively, which we service or subservice. 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).

Dollars in millions	June 30, 2020 Principal and Interest	June 30, 2020 Taxes and Insurance	June 30, 2020 Foreclosures, bankruptcy, REO and other	June 30, 2020 Total	December 31, 2019 Principal and Interest	December 31, 2019 Taxes and Insurance	December 31, 2019 Foreclosures, bankruptcy, REO and other	December 31, 2019 Total
Advances by investor type								
Conventional	$ 3	$ 20	$ 10	$ 34	$ 4	$ 20	$ 27	$ 51
Government-insured	—	34	27	62	—	47	26	73
Non-Agency	333	301	172	805	410	354	168	932
Total, net	$ 336	$ 355	$ 209	$ 901	$ 414	$ 421	$ 221	$ 1,056

Advances by MSR ownership	June 30, 2020 Advances ($ millions)	June 30, 2020 UPB ($ billions) (3)	December 31, 2019 Advances ($ millions)	December 31, 2019 UPB ($ billions) (3)
Servicer	$ 848	$ 70.5	$ 976	$ 67.6
Master Servicer (1)	4	1.7	—	1.8
Subservicer	40	20.0	38	17.3
NRZ (2)	9	109.0	42	118.6
Total, net (3)	$ 901	$ 201.2	$ 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. We are dependent upon NRZ for funding the servicing advance obligations for Rights to MSRs where we are the servicer. As the servicer, 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.
(3) Excludes reverse mortgage loans reported on our unaudited consolidated balance sheets and classified as loans held for investment. No separate MSRs are recognized in our unaudited consolidated balance sheets.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Financing Costs						
Average balance of advances	$ 908,111	$ 1,147,164	(21)%	$ 987,683	$ 1,087,925	(9)%
Average borrowings						
Advance match funded liabilities	625,360	646,369	(3)	649,900	681,813	(5)
Other secured borrowings	437,069	74,074	490	555,595	83,585	565 %
Interest expense on borrowings						
Advance match funded liabilities	7,311	7,045	4	12,976	14,697	(12)
Other secured borrowings	4,422	1,206	267	10,059	2,921	244
Effective average interest rate						
Advance match funded liabilities	4.68%	4.36%	7 %	3.99%	4.31%	(7)%
Other secured borrowings	4.05	6.51	(38)	3.62	6.99	(48)
Facility costs included in interest expense	$ 3,548	$ 1,369	159 %	$ 5,741	$ 2,652	116 %
Average 1ML	0.36%	2.44%	(85)%	0.90%	2.47%	(64)%
Average Employment						
India and other	3,018	3,497	(14)%	3,019	3,585	(16)%
U.S.	747	1,452	(49)%	751	1,482	(49)%
Total	3,765	4,949	(24)%	3,770	5,067	(26)%

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 (1) (2)	6.9	4.7	28,781	16,419
Sales	(0.1)	(0.1)	(720)	(723)
Servicing transfers (2)	(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 (1)	8.5	8.9	28,949	34,123
Sales	(0.1)	(0.2)	(720)	(1,288)
Servicing transfers (2)	(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

(1) Additions in the second quarter of 2020 include purchased MSRs on portfolios consisting of 1,682 loans with a UPB of $0.5 billion that have not yet transferred to the Black Knight MSP servicing system as of June 30, 2020. Additions in the first quarter of 2020 include purchased MSRs on portfolios consisting of 12,584 loans with a UPB of $2.4 billion that had not transferred to the Black Knight MSP servicing system as of March 31, 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, 6,186 short-term interim subservicing loans with a UPB of $1.2 billion previously reported as additions and servicing transfers for the quarter ended June 30, 2019 are not reflected in the table above.

The following table provides information regarding the changes in the fair value and the UPB of our portfolio of owned MSR, excluding NRZ during the second quarter of 2020:

	Quarter ended June 30, 2020							
	Fair Value				UPB			
	Conventional	Government-insured	Non-Agency	Total	Conventional	Government-insured	Non-Agency	Total
Beginning balance	$ 216.5	$ 80.2	$ 161.3	$ 458.0	$ 30.0	$ 15.3	$ 24.8	$ 70.1
Additions								
New cap.	7.1	2.0	—	9.1	0.8	0.2	—	1.0
Purchases	15.3	—	—	15.3	2.8	—	0.2	3.0
Servicing transfers and adjustments	—	—	1.3	1.3	—	—	—	—
Sales/calls	—	—	(0.1)	(0.1)	—	—	—	—
Change in fair value								
Runoff	(14.4)	(2.7)	(5.6)	(22.7)	(2.8)	(0.8)	(1.2)	(4.8)
Assumptions	7.2	(3.6)	(2.1)	1.5	—	—	—	—
Ending balance	$ 231.7	$ 75.9	$ 154.8	$ 462.4	$ 30.8	$ 14.7	$ 23.8	$ 69.3

Three Months Ended June 30, 2020 versus 2019

Servicing and subservicing fee revenue declined by $64.1 million, or 27%, as compared to the second quarter of 2019, with a $52.7 million decline in NRZ servicing fees, mostly due to the decline in the UPB serviced for NRZ, derecognition of MSRs in connection with the termination of the PMC agreement by NRZ on February 20, 2020, and, to a lesser impact, the COVID-19 market environment. The average UPB of our portfolio declined 14% as compared to the second quarter of 2019, mostly due to portfolio runoff, net of newly originated and acquired MSRs and certain servicing transfers in the second quarter of 2019.

While our servicing fees with NRZ decreased due to derecognition of MSRs in connection with the termination of the PMC servicing agreement by NRZ on February 20, 2020, the net servicing fee retained by Ocwen was not materially impacted during the period by such termination as we continue to subservice the loans through deboarding. The termination of the PMC servicing agreement by NRZ both reduced the amount of servicing fee collected on behalf of NRZ that is reported as Servicing and subservicing fees and the amount of servicing fee remitted to NRZ that is reported as Pledged MSR liability expense, without any impact on the net servicing fee retained, that is reported as subservicing fee after February 20, 2020. Ocwen will not perform any subservicing of the loans subject to termination and will not earn any subservicing fee after loan deboarding, which is currently planned for September and October 2020, though is subject to various requirements that may delay the process.

As discussed in the COVID-19 section above, our servicing fees also decreased as a result of the loans under forbearance that were not paying during the second quarter of 2020. We did 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.

Ancillary income declined by $14.7 million primarily due to an $11.7 million, or 88%, decline in float income as compared to the second quarter of 2019 that was mainly due to lower interest rates, with the average 1-month LIBOR rate dropping more than 200 basis points as compared to the second quarter of 2019. The combined effect of lower servicing volume, as discussed above, and the COVID-19 environment with no late fees or collection fees on loans under forbearance also contributed to the decline in ancillary income. Revenue recognized in connection with loan modifications, including servicing fees, late charges and HAMP fees, increased 22% to $9.5 million for the second quarter of 2020 as compared to $7.8 million in the second quarter of 2019.

We reported a $36.6 million loss in MSR valuation adjustments, net in the second quarter of 2020. This decline in MSR fair value is driven by $30.9 million portfolio runoff and a $13.3 million loss due to the decline in interest rates and assumptions, partially offset by a $7.5 million favorable fair value gain from our MSR hedging strategy. The fair value loss reported in MSR valuation adjustments, net, decreased $110.6 million, or 75%, as compared to the second quarter of 2019, primarily due to derecognition of MSRs in connection with the notice of termination of the PMC agreement by NRZ on

February 20, 2020, the impact of interest rates and the effects of the MSR hedging program implemented on September 1, 2019. The value of the MSRs under the PMC agreement with NRZ declined $63.6 million in the second quarter of 2019. The 10-year swap rate declined 8 basis points in the second quarter of 2020, as compared to a 45 basis-point decline in the second quarter of 2019.

The $36.6 million loss reported in MSR valuation adjustments, net is partially offset by a $9.1 million gain reported in our statement of operations relating to the pledged MSR liability. MSRs have been sold under different agreements that did not qualify for sale accounting treatment and, therefore are reported as MSR assets together with an associated liability for the MSR failed-sale secured borrowing at fair value. Because both pledged MSRs and the associated MSR liability are measured at fair value, changes in fair value offset each other, although they are separately presented in our statement of operations, as MSR valuation adjustments, net and Pledged MSR liability expense, respectively. The following table summarizes the fair value change impact on our statement of operations of our total MSRs and the MSRs liability associated with the NRZ failed-sale accounting treatment during the second quarter of 2020:

In millions	**Total Change in Fair Value**	**Runoff**	**Rate and Assumption Change**	**MSR Hedging**
MSR valuation adjustments, net (1)	$ (36.6)	$ (30.9)	$ (13.3)	$ 7.5
Pledged MSR liability expense - Fair value changes (2)	9.1	8.1	1.0	—
Total	$ (27.5)	$ (22.8)	$ (12.3)	$ 7.5

(1) Excludes $13.2 million gain on the revaluation of MSR purchased in a disorderly market, that is recognized in the Originations segment.
(2) Includes changes in fair value, including runoff and settlement, of the NRZ related MSR liability under the Original Rights to MSRs Agreements and PMC MSR Agreements. See Note 8 — Rights to MSRs for further information.

The notice of termination of the PMC servicing agreement with NRZ in February 2020 resulted in the derecognition of the associated MSR and pledged MSR liability. Accordingly, since February 2020, we have not recorded any fair value changes of the MSR and the pledged MSR liability relating to the NRZ PMC subservicing agreement, which resulted in lower runoff, and lower volatility due to rates and assumptions (due to lower UPB) in the above two individual line items of our statement of operations in the second quarter of 2020.

As described in the table above, Ocwen’s MSR portfolio, net of the pledged MSR liability, incurred a fair value loss due to interest rates and assumptions of $12.3 million in the second quarter of 2020, that was partially offset by a $7.5 million fair value gain on our MSR hedging strategy. Our macro-hedge strategy includes other financial instruments not presented in this table. Refer to Item 3 - Quantitative and qualitative disclosures about market risk for further detail on our hedge strategy and its effectiveness.

Operating expenses decreased $60.1 million, or 42%, as compared to the second quarter of 2019, mostly due to our integration and cost reduction initiatives that favorably and equally impacted our direct cost to service and our corporate overhead cost allocation, as discussed below.

Compensation and benefits expense declined $12.2 million, or 30%, as compared to the second 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. Our average total servicing headcount decreased 24% compared to the second 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 71% to 80% of total headcount, compared to the second quarter of 2019.

Servicing and origination expense declined $4.3 million, or 25%, as compared to the second quarter of 2019, primarily due to a $3.7 million reduction in government-insured claim loss provisions on reinstated or modified loans in line with a decline in the volume of claims due to the COVID-19 moratorium and a general decline in other servicer-related expenses that was primarily driven by a 9% reduction in the average number of loans in our servicing portfolio. 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.

Occupancy and equipment expense decreased $3.5 million, or 30%, as compared to the second quarter of 2019, largely because of the effect of the decline in the size of the servicing portfolio on various direct and allocated expenses, 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 $2.2 million, or 20%, as compared to the second quarter of 2019, primarily due to a $4.2 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, partially offset by a $1.3 million increase in outsourcing expenses to manage the call center increased activity due to COVID-19.

Corporate overhead allocations declined $37.6 million, as compared to the second quarter of 2019, primarily due to lower legal fees, technology expenses and compensation and benefits. The relative weight of average headcount to the consolidated organization declined as compared to the second 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.

Interest expense increased by $1.6 million, or 14%, as compared to the second quarter of 2019, primarily because of the new MSR financing facilities entered into during the third and fourth quarters of 2019.

Pledged MSR liability expense increased $38.8 million, as compared to second quarter of 2019, largely due to termination of the PMC servicing agreement by NRZ on February 20, 2020, final amortization of the 2017/2018 upfront cash payments in April 2020 and a lower UPB serviced. Fair value gains and runoff on the PMC MSR Agreements for the second quarter of 2019 were $47.8 million and $15.8 million, respectively, and the 2017/18 lump sum amortization gain was $20.7 million lower in the second quarter of 2020. The notice of termination of the PMC servicing agreement with NRZ in February 2020 resulted in the derecognition of the associated MSR and pledged MSR liability. Accordingly, since February 2020, we have not recorded any fair value changes of the MSR and the pledged MSR liability relating to the NRZ PMC subservicing agreement, which resulted in lower runoff, and lower volatility due to rates and assumptions (due to lower UPB) in the above two individual line items of our statement of operations in the second quarter of 2020. These increases in Pledged MSR liability expense were partially offset by a $42.3 million lower net servicing fee remittance to NRZ as compared to the second quarter 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. The $41.7 million expense in the second quarter of 2020 primarily includes a $62.9 million net servicing fee remittance to NRZ partially offset by a $10.0 million amortization gain related to the lump-sum cash payments received from NRZ in connection with the 2017 Agreements and New RMSR Agreements in 2017 and 2018, and a $9.1 million fair value gain on the pledged MSR liability. See Note 8 — Rights to MSRs to the Unaudited Consolidated Financial Statements.

	Three Months Ended June 30,		Change
Amounts in millions	**2020**	**2019**	**2020 vs 2019**
Net servicing fee remittance to NRZ (a)	$ 62.9	$ 105.2	$ (42.3)
2017/2018 lump sum amortization (gain)	(10.0)	(30.7)	20.7
Pledged MSR liability fair value (gain) loss (b)	(9.1)	(73.3)	64.2
Other	(2.1)	1.7	(3.8)
Pledged MSR liability expense	$ 41.7	$ 2.9	$ 38.8

(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.

The table below reflects the condensed consolidated statement of operations together with the included amounts related to the NRZ pledged MSRs that offset each other (nil impact on net income/loss). 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 $10.0 million lump sum amortization gain and the $2.1 million in "Other" affect our net earnings.

	Three Months Ended June 30,							
	2020				2019			
Dollars in millions	**Statement of Operations**		**NRZ Pledged MSR-related Amounts (a)**		**Statement of Operations**		**NRZ Pledged MSR-related Amounts (a)**	
Total revenue	$	227.0	$	62.9	$	274.3	$	105.2
MSR valuation adjustments, net		(23.4)		(9.1)		(147.3)		(73.3)
Total operating expenses		144.8		—		184.2		—
Total other expense, net		(64.9)		(53.7)		(27.2)		(31.8)
Loss before income taxes	$	(6.1)	$	—	$	(84.4)	$	—

(a) Amounts included in the specific statement of operations line items.

Six Months Ended June 30, 2020 versus 2019

Servicing and subservicing fee revenue declined by $109.0 million, or 22%, as compared to the six months ended June 30, 2019, with a $88.9 million decline in NRZ servicing fees, mostly due to the decline in the UPB serviced for NRZ, the termination of the PMC agreement by NRZ on February 20, 2020, and to a lesser impact, the COVID-19 market environment. The average UPB of our portfolio declined 16% as compared to the six months ended June 30, 2019, mostly due to portfolio runoff, net of newly originated and acquired MSRs and certain servicing transfers in the second quarter of 2019.

While our servicing fees with NRZ decreased due to derecognition of MSRs in connection with the notice of termination of the PMC servicing agreement by NRZ on February 20, 2020, the net servicing fee retained by Ocwen was not materially impacted during the period by such termination as we continue to subservice the loans through deboarding. The notice of termination of the PMC servicing agreement by NRZ both reduced the amount of servicing fee collected on behalf of NRZ that is reported as Servicing and subservicing fees and the amount of servicing fee remitted to NRZ that is reported as Pledged MSR liability expense, without any impact on the net servicing fee retained, that is reported as subservicing fee after February 20, 2020. Ocwen will not perform any subservicing of the loans subject to termination and will not earn any subservicing fee after loan deboarding, which is currently planned for September and October 2020, though is subject to various requirements that may delay the process.

As discussed in the COVID-19 section above, our servicing fees also decreased as a result of the loans under forbearance that were not paying during the second quarter of 2020. We did 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.

Ancillary income declined by $24.5 million primarily due to the $17.5 million, or 69%, decline in float income as compared to the six months ended June 30, 2019 mainly due to the combined effect of lower custodial account balances and lower interest rates, with the average 1-month LIBOR rate dropping more than 150 basis points in the first half of 2020 as compared to the same period of 2019. The combined effect of lower servicing volume, as discussed above, and the COVID-19 environment with no late fees or collection fees on loans under forbearance also contributed to the decline. Revenue recognized in connection with loan modification HAMP fees decreased $2.9 million due to the expiration of the program.

We reported a $211.0 million loss in MSR valuation adjustments, net for the six months ended June 30, 2020. This decline in MSR fair value is driven by a $170.0 million loss due to the decline in interest rates and assumptions and $83.9 million portfolio runoff, partially offset by a $42.8 million favorable fair value gain from our MSR hedging strategy. The fair value loss reported in MSR valuation adjustments, net, decreased $45.1 million, or 18%, as compared to the six months ended June 30, 2019, primarily due to the notice of termination of the PMC agreement by NRZ on February 20, 2020 ($114.5 million decline in the MSRs during the six months ended June 30, 2019) and the effects of the MSR hedging program implemented on September 1, 2019, offset in part by the impact of interest rates with a 126 basis-point decline in the 10-year swap rate during six months ended June 30, 2020, as compared to the 75 basis-point decline for the six months ended June 30, 2019.

The $211.0 million loss reported in MSR valuation adjustments, net is partially offset by a $66.0 million gain reported in our statement of operations relating to the pledged MSR liability. The following table summarizes the fair value change impact on our statement of operations of our total MSRs and the MSRs liability associated with the NRZ failed-sale accounting treatment during the six months ended June 30, 2020:

In millions	Total Change in Fair Value	Runoff	Rate and Assumption Change	MSR Hedging
MSR valuation adjustments, net (1)	$ (211.0)	$ (83.9)	$ (170.0)	$ 42.8
Pledged MSR liability expense - Fair value changes (2)	66.0	33.4	32.6	—
Total	$ (145.0)	$ (50.5)	$ (137.4)	$ 42.8

(1) Excludes $13.5 million gain recognized in the Originations segment.
(2) Includes changes in fair value, including runoff and settlement, of the NRZ related MSR liability under the Original Rights to MSRs Agreements and PMC MSR Agreements. See Note 8 — Rights to MSRs for further information.

As described in the table above, Ocwen's MSR portfolio, net of the pledged MSR liability, incurred a fair value loss due to interest rates of $137.4 million during the six months ended June 30, 2020, that was partially offset by a $42.8 million fair value gain due to our MSR hedging strategy. Our macro-hedge strategy includes other financial instruments not presented in this table. Refer to Item 3 - Quantitative and qualitative disclosures about market risk for further detail on our hedge strategy and its effectiveness.

Operating expenses decreased $136.7 million, or 46%, as compared to the six months ended June 30, 2019, mostly due to our integration and cost reduction initiatives that favorably and equally impacted our direct cost to service and our corporate overhead cost allocation, as discussed below.

Compensation and benefits expense declined $25.8 million, or 32%, as compared to the six months ended June 30, 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. Our average total servicing headcount decreased 26% compared to the six months ended June 30, 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 71% to 80% of total headcount, compared to the six months ended June 30, 2019.

Servicing and origination expense declined $14.3 million, or 34%, as compared to the six months ended June 30, 2019, primarily due to a $6.1 million reduction in government-insured claim loss provisions on reinstated or modified loans in line with a decline in the volume of claims and a general decline in other servicer-related expenses that was primarily driven by a 9% reduction in the average number of loans in our servicing portfolio.

Occupancy and equipment expense decreased $7.1 million, or 29%, as compared to the six months ended June 30, 2019, largely because of the effect of the decline in the size of the servicing portfolio on various direct and allocated expenses, including 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 $8.6 million, or 38%, as compared to the six months ended June 30, 2019, primarily due to a $9.9 million decline in legal fees 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, partially offset by a $1.3 million increase in outsourcing expenses to manage the call center increased activity due to COVID-19 in the second quarter of 2020.

Technology and communication expense declined $3.2 million or 19%, as compared to the six months ended June 30, 2019, primarily because we no longer license the REALServicing servicing system from Altisource following our transition to Black Knight MSP in June 2019.

Corporate overhead allocations declined $77.4 million, as compared to the six months ended June 30, 2019, primarily due to lower legal fees, technology expenses and compensation and benefits. The relative weight of average headcount to the consolidated organization declined as compared to the six months ended June 30, 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 segments. Refer to the Corporate Items and Other segment discussion.

Interest expense increased by $4.6 million, or 21%, as compared to the six months ended June 30, 2019, primarily because of the new MSR financing facilities entered into during the third and fourth quarters of 2019, partially offset by a reduction in interest expense relating to servicing advances.

Pledged MSR liability expense increased $1.5 million, as compared to the six months ended June 30, 2019, primarily as a result of notice of termination of the PMC servicing agreement by NRZ on February 20, 2020, final amortization of the 2017/2018 upfront cash payments in April 2020 and a lower UPB serviced. Fair value gains and runoff on the PMC MSR Agreements declined $40.2 million and $26.1 million, respectively, and the 2017/18 lump sum amortization gain was $12.8 million lower, offset by $70.4 million lower net servicing fee remittance to NRZ. The $48.3 million expense in the six months ended June 30, 2020 primarily includes a $153.2 million net servicing fee remittance to NRZ partially offset by a $34.2 million amortization gain related to the lump-sum cash payments and a $66.0 million fair value gain on the pledged MSR liability.

Amounts in millions	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Change 2020 vs 2019
Net servicing fee remittance to NRZ (a)	$ 153.2	$ 223.6	$ (70.4)
2017/2018 lump sum amortization (gain)	(34.2)	(47.0)	12.8
Pledged MSR liability fair value (gain) loss (b)	(66.0)	(133.4)	67.4
Other	(4.7)	3.7	(8.4)
Pledged MSR liability expense	$ 48.3	$ 46.9	$ 1.4

(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.

The table below reflects the condensed consolidated statement of operations together with the included amounts related to the NRZ pledged MSRs that offset each other (nil impact on net income/loss).

	Six Months Ended June 30,			
	2020		2019	
Dollars in millions	Statement of Operations	NRZ Pledged MSR-related Amounts (a)	Statement of Operations	NRZ Pledged MSR-related Amounts (a)
Total revenue	$ 480.9	$ 153.2	$ 578.2	$ 223.6
MSR valuation adjustments, net	(197.6)	(66.0)	(256.3)	(133.4)
Total operating expenses	282.0	—	355.3	—
Total other expense, net	(94.8)	(87.2)	(92.0)	(90.3)
Loss before income taxes	$ (93.5)	$ —	$ (125.4)	$ —

ORIGINATIONS

We source our servicing portfolio 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 forward lending efforts are principally focused 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.

A portion of our servicing portfolio is susceptible to refinance activity during periods of declining interest rates. Our 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 June 30, 2020. These draws are funded by the servicer and can be subsequently securitized or sold (Future Value). We do not incur any substantive underwriting, marketing or compensation costs in connection with 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. For loans purchased or originated after December 31, 2018, we previously elected to fair value future draw commitments. We elected to recognize non-cancellable future draw commitments at fair value for loans purchased or originated before January 1, 2019 in conjunction with the adoption of the new credit loss accounting standard, and recognized a one-time adjustment of $47.0 million to stockholders' equity on January 1, 2020. Accordingly, as of January 1, 2020, the non-cancellable future draw commitments related to all reverse loans are reported at fair value. See Note 1 - Organization and Basis of Presentation to the Unaudited Consolidated Financial Statements for additional information. On March 15, 2020, as part of Ocwen's legal entity restructuring, Liberty transferred substantially all of its assets, liabilities, contracts and employees to PMC. We continue to originate and service reverse mortgage loans under the brand name Liberty Reverse Mortgage.

For the three months ended June 30, 2020, our Originations business originated or purchased forward and reverse mortgage loans with a UPB of $978.3 and $213.9, respectively. Loans are originated or acquired through three primary channels: correspondent lender relationships, broker relationships (wholesale) and directly with mortgage customers (recapture for forward loans and retail for reverse loans). Loan margins vary by channel, with correspondent typically being the lowest margin and retail the highest.

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 interest income earned for the period the loans are held by us, gain on sale revenue, which represents the difference between the origination value and the sale value of the loan including its MSR value, and fee income earned at origination. As the securitizations of reverse mortgage loans do not achieve sale accounting treatment, reverse mortgage revenues include 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.

We are actively managing the size and diversifying the sources of our servicing portfolio through our lending channels and through MSR acquisitions, including MSR flow purchases, GSE Cash Window and bulk acquisitions, based on our capital availability that are prudent and well-executed with appropriate financial return targets. We closed MSR flow acquisitions with $0.5 billion UPB and opportunistically purchased $2.3 billion UPB MSR through the GSE Cash Window during the three months ended June 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 June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Revenue						
Gain on loans held for sale, net	$ 28,975	$ 6,595	339 %	$ 41,464	$ 14,352	189 %
Reverse mortgage revenue, net	13,759	20,493	(33)	36,556	52,616	(31)
Other revenue, net	2,811	1,706	65	5,172	2,917	77
Total revenue	45,545	28,794	58	83,192	69,885	19
MSR valuation adjustments, net	13,170	(69)	n/m	13,486	(153)	n/m
Operating expenses						
Compensation and benefits	13,356	11,501	16	26,273	23,943	10
Servicing and origination	4,291	3,996	7	8,997	7,857	15
Occupancy and equipment	1,422	1,665	(15)	2,880	3,521	(18)
Technology and communications	1,346	1,121	20	2,066	1,802	15
Professional services	1,881	517	264	2,995	862	247
Corporate overhead allocations	4,704	1,661	183	9,128	3,346	173
Other expenses	1,750	496	253	3,369	873	286
Total operating expenses	28,750	20,957	37	55,708	42,204	32
Other income (expense)						
Interest income	1,874	1,546	21	4,140	3,095	34
Interest expense	(2,399)	(1,399)	71	(5,260)	(3,067)	72
Other, net	(1)	444	(100)	(30)	663	(105)
Total other income (expense), net	(526)	591	(189)	(1,150)	691	(266)
Income before income taxes	$ 29,439	$ 8,359	252 %	$ 39,820	$ 28,219	41 %

n/m: not meaningful

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

UPB in millions	June 30, 2020	June 30, 2019	% Change	December 31, 2019	% Change
Short-term loan funding commitments					
Forward loans	$ 477,471	$ 95,823	398 %	$ 204,021	134 %
Reverse loans	30,161	22,276	35	28,545	6
Future Value (1)	39,916	59,953	(33)%	47,038	(15)
Future draw commitment (UPB) (2)	1,597.0	1,489.4	7 %	1,502.2	6

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	% Change	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	% Change
UPB in millions						
Originations by Channel						
Forward loans (3)						
Correspondent	$ 659.8	$ 3.3	n/m	$ 1,174.1	$ 3.3	n/m
Recapture	318.6	147.4	116	514.5	358.6	43
GSE Cash Window / Flow MSR	2,841.0	4.7	n/m	4,184.2	4.7	n/m
	$ 3,819.4	$ 155.4	n/m	$ 5,872.8	$ 366.6	n/m
% Purchase loan production	17	10	70	21	6	250
% Refinance loan production	83	90	(8)	79	94	(16)
Reverse loans (4)						
Correspondent	$ 100.4	$ 83.2	21 %	$ 216.6	$ 171.8	26 %
Wholesale	81.7	44.1	85	160.7	86.4	86
Retail	31.8	14.9	113	62.6	25.3	147
	$ 213.9	$ 142.2	50 %	$ 439.9	$ 283.5	55 %
Average Employment						
U.S.	442	407	9 %	433	451	(4)%
India and other	146	115	27	118	123	(4)
Total	588	522	13 %	551	574	(4)%

(1) Future Value represented the net present value of estimated future cash flows from customer draws of the reverse mortgage loans and projected performance assumptions based on historical experience and industry benchmarks discounted at 12% related to HECM loans originated prior to January 1, 2019. Prior to our adoption of the new credit loss accounting standard on January 1, 2020, we have recognized this Future Value over time as future draws were securitized or sold. Upon the adoption of the accounting standard and our irrevocable fair value election of tails, $47.0 million Future Value has been recognized through stockholders' equity on January 1, 2020.
(2) Includes all future draw commitments.
(3) Includes the UPB of loans originated through the recapture channel, the UPB of loan 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 $59.6 million and $73.7 million for the three months ended June 30, 2020 and 2019, and $138.3 million and $146.5 million for the six months ended June 30, 2020 and 2019, respectively.

Three Months Ended June 30, 2020 versus 2019

Total revenue increased $16.8 million, or 58%, as compared to the second quarter of 2019, primarily due to a $22.4 million increase in gain on loans held for sale, net partially offset by a $6.7 million decline in Reverse mortgage revenue, net.

Gain on loans held for sale, net increased $22.4 million, or 339%, as compared to the second quarter of 2019, mostly due to the $827.7 million, or 549% increase in total forward loan production, partially offset by a lower average gain on sale margin. The volume increase is predominantly due to the $659.8 million production of the second quarter of 2020 from our correspondent channel that we re-started in the second quarter of 2019. Our pipeline, or lock commitments, significantly increased in the second quarter of 2020 mostly due to refinance opportunities in the market driven by the mortgage rate decrease. The volume increase resulted in a $9.1 million capitalization of originated MSRs (retained on transfers of forward mortgage loans) in the second quarter of 2020 as compared to a $0.8 million capitalization in the second quarter of 2019, despite a decline in the MSR capitalization prices in these periods. The lower average gain on sale margin is mainly due to the increased relative weight of our lower-margin correspondent production.

The $6.7 million decrease in Reverse mortgage revenue, net in the second quarter of 2020 as compared to the second quarter of 2019 is primarily the result of a decline in the portfolio fair value due to rates and assumptions and the fair value election on January 1, 2020 of tail draws. Lower interest rates generally result in favorable net fair value impacts on our HECM reverse mortgage loans and the related HMBS-related borrowings. However, a decrease in tail gain assumptions more than offset the favorable impact of lower interest rates and margin improvement. The net fair value decline due to pricing conditions also more than offset the favorable impact of our volume growth. We increased our reverse lending volume by $71.8 million, or 50%, as compared to the second quarter of 2019, and generated $4.4 million higher cash realized gain on securitization. We continued to execute on our growth strategy and increased volumes in all channels, including purchases with former customers and increased wallet share with existing customers. Our volume growth exceeds the increase in industry endorsements for the comparable period. According to the HUD HECM Endorsement Summary Report, industry endorsements, or the number of new HECM loans insured by the FHA, increased from 8,144 to 10,848, or 33%, when comparing the three months ended June 30, 2020 and 2019. During the second quarter 2019, we recorded gains on the securitization of tail draws. Since January 1, 2020, the fair value of tail draws is included in the fair value of the portfolio and the gains on securitization of tails draws is a component of the runoff of the portfolio.

MSR valuation adjustments, net gain of $13.2 million in the second quarter of 2020 is due to the recognition of revaluation gains on certain MSRs opportunistically purchased through the GSE Cash Window and, to a lesser extent, certain MSR flow purchase agreements in a disorderly market. 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.

Operating expenses increased $7.8 million, or 37%, as compared to the second quarter of 2019, primarily due to a $3.0 million increase in corporate overhead allocations and increases in our direct expenses. 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, and advertising expense, recorded in Other expenses. Total average headcount increased 13% as compared to the second 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 second quarter of 2019 increased by $1.9 million, or 16%, due to higher commissions on higher origination volume and despite a decrease in average higher-cost U.S. headcount to 75% of the total from 78% for the three months ended June 30, 2019. The $3.0 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 second 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.

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 increases in interest income and interest expense as compared to the second quarter of 2019 is primarily the result of the increase in loan production.

Six Months Ended June 30, 2020 versus 2019

Total revenue increased $13.3 million, or 19% as compared to the six months ended June 30, 2019, primarily due to a $27.1 million increase in gain on loans held for sale, net offset in part by a $16.1 million decrease in Reverse mortgage revenue, net.

Gain on loans held for sale, net increased $27.1 million, or 189%, as compared to the six months ended June 30, 2019, mostly due to the $1.3 billion, or 367% increase in total forward loan production, partially offset by a lower average gain on sale margin. The volume increase is predominantly due to the $1.2 billion production in the first six months of 2020 from our correspondent channel. Our pipeline, or lock commitments, significantly increased in the first six months of 2020 mostly due to refinance opportunities in the market driven by the mortgage rate decrease. The volume increase resulted in a $15.7 million capitalization of originated MSRs in the first six months of 2020 as compared to a $1.6 million capitalization in the six months ended June 30, 2019, despite a decline in the MSR capitalization prices in these periods. The lower average gain on sale margin is mainly due to the increased relative weight of our lower-margin correspondent production.

The $16.1 million decrease in Reverse mortgage revenue, net as compared to the six months ended June 30, 2019 is primarily due to the COVID-19 market conditions adversely impacting the portfolio fair value as of June 30, 2020, and the fair value election on January 1, 2020 of tail draws. Margin compression due to the COVID-19 market conditions and a decrease in tail gain assumptions more than offset the favorable impact of lower interest rates. The net fair value decline due to pricing conditions also more than offset the favorable impact of our volume growth. We increased our reverse lending volume by $156.5 million, or 55%, as compared to the six months ended June 30, 2019, and generated $6.7 million higher cash realized gain on securitization. According to the HUD HECM Endorsement Summary Report, industry endorsements, or the number of new HECM loans insured by the FHA, increased from 16,368 to 21,066, or 29%, when comparing the six months ended June 30, 2020 and 2019. During the six months ended June 30, 2019, we recorded gains on the securitization of tail draws. Since January 1, 2020, the fair value of tail draws is included in the fair value of the portfolio and the gains on securitization of tails draws is a component of the runoff of the portfolio.

MSR valuation adjustments, net gain of $13.5 million for the six months ended June 30, 2020 is due to the recognition of revaluation gains on certain MSRs opportunistically purchased through the GSE Cash Window and, to a lesser extent, certain MSR flow purchase agreements in a disorderly market. 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.

Operating expenses increased $13.5 million, or 32%, as compared to the six months ended June 30, 2019, primarily due to a $5.8 million increase in corporate overhead allocations and increases in our direct expenses. Total average headcount decreased 4% as compared to the six months ended June 30, 2019, reflecting reductions in staffing levels as part of our PHH integration and cost re-engineering initiative offset by an increase in headcount to support the increase in origination volume. Compensation expense as compared to the six months ended June 30, 2019 increased by $2.3 million, or 10%, largely due to higher commissions on higher origination volume. Average higher-cost U.S. headcount remained unchanged at 79% of the total compared to the six months ended June 30, 2019. The $5.8 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, despite a net reduction in our headcount, as compared to the six months ended June 30, 2019. The increase in corporate overhead allocations due to the allocation drivers is partially offset by the effects of our cost re-engineering plan.

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 is not allocated. 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 for 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 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 June 30,			Six Months Ended June 30,		
	2020	2019	% Change	2020	2019	% Change
Revenue						
Premiums (CRL)	$ 990	$ 3,016	(67)%	$ 3,618	$ 6,427	(44)%
Other revenue	53	18	194	65	130	(50)
Total revenue	1,043	3,034	(66)	3,683	6,557	(44)
Operating expenses						
Compensation and benefits	22,986	29,948	(23)	44,011	71,799	(39)
Professional services	13,135	25,582	(49)	32,587	17,255	89
Technology and communications	8,064	11,231	(28)	15,282	25,485	(40)
Occupancy and equipment	6,369	5,166	23	7,850	7,292	8
Servicing and origination	259	357	(27)	875	308	184
Other expenses	3,291	3,479	(5)	5,499	5,780	(5)
Total operating expenses before corporate overhead allocations	54,104	75,763	(29)	106,104	127,919	(17)
Corporate overhead allocations						
Servicing segment	(16,081)	(53,721)	(70)	(33,874)	(111,315)	(70)
Originations segment	(4,704)	(1,661)	183	(9,128)	(3,346)	173
Total operating expenses	33,319	20,381	63	63,102	13,258	376
Other income (expense), net						
Interest income	254	419	(39)	1,497	1,135	32
Interest expense	(11,471)	(15,981)	(28)	(24,925)	(30,060)	(17)
Other, net	(2,487)	(777)	220	(4,763)	(1,502)	217
Total other expense, net	(13,704)	(16,339)	(16)	(28,191)	(30,427)	(7)
Loss before income taxes	$ (45,980)	$ (33,686)	36 %	$ (87,610)	$ (37,128)	136 %

n/m: not meaningful

Three Months Ended June 30, 2020 versus 2019

CRL premium revenue declined $2.0 million, or 67%, as compared to the second quarter of 2019, primarily due to a 52% decline in the number of covered REO properties in our servicing portfolio. Factors contributing to the decline in covered properties include the effect of current moratoria and restrictions on foreclosure procedures due to COVID-19 which reduce the number of new REO properties, a declining servicing portfolio, and the GSE removal of REO coverage requirements.

Total operating expenses before corporate overhead allocations decreased $21.7 million as compared to the second quarter of 2019 and the decrease is the result of multiple variances, as discussed below.

Compensation and benefits expense declined $7.0 million, or 23%, as compared to the second quarter of 2019, primarily due to our cost re-engineering initiatives, resulting in a decline in average corporate headcount of 11% and 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 from 456 to 330, as compared to the second quarter of 2019.

Professional services expense declined $12.4 million, or 49%, as compared to the second quarter of 2019, due to an $8.9 million decline in legal fees largely attributed to a decline in legal expenses relating to the PHH integration, legal entity reorganization and litigation. In addition, the second quarter of 2019 included other professional services of $3.3 million related to our 2019 cost re-engineering plan.

Technology and communications expense decreased $3.2 million, or 28%, as compared to the second quarter of 2019 primarily due to a $1.2 million decrease in depreciation expense that is largely the result of 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.

Occupancy and equipment expense increased $1.2 million, or 23%, as compared to the second quarter of 2019. As disclosed in Note 2 - Cost Re-Engineering Plan 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, mainly accelerated depreciation of the leased right-of-use asset and exit costs, totaling $4.9 million versus $3.3 million of similar costs recognized in the second quarter of 2019 in connection with our decision to vacate four leased properties prior to the contractual maturity date of the lease agreements.

Interest expense declined $4.5 million, or 28%, as compared to the second quarter of 2019 primarily due to 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.

Other expense, net increased $1.7 million, or 220%, as compared to the second quarter of 2019, due to a $1.7 million loss on the sale of a vacant office facility.

Total expenses, after corporate overhead allocation, increased by $12.9 million, or 63%, as compared to the second quarter of 2019, primarily due to our updated methodology to allocate overhead costs which we implemented in 2020.

Six Months Ended June 30, 2020 versus 2019

CRL premium revenue declined $2.8 million, or 44%, as compared to the six months ended June 30, 2019, primarily due to a 39% decline in the number of covered REO properties in our servicing portfolio.

Total operating expenses before corporate overhead allocations decreased $21.8 million as compared to the six months ended June 30, 2019 as discussed below.

Compensation and benefits expense declined $27.8 million, or 39%, as compared to the six months ended June 30, 2019, primarily due to $24.2 million severance and retention expenses recognized in the six months ended June 30, 2019 in connection with our PHH integration and cost re-engineering plan. In addition, expense declined compared to the six months ended June 30, 2019 due to our cost re-engineering initiatives, resulting in a decline in average corporate headcount of 12% and a change in the mix of onshore/offshore. The decline in our headcount mostly affected our onshore resources. The average onshore headcount decreased from 475 to 336, compared to the six months ended June 30, 2019.

Professional services expense increased $15.3 million, or 89%, as compared to the six months ended June 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 a $9.9 million decline in legal fees. In addition, the six months ended June 30, 2019 included $5.4 million of costs related to our 2019 cost re-engineering plan. The decline in legal fees is largely due to a $14.3 million decline in legal expenses relating to the PHH integration, legal entity reorganization and litigation, partially offset by a $4.4 million increase to our accrual related to the CFPB and Florida matters in the first quarter of 2020.

Technology and communications expense decreased $10.2 million, or 40%, as compared to the six months ended June 30, 2019 primarily due to a $3.5 million decrease in depreciation expense that is largely the result of 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 actions.

Interest expense declined $5.1 million, or 17%, as compared to the six months ended June 30, 2019 primarily due to the partial prepayment of our SSTL balance in January 2020 and the reduction in our senior secured and unsecured notes in the third quarter of 2019 through maturity and repurchases, as disclosed above.

Other expense, net increased $3.3 million, or 217%, as compared to the six months ended June 30, 2019, primarily due to a $1.0 million increase in foreign currency losses related to our operations in India and the $1.7 million loss on the sale of a vacant office facility.

Total expenses, after corporate overhead allocation, increased by $49.8 million, or 376%, as compared to the six months ended June 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 $4.4 million increase to our accrual related to the CFPB and Florida matters in the first quarter of 2020 and the effect of our updated methodology to allocate overhead costs which we implemented in 2020.

LIQUIDITY AND CAPITAL RESOURCES

Overview

At June 30, 2020, our unrestricted cash position was $313.7 million compared to $428.3 million at December 31, 2019. On January 27, 2020, we prepaid $126.1 million of the SSTL to reduce the principal balance to $200.0 million and executed certain amendments to the SSTL agreement to extend the maturity date to May 15, 2022, reduce the contractual quarterly principal payment from $6.4 million to $5.0 million and modify the interest rate. See Note 11 – Borrowings to the Unaudited Consolidated Financial Statements for additional information.

At June 30, 2020, we had total borrowing capacity under our OMART and OFAF advance facilities of $1.0 billion. The available borrowing capacity under our advance financing facilities increased by $376.5 million from $50.9 million at December 31, 2019 to $427.4 million at June 30, 2020. On May 7, 2020, we upsized and extended through June 2021 our OMART and OFAF variable funding advance financing facilities. The OMART variable funding capacity increased by $300.0 million to $500.0 million to accommodate forecasted advancing requirements and the amortization of $185.0 million in term notes that begins in August 2020. The OFAF facility increased by $10.0 million to a total capacity of $70.0 million. The $66.5 million decline in outstanding borrowings also contributed to the increase in available capacity. At June 30, 2020, we had fully funded the amounts that could be funded under the available borrowing capacity based on the amount of eligible collateral that had been pledged to our advance financing facilities. On June 30, 2020, we amended and upsized our Ginnie Mae MSR facility to include Ginnie Mae servicing advances as eligible collateral.

At June 30, 2020, we had total borrowing capacity under our mortgage warehouse facilities and MSR financing facilities of $1.4 billion. Of the borrowing capacity extended on a committed basis, $346.7 million was available at June 30, 2020, with $201.7 million under our mortgage warehouse funding facilities and $144.9 million under our MSR financing facilities, which, in each case, we may utilize to the extent we have sufficient eligible collateral to borrow against and otherwise satisfy the applicable conditions to funding. At June 30, 2020, no additional amounts could be borrowed under the available borrowing capacity based on the amount of eligible collateral that could be pledged. Uncommitted amounts ($489.4 million available at June 30, 2020) can be advanced solely 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 June 30, 2020, none could be borrowed under the uncommitted borrowing capacity based on the amount of eligible collateral that could be pledged.

We typically invest cash in excess of our immediate operating needs in deposit accounts and other liquid assets. A portion of our cash balances are held in our non-U.S. subsidiaries. Should we wish to utilize this cash in the U.S. we would have to repatriate the cash held by our non-U.S. subsidiaries, in compliance with applicable laws and, potentially with tax consequences.

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.

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 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 20 — 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 on May 7, 2020, we upsized and extended through June 2021 our OMART and OFAF advance financing facilities. The OMART variable funding note capacity increased from $200.0 million to $500.0 million to accommodate forecasted advancing requirements and the amortization of $185.0 million in term notes beginning in August 2020. The OFAF facility increased to a total capacity of $70.0 million. In addition, we executed our MSR repurchase agreement and warehouse facilities with Barclays. On June 30, 2020, we amended our Ginnie Mae MSR facility to include servicing advances as eligible collateral and upsized the total borrowing capacity to $127.5 million. We continuously evaluate alternative financings to diversify our sources of funds, optimize maturities and reduce our funding cost. Given recent improvements in the securitization market, we are considering issuing new term notes under OMART to replace some of our recently upsized variable funding note capacity before year-end that may reduce our funding costs and extend maturities.

Regarding the current maturities of our borrowings, as of June 30, 2020, we have approximately $900.1 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, $325.3 million of borrowings under forward and reverse mortgage warehouse facilities, $327.7 million of variable funding and term notes under advance financing facilities that will enter their respective amortization periods, $202.1 million outstanding under our Agency and Ginnie Mae MSR financing facilities and $25.0 million of scheduled principal amortization on the PLS Notes secured by PLS MSRs.

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. 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 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.

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 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 servicing advance financing strategy. Revolving variable funding notes issued by our advance financing facilities to financial institutions typically a have revolving period of 12 months. Term notes are generally issued to institutional investors with one-, two- or three-year revolving periods.

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. Our financing structure actions are targeted at optimizing access to 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 June 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	$ 313,736	$ —	$ —	$ —	$ —	$ 313,736
Restricted cash	63,813	14,742	—	4,015	45,056	—
MSRs (1)	1,044,914	—	583,315	460,869	—	43
Advances, net	901,009	726,856	—	61,081	—	113,072
Loans held for sale	278,517	—	—	244,015	—	34,502
Loans held for investment	6,730,656	—	6,599,607	98,590	—	32,459
Receivables, net	247,616	—	—	42,443	—	205,173
Premises and equipment, net	29,695	—	—	—	—	29,695
Other assets	700,482	—	—	5,575	631,761	63,146
Total Assets	$ 10,310,438	$ 741,598	$ 7,182,922	$ 916,588	$ 676,817	$ 791,826
Liabilities						
HMBS - related borrowings	$ 6,477,616	$ —	$ 6,477,616	—	$ —	$ —
Other financing liabilities	594,222	—	594,222	—	—	—
Advance match funded liabilities	612,650	612,650	—	—	—	—
Other secured borrowings, net	847,331	—	—	607,001	—	240,330
Senior notes, net	311,484	—	—	—	—	311,484
Other liabilities	1,034,366	—	—	—	631,761	402,605
Total Liabilities	$ 9,877,669	$ 612,650	$ 7,071,838	$ 607,001	$ 631,761	$ 954,419
Total Equity	$ 432,769					

(1) Certain MSR cohorts with a net negative fair value of $0.7 million that would be presented as Other are excluded from the eligible collateral of the facilities and are comprised of $20.0 million of negative fair value related to RMBS and $20.7 million of positive fair value related to private EBO and PLS MSRs.

See Note 11 – 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 11 – 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. 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 six months ended June 30, 2020 and 2019 includes $35.1 million and $49.4 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 six months ended June 30, 2020

Our operating activities provided $224.8 million of cash including $233.5 million net collections of servicing and ancillary income and $144.0 million of net collections of servicing advances, mostly P&I advances, partially offset by net cash paid on loans held for sale of $12.8 million for the six months ended June 30, 2020.

Our investing activities used $243.4 million of cash. The primary uses of cash in our investing activities include net cash outflows in connection with our HECM reverse mortgages of $198.0 million. Cash outflows also include $48.0 million to purchase MSRs.

Our financing activities used $96.2 million of cash. Cash outflows include repayments of $131.1 million on the SSTL, $66.5 million of net repayments on advance match funded liabilities, a $43.8 million decrease in borrowings under our mortgage warehouse and MSR financing facilities, and $68.5 million of net payments on the financing liabilities related to MSRs pledged. In addition, we also paid $7.3 million of debt issuance costs related to our SSTL facility amendment and repurchased 5.7 million shares of our common stock for $4.6 million. Cash inflows include $590.6 million received in connection with our reverse mortgage securitizations, which are accounted for as secured financings, less repayments on the related financing liability of $365.2 million.

Cash flows for the six months ended June 30, 2019

Our operating activities provided $128.8 million of cash largely due to $91.7 million of net collections of servicing advances. Net cash received on loans held for sale during the six months ended June 30, 2019 was $12.0 million.

Our investing activities used $287.8 million of cash. The primary uses of cash in our investing activities include net cash outflows in connection with our HECM reverse mortgages of $194.5 million. Cash outflows also include $99.4 million to purchase MSRs.

Our financing activities provided $110.4 million of cash. Cash inflows include $425.1 million received in connection with our reverse mortgage securitizations, which are accounted for as secured financings, less repayments on the related financing liability of $228.0 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 $12.7 million quarterly repayments. In addition, we increased borrowings under our mortgage loan warehouse facilities by $27.2 million. Cash outflows include $106.5 million of net repayments on advance match funded liabilities as a result of advance recoveries and $103.4 million of net payments on the financing liabilities related to MSRs pledged.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

Contractual Obligations

We have certain contractual obligations which require us to make future cash payments. At June 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 six months ended June 30, 2020, other than changes related to our secured borrowings.

During the six months ended June 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 11 – 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 20 — 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 12 – Other Liabilities and Note 21 – 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 June 30, 2020. This additional borrowing capacity is available on a scheduled or unscheduled payment basis. See Note 20 — 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 20 — 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 14 – 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:

	June 30, 2020	December 31, 2019
Loans held for sale	$ 278,517	$ 275,269
Loans held for investment - Reverse mortgages	6,718,992	6,269,596
Loans held for investment - Restricted for securitization investors	11,664	23,342
MSRs	1,044,914	1,486,395
Derivative assets	22,852	6,007
Mortgage-backed securities	1,726	2,075
Corporate bonds	211	441
Assets at fair value	$ 8,078,876	$ 8,063,125
As a percentage of total assets	78%	77%
Financing liabilities		
HMBS-related borrowings	6,477,616	6,063,435
Financing liability - MSRs pledged	582,558	950,593
Financing liability - Owed to securitization investors	11,664	22,002
	7,071,838	7,036,030
Derivative liabilities	1,033	100
Liabilities at fair value	$ 7,072,871	$ 7,036,130
As a percentage of total liabilities	72%	70%
Assets at fair value using Level 3 inputs	$ 7,846,544	$ 7,847,925
As a percentage of assets at fair value	97%	97%
Liabilities at fair value using Level 3 inputs	$ 7,071,838	$ 7,036,030
As a percentage of liabilities at fair value	100%	100%

Assets at fair value using Level 3 inputs decreased during the six months ended June 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 June 30, 2020:

	Conventional	Government-Insured	Non-Agency
Prepayment speed			
Range	12.8% to 26.4%	10.9% to 24.5%	9.0% to 15.2%
Weighted average	19.3%	17.1%	11.7%
Delinquency			
Range	1.5% to 6.9%	7.0% to 20.2%	27.8% to 32.1%
Weighted average	2.3%	9.5%	28.8%
Cost to service			
Range	$67 to $71	$111 to $141	$233 to $276
Weighted average	$68	$118	$265
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 June 30, 2020, the allowance for losses on servicing advances was $7.8 million, which represents 0.9% 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 June 30, 2020, the allowance for losses on receivables related to government-insured claims was $53.3 million, which represents 43% 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).

We have evaluated whether we experienced an ownership change under these provisions, and determined that an ownership change did occur in January 2015 and in December 2017 in the U.S. jurisdiction, which also results in an ownership change under Section 382 in the USVI jurisdiction. In addition, a Section 382 ownership change occurred at PHH when Ocwen acquired the stock of PHH in October 2018. PHH was a loss corporation as defined under Section 382 at the date of the acquisition. PHH also had an existing Section 382 ownership change on March 31, 2018. For certain states, an additional Section 382 ownership change occurred on August 9, 2017. These Section 382 ownership changes may limit our ability to fully utilize NOLs, tax credit carryforwards, deductions and/or certain built-in losses that existed as of each respective ownership change date in the various jurisdictions

Due to the Section 382 and 383 limitations and the maximum carryforward period for our NOLs and tax credits, we will be unable to fully recognize certain deferred tax assets. Accordingly, as of December 31, 2018, we had reduced our gross deferred tax asset related to our U.S. federal and USVI NOLs by $160.9 million, our foreign tax credit deferred tax asset by $29.5 million and corresponding valuation allowance by $55.7 million. The realization of all or a portion of our deferred income tax assets (including NOLs and tax credits) is dependent upon the generation of future taxable income during the statutory carryforward periods. In addition, the limitation on the utilization of our NOL and tax credit carryforwards could result in Ocwen incurring a current tax liability in future tax years. Our inability to utilize our pre-ownership change NOL carryforwards, Section 163(j) disallowed interest carryforwards, any future recognized built-in losses or deductions, and tax credit carryforwards could have an adverse effect on our financial condition, results of operations and cash flows. Finally, any future changes in our ownership or sale of our stock could further limit the use of our NOLs and tax credits in the future.

As part of our Section 382 evaluation and consistent with the rules provided within Section 382, Ocwen relies strictly on the existence or absence, as well as the information contained in certain publicly available documents (*e.g.*, Schedule 13D, Schedule 13G or other documents filed with the SEC) to identify shareholders that own a 5-percent or greater interest in Ocwen stock throughout the period tested. Further, Ocwen relies on such public filings to identify dates in which such 5-percent shareholders acquired, disposed, or otherwise transacted in Ocwen common stock. As the requirement for filing such notices of ownership from the SEC is to report beneficial ownership, as opposed to actual economic ownership of the stock of Ocwen, certain SEC filings may not represent ownership in Ocwen stock that should be considered in determining whether Ocwen experienced an ownership change under the Section 382 rules. Notwithstanding the preceding sentences (regarding Ocwen’ s ability to rely on the existence and absence of information in publicly filed Schedules 13D and 13G), the rules prescribed in Section 382 and the regulations thereunder provide that Ocwen may (but is not required to) seek additional clarification from shareholders filing such Schedules 13D and 13G if there are questions or uncertainty regarding the true economic ownership of shares reported in such filing (whether due to ambiguity in the filing, an overly complex ownership structure, the type of instruments owned and reported in the filings, etc.) (often referred to “actual knowledge” questionnaires). Such information can be sought on a filer by filer basis (*i.e.,* there is no requirement that if actual knowledge is sought with respect to one shareholder, actual knowledge must be sought with respect to all shareholders that filed schedules 13D or 13G). While the seeking of actual knowledge can be beneficial in some instances it may be detrimental in others. Once such actual knowledge is received, Section 382 requires the inclusion of such actual knowledge, even if such inclusion is detrimental to the conclusion reached.

Ocwen has performed its analysis of the rules under Section 382 and, based on all currently available information, identified it experienced an ownership change for Section 382 purposes in January 2015 and December 2017. Prior to 2018, Ocwen was aware of shareholder activity in 2015 and 2017 that may have caused a Section 382 ownership change(s), but determined that additional information could potentially be obtained from certain shareholders that would indicate a Section 382 ownership change had not occurred. In completing this analysis, Ocwen identified several shareholders that filed a schedule 13G during the period disclosing a greater than 5-percent interest in Ocwen stock where beneficial versus economic ownership of the stock was unclear, and Ocwen therefore requested further details. As of the date of this Form 10-Q, Ocwen has not received all requested responses from selected shareholders, and will continue to consider such shareholders as economic owners of Ocwen’s stock until actual knowledge is otherwise received.

Ocwen is continuing to monitor the ownership in its stock to evaluate information that will become available later in 2020 and that may result in a different outcome for Section 382 purposes and our future cash tax obligations. As part of this monitoring, Ocwen periodically evaluates whether it is appropriate and beneficial to retroactively seek actual knowledge on certain previously identified and included 5-percent shareholders, whereby, depending on the responses received, Ocwen may conclude that either the January 2015 or December 2017 Section 382 ownership changes may have instead occurred on a different date, or did not occur at all. 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 June 30, 2020, we have recorded a liability for representation and warranty obligations, and similar indemnification obligations of $44.4 million. See Note 21 – 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 six months ended June 30, 2020 are issued.

RECENT ACCOUNTING DEVELOPMENTS

Recent Accounting Pronouncements

We adopted the new current expected 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 thousands 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 14 – 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 8 — 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 second quarter of 2020, our hedging strategy provided for a partial coverage of our net MSR portfolio exposure of approximately 70%. 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 June 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.

Dollars in millions	**Fair value at June 30, 2020**	**Hypothetical change in fair value due to 25 bps rate decrease**
Agency MSR - interest rate sensitive	$ 305.1	$ (21.3)

Asset value of securitized HECM loans, net of HMBS-related borrowing	$ 241.4	3.8
Loans held for investment - Unsecuritized HECM loans and tails	0.1	0.1
Loans held for sale	253.0	2.9
Pipeline IRLCs	17.8	(0.5)
Natural hedges (sum of the above)		6.3
Hypothetical 30% offset by hedging instruments (1)		4.5
Total hedge position (2) (3)		$ 10.8
Hypothetical residual exposure to changes in interest rates		$ (10.5)

(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 51% 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.

	June 30, 2020		December 31, 2019	
	Balance	Fair Value (1)	Balance	Fair Value (1)
Rate-Sensitive Assets:				
Interest-earning cash	$ 310,357	$ 310,357	$ 433,224	$ 433,224
Loans held for sale, at fair value	253,037	253,037	208,752	208,752
Loans held for sale, at lower of cost or fair value (2)	25,480	25,480	66,517	66,517
Loans held for investment, at fair value	6,718,992	6,718,992	6,269,596	6,269,596
Debt service accounts and time deposits	19,126	19,126	23,666	23,666
Total rate-sensitive assets	$ 7,326,992	$ 7,326,992	$ 7,001,755	$ 7,001,755

	June 30, 2020		December 31, 2019	
	Balance	Fair Value (1)	Balance	Fair Value (1)
Rate-Sensitive Liabilities:				
Advance match funded liabilities	$ 612,650	$ 617,950	$ 679,109	$ 679,507
HMBS-related borrowings, at fair value	6,477,616	6,477,616	6,063,435	6,063,435
SSTL and other secured borrowings (3) (4)	855,425	801,426	1,030,306	1,010,789
Senior notes (4)	313,052	235,041	313,052	270,022
Total rate-sensitive liabilities	$ 8,258,743	$ 8,132,033	$ 8,085,902	$ 8,023,753

	June 30, 2020		December 31, 2019	
	Notional Balance	Fair Value	Notional Balance	Fair Value
Rate-Sensitive Derivative Financial Instruments:				
Derivative assets (liabilities):				
Interest rate caps	$ —	$ —	$ 27,083	$ —
IRLCs	507,632	17,818	232,566	4,878
Forward trades	80,000	(1,017)	60,000	(92)
Interest rate swap futures	395,000	5,019	—	—
TBA / Forward MBS trades	—	—	1,200,000	1,121
Derivatives, net		$ 21,820		$ 5,907

(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 June 30, 2020, given hypothetical instantaneous parallel shifts in the yield curve. We used June 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	
Dollars in millions	Down 25 bps	Up 25 bps
Asset value of securitized HECM loans, net of HMBS-related borrowing	$ 3.8	$ (3.3)
Loans held for investment - Unsecuritized HECM loans and tails	0.1	(0.1)
Loans held for sale	2.9	(3.8)
TBA / Forward MBS trades / Interest rate swap futures	7.6	(7.6)
Total	14.4	(14.8)
MSRs (1)	(20.7)	23.6
MSRs, embedded in pipeline	(0.5)	0.4
Total MSRs (2)	(21.2)	24.0
Total, net	$ (6.8)	$ 9.2

(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 June 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 $13.5 million resulting from an increase of $24.5 million in annual interest income and an increase of $11.1 million in annual interest expense.

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 June 30, 2020.

Based on such evaluation, management concluded that our disclosure controls and procedures as of June 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 June 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 19 – Regulatory Requirements and Note 21 – 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	Average price paid per share (1)	Total number of shares purchased as part of a publicly announced repurchase program	Approximate dollar value of shares that may yet be purchased under the repurchase program
January 1 - January 31	—	$ —	—	$ 5.0 million
February 1 - February 29	—	$ —	—	$ 5.0 million
March 1 - March 31	5,662,257	$ 0.7933	5,662,257	$ 0.5 million
Total	5,662,257	$ 0.7933	5,662,257	

(1) 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 quarter of 2020.

ITEM 6. EXHIBITS

3.1	Amended and Restated Articles of Incorporation, as amended (1)
3.2	Amended and Restated Bylaws of Ocwen Financial Corporation (2)
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*	Amended and Restated U.S. Basic Severance Plan, effective June 30, 2020 (filed herewith)
10.2*	Amended and Restated U.S. Change in Control Severance Plan, effective June 30, 2020 (filed herewith)
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 June 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 June 30, 2020, formatted in Inline XBRL (Included as Exhibit 101).

* Management contract or compensatory plan or agreement.

(1) Incorporated by reference to the similarly described exhibit to the Registrant’s Form 10-Q for the quarter ended June 30, 2017 filed on August 3, 2017.

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

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: August 4, 2020

<u>OCWEN FINANCIAL CORPORATION UNITED STATES BASIC SEVERANCE PLAN</u>

(Effective as of June 30, 2020)

Section 1 – General Information

Ocwen Financial Corporation hereby amends and restates the Ocwen Financial Corporation United States Basic Severance Plan (the "Plan") effective as of June 30, 2020, without effect to any agreements reached prior to that date. The Plan is intended to be, and shall be administered as, an employee welfare benefit plan as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). This document shall serve as the formal plan document and the summary plan description ("SPD") for the Plan.

The Plan is a self-funded severance benefit program that pays certain benefits to Eligible Employees who experience an Eligible Termination of employment from the Company or whose employment terminates, as explained in Section 3 below.

Section 2—Definitions

2.1 **"Affiliated Company"** means, as of any date, (i) the Company, and (ii) any company, person or organization which, on such date, (A) is a member of the same controlled group of corporations (within the meaning of Code Section 414(b)) as is the Company; (B) is a trade or business (whether or not incorporated) which controls, is controlled by or is under common control (within the meaning of Code Section 414(c) with the Company; (C) is a member of an affiliated service group (as defined in Code Section 414(m)) which includes the Company; or (D) is required to be aggregated with the Company pursuant to regulations under Code Section 414(o).

2.2 **"Base Pay"** means an employee's annual salary or wages from the Company at the time of termination. Base Pay shall be determined as reflected on the Company'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.

2.3 **"Board"** means the Board of Directors of Ocwen Financial Corporation.

2.4 **"Cause"** means the following (as determined by the Company in its sole discretion): dishonesty, fraud or misrepresentation; inability to obtain or retain appropriate licenses; violation of any rule or regulation of any regulatory agency or self-regulatory agency; violation of any policy or rule of the Company or any Affiliated Company; commission of a crime; or any act or omission detrimental to the conduct of the business of the Company or any Affiliated Company.

2.5 **"COBRA"** means the Consolidated Omnibus Budget Reconciliation Act of 1985.

2.6 **"Code"** means the Internal Revenue Code of 1986, as amended.

2.7 **“Company”** means Ocwen Financial Corporation and any Affiliated Companies.

2.8 **“Eligible Employee”** means an Employee of the Company who at the time he or she incurs an Eligible Termination is an Employee performing services for the Company (a) in the United States, or (b) as an Expatriate in a country other than the United States. For purposes of this Plan, the term “United States” shall include the fifty states and all territories and dependencies of the United States.

2.9 **“Eligible Termination”** means an Employee’s involuntary termination of employment with the Company due to:

(a) a reduction of force;

(b) the closing of an office or business location;

(c) a downsizing;

(d) the restructuring, reorganization or reengineering of a business group, unit or department;

(e) a job elimination; or

(f) such other reason as the Company shall determine in its sole discretion.

A termination of employment with the Company for any of the following reasons shall not constitute an Eligible Termination:

(a) transfer of any Employee to any (1) Affiliated Company, or (2) entity which is controlled by the Company through the ownership of a majority of its voting stock (or other equivalent ownership interest), either directly or indirectly through one or more intermediaries;

(b) voluntary termination of employment, unless so determined by the Company;

(c) voluntary retirement;

(d) death;

(e) Cause;

(f) inability to perform the basic requirements of his or her position with or without reasonable accommodation due to physical or mental incapacity and after the Employee’s short-term disability benefits have expired under the terms of any applicable Company-sponsored benefits plan;

(g) failure to return from an approved leave of absence;

(h) a "change in control," as that term is defined in the Ocwen Financial Corporation United States Change in Control Severance Plan.

Notwithstanding anything else herein to the contrary, an Eligible Termination shall not occur for purposes of the Plan unless and until the Eligible Employee has had a "separation from service" within the meaning of Section 409A of the Code, as amended, and the regulations and other guidance promulgated thereunder, except as otherwise provided below.

An Employee whose employment with the Company is relocated to a different job location shall be considered to have experienced an "involuntary termination of employment" if the Employee's new job location is more than 50 miles from the Employee's prior location; otherwise, such relocation shall not be considered an "involuntary termination of employment." If the Employee is offered a telecommuting position, he or she shall not be considered to have experienced an "involuntary termination of employment."

2.10 **"Employee"** means any individual who is compensated by the Company for services actually rendered as a regular full-time or regular part-time (but not a temporary) employee. "Employee" shall not include:

(a) any individual who is performing services under an independent contractor or consultant agreement or arrangement (even if a court, the Internal Revenue Service, or any other entity determines that such individual is a common law employee);

(b) any individual providing services for the Company pursuant to an agreement between the Company and a third party (even if a court, the Internal Revenue Service, or any other entity determines that such individual is a common law employee);

(c) a person who performs services for the Company but who is treated for payroll purposes as other than an Employee of the Company (even if a court, the Internal Revenue Service, or any other entity determines that such individual is a common law employee).

2.11 **"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended.

2.12 **"Expatriate"** means an Employee of a Company who, at the time he or she incurs an Eligible Termination, is designated by the Company as being on assignment as a United States expatriate on behalf of the Company.

2.13 **"Month of Base Pay"** means one twelfth (1/12) of the Eligible Employee's Base Pay.

2.14 **"Plan"** means the Ocwen Financial Corporation United States Basic Severance Plan described herein.

2.15 **"Plan Administrator"** shall mean Ocwen Financial Corporation or such other person or committee appointed from time to time by Ocwen Financial Corporation to administer the Plan. Until a successor is appointed by Ocwen Financial Corporation, the Plan Administrator shall be Ocwen Financial Corporation.

2.16 **"Separation Agreement and General Release"** means a written document that includes a release of rights and claims from an Eligible Employee in a form that is satisfactory to, and approved by, the Company. The Separation Agreement and General Release may include, among other things: (a) non-competition and/or non-solicitation provisions; (b) a waiver and release (and covenant not to sue) of any and all claims, including claims arising from the Eligible Employee's employment and/or separation from employment with the Company except as limited and/or prohibited by applicable law; (c) nondisclosure and confidentiality provisions; and (d) non-disparagement provisions.

2.17 **"Severance Pay"** means the amount, if any, payable under Section 3 of the Plan to an Eligible Employee.

2.18 **"Week of Base Pay"** means one fifty-second (1/52) of the Eligible Employee's Base Pay.

2.19 **"Year of Service"** means a 12-month period of employment with the Company. A period of service shorter than 12 months will be considered a partial Year of Service. For example, an Eligible Employee who has worked five years and six months will have accrued five and one-half (5.5) Years of Service. If an Eligible Employee previously terminated employment with the Company and was subsequently rehired, the prior service with the Company will be counted towards the total Years of Service only if he/she was rehired less than twelve months before the Eligible Termination.

Section 3—Severance Benefits

3.1 *Eligible Terminations.* If an Eligible Employee's employment with the Company shall terminate following the Effective Date of this Plan and such termination constitutes an Eligible Termination, the Company shall pay or provide the Eligible Employee with the following benefits:

(a) The following Severance Pay (subject to the offset in subparagraph (e) below):

(1) For an Eligible Employee holding the title of Executive Vice President at the time of his/her termination: 18 Months of Base Pay.

(2) For an Eligible Employee holding the title of Senior Vice President at the time of his/her termination: 12 Months of Base Pay.

(3) For an Eligible Employee holding the title of Vice President or Director at the time of his/her termination: 6 Months of Base Pay.

(4) For an Eligible Employee that is considered exempt under the Fair Labor Standards Act ("FLSA") and holding the title of senior manager, manager, assistant manager, team lead, supervisor or employee at the time of his/her termination: 2 Weeks of Base Pay per Year of Service, with a minimum payment of 4 Weeks of Base Pay and a maximum payment of 26 Weeks of Base Pay.

(5) For an Eligible Employee that is non-exempt under FLSA at the time of his/her termination: 1 Weeks of Base Pay per Year of Service, with a minimum payment of 2 Weeks of Base Pay and a maximum payment of 13 Weeks of Base Pay.

(b) The following subsidy of COBRA continuation coverage: If the Eligible Employee is eligible to continue his/her Company-sponsored group health plan benefits pursuant to COBRA, the cost of such continuation coverage shall be equal to the cost of such coverage for active employees. Such subsidy shall continue for the number of months that correspond to the number of Months of Base Pay payable for the Eligible Employee under Section 3.1(a) above. Partial months of Severance Pay shall be rounded up so that the subsidy continues for a complete calendar month. For example, if an Eligible Employee's Severance Pay is based on fewer than four Weeks of Pay, he or she shall be eligible for one month of subsidized COBRA coverage. COBRA continuation coverage shall be governed pursuant to the terms of the relevant benefit plan documents. It shall be the Eligible Employee's sole responsibility to timely elect COBRA and to pay his/her share of the cost of such coverage.

(c) The following relocation benefits: If the Eligible Employee was relocated to St. Croix, United States Virgin Islands at the direction of the Company, such employee may be eligible for relocation benefits in accordance with the USVI Relocation Program of Ocwen Mortgage Servicing, Inc. (now known as Ocwen USVI Services, LLC).

(d) Treatment of any and all equity awards will be governed by the individual award agreements, notwithstanding anything to the contrary in this Plan.

(e) For any and all Eligible Terminations that require the Company to pay severance pay to an Eligible Employee pursuant to the Millville Dallas Airmotive Plant Job Loss Notification Act (the "NJ WARN Act"), the Severance Pay payable pursuant to Section 3.1(a) above will be reduced by the amount of severance pay (if any) that the Company is required to pay pursuant to the NJ WARN Act. Severance payments required by the NJ WARN Act shall not be considered benefits paid through this Plan; accordingly, the requirements of Section 3.3 shall apply only to the amount of Severance Pay payable under subsection 3.1(a) remaining (if any) following the offset of NJ WARN Act benefits.

Notwithstanding anything herein to the contrary, no payments or benefits shall be payable pursuant to this Section 3.1 in the event an Eligible Employee is entitled to payments or benefits under the Ocwen Financial Corporation United States Change in Control Severance Plan.

3.2 *Payment of Benefits*. Severance Pay will be payable in the form of a lump sum payment, which is subject to applicable federal, state, and local tax deductions and withholdings. The payment will be made as soon as practicable after the Separation Agreement and Release has been fully executed and becomes irrevocable. Other benefits paid under the Plan may be subject to similar withholding as required by federal, state, and local laws.

3.3 *Separation Agreement and Release*. Any Severance Pay payable to an Eligible Employee under Section 3.1(a), COBRA benefits payable under Section 3.1(b), and relocation benefits payable under Section 3.1(c) shall be conditioned upon the Eligible Employee signing and having notarized a Separation Agreement and Release (and not exercising his or her right of revocation under the Separation Agreement and Release) within such period of time as the Company shall require, in its sole discretion. Any grant of Severance Pay shall be null and void upon an Eligible Employee's failure to sign, or subsequent revocation of, such Separation Agreement and General Release. Any breach by an Eligible Employee of a Separation Agreement and General Release upon which any grant of Severance Pay has been conditioned shall give the Company the right to terminate any payment otherwise due and/or to the return of such Severance Pay, in addition to any other remedy the Company may have.

3.4 *Reductions of Severance Pay*. Subject to applicable law, any Severance Pay which the Company may grant to an Eligible Employee may, in the sole discretion of the Company, be reduced by any amounts owed by the Eligible Employee to the Company. The Eligible Employee's right to receive such Severance Pay is conditioned upon his or her agreement to execute any documents deemed necessary or appropriate by the Company to reduce the Severance Pay by any such amounts owed.

3.5 *Repayment of Severance Pay upon Rehire*. If an Eligible Employee who has incurred an Eligible Termination and has received Severance Pay is rehired by the Company during the period for which Severance Pay was calculated, the Company shall require the Eligible Employee to return any or all amounts of Severance Pay that have been paid to the Eligible Employee for weeks that the Employee was re-hired. For example, if the Eligible Employee receives a lump sum severance payment of six Months of Base Pay but is rehired by the Company four months later, he/she must repay the equivalent of two Months of Base Pay. The amount of any COBRA subsidy (as described in Section 3.1(b)) is not required to be repaid.

Section 4—Interpretation and Administration

4.1 *Duties of the Plan Administrator*. The Plan Administrator shall be responsible for the administration of the Plan and may appoint other persons or entities to perform or assist in the performance of any of its duties, subject to its review and approval. The Plan Administrator shall have the right to remove any such appointee from his position without cause upon notice.

4.2 *Powers*. The Plan Administrator shall administer the Plan in accordance with its terms and shall have all powers necessary to carry out the provisions of the Plan as more particularly set forth herein. The Plan Administrator shall have discretionary authority to interpret the Plan, and to determine all questions arising in the administration, interpretation, and application of the Plan; provided, however, that such discretionary authority shall be exercised in good faith in order to achieve the principal purposes of the Plan to provide severance benefits, including enhanced severance benefits upon a Change of Control, as described in the Ocwen Financial Corporation United States Change in Control Severance Plan. All such determinations shall be conclusive and binding on all interested persons. The Plan Administrator shall adopt such procedures and regulations necessary and/or desirable for the discharge of its duties hereunder and may appoint such accountants, counsel, actuaries, specialists, and other agents as it deems necessary and/or desirable in connection with the administration of this Plan.

4.3 *Compensation of the Plan Administrator*. The Plan Administrator shall not receive any compensation from the Plan for its services.

4.4 *Indemnification*. Ocwen Financial Corporation shall indemnify the Plan Administrator against any and all claims, losses, damages, expenses, and liability arising from its actions or omissions, except when the same is finally adjudicated to be due to the Plan Administrator's gross negligence or willful misconduct. The Company may purchase at its own expense sufficient liability insurance for the Plan Administrator to cover any and all claims, losses, damages, and expenses arising from any action or omission in connection with the execution of the duties as the Plan Administrator.

4.5 *Claims Procedure*.

(a) Any Eligible Employee who believes that he or she is entitled to receive benefits under this Plan, including benefits other than those initially determined by the Plan Administrator to be payable, may file a claim in writing with the Plan Administrator, specifying the reasons for such claim. The Plan Administrator shall then evaluate the claim and notify the Eligible Employee of the approval or disapproval in accordance with the provisions of this Plan not later than 90 days after the Company's receipt of such claim unless special circumstances require an extension of time for processing the claims. If such an extension of time for processing is required, written notice of the extension shall be furnished to the Eligible Employee prior to the termination of the initial 90 day period which shall specify the special circumstances requiring an extension and the date by which a final decision will be reached (which date shall not be later than 180 days after the date on which the claim was filed). If the Eligible Employee does not provide all the necessary information for the Plan Administrator to process the claim, the Plan Administrator may request additional information and set deadlines for the Eligible Employee to provide that information.

(b) In the event that such claim is denied in whole or in part, the Eligible Employee shall be given a written notification which shall be written in a manner calculated to be understood by the Eligible Employee and shall (i) state the specific reason(s) for the denial, (ii) make specific reference to the pertinent Plan provision(s) on which the denial is based, (iii) provide a description of any additional material or information necessary for the Eligible Employee to perfect the claim and an explanation of why such material or information is necessary, and (iv) set forth the procedure by which the Eligible Employee may appeal the denial of such claim, which shall also include a statement of the Eligible Employee's right to bring a civil action under Section 502(a) of ERISA following a denial of the claim upon review.

(c) The Eligible Employee may request a review of the denial of any such claim or portion thereof by making application in writing to the Plan Administrator within 60 days after receipt of such denial. Such Eligible Employee may, upon written request to the Plan Administrator, review or receive copies, upon request and free of charge, any documents, records or other information "relevant" (within the meaning of Department of Labor Regulation 2560.503-1(m)(8)) to the Eligible Employee's claim. The Eligible Employee may also submit written comments, documents, records and other information relating to his or her claim.

(d) In deciding an Eligible Employee's appeal, the Plan Administrator shall take into account all comments, documents, records and other information submitted by the Eligible Employee relating to the claim, without regard to whether such information was submitted or considered in the initial review of the claim. If the Eligible Employee does not provide all the necessary information for the Plan Administrator to decide the appeal, the Plan Administrator may request additional information and set deadlines for the Eligible Employee to submit that information. Within 60 days after a request for review is received, the review shall be made and the Eligible Employee shall be advised in writing of the decision on review, unless special circumstances require an extension of time for processing the review, in which case the Eligible Employee shall be given a written notification within such initial 60 day period specifying the reasons for the extension and when such review shall be completed (provided that such review shall be completed within 120 days after the date on which the request for review was filed).

(e) The decision on review shall be forwarded to the Eligible Employee in writing and, in the case of a denial, shall include (i) specific reasons for the decision, (ii) specific references to the pertinent Plan provision(s) upon which the decision is based, (iii) a statement that the Eligible Employee is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, or other information relevant to the Eligible Employee's claim and (iv) a statement of the Eligible Employee's right to bring a civil action under Section 502(a) of ERISA following a wholly or partially denied claim for benefits. Any lawsuit must be commenced within six months of the date on the appeal denial letter. Claims submitted outside that time limit are time-barred. The Plan Administrator's decision on review shall be final and binding on all persons for benefits. If an Eligible Employee shall fail to file a request for review in accordance with the procedures herein outlined, such Eligible Employee shall have no right to review and shall have no right to bring an action in any court, and the denial of the claim shall become final and binding on all persons for all purposes. Any notice and decisions by the Plan Administrator under this Section may be furnished electronically in accordance with Department of Labor Regulation 2520.104b-1(c)(i), (iii) and (iv).

Section 5—Amendment and Termination

5.1 *Amendments*. The Company shall have the right to amend or terminate the Plan in any respect and at any time without notice, pursuant to a determination of the Compensation and Human Capital Committee of the Board (or a delegate of such committee) or a determination of the Board.

5.2 *Plan Interpretation and Benefit Determination.* The Plan is administered by the Plan Administrator, who has the exclusive discretionary authority and power to determine eligibility for benefits and to construe the terms and provisions of the Plan, to determine questions of fact and law arising under the Plan, to direct disbursements pursuant to the Plan and to exercise all other powers specified herein or which may be implied from the provisions hereof. The Plan Administrator may adopt such rules for the conduct of the administration of the Plan as it may deem appropriate. All interpretations and determinations of the Plan Administrator shall be final and binding upon all parties and persons affected thereby. The Plan Administrator may appoint one or more individuals and delegate such of its powers and duties as it deems desirable to any such individual(s), in which case every reference herein made to the Plan Administrator shall be deemed to mean or include the appointed individual(s) as to matters within their jurisdiction.

Section 6—General Provisions

6.1 *Eligible Employee's Rights Unsecured and Unfunded*. The Plan at all times shall be entirely unfunded. No assets of the Company shall be segregated or earmarked to represent the liability for benefits under the Plan. The right of an Eligible Employee to receive a payment hereunder shall be an unsecured claim against the general assets of the Company that was the employer of such Eligible Employee. All payments under the Plan shall be made from the general assets of the Company.

6.2 *No Guarantee of Benefits*. Nothing contained in the Plan shall constitute a guarantee by the Company or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder.

6.3 *No Enlargement of Employee Rights*. The existence of this Plan or any payment of Severance Pay under the Plan shall not be deemed to constitute a contract of employment between the Company and any Eligible Employee, nor shall it constitute a right to remain in the employ of the Company. Employment with the Company is employment-at-will and either party may terminate the Employee's employment at any time, for any reason, with or without cause or notice.

6.4 *Non-Alienation Provision*. Except as set forth elsewhere in the Plan, and subject to the provisions of applicable law, no interest of any person or entity in, or right to receive a benefit or distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings the extent that such laws are preempted by ERISA.

6.5 *Excess Payments*. If compensation, Years of Service or any other relevant fact relating to any person is found to have been misstated, the Plan benefit payable by the Company to an Eligible Employee shall be the Plan benefit that would have been provided on the basis of the correct information. Any excess payments due to such misstatement, or due to any other mistake of fact or law, shall be refunded to the Company or withheld by it from any further amounts otherwise payable under the Plan.

6.6 *Impact on Other Benefits*. Amounts paid under this Plan shall not be included in an Eligible Employee's compensation for purposes of calculating benefits under any other plan, program or arrangement sponsored by the Company, unless such plan, program or arrangement expressly provides that amounts paid under this Plan shall be included.

6.7 *Usage of Terms and Headings*. Words in the masculine gender shall include the feminine and the singular shall include the plural, and vice versa, unless qualified by the context. Any headings are included for ease of reference only, and are not to be construed to alter the terms of the Plan.

6.8 *Supersession*. This Plan supersedes all plans, statements, practices or policies, if any, with respect to providing severance benefits to any Employee whose employment terminates on or after the Effective Date, except for those with specific written contracts that pre-date this Plan that provide for benefits payable upon the termination of employment and those Employees that have already been notified prior to the Effective Date of a termination of their employment and provided with different severance terms.

6.9 *Effective Date*. The Plan shall be effective as to Eligible Terminations that occur on or after June 30, 2020.

6.10 *Clawback*. Payments made pursuant to this Plan are subject to any Company clawback policy in effect at any time. In addition, to the extent required by the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or any other applicable law, or the rules and regulations promulgated pursuant thereto, Eligible Employees agree to return payments made pursuant to this Plan to the Company.

6.11 *Choice of Law*. This Plan shall be construed in accordance with and governed by the laws of the State of Florida, to the extent such laws are otherwise superseded by the laws of the United States, in which case such laws of the United States shall govern and the Plan shall be construed in accordance with such laws.

Section 7 – ERISA Information

Plan Name: Ocwen Financial Corporation United States Basic Severance Plan

Plan Number: 516

Effective Date: This amended and restated Plan is effective as of June 30, 2020.

Plan Sponsor: Ocwen Financial Corporation
1661 Worthington Road, Suite 100
West Palm Beach, FL 33409

EIN: 65-0039856

Plan Administrator: Ocwen Financial Corporation (see contact information above).

Agent for Service of Legal Process: Ocwen Financial Corporation
Attn: General Counsel
1661 Worthington Road, Suite 100
West Palm Beach, FL 33409

Plan Year: The Plan Year shall be the 12-month period commencing each year on June 28.

Type of Plan: The Plan is a severance benefit plan that provides income replacement benefits following a qualifying termination of employment.

Funding: The Plan is funded from the general assets of Ocwen Financial Corporation.

Statement of ERISA Rights:

Receiving Information about Plan Benefits

Participants in the Plan are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). ERISA provides that all Plan participants shall be entitled to:

- Examine, without charge, at the Plan Administrator's office and at other specified locations, such as worksites, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration.

- Obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan and copies of the latest annual report (Form 5500 Series) and updated summary plan description. The Plan Administrator may make a reasonable charge for the copies.

Prudent Actions by Plan Fiduciaries

In addition to creating rights for Plan participants, ERISA imposes duties upon the people who are responsible for the operation of an employee benefit plan. The people who operate the Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of Plan participants and beneficiaries. No one, including an employer or any other person, may fire a participant or otherwise discriminate against a participant in any way to prevent the participant from obtaining a severance benefit or exercising the participant's rights under ERISA.

Enforcing ERISA Rights

If a participant's claim for a severance benefit is denied or ignored, in whole or in part, the participant has a right to know why this was done, to receive a written explanation of the reason for the denial, to obtain copies of documents and relevant information relating to the decision without charge, and to appeal any denial, all within certain time schedules. The participant has the right to have the Plan Administrator review and reconsider the claim.

Under ERISA, there are steps a participant can take to enforce the above rights. For instance, if a participant requests a copy of Plan documents or the latest annual report from the Plan and does not receive them within 30 days, the participant may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay the participant up to $110 a day until the participant receives the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If the participant has a claim for benefits that is denied or ignored, in whole or in part, and the participant has exhausted the Plan's claims procedures, the participant may file suit in a state or Federal court. In addition, if the participant disagrees with the Plan's decision or lack thereof concerning the qualified status of a domestic relations order or a medical child support order, the participant may file suit in Federal court. If it should happen that plan fiduciaries misuse the Plan's money, or if the participant is discriminated against for asserting ERISA rights, the participant may seek assistance from the U.S. Department of Labor, or may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If the participant is successful the court may order the person the participant has sued to pay these costs and fees. If the participant loses, the court may order the participant to pay these costs and fees, for example, if it finds the participant’s claim is frivolous.

Assistance with Questions

If a participant has any questions about the Plan, the participant should contact the Plan Administrator as described above. If the participant has any questions about this statement or about the participant’s rights under ERISA, or if the participant needs assistance in obtaining documents from the Plan Administrator, the participant may contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in the telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. The participant may also obtain certain publications about such rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

<u>OCWEN FINANCIAL CORPORATION UNITED STATES CHANGE IN CONTROL SEVERANCE PLAN</u>

(Effective as of June 30, 2020)

Section 1 – General Information

Ocwen Financial Corporation hereby amends and restates the Ocwen Financial Corporation United States Change in Control Severance Plan (the "Plan") effective as of June 30, 2020 (the "Effective Date"). The Plan is intended to be, and shall be administered as, an employee welfare benefit plan as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). This document shall serve as the formal plan document and the summary plan description ("SPD") for the Plan.

The Plan is a self-funded severance benefit program that pays certain benefits to Eligible Employees who experience an Eligible Termination of employment from the Company or whose employment terminates following a Change in Control, as explained in Section 3 below.

Section 2—Definitions

2.1 **"Affiliated Company"** means, as of any date, (i) the Company, and (ii) any company, person or organization which, on such date, (A) is a member of the same controlled group of corporations (within the meaning of Code Section 414(b)) as is the Company; (B) is a trade or business (whether or not incorporated) which controls, is controlled by or is under common control (within the meaning of Code Section 414(c)) with the Company; (C) is a member of an affiliated service group (as defined in Code Section 414(m)) which includes the Company; or (D) is required to be aggregated with the Company pursuant to regulations under Code Section 414(o).

2.2 **"Base Pay"** means an employee's annual salary or wages from the Company at the time of termination. Base Pay shall be determined as reflected on the Company'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.

2.3 **"Board"** means the Board of Directors of Ocwen Financial Corporation.

2.4 **"Cause"** means the following (as determined by the Company in its sole discretion): dishonesty, fraud or misrepresentation; inability to obtain or retain appropriate licenses; violation of any rule or regulation of any regulatory agency or self-regulatory agency; violation of any policy or rule of the Company or any Affiliated Company; commission of a crime; or any act or omission detrimental to the conduct of the business of the Company or any Affiliated Company.

2.5 **"Change in Control"** shall mean the date as of which, the occurrence of a:

(a) a "change in the ownership" of the Company 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 Company stock which constitutes more than 50% of the total fair market value or total voting power of the stock of the Company; or

(b) a “change in the effective control” of the Company within the meaning of Treasury Regulation 1.409A-3(i)(f)(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 Company possessing 30% or more of the total voting power of the stock of the Company; 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 Company 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 acquisitions(s)).

2.6 **“COBRA”** means the Consolidated Omnibus Budget Reconciliation Act of 1985.

2.7 **“Code”** means the Internal Revenue Code of 1986, as amended.

2.8 **“Company”** means Ocwen Financial Corporation and any Affiliated Companies.

2.9 **“Eligible Employee”** means an Employee of the Company who at the time he or she incurs an Eligible Termination is an Employee performing services for the Company (a) in the United States, or (b) as an Expatriate in a country other than the United States. For purposes of this Plan, the term “United States” shall include the fifty states and all territories and dependencies of the United States.

2.10 **“Eligible Termination”** means an Employee’s involuntary termination of employment with the Company following a Change in Control. A termination of employment with the Company for any of the following reasons shall not constitute an Eligible Termination:

(a) transfer of any Employee to any (1) Affiliated Company, or (2) entity which is controlled by the Company through the ownership of a majority of its voting stock (or other equivalent ownership interest), either directly or indirectly through one or more intermediaries;

(b) voluntary termination of employment, unless (i) so determined by the Company, or (ii) pursuant to Good Reason;

(c) voluntary retirement;

(d) death;

(e) Cause;

(f) inability to perform the basic requirements of his or her position with or without reasonable accommodation due to physical or mental incapacity and after the Employee’s short-term disability benefits have expired under the terms of any applicable Company-sponsored benefits plan; or

(g) failure to return from an approved leave of absence.

Notwithstanding anything else herein to the contrary, an Eligible Termination shall not occur for purposes of the Plan unless and until the Eligible Employee has had a “separation from service” within the meaning of Section 409A of the Code, as amended, and the regulations and other guidance promulgated thereunder, except as otherwise provided below.

An Employee whose employment with the Company is relocated to a different job location shall be considered to have experienced an “involuntary termination of employment” if the Employee’s new job location is more than 50 miles from the Employee’s prior location; otherwise, such relocation shall not be considered an “involuntary termination of employment.” If the Employee is offered a telecommuting position, he or she shall not be considered to have experienced an “involuntary termination of employment.”

2.11 **“Employee”** means any individual who is compensated by the Company for services actually rendered as a regular full-time or regular part-time (but not a temporary) employee. “Employee” shall not include:

(a) any individual who is performing services under an independent contractor or consultant agreement or arrangement (even if a court, the Internal Revenue Service, or any other entity determines that such individual is a common law employee);

(b) any individual providing services for the Company pursuant to an agreement between the Company and a third party (even if a court, the Internal Revenue Service, or any other entity determines that such individual is a common law employee);

(c) a person who performs services for the Company but who is treated for payroll purposes as other than an Employee of the Company (even if a court, the Internal Revenue Service, or any other entity determines that such individual is a common law employee).

2.12 **“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended.

2.13 **“Expatriate”** means an Employee of a Company who, at the time he or she incurs an Eligible Termination, is designated by the Company as being on assignment as a United States expatriate on behalf of the Company.

2.14 **“Good Reason”** may be deemed to exist if, absent the Eligible Employee’s written consent, any of the following events occur during the two-year period following a Change in Control with respect to an Eligible Employee holding the title of Executive Vice President:

(a) there is a material diminution in title and/or duties, responsibilities, or authority of the Eligible Employee, 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 Company to perform any material obligation under such Eligible Employee’s employment agreement with the Company, if the Eligible Employee and the Company have entered into a written employment agreement; or

(c) there is a reduction in the Eligible Employee's annual Base Pay rate 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 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 Company holding a title of Executive Vice President and which does not exceed 10% of the Eligible Employee's Base Pay and Target Bonus Percentage, in the aggregate, when combined with any such prior reductions; provided, however, and notwithstanding anything to the contrary in this Plan, that if a reduction described in this subparagraph (c) occurs and the Eligible Employee terminates for Good Reason, then any severance payments or benefits determined under this Plan with reference to the Eligible Employee's Base Pay and Target Bonus Percentage shall be determined prior to any such reduction in Base Pay and/or Target Bonus Percentage, as applicable.

The occurrence of any event which would permit the Eligible Employee to terminate his or her employment for Good Reason as described in subparagraphs (a) through (c) above shall constitute a "**Good Reason Event**". Upon receipt of notice (whether oral or written) by the Eligible Employee of a Good Reason Event, the Eligible Employee shall have 90 days to provide the Company with written notice specifying the grounds for a Good Reason termination of employment, and the Company 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 an Eligible Employee following the Company'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.

2.15 **"Month of Base Pay"** means one twelfth (1/12) of the Eligible Employee's Base Pay.

2.16 **"Plan"** means the Ocwen Financial Corporation United States Change in Control Severance Plan described herein.

2.17 **"Plan Administrator"** shall mean, unless and until a Change in Control, Ocwen Financial Corporation or such other person or committee appointed from time to time by Ocwen Financial Corporation to administer the Plan. Until a successor is appointed by the Company, the Plan Administrator shall be Ocwen Financial Corporation.

2.18 **"Separation Agreement and General Release"** means a written document that includes a release of rights and claims from an Eligible Employee in a form that is satisfactory to, and approved by, the Company. The Separation Agreement and General Release may include, among other things: (a) non-competition and/or non-solicitation provisions; (b) a waiver and release (and covenant not to sue) of any and all claims, including claims arising from the Eligible Employee's employment and/or separation from employment with the Company except as limited and/or prohibited by applicable law; (c) nondisclosure and confidentiality provisions; and (d) non-disparagement provisions.

2.19 **"Severance Pay"** means the amount, if any, payable under Section 3 of the Plan to an Eligible Employee.

2.20 **"Week of Base Pay"** means one fifty-second (1/52) of the Eligible Employee's Base Pay.

2.21 **"Year of Service"** means a 12-month period of employment with the Company. A period of service shorter than 12 months will be considered a partial Year of Service. For example, an Eligible Employee who has worked five years and six months will have accrued five and one-half (5.5) Years of Service. If an Eligible Employee previously terminated employment with the Company and was subsequently rehired, the prior service with the Company will be counted towards the total Years of Service only if he/she was rehired less than twelve months before the Eligible Termination.

Section 3—Severance Benefits

3.1 *Eligible Terminations.*

(a) An Eligible Employee shall be entitled to receive benefits under this Plan following a Change in Control in the event that:

(1) the Eligible Employee's employment with the Company is terminated within the twelve-month period following such Change in Control;

(2) the Eligible Employee has been requested in writing by the Company to continue in the employment of the Company through a specified date, under terms and conditions of employment, at the place of employment and with the same salary and benefits that the Eligible Employee was provided prior to the Change in Control, and who satisfies such request by remaining in the employment of the Company for the specified period. Such Eligible Employee shall be eligible for the benefits under Section 3.1(b) upon the Eligible Employee's termination of employment on such specified date; or

(3) only in the case of an Eligible Employee holding the title Executive Vice President, the Eligible Employee terminates his or her employment for Good Reason, provided that such Eligible Employee shall give 30 days' prior written notice to the Company of such termination for Good Reason.

(b) An Eligible Employee entitled to benefits as a result of Section 3.1(a) of this Plan shall receive and the Company shall pay or, with respect to certain benefits hereinafter described, shall cause to be paid to the Eligible Employee or his or her beneficiary the following benefits:

(1) The following Severance Pay (subject to the offset in subparagraph (5) below):

(A) For an Eligible Employee holding the title of Executive Vice President at the time of his/her termination: 24 Months of Base Pay and a payment equivalent to the prorated target award under the Annual Incentive Plan.

(B) For an Eligible Employee holding the title of Senior Vice President at the time of his/her termination: 15 Months of Base Pay.

(C) For an Eligible Employee holding the title of Vice President or Director at the time of his/her termination: 9 Months of Base Pay.

(D) For an Eligible Employee that is considered exempt under the Fair Labor Standards Act ("FLSA") and holding the title of senior manager, manager, assistant manager, team lead, supervisor or employee at the time of his/her termination: 2 Weeks of Base Pay per Year of Service, with a minimum payment of 8 Weeks of Base Pay and a maximum payment of 52 Weeks of Base Pay.

(E) For an Eligible Employee that is non-exempt under FLSA at the time of his/her termination: 1 Weeks of Base Pay per Year of Service, with a minimum payment of 4 Weeks of Base Pay and a maximum payment of 26 Weeks of Base Pay.

(2) The following subsidy of COBRA continuation coverage: If the Eligible Employee is eligible to continue his/her Company-sponsored group health plan benefits pursuant to COBRA, the cost of such continuation coverage shall be equal to the cost of such coverage for active employees. Such subsidy shall continue for the number of months that correspond to the number of Months of Base Pay payable for the Eligible Employee under Section 3.1(b)(1) above. Partial months of Severance Pay shall be rounded up so that the subsidy continues for a complete calendar month. For example, if an Eligible Employee's Severance Pay is based on fewer than four Weeks of Pay, he or she shall be eligible for one month of subsidized COBRA coverage. COBRA continuation coverage shall be governed pursuant to the terms of the relevant benefit plan documents. It shall be the Eligible Employee's sole responsibility to timely elect COBRA and to pay his/her share of the cost of such coverage.

(3) The following relocation benefits: If the Eligible Employee was relocated to St. Croix, United States Virgin Islands at the direction of the Company, such employee may be eligible for relocation benefits in accordance with the USVI Relocation Program of Ocwen Mortgage Servicing, Inc. (now known as Ocwen USVI Services, LLC).

(4) Treatment of any and all equity awards will be governed by the individual award agreements, notwithstanding anything to the contrary in this Plan.

(5) For any and all Eligible Terminations that require the Company to pay severance pay to an Eligible Employee pursuant to the Millville Dallas Airmotive Plant Job Loss Notification Act (the "NJ WARN Act"), the Severance Pay payable in Section 3.1(b)(1) above will be reduced by the amount of severance pay (if any) that the Company is required to pay pursuant to the NJ WARN Act. Severance payments required by the NJ WARN Act shall not be considered benefits paid through this Plan; accordingly, the requirements of Section 3.3 shall apply only to the amount of Severance Pay payable under subsection 3.1(b)(1) remaining (if any) following the offset of NJ WARN Act benefits.

3.2 *Payment of Benefits*. Severance Pay will be payable in the form of a lump sum payment, which is subject to applicable federal, state, and local tax deductions and withholdings. The payment will be made as soon as practicable after the Separation Agreement and Release has been fully executed and becomes irrevocable. Other benefits paid under the Plan (such as relocation reimbursements) may be subject to similar withholding as required by federal, state, and local laws.

3.3 *Separation Agreement and Release*. Any Severance Pay payable to an Eligible Employee under Section 3.1(b)(1), COBRA benefits payable under Section 3.1(b)(2), and relocation benefits payable under Section 3.1(b)(3) shall be conditioned upon the Eligible Employee signing and having notarized a Separation Agreement and Release (and not exercising his or her right of revocation under the Separation Agreement and Release) within such period of time as the Company shall require, in its sole discretion. Any grant of Severance Pay shall be null and void upon an Eligible Employee's failure to sign, or subsequent revocation of, such Separation Agreement and General Release. Any breach by an Eligible Employee of a Separation Agreement and General Release upon which any grant of Severance Pay has been conditioned shall give the Company the right to terminate any payment otherwise due and/or to the return of such Severance Pay, in addition to any other remedy the Company may have.

3.4 *Reductions of Severance Pay*. Subject to applicable law, any Severance Pay which the Company may grant to an Eligible Employee may, in the sole discretion of the Company, be reduced by any amounts owed by the Eligible Employee to the Company. The Eligible Employee's right to receive such Severance Pay is conditioned upon his or her agreement to execute any documents deemed necessary or appropriate by the Company to reduce the Severance Pay by any such amounts owed.

3.5 *Repayment of Severance Pay upon Rehire*. If an Eligible Employee who has incurred an Eligible Termination and has received Severance Pay is rehired by the Company during the period for which Severance Pay was calculated, the Company shall require the Eligible Employee to return any or all amounts of Severance Pay that have been paid to the Eligible Employee for weeks that the Employee was re-hired. For example, if the Eligible Employee receives a lump sum severance payment of six Months of Base Pay but is rehired by the Company four months later, he/she must repay the equivalent of two Months of Base Pay. The amount of any COBRA subsidy (as described in Section 3.1(b)(2)) is not required to be repaid.

Section 4—Interpretation and Administration

4.1 *Duties of the Plan Administrator*. The Plan Administrator shall be responsible for the administration of the Plan and may appoint other persons or entities to perform or assist in the performance of any of its duties, subject to its review and approval. The Plan Administrator shall have the right to remove any such appointee from his position without cause upon notice.

4.2 *Powers*. The Plan Administrator shall administer the Plan in accordance with its terms and shall have all powers necessary to carry out the provisions of the Plan as more particularly set forth herein. The Plan Administrator shall have discretionary authority to interpret the Plan, and to determine all questions arising in the administration, interpretation, and application of the Plan; provided, however, that such discretionary authority shall be exercised in good faith in order to achieve the principal purposes of the Plan to provide severance benefits, including enhanced severance benefits upon a Change in Control, as described above. All such determinations shall be conclusive and binding on all interested persons. The Plan Administrator shall adopt such procedures and regulations necessary and/or desirable for the discharge of its duties hereunder and may appoint such accountants, counsel, actuaries, specialists, and other agents as it deems necessary and/or desirable in connection with the administration of this Plan.

4.3 *Compensation of the Plan Administrator*. The Plan Administrator shall not receive any compensation from the Plan for its services.

4.4 *Indemnification*. Ocwen Financial Corporation shall indemnify the Plan Administrator against any and all claims, losses, damages, expenses, and liability arising from its actions or omissions, except when the same is finally adjudicated to be due to the Plan Administrator's gross negligence or willful misconduct. The Company may purchase at its own expense sufficient liability insurance for the Plan Administrator to cover any and all claims, losses, damages, and expenses arising from any action or omission in connection with the execution of the duties as the Plan Administrator.

4.5 *Claims Procedure*.

(a) Any Eligible Employee who believes that he or she is entitled to receive benefits under this Plan, including benefits other than those initially determined by the Plan Administrator to be payable, may file a claim in writing with the Plan Administrator, specifying the reasons for such claim. The Plan Administrator shall then evaluate the claim and notify the Eligible Employee of the approval or disapproval in accordance with the provisions of this Plan not later than 90 days after the Company's receipt of such claim unless special circumstances require an extension of time for processing the claims. If such an extension of time for processing is required, written notice of the extension shall be furnished to the Eligible Employee prior to the termination of the initial 90 day period which shall specify the special circumstances requiring an extension and the date by which a final decision will be reached (which date shall not be later than 180 days after the date on which the claim was filed). If the Eligible Employee does not provide all the necessary information for the Plan Administrator to process the claim, the Plan Administrator may request additional information and set deadlines for the Eligible Employee to provide that information.

(b) In the event that such claim is denied in whole or in part, the Eligible Employee shall be given a written notification which shall be written in a manner calculated to be understood by the Eligible Employee and shall (i) state the specific reason(s) for the denial, (ii) make specific reference to the pertinent Plan provision(s) on which the denial is based, (iii) provide a description of any additional material or information necessary for the Eligible Employee to perfect the claim and an explanation of why such material or information is necessary, and (iv) set forth the procedure by which the Eligible Employee may appeal the denial of such claim, which shall also include a statement of the Eligible Employee's right to bring a civil action under Section 502(a) of ERISA following a denial of the claim upon review.

(c) The Eligible Employee may request a review of the denial of any such claim or portion thereof by making application in writing to the Plan Administrator within 60 days after receipt of such denial. Such Eligible Employee may, upon written request to the Plan Administrator, review or receive copies, upon request and free of charge, any documents, records or other information "relevant" (within the meaning of Department of Labor Regulation 2560.503-1(m)(8)) to the Eligible Employee's claim. The Eligible Employee may also submit written comments, documents, records and other information relating to his or her claim.

(d) In deciding an Eligible Employee’s appeal, the Plan Administrator shall take into account all comments, documents, records and other information submitted by the Eligible Employee relating to the claim, without regard to whether such information was submitted or considered in the initial review of the claim. If the Eligible Employee does not provide all the necessary information for the Plan Administrator to decide the appeal, the Plan Administrator may request additional information and set deadlines for the Eligible Employee to submit that information. Within 60 days after a request for review is received, the review shall be made and the Eligible Employee shall be advised in writing of the decision on review, unless special circumstances require an extension of time for processing the review, in which case the Eligible Employee shall be given a written notification within such initial 60 day period specifying the reasons for the extension and when such review shall be completed (provided that such review shall be completed within 120 days after the date on which the request for review was filed).

(e) The decision on review shall be forwarded to the Eligible Employee in writing and, in the case of a denial, shall include (i) specific reasons for the decision, (ii) specific references to the pertinent Plan provision(s) upon which the decision is based, (iii) a statement that the Eligible Employee is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, or other information relevant to the Eligible Employee’s claim and (iv) a statement of the Eligible Employee’s right to bring a civil action under Section 502(a) of ERISA following a wholly or partially denied claim for benefits. Any lawsuit must be commenced within six months of the date on the appeal denial letter. Claims submitted outside that time limit are time-barred. The Plan Administrator’s decision on review shall be final and binding on all persons for benefits. If an Eligible Employee shall fail to file a request for review in accordance with the procedures herein outlined, such Eligible Employee shall have no right to review and shall have no right to bring an action in any court, and the denial of the claim shall become final and binding on all persons for all purposes. Any notice and decisions by the Plan Administrator under this Section may be furnished electronically in accordance with Department of Labor Regulation 2520.104b-1(c)(i), (iii) and (iv).

Section 5—Amendment and Termination

5.1 *Amendments.* The Company shall have the right to amend or terminate the Plan in any respect and at any time without notice, pursuant to a determination of the Compensation and Human Capital Committee of the Board (or a delegate of such committee) or a determination of the Board.

5.2 *Plan Interpretation and Benefit Determination.* The Plan is administered by the Plan Administrator, who has the exclusive discretionary authority and power to determine eligibility for benefits and to construe the terms and provisions of the Plan, to determine questions of fact and law arising under the Plan, to direct disbursements pursuant to the Plan and to exercise all other powers specified herein or which may be implied from the provisions hereof. The Plan Administrator may adopt such rules for the conduct of the administration of the Plan as it may deem appropriate. All interpretations and determinations of the Plan Administrator shall be final and binding upon all parties and persons affected thereby. The Plan Administrator may appoint one or more individuals and delegate such of its powers and duties as it deems desirable to any such individual(s), in which case every reference herein made to the Plan Administrator shall be deemed to mean or include the appointed individual(s) as to matters within their jurisdiction.

Section 6—General Provisions

6.1 *Eligible Employee's Rights Unsecured and Unfunded*. The Plan at all times shall be entirely unfunded. No assets of the Company shall be segregated or earmarked to represent the liability for benefits under the Plan. The right of an Eligible Employee to receive a payment hereunder shall be an unsecured claim against the general assets of the Company that was the employer of such Eligible Employee. All payments under the Plan shall be made from the general assets of the Company.

6.2 *No Guarantee of Benefits*. Nothing contained in the Plan shall constitute a guarantee by the Company or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder.

6.3 *No Enlargement of Employee Rights*. The existence of this Plan or any payment of Severance Pay under the Plan shall not be deemed to constitute a contract of employment between the Company and any Eligible Employee, nor shall it constitute a right to remain in the employ of the Company. Employment with the Company is employment-at-will and either party may terminate the Employee's employment at any time, for any reason, with or without cause or notice.

6.4 *Non-Alienation Provision*. Except as set forth elsewhere in the Plan, and subject to the provisions of applicable law, no interest of any person or entity in, or right to receive a benefit or distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings the extent that such laws are preempted by ERISA.

6.5 *Excess Payments*. If compensation, Years of Service or any other relevant fact relating to any person is found to have been misstated, the Plan benefit payable by the Company to an Eligible Employee shall be the Plan benefit that would have been provided on the basis of the correct information. Any excess payments due to such misstatement, or due to any other mistake of fact or law, shall be refunded to the Company or withheld by it from any further amounts otherwise payable under the Plan.

6.6 *Impact on Other Benefits*. Amounts paid under this Plan shall not be included in an Eligible Employee's compensation for purposes of calculating benefits under any other plan, program or arrangement sponsored by the Company, unless such plan, program or arrangement expressly provides that amounts paid under this Plan shall be included.

6.7 *Usage of Terms and Headings*. Words in the masculine gender shall include the feminine and the singular shall include the plural, and vice versa, unless qualified by the context. Any headings are included for ease of reference only, and are not to be construed to alter the terms of the Plan.

6.8 *Supersession*. This Plan supersedes all plans, statements, practices or policies, if any, with respect to providing severance benefits to any Employee whose employment terminates on or after the Effective Date, except for those with specific written contracts that pre-date this Plan that provide for benefits payable upon the termination of employment and those Employees that have already been notified prior to the Effective Date of a termination of their employment and provided with different severance terms.

6.9 *Effective Date*. The Plan shall be effective as to Eligible Terminations that occur on or after June 30, 2020.

6.10 *Clawback*. Payments made pursuant to this Plan are subject to any Company clawback policy in effect at any time. In addition, to the extent required by the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or any other applicable law, or the rules and regulations promulgated pursuant thereto, Eligible Employees agree to return payments made pursuant to this Plan to the Company.

6.11 *Choice of Law*. This Plan shall be construed in accordance with and governed by the laws of the State of Florida, to the extent such laws are otherwise superseded by the laws of the United States, in which case such laws of the United States shall govern and the Plan shall be construed in accordance with such laws.

Section 7 – ERISA Information

Plan Name: Ocwen Financial Corporation United States Change in Control Severance Plan

Plan Number: 516

Effective Date: June 30, 2020

Plan Sponsor: Ocwen Financial Corporation

1661

Worthington Road, Suite 100

West

Palm Beach, FL 33409

EIN: 65-0039856

Plan Administrator: Ocwen Financial Corporation (see contact information above).

Agent for Service of Legal Process: Ocwen Financial Corporation

Attn:

General Counsel

1661

Worthington Road, Suite 100

West

Palm Beach, FL 33409

Plan Year: The Plan Year shall be the 12-month period commencing each year on June 28.

Type of Plan: The Plan is a severance benefit plan that provides income replacement benefits following a qualifying termination of employment.

Funding: The Plan is funded from the general assets of Ocwen Financial Corporation.

Statement of ERISA Rights:

Receiving Information about Plan Benefits

Participants in the Plan are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). ERISA provides that all Plan participants shall be entitled to:

- Examine, without charge, at the Plan Administrator's office and at other specified locations, such as worksites, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration.

- Obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan and copies of the latest annual report (Form 5500 Series) and updated summary plan description. The Plan Administrator may make a reasonable charge for the copies.

Prudent Actions by Plan Fiduciaries

In addition to creating rights for Plan participants, ERISA imposes duties upon the people who are responsible for the operation of an employee benefit plan. The people who operate the Plan, called “fiduciaries” of the Plan, have a duty to do so prudently and in the interest of Plan participants and beneficiaries. No one, including an employer or any other person, may fire a participant or otherwise discriminate against a participant in any way to prevent the participant from obtaining a severance benefit or exercising the participant’s rights under ERISA.

Enforcing ERISA Rights

If a participant’s claim for a severance benefit is denied or ignored, in whole or in part, the participant has a right to know why this was done, to receive a written explanation of the reason for the denial, to obtain copies of documents and relevant information relating to the decision without charge, and to appeal any denial, all within certain time schedules. The participant has the right to have the Plan Administrator review and reconsider the claim.

Under ERISA, there are steps a participant can take to enforce the above rights. For instance, if a participant requests a copy of Plan documents or the latest annual report from the Plan and does not receive them within 30 days, the participant may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay the participant up to $110 a day until the participant receives the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If the participant has a claim for benefits that is denied or ignored, in whole or in part, and the participant has exhausted the Plan’s claims procedures, the participant may file suit in a state or Federal court. In addition, if the participant disagrees with the Plan's decision or lack thereof concerning the qualified status of a domestic relations order or a medical child support order, the participant may file suit in Federal court. If it should happen that plan fiduciaries misuse the Plan's money, or if the participant is discriminated against for asserting ERISA rights, the participant may seek assistance from the U.S. Department of Labor, or may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If the participant is successful, the court may order the person the participant has sued to pay these costs and fees. If the participant loses, the court may order the participant to pay these costs and fees, for example, if it finds the participant's claim is frivolous.

Assistance with Questions

If a participant has any questions about the Plan, the participant should contact the Plan Administrator as described above. If the participant has any questions about this statement or about the participant's rights under ERISA, or if the participant needs assistance in obtaining documents from the Plan Administrator, the participant should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in the telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. The participant may also obtain certain publications about such rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

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.

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Date: August 4, 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: August 4, 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 June 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:	August 4, 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 June 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:	August 4, 2020