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

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2019

OR

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

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Florida	**65-0039856**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1661 Worthington Road, Suite 100 **West Palm Beach, Florida**	**33409**
(Address of principal executive office)	(Zip Code)

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

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 (NYSE)

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	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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 o No x

Number of shares of common stock outstanding as of November 1, 2019: 134,771,626 shares

OCWEN FINANCIAL CORPORATION
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FORWARD-LOOKING STATEMENTS

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

These statements include declarations regarding our management's beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could", "intend," "consider," "expect," "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such terms or other comparable terminology, although not all forward-looking statements contain these words. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Our business has been undergoing substantial change, which has magnified such uncertainties. Readers should bear these factors in mind when considering 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 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 because 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 or others, including lenders, the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the GSEs) and the Government National Mortgage Association (Ginnie Mae);
- our ability to reach settlements with regulatory agencies and state attorneys general on reasonable terms and to comply with the terms of our settlements;
- 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 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;
- the adequacy of our financial resources, including our sources of liquidity and ability to sell, fund and recover advances, fund and sell our loans held for sale, repay, renew and extend borrowings, borrow additional amounts as and when required, meet our asset investment objectives and comply with our debt agreements, including the financial and other covenants contained in them;
- our ability to acquire mortgage servicing rights (MSRs) or other assets or businesses at adequate risk-adjusted returns, including our ability to negotiate and execute purchase documentation and satisfy closing conditions so as to consummate such acquisitions;
- limits on our ability to repurchase our own stock as a result of regulatory settlements and other conditions;
- 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 and other security measures or breach of our privacy protections, including any failure to protect customers' data;
- volatility in our stock price;
- the characteristics of our servicing portfolio, including prepayment speeds along with delinquency and advance rates;
- our ability to execute on our cost re-engineering efforts to reduce operating costs while minimizing disruption from our workforce reduction and site closure initiatives;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;
- uncertainty related to legislation, regulations, regulatory agency actions, regulatory examinations, government programs and policies, industry initiatives and evolving best servicing practices;
- our ability to maintain our long-term relationship with New Residential Investment Corp. (NRZ), our largest servicing client and the source for a substantial portion of our advance funding for non-agency MSRs;
- our ability to timely and cost-effectively transfer MSRs under our agreements with NRZ;

- our ability to successfully integrate PHH Corporation (PHH) and its business, and to realize the strategic objectives and other benefits of the acquisition at the time anticipated or at all, including our ability to integrate, maintain and enhance PHH's servicing, subservicing and other business relationships, including its relationship with NRZ;
- our ability to identify and address any issues arising in connection with the transfer of loans to the Black Knight Financial Services, Inc. (Black Knight) LoanSphere MSP® servicing system (Black Knight MSP) without incurring significant cost or disruption to our operations;
- our ability to reduce organizational complexity through our corporate reorganization initiatives;
- the loss of the services of our senior managers and our ability to execute effective executive officer leadership transitions;
- uncertainty related to general economic and market conditions, delinquency rates, home prices and disposition timelines on foreclosed properties;
- uncertainty related to the actions of loan owners and guarantors, including mortgage-backed securities investors, GSEs, Ginnie Mae and trustees regarding loan put-backs, penalties and legal actions;
- uncertainty related to the GSEs substantially curtailing or ceasing to purchase our conforming loan originations or the Federal Housing Administration (FHA) of the HUD or Department of Veterans Affairs (VA) ceasing to provide insurance;
- uncertainty related to 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 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;
- uncertainty related to the ability of our technology vendors to adequately maintain and support our systems, including our servicing systems, loan originations and financial reporting systems;
- our ability to 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;
- disruption to our capital markets or other events impacting the availability of credit that could adversely impact our ability to access capital markets and finance our business;
- uncertainty related to our ability to adapt and grow our business, including uncertainty related to our ability to grow our lending business and increase our lending volume in a competitive market and uncertain interest rate environment;
- our ability to correctly interpret and meet capital requirements established by, or agreed with, regulators or GSEs, Ginnie Mae or other counterparties;
- our ability to protect and maintain our technology systems and our ability to adapt such systems for future operating environments; and
- uncertainty related to the political or economic stability of foreign countries in which we have operations.

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the SEC including our Annual Report on Form 10-K for the year ended December 31, 2018 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)

	September 30, 2019	December 31, 2018
Assets		
Cash and cash equivalents	$ 345,084	$ 329,132
Restricted cash (amounts related to VIEs of $13,725 and $20,968)	58,661	67,878
Mortgage servicing rights, at fair value	1,455,553	1,457,149
Advances, net	212,684	249,382
Match funded advances (related to VIEs)	825,760	937,294
Loans held for sale ($207,645 and $176,525 carried at fair value)	275,579	242,622
Loans held for investment, at fair value (amounts related to VIEs of $24,445 and $26,520)	6,073,687	5,498,719
Receivables, net	152,222	198,262
Premises and equipment, net	43,974	33,417
Other assets ($8,339 and $7,568 carried at fair value)(amounts related to VIEs of $4,422 and $2,874)	513,449	379,567
Assets related to discontinued operations	—	794
Total assets	$ 9,956,653	$ 9,394,216
Liabilities and Equity		
Liabilities		
Home Equity Conversion Mortgage-Backed Securities (HMBS) related borrowings, at fair value	$ 5,903,965	$ 5,380,448
Match funded liabilities (related to VIEs)	687,497	778,284
Other financing liabilities ($1,009,779 and $1,057,671 carried at fair value) (amounts related to VIEs of $22,827 and $24,815)	1,069,594	1,127,613
Other secured borrowings, net (amounts related to VIEs $137,612 and $0)	708,929	382,538
Senior notes, net	310,788	448,727
Other liabilities ($3,319 and $4,986 carried at fair value)	894,695	703,636
Liabilities related to discontinued operations	—	18,265
Total liabilities	9,575,468	8,839,511
Commitments and Contingencies (Notes 20 and 21)		
Stockholders' Equity		
Common stock, $.01 par value; 200,000,000 shares authorized; 134,595,798 and 133,912,425 shares issued and outstanding at September 30, 2019 and December 31, 2018 respectively	1,346	1,339
Additional paid-in capital	556,097	554,056
(Accumulated deficit) retained earnings	(173,415)	3,567
Accumulated other comprehensive loss, net of income taxes	(2,843)	(4,257)
Total stockholders' equity	381,185	554,705
Total liabilities and stockholders' equity	$ 9,956,653	$ 9,394,216

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenue				
Servicing and subservicing fees	$ 247,714	$ 213,730	$ 742,759	$ 658,095
Gain on loans held for sale, net	16,013	16,942	48,683	61,135
Other revenue, net	19,788	7,606	70,299	32,886
Total revenue	283,515	238,278	861,741	752,116
Expenses				
Compensation and benefits	73,414	63,307	250,393	211,220
MSR valuation adjustments, net	(134,561)	41,448	121,705	91,695
Servicing and origination	36,619	31,758	86,827	91,452
Professional services	36,628	40,662	77,205	110,821
Technology and communications	16,644	20,597	61,080	67,306
Occupancy and equipment	17,262	11,896	52,550	37,369
Other expenses	(1,282)	7,858	6,563	19,814
Total expenses	44,724	217,526	656,323	629,677
Other income (expense)				
Interest income	4,129	3,963	12,524	10,018
Interest expense	(285,922)	(61,288)	(387,938)	(189,601)
Gain on repurchase of senior secured notes	5,099	—	5,099	—
Bargain purchase gain	—	—	(381)	—
Other, net	(414)	(3,700)	1,544	(6,569)
Total other expense, net	(277,108)	(61,025)	(369,152)	(186,152)
Loss before income taxes	(38,317)	(40,273)	(163,734)	(63,713)
Income tax expense	4,450	845	13,264	4,541
Net loss	(42,767)	(41,118)	(176,998)	(68,254)
Net income attributable to non-controlling interests	—	(29)	—	(176)
Net loss attributable to Ocwen stockholders	$ (42,767)	$ (41,147)	$ (176,998)	$ (68,430)
Loss per share attributable to Ocwen stockholders				
Basic and Diluted	$ (0.32)	$ (0.31)	$ (1.32)	$ (0.51)
Weighted average common shares outstanding				
Basic and Diluted	134,595,798	133,912,425	134,329,321	133,632,905

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Net loss	$ (42,767)	$ (41,118)	$ (176,998)	$ (68,254)
Other comprehensive income, net of income taxes:				
Reclassification adjustment for losses on cash flow hedges included in net income (1)	38	36	108	114
Change in unfunded pension plan obligation liability	611	—	1,285	—
Other	8	—	21	—
Comprehensive loss	(42,110)	(41,082)	(175,584)	(68,140)
Comprehensive income attributable to non-controlling interests	—	(29)	—	(176)
Comprehensive loss attributable to Ocwen stockholders	$ (42,110)	$ (41,111)	$ (175,584)	$ (68,316)

(1) These losses are reclassified to Other, net in the unaudited consolidated statements of operations.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Dollars in thousands)

	Ocwen Stockholders							
	Common Stock							
	Shares	Amount	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss, Net of Income Taxes	Non-controlling Interest in Subsidiaries	Total	
Three months ended September 30, 2019 and 2018								
Balance at June 30, 2019	134,595,798	$ 1,346	$ 555,696	$ (130,648)	$ (3,500)	$ —	$ 422,894	
Net loss	—	—	—	(42,767)	—	—	(42,767)	
Equity-based compensation	—	—	401	—	—	—	401	
Other comprehensive income, net of income taxes	—	—	—	—	657	—	657	
Balance at September 30, 2019	134,595,798	$ 1,346	$ 556,097	$ (173,415)	$ (2,843)	$ —	$ 381,185	
Balance at June 30, 2018	133,912,425	$ 1,339	$ 552,800	$ 47,056	$ (1,171)	$ 1,159	$ 601,183	
Net (loss) income	—	—	—	(41,147)	—	29	(41,118)	
Equity-based compensation and other	—	—	643	—	—	—	643	
Other comprehensive income, net of income taxes	—	—	—	—	36	—	36	
Balance at September 30, 2018	133,912,425	$ 1,339	$ 553,443	$ 5,909	$ (1,135)	$ 1,188	$ 560,744	

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

	Ocwen Stockholders						
	Common Stock						
Nine months ended September 30, 2019 and 2018	Shares	Amount	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss, Net of Income Taxes	Non-controlling Interest in Subsidiaries	Total
Balance at December 31, 2018	133,912,425	$ 1,339	$ 554,056	$ 3,567	$ (4,257)	$ —	$ 554,705
Net loss	—	—	—	(176,998)	—	—	(176,998)
Cumulative effect of adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02	—	—	—	16	—	—	16
Equity-based compensation	683,373	7	2,041	—	—	—	2,048
Other comprehensive income, net of income taxes	—	—	—	—	1,414	—	1,414
Balance at September 30, 2019	134,595,798	$ 1,346	$ 556,097	$ (173,415)	$ (2,843)	$ —	$ 381,185
Balance at December 31, 2017	131,484,058	$ 1,315	$ 547,057	$ (2,083)	$ (1,249)	$ 1,834	$ 546,874
Net (loss) income	—	—	—	(68,430)	—	176	(68,254)
Issuance of common stock	1,875,000	19	5,700	—	—	—	5,719
Cumulative effect of fair value election - MSRs	—	—	—	82,043	—	—	82,043
Cumulative effect of adoption of FASB ASU No. 2016-16	—	—	—	(5,621)	—	—	(5,621)
Capital distribution to non-controlling interest	—	—	—	—	—	(822)	(822)
Equity-based compensation and other	553,367	5	686	—	—	—	691
Other comprehensive income, net of income taxes	—	—	—	—	114	—	114
Balance at September 30, 2018	133,912,425	$ 1,339	$ 553,443	$ 5,909	$ (1,135)	$ 1,188	$ 560,744

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

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

	For the Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities		
Net loss	$ (176,998)	$ (68,254)
Adjustments to reconcile net loss to net cash provided by operating activities:		
MSR valuation adjustments, net	121,705	91,695
Gain on sale of MSRs, net	(571)	(303)
Provision for bad debts	26,971	40,269
Depreciation	26,020	18,199
Gain on repurchase of senior secured notes	(5,099)	—
Equity-based compensation expense	1,890	1,244
Loss (gain) on valuation of financing liability	123,721	(11,323)
Net gain on valuation of mortgage loans held for investment and HMBS-related borrowings	(50,221)	(8,057)
Gain on loans held for sale, net	(29,820)	(24,265)
Bargain purchase gain	381	—
Origination and purchase of loans held for sale	(872,914)	(1,234,830)
Proceeds from sale and collections of loans held for sale	787,683	1,154,526
Changes in assets and liabilities:		
Decrease in advances and match funded assets	189,876	243,831
Decrease in receivables and other assets, net	123,283	126,829
Decrease in other liabilities	(82,942)	(46,767)
Other, net	1,105	8,739
Net cash provided by operating activities	184,070	291,533
Cash flows from investing activities		
Origination of loans held for investment	(675,898)	(711,035)
Principal payments received on loans held for investment	383,806	296,800
Purchase of MSRs	(112,417)	(2,729)
Proceeds from sale of MSRs	1,159	6,138
Acquisition of advances in connection with the purchase of MSRs	(1,457)	—
Proceeds from sale of advances	2,876	7,882
Issuance of automotive dealer financing notes	—	(19,642)
Collections of automotive dealer financing notes	—	52,598
Additions to premises and equipment	(1,342)	(7,326)
Other, net	5,992	5,446
Net cash used in investing activities	(397,281)	(371,868)
Cash flows from financing activities		
Repayment of match funded liabilities, net	(90,787)	(284,372)
Proceeds from mortgage loan warehouse facilities and other secured borrowings	1,875,926	2,211,606
Repayment of mortgage loan warehouse facilities and other secured borrowings	(1,819,728)	(2,522,723)
Repayment and repurchases of Senior notes	(131,791)	—
Proceeds from issuance of additional senior secured term loan (SSTL)	119,100	—
Repayment of SSTL borrowings	(19,074)	(62,563)
Payment of debt issuance costs related to SSTL	(1,284)	—
Proceeds from sale of MSRs accounted for as a financing	1,221	279,586
Proceeds from sale of Home Equity Conversion Mortgages (HECM, or reverse mortgages) accounted for as a financing (HMBS-related borrowings)	665,820	728,745
Repayment of HMBS-related borrowings	(377,094)	(290,338)
Capital distribution to non-controlling interest	—	(822)
Other, net	(2,363)	(991)
Net cash provided by financing activities	219,946	58,128
Net increase (decrease) in cash, cash equivalents and restricted cash	6,735	(22,207)
Cash, cash equivalents and restricted cash at beginning of year	397,010	302,560

Cash, cash equivalents and restricted cash at end of period	$ 403,745	$ 280,353
Supplemental non-cash investing and financing activities		
Initial consolidation of mortgage-backed securitization trusts (VIEs):		
Loans held for investment	$ —	$ 28,373
Other financing liabilities	—	26,643
Issuance of common stock in connection with litigation settlement	$ —	$ 5,719
Recognition of gross right-of-use asset and lease liability upon adoption of FASB ASU No. 2016-02:		
Right-of-use asset	$ 66,231	$ —
Lease liability	66,247	—
Transfers of loans held for sale to real estate owned (REO)	$ 4,240	$ 3,921

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:

	September 30, 2019	September 30, 2018
Cash and cash equivalents	$ 345,084	$ 254,843
Restricted cash and equivalents:		
Debt service accounts	17,026	22,454
Other restricted cash	41,635	3,056
Total cash, cash equivalents and restricted cash reported in the statements of cash flows	$ 403,745	$ 280,353

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

Note 1 - Organization, Business Environment 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 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 Mortgage Servicing, Inc. (OMS).

We perform servicing activities 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 (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 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 HECM loans, or reverse mortgages, that are insured by the FHA and are an approved issuer of HMBS that are guaranteed by Ginnie Mae.

We had a total of approximately 5,600 employees at September 30, 2019 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, nearly 80% were engaged in supporting our loan servicing operations as of September 30, 2019.

Business Environment

We are facing certain challenges and uncertainties that could have significant adverse effects on our business, financial condition, liquidity and results of operations. The ability of management to appropriately address these challenges and uncertainties in a timely manner is critical to our ability to operate our business successfully.

Losses have significantly eroded stockholders’ equity and weakened our financial condition. Our near-term priority is to return to profitability in the shortest timeframe possible within an appropriate risk and compliance environment. If we execute on our key business initiatives, we believe we will drive stronger financial performance.

First, we have successfully executed the acquisition of PHH Corporation (PHH) and continue our planned integration of PHH ’s business with ours. See Note 2 - Business Acquisition for additional information regarding the acquisition of PHH.

Second, we must re-engineer our cost structure to go beyond eliminating redundant costs through the integration process. Our cost re-engineering plans address organizational, process and control redesign and automation, human capital planning, off-shore utilization, strategic sourcing and facilities rationalization. Our initiatives are targeted at increasing the degree of automation of our processes, leveraging our single servicing platform and technology, and through innovation. We believe these steps are necessary in order to simplify our operations and drive stronger financial performance.

Third, we must manage the size of our servicing portfolio through expanding our lending business and permissible acquisitions of MSRs that are prudent and well-executed with appropriate financial return targets. During the first nine months of 2019, we closed MSR acquisitions with $11.9 billion unpaid principal balance (UPB).

Fourth, we must manage our balance sheet to ensure adequate liquidity and provide a solid platform for executing on our other key business initiatives. On July 1, 2019, we established a financing facility secured by MSRs that provides up to $300.0 million in committed borrowing capacity. We believe this facility will enable the funding of the majority of our near term MSR acquisition initiatives. We intend to extend, renew or replace our SSTL that matures in December 2020 and must evaluate capital structure options that we believe will most effectively allow us to execute on our business plan.

Finally, we must fulfill our regulatory commitments and resolve our remaining legal and regulatory matters on satisfactory terms. Our business, operating results and financial condition have been significantly impacted in recent periods by regulatory actions against us and by significant litigation matters. Should the number or scope of regulatory or legal actions against us increase or expand or should we be unable to reach reasonable resolutions in existing regulatory and legal matters, our business, reputation, financial condition, liquidity and results of operations could be materially and adversely affected, even if we are successful in our ongoing efforts to drive stronger financial performance. See Note 19 – Regulatory Requirements and Note 21 – Contingencies for further information.

In recent periods, Ocwen has incurred significant losses as a result of declines in the fair value of our MSRs. Further interest rate decreases, prepayment speed increases and changes to other fair value inputs or assumptions could result in further fair value declines and hamper our ability to return to profitability. Starting in September 2019, we have implemented a hedging strategy to partially offset the changes in fair value of our net MSR portfolio. See Note 15 – Derivative Financial Instruments and Hedging Activities for further information.

Our ability to execute on these key initiatives is not certain and is dependent on the successful execution of several complex actions, including our ability to grow our lending business and acquire MSRs with appropriate financial return targets, and execute on further organizational redesign and headcount reductions, as well as the absence of significant unforeseen costs, including regulatory or legal costs, that could negatively impact our cost re-engineering efforts, and our ability to extend, renew or replace our debt agreements in the ordinary course, including our SSTL. There can be no assurances that the desired strategic and financial benefits of these actions will be realized.

Regarding the current maturities of our borrowings, as of September 30, 2019 we have approximately $808.7 million of debt outstanding under facilities coming due in the next 12 months. Portions of our match funded advance facilities and all of our mortgage loan warehouse facilities have 364-day terms consistent with market practice. We have historically renewed these facilities on or before their expiration in the ordinary course of financing our business. We expect to renew, replace or extend all such borrowings to the extent necessary to finance our business on or prior to their respective maturities consistent with our historical experience.

Our debt agreements contain various qualitative and quantitative events of default provisions that include, among other things, noncompliance with covenants, breach of representations, or the occurrence of a material adverse change. If a lender were to allege an event of default and we are unable to avoid, remedy or secure a waiver of such alleged default, we could be subject to adverse actions by our lenders that could have a material adverse impact on us. In addition, PMC and Liberty are parties to seller/servicer agreements and/or subject to guidelines and regulations (collectively, seller/servicer obligations) with one or more of the GSEs, the Department of Housing and Urban Development (HUD), FHA, VA and Ginnie Mae. To the extent 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. See Note 13 – Borrowings, Note 19 – Regulatory Requirements and Note 21 – Contingencies for further information.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions of the Securities and Exchange Commission (SEC) to Form 10-Q and SEC Regulation S-X, Article 10, Rule 10-01 for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The results of operations and other data for the three and nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2019. 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, 2018.

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 statement of cash flows for the nine months ended September 30, 2018 have been reclassified to conform to the current year presentation as follows:

- Within the Cash flows from operating activities section, we reclassified Amortization of debt issuance costs of $2.3 million to Other, net.
- Within the Cash flows from financing activities section, we reclassified repayments of the SSTL of $62.6 million from Repayment of mortgage loan warehouse facilities and other secured borrowings to a new separate line item (Repayment of SSTL borrowings).

These reclassifications had no impact on our consolidated cash flows from operating, investing or financing activities.

Recently Adopted Accounting Standards

Leases (ASU 2016-02, ASU 2018-10, ASU 2018-11 and ASU 2019-01)

This ASU requires a lessee to recognize right-of-use (ROU) assets and lease liabilities on the balance sheet, regardless of whether the lease is classified as a finance or operating lease.

We adopted the new leasing guidance on January 1, 2019, and we elected practical expedients permitted by the new standard which provided us transition relief when assessing leases that commenced prior to the adoption date, including determining whether existing contracts are or contain leases, the classification of such leases as operating or financing, and the accounting for initial direct costs.

The adoption resulted in the recognition of a cumulative-effect adjustment to the opening balance of Retained earnings, the recognition of a gross ROU asset and lease liability, and the reclassification of existing balances for our leases as follows:

	Balances as of December 31, 2018 (1)	Recognition of Gross ROU Asset and Lease Liability	Reclassification of Existing Balances	Balances January 1, 2019 after Transition Adjustments (2)
Premises and Equipment:				
Right-of-use assets	$ —	$ 66,231	$ (21,438)	$ 44,793
Other Assets:				
Prepaid expenses (rent)	977	—	(977)	—
Other Liabilities:				
Liability for lease abandonments and deferred rent	(5,498)	—	5,498	—
Lease liability	—	(66,247)	977	(65,270)
Liabilities related to discontinued operations:				
Liability for lease abandonments (3)	(15,940)	—	15,940	—
Retained Earnings:				
Cumulative effect of adopting ASU 2016-02	—	16	—	16

(1) Represents amounts related to leases impacted by the adoption of this ASU that were included in our December 31, 2018 consolidated balance sheet.
(2) ROU assets as of January 1, 2019 after transition adjustments includes $30.4 million related to premises located in the U.S., $13.6 million related to premises located in India and the Philippines, and $0.7 million related to equipment.
(3) Represents lease impairments recognized by PHH prior to the acquisition.

Our leases include non-cancelable operating leases for premises and equipment with maturities extending to 2025, exclusive of renewal option periods. At lease commencement date, we estimate the ROU assets and lease liability at present value using our estimated incremental borrowing rate of 7.5%. We elected to recognize ROU assets and lease liabilities that arise from short-term leases. A maturity analysis of our lease liability as of September 30, 2019 is summarized as follows:

Annual obligation for the twelve months ended September 30,		
2020	$	17,534
2021		15,533
2022		14,215
2023		5,182
2024		1,089
Thereafter		829
		54,382
Less: Adjustment to present value		(6,136)
Total lease payments, net	$	48,246

Restricted cash includes a $23.2 million deposit as collateral for an irrevocable standby letter of credit issued in connection with one of our leased facilities. This letter of credit requirement under the terms of the lease agreement is primarily the result of PHH not meeting certain credit rating criteria prior to the acquisition. The required amount of the letter of credit will be reduced each month beginning in January 2021 through the lease expiration on December 31, 2022.

We amortize the balance of the ROU assets and interest on the lease liability and report in Occupancy and equipment expense on our unaudited consolidated statements of operations. Our lease liability is reduced as we make cash payments on our lease obligations. Our ROU lease assets are evaluated for impairment, in accordance with ASC 360, *Premises and Equipment*, at each reporting date.

Subsequent to adoption, we made the decision to vacate four leased properties prior to the contractual maturity date of the lease agreements. As a result of our plan to vacate the office space, we accelerated the recognition of amortization on the ROU assets based on the shortened remaining useful life of the leases. We recorded total accelerated amortization of $5.4 million during the nine months ended September 30, 2019.

Accounting Standards Issued but Not Yet Adopted

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

This ASU will require more timely recording of credit losses on loans and other financial instruments. This standard aligns the accounting with the economics of lending by requiring banks and other lending institutions to immediately record the full amount of credit losses that are expected in their loan portfolios. The new guidance requires an organization to measure all expected credit losses for financial assets held 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. This standard will be effective for us on January 1, 2020. We are currently evaluating the effect of this standard.

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

This ASU modifies the disclosure requirements on fair value measurements in FASB ASC Topic 820, Fair Value Measurement. The main provisions in this update include removal of the following disclosure requirements from this ASC: 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.

This standard will be effective for us on January 1, 2020. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty will be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments will be applied retrospectively to all periods presented upon their effective date. We do not anticipate that our adoption of this standard will have a material impact on our 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.

This standard will be effective for us on January 1, 2020. Upon adoption, we will elect to apply the amendments in this ASU prospectively to all implementation costs incurred subsequent to that date. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Note 2 - Business Acquisition

On October 4, 2018, we completed our acquisition of PHH, a non-bank servicer with established servicing and origination recapture capabilities. As a result of the acquisition, PHH became a wholly owned subsidiary of Ocwen.

The acquisition has been accounted for under the acquisition method of accounting pursuant to ASC 805, *Business Combinations*. Assets acquired and liabilities assumed are recorded at their fair value as of the date of acquisition based on management’s estimates using currently available information. The results of PHH operations are included in Ocwen’s consolidated statements of operations from the date of acquisition. For U.S. income tax purposes, the acquisition of PHH is treated as a stock purchase.

Purchase Price Allocation

The purchase price allocation provided in the table below reflects the final determination of the fair value of assets acquired and liabilities assumed in the acquisition of PHH, with the excess of total identifiable net assets over total consideration paid recorded as a bargain purchase gain. Independent valuation specialists conducted analyses to assist management in determining the fair value of certain acquired assets and assumed liabilities. Management is responsible for these third-party valuations and appraisals. The methodologies that we use and key assumptions that we made to estimate the fair value of the acquired assets and assumed debt are described in Note 5 – Fair Value.

Purchase Price Allocation	October 4, 2018	Adjustments	Revised
Cash	$ 423,088	$ —	$ 423,088
Restricted cash	38,813	—	38,813
MSRs	518,127	—	518,127
Advances, net	96,163	—	96,163
Loans held for sale	42,324	358	42,682
Receivables, net	46,838	(96)	46,742
Premises and equipment, net	15,203	—	15,203
REO	3,289	—	3,289
Other assets	6,293	—	6,293
Assets related to discontinued operations	2,017	—	2,017
Financing liabilities (MSRs pledged, at fair value)	(481,020)	—	(481,020)
Other secured borrowings, net	(27,594)	—	(27,594)
Senior notes, net (Senior unsecured notes)	(120,624)	—	(120,624)
Accrued legal fees and settlements	(9,960)	—	(9,960)
Other accrued expenses	(36,889)	—	(36,889)
Loan repurchase and indemnification liability	(27,736)	—	(27,736)
Unfunded pension liability	(9,815)	—	(9,815)
Other liabilities	(34,131)	(643)	(34,774)
Liabilities related to discontinued operations	(21,954)	—	(21,954)
Total identifiable net assets	422,432	(381)	422,051
Total consideration paid to seller	(358,396)	—	(358,396)
Bargain purchase gain	$ 64,036	$ (381)	$ 63,655

We acquired tax attributes, including the estimated future tax benefit of U.S. federal net operating losses (NOLs) valued at $30.2 million, state NOLs valued at $50.3 million and state tax credits of $9.2 million on the acquisition date. All of the acquired tax attributes were fully offset by a valuation allowance. All of these attributes are subject to annual limitations with regard to future utilization under Sections 382 and 383 of the Internal Revenue Code or the comparable provisions of state law. Accordingly, as of December 31, 2018, Ocwen combined had U.S. federal NOLs valued at $58.2 million, USVI NOLs valued at $3.1 million, state NOLs valued at $50.3 million and state tax credits of $9.2 million, all of which were fully offset by a valuation allowance. All of these attributes are subject to the provisions of Sections 382 and 383 of the Internal Revenue Code or the comparable provisions of foreign and state law. All of the attributes are subject to further potential annual limitations in the event of additional ownership changes in the future.

Pro Forma Results of Operations

The pro forma consolidated results presented below are not indicative of what Ocwen's consolidated results would have been had we completed the acquisition on the date indicated due to a number of factors, including but not limited to expected reductions in servicing, origination and overhead costs through the realization of targeted cost synergies and improved economies of scale, the impact of incremental costs to integrate the two companies and differences in servicing practices and cost structures between Ocwen and PHH. In addition, the pro forma consolidated results do not purport to project combined future operating results of Ocwen and PHH nor do they reflect the expected realization of any cost savings associated with the acquisition of PHH.

The table below presents supplemental pro forma information for Ocwen for the three and nine months ended September 30, 2018 as if the PHH acquisition occurred on January 1, 2017. Pro forma adjustments include the following:

Description	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Increase in MSR valuation adjustments, net for acquired MSRs to conform the accounting for MSRs to the valuation policies of Ocwen	$ 23,360	$ 24,442
Adjust interest expense for a total net decline (1)	(18,382)	(30,598)
Report Ocwen and PHH acquisition-related charges for professional services as if they had been incurred in 2017 rather than 2018	(9,384)	(18,548)
Total net increase in revenue (2)	39,156	120,616
Adjust depreciation expense to amortize internally developed software acquired from PHH on a straight-line basis based on a useful life of three years	245	735
Income tax expense (benefit) based on management's estimate of the blended applicable statutory tax rates and observing the continued need for a valuation allowance (3)	1,158	(300)

(1) Primarily pertains to fair value adjustments of $18.6 million and $31.4 million for the three and nine months ended September 30, 2018, respectively, related to the assumed MSR secured liability using valuation assumptions consistent with Ocwen's methodology, excluding the gross-up of PHH MSRs sold and accounted for as a secured borrowing.

(2) Primarily pertains to an increase to revenue of $40.3 million and $127.7 million for the three and nine months ended September 30, 2018, respectively, for the gross-up of PHH MSRs sold and accounted for as a secured borrowing. The offset of the remaining adjustments are expenses, interest income and interest expense, with no net effect on earnings.

(3) The net income tax benefit recorded as a result of pro forma adjustments represents lower current federal tax under the new base erosion and anti-abuse tax (BEAT) provision of the 2017 Tax Cuts and Jobs Act (Tax Act) assuming Ocwen and PHH would file a consolidated federal tax return beginning January 1, 2017. The pro forma tax adjustments contemplate the effects of the Tax Act.

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Revenues	$ 314,675	$ 995,043
Net loss from continuing operations	(65,168)	(133,594)

For purposes of determining pro forma results of operations for the three and nine months ended September 30, 2018, the bargain purchase gain is assumed to have been recorded in 2017 rather than 2018.

Note 3 - Cost Re-Engineering Plan

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 plans extend beyond eliminating redundant costs through the integration process and address organizational, process and control redesign and automation, human capital planning, off-shore utilization, strategic sourcing and facilities rationalization. Costs estimated for this plan include severance, retention and other incentive awards, facilities-related costs and other costs to execute the reorganization.

The following is a summary of expenses incurred to-date, including an estimate of remaining and total plan costs:

	Nine Months Ended September 30, 2019			
	Employee-related	Facility-related	Other	Total
Total costs incurred (1)				
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
	31,513	6,643	12,432	50,588
Estimate of remaining costs (2)	2,887	2,557	8,968	14,412
Total plan costs	$ 34,400	$ 9,200	$ 21,400	$ 65,000

(1) The above 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.

(2) We expect to incur the remaining plan costs within the year ending December 31, 2019.

The following table provides a summary of the aggregate activity of the liability for the re-engineering plan costs:

	Nine Months Ended September 30, 2019			
	Employee-related	Facility-related	Other	Total
Beginning balance	$ —	$ —	$ —	$ —
Charges	31,513	6,643	12,432	50,588
Payments / Other	(20,205)	(5,324)	(9,899)	(35,428)
Ending balance (1)	$ 11,308	$ 1,319	$ 2,533	$ 15,160

(1) The liability for re-engineering plan costs is included in Other liabilities (Other accrued expenses).

Note 4 – Securitizations and Variable Interest Entities

We securitize, sell and service forward and reverse residential mortgage loans and regularly transfer financial assets in connection with asset-backed financing arrangements. We have aggregated these securitizations and asset-backed financing arrangements into three groups: (1) securitizations of residential mortgage loans, (2) financings of advances and (3) financings of MSRs.

We have determined that the special purpose entities (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

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.

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 accounted for as sales that were outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Proceeds received from securitizations	$ 235,175	$ 282,507	$ 674,108	$ 998,204
Servicing fees collected	8,866	9,808	37,610	30,233
Purchases of previously transferred assets, net of claims reimbursed	(2,093)	(1,507)	(3,140)	(4,336)
	$ 241,948	$ 290,808	$ 708,578	$ 1,024,101

In connection with these transfers, we retained MSRs of $0.6 million and $2.2 million, and $1.4 million and $5.9 million, during the three and nine months ended September 30, 2019 and 2018, respectively, which are reported in Gain on loans held for sale, net in the unaudited consolidated statements of operations. See Note 6 – Loans Held for Sale for additional information regarding gains or losses on the transfer of loans held for sale.

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 guarantor for losses incurred due to material breach of contractual representations and warranties.

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

	September 30, 2019	December 31, 2018
Carrying value of assets		
MSRs, at fair value	$ 93,533	$ 132,774
Advances and match funded advances	143,083	138,679
UPB of loans transferred (1)	14,077,333	15,600,971
Maximum exposure to loss	$ 14,313,949	$ 15,872,424

(1) Represents UPB of loans we transferred for which we continue to act as servicer or subservicer. Our estimate of maximum exposure to loss does not include loans that we do not service for which we have provided representations and warranties because we cannot estimate such amounts. Maximum exposure to loss does not consider any collateral liquidation proceeds.

At September 30, 2019 and December 31, 2018, 8.3% and 8.3%, 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 Other revenue, net in our unaudited consolidated statements of operations.

Financings of Advances

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

We make 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 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. 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 Match funded advances and the related liabilities as Match funded liabilities. The SPEs use collections of the pledged advances to repay principal and interest and to pay the expenses of the SPE. Holders of the debt issued by these entities have recourse only to the assets of the SPE for satisfaction of the debt. The assets and liabilities of the advance financing SPEs are comprised solely of Match funded advances, Restricted cash (Debt service accounts), Match funded liabilities and amounts due to affiliates. Amounts due to affiliates are eliminated in consolidation in our unaudited consolidated balance sheets.

Financings of MSRs

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. Two 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, as defined, 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. Portfolio Excess Servicing Fees are defined within the Excess Spread Participation Agreement as: (a) the portfolio collections received during the collection period, net of the base servicing fee; and (b) all other amounts payable by a loan owner or master servicer with respect to the servicing rights for the portfolio mortgage loans, including any portfolio termination payments. This participation interest has been contributed to the trusts.

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 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 MSRs. In addition, Ocwen guarantees the obligations under the facility. This facility will terminate in June 2020 unless the parties mutually agree to renew or extend.

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 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.

At September 30, 2019, $137.6 million was outstanding under this facility which is included in Other secured borrowings, net on our unaudited consolidated balance sheet. See Note 13 – Borrowings for additional information. The carrying value of the pledged MSRs was $192.6 million at September 30, 2019. At September 30, 2019, $1.1 million of unamortized debt issuance costs related to this facility are included in Other assets. The assets and liabilities of the trusts include amounts due to or from affiliates which are eliminated in consolidation in our unaudited consolidated balance sheets.

Mortgage-Backed Securitizations

The table below presents the carrying value and classification of the assets and liabilities of two consolidated mortgage-backed securitization trusts included in our unaudited consolidated balance sheets as a result of residual securities issued by the trust that we acquired during 2018.

	September 30, 2019	December 31, 2018
Loans held for investment, at fair value - Restricted for securitization investors	$ 24,445	$ 26,520
Financing liability - Owed to securitization investors, at fair value	22,827	24,815

We have 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 these entities have recourse only to the assets of the SPE for satisfaction of the debt and have no recourse against the assets of Ocwen for satisfaction of the debt. Similarly, the general creditors of Ocwen have no claim on the assets of the trusts. Our exposure to loss as a result of our continuing involvement is limited to the carrying values of our investments in the residual securities of the trusts, our MSRs and related advances.

Note 5 – 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.

We have elected to fair value future draw commitments for HECM loans purchased or originated after December 31, 2018. The estimated fair value is included in Loans held for investment on our unaudited consolidated balance sheets with changes in fair value recognized in Other revenue, net in our unaudited consolidated statements of operations. The value of future draw commitments for HECM loans purchased or originated before January 1, 2019 will be recognized over time as such future draws are securitized or sold.

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

		September 30, 2019		December 31, 2018	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets					
Loans held for sale					
Loans held for sale, at fair value (a)	2	$ 207,645	$ 207,645	$ 176,525	$ 176,525
Loans held for sale, at lower of cost or fair value (b)	3	67,934	67,934	66,097	66,097
Total Loans held for sale		$ 275,579	$ 275,579	$ 242,622	$ 242,622
Loans held for investment					
Loans held for investment - Reverse mortgages (a)	3	$ 6,049,242	$ 6,049,242	$ 5,472,199	$ 5,472,199
Loans held for investment - Restricted for securitization investors (a)	3	24,445	24,445	26,520	26,520
Total loans held for investment		$ 6,073,687	$ 6,073,687	$ 5,498,719	$ 5,498,719
Advances (including match funded), net (c)	3	$ 1,038,444	$ 1,038,444	$ 1,186,676	$ 1,186,676
Receivables, net (c)	3	152,222	152,222	198,262	198,262
Mortgage-backed securities (a)	3	2,036	2,036	1,502	1,502
U.S. Treasury notes (a)	1	—	—	1,064	1,064
Corporate bonds (a)	2	442	442	450	450
Financial liabilities:					
Match funded liabilities (c)	3	$ 687,497	$ 688,038	$ 778,284	$ 776,485
Financing liabilities:					
HMBS-related borrowings (a)	3	$ 5,903,965	$ 5,903,965	$ 5,380,448	$ 5,380,448
Financing liability - MSRs pledged (Rights to MSRs) (a)	3	986,952	986,952	1,032,856	1,032,856
Financing liability - Owed to securitization investors (a)	3	22,827	22,827	24,815	24,815
Other (c)	3	59,815	39,707	69,942	53,570
Total Financing liabilities		$ 6,973,559	$ 6,953,451	$ 6,508,061	$ 6,491,689
Other secured borrowings:					
Senior secured term loan (c) (d)	2	$ 328,119	$ 327,855	$ 226,825	$ 227,449
Other (c)	3	380,810	380,810	155,713	155,713
Total Other secured borrowings		$ 708,929	$ 708,665	$ 382,538	$ 383,162

Senior notes:					
Senior unsecured notes (c) (d)	2	$ 20,973	$ 13,246	$ 119,924	$ 119,258
Senior secured notes (c) (d)	2	289,815	244,868	328,803	306,889
Total Senior notes		$ 310,788	$ 258,114	$ 448,727	$ 426,147
Derivative financial instrument assets (liabilities)					
Interest rate lock commitments (a)	2	$ 4,781	$ 4,781	$ 3,871	$ 3,871
Forward trades - Loans held for sale (a)	1	(3,126)	(3,126)	(4,983)	(4,983)
TBA / Forward mortgage-backed securities (MBS) trades - MSR hedging (a)	1	887	887	—	—
Interest rate caps (a)	3	—	—	678	678
MSRs (a)	3	$ 1,455,553	$ 1,455,553	$ 1,457,149	$ 1,457,149

(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 13 – Borrowings for additional information.

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

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Loans Held for Inv. - Restricted for Securitiza-tion Investors	Financing Liability - Owed to Securit - ization Investors	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs
Three months ended September 30, 2019								
Beginning balance	$ 5,872,407	$ (5,745,383)	$ 25,324	$ (23,697)	$ 2,014	$ (844,913)	$ 47	$ 1,312,633
Purchases, issuances, sales and settlements								
Purchases	—	—	—	—	—	(345)	—	11,801
Issuances	248,877	(240,714)	—	—	—	—	—	—
Sales	—	—	—	—	—	(11)	—	(15)
Settlements	(151,292)	149,079	(879)	870	—	53,756	—	(3,105)
Transfers (to) from:								
Loans held for sale, at fair value	(521)	—	—	—	—	—	—	—
Other assets	(211)	—	—	—	—	—	—	—
Receivables, net	(89)	—	—	—	—	—	—	—
	96,764	(91,635)	(879)	870	—	53,400	—	8,681
Total realized and unrealized gains (losses)								
Included in earnings:								
Change in fair value (1)	80,071	(66,947)	—	—	22	(200,703)	(47)	134,239
Calls and other	—	—	—	—	—	5,264	—	—
	80,071	(66,947)	—	—	22	(195,439)	(47)	134,239
Transfers in and / or out of Level 3	—	—	—	—	—	—	—	—
Ending balance	$ 6,049,242	$ (5,903,965)	$ 24,445	$ (22,827)	$ 2,036	$ (986,952)	$ —	$ 1,455,553

	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	Financing Liability - MSRs Pledged	Derivatives	MSRs
Three months ended September 30, 2018								
Beginning balance	$ 5,143,758	$ (5,040,983)	$ —	$ —	$ 1,732	$ (672,619)	$ 1,657	$ 1,043,995
Purchases, issuances, sales and settlements								
Purchases	—	—	—	—	—	—	—	2,924
Issuances	223,563	(229,169)	—	—	—	—	—	1,930
Consolidation of mortgage-backed securitization trusts			28,373	(26,643)				
Sales	—	—	—	—	—	—	—	(8,119)
Settlements	(110,584)	108,790	—	—	—	49,620	—	—
Transfers (to) from:								
Loans held for sale, at fair value	(253)	—	—	—	—	—	—	—
Other assets	(170)	—	—	—	—	—	—	—
Receivables, net	(20)	—	—	—	—	—	—	—
	112,536	(120,379)	28,373	(26,643)	—	49,620	—	(3,265)
Total realized and unrealized gains (losses)								
Included in earnings:								
Change in fair value	22,893	(22,865)	—	—	(62)	2,681	(446)	(41,448)
Calls and other	—	—	—	—	—	119	—	—
	22,893	(22,865)	—	—	(62)	2,800	(446)	(41,448)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—	—
Ending balance	$ 5,279,187	$ (5,184,227)	$ 28,373	$ (26,643)	$ 1,670	$ (620,199)	$ 1,211	$ 999,282

	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	Financing Liability - MSRs Pledged	Derivatives	MSRs
Nine months ended September 30, 2019								
Beginning balance	$ 5,472,199	$ (5,380,448)	$ 26,520	$ (24,815)	$ 1,502	$ (1,032,856)	$ 678	$ 1,457,149
Purchases, issuances, sales and settlements								
Purchases	—	—	—	—	—	(1,221)	—	128,888
Issuances	675,898	(665,820)	—	—	—	—	—	—
Sales	—	—	—	—	—	(11)	—	(585)
Settlements	(383,806)	377,094	(2,075)	1,988	—	157,173	—	(7,872)
Transfers (to) from:								
Loans held for sale, at fair value	(1,405)	—	—	—	—	—	—	—
Other assets	(366)	—	—	—	—	—	—	—
Receivables, net	(202)	—	—	—	—	—	—	—
	290,119	(288,726)	(2,075)	1,988	—	155,941	—	120,431
Total realized and unrealized gains (losses) included in earnings								
Included in earnings:								
Change in fair value (1)	286,924	(234,791)	—	—	534	(123,721)	(678)	(122,027)
Calls and other	—	—	—	—	—	13,684	—	—
	286,924	(234,791)	—	—	534	(110,037)	(678)	(122,027)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—	—
Ending balance	$ 6,049,242	$ (5,903,965)	$ 24,445	$ (22,827)	$ 2,036	$ (986,952)	$ —	$ 1,455,553

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Loans Held for Inv. - Restricted for Securitiza-tion Investors	Financing Liability - Owed to Securiti-zation Investors	Mortgage-backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs
Nine months ended September 30, 2018								
Beginning balance	$ 4,715,831	$ (4,601,556)	$ —	$ —	$ 1,592	$ (508,291)	$ 2,056	$ 671,962
Purchases, issuances, sales and settlements								
Purchases	—	—	—	—	—	—	95	8,809
Issuances	711,035	(728,745)	—	—	—	(279,586)	—	(445)
Consolidation of mortgage-backed securitization trusts	—	—	28,373	(26,643)	—	—	—	—
Sales	—	—	—	—	—	—	—	(8,274)
Settlements	(296,800)	290,338	—	—	—	154,129	(371)	—
Transfers (to) from:								
MSRs carried at amortized cost, net of valuation allowance	—	—	—	—	—	—	—	418,925
Loans held for sale, at fair value	(694)	—	—	—	—	—	—	—
Other assets	(307)	—	—	—	—	—	—	—
Receivables, net	(92)	—	—	—	—	—	—	—
	413,142	(438,407)	28,373	(26,643)	—	(125,457)	(276)	419,015
Total realized and unrealized gains (losses) included in earnings								
Included in earnings:								
Change in fair value	150,214	(144,264)	—	—	78	11,323	(569)	(91,695)
Calls and other	—	—	—	—	—	2,226	—	—
	150,214	(144,264)	—	—	78	13,549	(569)	(91,695)
Transfers in and / or out of Level 3	—	—			—	—	—	—
Ending balance	$ 5,279,187	$ (5,184,227)	$ 28,373	$ (26,643)	$ 1,670	$ (620,199)	$ 1,211	$ 999,282

(1) The Change in fair value adjustments on Loans held for investment for the three and nine months ended September 30, 2019 include $3.6 million and $9.2 million, respectively, in connection with the fair value election for future draw commitments on HECM reverse mortgage loans purchased or originated after December 31, 2018.

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 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. Modified and EBO loans are classified as loans held for sale at the lower of cost or fair value, as 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 is estimated using published forward Ginnie Mae prices or existing sale contracts. 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.

We report all other loans held for sale at the lower of cost or fair value. 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 base 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, as provided by a third-party valuation expert.

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 future draw commitments for HECM loans purchased or originated after December 31, 2018. Significant assumptions include expected prepayment and delinquency rates and cumulative loss curves. The discount rate assumption for these assets is primarily based on an assessment of current market yields on newly originated reverse mortgage loans, expected duration of the asset and current market interest rates.

Significant valuation assumptions	**September 30, 2019**	**December 31, 2018**
Life in years		
Range	2.2 to 8.1	3.0 to 7.6
Weighted average	6.3	5.9
Conditional repayment rate		
Range	6.9% to 29.3%	6.8% to 38.4%
Weighted average	13.6%	14.7%
Discount rate	2.6%	3.4%

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

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 for 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

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

Third-party valuation experts generally utilize: (a) transactions involving instruments with similar collateral and risk profiles, adjusted as necessary based on specific characteristics of the asset or liability being valued; and/or (b) industry-standard modeling, such as a discounted cash flow model, in arriving at their estimate of fair value. The prices provided by the valuation experts reflect their observations and assumptions related to market activity, incorporating available industry survey results and client feedback, and including risk premiums and liquidity adjustments. The models and related assumptions used by the valuation experts are owned and managed by them and, in many cases, the significant inputs used in the valuation techniques are not reasonably available to us. However, we understand the processes and assumptions used to develop the prices based on our ongoing due diligence, which includes regular discussions with the valuation experts. We believe that the procedures executed by the valuation experts, supported by our 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 equal to the mid-point of the range of prices provided by third-party valuation experts, without adjustment, except in the event we have a potential or completed 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 utilized by the valuation experts 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 impact on advance costs. Other key assumptions used in the valuation of these MSRs include delinquency rates and discount rates.

	September 30, 2019		December 31, 2018	
Significant valuation assumptions	**Agency**	**Non-Agency**	**Agency**	**Non-Agency**
Weighted average prepayment speed	13.4%	12.2%	8.5%	15.4%
Weighted average delinquency rate	3.4%	26.3%	6.6%	27.1%
Advance financing cost	5-year swap	5-year swap plus 2.00%	5-year swap	5-yr swap plus 2.75%
Interest rate for computing float earnings	5-year swap	5-year swap minus 0.50%	5-year swap	5-yr swap minus 0.50%
Weighted average discount rate	9.3%	11.3%	9.1%	12.8%
Weighted average cost to service (in dollars)	$ 84	$ 277	$ 90	$ 297

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 that we carry at fair value as of September 30, 2019 given 10% and 20% hypothetical shifts in prepayment speeds and discount rate assumptions:

Adverse change in fair value	**10%**	**20%**
Weighted average prepayment speeds	$ (123,564)	$ (235,153)
Weighted average discount rate	(47,473)	(92,074)

The sensitivity analysis measures the potential impact on fair values based on hypothetical changes, which in the case of our portfolio at September 30, 2019 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, because advances have no stated maturity, are generally realized within a relatively short period of time and do not bear interest.

Receivables

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

Mortgage-Backed Securities (MBS)

Our subordinate and residual securities are not actively traded, and therefore, we estimate the fair value of these securities 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.

U.S. Treasury Notes

We classify U.S. Treasury notes as trading securities and account for them at fair value on a recurring basis. We base the fair value on quoted prices in active markets to which we have access. Changes in the fair value of our investment in U.S. Treasury notes are recognized in Other, net in the unaudited consolidated statements of operations.

Match Funded Liabilities

For match funded liabilities that bear interest at a rate that is adjusted regularly based on a market index, the carrying value approximates fair value. For match funded liabilities that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. We assume the notes are refinanced at the end of their revolving periods, consistent with how we manage our advance facilities.

Financing Liabilities

HMBS-Related Borrowings

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

Significant valuation assumptions	**September 30, 2019**	**December 31, 2018**
Life in years		
Range	2.2 to 8.1	3.0 to 7.6
Weighted average	6.3	5.9
Conditional repayment rate		
Range	6.9% to 29.3%	6.8% to 38.4%
Weighted average	13.6%	14.7%
Discount rate	2.5%	3.3%

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

MSRs Pledged (Rights to MSRs)

We have elected to measure 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. 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. Because we measure all MSRs at fair value, changes in the Financing Liability - MSRs Pledged value are partially offset by changes in the fair value of the related MSRs. Changes in the fair value of the financing liability are reported in Interest expense in the unaudited consolidated statements of operations. See Note 10 — Rights to MSRs for additional information.

Significant valuation assumptions	**September 30, 2019**	**December 31, 2018**
Weighted average prepayment speed	12.6%	13.9%
Weighted average delinquency rate	20.6%	20.3%
Advance financing cost	5-year swap plus 0% to 2.00%	5-year swap plus 0% to 2.75%
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	10.6%	12.0%
Weighted average cost to service (in dollars)	$ 222	$ 234

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

Secured Notes

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

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 4 – 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 based the fair value on valuation data obtained from a pricing service.

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. IRLCs are classified within Level 2 of the valuation hierarchy as the primary component of the price is obtained from observable values of mortgage forwards for loans of similar terms and characteristics. Fair value amounts of IRLCs are adjusted for expected “fallout” (locked pipeline loans not expected to close) using models that consider cumulative historical fallout rates and other factors.

We entered into forward MBS trades to provide an economic hedge against changes in the fair value of residential forward and reverse mortgage loans held for sale that we carry at fair value until August 2019 and, beginning in September 2019, to hedge of our net MSR portfolio. Forward contracts are actively traded in the market and we obtain unadjusted market quotes for these derivatives; thus, they are classified within Level 1 of the valuation hierarchy.

In addition, we may use interest rate caps to minimize future interest rate exposure on variable rate debt issued on servicing advance financing facilities from increases in one-month or three-month Eurodollar rate (1ML or 3 ML, respectively) interest rates. The fair value for interest rate caps is based on counterparty market prices and adjusted for counterparty credit risk.

Note 6 – Loans Held for Sale

	Nine Months Ended September 30,	
Loans Held for Sale - Fair Value	**2019**	**2018**
Beginning balance	$ 176,525	$ 214,262
Originations and purchases	615,303	671,503
Proceeds from sales	(581,678)	(728,531)
Principal collections	(17,155)	(14,201)
Transfers from (to):		
Loans held for investment, at fair value	1,405	694
Loans held for sale - Lower of cost or fair value	(1)	(11,564)
Receivables, net	(2,248)	(1,165)
REO (Other assets)	(1,501)	(2,240)
Gain on sale of loans	24,005	25,525
Decrease in fair value of loans	(197)	(12,791)
Other	(6,813)	3,925
Ending balance (1)	$ 207,645	$ 145,417

(1) At September 30, 2019 and 2018, the ending balances are net of fair value adjustments of $7.4 million and $6.5 million, respectively.

	Nine Months Ended September 30,	
Loans Held for Sale - Lower of Cost or Fair Value	**2019**	**2018**
Beginning balance	$ 66,097	$ 24,096
Purchases	257,611	563,327
Proceeds from sales	(183,048)	(400,693)
Principal collections	(5,802)	(11,101)
Transfers from (to):		
Receivables, net	(78,865)	(118,762)
REO (Other assets)	(2,739)	(1,681)
Loans held for sale - Fair value	1	11,564
Gain on sale of loans	3,364	2,180
Decrease (increase) in valuation allowance	4,473	(3,144)
Other	6,842	6,233
Ending balance (1)	$ 67,934	$ 72,019

(1) At September 30, 2019 and 2018, the balances include $58.6 million and $53.0 million, 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.

Valuation Allowance - Loans Held for Sale at Lower of Cost or Fair Value	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Beginning balance	$ 10,057	$ 7,535	$ 11,569	$ 7,318
Provision	769	2,755	1,805	3,036
Transfer from Liability for indemnification obligations (Other liabilities)	266	554	340	1,551
Sales of loans	(3,996)	(382)	(6,618)	(1,464)
Other	—	—	—	21
Ending balance	$ 7,096	$ 10,462	$ 7,096	$ 10,462

Gain on Loans Held for Sale, Net	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Gain on sales of loans, net				
MSRs retained on transfers of forward mortgage loans	$ 605	$ 1,427	$ 2,249	$ 5,880
Fair value gains related to transfers of reverse mortgage loans, net	6,080	9,421	18,863	36,870
Gain on sale of repurchased Ginnie Mae loans	1,364	1,222	3,154	2,179
Gain on sale of forward mortgage loans	5,896	5,075	23,102	27,264
Other, net	921	(616)	3,508	(3,236)
	14,866	16,529	50,876	68,957
Change in fair value of IRLCs	697	26	401	137
Change in fair value of loans held for sale	610	365	936	(9,781)
(Loss) gain on economic hedge instruments	(106)	84	(3,344)	2,082
Other	(54)	(62)	(186)	(260)
	$ 16,013	$ 16,942	$ 48,683	$ 61,135

Note 7 – Advances

	September 30, 2019	December 31, 2018
Principal and interest	$ 44,839	$ 43,671
Taxes and insurance	134,361	160,373
Foreclosures, bankruptcy, REO and other	42,781	68,597
	221,981	272,641
Allowance for losses	(9,297)	(23,259)
	$ 212,684	$ 249,382

The following table summarizes the activity in net advances:

	Nine Months Ended September 30,	
	2019	2018
Beginning balance	$ 249,382	$ 211,793
Asset acquisitions	1,457	—
Sales of advances	(747)	(4,777)
Collections of advances, charge-offs and other, net	(51,370)	(41,704)
Net decrease in allowance for losses (1)	13,962	712
Ending balance	$ 212,684	$ 166,024

	Three Months Ended September 30,		Nine Months Ended September 30,	
Allowance for Losses	2019	2018	2019	2018
Beginning balance	$ 27,653	$ 16,485	$ 23,259	$ 16,465
Provision	729	2,696	4,532	6,197
Net charge-offs and other (1)	(19,085)	(3,428)	(18,494)	(6,909)
Ending balance	$ 9,297	$ 15,753	$ 9,297	$ 15,753

(1) Includes $18.0 million allowance related to sold advances presented in Other liabilities (Liability for indemnification obligations), as of September 30, 2019.

Note 8 – Match Funded Advances

	September 30, 2019	December 31, 2018
Principal and interest	$ 383,896	$ 412,897
Taxes and insurance	305,336	374,853
Foreclosures, bankruptcy, REO and other	136,528	149,544
	$ 825,760	$ 937,294

The following table summarizes the activity in match funded assets:

	Nine Months Ended September 30,		
	2019	2018	
	Advances	Advances	Automotive Dealer Financing Notes
Beginning balance	$ 937,294	$ 1,144,600	$ 32,757
Transfer to Other assets	—	—	(36,896)
New advances (collections), net	(111,534)	(209,520)	1,504
Decrease in allowance for losses (1)	—	—	2,635
Ending balance	$ 825,760	$ 935,080	$ —

(1) The remaining allowance was charged off in connection with the exit from the automotive capital services business. In January 2018, we terminated the automotive dealer loan financing facility.

Note 9 – Mortgage Servicing

MSRs – Amortization Method	Nine Months Ended September 30, 2018
Beginning balance	$ 336,882
Fair value election - transfer of MSRs carried at fair value (1)	(361,670)
Decrease in impairment valuation allowance (1) (2)	24,788
Ending balance	$ —

(1) Effective January 1, 2018, we elected fair value accounting for our MSRs previously accounted for using the amortization method, which included Agency MSRs and government-insured MSRs. This irrevocable election applies to all subsequently acquired or originated servicing assets and liabilities that have characteristics consistent with each of these classes. We recorded a cumulative-effect adjustment of $82.0 million to retained earnings as of January 1, 2018 to reflect the excess of the fair value of the Agency MSRs over their carrying amount. We also recognized the tax effect of this adjustment through an increase in retained earnings of $6.8 million and a deferred tax asset for the same amount. However, we established a full valuation allowance on the resulting deferred tax asset through a reduction in retained earnings. The government-insured MSRs were impaired by $24.8 million at December 31, 2017; therefore, these MSRs were already effectively carried at fair value.
(2) Impairment valuation allowance balance of $24.8 million was reclassified to reduce the carrying value of the related MSRs on January 1, 2018 in connection with our fair value election.

MSRs – Fair Value Measurement Method	Three Months Ended September 30,					
	2019			2018		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	$ 745,735	$ 566,898	$ 1,312,633	$ 427,597	$ 616,398	$ 1,043,995
Fair value election - transfer from MSRs carried at amortized cost	—	—	—	—	—	—
Cumulative effect of fair value election	—	—	—	—	—	—
Sales and other transfers	—	(15)	(15)	(5,950)	(20)	(5,970)
Additions:						
Recognized on the sale of residential mortgage loans	1,235	—	1,235	1,503	—	1,503
Purchase of MSRs	9,298	1,268	10,566	1,421	—	1,421
Servicing transfers and adjustments	—	(3,105)	(3,105)	—	(219)	(219)
Changes in fair value (1):						
Changes in valuation inputs or other assumptions	(63,360)	252,293	188,933	(1,243)	(5,413)	(6,656)
Realization of expected future cash flows and other changes	(36,898)	(17,796)	(54,694)	(13,912)	(20,880)	(34,792)
Ending balance	$ 656,010	$ 799,543	$ 1,455,553	$ 409,416	$ 589,866	$ 999,282

MSRs – Fair Value Measurement Method	Nine Months Ended September 30,					
	2019			2018		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	$ 865,587	$ 591,562	$ 1,457,149	$ 11,960	$ 660,002	$ 671,962
Fair value election - transfer from MSRs carried at amortized cost	—	—	—	336,882	—	336,882
Cumulative effect of fair value election	—	—	—	82,043	—	82,043
Sales and other transfers	(29)	(556)	(585)	(5,950)	(175)	(6,125)
Additions:						
Recognized on the sale of residential mortgage loans	3,933	—	3,933	6,080	—	6,080
Purchase of MSRs	123,600	1,355	124,955	2,729	—	2,729
Servicing transfers and adjustments	—	(7,872)	(7,872)	—	(2,594)	(2,594)
Changes in fair value (1):						
Changes in valuation inputs or other assumptions	(235,036)	264,876	29,840	19,217	(424)	18,793
Realization of expected future cash flows and other changes	(102,045)	(49,822)	(151,867)	(43,545)	(66,943)	(110,488)
Ending balance	$ 656,010	$ 799,543	$ 1,455,553	$ 409,416	$ 589,866	$ 999,282

(1) 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 residential primary servicing and subservicing portfolios as measured by UPB, including foreclosed real estate and small-balance commercial loans. The UPB amounts in the table below are not included on our unaudited consolidated balance sheets.

UPB at September 30, 2019	
Servicing	$ 76,523,660
Subservicing	23,175,607
NRZ	117,055,517
	$ 216,754,784
UPB at December 31, 2018	
Servicing	$ 72,378,693
Subservicing	53,104,560
NRZ	130,517,237
	$ 256,000,490
UPB at September 30, 2018	
Servicing	$ 68,076,254
Subservicing	1,387,641
NRZ	91,532,579
	$ 160,996,474

During the nine months ended September 30, 2019, we acquired MSRs on portfolios consisting of 50,421 loans with a UPB of $11.9 billion. During the nine months ended September 30, 2019, we also sold MSRs on portfolios consisting of 435 loans with a UPB of $116.1 million.

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. To date, terminations as servicer as a result of a breach of any of these provisions have been minimal.

At September 30, 2019, the S&P Global Ratings, Inc.'s (S&P) and Fitch Ratings, Inc.'s (Fitch) servicer ratings outlook for PMC is stable. Downgrades in servicer ratings could adversely affect our ability to 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 certain of our non-Agency servicing agreements. To date, terminations as servicer as a result of a breach of any of these provisions have been minimal.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Servicing Revenue	**2019**	**2018**	**2019**	**2018**
Loan servicing and subservicing fees				
Servicing	$ 60,682	$ 52,610	$ 167,720	$ 167,389
Subservicing	1,365	658	11,775	2,443
NRZ	146,567	120,593	443,505	374,322
	208,614	173,861	623,000	544,154
Late charges	14,105	14,839	42,786	44,743
Custodial accounts (float earnings)	13,464	10,241	38,739	25,965
Loan collection fees	3,862	4,916	11,613	14,700
Home Affordable Modification Program (HAMP) fees (1)	1,216	3,365	4,558	11,622
Other, net	6,453	6,508	22,063	16,911
	$ 247,714	$ 213,730	$ 742,759	$ 658,095

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

Float balances (balances in custodial accounts, which represent collections of principal and interest that we receive from borrowers) are held in escrow by unaffiliated banks and are excluded from our unaudited consolidated balance sheets. Float balances amounted to $2.1 billion, $1.7 billion and $1.7 billion at September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

Note 10 — 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 do not qualify as a sale and are accounted for as secured financings. As a result, 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 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 Interest expense.

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

Balance Sheets	September 30, 2019	December 31, 2018
MSRs, at fair value	$ 925,507	$ 894,002
Due from NRZ (Receivables)		
Sales and transfers of MSRs (1)	$ 25,531	$ 23,757
Advance funding, subservicing fees and reimbursable expenses	7,615	30,845
	$ 33,146	$ 54,602
Due to NRZ (Other liabilities)	$ 63,304	$ 53,001
Financing liability - MSRs pledged, at fair value		
Original Rights to MSRs Agreements	$ 627,287	$ 436,511
2017 Agreements and New RMSR Agreements (2)	61,445	138,854
PMC MSR Agreements	298,220	457,491
	$ 986,952	$ 1,032,856

(1) 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 the acquisition date.
(2) $104.7 million and $34.1 million is expected to be recognized as a reduction in the financing liability and interest expense for the years ended December 31, 2019 and 2020, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Statements of Operations				
Servicing fees collected on behalf of NRZ	$ 146,567	$ 120,593	$ 443,505	$ 374,322
Less: Subservicing fee retained by Ocwen	35,462	33,335	108,774	101,997
Net servicing fees remitted to NRZ	111,105	87,258	334,731	272,325
Less: Reduction (increase) in financing liability				
Changes in fair value:				
Original Rights to MSRs Agreements	(228,644)	4,844	(230,193)	(3,938)
2017 Agreements and New RMSR Agreements	(2,216)	(2,163)	(4,562)	15,261
PMC MSR Agreements	30,156	—	111,034	—
	(200,704)	2,681	(123,721)	11,323
Runoff and settlement:				
Original Rights to MSRs Agreements	11,170	15,896	31,617	50,739
2017 Agreements and New RMSR Agreements	26,705	33,724	76,087	103,390
PMC MSR Agreements	15,881	—	49,469	—
	53,756	49,620	157,173	154,129
Other	1,637	(1,760)	(2,022)	(4,383)
Interest expense	$ 256,416	$ 36,717	$ 303,301	$ 111,256

Financing Liability - MSRs Pledged	Original Rights to MSRs Agreements	2017 Agreements and New RMSR Agreements	PMC MSR Agreements	Total
Balance at December 31, 2018	$ 436,511	$ 138,854	$ 457,491	$ 1,032,856
Additions	—	—	1,221	1,221
Sales	—	—	11	11
Changes in fair value:				
Original Rights to MSRs Agreements	230,193	—	—	230,193
2017 Agreements and New RMSR Agreements	—	4,562	—	4,562
PMC MSR Agreements	—	—	(111,034)	(111,034)
Runoff and settlement:				
Original Rights to MSRs Agreements	(31,617)	—	—	(31,617)
2017 Agreements and New RMSR Agreements	—	(76,087)	—	(76,087)
PMC MSR Agreements	—	—	(49,469)	(49,469)
Calls (1):				
Original Rights to MSRs Agreements	(7,800)	—	—	(7,800)
2017 Agreements and New RMSR Agreements	—	(5,884)	—	(5,884)
Balance at September 30, 2019	$ 627,287	$ 61,445	$ 298,220	$ 986,952

Financing Liability - MSRs Pledged	Original Rights to MSRs Agreements	2017 Agreements and New RMSR Agreements	Total
Balance at December 31, 2017	$ 499,042	$ 9,249	$ 508,291
Receipt of lump-sum cash payments	—	279,586	279,586
Changes in fair value:			
Original Rights to MSRs Agreements	3,938	—	3,938
2017 Agreements and New RMSR Agreements	—	(15,261)	(15,261)
Runoff and settlement:			
Original Rights to MSRs Agreements	(50,739)	—	(50,739)
2017 Agreements and New RMSR Agreements	—	(103,390)	(103,390)
Calls (1):			
Original Rights to MSRs Agreements	(1,396)	—	(1,396)
2017 Agreements and New RMSR Agreements	—	(830)	(830)
Balance at September 30, 2018	$ 450,845	$ 169,354	$ 620,199

(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 of five years (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. Upon receiving the required consents and transferring the MSRs, Ocwen will subservice the mortgage loans underlying the MSRs pursuant to the 2017 Agreements.

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 represent 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 expects to receive under the 2017 Agreements and the New RMSR 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). Changes in fair value are recognized in Interest 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 NewRez, LLC dba Shellpoint Mortgage Servicing (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.

As of September 30, 2019, the UPB of MSRs for which legal title has not transferred to NRZ is $19.2 billion. In the event the required third-party consents were not obtained by May 31, 2019, and in accordance with the process set forth in, the New RMSR Agreements, such MSRs would either: (i) remain subject to the New RMSR Agreements at the option of NRZ, (ii) be acquired by Ocwen at a price determined in accordance with the terms of the New RMSR Agreements at the option of Ocwen, or (iii) be sold 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. NRZ did not exercise its option to designate the remaining MSRs to continue to be subject to the New RMSR Agreements. Ocwen and NRZ are in discussions regarding the information needed for Ocwen to assess whether or not it will exercise its option under (ii) above to acquire all or some of the MSRs that currently remain in the New RMSR Agreements, or what other arrangements will be made with respect to these remaining MSRs.

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 proper 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 life of the contract 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 agreement) 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 will continue to receive 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 will receive all float earnings and deferred servicing fees related to delinquent borrower payments, as well as be entitled to receive certain REO related income including REO referral commissions.

PMC Transactions

On December 28, 2016, PMC entered into an agreement to sell substantially all of its MSRs, and the related servicing advances, to New Residential Mortgage LLC, a wholly-owned subsidiary of NRZ. In connection with this agreement, on December 28, 2016, PMC also entered into a subservicing agreement with NRZ (collectively, the PMC MSR Agreements). The PMC subservicing agreement has an initial term of three years from the initial transaction date of June 16, 2017, subject to certain transfer and termination provisions.

The PMC subservicing arrangement generates revenue based on a schedule of fees per loan per month that includes revenue adjustments for delinquent loans to cover the incremental cost associated with servicing such loans. As of September 30, 2019, Ocwen serviced 289,272 loans under this arrangement and recorded servicing fee revenues for the three and nine months ended September 30, 2019 of $7.5 million and $21.6 million, respectively.

Through its acquisition of PHH on October 4, 2018, Ocwen added MSRs with $42.3 billion UPB related to the PMC MSR Agreements. As of September 30, 2019, $2.8 billion in UPB of MSRs and related advances remain to be sold to NRZ under the PMC MSR Agreements pending receipt of required third-party consents. Ocwen and NRZ are in discussions regarding the disposition of these remaining assets.

At any time during each of the second and third years of the initial term, and subject to the payment of the applicable deboarding fee and proper notice, NRZ may terminate an amount not to exceed 25% of the underlying mortgage loans being subserviced under the PMC subservicing agreement. The PMC subservicing agreement automatically renews for successive one-year terms unless either party provides prior notice of termination in accordance with the PMC subservicing agreement. NRZ and PMC each have the ability to terminate the subservicing agreement for cause if certain specified conditions occur.

Note 11 – Receivables

	September 30, 2019	December 31, 2018
Servicing-related receivables:		
Government-insured loan claims	$ 95,939	$ 105,258
Due from NRZ:		
Sales and transfers of MSRs	25,531	23,757
Advance funding, subservicing fees and reimbursable expenses	7,615	30,845
Reimbursable expenses	14,282	11,508
Due from custodial accounts	2,956	9,060
Other	6,912	7,754
	153,235	188,182
Income taxes receivable	37,504	45,987
Other receivables	16,257	17,672
	206,996	251,841
Allowance for losses	(54,774)	(53,579)
	$ 152,222	$ 198,262

At September 30, 2019 and December 31, 2018, the allowance for losses relates to receivables of our Servicing business. 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 $53.2 million and $52.5 million at September 30, 2019 and December 31, 2018, respectively.

Allowance for Losses - Government-Insured Loan Claims	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Beginning balance	$ 50,511	$ 53,155	$ 52,497	$ 53,340
Provision	11,013	10,180	22,819	29,214
Charge-offs and other, net	(8,349)	(10,297)	(22,141)	(29,516)
Ending balance	$ 53,175	$ 53,038	$ 53,175	$ 53,038

Note 12 – Other Assets

	September 30, 2019	December 31, 2018
Contingent loan repurchase asset	$ 435,568	$ 302,581
Prepaid expenses	26,487	27,647
Prepaid representation, warranty and indemnification claims - Agency MSR sale	15,173	15,173
Prepaid lender fees, net	7,157	6,589
REO	7,087	7,368
Deferred tax asset, net	6,210	5,289
Derivatives, at fair value	5,861	4,552
Security deposits	2,236	2,278
Mortgage backed securities, at fair value	2,036	1,502
Interest-earning time deposits	392	1,338
Other	5,242	5,250
	$ 513,449	$ 379,567

Match Funded Liabilities

Borrowing Type	Maturity (1)	Amortization Date (1)	Available Borrowing Capacity (2)	September 30, 2019 Weighted Average Interest Rate (3)	September 30, 2019 Balance	December 31, 2018 Weighted Average Interest Rate (3)	December 31, 2018 Balance
Advance Financing Facilities:							
Advance Receivables Backed Notes - Series 2015-VF5 (4)	Dec. 2049	Dec. 2019	$ 29,549	3.96%	$ 195,451	4.06%	$ 216,559
Advance Receivables Backed Notes - Series 2016-T2 (5)	Aug. 2049	Aug. 2019	—	—	—	2.99	235,000
Advance Receivables Backed Notes, Series 2018-T1 (5)	Aug. 2049	Aug. 2019	—	—	—	3.50	150,000
Advance Receivables Backed Notes, Series 2018-T2 (5)	Aug. 2050	Aug. 2020	—	—	—	3.81	150,000
Advance Receivables Backed Notes, Series 2019-T1 (5)	Aug. 2050	Aug. 2020	—	2.62	185,000	—	—
Advance Receivables Backed Notes, Series 2019-T2 (5)	Aug. 2051	Aug. 2021	—	2.53	285,000	—	—
Total Ocwen Master Advance Receivables Trust (OMART)			29,549	2.97	665,451	3.56	751,559
Ocwen Freddie Advance Funding (OFAF) - Advance Receivables Backed Notes, Series 2015-VF1 (6)	Jun. 2050	Jun. 2020	37,954	3.76	22,046	5.03	26,725
			$ 67,503	3.00%	$ 687,497	3.61%	$ 778,284

(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 in accordance with their respective terms. At September 30, 2019, none of the available borrowing capacity of our advance financing notes could be used based on the amount of eligible collateral that had been pledged.
(3) 1ML was 2.02% and 2.50% at September 30, 2019 and December 31, 2018, respectively.
(4) The total borrowing capacity of the Series 2015-VF5 variable notes is $225.0 million, with interest computed based on the lender's cost of funds plus a margin. At September 30, 2019, the weighted average interest margin was 135 bps.
(5) 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%. The Series 2016-T2, 2018-T1 and 2018-T2 fixed-rate term notes were all redeemed on August 15, 2019.
(6) On June 6, 2019, we renewed this facility through June 5, 2020 and borrowing capacity was reduced from $65.0 million to $60.0 million with interest computed based on the lender's cost of funds plus a margin. At September 30, 2019, the weighted average interest margin was 157 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. 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. As of September 30, 2019, we were the servicer of Rights to MSRs sold to NRZ pertaining to $19.2 billion in UPB, which excludes those Rights to MSRs where legal title has transferred to NRZ. NRZ's associated outstanding servicing advances as of such date were approximately $694.6 million. Should NRZ's advance financing facilities fail to perform as envisaged or should NRZ otherwise be unable to meet its advance funding obligations, our liquidity, financial condition and business could be materially and adversely affected. See Note 10 — 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**	**September 30, 2019**	**December 31, 2018**
HMBS-Related Borrowings, at fair value (1)	Loans held for investment	1ML + 260 bps	(1)	$ 5,903,965	$ 5,380,448
Other Financing Liabilities					
MSRs pledged (Rights to MSRs), at fair value:					
Original Rights to MSRs Agreements	MSRs	(2)	(2)	627,287	436,511
2017 Agreements and New RMSR Agreements	MSRs	(3)	(3)	61,445	138,854
PMC MSR Agreements	MSRs	(4)	(4)	298,220	457,491
				986,952	1,032,856
Secured Notes, Ocwen Asset Servicing Income Series, Series 2014-1 (5)	MSRs	(5)	Feb. 2028	59,815	65,523
Financing liability - Owed to securitization investors, at fair value:					
IndyMac Mortgage Loan Trust (INDX 2004-AR11) (6)	Loans held for investment	(6)	(6)	9,987	11,012
Residential Asset Securitization Trust 2003-A11 (RAST 2003-A11) (6)	Loans held for investment	(6)	(6)	12,840	13,803
				22,827	24,815
Advances pledged (7)	Advances on loans	(7)	(7)	—	4,419
Total Other Financing Liabilities				1,069,594	1,127,613
				$ 6,973,559	$ 6,508,061

(1) Represents amounts due to the holders of beneficial interests in Ginnie Mae guaranteed HMBS. The beneficial interests have no maturity dates, and the borrowings mature as the related loans are repaid.

(2) This financing liability has no contractual maturity or repayment schedule. 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.

(3) This financing liability arose in connection with $54.6 million of lump sum payments 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. 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. The expected maturity of the liability is April 30, 2020, the date through which we were scheduled to be the servicer on loans underlying the Rights to MSRs per the Original Rights to MSRs Agreements.

(4) Represents a liability for sales of MSRs that are 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 remain on the consolidated balance sheet and the proceeds from the sale are recognized as a secured liability. We elected to record the liability at fair value consistent with the related MSRs.

(5) 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.

(6) 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 4 – Securitizations and Variable Interest Entities. The holders of these certificates have no recourse against the assets of Ocwen. The certificates in the INDX 2004-AR11 Trust pay interest based on variable rates which are generally based on weighted average net mortgage rates and which range between 3.70% and 4.24% at September 30, 2019. 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 INDX 2004-AR11 Trust and RAST 2003-A11 Trust have maturity dates extending through November 2034 and October 2033, respectively.

(7) Certain sales of advances did not qualify for sales accounting treatment and were accounted for as a financing. This financing liability has no contractual maturity. The effective interest rate is based on 1ML plus a margin of 450 bps.

Other Secured Borrowings

Borrowing Type	Collateral	Interest Rate	Termination / Maturity	Available Borrowing Capacity (1)	Outstanding Balance September 30, 2019	Outstanding Balance December 31, 2018
SSTL (2)	(2)	1-Month Euro-dollar rate + 500 bps with a Eurodollar floor of 100 bps (2)	Dec. 2020	$ —	$ 332,426	$ 231,500
Mortgage loan warehouse facilities						
Master repurchase agreement (3)	Loans held for sale (LHFS)	1ML + 195 - 300 bps	Sep. 2020	—	109,039	74,693
Participation agreement (4)	LHFS	N/A	Jul. 2019	—	—	42,331
Participation agreement (5)	LHFS (reverse mortgages)	1ML + 250 bps; 1ML floor of 350 bps	Aug. 2020	—	19,149	8,009
Master repurchase agreement (6)	LHFS (forward and reverse mortgages)	1ML + 225 bps forward; 1ML + 275 bps reverse	Dec. 2019	101,067	98,933	30,680
Participation agreement (7)	LHFS (reverse mortgages)	Prime + 0.0% (4.0% floor)	Jan. 2020	—	3,997	—
Master repurchase agreement (8)	N/A	1ML + 170bps	N/A	—	—	—
Participation agreement (9)	LHFS	N/A	Feb. 2020	—	12,080	—
				101,067	243,198	155,713
Agency MSR financing facility (10)	MSRs	1ML + 300bps	Jun. 2020	162,388	137,612	—
				$ 263,455	713,236	387,213
Unamortized debt issuance costs - SSTL					(2,861)	(3,098)
Discount - SSTL					(1,446)	(1,577)
					$ 708,929	$ 382,538
Weighted average interest rate					5.19%	5.49%

(1) 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 could be used at September 30, 2019 based on the amount of eligible collateral that could be pledged.

(2) On March 18, 2019, we entered into a Joinder and Amendment Agreement (the Amendment) which amends the existing Amended and Restated SSTL Facility Agreement dated December 5, 2016 to provide an additional term loan of $120.0 million subject to the same maturity, interest rate and other material terms of existing borrowings under the SSTL. Effective with the Amendment, the quarterly principal payment has been increased from $4.2 million to $6.4 million beginning March 31, 2019. See information regarding collateral in the table below.

Borrowings bear interest, at the election of Ocwen, at a rate per annum equal to either (a) the base rate (the greatest of (i) the prime rate in effect on such day, (ii) the federal funds rate in effect on such day plus 0.50% and (iii) 1ML, plus a margin of 4.00% and subject to a base rate floor of 2.00% or (b) 1ML, plus a margin of 5.00% and subject to a 1ML floor of 1.00%. To date, we have elected option (b) to determine the interest rate.

(3) The maximum borrowing under this agreement is $175.0 million, of which $100.0 million is available on a committed basis and the remainder is available at the discretion of the lender. On September 27, 2019, we renewed this facility through September 25, 2020.

(4) Effective with the merger of Homeward Residential, Inc. (Homeward) into PMC in February 2019, an existing participation agreement with uncommitted borrowing capacity of $75.0 million was terminated. Effective with the merger of Ocwen Loan Servicing, LLC (OLS) into PMC in June 2019, the remaining participation agreement with uncommitted borrowing capacity of $175.0 million was also terminated.
(5) Under this participation agreement, the lender provides financing for $100.0 million on an uncommitted 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 August 13, 2019, we renewed this facility through August 14, 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. On January 23, 2019, we renewed this facility through January 22, 2020.
(8) This agreement was originally entered into by PHH and subsequently assumed by Ocwen in connection with its acquisition of PHH. The facility provides financing for up to $200.0 million at the discretion of the provider. The agreement has no stated maturity date.
(9) We entered into a master participation agreement on February 4, 2019 under which the lender will provide $300.0 million of borrowing capacity to PMC on an uncommitted 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. The lender earns the stated interest rate of the underlying mortgage loans while the loans are financed under the participation agreement.
(10) On July 1, 2019, PMC entered into a financing facility 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. The maximum amount which we may borrow pursuant to the repurchase agreements is $300.0 million on a committed basis. The lender earns the stated interest rate of 1ML plus a margin of 300 bps. See Note 4 – Securitizations and Variable Interest Entities for additional information.

			Outstanding Balance	
Senior Notes	**Interest Rate**	**Maturity**	**September 30, 2019**	**December 31, 2018**
Senior unsecured notes:				
PHH (1)	7.375%	Sep. 2019	$ —	$ 97,521
PHH (2)	6.375%	Aug. 2021	21,543	21,543
			21,543	119,064
Senior secured notes	8.375%	Nov. 2022	291,509	330,878
			313,052	449,942
Unamortized debt issuance costs			(1,694)	(2,075)
Fair value adjustments (2)			(570)	860
			$ 310,788	$ 448,727

(1) On September 2, 2019, we redeemed all of the Senior unsecured notes due in September 2019, at a redemption price of 100.0% of the outstanding principal balance plus accrued and unpaid interest.
(2) 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**
2018	106.281%
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.

During July and August 2019, we repurchased a total of $39.4 million of our 8.375% Senior secured notes in the open market for a price of $34.3 million. We recognized a gain of $5.1 million on these repurchases which is reported in Gain on repurchases of senior secured notes in the unaudited consolidated statement of operations.

Credit Ratings

Credit ratings are intended to be an indicator of the creditworthiness of a company's debt obligations. At September 30, 2019, the S&P issuer credit rating for Ocwen was "B-". On June 1, 2019, OLS, the borrower under the SSTL and 8.375% Senior secured notes, merged with PMC which became the successor obligor for these borrowings. As a result, on July 3, 2019, S&P withdrew the ratings of OLS and assigned a B- issuer credit rating to PMC. On September 11, 2019 Moody's withdrew the Caa1 corporate family rating of Ocwen as it no longer maintained any rated debt outstanding and issued a corporate family rating of Caa1 with negative outlook to PMC. 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, as defined under our SSTL, as of the last date of any fiscal quarter; and
- specified levels of tangible net worth and liquidity at the consolidated Ocwen level.

As of September 30, 2019, 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 match funded debt and mortgage warehouse agreements. The most restrictive liquidity requirements were for a minimum of $100.0 million in consolidated liquidity, as defined, under certain of our match funded debt and mortgage warehouse agreements.

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 activities or raise additional forms 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 financial statements.

Collateral

Our assets held as collateral related to secured borrowings, committed under sale or other contractual obligations and which may be subject to secured liens under the SSTL and Senior Secured Notes are as follows at September 30, 2019:

		Collateral for Secured Borrowings				
	Total Assets	**Match Funded Liabilities**	**Financing Liabilities / Other Secured Borrowings**	**Mortgage Loan Warehouse Facilities**	**Sales and Other Commitments (1)**	**Other (2)**
Cash	$ 345,084	$ —	$ —	$ —	$ —	$ 345,084
Restricted cash	58,661	13,625	100	3,401	41,535	—
MSRs (3)	1,455,553		1,178,968	—	11,338	265,247
Advances, net	212,684	—		—	28,765	183,919
Match funded advances	825,760	825,760	—	—	—	—
Loans held for sale	275,579	—	—	203,023	—	72,556
Loans held for investment	6,073,687	—	5,983,786	48,007	—	41,894
Receivables, net	152,222	—	—	23,444	—	128,778
Premises and equipment, net	43,974	—	—	—	—	43,974
Other assets	513,449	—	—	4,246	452,977	56,226
Total assets	$ 9,956,653	$ 839,385	$ 7,162,854	$ 282,121	$ 534,615	$ 1,137,678

(1) Sales and Other Commitments include MSRs and related advances committed under sale agreements, 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 facility PMC entered into on July 1, 2019.

Note 14 – Other Liabilities

	September 30, 2019	December 31, 2018
Contingent loan repurchase liability	$ 435,568	$ 302,581
Other accrued expenses	76,693	99,739
Due to NRZ - Advance collections and servicing fees	63,304	53,001
Liability for indemnification obligations	56,057	51,574
Servicing-related obligations	66,567	41,922
Lease liability	48,246	—
Accrued legal fees and settlements	38,959	62,763
Checks held for escheat	31,984	20,686
Liability for uncertain tax positions	15,577	13,739
Accrued interest payable	13,840	7,209
Liability for unfunded pension obligation	11,840	12,683
Liability for mortgage insurance contingency	6,820	6,820
Derivatives, at fair value	3,319	4,986
Deferred revenue	2,187	4,441
Other	23,734	21,492
	$ 894,695	$ 703,636

	Three Months Ended September 30,		Nine Months Ended September 30,	
Accrued Legal Fees and Settlements	**2019**	**2018**	**2019**	**2018**
Beginning balance	$ 53,072	$ 54,295	$ 62,763	$ 51,057
Net accrual for probable losses (1)	1,866	995	770	10,777
Payments (2)	(11,667)	(460)	(22,174)	(8,103)
Issuance of common stock in settlement of litigation (3)	—	—	—	(5,719)
Net increase (decrease) in accrued legal fees	(4,312)	(1,450)	(2,464)	3,282
Other	—	—	64	2,086
Ending balance	$ 38,959	$ 53,380	$ 38,959	$ 53,380

(1) Consists of amounts accrued for probable losses in connection with legal and regulatory settlements and judgments. Such amounts are reported in Professional services expense in the unaudited consolidated statements of operations.
(2) Includes cash payments made in connection with resolved legal and regulatory matters.
(3) In January 2018, Ocwen issued 1,875,000 shares of common stock in connection with a securities litigation settlement.

Note 15 – 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 nine months ended September 30, 2019 and 2018:

		Interest Rate Risk		
		MSR Hedging	IRLCs and Loans Held for Sale	Borrowings
	IRLCs	TBA / Forward MBS Trades	Forward Trades	Interest Rate Caps
Notional balance at September 30, 2019	$ 173,616	$ 700,000	$ 9,763	$ 57,083
Maturity	Oct. 2019 - Dec. 2019	Dec. 2019	Dec. 2019	Oct. 2019 - May 2020
Fair value of derivative assets (liabilities) at:				
September 30, 2019	$ 4,781	$ 887	$ (3,126)	$ —
December 31, 2018	3,871	—	(4,983)	678
Gains (losses) on derivatives during the nine months ended:	**Gain on loans held for sale, net**	**MSR valuation adjustments, net**	**Gain on loans held for sale, net**	**Other, net**
September 30, 2019	$ 401	$ 322	$ (3,344)	$ (358)
September 30, 2018	137	$ —	2,082	(308)

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 were $0.1 million and $0.1 million, and 2.0 million and $4.7 million, during the three and nine months ended September 30, 2019 and 2018, respectively, and are reported in Other, net in the unaudited consolidated statements of operations. The losses in the 2018 periods are primarily attributed to depreciation of the India Rupee against the U.S. Dollar.

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 10 — Rights to MSRs),
- 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 interest rate lock commitments (pipeline).

We determine and monitor daily a hedge coverage based on the duration and interest rate sensitivity measures of our net MSR portfolio exposure, considering market and liquidity conditions. At September 30, 2019, 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 as hedging instruments that 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 unaudited consolidated statements of operations.

The TBAs 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.

Match Funded Liabilities

As required by certain of our advance financing arrangements, we have purchased 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 16 – Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Financing liabilities				
NRZ (1)	$ 256,416	$ 36,717	$ 303,301	$ 111,256
Other financing liabilities	414	1,305	2,306	3,849
	256,830	38,022	305,607	115,105
Senior notes	8,039	7,452	25,053	22,355
Other secured borrowings	12,504	6,958	29,627	23,190
Match funded liabilities	6,165	7,229	20,862	24,491
Other	2,384	1,627	6,789	4,460
	$ 285,922	$ 61,288	$ 387,938	$ 189,601

(1) Amount includes the change in fair value of the Financing Liabilities - MSRs Pledged, at fair value. See Note 10 — Rights to MSRs.

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 three and nine months ended September 30, 2019 and 2018, we have excluded the effect of all stock options and common stock awards from the computation of diluted loss per share because of the anti-dilutive effect of our reported net loss.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Basic and Diluted loss per share				
Net loss attributable to Ocwen stockholders	$ (42,767)	$ (41,147)	$ (176,998)	$ (68,430)
Weighted average shares of common stock — basic and diluted	134,595,798	133,912,425	134,329,321	133,632,905
Basic and Diluted loss per share	$ (0.32)	$ (0.31)	$ (1.32)	$ (0.51)
Stock options and common stock awards excluded from the computation of diluted earnings per share				
Anti-dilutive (1)	2,953,132	4,057,937	3,343,052	5,684,663
Market-based (2)	902,204	645,984	902,204	645,984

(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.

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 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.

Lending. The Lending segment purchases and originates conventional and government-insured residential forward and reverse mortgage loans. 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 (retail 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.

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 related to our re-engineering plan. 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 and short-term investments. We also allocate expenses incurred by corporate support services to each business segment. Interest expense on direct asset financings are recorded in the respective Servicing and Lending 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 September 30, 2019			
Results of Operations	**Servicing**	**Lending**	**Corporate Items and Other**	**Business Segments Consolidated**
Revenue	$ 250,224	$ 29,502	$ 3,789	$ 283,515
Expenses (1) (2)	890	20,665	23,169	44,724
Other (expense) income:				
Interest income	2,105	1,688	336	4,129
Interest expense (3)	(268,545)	(2,133)	(15,244)	(285,922)
Gain on repurchase of senior secured notes	—	—	5,099	5,099
Other	3,917	498	(4,829)	(414)
Other (expense) income, net	(262,523)	53	(14,638)	(277,108)
(Loss) income before income taxes	$ (13,189)	$ 8,890	$ (34,018)	$ (38,317)

	Three Months Ended September 30, 2018			
Results of Operations	**Servicing**	**Lending**	**Corporate Items and Other**	**Business Segments Consolidated**
Revenue	$ 217,630	$ 16,917	$ 3,731	$ 238,278
Expenses (1) (2)	185,077	18,954	13,495	217,526
Other (expense) income:				
Interest income	2,242	1,255	466	3,963
Interest expense (3)	(47,359)	(1,437)	(12,492)	(61,288)
Other	(1,335)	154	(2,519)	(3,700)
Other (expense) income, net	(46,452)	(28)	(14,545)	(61,025)
Loss before income taxes	$ (13,899)	$ (2,065)	$ (24,309)	$ (40,273)

	Nine months ended September 30, 2019			
Results of Operations	**Servicing**	**Lending**	**Corporate Items and Other**	**Business Segments Consolidated**
Revenue	$ 752,010	$ 99,386	$ 10,345	$ 861,741
Expenses (1) (2) (4)	556,874	63,021	36,428	656,323
Other (expense) income:				
Interest income	6,270	4,783	1,471	12,524
Interest expense (3)	(337,435)	(5,200)	(45,303)	(387,938)
Gain on repurchase of senior secured notes	—	—	5,099	5,099
Bargain purchase gain	—	—	(381)	(381)
Other	6,332	1,161	(5,949)	1,544
Other (expense) income, net	(324,833)	744	(45,063)	(369,152)
(Loss) income before income taxes	$ (129,697)	$ 37,109	$ (71,146)	$ (163,734)

	Nine months ended September 30, 2018			
Results of Operations	**Servicing**	**Lending**	**Corporate Items and Other**	**Business Segments Consolidated**
Revenue	$ 674,233	$ 65,116	$ 12,767	$ 752,116
Expenses (1) (2)	523,061	57,036	49,580	629,677

Other (expense) income:				
Interest income	4,136	4,107	1,775	10,018
Interest expense (3)	(144,551)	(4,855)	(40,195)	(189,601)
Other	(2,089)	774	(5,254)	(6,569)
Other (expense) income, net	(142,504)	26	(43,674)	(186,152)
Income (loss) before income taxes	$ 8,668	$ 8,106	$ (80,487)	$ (63,713)

(1) Expenses in the Servicing segment includes MSR valuation adjustments, net.
(2) Compensation and benefits expense in the Corporate Items and Other segment for the three and nine months ended September 30, 2019 and 2018 includes $(0.1) million and $19.1 million, and $0.3 million, and $7.5 million, respectively, of severance expense attributable to PHH integration-related headcount reductions of primarily U.S.-based employees in 2019 and severance expense attributable to headcount reductions in connection with our strategic decisions to exit the automotive capital services business and the forward lending correspondent and wholesale channels in late 2017 and early 2018, as well as our overall efforts to reduce costs.
(3) Interest expense in the Servicing segment includes changes in the fair value of the Financing liability - MSRs pledged (Rights to MSRs).
(4) Included in the Corporate Items and Other segment for the nine months ended September 30, 2019, we recorded in Professional services expense a recovery from a service provider of $30.7 million during the first quarter of 2019 of amounts previously recognized as expense.

Total Assets	**Servicing**	**Lending**	**Corporate Items and Other**	**Business Segments Consolidated**
September 30, 2019	$ 3,227,245	$ 6,225,394	$ 504,014	$ 9,956,653
December 31, 2018	$ 3,306,208	$ 5,603,481	$ 484,527	$ 9,394,216
September 30, 2018	$ 2,726,905	$ 5,385,437	$ 348,695	$ 8,461,037

Depreciation and Amortization Expense	Servicing	Lending	Corporate Items and Other	Business Segments Consolidated
Three months ended September 30, 2019				
Depreciation expense	$ 105	$ (32)	$ 6,386	$ 6,459
Amortization of debt discount	—	—	330	330
Amortization of debt issuance costs	—	—	816	816
Three months ended September 30, 2018				
Depreciation expense	$ 1,035	$ 23	$ 4,500	$ 5,558
Amortization of debt discount	—	—	235	235
Amortization of debt issuance costs	—	—	599	599
Nine months ended September 30, 2019				
Depreciation expense	$ 1,674	$ 49	$ 24,297	$ 26,020
Amortization of debt discount	—	—	1,031	1,031
Amortization of debt issuance costs	—	—	2,268	2,268
Nine months ended September 30, 2018				
Depreciation expense	$ 3,647	$ 77	$ 14,475	$ 18,199
Amortization of debt discount	—	—	941	941
Amortization of debt issuance costs	—	—	2,261	2,261

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. 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 could incur costs to comply with the terms of such resolutions, including, but not limited to, 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 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. 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 and our 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 September 30, 2019.

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 September 30, 2019. 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 total UPB of assets serviced by PMC. Under the applicable formula, the required minimum net worth was $233.9 million and PMC’s net worth was $307.0 million at September 30, 2019.

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 Financial Corporation and PHH Mortgage Corporation. 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. As of September 30, 2019, 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, 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 believe that we have completed those obligations of the 2017 CA Consent Order that have already come due, and we have so notified the CA DBO. We have certain remaining reporting and other obligations under the 2017 CA Consent Order. Pursuant to the 2017 CA Consent Order, the CA DBO has engaged a third-party administrator who, at the expense of the CA DBO, has commenced work to confirm that Ocwen has completed certain commitments under the 2017 CA Consent Order. Still outstanding, however, is confirmation of our completion of $198.0 million in debt forgiveness for California borrowers by June 30, 2019. We believe that we fulfilled this requirement during the first quarter of 2019. However, our completion of this requirement is subject to testing by the CA DBO's third-party administrator who must confirm, among other things, that modified loans have remained current for specified time periods. If we are unable to satisfy this requirement or obtain an extension, the 2017 CA Consent Order obligates us to pay the remaining amount to the CA DBO in cash. Our debt forgiveness activities take place as we modify loans - our loan modifications are designed to be sustainable for homeowners while providing a net present value for mortgage loan investors that is superior to that of foreclosure. Debt forgiveness as part of a loan modification is determined on a case-by-case basis in accordance with the applicable servicing agreement. Debt forgiveness does not involve an expense to Ocwen other than the operating expense incurred in arranging the modification, which is part of Ocwen's role as loan servicer. If the CA DBO were to allege that we failed to comply with our obligations under the 2017 CA Consent Order or that we otherwise were in breach of applicable laws, regulations or licensing requirements, the CA DBO could also take regulatory actions against us, including imposing fines or penalties or otherwise restricting our business activities. Any such actions could have a material adverse impact on our business, financial condition, liquidity and results of operations.

Note 20 — Commitments

Unfunded Lending Commitments

We have originated floating-rate reverse mortgage loans under which the borrowers have additional borrowing capacity of $1.5 billion at September 30, 2019. This additional borrowing capacity is available on a scheduled or unscheduled payment basis. We also had short-term commitments to lend $140.6 million and $33.0 million in connection with our forward and reverse mortgage loan IRLCs, respectively, outstanding at September 30, 2019. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, commonly referred to as warehouse lines.

HMBS Issuer Obligations

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

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

	Nine Months Ended September 30, 2019					
	Active		Inactive		Total	
	Number	Amount	Number	Amount	Number	Amount
Beginning balance	10	$ 2,047	252	$ 14,833	262	$ 16,880
Additions (1)	46	12,255	190	16,472	236	28,727
Recoveries, net (2)	(23)	(8,826)	(223)	(8,875)	(246)	(17,701)
Transfers	(3)	(1,137)	3	1,137	—	—
Changes in value	—	7	—	(1,686)	—	(1,679)
Ending balance	30	$ 4,346	222	$ 21,881	252	$ 26,227

(1) Total repurchases during the nine months ended September 30, 2019 includes 53 loans totaling $10.9 million related to MCA repurchases.
(2) Includes amounts received upon assignment of loan to HUD, loan payoff, REO liquidation and claim proceeds less any amounts charged off as unrecoverable.

Active loan repurchases are classified as Receivables as reimbursement from HUD is generally received within 60 days and are initially recorded at fair value. Inactive loan repurchases are classified as Loans held for sale and are initially 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. Loans held for sale repurchased prior to October 1, 2018 are carried at the lower of cost or fair value. Receivables are valued at net realizable value. REO is valued at the estimated value of the underlying property less cost to sell.

Long-Term Contracts

Our business is currently reliant on certain services provided by Altisource S.à r.l, a subsidiary of Altisource Portfolio Solutions, S.A. (Altisource).

Each of Ocwen and OMS are parties to long-term agreements with Altisource, including a Services Agreement and a Technology Products Services Agreement. Under the Services Agreements, Altisource provides various business process outsourcing services, such as valuation services and property preservation and inspection services, among other things. Altisource provides certain technology products and support services under the Technology Products Services Agreement, including the REALServicing loan servicing system. These agreements expire August 31, 2025 and include renewal provisions. However, Ocwen anticipates that Altisource will cease providing technology products and support services under the Technology Products Services Agreement by the end of 2019 now that we have completed the transition to Black Knight MSP from REALServicing. Ocwen and Altisource have also entered into a Master Services Agreement pursuant to which Altisource currently provides title services to Liberty. Ocwen also has a General Referral Fee Agreement with Altisource pursuant to which Ocwen receives referral fees which are paid out of the commission that would otherwise be paid to Altisource as the selling broker in connection with real estate sales services provided by Altisource. However, for MSRs that transferred to NRZ in September 2017, as well as those subject to the New RMSR Agreements we entered into in January 2018, we are not entitled to REO referral commissions. If Altisource were to fail to fulfill its contractual obligations to us, including through a failure to provide services at the required level, or if Altisource were to become unable to fulfill such obligations, our business and operations could suffer.

On February 22, 2019, Ocwen and Altisource signed a Binding Term Sheet, which among other things, contains provisions regarding assuring that data is accurately transferred to Ocwen in connection with the deboarding of loans from REALServicing, including Ocwen having the ability to verify data accuracy and having continued access to the REALServicing system for an acceptable period of time.

The Binding Term Sheet also amends certain provisions in the Services Agreements. After certain conditions have been met and where Ocwen has the right to select the services provider, Ocwen will use Altisource to provide the types of services that Altisource currently provides under the Services Agreements for at least 90% of services for all portfolios for which Ocwen is the servicer or subservicer, except that Altisource will be the provider for all such services for the portfolios: (i) acquired by Ocwen pursuant to loan servicing under agreements from Homeward (acquired in 2012) or assigned and assumed by Ocwen from Residential Capital, LLC, et al (assets acquired in 2013); and (ii) acquired from Ocwen, excluding certain portfolios in which PHH has an interest, by NRZ or its affiliates prior to the date of the Binding Term Sheet. Notwithstanding the foregoing, Altisource will be the provider of mortgage charge-off collections services under the Services Agreements. On July 1, 2019, Altisource sold its mortgage charge-off collections business to Transworld Systems Inc. The Binding Term Sheet also sets forth a framework for negotiating additional service level changes in the future. As specified in the Binding Term Sheet, if Altisource fails certain performance standards for specified periods of time, then Ocwen may terminate Altisource as a provider for the applicable service(s), subject to Altisource’s right to cure. For certain claims arising from referrals received by Altisource after the effective date of the Binding Term Sheet, the provisions include reciprocal indemnification obligations in the event of negligence by either party and Altisource’s indemnification of Ocwen in the event of any breach by Altisource of its obligations under the Services Agreements. The limitations of liability provisions include an exception for losses either party suffers as a result of third-party claims.

Certain services provided by Altisource under these agreements are charged to the borrower and/or mortgage loan investor. Accordingly, such services, while derived from our loan servicing portfolio, are not reported as expenses by Ocwen. These services include residential property valuation, residential property preservation and inspection services, title services and real estate sales-related services. Similar to other vendors, in the event that Altisource’s activities do not comply with the applicable servicing criteria, we could be exposed to liability as the servicer and it could negatively impact our relationships with our servicing clients, borrowers or regulators, among others. Under certain circumstances, we would have recourse under our contractual agreements with Altisource if we were to experience adverse consequences as a result of Altisource’s non-compliance with applicable servicing criteria.

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, those brought derivatively on behalf of Ocwen against certain current or former officers and directors or others and those brought by commercial counterparties, including claims by parties to whom we have sold MSRs or other assets or those on whose behalf we service mortgage loans.

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, (2) we violated the TCPA by using an automated telephone dialing system to call class members' cell phones without their consent, (3) we committed securities fraud in connection with certain of our public disclosures, (4) certain fees we assess on borrowers are marked up improperly in violation of applicable state and federal law, (5) the solicitation and marketing to borrowers of certain ancillary products was unfair and deceptive, (6) we breached fiduciary duties we purportedly owe to benefit plans due to the discretion we exercise in servicing certain securitized mortgage loans and (7) 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 $39.0 million at September 30, 2019. We cannot currently estimate the amount, if any, of reasonably possible losses above amounts that have been recorded at September 30, 2019.

In 2014, plaintiffs filed a putative class action against Ocwen in the United States District Court for the Northern District of Alabama, alleging that Ocwen violated the FDCPA by charging borrowers a convenience fee for making certain loan payments. See *McWhorter et al. v. Ocwen Loan Servicing, LLC (N.D. Ala.)*. The plaintiffs sought statutory damages under the FDCPA, compensatory damages and injunctive relief. We subsequently entered into an agreement in principle to resolve this matter, and in August 2019, the court granted final approval of the class settlement. While we believe we had sound legal and factual defenses, we agreed to this settlement in order to avoid the uncertain outcome of litigation and the additional expense and demands on the time of our senior management that such litigation would involve. Our accrual with respect to this matter is included in the $39.0 million legal and regulatory accrual referenced above.

Ocwen has been named in putative class actions and individual actions related to its compliance with the TCPA. Generally, plaintiffs in these actions allege that Ocwen knowingly and willfully violated the TCPA by using an automated telephone dialing system to call individuals' cell phones without their consent. In July 2017, Ocwen entered into an agreement in principle to resolve two such putative class actions, which have been consolidated in the United States District Court for the Northern District of Illinois. See *Snyder v. Ocwen Loan Servicing, LLC (N.D. Ill.); Beecroft v. Ocwen Loan Servicing, LLC (N.D. Ill.)*. In October 2017, the court preliminarily approved the settlement and, thereafter, we paid a settlement amount into an escrow account held by the settlement administrator. However, in September 2018, the Court denied the motion for final approval. In November 2018, the parties engaged in mediation to address the issues raised by the Court in its denial order. The parties thereafter reached agreement on a revised settlement. In June 2019, the court entered an order approving the settlement, and Ocwen is taking steps to satisfy its settlement obligations. The settlement provides for the establishment of a settlement fund to be distributed to class members that submit claims for settlement benefits pursuant to a claims administration process. While Ocwen believes that it has sound legal and factual defenses, Ocwen agreed to the settlement in order to avoid the uncertain outcome of litigation and the additional expense and demands on the time of its senior management that such litigation would involve.

Ocwen is also involved in a related 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 indicated they may seek 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. Our accrual with respect to TCPA matters is included in the $39.0 million legal and regulatory accrual referenced above. 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.

We have settled two "opt-out" securities fraud actions brought on behalf of certain putative shareholders of Ocwen based on allegations in connection with the restatements of our 2013 and first quarter 2014 financial statements, among other matters. *See Brahman Partners et al. v. Ocwen Financial Corporation et al. (S.D. Fla.)* and *Owl Creek et al. v. Ocwen Financial Corporation et al. (S.D. Fla.).* Both of these cases were dismissed with prejudice in February 2019.

We have previously disclosed that as a result of the federal and state regulatory actions taken in April 2017 and shortly thereafter, which are described below under "Regulatory", and the impact on our stock price, several putative securities fraud class action lawsuits were filed against Ocwen and certain of its officers that contain allegations in connection with Ocwen's statements concerning its efforts to satisfy the evolving regulatory environment, and the resources it devoted to regulatory compliance, among other matters. Those lawsuits were consolidated in the United States District Court for the Southern District of Florida in the matter captioned *Carvelli v. Ocwen Financial Corporation et al. (S.D. Fla.).* In April 2018, the court in Carvelli granted our motion to dismiss, and dismissed the consolidated case with prejudice. Plaintiffs thereafter filed a notice of appeal with the Court of Appeals for the Eleventh Circuit, and a hearing took place in June 2019. In August 2019, the Court of Appeals affirmed the district court's ruling dismissing the consolidated case with prejudice. Plaintiffs have until November 13, 2019 to appeal to the United States Supreme Court. Ocwen and the other defendants intend to defend themselves vigorously. Additional lawsuits may be filed against us in relation to these matters. At this time, Ocwen is unable to predict the outcome of this existing lawsuit or any additional lawsuits that may be filed, the possible loss or range of loss, if any, associated with the resolution of such lawsuits or the potential impact such lawsuits may have on us or our operations. If additional lawsuits are filed, Ocwen intends to vigorously defend itself against such lawsuits. If our efforts to defend the existing lawsuit or any future lawsuit are not successful, our business, reputation, financial condition, liquidity and results of operations could be materially and adversely affected.

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 certificateholders, 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, 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 unfair, deceptive acts or abusive practices, as well as violations of specific 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. Our accrual with respect to this matter is included in the $39.0 million legal and regulatory accrual referenced above. The outcome of the matters raised by the CFPB, whether through negotiated settlements, court rulings or otherwise, could potentially involve monetary fines or penalties or additional restrictions on our business and could have a material adverse impact on our business, reputation, financial condition, liquidity and results of operations.

State Licensing, State Attorneys General and Other Matters

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

In April 2017 and shortly thereafter, mortgage and banking regulatory agencies from 29 states and the District of Columbia took 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 will regain eligibility to acquire residential MSRs on Massachusetts loans (including loans originated by Ocwen) as it meets certain thresholds in its transition to a new servicing system. All restrictions on Massachusetts MSR acquisitions will be lifted when Ocwen completes the second phase of a three-phase data integrity audit which will be conducted by an independent third-party following completion of Ocwen's servicing system transition. The first phase of this audit, which was required to be completed prior to transitioning any Massachusetts loans to a new servicing system, has already been completed.
- 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.

We have taken substantial steps toward fulfilling our commitments under the agreements described above, including completing the transfer of loans to Black Knight MSP, developing and implementing certain enhancements to our consumer complaint process, engaging a third-party auditor who has completed the initial testing phase of its escrow review, and complying with our other information sharing and reporting obligations.

In April 2017 and shortly thereafter, and 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 on November 1, 2019. We are reviewing and planning our response to the amended complaint. We believe we have factual and legal defenses to the 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 $39.0 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.

The Massachusetts Attorney General filed a lawsuit against OLS in the Superior Court for the Commonwealth of Massachusetts alleging violations of state consumer financial laws relating to our servicing business, including with respect to our activities relating to lender-placed insurance and property preservation fees. In April 2019, we agreed to resolve this matter without admitting liability. The resolution includes a payment to the Commonwealth of Massachusetts of $675,000, a loan modification program for certain eligible Massachusetts borrowers, and certain already-completed relief. The settlement amount of $675,000 was paid in April 2019.

Our accrual with respect to the administrative and legal actions initiated in April 2017 is included in the $39.0 million litigation and regulatory matters accrual referenced above. We have also incurred, and will continue to incur costs to comply with the terms of the settlements we have entered into, including the costs of conducting an escrow review, Maryland organizational assessments and Massachusetts data integrity audits, and costs relating to the transition to Black Knight MSP. With respect to the escrow review, although the initial testing phase is now complete, the third-party auditor continues its work, including drafting its final report. To the extent that errors that have been identified require remediation, we will incur costs in connection with remediating those errors. 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), a multistate coalition of various mortgage banking regulators, and six states relating to a servicing examination from 2013 to 2015. The MOU contained various provisions relating to servicing practices and safety and soundness aspects of the regulatory review, as a step toward closing the 2013-2015 examination. Ocwen responded to the MOU items and continues to provide certain reports and other information pursuant to the MOU. There were no monetary or other penalties imposed under the MOU. However, the MOU prohibited us from repurchasing stock during the development of a going forward plan and, thereafter, except as permitted by the plan. We prepared and submitted a plan that contained no stock repurchase restrictions and, therefore, we do not believe we are currently restricted from repurchasing stock. However, the MMC may not agree with our interpretation. For this reason, and on the basis of our progress to date responding to our obligations under the MOU, we have requested that the MOU be terminated. To the extent that we cannot terminate the MOU, we may remain subject to a share repurchase restriction and continued reporting obligations.

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

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

At September 30, 2019 and September 30, 2018, we had outstanding representation and warranty repurchase demands of $49.9 million UPB (289 loans) and $26.5 million UPB (160 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 compensatory fees for foreclosures that may ultimately exceed investor timelines and similar indemnification obligations:

	Nine Months Ended September 30,	
	2019	**2018**
Beginning balance (1)	$ 49,267	$ 19,229
Provision (reversal) for representation and warranty obligations	(10,367)	4,443
New production reserves	186	259
Charge-offs and other (2) (3)	14,887	(6,824)
Ending balance (1)	$ 53,973	$ 17,107

(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.
(3) Includes $18.0 million liability for representation and warranty obligations as of September 30, 2019 related to sold advances previously presented as allowance for losses. See Note 7 – Advances.

We believe that it is reasonably possible that losses beyond amounts currently recorded for potential representation and warranty obligations and other claims described above could occur, and such losses could have an adverse impact on our results of operations, financial condition or cash flows. However, based on currently available information, we are unable to estimate a range of reasonably possible losses above amounts that have been recorded at September 30, 2019.

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. We cannot currently estimate the amount, if any, of reasonably possible loss above amounts recorded.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in 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, 2018 and any subsequent SEC filings.

OVERVIEW

General

We are a financial services company that services and originates loans. The majority of our revenues are generated from our residential mortgage servicing business. At September 30, 2019, our residential mortgage servicing portfolio consisted of 1,451,653 loans with a UPB of $216.8 billion. In our lending business, we originate, purchase, sell and securitize conventional and government-insured forward and reverse mortgage loans. During the nine months ended September 30, 2019, our lending business originated or purchased forward and reverse mortgage loans with a UPB of $586.0 million and $470.6 million, respectively.

We have established a set of key business initiatives to achieve our objective of returning to profitability.

First, we have successfully executed the acquisition of PHH Corporation and continue our planned integration of PHH's business with ours. We have fully transitioned our servicing onto the Black Knight MSP servicing system which includes loan boarding, payment processing, escrow administration, and default management, among other functions. We have reduced total staffing levels significantly. We have successfully vacated five U.S. facilities and expect to close the last U.S. facility scheduled for closure by the end of 2019. We have completed the mergers of two of our primary licensed operating entities, Homeward and OLS into PMC, with PMC being the surviving corporation. We believe our acquisition of PHH provided us with the opportunity to transform into a stronger, more efficient company better able to serve our customers and clients and positioned us to execute on strategies to enable a return to profitability.

Second, we must re-engineer our cost structure to go beyond eliminating redundant costs through the integration process. Our cost re-engineering plan addresses organizational, process and control redesign and automation, human capital planning, off-shore utilization, strategic sourcing and facilities rationalization. Our initiatives are targeted at increasing the degree of automation of our processes, leveraging our single servicing platform and technology, and through innovation. We believe these steps are necessary in order to simplify our operations and drive stronger financial performance.

Third, we must manage the size of our servicing portfolio through expanding our lending business and permissible MSR acquisitions that are prudent and well-executed with appropriate financial return targets. During the nine months ended September 30, 2019, we closed MSR acquisitions with $11.9 billion UPB. We expect to continue to focus on acquiring Agency and government-insured MSR portfolios that meet or exceed our minimum targeted investment returns. We also executed on our plans to re-enter the forward lending correspondent channel in the second quarter of 2019 and we continue to pursue a number of other MSR acquisition options, including driving improved recapture rates within our existing servicing portfolio. In addition to our organic growth initiatives in lending, we have been actively engaged in evaluating opportunities to acquire complimentary lending businesses that can generate significant volume through mortgage lending cycles and provide a sustainable MSR source.

Fourth, we must manage our balance sheet to ensure adequate liquidity and provide a solid platform for executing on our other key business initiatives. On July 1, 2019, we established a financing facility secured by MSRs that provides up to $300.0 million in committed borrowing capacity. We believe this facility will enable the funding of the majority of our near term MSR acquisition initiatives. We intend to extend, renew or replace our SSTL Facility Agreement that matures in December 2020 and must evaluate capital structure options that we believe will most effectively allow us to execute on our business plan.

Finally, we must fulfill our regulatory commitments and resolve our remaining legal and regulatory matters on satisfactory terms. Our business, operating results and financial condition have been significantly impacted in recent periods by regulatory actions against us and by significant litigation matters. Should the number or scope of regulatory or legal actions against us increase or expand or should we be unable to reach reasonable resolutions in existing regulatory and legal matters, our business, reputation, financial condition, liquidity and results of operations could be materially and adversely affected, even if we are successful in our ongoing efforts to drive stronger financial performance.

In recent periods, Ocwen has incurred significant losses as a result of declines in the fair value of our MSRs. Further interest rate decreases, prepayment speed increases or changes to other fair value inputs or assumptions could result in further fair value declines and hamper our ability to return to profitability. Starting in September 2019, we have implemented a hedging strategy to partially offset the changes in fair value of our net MSR portfolio. See Item 3 - Quantitative and Qualitative Disclosures about Market Risk for further information.

Our ability to execute on these key business initiatives is not certain and is dependent on the successful execution of several complex actions, including our ability to grow our lending business and acquire MSRs with appropriate financial return targets and execute on further organizational redesign and headcount reductions, as well as the absence of significant unforeseen costs, including regulatory or legal costs, that could negatively impact our cost re-engineering efforts, and our ability to renew, replace or extend our debt agreements in the ordinary course, including our SSTL. There can be no assurances that the desired strategic and financial benefits of these actions will be realized.

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, 2018.

Financial Overview

The table below presents an overview of our financial results and selected data.

In millions *(except for headcount data and unless otherwise noted)*	**Three Months Ended September 30,**			**Nine Months Ended September 30,**		
	2019	**2018**	**% Change**	**2019**	**2018**	**% Change**
Total revenue	$ 283.5	$ 238.3	19 %	$ 861.7	$ 752.1	15 %
MSR valuation adjustments, net	134.6	(41.4)	(425)	(121.7)	(91.7)	33
Operating expenses	(179.3)	(176.1)	2	(534.6)	(538.0)	(1)
Interest expense	(285.9)	(61.3)	366	(387.9)	(189.6)	105
Loss before income taxes	(38.3)	(40.3)	(5)	(163.7)	(63.7)	157
Net loss	(42.8)	(41.1)	4	(177.0)	(68.3)	159
Average UPB serviced (in billions)	$ 221.1	$ 164.1	35	$ 238.4	$ 170.2	40
Total loan production	$ 412.2	$ 319.8	29	$ 1,056.6	$ 1,069.4	(1)
Average employment	5,988	6,557	(9)	6,594	6,964	(5)

Ocwen reported a net loss of $42.8 million in the third quarter of 2019.

Total revenue was $283.5 million for the third quarter of 2019, an increase of $45.2 million or 19% compared to the same period in 2018. The increase in total revenue is mostly driven by a higher average UPB serviced and the related mix of servicing versus subservicing, partially offset by fewer borrower loan modifications. The 35% increase in our average servicing portfolio UPB from $164.1 billion in the third quarter of 2018 to $221.1 billion in the third quarter of 2019 is mainly due to the acquisition of PHH in October 2018 and, to a lesser extent our bulk MSR acquisitions, partially offset by the runoff of the portfolio.

Operating expenses, representing our Total expenses less MSR valuation adjustments, net, were mostly flat compared with the 2018 periods prior to the acquisition of PHH, with $179.3 million recognized for the third quarter of 2019 compared to $176.1 million for the third quarter of 2018. Operating expenses in the third quarter of 2019 included re-engineering costs of $18.3 million. In addition, operating expenses in the third quarter of 2018 did not include the operating expenses of PHH as we closed the acquisition in October 2018. Accordingly, while the operating expenses for the third quarter in 2019 remain mostly flat compared with 2018, the incremental operating expenses of the integrated PHH business and the re-engineering costs were mostly offset by significant expense reductions across the business. Similarly, the reduction of our workforce by 9% compared with the third quarter 2018 is net of the increase in employment associated with the acquisition of PHH.

Ocwen reported a net $134.6 million gain in MSR valuation adjustments, net in the third quarter of 2019. The gain is mostly driven by $256.9 million favorable assumption updates by our third party valuation experts partially offset by $67.6 million valuation loss due to the decline in interest rates and $54.7 million of portfolio runoff. The assumption fair value gains related mostly to our non-Agency MSR portfolio due to continued improved collateral performance confirmed by recent market trade activity. $925.5 million of our MSRs at September 30, 2019 have been sold under different agreements that did not qualify for sale accounting treatment and, therefore are reported as MSR assets, pledged at fair value together with an associated liability for the MSR secured borrowing at fair value. Because both pledged MSRs and the associated MSR secured borrowing liability are measured at fair value, changes in fair value largely offset each other, although they are separately presented in our statement of operations, as MSR valuation adjustments, net and interest expense, respectively. The following table summarizes the fair value change impact on our statement of operations of our total MSRs and Financing liability-MSRs pledged during the third quarter of 2019:

In millions	**Total Change in Fair Value**	**Runoff**	**Interest Rate Change**	**Assumption Updates**
MSR valuation adjustments, net	$ 134.6	$ (54.7)	$ (67.6)	$ 256.9
Interest expense (Financing liability-MSRs pledged) (1)	(171.4)	27.1	36.5	(235.0)
Total	$ (36.8)	$ (27.6)	$ (31.1)	$ 21.9

(1) Includes changes in fair value, including runoff and settlement, of the NRZ related MSR secured borrowing under the Original Rights to MSRs Agreements and PMC MSR Agreements. See Note 10 — Rights to MSRs for further information.

The total change in fair value of both the MSR and the associated MSR secured borrowing was a $36.8 million loss for the third quarter of 2019, explained by $27.6 million of portfolio runoff, a $31.1 million loss related to the impact of interest rate declines partially offset by a $21.9 million gain due to valuation assumption updates. The net $21.9 million impact of the favorable valuation assumption updates mostly related to our non-Agency MSR portfolio and resulted from an average price increase of 47% in the quarter ended September 30, 2019, with the following non-Agency assumption changes made by our valuation experts (see Note 5 – Fair Value for additional information):

	September 30, 2019	**June 30, 2019**
Weighted average prepayment speed	12.2%	15.5%
Weighted average delinquency rate	26.3%	27.2%
Advance financing cost	5-year swap plus 2.00%	5-yr swap plus 2.75%
Interest rate for computing float earnings	5-year swap minus 0.50%	5-yr swap minus 0.50%
Weighted average discount rate	11.3%	12.6%
Weighted average cost to service (in dollars)	$ 277	$ 295

Interest expense was $285.9 million for the third quarter of 2019. Interest expense included $171.4 million related to changes in fair value of our MSR secured financing, which was comprised of a $235.0 million loss due to assumption updates, mostly related to non-Agency MSRs, partially offset by a favorable valuation change due to $36.5 million interest rate decline and $27.1 million gain due to runoff. As described above, because we record both our MSRs and the associated MSR secured financing liabilities at fair value, the changes in fair value of the MSR secured financing liabilities, presented in Interest expense, were largely offset by the changes in fair value of the associated MSRs pledged, presented in MSR valuation adjustments, net.

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
Results of Operations Summary	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**
Revenue						
Servicing and subservicing fees	$ 247,714	$ 213,730	16 %	$ 742,759	$ 658,095	13 %
Gain on loans held for sale, net	16,013	16,942	(5)	48,683	61,135	(20)
Other revenue, net	19,788	7,606	160	70,299	32,886	114
Total revenue	283,515	238,278	19	861,741	752,116	15
Expenses						
MSR valuation adjustments, net	(134,561)	41,448	(425)	121,705	91,695	33
Compensation and benefits	73,414	63,307	16	250,393	211,220	19
Servicing and origination	36,619	31,758	15	86,827	91,452	(5)
Professional services	36,628	40,662	(10)	77,205	110,821	(30)
Technology and communications	16,644	20,597	(19)	61,080	67,306	(9)
Occupancy and equipment	17,262	11,896	45	52,550	37,369	41
Other expenses	(1,282)	7,858	(116)	6,563	19,814	(67)
Total expenses	44,724	217,526	(79)	656,323	629,677	4
Other income (expense)						
Interest income	4,129	3,963	4	12,524	10,018	25
Interest expense	(285,922)	(61,288)	367	(387,938)	(189,601)	105
Gain on repurchase of senior secured notes	5,099	—	n/m	5,099	—	n/m
Bargain purchase gain	—	—	n/m	(381)	—	n/m
Other, net	(414)	(3,700)	(89)	1,544	(6,569)	(124)
Total other expense, net	(277,108)	(61,025)	354	(369,152)	(186,152)	98
Loss before income taxes	(38,317)	(40,273)	(5)	(163,734)	(63,713)	157
Income tax expense	4,450	845	427	13,264	4,541	192
Net loss	(42,767)	(41,118)	4	(176,998)	(68,254)	159
Net income attributable to non-controlling interests	—	(29)	(100)	—	(176)	(100)
Net loss attributable to Ocwen stockholders	$ (42,767)	$ (41,147)	4 %	$ (176,998)	$ (68,430)	159 %
Segment income (loss) before income taxes						
Servicing	$ (13,189)	$ (13,899)	(5)%	$ (129,697)	$ 8,668	n/m
Lending	8,890	(2,065)	(531)	37,109	8,106	358
Corporate Items and Other	(34,018)	(24,309)	40	(71,146)	(80,487)	(12)
	$ (38,317)	$ (40,273)	(5)%	$ (163,734)	$ (63,713)	157 %

n/m: not meaningful

Three Months Ended September 30, 2019 versus 2018

Servicing and subservicing fee revenue increased $34.0 million, or 16%, as compared to the third quarter of 2018, primarily due to the increase in the portfolio resulting from the acquisition of PHH on October 4, 2018 and the acquisition of MSRs during the first nine months of 2019, partially offset by portfolio runoff and a decline in completed modifications.

Gain on loans held for sale, net declined $0.9 million, or 5%, as compared to the third quarter of 2018 due to margin deterioration offset by a 29% increase in loan production. The reduction in margin was largely attributable to lower gain on sales margins driven by increased price competition in the wholesale and correspondent channels as compared to the same period in 2018.

Other revenue, net increased $12.2 million, or 160%, as compared to the third quarter of 2018, largely due to a $12.9 million favorable net change in the fair values of our HECM reverse mortgage loans and the related HMBS financing liability. This increase is mostly due to the fair value election for future draw commitments on HECM reverse mortgage loans purchased or originated after December 31, 2018 and lower interest rates.

We reported a net gain of 134.6 million in MSR valuation adjustments, net in the third quarter of 2019, compared to a net loss of $41.4 million in the third quarter of 2018. The $176.0 million change is primarily due to $252.3 million related to fair value assumption updates based on continued improved collateral performance of our non-Agency MSR portfolio confirmed by recent market trade activity, partially offset by the $67.6 million impact of a decrease in interest rates. The 10-year swap rate declined 40 basis points in the third quarter of 2019 compared to an increase of 10 basis points in the third quarter of 2018. The fair value gain related to assumption updates was further offset by $8.5 million of net unfavorable impacts from higher portfolio runoff.

Operating expenses, representing Total expenses excluding MSR valuation adjustments, net, increased $3.2 million, or 2%, as compared to the third quarter of 2018.

Compensation and benefits expense increased $10.1 million, or 16%, as compared to the third quarter of 2018, primarily due to PHH compensation and benefits expense and $7.3 million of severance and retention costs recognized in connection with our integration-related headcount reductions of primarily U.S.-based employees, partially offset by a decrease in expenses that reflects the results of our efforts to re-engineer our cost structure, align headcount in our servicing operations and corporate segment with the size of our servicing portfolio. However, the average of higher-cost U.S. headcount increased to 31% of the total from 25% for the third quarter of 2018.

Servicing and origination expense increased $4.9 million, or 15%, as compared to the third quarter of 2018, primarily due to a $3.6 million increase in government-insured claim loss provisions on reinstated or modified loans and an increase in other servicing-related expenses associated with a larger portfolio, offset in part by a $2.3 million decrease in provisions for non-recoverable servicing advances and receivables. 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.

Professional services expense decreased $4.0 million, or 10%, as compared to the third quarter of 2018, primarily due to a decline in legal fees and settlements offset in part by expenses attributable to PHH.

Technology and communication expense declined $4.0 million, or 19%, as compared to the third quarter of 2018 primarily due to our cost reduction efforts, which include bringing technology services in-house, offset by an increase in expenses as a result of the PHH acquisition.

Occupancy and equipment expense increased $5.4 million, or 45%, as compared to the third quarter of 2018 primarily due to expenses attributable to PHH and the recognition of accelerated amortization of ROU assets in connection with our decision to vacate leased properties prior to the contractual maturity date of the lease agreements, offset in part by the results of our cost reduction efforts which include consolidating vendors and closing and consolidating certain facilities.

Other expenses decreased $9.1 million as compared to the third quarter of 2018 primarily as a result of a $8.4 million decline in the provision for indemnification obligations due to updated default, defect and severity assumptions relative to historical performance.

Interest expense increased $224.6 million, or 367%, as compared to the third quarter of 2018, primarily because of the $219.7 million increase in interest expense on the NRZ financing liabilities, which we account for at fair value, $2.2 million of interest expense on the $300.0 million MSR financing facility entered into on July 1, 2019 and $1.5 million of interest expense incurred on the PHH senior unsecured notes. As discussed above, changes in the fair value of the NRZ financing liabilities are offset, to a large extent, by changes in the fair value of our associated pledged MSRs which are recorded in MSR valuation adjustments, net.

Nine Months Ended September 30, 2019 versus 2018

Servicing and subservicing fee revenue increased $84.7 million, or 13%, as compared to the nine months ended September 30, 2018, primarily due to the increase in the portfolio resulting from the acquisition of PHH and the acquisition of MSRs during the first nine months of 2019, partially offset by portfolio runoff and a decline in completed loan modifications.

Gain on loans held for sale, net declined $12.5 million, or 20%, as compared to the nine months ended September 30, 2018 primarily driven by margin compression. Our lending volume remained mostly stable between the nine months ended

September 30, 2019 and the same period in 2018 despite a decline in industry endorsements. The reduction in margin was largely attributable to lower gain on sales margins driven by increased price competition in the wholesale and correspondent channels as compared to the same period in 2018.

Other revenue, net increased $37.4 million, or 114%, as compared to the nine months ended September 30, 2018, largely due to a $42.2 million favorable net change in the fair values of our HECM reverse mortgage loans and the related HMBS financing liability. This increase is due to the fair value election for future draw commitments on HECM reverse mortgage loans purchased or originated after December 31, 2018, lower interest rates and an update in the first quarter of 2019 of the financing assumption for active HECM reverse mortgage loan repurchases in connection with our HMBS Issuer obligations.

We reported a net loss of $121.7 million in MSR valuation adjustments, net for the first nine months ended September 30, 2019, an increase of $30.0 million, or 33%, as compared to the nine months ended September 30, 2018. The greater decline in fair value is primarily due to portfolio runoff on a larger portfolio due to MSRs added from the PHH acquisition and other Agency MSR purchases and the impact of changes in interest rates, partially offset by the increase in fair value of the non-Agency MSR portfolio recorded in the third quarter of 2019 as discussed above. The 10-year swap rate declined 115 basis points in the nine months ended September 30, 2019, as compared to the 65 basis-point increase in the nine months ended September 30, 2018. The $30.0 million increase in MSR valuation adjustments, net, includes $12.0 million due to runoff and $25.5 million from interest rate changes on MSRs acquired subsequent to the third quarter of 2018, and $249.7 million from interest rate changes on the remainder of the portfolio. This is offset by the $252.3 million net favorable valuation adjustment to our non-Agency MSRs, and $4.6 million from runoff and other assumption updates unrelated to interest rates on existing MSRs.

Operating expenses, representing Total expenses excluding MSR valuation adjustments, net, decreased $3.4 million, or 1%, as compared to the nine months ended September 30, 2018.

Compensation and benefits expense increased $39.2 million, or 19%, as compared to the nine months ended September 30, 2018, primarily due to PHH compensation and benefits expense and $31.5 million of severance and retention costs recognized in connection with our integration-related headcount reductions of primarily U.S.-based employees, partially offset by a decline in expenses resulting from our efforts to re-engineer our cost structure, align headcount in our servicing operations and corporate segment with the size of our servicing portfolio as well as the strategic decisions executed in late 2017 and early 2018 to exit the automotive capital services business and the forward lending correspondent and wholesale channels. Despite the increase in headcount attributable to the PHH acquisition, average total headcount declined 5% as compared to the nine months ended September 30, 2018. However, the average of higher-cost U.S. headcount increased to 34% of the total from 25% for the nine months ended September 30, 2018.

Servicing and origination expense decreased $4.6 million, or 5%, as compared to the nine months ended September 30, 2018, primarily due to a $5.2 million reduction in government-insured claim loss provisions on reinstated or modified loans in line with a decline in claims and a $7.7 million decrease in provisions for non-recoverable servicing advances and receivables. These declines were offset in part by an increase in other servicing-related expenses associated with a larger portfolio as a result of the PHH acquisition.

Technology and communication expense decreased $6.2 million, or 9%, as compared to the nine months ended September 30, 2018, primarily due to our cost reduction efforts, which include bringing technology services in-house, offset by an increase in expenses as a result of the PHH acquisition.

Professional services expense decreased $33.6 million, or 30%, as compared to the nine months ended September 30, 2018, primarily due to the recovery from a service provider in the first quarter of 2019 of $30.7 million of amounts previously recognized as expense and a $10.0 million decline in provisions for probable losses in connection with litigation, partially offset by professional services expense attributable to PHH.

Occupancy and equipment expense increased $15.2 million, or 41%, as compared to the nine months ended September 30, 2018, due to PHH expenses and the recognition of accelerated amortization of ROU assets in connection with our decision to vacate leased properties in 2019 prior to the contractual maturity date of the lease agreements, offset in part by a decline resulting from our cost reduction efforts which include consolidating vendors and closing and consolidating certain facilities.

Other expenses decreased $13.3 million, or 67%, as compared to the nine months ended September 30, 2018, due in large part to a $13.2 million decline in the provision for indemnification obligations due to favorable updates to default, defect and severity assumptions relative to historical performance.

Interest expense increased $198.3 million, or 105%, as compared to the nine months ended September 30, 2018, primarily because of the $192.0 million increase in interest expense on the NRZ financing liabilities, $4.4 million of interest expense on the PHH senior unsecured notes and $2.2 million of interest expense on the new $300.0 million MSR financing facility, offset in part by a $3.6 million decrease in interest on match funded liabilities. As discussed above, changes in fair value of the NRZ financing liability are offset, to a large extent, by changes in fair value of the associated pledged MSRs which are recorded in MSR valuation adjustments, net.

Although we incurred a pre-tax loss for the nine months ended September 30, 2019 of $163.7 million, we recorded income tax expense of $13.3 million due to the mix of earnings among different tax jurisdictions with different statutory tax rates. Our overall effective tax rates for the nine months ended September 30, 2019 and 2018 were (8.1)% and (7.1)%, respectively. Under our transfer pricing agreements, our operations in India and Philippines are compensated on a cost-plus basis for the services they provide, such that even when we have a consolidated pre-tax loss from continuing operations these foreign operations have taxable income, which is subject to statutory tax rates in these jurisdictions that are significantly higher than the U.S. statutory rate of 21%. The change in income tax expense for the nine months ended September 30, 2019, compared with the same period in 2018, was primarily due to tax expense on the gain recognized in the USVI on the merger of OLS into PMC, the effects of the Base Erosion and Anti-Abuse Tax (BEAT) provision of the Tax Act and the increase in the BEAT tax rate from 5% in 2018 to 10% in 2019 as well as increased income tax expense as a result of recognizing income previously deferred for tax purposes related to our NRZ agreements. In addition, income tax expense related to uncertain tax positions increased by $3.3 million in the nine months ended September 30, 2019 as compared to the same period of 2018.

Financial Condition Summary	September 30, 2019	December 31, 2018	% Change
Cash	$ 345,084	$ 329,132	5 %
Restricted cash (amounts related to VIEs of $13,725 and $20,968)	58,661	67,878	(14)
MSRs, at fair value	1,455,553	1,457,149	—
Advances and match funded advances (amounts related to VIES of $825,760 and $937,294)	1,038,444	1,186,676	(12)
Loans held for sale ($207,645 and $176,525 carried at fair value)	275,579	242,622	14
Loans held for investment, at fair value (amounts related to VIEs of $24,445 and $26,520)	6,073,687	5,498,719	10
Other assets ($8,339 and $7,568 carried at fair value)(amounts related to VIEs of $4,422 and $2,874)	709,645	612,040	16
Total assets	$ 9,956,653	$ 9,394,216	6 %
Total Assets by Segment			
Servicing	$ 3,227,245	$ 3,306,208	(2)%
Lending	6,225,394	5,603,481	11
Corporate Items and Other	504,014	484,527	4
	$ 9,956,653	$ 9,394,216	6 %
HMBS-related borrowings, at fair value	$ 5,903,965	$ 5,380,448	10 %
Match funded liabilities (related to VIEs)	687,497	778,284	(12)
Other financing liabilities ($1,009,779 and $1,057,671 carried at fair value) (amounts related to VIEs of $22,827 and $24,815)	1,069,594	1,127,613	(5)
SSTL and other secured borrowings, net (amounts related to VIEs of $137,612 and $0)	708,929	382,538	85
Senior notes, net	310,788	448,727	(31)
Other liabilities ($3,319 and $4,986 carried at fair value)	894,695	721,901	24
Total liabilities	9,575,468	8,839,511	8 %
Total stockholders' equity	381,185	554,705	(31)
Total liabilities and equity	$ 9,956,653	$ 9,394,216	6 %
Total Liabilities by Segment			
Servicing	$ 2,648,234	$ 2,437,383	9 %
Lending	6,118,867	5,532,069	11
Corporate Items and Other	808,367	870,059	(7)
	$ 9,575,468	$ 8,839,511	8 %

Changes in the composition and balance of our assets and liabilities during the nine months ended September 30, 2019 are principally attributable to the impact of our ongoing HMBS activity, which is accounted for as secured financings, increasing Loans held for investment and HMBS-related borrowings. Match funded liabilities declined during the nine months ended September 30, 2019 as a result of lower advances and match funded advances, consistent with the decline in our servicing portfolio. Other secured borrowings increased due to the new $300.0 million MSR financing facility entered into on July 1, 2019, under which $137.6 million was outstanding at September 30, 2019. Borrowings under our SSTL increased due to the $120.0 million term loan upsize executed during the first quarter of 2019. Senior notes declined due to our repayment at the maturity of the $97.5 million 7.375% notes and our repurchases of $39.4 million of our 8.375% notes. Total equity decreased as a result of the net loss we recognized for the nine months ended September 30, 2019.

SEGMENT RESULTS OF OPERATIONS

Our activities are organized into two reportable business segments that reflect our primary lines of business - Servicing and Lending - 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 charges, modification incentive fees, REO referral commissions, float earnings and Speedpay fees. We also earn fees under both subservicing and special servicing arrangements with banks and other institutions that own the MSRs. Subservicing and special servicing fees are earned either as a percentage of UPB or on a per-loan basis. Per loan fees typically vary based on delinquency status. As of September 30, 2019, we serviced 1.5 million loans with an aggregate UPB of $216.8 billion.

The average UPB of loans serviced during the third quarter of 2019 increased by 35% or $57.0 billion compared to the third quarter of 2018, mostly due to the acquisition of PHH in October 2018. We are actively pursuing actions to manage the size of our servicing portfolio through expanding our lending business and making permissible MSR acquisitions that are prudent and well-executed with appropriate financial return targets. We closed MSR acquisitions with $11.9 billion UPB through the nine months ended September 30, 2019. We expect to continue to focus on acquiring Agency and government-insured MSR portfolios that meet or exceed our minimum targeted investment returns. We re-entered the forward lending correspondent channel in the second quarter of 2019 and we continue to pursue a number of other MSR acquisition options, including driving improved recapture rates within our existing servicing portfolio.

NRZ is our largest servicing client, accounting for 54% and 60% of the UPB and loans in our servicing portfolio as of September 30, 2019, respectively. NRZ subservicing fees retained by Ocwen represented 26% and 27% of the total servicing and subservicing fees earned by Ocwen, net of servicing fees remitted to NRZ, for the three and nine months ended September 30, 2019, respectively, and 26% for both the three and nine months ended September 30, 2018.

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 represent 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 will receive under the renegotiated agreements. These upfront payments amortize through the remaining term of the original agreements (April 2020). Accordingly, the aggregate economics of these agreements will be similar through the end of April 2020, although cash receipts will be lower in future periods as a result of the upfront payments.

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

	Three Months		Nine Months	
	2019	2018	2019	2018
Retained subservicing fees on NRZ agreements	$ 35,462	$ 33,335	$ 108,774	$ 101,997
Reduction in interest expense in connection with the amortization of the lump-sum cash payments received (including fair value change)	24,489	31,561	71,525	118,651
Total retained subservicing fees and amortization of lump-sum payments (including fair value change)	$ 59,951	$ 64,896	$ 180,299	$ 220,648
Average NRZ UPB	$ 119,403,543	$ 93,097,665	$ 123,870,685	$ 96,575,894
Average annualized retained subservicing fees as a % of NRZ UPB	0.12%	0.14%	0.12%	0.14%

Our MSR portfolio is carried at fair value. The value of our MSRs are 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 decline, the value of the servicing portfolio rises. Changes in fair value of any fair value elected MSR financing liabilities, which are recorded in interest expense in our unaudited consolidated statements of operations, will partially offset the changes in fair value of the related MSRs. In addition, beginning in September 2019 we implemented a hedging strategy to partially offset the changes in fair value of our net MSR exposure.

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	RPS3
Residential Second/Subordinate Lien Servicer	SQ3	Average	RPS3
Residential Home Equity Servicer	—	—	RPS3
Residential Alt-A Servicer	—	—	RPS3
Master Servicer	SQ3	Average	—
Ratings Outlook	N/A	Stable	Stable
Date of last action	August 29, 2019	July 3, 2019	November 1, 2018

Following the merger of OLS into PMC on June 1, 2019, Ocwen submitted requests to withdraw the servicer ratings for OLS. S&P and Moody's have transferred the Master Servicer rating for OLS to PMC, and Fitch is currently addressing a similar transfer.

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." There have been no new outlooks released for PMC regarding our servicer ratings.

Downgrades in servicer ratings could adversely affect our ability to 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			Nine Months		
Periods ended September 30,	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**
Revenue						
Servicing and subservicing fees						
Residential	$ 247,075	$ 213,377	16 %	$ 740,824	$ 655,602	13 %
Commercial	1,114	1,050	6	2,956	4,301	(31)
	248,189	214,427	16	743,780	659,903	13
Gain on loans held for sale, net	1,128	1,334	(15)	4,068	7,914	(49)
Other revenue, net	907	1,869	(51)	4,162	6,416	(35)
Total revenue	250,224	217,630	15	752,010	674,233	12
Expenses						
MSR valuation adjustments, net	(134,617)	41,289	(426)	121,497	91,307	33
Compensation and benefits	35,107	32,130	9	116,344	103,365	13
Servicing and origination	31,644	27,883	13	73,687	80,303	(8)
Occupancy and equipment	10,650	8,475	26	35,125	28,335	24
Professional services	12,847	13,605	(6)	35,307	38,422	(8)
Technology and communications	6,485	9,850	(34)	23,634	30,838	(23)
Corporate overhead allocations	45,615	48,845	(7)	156,930	145,710	8
Other expenses	(6,841)	3,000	(328)	(5,650)	4,781	(218)
Total expenses	890	185,077	(100)	556,874	523,061	6
Other income (expense)						
Interest income	2,105	2,242	(6)	6,270	4,136	52
Interest expense	(268,545)	(47,359)	467	(337,435)	(144,551)	133
Gain (loss) on sale of mortgage servicing rights, net	—	—	n/m	—	—	n/m
Other, net	3,917	(1,335)	(393)	6,332	(2,089)	(403)
Total other expense, net	(262,523)	(46,452)	465	(324,833)	(142,504)	128
(Loss) income before income taxes	$ (13,189)	$ (13,899)	(5)%	$ (129,697)	$ 8,668	n/m

n/m: not meaningful

The following tables provide selected operating statistics:

At September 30,	2019	2018	% Change
Residential Assets Serviced			
Unpaid principal balance (UPB):			
Performing loans (1)	$ 204,396,178	$ 148,440,800	38 %
Non-performing loans	10,015,534	10,174,351	(2)
Non-performing real estate	2,343,072	2,381,323	(2)
Total	$ 216,754,784	$ 160,996,474	35 %
Conventional loans (2)	$ 97,033,176	$ 42,845,089	126 %
Government-insured loans	29,804,025	19,855,900	50
Non-Agency loans	89,917,583	98,295,485	(9)
Total	$ 216,754,784	$ 160,996,474	35 %
Percent of total UPB:			
Servicing portfolio	35%	42%	(17)%
Subservicing portfolio	11	1	1,000
NRZ (3)	54	57	(5)
Non-performing residential assets serviced	6	8	(25)
Number:			
Performing loans (1)	1,371,781	1,045,029	31 %
Non-performing loans	66,003	49,982	32
Non-performing real estate	13,869	11,811	17
Total	1,451,653	1,106,822	31 %
Conventional loans (2)	618,505	262,968	135 %
Government-insured loans	187,568	145,233	29
Non-Agency loans	645,580	698,621	(8)
Total	1,451,653	1,106,822	31 %
Percent of total number:			
Servicing portfolio	32%	40%	(20)%
Subservicing portfolio	8	1	700
NRZ (3)	60	59	2
Non-performing residential assets serviced	6	6	—

Periods ended September 30,	Three Months 2019	Three Months 2018	% Change	Nine Months 2019	Nine Months 2018	% Change
Residential Assets Serviced						
Average UPB:						
Servicing portfolio	$ 77,435,143	$ 69,502,586	11 %	$ 76,337,365	$ 71,985,417	6 %
Subservicing portfolio	24,214,264	1,498,324	n/m	38,187,981	1,655,913	n/m
NRZ (3)	119,403,543	93,097,665	28	123,870,685	96,575,894	28
Total	$ 221,052,950	$ 164,098,575	35 %	$ 238,396,031	$ 170,217,224	40 %
Prepayment speed (average CPR)	18%	14%	29 %	14%	14%	— %
% Voluntary	96	82	17	93	82	13
% Involuntary	4	18	(78)	7	18	(61)
% CPR due to principal modification	—	1	(100)	—	1	(100)
Average number:						
Servicing portfolio	475,810	447,598	6 %	473,303	463,533	2 %
Subservicing portfolio	109,853	15,039	630	127,587	16,737	662
NRZ (3)	883,406	663,587	33	910,407	684,769	33
	1,469,069	1,126,224	30 %	1,511,297	1,165,039	30 %
Residential Servicing and Subservicing Fees						
Loan servicing and subservicing fees:						
Servicing	$ 60,614	$ 52,541	15 %	$ 168,071	$ 166,700	1 %
Subservicing	1,340	657	104	11,750	2,443	381
NRZ	146,567	120,593	22	443,505	374,322	18
	208,521	173,791	20	623,326	543,465	15
Late charges	14,026	14,773	(5)	42,546	44,516	(4)
Custodial accounts (float earnings)	13,455	10,351	30	38,652	26,156	48
Loan collection fees	3,855	4,907	(21)	11,512	14,666	(22)
HAMP fees	1,216	3,365	(64)	4,558	11,622	(61)
Other	6,002	6,190	(3)	20,230	15,177	33
	$ 247,075	$ 213,377	16 %	$ 740,824	$ 655,602	13 %
Interest Expense on NRZ Financing Liability (4)						
Servicing fees collected on behalf of NRZ	$ 146,567	$ 120,593	22 %	$ 443,505	$ 374,322	18 %
Less: Subservicing fee retained by Ocwen	35,462	33,335	6	108,774	101,997	7
Net servicing fees remitted to NRZ	111,105	87,258	27	334,731	272,325	23
Less: Reduction (increase) in financing liability						
Changes in fair value:						
Original Rights to MSRs Agreements	(228,644)	4,844	n/m	(230,193)	(3,938)	n/m
2017 Agreements and New RMSR Agreements	(2,216)	(2,163)	2	(4,562)	15,261	(130)
PMC MSR Agreements	30,156	—	n/m	111,034	—	n/m
	(200,704)	2,681	n/m	(123,721)	11,323	n/m
Runoff and settlement:						
Original Rights to MSRs Agreements	11,170	15,896	(30)	31,617	50,739	(38)
2017 Agreements and New RMSR Agreements	26,705	33,724	(21)	76,087	103,390	(26)
PMC MSR Agreements	15,881	—	n/m	49,469	—	n/m
	53,756	49,620	8	157,173	154,129	2

Other	1,637	(1,760)	(193)	(2,022)	(4,383)	(54)
	$ 256,416	$ 36,717	598 %	$ 303,301	$ 111,256	173 %
Number of Completed Modifications						
HAMP	—	316	(100)%	503	987	(49)%
Non-HAMP	6,245	8,863	(30)	19,328	30,542	(37)
Total	6,245	9,179	(32)%	19,831	31,529	(37)%
Financing Costs						
Average balance of advances and match funded advances	$ 1,018,539	$ 1,145,026	(11)%	$ 1,059,789	$ 1,227,819	(14)%
Average borrowings						
Match funded liabilities	629,592	702,679	(10)	664,215	753,805	(12)
Financing liabilities	893,785	729,049	23	926,308	760,491	22
Other secured borrowings	208,938	1,753	n/m	172,859	2,404	n/m
Interest expense on borrowings						
Match funded liabilities	6,165	7,229	(15)	20,862	23,323	(11)
Financing liabilities	256,913	38,259	572	305,690	115,625	164
Other secured borrowings	3,083	244	n/m	4,111	1,144	259
Effective average interest rate						
Match funded liabilities	3.92%	4.12%	(5)	4.19%	4.13%	1
Financing liabilities (4)	114.98	20.99	448	44.00	20.27	117
Other secured borrowings	5.90	55.68	(89)	3.17	63.45	(95)
Facility costs included in interest expense	$ 1,478	$ 1,183	25	$ 4,130	$ 4,185	(1)
Average 1ML	2.04%	2.11%	(3)	2.37%	1.91%	24
Average Employment						
India and other	3,272	3,981	(18)%	3,465	4,192	(17)%
U.S.	1,099	938	17	1,281	1,008	27
Total	4,371	4,919	(11)%	4,746	5,200	(9)%

n/m: not meaningful

(1) 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.
(2) Conventional loans include 115,587 and 119,974 prime loans with a UPB of $21.4 billion and $20.6 billion at September 30, 2019 and 2018, respectively, which we service or subservice.
(3) Loans serviced or subserviced pursuant to our agreements with NRZ.
(4) The effective average interest rate on the financing liability that we recognized in connection with the sales of Rights to MSRs to NRZ is 126.81% and 22.41% for the three months ended September 30, 2019 and 2018, respectively, and 48.32% and 21.72% for the nine months ended September 30, 2019 and 2018, respectively.

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

	Amount of UPB		Count	
	2019	2018	2019	2018
Portfolio at January 1	$ 256,000,490	$ 179,352,554	1,562,238	1,221,695
Additions (1)	5,387,517	546,619	18,430	2,694
Sales	(78,061)	(3,292)	(723)	(39)
Servicing transfers	(1,157,156)	(302,120)	(5,103)	(1,840)
Runoff	(9,072,050)	(6,204,885)	(40,491)	(36,598)
Portfolio at March 31	$ 251,080,740	$ 173,388,876	1,534,351	1,185,912
Additions (1)	10,005,573	655,943	40,309	2,906
Sales	(166,082)	(6,459)	(1,288)	(43)
Servicing transfers (2)	(21,865,696)	(218,871)	(35,811)	(2,467)
Runoff	(9,771,490)	(6,692,475)	(46,532)	(40,219)
Portfolio at June 30	$ 229,283,045	$ 167,127,014	1,491,029	1,146,089
Additions (1)	3,606,398	641,286	13,764	2,808
Sales	(270,261)	(572,129)	(2,403)	(3,228)
Servicing transfers	(6,635,442)	(31,375)	(4,246)	(3,465)
Runoff	(9,228,956)	(6,168,322)	(46,491)	(35,382)
Portfolio at September 30	$ 216,754,784	$ 160,996,474	1,451,653	1,106,822

(1) Additions in the third quarter of 2019 include purchased MSRs on portfolios consisting of 5,114 loans with a UPB of $1.0 billion that have not yet transferred to the Black Knight MSP servicing system. These loans are scheduled to transfer onto Black Knight MSP in the fourth quarter of 2019. 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 between the transaction closing date and the servicing transfer date. Additions also include $4.9 billion and $6.0 billion in the first and second quarter of 2019, respectively, and the loans have completed the transfer onto the Black Knight MSP servicing system.

(2) Primarily represents the termination of a subservicing client relationship consisting of 33,626 loans with a UPB of $21.4 billion. For the nine months ended September 30, 2019, total servicing fee revenue for this client was $1.3 million which was earned through May 31, 2019 when the loans were released.

The key drivers of our servicing segment operating results for the three and nine months ended September 30, 2019, as compared to the same periods of 2018, are the PHH acquisition and related integration, portfolio runoff and the effects of cost improvements achieved in aligning our servicing operations more appropriately to the size of our servicing portfolio. Until the Black Knight MSP conversion was completed in June 2019, we were maintaining the infrastructure and related costs of two servicing platforms, including certain corporate functions.

Three Months Ended September 30, 2019 versus 2018

Servicing and subservicing fee revenue increased by $33.8 million, or 16%, as compared to the third quarter of 2018, due to the increase in the portfolio resulting from the acquisition of PHH on October 4, 2018 and the acquisition of MSRs during the first nine months of 2019, offset in part by portfolio runoff and a decline in completed loan modifications. Revenue recognized in connection with loan modifications, including servicing fees, late charges and HAMP fees, declined 32% to $9.8 million for the third quarter of 2019 as compared to $14.4 million in the third quarter of 2018. Total completed loan modifications decreased 32% as compared to the third quarter of 2018, primarily due to the expiration of government sponsored modification programs and fewer available modification opportunities in our servicing portfolio.

MSR valuation adjustments, net, decreased $175.9 million, or 426%, as compared to the third quarter of 2018, primarily due to a $252.3 million valuation adjustment to our non-Agency MSR fair value associated with continued improved collateral performance confirmed by recent market trade activity. The change in interest rates had a partially offsetting impact, with a 40 basis-point decline in the 10-year swap rate in the third quarter of 2019, as compared to the 10 basis-point increase in the third quarter of 2018, resulting in a $16.9 million valuation adjustment increase on MSRs acquired subsequent to the third quarter of 2018 and $51.1 million from interest rate changes on the remainder of the portfolio. In addition, we recognized $8.5 million of net unfavorable impacts from higher runoff, including on MSRs added from the PHH acquisition and other Agency MSR purchases, and other assumption updates unrelated to interest rates. The acquired MSRs are primarily Agency loans that are more sensitive to interest rates. Fair value adjustments to our MSRs are offset, in part, by fair value adjustments related to the NRZ financing liabilities, which are recorded in Interest expense.

Operating expenses, representing total expenses excluding MSR valuation adjustments, net, decreased $8.3 million, or 6%, as compared to the third quarter of 2018, mostly due to $9.8 million lower Other expenses and offsetting expense changes, as described below.

Compensation and benefits expense increased $3.0 million, or 9%, as compared to the third quarter of 2018, due to PHH compensation and benefits expense offset in part by a reduction in expenses resulting from our efforts to re-engineer our cost structure and align headcount in our servicing operations with the size of our servicing portfolio. Although average total servicing headcount decreased 11% compared to the third quarter of 2018, average higher-cost U.S. headcount increased to 25% of the total from 19% for the third quarter of 2018.

Servicing and origination expense increased $3.8 million, or 13%, as compared to the third quarter of 2018, primarily due to a $2.7 million increase in government-insured claim loss provisions on reinstated or modified loans, in line with an increase in the volume of claims, and an increase in other servicing-related expenses associated with a larger portfolio offset in part by a $2.3 million decrease in provisions for non-recoverable servicing advances and receivables. 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 increased $2.2 million, or 26%, as compared to the third quarter of 2018, primarily due to expenses attributable to PHH acquisition in October 2018.

Technology and communication expense declined $3.4 million, or 34%, as compared to the third quarter of 2018. The increase attributed to PHH was more than offset by the results of our cost reduction efforts which included bringing technology services in-house.

Corporate overhead allocations declined $3.2 million, as compared to the third quarter of 2018, primarily due to lower legal expenses offset in part by PHH overhead expense allocations.

Other expenses decreased $9.8 million as compared to the third quarter of 2018 as a result of a $9.7 million decline in the provision for indemnification obligations that was largely as a result of the reversal of a portion of the liability for representation and warranty obligations related to favorable updates to default, defect and severity assumptions relative to historical performance.

Interest expense increased by $221.2 million, or 467%, as compared to the third quarter of 2018, due to a $219.7 million increase in interest expense on the NRZ financing liabilities that are recorded at fair value. Changes in the fair value of the NRZ financing liabilities are offset, to a large extent, by changes in the fair value of the associated MSRs that did qualify for sale accounting treatment which are recorded in MSR valuation adjustments, net.

The net increase in interest expense on the NRZ financing liabilities was largely due to a $228.6 million unfavorable fair value adjustment in the third quarter of 2019 related to the Original Rights to MSRs Agreements which increased the NRZ financing liability, and interest expense, offsetting the favorable fair value adjustment of the underlying MSRs. This unfavorable fair value adjustment results from an update to our non-Agency MSR fair value based on improved collateral performance and recent market trade activity (see the MSR valuation adjustments, net discussion above). We recognized a $30.2 million favorable fair value adjustment in the third quarter of 2019 related to the PMC MSR Agreements primarily due to the 40 basis-point decline in the 10-year swap rate. MSRs underlying the PMC Agreements are Agency mortgage loans and as a result, both their fair value and runoff are highly sensitive to changes in interest rates. The MSRs underlying the Original Rights to MSRs Agreements are seasoned non-Agency mortgage loans and changes in interest rates do not have any significant impact on prepayments.

Nine Months Ended September 30, 2019 versus 2018

Servicing and subservicing fee revenue increased by $83.9 million, or 13%, as compared to the nine months ended September 30, 2018, due to the increase in the portfolio resulting from the acquisition of PHH and the acquisition of MSRs during the first nine months of 2019, offset in part by portfolio runoff and a decline in completed loan modifications. Revenue recognized in connection with loan modifications declined 38% to $29.2 million during the nine months ended September 30, 2019 as compared to $47.1 million during the nine months ended September 30, 2018. Total completed loan modifications decreased 37% as compared to the nine months ended September 30, 2018.

MSR valuation adjustments, net, increased $30.2 million, or 33%, as compared to the nine months ended September 30, 2018, primarily due to portfolio runoff on MSRs added in the PHH acquisition and other Agency MSR purchases, and the 115 basis-point decline in the 10-year swap rate in the nine months ended September 30, 2019, as compared to the 65 basis-point increase in the nine months ended September 30, 2018. The increase in MSR valuation adjustments, net, includes $12.0 million due to runoff and $25.5 million from interest rate changes on MSRs acquired subsequent to the third quarter of 2018, and

$249.7 million from interest rate changes on the remainder of the portfolio. This is offset by a $252.3 million net favorable valuation adjustment to our non-Agency MSR fair value associated with improved collateral performance and recent market trade activity, and $4.6 million from runoff and other assumption updates unrelated to interest rates. Fair value adjustments to our MSRs are offset, in part, by fair value adjustments related to the NRZ financing liabilities, which are recorded in interest expense.

Operating expenses which represent Total expenses excluding MSR valuation adjustments, net, increased $3.6 million, or 1%, as compared to the nine months ended September 30, 2018.

Compensation and benefits expense increased $13.0 million, or 13%, as compared to the nine months ended September 30, 2018, due to PHH compensation and benefits expenses offset in part by a reduction in expenses resulting from of our efforts to re-engineer our cost structure and align headcount in our servicing operations with the size of our servicing portfolio. Although average total servicing headcount decreased 9% compared to the nine months ended September 30, 2018, average higher-cost U.S. headcount increased to 27% of the total from 19% for the nine months ended September 30, 2018.

Servicing and origination expense declined $6.6 million, or 8%, as compared to the nine months ended September 30, 2018, primarily due to an $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 $7.7 million decrease in provisions for non-recoverable servicing advances and receivables. These declines were offset in part by an increase in other servicing-related expenses associated with a larger portfolio.

Occupancy and equipment expense increased $6.8 million, or 24%, as compared to the nine months ended September 30, 2018, primarily due to PHH expenses.

Professional services expense declined $3.1 million, or 8%, as compared to the nine months ended September 30, 2018, primarily due to a $5.4 million decline in provisions for probable losses in connection with litigation, partially offset by PHH professional services expense and a $0.8 million increase in fees incurred in connection with our conversion of NRZ’s Rights to MSRs to fully-owned MSRs.

Technology and communication expense declined $7.2 million, or 23%, as compared to the nine months ended September 30, 2018. PHH expenses were more than offset by the results of our cost reduction efforts which included bringing technology services in-house.

Corporate overhead allocations increased $11.2 million, as compared to the nine months ended September 30, 2018, primarily due to the allocation of PHH overhead expenses partially offset by a reduction in legal expenses.

Other expenses decreased $10.4 million as compared to the third quarter of 2018 primarily due to a $13.6 million decline in the provision for indemnification obligations largely as a result of the reversal of a portion of the liability for representation and warranty obligations related to favorable updates to default, defect and severity assumptions relative to historical performance.

Interest expense increased by $192.9 million, or 133%, as compared to the nine months ended September 30, 2018, due to a $192.0 million increase in interest expense on the NRZ financing liabilities.

The net increase in interest expense on the NRZ financing liabilities was largely due to the $228.6 million unfavorable fair value adjustment in the third quarter of 2019 discussed above related to the Original Rights to MSRs Agreements which increased the NRZ financing liability, and interest expense, offsetting the favorable fair value adjustment of the underlying MSRs. This unfavorable fair value adjustment results from an update to our non-Agency MSR fair value associated with improved collateral performance and observable recent market trade activity (see the MSR valuation adjustments, net discussion above). We recognized a $111.0 million favorable fair value adjustment in the nine months ended September 30, 2019 related to the PMC MSR Agreements due to the 40 basis-point decline in the 10-year swap rate, partially offsetting the unfavorable fair value adjustment related to the Original Rights to MSRs Agreements. In the nine months ended September 30, 2018, a favorable fair value adjustment reduced interest expense related to the 2017 and New RMSR Agreements by $15.3 million, driven primarily by the initial fair value gain attributable to the $279.6 million lump-sum cash payment received in connection with the New RMSR Agreements.

LENDING

We originate and purchase conventional and government-insured forward mortgage loans through our forward lending operations. During 2018 and the first nine months of 2019, our forward lending efforts were 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. We re-entered the forward lending correspondent channel in the second quarter of 2019 to drive higher servicing portfolio replenishment.

Under the terms of our agreements with NRZ, to the extent we refinance a loan underlying the MSRs subject to these agreements, we are obligated to transfer such recaptured MSR to NRZ under the terms of a separate subservicing agreement. Effective June 1, 2019, we no longer perform any portfolio recapture on behalf of NRZ. We expect this change will not have a material negative impact on pre-tax earnings after associated direct cost reductions and the gain on sale generated by new recapture opportunities on newly acquired MSR portfolios.

We originate and purchase reverse mortgages through our reverse lending operations 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. We retain the servicing rights to reverse loans securitized through the Ginnie Mae HMBS program. We have originated HECM loans under which the borrowers have additional borrowing capacity of $1.5 billion at September 30, 2019. 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. At September 30, 2019, unrecognized Future Value related to future draw commitments on loans purchased or originated prior to January 1, 2019 is estimated to be $55.5 million (versus $68.1 million at December 31, 2018) and will be recognized over time as future draws are securitized or sold. Effective for loans purchased or originated after December 31, 2018, we elected to fair value future draw commitments.

On February 28, 2019, we merged Homeward into PMC with PMC being the surviving entity. All of our forward lending purchase and origination activities are conducted under the PHH brand effective April 1, 2019.

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

	Three Months			Nine Months		
Periods ended September 30,	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**
Revenue						
Gain on loans held for sale, net						
Forward loans	$ 6,971	$ 6,954	— %	$ 20,451	$ 20,802	(2)%
Reverse loans	7,914	8,654	(9)	24,155	32,419	(25)
	14,885	15,608	(5)	44,606	53,221	(16)
Other revenue, net	14,617	1,309	n/m	54,780	11,895	361
Total revenue	29,502	16,917	74	99,386	65,116	53
Expenses						
Compensation and benefits	9,862	9,959	(1)	33,806	32,138	5
Servicing and origination	4,721	3,606	31	12,577	11,302	11
Occupancy and equipment	1,371	1,361	1	4,891	3,773	30
Technology and communications	606	519	17	2,408	1,355	78
Professional services	104	308	(66)	966	1,003	(4)
MSR valuation adjustments, net	56	159	(65)	208	388	(46)
Corporate overhead allocations	1,411	935	51	4,757	2,554	86
Other expenses	2,534	2,107	20	3,408	4,523	(25)
Total expenses	20,665	18,954	9	63,021	57,036	10
Other income (expense)						
Interest income	1,688	1,255	35	4,783	4,107	16
Interest expense	(2,133)	(1,437)	48	(5,200)	(4,855)	7
Other, net	498	154	223	1,161	774	50
Total other income (expense), net	53	(28)	(289)	744	26	n/m
Income (loss) before income taxes	$ 8,890	$ (2,065)	(531)%	$ 37,109	$ 8,106	358 %

n/m: not meaningful

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

	September 30, 2019	September 30, 2018	% Change
Short-term loan funding commitments			
Forward loans	$ 140,644	$ 91,134	54 %
Reverse loans	32,971	21,312	55
Future Value (1) (2)	55,502	69,250	(20)%
Future draw commitment (UPB) (3)	1,494,991	1,460,642	2 %

Periods ended September 30,	Three Months 2019	Three Months 2018	% Change	Nine Months 2019	Nine Months 2018	% Change
Loan Production by Channel						
Forward loans						
Correspondent	$ 92,891	$ —	n/m	$ 96,174	$ 408	n/m
Wholesale	—	—	n/m	—	1,750	(100)
Retail	131,232	172,302	(24)	489,834	602,338	(19)
	$ 224,123	$ 172,302	30 %	$ 586,008	$ 604,496	(3)%
% HARP production	—%	6%	(100)%	—%	8%	(100)%
% Purchase production	24	—	n/m	30	—	n/m
% Refinance production	76	100	(24)	70	100	(30)
Reverse loans (4)						
Correspondent	$ 106,907	$ 94,631	13 %	$ 278,793	$ 278,681	— %
Wholesale	59,056	38,414	54	145,423	136,086	7
Retail	22,129	14,471	53	46,410	50,153	(7)
	$ 188,092	$ 147,516	28 %	$ 470,626	$ 464,920	1 %
Average Employment						
U.S.	318	363	(12)%	393	390	1 %
India and other	86	125	(31)	106	129	(18)
Total	404	488	(17)%	499	519	(4)%

(1) Future Value represents the net present value of estimated future cash flows from customer draws of the 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. We recognize this Future Value over time as future draws are securitized or sold.
(2) Excludes the fair value of future draw commitments related to HECM loans purchased or originated after December 31, 2018 that we elected to carry at fair value.
(3) Includes all future draw commitments.
(4) New loan production excludes draws to borrowers on reverse mortgage loans disbursed subsequent to origination of $73.5 million for both the three months ended September 30, 2019 and 2018, and $220.0 million and $223.4 million for the nine months ended September 30, 2019 and 2018, respectively.

Our Lending segment results for the three and nine months ended September 30, 2019, as compared to the same periods of 2018, were primarily driven by the acquisition of PHH, our re-entry into the forward lending correspondent channel and reverse lending HECM program and market changes and the related impacts on loan production, revenue and expenses. According to the HUD HECM Endorsement Summary Report, industry endorsements, or the number of new HECM loans insured by the FHA during the reporting period, totaled 7,515 and 23,883, and 8,985 and 34,341, for the three and nine months ended September 30, 2019 and 2018, respectively, representing a decline of 16% and 30% in the 2019 periods as compared to 2018.

Three Months Ended September 30, 2019 versus 2018

Total revenue increased $12.6 million, or 74%, as compared to the third quarter of 2018, primarily due to a $12.9 million favorable net change in the fair values of our HECM reverse mortgage loans and the related HMBS financing liability, which is recorded in Other revenue, offset in part by a $0.7 million decline in reverse lending gain on loans held for sale.

The $13.0 million favorable fair value adjustments recognized in the third quarter of 2019 include $3.6 million in connection with the fair value election for future draw commitments on HECM reverse mortgage loans purchased or originated after December 31, 2018 and $2.9 million related to lower interest rates. Lower interest rates generally result in favorable net fair value impacts on our HECM reverse mortgage loans and the related HMBS financing liability and higher interest rates generally result in unfavorable net fair value impacts.

Gain on loans held for sale, net, declined $0.7 million, or 5%, as compared to the third quarter of 2018, despite the $92.4 million, or 29% increase in total loan production due to our re-entry into the forward lending correspondent channel in the second quarter of 2019 and margin compression within the channels. Reverse lending gain on loans held for sale declined by $0.7 million, or 9%, on a 28% increase in lending volume due to significant margin compression resulting from increased price competitiveness in the wholesale and correspondent channels. The increase in our reverse lending volume for the three months ended September 30, 2019 as compared to the same period in 2018 versus the decline in industry endorsements for the comparable periods is due to our efforts to re-start purchases with former customers and increase wallet share with existing customers in our wholesale, correspondent and closed whole-loan purchase channels. The significant reduction in margin was largely attributable to lower gain on sales margins driven by increased price competition as compared to the same period in 2018. The slight increase in forward lending gain on loans held for sale was due to a 30% increase in loan production offset by margin compression.

Total expenses increased $1.7 million, or 9%, as compared to the third quarter of 2018, primarily due to expenses attributed to PHH and the increase in origination volume offset in part by a reduction in expenses resulting from our efforts to re-engineer our cost structure. The majority of expenses are variable, and as a result, as origination volume increase or decrease so do the related expenses. Examples include commissions, recorded in Compensation and benefits expense, and advertising expense, recorded in Other expenses. Total average headcount decreased 17% as compared to the third quarter of 2018, reflecting reductions in staffing levels as part of our cost re-engineering and simplification plans offset in part by the increase due to the acquisition of PHH. Compensation expense as compared to the third quarter of 2018 declined only slightly as average higher-cost U.S. headcount increased to 79% of total average headcount from 74% for the three months ended September 30, 2018. Servicing and origination expense increased $1.1 million as compared to the third quarter of 2018 primarily due to an increase in Ginnie Mae claim losses.

Nine Months Ended September 30, 2019 versus 2018

Total revenue increased $34.3 million, or 53%, as compared to the nine months ended September 30, 2018, primarily due to $42.2 million favorable net change in the fair values of our HECM reverse mortgage loans and the related HMBS financing liability included in Other revenue, offset in part by an $8.3 million decline in reverse lending gain on loans held for sale.

The $50.2 million favorable fair value adjustments for the nine months ended September 30, 2019 includes $9.2 million in connection with the fair value election for future draw commitments on HECM reverse mortgage loans purchased or originated after December 31, 2018, $16.9 million related to lower interest rates and $11.5 million driven by an update in the first quarter of 2019 of the financing assumption for active HECM reverse mortgage loan repurchases in connection with our HMBS Issuer obligations. As these repurchases have become more prevalent, a more liquid market for financing has developed, resulting in a lower financing cost assumption.

Gain on loans held for sale, net, declined $8.6 million, or 16%, as compared to the nine months ended September 30, 2018, as total loan production decreased $12.8 million, or 1%. Reverse lending gain on loans held for sale declined by $8.3 million, or 25%, in spite of a 1% increase in loan production due to margin compression in the wholesale and correspondent channels as a result of market pricing competitiveness. Our reverse lending volume increased for the nine months ended September 30, 2019 as compared to the same period in 2018 versus the decline in industry endorsements for the comparable periods for the reasons noted above. A 2% reduction in the forward lending gain on loans held for sale resulted from a 3% decline in loan production.

Total expenses increased $6.0 million, or 10%, as compared to the nine months ended September 30, 2018, in spite of the 1% decrease in total loan production, primarily due to expenses attributed to PHH. While total average headcount decreased 4% as compared to the nine months ended September 30, 2018, Compensation and benefits expense increased 5% as average higher-cost U.S. headcount increased to 79% of total average headcount from 75% for the nine months ended September 30, 2018.

Corporate Items and Other

Corporate Items and Other includes revenues and expenses of corporate support services, 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 and interest expense on corporate debt. Interest expense on direct asset financings are recorded in the respective Servicing and Lending 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 drive to return to profitability as soon as possible, we will 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 in the first nine months of 2019 related to our re-engineering plan 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 has an expiration date of December 31, 2020, although it may be terminated by either party at any time with thirty days’ advance written notice.

Certain expenses incurred by corporate support services are allocated to the Servicing and Lending segments. Certain litigation and settlement related expenses or recoveries, costs related to our Board of Directors and costs related to certain closed facility sites are not allocated and remain within in the Corporate Items and Other segment.

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			Nine Months		
Periods ended September 30,	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**
Revenue						
Premiums (CRL)	$ 3,787	$ 3,884	(2)%	$ 10,214	$ 12,795	(20)%
Other revenue	2	(153)	(101)	131	(28)	(568)
Total revenue	3,789	3,731	2	10,345	12,767	(19)
Expenses						
Compensation and benefits	28,445	21,218	34	100,243	75,717	32
Professional services	23,677	26,749	(11)	40,932	71,396	(43)
Technology and communications	9,553	10,228	(7)	35,038	35,113	—
Occupancy and equipment	5,241	2,060	154	12,534	5,261	138
Servicing and origination	254	269	(6)	563	(153)	(468)
Other expenses	3,025	2,751	10	8,805	10,510	(16)
Total expenses before corporate overhead allocations	70,195	63,275	11	198,115	197,844	—
Corporate overhead allocations						
Servicing segment	(45,615)	(48,845)	(7)	(156,930)	(145,710)	8
Lending segment	(1,411)	(935)	51	(4,757)	(2,554)	86
Total expenses	23,169	13,495	72	36,428	49,580	(27)
Other income (expense), net						
Interest income	336	466	(28)	1,471	1,775	(17)
Interest expense	(15,244)	(12,492)	22	(45,303)	(40,195)	13
Gain on repurchase of senior secured notes	5,099	—	n/m	5,099	—	n/m
Bargain purchase gain	—	—	n/m	(381)	—	n/m
Other, net	(4,829)	(2,519)	92	(5,949)	(5,254)	13
Total other expense, net	(14,638)	(14,545)	1	(45,063)	(43,674)	3
Loss before income taxes	$ (34,018)	$ (24,309)	40 %	$ (71,146)	$ (80,487)	(12)%

n/m: not meaningful

Three Months Ended September 30, 2019 versus 2018

CRL premium revenue was $3.8 million, flat compared to the third quarter of 2018, as the average number of foreclosed real estate properties in our servicing portfolio remained stable.

Total expenses before corporate overhead allocations increased $6.9 million, or 11%, as compared to the third quarter of 2018, primarily due to higher compensation and benefits expense attributed to PHH.

Compensation and benefits expense increased $7.2 million, or 34%, as compared to the third quarter of 2018, primarily due to the PHH acquisition and $7.3 million of employee-related re-engineering costs recognized in connection with our integration-related headcount reductions of primarily U.S. based employees. Average total corporate headcount increased 5%, primarily due to the PHH acquisition, including an increase in average higher-cost U.S. headcount to 36% of the total from 30% for the third quarter of 2018. Professional services expense declined $3.1 million, or 11%, as compared to the third quarter of 2018, primarily due to a decline in legal fees and settlements partially offset by professional services expense attributed to PHH.

Occupancy and equipment expense increased $3.2 million, or 154%, as compared to the third quarter of 2018, primarily due to expenses attributed to PHH and accelerated amortization of ROU assets in connection with our decision to vacate leased properties prior to the contractual maturity date of the lease agreements.

Other, net increased $2.3 million, or 92%, as compared to the third quarter of 2018, primarily due to a $2.7 million increase in losses on fixed assets, including the write-off of $2.2 million of capitalized software no longer used, and increases related to PHH, offset by a $1.8 million decrease in foreign currency remeasurement losses. The higher foreign currency remeasurement losses in 2018 were primarily attributable to depreciation of the India Rupee against the U.S. Dollar. While we do not currently hedge our foreign currency exposure, we do maintain India Rupee denominated investments in higher-yielding term deposits to partially offset our exposure.

Total expenses, after corporate overhead allocation, increased by $9.7 million, or 72%, as compared to the third quarter of 2018, primarily due to $18.3 million severance, retention, facility-related and other expenses related to our cost re-engineering plan and offset by $7.2 million lower professional services expenses and $1.9 million of PHH transaction related expense in the third quarter of 2018, that are not allocated.

Nine Months Ended September 30, 2019 versus 2018

CRL premium revenue decreased $2.6 million, or 20%, as compared to the nine months ended September 30, 2018, primarily due to the 18% decline in the average number of foreclosed real estate properties in our servicing portfolio.

Total expenses before corporate overhead allocations increased $0.3 million as compared to the nine months ended September 30, 2018, primarily due to higher compensation and benefits expense attributed to PHH and costs incurred related to our cost re-engineering plan, offset by the recovery in the first quarter of 2019 of $30.7 million from a service provider and lower legal fees and settlements.

Compensation and benefits expense increased $24.5 million, or 32%, as compared to the nine months ended September 30, 2018, due to the PHH acquisition and $31.5 million of employee-related re-engineering costs recognized in connection with our integration-related headcount reductions of primarily U.S. based employees. Average total corporate headcount increased 8%, due to the PHH acquisition, including an increase in average higher-cost U.S. headcount to 41% of the total from 30% for the nine months ended September 30, 2018.

Professional services expense declined $30.5 million, or 43%, as compared to the nine months ended September 30, 2018, primarily due to the recovery in the first quarter of 2019 of $30.7 million of amounts previously recognized as expense from a service provider and a $4.6 million decline in provisions for probable losses in connection with litigation, partially offset by professional services expense incurred by PHH.

Occupancy and equipment expense increased $7.3 million or 138%, as compared to the nine months ended September 30, 2018, primarily due to PHH expenses and accelerated amortization of ROU assets in in connection with our decision to vacate leased properties in 2019 prior to the contractual maturity date of the lease agreements.

Other, net increased $0.7 million, or 13%, as compared to the nine months ended September 30, 2018, primarily due to a $3.2 million increase in losses on fixed assets and increases related to PHH, offset by a $4.6 million decrease in foreign currency remeasurement losses. The higher foreign currency remeasurement losses in 2018 were primarily attributable to depreciation of the India Rupee against the U.S. Dollar.

The total expenses, after corporate overhead allocation, of $36.4 million for the nine months ended September 30, 2019 include $50.6 million of expenses associated with our cost re-engineering plan and the recovery of $30.7 million from a service provider, that are not allocated.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We closely monitor our liquidity position and ongoing funding requirements, and we regularly monitor and project cash flow 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 forecasted measures:

- Financial projections for ongoing net income, excluding the impact of non-cash items, and working capital needs including loan repurchases;

- Anticipated amounts and timing of payments relating to our cost re-engineering plans and integration costs;
- Requirements for maturing liabilities compared to sources of cash;
- The projected change in advances and match funded advances compared to the projected borrowing capacity to fund such advances under our facilities, including capacity for monthly peak needs; and
- 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.

At September 30, 2019, our unrestricted cash position was $345.1 million compared to $329.1 million at December 31, 2018. We typically invest cash in excess of our immediate operating needs in money market deposit accounts and other liquid assets. At September 30, 2019, $6.4 million of unencumbered loans held for sale were eligible for funding under our warehouse facilities on an uncommitted basis, compared to $62.4 million on a committed basis as of December 31, 2018. Our liquidity was bolstered by the $120.0 million upsizing of our SSTL during the first quarter of 2019 and borrowings of $137.6 million under our new MSR financing facility during the third quarter of 2019. During the third quarter of 2019, we used $138.1 million of cash to repay the PHH senior unsecured notes at maturity, partially repurchase second lien senior secured notes and pay the SSTL required amortization.

We regularly evaluate capital structure options that we believe will most effectively provide the necessary capacity to invest in targeted assets, address upcoming debt maturities and accommodate our business needs. For example, on July 1, 2019, we closed a $300.0 million MSR funding facility and we are currently evaluating other capital structure alternatives in order to optimize access to capital, improve our cost of capital and reduce funding risk. 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.

The available borrowing capacity under our advance financing facilities has increased by $20.8 million from $46.7 million at December 31, 2018 to $67.5 million at September 30, 2019. The $90.8 million decline in outstanding borrowings drove the net increase in available capacity as our maximum borrowing capacity was reduced by $70.0 million from December 31, 2018. Our ability to continue to pledge collateral under our advance financing facilities depends on the performance of the advances, among other factors. At September 30, 2019, none of the available borrowing capacity could be used based on the amount of eligible collateral that had been pledged to our advance financing facilities.

At September 30, 2019, we had maximum borrowing capacity under our forward and reverse warehouse facilities of $1.1 billion. Of the borrowing capacity extended on a committed basis, $101.1 million was available at September 30, 2019, and none of the available borrowing capacity could have been used based on the amount of eligible collateral that could be pledged. Uncommitted amounts ($730.7 million available at September 30, 2019) 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 September 30, 2019, $6.4 million of the uncommitted borrowing capacity could have been used based on the amount of eligible collateral that could be pledged, assuming our lenders were willing to do so.

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, potentially with tax consequences and in compliance with applicable laws.

We have considered the impact of financial projections on our liquidity analysis and have evaluated the appropriateness of the key assumptions in our forecast such as revenues, expenses, our assessment of the likely impact of open regulatory and litigation matters, recurring and nonrecurring costs, levels of investment and availability of funding sources. As part of this analysis, we have also assessed the cash requirements to operate our business and our financial obligations coming due. Based upon these evaluations and analysis, we believe that we have sufficient liquidity and access to adequate sources of new capital to meet our obligations and fund our operations for the next twelve months.

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 the MSR financing facility; and
- Proceeds from sales and securitizations of originated loans and repurchased loans.

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 have revolving periods of 12 to 18 months. Term notes are generally issued to institutional investors with one-, two- or three-year revolving periods.

We use mortgage loan warehouse facilities 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 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. 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.

Collateral

Our assets held as collateral related to secured borrowings, committed under sale or other contractual obligations and which may be subject to a secured lien under the SSTL are as follows at September 30, 2019:

	Total Assets	Collateral for Secured Borrowings	Sale Commitments	Other Commitments (1)	Other (2)
Cash	$ 345,084	$ —	$ —	$ —	$ 345,084
Restricted cash	58,661	17,126	—	41,535	—
MSRs (3)	1,455,553	1,178,968	11,338	—	265,247
Advances, net	212,684	—	28,765	—	183,919
Match funded assets	825,760	825,760	—	—	—
Loans held for sale	275,579	203,023	—	—	72,556
Loans held for investments	6,073,687	6,031,793	—	—	41,894
Receivables, net	152,222	23,444	—	—	128,778
Premises and equipment, net	43,974	—	—	—	43,974
Other assets	513,449	4,246	—	452,977	56,226
Total assets	$ 9,956,653	$ 8,284,360	$ 40,103	$ 494,512	$ 1,137,678

(1) Other Commitments includes 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. Security interests 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 Sale 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 facility PMC entered into on July 1, 2019.

Use of Funds

Our primary uses of funds in normal course include:

- Payment of operating costs and corporate expenses;
- Payments relating to our cost re-engineering plans and integration costs;
- Payments for advances in excess of collections;
- Investing in our servicing and lending businesses, including MSR and other asset acquisitions;
- Funding of originated and repurchased loans, including scheduled and unscheduled equity draws on reverse mortgage loans;
- Repayments of borrowings, including under our advance financing facilities and warehouse facilities, and payment of interest expense; and
- Working capital and other general corporate purposes.

Under the terms of our SSTL facility agreement, subject to certain exceptions, we are required to prepay the SSTL with 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.

Outlook

Regarding the current maturities of our borrowings, as of September 30, 2019, we have approximately $808.7 million of debt outstanding that will either come due, begin amortizing or require partial repayment in the next 12 months. This amount is comprised of $25.4 million in contractual repayments of our SSTL, $243.2 million of borrowings under warehouse facilities, $402.5 million of variable funding and term notes under advance financing facilities that will enter their respective amortization periods and $137.6 million outstanding under our new MSR financing facility which will terminate in June 2020 unless renewed or extended.

We believe that we will be able to renew, replace or extend our debt agreements to the extent necessary to finance our operations before or as they become due, consistent with our historical experience.

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

- On January 23, 2019, we renewed a mortgage loan warehouse agreement through January 22, 2020. Under this agreement, the lender provides uncommitted financing for up to $50.0 million for reverse mortgage loan originations.
- On February 4, 2019, we entered into a mortgage loan warehouse agreement under which the lender will provide $300.0 million of borrowing capacity on an uncommitted basis for forward mortgage loan originations.
- On March 18, 2019, we amended the SSTL to provide an additional term loan of $120.0 million subject to the same maturity, interest rate and other material terms of existing borrowings under the SSTL. The required quarterly principal payment was increased from $4.2 million to $6.4 million beginning March 31, 2019.
- On June 6, 2019, we renewed our OFAF advance financing facility through June 5, 2020 and reduced the borrowing capacity from $65.0 million to $60.0 million.
- On July 1, 2019, we entered into a committed financing facility that is secured by certain Fannie Mae and Freddie Mac MSRs. In the future, borrowings under this facility may also be secured by Ginnie Mae MSRs. The maximum amount which we may borrow is $300.0 million. This facility will terminate in June 2020 unless the parties mutually agree to renew or extend.
- On August 13, 2019, we renewed a reverse mortgage loan warehouse agreement with a maximum borrowing capacity of $100.0 million (all of which is uncommitted) through August 14, 2020.
- On August 14, 2019, we issued two fixed-rate term notes (Series 2019 T-1 and Series 2019-T2) totaling $470.0 million and repaid Series 2016-T2, 2018-T1 and 2018-T2 fixed-rate term notes on August 15, 2019. The amortization period for the Series 2019 T-1 and Series 2019-T2 notes begin on August 17, 2020 and August 16, 2021, respectively.
- On September 2, 2019, we redeemed all of the $97.5 million of our 7.375% Senior unsecured notes due in September 2019, at a redemption price of 100.0% of the outstanding principal balance plus accrued and unpaid interest.
- On September 27, 2019, we renewed a mortgage loan warehouse agreement with a maximum borrowing capacity of $175.0 million ($100.0 million of which is committed) through September 25, 2020.

Our liquidity forecast requires management to use judgment and estimates and includes factors that may be beyond our control. Additionally, our business has been undergoing substantial change, which has magnified the uncertainties that are inherent in the forecasting process. Our actual results could differ materially from our estimates. If we were to default under any of our debt agreements, it could become very difficult for us to renew, replace or extend some or all of our debt agreements. Challenges to our liquidity position could have a material adverse effect on our operating results and financial condition and could cause us to take actions that would be outside the normal course of our operations to generate additional liquidity.

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.

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.

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 the current ratings and outlook for PMC 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 13, 2019

On September 11, 2019 Moody's withdrew the Caa1 corporate family rating of Ocwen as it no longer maintained any rated debt outstanding and issued a corporate family rating of Caa1 with negative outlook to PMC. 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 and the timing of sales and securitizations of mortgage loans. We classify proceeds from the sale of servicing advances, including advances sold in connection with the sale of MSRs, as investing activity. We classify changes in HECM loans held for investment as investing activity and changes in the related HMBS secured financing 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 and New RMSR Agreements are recorded as secured financings, additions to, and reductions in, the balance of those secured financings are recognized as financing activity in our consolidated statements of cash flows. Excluding the impact of changes to the secured financings attributed to changes in fair value, changes in the balance of these secured financings are reflected in cash flows from operating activities despite having no impact on our consolidated cash balance. Net cash provided by operating activities for the nine months ended September 30, 2019 and 2018 includes $76.1 million and $103.4 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 nine months ended September 30, 2019

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

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

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

Cash flows for the nine months ended September 30, 2018

Our operating activities provided $291.5 million of cash largely due to $243.8 million of net collections of servicing advances. Net cash paid on loans held for sale during the nine months ended September 30, 2018 was $80.3 million.

Our investing activities used $371.9 million of cash. The primary uses of cash in our investing activities include net cash outflows in connection with our HECM reverse mortgages of $414.2 million. Cash inflows include net proceeds of $33.0 million in connection with the automotive capital services business, which we decided to exit in January 2018, and the receipt of $14.0 million of net proceeds from the sale of MSRs and related advances.

Our financing activities provided $58.1 million of cash. Cash inflows include $728.7 million received in connection with our reverse mortgage securitizations, less repayments on the related financing liability of $290.3 million. In January 2018, Ocwen received a lump-sum payment of $279.6 million in accordance with the terms of the New RMSR Agreements. Cash outflows include $284.4 million of net repayments on match funded liabilities as a result of advance recoveries, $154.1 million of net payments on the financing liabilities related to MSRs pledged and $62.6 million of repayments on the SSTL. In addition, we reduced borrowings under our mortgage loan warehouse facilities by $140.7 million.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

Contractual Obligations

We believe that we have adequate resources to fund all unfunded commitments to the extent required and meet all contractual obligations as they come due. At September 30, 2019, such contractual obligations were primarily comprised of secured and unsecured borrowings, interest payments, leases and commitments to originate or purchase loans, including equity draws on reverse mortgages. There were no material changes to the table of specified contractual obligations contained in our Annual Report on Form 10-K during the nine months ended September 30, 2019, other than changes related to our secured borrowings. During the nine months ended September 30, 2019, we (1) renewed our OFAF advance financing facility through June 5, 2020 and reduced the borrowing capacity from $65.0 million to $60.0 million, (2) renewed three existing mortgage loan warehouse facilities with combined borrowing capacity of $325.0 million for one year and terminated two facilities with a combined borrowing capacity of $250.0 million, entered into a new $300.0 million mortgage loan warehouse facility, entered into a new $300.0 MSR financing facility and amended the SSTL to provide an additional term loan of $120.0 million subject to the same maturity and interest rate terms of existing borrowings under the SSTL. See Note 13 – Borrowings to the Unaudited Consolidated Financial Statements and “Liquidity and Capital Resources - Outlook” for additional information.

Our forecasting with respect to our ability to satisfy our contractual obligations requires management to use judgment and estimates and includes factors that may be beyond our control. Additionally, our business has been undergoing substantial change, which has magnified the uncertainties that are inherent in the forecasting process. 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 4 – Securitizations and Variable Interest Entities, Note 14 – Other Liabilities and Note 21 – Contingencies 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 4 – 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. See Note 15 – Derivative Financial Instruments and Hedging Activities to the Unaudited Consolidated Financial Statements for additional information.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our ability to measure and report our financial position and operating results is influenced by the need to estimate the impact or outcome of future events based on information available at the date of the financial statements. An accounting estimate is considered critical if it requires that management make assumptions about matters that were highly uncertain at the time the accounting estimate was made. If actual results differ from our judgments and assumptions, then it may have an adverse impact on the results of operations and cash flows. We have processes in place to monitor these judgments and assumptions, and management is required to review critical accounting policies and estimates with the Audit Committee of the Board of Directors. Our significant accounting policies and critical accounting estimates are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018 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 5 – Fair Value to the Unaudited Consolidated Financial Statements for the fair value hierarchy, descriptions of valuation methodologies used to measure significant assets and liabilities at fair value and details of the valuation models, key inputs to those models, and significant assumptions utilized. We follow the fair value hierarchy to prioritize the inputs utilized to measure fair value. We review and modify, as necessary, our fair value hierarchy classifications on a quarterly basis. As such, there may be reclassifications between hierarchy levels.

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

	September 30, 2019	December 31, 2018
Loans held for sale	$ 275,579	$ 242,622
Loans held for investment - Reverse mortgages	6,049,242	5,472,199
Loans held for investment - Restricted for securitization investors	24,445	26,520
MSRs	1,455,553	1,457,149
Derivative assets	5,861	4,552
Mortgage-backed securities	2,036	1,502
U.S. Treasury notes and corporate bonds	442	1,514
Assets at fair value	$ 7,813,158	$ 7,206,058
As a percentage of total assets	78%	77%
Financing liabilities		
HMBS-related borrowings	5,903,965	5,380,448
Financing liability - MSRs pledged	986,952	1,032,856
Financing liability - Owed to securitization investors	22,827	24,815
	6,913,744	6,438,119
Derivative liabilities	3,319	4,986
Liabilities at fair value	$ 6,917,063	$ 6,443,105
As a percentage of total liabilities	72%	73%
Assets at fair value using Level 3 inputs	$ 7,599,210	$ 7,024,145
As a percentage of assets at fair value	97%	97%
Liabilities at fair value using Level 3 inputs	$ 6,913,744	$ 6,438,119
As a percentage of liabilities at fair value	100%	100%

Assets at fair value using Level 3 inputs increased during the nine months ended September 30, 2019 primarily due to reverse mortgage originations. Liabilities at fair value using Level 3 inputs increased primarily in connection with reverse mortgage securitizations, which we account 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.

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 lending activities and obtain MSRs through asset acquisitions. For initial measurement, acquired and originated MSRs are initially measured at fair value. Subsequent to acquisition or origination, we elect to account for MSRs using either the amortization method or the fair value measurement method. Effective January 1, 2018, we elected fair value accounting for our MSRs previously accounted for using the amortization method, which included Agency MSRs and government-insured MSRs. Effective with this election, our entire portfolio of MSRs is accounted for using the fair value measurement method. This irrevocable election applies to all subsequently acquired or originated servicing assets and liabilities that have characteristics consistent with each of these classes.

The determination of the fair value of MSRs requires management judgment due to the number of assumptions that underlie the valuation. We estimate the fair value of our MSRs using a process based upon the use of independent third-party valuation experts and supported by commercially available discounted cash flow models and analysis of current market data.

The key assumptions used in the valuation of these MSRs include prepayment speeds, loan delinquency, cost to service and discount rates.

The following table provides the range of key assumptions and weighted average (expressed as a percentage of UPB) by class projected for the five-year period beginning September 30, 2019:

	Conventional	**Government-Insured**	**Non-Agency**
Prepayment speed			
Range	10.8% to 18.0%	11.1% to 22.2%	9.2% to 14.2%
Weighted average	14.8%	17.3%	12%
Delinquency			
Range	1.5% to 3.5%	7.2% to 16.8%	24.5% to 28.5%
Weighted average	2.1%	10.7%	27.3%
Cost to service			
Range	$69 to $77	$86 to $133	$246 to $278
Weighted average	$71	$105	$272
Discount rate	9.1%	10.2%	11.3%

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 amortization, 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

We record an allowance for losses on servicing advances through a charge to earnings to the extent that 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 incorporate a number of different factors, depending on the characteristics of the mortgage loan or pool, including, for example, the probable loan liquidation path, estimated time to a foreclosure sale, estimated costs of foreclosure action, estimated future property tax payments and the estimated value of the underlying property net of estimated carrying costs, commissions and closing costs. At September 30, 2019, the allowance for losses on servicing advances was $9.3 million, which represents 1% of the combined total balance of servicing advances and match funded advances.

We record an allowance for losses on receivables in our Servicing business 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 incurred losses and is maintained at a level that management considers adequate based upon continuing assessments of collectability, current trends, and historical loss experience. At September 30, 2019, the allowance for losses on receivables related to government-insured claims was $53.2 million, which represents 55% of the total balance of government-insured claims receivables.

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

In December 2017, the Securities and Exchange Commission Staff issued Staff Accounting Bulletin (SAB) 118 (as further clarified by FASB ASU 2018-05, Income Taxes (Topic 740): “Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118”), which provides guidance on accounting for the income tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date of December 22, 2017 for companies to complete the accounting under ASC 740, *Income Taxes*. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements and should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. We adopted the guidance of SAB 118 as of December 31, 2017. We finalized our provisional amounts under SAB 118 in the fourth quarter of 2018.

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, 2018 and 2017, 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, 2018 and 2017. 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 $46.3 million and $62.9 million on our U.S. deferred tax assets at December 31, 2018 and 2017, respectively, and a full valuation allowance of $21.3 million and $43.9 million on our USVI deferred tax assets at December 31, 2018 and 2017, 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 as measured under Section 382, and during 2018 we 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. This determination was made based on information available as of the date of our Form 10-K filing for the fiscal year ended December 31, 2018. 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 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, 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.

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 2019 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.

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/legal proceedings or rating agency decisions).

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.

RECENT ACCOUNTING DEVELOPMENTS

Recent Accounting Pronouncements

See Note 1 - Organization, Business Environment 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, the counterparties with whom we are permitted to enter into hedging transactions and our liquidity risk profile. See Note 15 – Derivative Financial Instruments and Hedging Activities to the Unaudited Consolidated Financial Statements for additional information regarding our use of derivatives.

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 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 10 — Rights to MSRs),
- 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. At September 30, 2019, our hedging strategy provides for a partial coverage of our net MSR portfolio exposure of approximately 30%. The changes in fair value of our hedging instruments may not offset the changes in fair value of our net MSR portfolio exposure attributable to interest rate changes due to the partial hedge coverage and other factors.

The following table illustrates the composition of our net MSR portfolio exposure at September 30, 2019 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 September 30, 2019**	**Hypothetical change in fair value due to 25 bps rate decrease**
Agency MSR - interest rate sensitive	$ 656.0	$ (54.7)
Less NRZ Agency MSR financing liability	(298.2)	29.8
Net Agency MSR exposure	$ 357.8	$ (24.9)
Asset value of HECM loans, net of HMBS-related liability	$ 145.3	$ 2.9
Loans HFS	207.6	1.2
Pipeline	4.8	(0.1)
Net MSR portfolio exposure (sum of the above)		$ (20.9)
Hypothetical 30% offset by hedging instruments		6.3
Hypothetical residual exposure to changes in interest rates		$ (14.6)

We use forward trades of MBS or Agency TBAs with different banking counterparties as hedging instruments that 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 unaudited consolidated statements of operations.

The TBAs 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 qualify as sales and are accounted for as secured financings. 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 unaudited consolidated statements of operations.

Loans Held for Sale, Loans Held for Investment and IRLCs

In our lending 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.

Loans Held for Investment and HMBS-related Borrowings

We elected fair value accounting for the entire reverse mortgage HECM loan portfolio, which is held for investment, together with the HMBS-related borrowings. The fair value of our HECM loan portfolio decreases as market rates rise and increases as market rates fall. As our HECM 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 asset value for securitized HECM loans, net of the corresponding HMBS-related borrowings for securitized loans is comprised of net servicing income on the existing securitized HECM portfolio which we have not previously hedged, but which acts 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.

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 5 – Fair Value to the Unaudited Consolidated Financial Statements for additional information regarding fair value of financial instruments.

	September 30, 2019		December 31, 2018	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Rate-Sensitive Assets:				
Interest-earning cash	$ 319,549	$ 319,549	$ 266,235	$ 266,235
Loans held for sale, at fair value	207,645	207,645	176,525	176,525
Loans held for sale, at lower of cost or fair value(1)	67,934	67,934	66,097	66,097
Loans held for investment, at fair value	6,049,242	6,049,242	5,472,199	5,472,199
U.S. Treasury notes	—	—	1,064	1,064
Debt service accounts and time deposits	17,418	17,418	27,964	27,964
Total rate-sensitive assets	$ 6,661,788	$ 6,661,788	$ 6,010,084	$ 6,010,084
Rate-Sensitive Liabilities:				
Match funded liabilities	$ 687,497	$ 688,038	$ 778,284	$ 776,485
HMBS-related borrowings, at fair value	5,903,965	5,903,965	5,380,448	5,380,448
SSTL and other secured borrowings (2)	708,929	708,665	382,538	383,162
Senior notes (2)	310,788	258,114	448,727	426,147
Total rate-sensitive liabilities	$ 7,611,179	$ 7,558,782	$ 6,989,997	$ 6,966,242

	September 30, 2019		December 31, 2018	
	Notional Balance	Fair Value	Notional Balance	Fair Value
Rate-Sensitive Derivative Financial Instruments:				
Derivative assets (liabilities):				
Interest rate caps	$ 57,083	$ —	$ 260,000	$ 678
IRLCs	173,616	4,781	150,175	3,871
Forward trades	9,763	(3,126)	165,363	(4,983)
TBA / Forward MBS trades	700,000	887	—	—
Derivatives, net		$ 2,542		$ (434)

(1) Net of market valuation allowances and including non-performing loans.
(2) Carrying values are net of unamortized debt issuance costs and discount.

Sensitivity Analysis

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

The following table summarizes the estimated change in the fair value of our MSRs, HECM loans held for investment and loans held for sale that we have elected to carry at fair value as well as any related derivatives at September 30, 2019, given hypothetical instantaneous parallel shifts in the yield curve. We used September 30, 2019 market rates to perform the sensitivity analysis. The estimates are based on the market 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
HECM loans held for investment	$ 2.9	$ (2.8)
Loans held for sale	1.2	(1.4)
TBA / Forward MBS trades	5.1	4.7
Total loans held for sale and related derivatives	9.2	0.5
MSRs (1)	(54.7)	55.5
MSRs, embedded in pipeline	(0.1)	0.1
Total MSRs	(54.8)	55.6
Total, net	$ (45.6)	$ 56.1

(1) Primarily reflects the impact of market 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 interest expense. Approximately 48% of the above change in fair value would be offset by interest expense on the NRZ financing liabilities.

Borrowings

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

Based on September 30, 2019 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 $12.0 million resulting from an increase of $23.9 million in annual interest income and an increase of $11.9 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 September 30, 2019.

Based on such evaluation, management concluded that our disclosure controls and procedures as of September 30, 2019 were (1) designed and functioning effectively to ensure that material information relating to Ocwen, including its consolidated subsidiaries, is made known to our principal executive officer and principal financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) operating effectively in that they provided reasonable assurance that information required to be disclosed by Ocwen in the reports that it files or submits under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to management, including our principal executive officer or principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There have not been any changes in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2019 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, 2018. Understanding these risks is important to understanding any statement in such Annual Report 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 above 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 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.
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.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

(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: November 5, 2019

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: November 5, 2019	/s/ Glen A. Messina
	Glen A. Messina, President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, June C. Campbell, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Ocwen Financial Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and the other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(f) and 15d—15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

/s/ June C. Campbell

June C. Campbell, Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATIONS

I, Glen A. Messina, state and attest that:

(1) I am the principal executive officer of Ocwen Financial Corporation (the Registrant).

(2) I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that

- the Quarterly Report on Form 10-Q of the Registrant for the quarter ended September 30, 2019 (the periodic report) containing financial statements fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

- the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name:	/s/ Glen A. Messina
Title:	President and Chief Executive Officer
Date:	November 5, 2019

EXHIBIT 32.2

CERTIFICATIONS

I, June C. Campbell, state and attest that:

(1) I am the principal financial officer of Ocwen Financial Corporation (the Registrant).

(2) I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that

- the Quarterly Report on Form 10-Q of the Registrant for the quarter ended September 30, 2019 (the periodic report) containing financial statements fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

- the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name:	/s/ June C. Campbell
Title:	Executive Vice President and Chief Financial Officer
Date:	November 5, 2019