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

FORM 10-K

(Mark one)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from: ______________ to ______________

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION
(Exact name of Registrant as specified in our charter)

| | |
|---|---|
| Florida | 65-0039856 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 1675 Palm Beach Lakes Boulevard West Palm Beach, Florida | 33401 |
| (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:

| | |
|---|---|
| Common Stock, $.01 par value | New York Stock Exchange (NYSE) |
| (Title of each class) | (Name of each exchange on which registered) |

Securities registered pursuant to Section 12 (g) of the Act: Not applicable.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

Aggregate market value of the Common Stock, $.01 par value, held by nonaffiliates of the registrant, computed by reference to the closing price as reported on the NYSE as of the close of business on March 10, 2004: $384,071,251 (for purposes of this calculation affiliates include only directors and executive officers of the registrant).

Number of shares of Common Stock, $.01 par value, outstanding as of March 10, 2004: 67,960,607 shares

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Annual Report to Shareholders for fiscal year ended December 31, 2003 are incorporated by reference into Part I, Item 1 and Part II, Items 5-8 and portions of our definitive Proxy Statement with respect to our Annual Meeting of Shareholders to be held on May 18, 2004, are incorporated by reference into Part III, Items 10-12 and 14.

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FORWARD-LOOKING STATEMENTS

This Annual 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, including, but not limited to the following:

- Estimates regarding the benefits of cost saving opportunities and quality workforce in India,
- Projections for staff reduction in the United States and growth in our India workforce,
- Predictions as to the potential business opportunities in business process outsourcing,
- Predictions regarding sales of our commercial and affordable housing assets and
- Intentions related to the issuance of brokered deposits and other sources of financing.

Forward-looking statements are not guarantees of future performance and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially. Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, but are not limited to, the following:

- General economic and market conditions,
- Prevailing interest or currency exchange rates,
- Availability of servicing rights for purchase,
- Governmental regulations and policies,
- International political and economic uncertainty,
- Availability of adequate and timely sources of liquidity,
- Uncertainty related to dispute resolution and litigation and
- Real estate market conditions and trends.

Further information on the risks specific to our business are detailed within this report and our other reports and filings with the Securities and Exchange Commission, including our periodic reports on Form 10-K, Form 10-Q and Form 8-K. The forward-looking statements speak only as of the date they are made and should not be relied upon. OCN undertakes no obligation to update or revise the forward-looking statements.

PART I

## ITEM 1 BUSINESS (Dollars in thousands)

### GENERAL

Ocwen Financial Corporation ("OCN" or "the Company") is a financial services company headquartered in West Palm Beach, Florida. OCN is a Florida corporation that was organized in February 1988 in connection with the acquisition of Ocwen Federal Bank FSB (the "Bank"). OCN is a registered savings and loan holding company subject to regulation by the Office of Thrift Supervision ("OTS"). The Bank is a wholly owned subsidiary of OCN and is also subject to regulation by the OTS, as its chartering authority, and by the Federal Deposit Insurance Corporation ("FDIC"), as a result of its membership in the Savings Association Insurance Fund, which insures the Bank's deposits to the maximum extent permitted by law. The Bank is also subject to regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Board") and currently is a member of the Federal Home Loan Bank ("FHLB") of New York, one of the 12 regional banks that comprise the FHLB System.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are made available free of charge through our website (http://www.ocwen.com) as soon as practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Also posted on our website, and available in print upon request, are the charters for our Audit Committee, Compensation Committee and Governance Committee, our Governance Guidelines, Code of Ethics and Code of Ethics for Senior Financial Officers. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to or waiver of the Code of Ethics for Senior Financial Officers, as well as any amendment to the Code of Ethics or waiver thereto applicable to any executive officer or director. The information provided on our website is not part of this report, and is therefore not incorporated herein by reference.

### SEGMENTS

In early 2000, we began the execution of our strategic plan to shift our business activities away from capital-intensive businesses involving the purchase or origination of loans, real estate and related assets toward less capital-intensive businesses that generate fee-based revenues. As a result, we generally ceased to originate or invest in assets in certain of our business segments ("non-core businesses") unless contractually committed to do so. However, we continue to actively manage and resolve the remaining assets in these segments. Our primary fee-based business activity is servicing subprime residential mortgage loans for others. As of December 31, 2003, our core and non-core businesses were as follows:

| Core Businesses | Non-Core Businesses |
|---|---|
| Residential Loan Servicing | Commercial Finance |
| Ocwen Technology Xchange ("OTX") | Affordable Housing |
| Ocwen Realty Advisors ("ORA") | Subprime Finance |
| Unsecured Collections | |
| Business Process Outsourcing | |
| International Operations | |

In addition to our core and non-core business segments, we report other items of revenue and expense in our Corporate Items and Other segment as discussed later in this section.

Our decision to change our strategy and to focus on fee-based earnings was driven by changes in the economy and in the markets we serve and in our perception of how to maximize the long-term value of the Company. The non-core residential discount loan business and commercial finance business involved the acquisition of non-performing loans at a discount to par value. The objective was to resolve the loan and return it to performing status in order to increase its value. Once the loan was reperforming, the exit strategy was to sell or securitize the loan for a profit. As the economy continued to expand throughout the late 1990's, however, the supply of non-performing loans decreased. As a result, the prices asked for non-performing loans increased, and consequently the profit margins on the business decreased. Additionally, the earnings patterns of the businesses could be erratic as they typically depended on the consummation of a few large sales transactions. Simultaneously, new competitors that had access to large amounts of capital were entering the market.

In the late 1990's we also began to originate subprime residential mortgage loans. However, the business attracted a substantial amount of new capital and competition increased. The competition from larger, better-capitalized companies put pressure on pricing relative to the rates and terms offered to subprime borrowers in general, and, as a result, profit margins declined. Simultaneously, interest rates began to decrease and the assumptions concerning prepayment speeds that had been used to price new loans turned out to be overly optimistic as mortgages prepaid more quickly than expected, adding additional risk to investments in this business line.

Consequently, we determined that our best course of action was to compete where we were strongest, that is, by using the technology and expertise we had developed over the years in managing our own portfolio of non-performing residential and commercial loans and in servicing our own subprime loans and offering it to other institutions on a fee for service basis, either as a mortgage servicer or as a technology provider. We believe that these activities offer a more consistent earnings stream with a more attractive risk profile. Accordingly, in late 1999 and early 2000 we embarked on our current business strategy.

Segment results in recent years reflect growth in our residential loan servicing segment, continued investment in the development and marketing of our technology products, cessation of loan acquisition and origination activities and our continuing resolution or disposition of those assets not associated with our core businesses. To date, the Residential Loan Servicing business has been profitable. Our Unsecured Collections business and ORA are profitable but smaller contributors to the bottom line. Both earn fee income for performing services for third parties. OTX markets several products to the real estate and mortgage industries. However, although we earn some fee income from sales of these products, they have not yet been sufficient for this business line to earn a profit. Business Process Outsourcing, which began offering business process outsourcing services late in 2002, was profitable for 2003. International Operations were not profitable in 2003, reflecting start-up costs associated with expanding our asset servicing business to various other countries. Additional information regarding profitability of our business segments appears under the caption "Segment Profitability" on pages 19 to 25 and in "Note 25: Business Segment Reporting" on pages 109 to 111 of our 2003 Annual Report to Shareholders.

A more detailed description of each of our business segments follows.

## Residential Loan Servicing

We acquire the servicing rights to performing, sub-performing and non-performing mortgage loans. At December 31, 2003, subprime mortgages represented approximately 93% of the total unpaid principal balance of the loans we serviced. We are entitled to service the mortgages because we purchased the servicing rights from the owners of the mortgages. These rights are typically specified in an agreement between the various parties to a mortgage securitization transaction, along with the obligations that we are required to perform as the mortgage servicer. Our largest source of revenue is the servicing fees we earn pursuant to the servicing agreements. Servicing fees are usually earned as a percentage of the unpaid principal amount of the mortgages that are being serviced. Typically, this fee is approximately 0.50% per year. The servicing fees are supplemented by related income, including late fees earned from borrowers who are delinquent in remitting their monthly mortgage payments. As servicer, we also have a variety of obligations that are also specified in the servicing agreement, including the obligation to service the mortgages according to accepted standards and to make advances to the securitization trust in the event that the borrowers are delinquent on their monthly remittances. The costs incurred in connection with performing these obligations includes the cost of servicing the loans and the interest expense incurred to finance the servicing rights and servicing advances incurred in connection with conducting the business, among others.

The servicing rights may be obtained by purchasing the mortgage servicing rights or entering into contracts to sub-service mortgage loans. The contracts may provide for a single bulk transfer of a servicing portfolio or the ongoing transfer of loans as they are originated or purchased by counterparties to the servicing contract. While the loans are transferred to us for servicing, the client retains ownership of the loans. The acquisition of servicing rights is generally structured as a two-part bid process. A preliminary bid is provided to each potential client following a preliminary due diligence review of the loan portfolio, the seller's financial status, the strategic fit of the portfolio with our servicing capabilities and the portfolio's historical performance characteristics.

Once the preliminary bid is accepted by the potential client, we initiate a further evaluation of the portfolio through a formal due diligence process, which includes a more detailed analysis of historical prepayment and delinquency experience. This formal process determines the present value of a projected stream of cash inflows and outflows from the portfolio. Based upon the findings of this formal process, a final bid is prepared for approval by our Credit Committee and submitted to the client for consideration. Upon the client's acceptance, we enter into a Servicing Rights Purchase Agreement.

The Servicing Rights Purchase Agreement provides us with the legal right to service the designated mortgage loans. This agreement specifies the rights and obligations of both parties including, but not limited to, the use of custodial bank accounts, maintenance of hazard insurance and tax escrow funds and fund distribution processes, as well as the servicing fees and other terms of the servicing arrangement.

As of December 31, 2003, we serviced loans under approximately 420 servicing agreements for 22 clients.

The U.S. Department of Housing and Urban Development, Freddie Mac and Fannie Mae have approved the Bank as a loan servicer. Standard & Poor's has rated the Bank as "Strong" as a Residential Subprime Servicer, Residential Special Servicer and Commercial Special Servicer. "Strong" represents Standard & Poor's highest ratings category. Moody's Investors Service has rated the Bank as "SQ2" as a Residential Subprime Servicer and as a Residential Special Servicer. "SQ2" represents Moody's Investors Services above average rating category. Fitch Ratings has rated the Bank "RPS2" for Residential Subprime Servicing, "RSS2" for Residential Special Servicing and "CSS2" for Commercial Special Servicing. These represent Fitch's second highest categories, respectively.

We continue to grow and develop our residential servicing business as part of our change in strategic focus from capital intensive to fee-based businesses. As a result, we have seen steady growth in the average unpaid principal balance of residential loans we service for others from $8,802,444 during 1999 to $33,589,509 during 2003.

Ocwen Technology Xchange (OTX)

The OTX segment consists of the following three product lines: REALTransSM, REALServicingTM and REALSynergyTM. Each of these product lines serves a different market need, and each is at a different stage of maturity and commercial use.

On January 20, 1998, we acquired DTS Communications, Inc. ("DTS"), a real estate technology company located in San Diego, California. The acquisition was accounted for as a purchase. DTS developed technology tools to automate real estate transactions. Our acquisition of DTS and its product served as the basis for the REALTrans system. Our REALTrans product is a web-based vendor management platform that facilitates the electronic fulfillment of real estate products and services necessary to process, approve and close residential mortgage loans, as well as to service them. We market this product to residential lenders and servicers and their associated vendors. By connecting these two parties with the REALTrans platform, we allow them to conduct business more effectively and efficiently. We earn transaction fee revenues from the vendors based on the products and services they provide to their lenders through this platform. We also earn revenues through annual membership fees. The transaction fees are recognized as revenue as incurred. The membership fees are deferred and recognized as revenue over the twelve-month membership period.

Among our customer base on the REALTrans platform are several of the top 35 residential mortgage lenders and over 4,000 vendors. These lenders account for a significant portion of the mortgage origination market. While we estimate that the eventual market opportunity for the REALTrans platform is between $500,000 and $1,000,000, the market is currently in an early stage of adopting this technology. Our primary competitor to this product line is a division of a company that offers proprietary vendor management products.

On November 6, 1997, we acquired AMOS, Inc. ("AMOS"), a Connecticut-based company engaged primarily in the development of residential mortgage loan servicing software. The acquisition was accounted for as a purchase. AMOS is a wholly-owned subsidiary of OTX. Our acquisition of AMOS and its products became the basis for the REALServicing software. Our REALServicing product is a comprehensive enterprise level residential mortgage loan servicing platform, which has been used by the Bank since January 2001. The REALServicing product suite also includes REALResolutionTM, a default management platform that provides end-to-end mortgage default processing support. The target market for this platform includes both prime and sub-prime residential mortgage loan servicers. We believe the market opportunity for our REALServicing and REALResolution products is between $500,000 and $1,000,000. While a single firm currently possesses nearly a 60% share of this market, a modest market share would enable us to achieve profitability and sustain growth. Our policy is to recognize licensing fees related to our REALServicing product as revenue ratably over the life of the related licensing agreement.

On June 2, 1999, we acquired the assets of Synergy Software, LLC ("Synergy"), a developer of commercial and multifamily mortgage servicing systems. The acquisition of Synergy's product was the basis for the REALSynergy software. Our REALSynergy product is a comprehensive enterprise level commercial mortgage loan servicing platform. The target market for this platform includes domestic and international commercial mortgage loan servicers. The market in which REALSynergy competes is served by a limited number of companies. Our primary competitor is a division of a large, diversified public company. The REALSynergy product suite includes REALSAMMTM, the REALSynergy Asset Management Module, a web-enabled platform for the asset and default management of performing and non-performing commercial loans and real estate. REALSAMM is being introduced to selected international markets through a joint venture with Merrill Lynch. We recognize licensing fees related to our REALSynergy product as revenue ratably over the life of the related licensing agreements.

The losses incurred by OTX to date reflect our continuing efforts to develop and market our suite of technology solutions.

## Ocwen Realty Advisors (ORA)

As part of our strategic focus on fee-based businesses, we established ORA in 1999 as a new division. ORA provides valuation services to external customers in the wholesale lending community as well as for our own residential real estate transactions.

An important part of the process of acquiring and managing mortgage loan portfolios is the accurate review and analysis of the collateral offered as security for the loans. ORA not only provides traditional valuation products such as appraisals and broker price opinions, it also employs valuation models and other alternative valuation products that can more precisely meet the specific risk management needs of our customers.

## Unsecured Collections

This segment conducts collection activities for third party owners of unsecured receivables and for a portfolio of unsecured credit card receivables that we acquired at a discount in 1999 and 2000.

On collections for third party owners, we generally earn a fee based upon a percentage of the dollars collected. The percentage fee generally ranges from 17% to 50%. We intend to continue to grow our third party collections activity.

We accounted for collections of our unsecured credit card receivables under the cost recovery method through 2001 when we had reduced the net book value of these receivables to zero as a result of collections and reserves. Our contractual obligations to acquire these receivables expired in June 2000. We have made no purchases since that time and plan no future purchases.

## Business Process Outsourcing

This business segment began operations in December 2002. The results for 2003 primarily reflect the initiation of new outsourcing contracts in the third quarter. Business Process Outsourcing provides outsourcing services to third parties and leverages the operational capacity of our facilities in India.

## International Operations

This segment is being reported as a core business segment for the first time in 2003 and primarily represents the results of operations of Global Servicing Solutions, LLC ("GSS"). GSS is a joint servicing venture we formed with Merrill Lynch in March 2002 for the servicing of assets in various countries. We own 70% of GSS with the remaining 30% owned by Merrill Lynch. GSS offices in Tokyo, Japan and Taipei, Taiwan became fully operational during 2003. We are also in the process of establishing operations in London, England and Beijing, China, and are exploring additional international opportunities in Germany. Results for 2002 primarily reflect a one-time consulting project for the government of Jamaica as well as other precedent ventures, now concluded.

## Residential Discount Loans

This segment consisted of operations to acquire at a discount and subsequently resolve sub-performing and non-performing residential mortgage loans.

We began our discount loan operations in 1991. Our strategy was to acquire at a discount certain mortgage loans for which the borrowers were not current as to principal and interest payments. We would work to resolve the loans by bringing them current and then selling or securitizing the loans for a profit, by structuring a settlement with the borrower or by foreclosing on the loan and liquidating the collateral.

The last acquisition of residential discount loans was made in 2000. Based on the relative insignificance of the non-core assets remaining in this business at December 31, 2002, the remaining assets of this business and any related income or loss arising from their resolution have been included in the Corporate Items and Other segment beginning January 1, 2003.

## Commercial Finance

Effective January 1, 2002, we combined our Commercial Loan and Commercial Real Estate segments, because the assets in each had fundamentally similar attributes and had been assigned to a single management team. Commercial finance activities include both discount loans and originated loans as well as our investment in commercial real estate.

No new commercial assets have been purchased since 2000. Since then, this business has consisted of the management, repositioning and resolution of the remaining non-core assets. At December 31, 2003, we had $126,401 of non-core assets, which consisted of nine loan and real estate assets and one unrated subordinate security. Of the nine loans and real estate assets remaining in this segment at December 31, 2003, the three largest amounted to 74% of the total. Because of the concentration of value in these assets, it is difficult to project with certainty when final sales or resolutions will be completed or whether further losses may be incurred upon resolution. While we believe that additional sales will occur during 2004, it is probable that some of the larger properties will not be sold until 2005 or later. We regularly assess the value of our remaining assets and provide additional loss reserves or impairment charges as appropriate.

We entered the commercial real estate business largely as a result of our acquisition of OAC in 1999. At December 31, 2003, only two properties remain: one shopping center and one office building. The office building, which had a carrying value of $37,533 at December 31, 2003, was sold in January 2004 for proceeds that approximated carrying value. We also issued a loan in the amount of $15,248 to the buyer to facilitate this sale.

## Affordable Housing

Historically, we invested in affordable housing properties primarily through limited partnerships for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Internal Revenue Code of 1986, as amended.

Beginning in 2000 we ceased making investments in these properties, except to complete those projects in which an investment had already been made. This reflects our change in strategic focus away from capital intensive lines of business and the fact that the volume of tax credits being generated was exceeding our ability to utilize them effectively. At that time, we also began the process of marketing each of these properties for sale. At December 31, 2003, we had $7,410 of investments in affordable housing properties remaining, plus an additional $6,545 of loans outstanding to limited partnerships in which we have invested but which are not consolidated into our financial statements. While we cannot project sales with certainty, we believe that it is possible that the remaining properties will be sold before the end of 2004 and that new sources of financing will be established to repay the remaining loan balances.

We regularly assess the carrying value of our remaining assets and provide additional loss reserves as appropriate. At December 31, 2003, we had recorded reserves equal to approximately 55% of the gross book value of the assets.

Tax credits may be claimed over a ten-year period on a straight-line basis once the underlying multi-family residential properties are placed in service. Tax credits generally can be lost or recaptured only if non-qualifying tenants are placed in units, ownership of the project is transferred or the project is destroyed and not rebuilt during a 15-year compliance period for the project. There can be no assurance that the multi-family residential projects owned by the low-income housing tax credit partnerships in which we have currently or previously invested will satisfy applicable criteria during the 15-year compliance period and that there will not be loss or recapture of a portion of the associated tax credits.

## Subprime Finance

We were engaged in subprime residential loan origination prior to ceasing originations in August of 1999; however, we have continued to manage and resolve the remaining non-core assets. Effective January 2002, the remaining business was renamed Subprime Finance from Subprime Residential Lending to better depict the current nature of the business activity. The remaining assets of this segment consist primarily of subprime residual securities. These securities are presently generating income and return of principal through cash flows.

## Corporate Items and Other

In this segment we report business activities that are individually insignificant, interest income on short term investments in cash and the related costs of financing these investments, certain technology and other corporate expenses, gains and losses from the early retirement of debt and the amortization of negative goodwill recorded in connection with our acquisition of OAC.

Additional financial information and related discussion regarding each of our segments appears under the captions "Segment Profitability" on pages 19 to 25 and "Note 25: Business Segment Reporting" on pages 109 to 111 of our 2003 Annual Report to Shareholders.

SOURCES OF FUNDS

General. The principal sources of funds that support our business activities are:

- Deposits
- Lines of credit and other secured borrowings
- Match funded debt
- Securities sold under agreements to repurchase
- Payments received on loans and securities
- Proceeds from sales of assets
- Servicing fees

We closely monitor our liquidity position and ongoing funding requirements. Among the risks and challenges associated with our funding activities are the following:

- Scheduled maturities of all certificates of deposit for 2004, 2005 and thereafter amount to $272,305, $112,830 and $36,522, respectively.
- Maturity of existing collateralized lines of credit and other secured borrowings totaling $127,149 at various dates through 2004.
- Potential extension of resolution and sale timelines for non-core assets.
- Ongoing cash requirements to fund operations of our holding company.
- Cash requirements to fund our acquisition of additional servicing rights and related advances, as discussed immediately below.

In the last several years, our Residential Loan Servicing business has grown through the purchase of servicing rights. Servicing rights entitle the owner to earn servicing fees and other types of ancillary income and impose various obligations on the servicer. Among these are the obligation to advance our own funds to meet contractual principal and interest payments for certain investors and to pay taxes, insurance and various other items that are required to preserve the assets being serviced.

Our ability to continue to expand our servicing business depends in part on our ability to obtain additional financing to purchase new servicing rights and to fund servicing advances. We currently use a variety of sources of debt to finance these assets, including deposits, credit facilities and seller financing. Our credit facilities provide financing to us at amounts that are less than the full value of the related servicing assets that serve as collateral for the credit facilities. If we cannot replace or renew these sources as they mature or obtain additional sources of financing, we may unable to acquire new servicing rights and make the associated advances.

Deposits. Historically, a significant source of deposits for us had been certificates of deposit obtained primarily through national investment banking firms that, pursuant to agreements with us, solicit funds from their customers for deposit with the Bank ("brokered deposits"). Our brokered deposits, which amounted to $84,328 at December 31, 2003, are reported net of unamortized deferred fees that have been paid to investment banking firms. We have not issued any new brokered certificates of deposit since 2000.

We plan to retain non-brokered deposits as a source of financing our operations while at the same time reducing our reliance on brokered deposits. We plan to reduce this reliance by using proceeds from the sale of non-core assets to pay off maturing brokered deposits and by diversifying our funding sources through obtaining credit facilities for servicing rights and advances. Our ability to continue to attract new non-brokered deposits and rollover existing non-brokered deposits depends largely on our ability to compete with interest rates offered by other banks in the northern New Jersey area. In 2003 and 2002, we were able to increase the amount of non-brokered deposits outstanding. If we are unable to maintain the amount of non-brokered deposits outstanding and replace them with alternative sources of funds, it is likely that we would have to incur higher interest costs to fund our assets.

We obtain deposits from our office located in New Jersey through advertising, walk-ins and other traditional means. These deposits include non-interest bearing checking accounts, NOW and money market checking accounts and savings accounts but are primarily comprised of non-brokered certificates of deposit. At December 31, 2003, the deposits that were originated from to this office amounted to $150,903 and comprised approximately 34% of our total deposits.

Lines of Credit and Other Secured Borrowings. In October 2003, we executed a revolving credit facility under which we have the right to borrow up to $100,000 secured by a pledge of servicing advances as collateral. At December 31, 2003, we had $9,386 outstanding under this facility, which matures in October 2004. Under a similar revolving credit facility executed in April 2001, we also had the right to pledge servicing advances as collateral for a loan up to $100,000. This facility was repaid subsequent to December 31, 2003 and will not be renewed upon maturity in March 2004. The outstanding balance as of December 31, 2003 was $68,548.

During 2003, we also entered into a number of other borrowings secured by real estate, trading securities and loan servicing assets. Additionally, we entered into an agreement for seller financing of purchased mortgage servicing rights. These actions are consistent with our commitment to reduce our reliance on brokered deposits and long-term debt as sources of financing for our operations.

Match Funded Debt. Under a match funding agreement that we entered into on December 20, 2001, we are eligible to sell advances on loans serviced for others up to a maximum debt balance of $200,000 at any one time. At December 31, 2003, we had $94,967 of bonds-match funded agreements outstanding under this facility, which originally matured in December 2003, but was extended with a maturity date of January 2006. The sales of advances do not qualify as sales for accounting purposes since we retained effective control of the advances. Therefore, we report them as secured borrowings with pledges of collateral.

Securities Sold Under Agreements to Repurchase. We also obtain funds pursuant to securities sold under reverse repurchase agreements. Under these agreements, we sell securities (generally mortgage-backed and mortgage-related securities) under an agreement to repurchase such securities at a specified price at a later date. Reverse repurchase agreements have short-term maturities (typically 90 days or less) and are deemed to be financing transactions. All securities underlying reverse repurchase agreements are reflected as assets in our consolidated financial statements and are held in safekeeping by broker-dealers. We had no securities sold under agreements to repurchase at December 31, 2003.

Other. Our long-term debt at December 31, 2003 consisted of 10.875% Capital Securities due in 2027 with an outstanding balance of $56,249. On September 30, 2003 we exercised our redemption option and called the remaining $33,065 of 12% Subordinated Debentures. Our remaining $43,475 balance of 11.875% notes matured on October 1, 2003 and was repaid. Additional information on our sources of funds appears under the captions "Liquidity, Commitments and Off-Balance Sheet Risks" on pages 62 to 64, "Deposits" on pages 53 to 54, "Note 11: Deposits" on page 95 to 96, "Note 13: Bonds - Match Funded Agreements" on pages 96 to 97, "Note 14: Lines of Credit and Other Secured Borrowings" on pages 97 to 98, "Risks Related to Financing" on page 16 and "Note 15: Notes and Debentures" on pages 98 to 99 of the 2003 Annual Report to Shareholders and is incorporated herein by reference.

## RISK FACTORS

There are a number of risk factors that relate to our business and that may directly or indirectly affect our results of operations and financial condition. A discussion of our principal risk factors appears under the caption "Overview of Risks and Related Critical Accounting Policies" on pages 14 to 18 of our 2003 Annual Report to Shareholders and is incorporated herein.

## COMPETITION

A discussion of competition as it relates to our primary core businesses appears under the captions "Risk Related to Mortgage Servicing Rights" and "Risks Associated With Technology" on page 16 and pages 16 to 17, respectively, of our 2003 Annual Report to Shareholders and is incorporated herein by reference.

## SUBSIDIARIES

A list of our significant subsidiaries is set forth in Exhibit 21.0.

## EMPLOYEES

As of December 31, 2003, we had a total of 2,472 employees, of which 1,043 were in our United States facilities and 1,429 were in our India operations centers. We have developed our India operations centers over the past three years in order to benefit from the cost savings opportunities and quality workforce available in that country.

In the United States, our operations are concentrated in our headquarters in West Palm Beach, which had 413 employees as of December 31, 2003, and our operations center in Orlando, which had 614 staff members as of the same date. Our Orlando facility has the capacity to house 950 employees on a single shift. In addition, we had 8 employees at various other locations in the United States. At this time, we estimate that we will experience a modest reduction of our staff in the United States during 2004.

In India, our operations are located in the cities of Bangalore and Mumbai. Of the 1,429 members of the staff in India as of December 31, 2003, 699 were in Bangalore and 730 were in Mumbai. Our India workforce can be summarized by business as follows:

- 57% are engaged in activities for our Residential Loan Servicing business,
- 14% support Business Process Outsourcing,
- 10% support OTX and Technology Services,
- 13% work in various other business units and
- 6% represent various support functions, including Human Resources and Corporate Services, Accounting and Risk Management.

We project additional growth in our India staff during 2004. The extent of this growth is dependent upon the growth of several of our new business initiatives, primarily Business Process Outsourcing.

Our employees are not represented by a collective bargaining agreement. We consider our employee relations to be satisfactory.

## REGULATION

Financial institutions and their holding companies are extensively regulated under federal and state laws. The Bank is regulated and examined primarily by the Office of Thrift Supervision, which has substantial enforcement authority over the Bank. Because the Bank accepts deposits that are insured by the Federal Deposit Insurance Corporation, the FDIC serves as a secondary federal banking regulator of the Bank. As such, it also has substantial enforcement authority over the Bank. These Federal banking regulators have the ability to assess civil monetary penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions for violations of laws and regulations and unsafe or unsound practices. As a result, our business can be materially affected by changes in our regulatory environment.

### The Holding Company

Savings and Loan Holding Company. We are a registered savings and loan holding company under the Home Owners' Loan Act ("HOLA"). As such, we have registered with the OTS and are subject to regulation, supervision and examination by the OTS. We are required to file periodic reports with the OTS on our business and activities. The OTS has the authority to review our activities and determine if any activity constitutes a serious risk to the financial soundness, safety, or stability of the Bank. If the OTS makes a determination that these risks exist, the OTS may place restrictions on our activities or the activities of our subsidiaries or affiliates. These restrictions may impact the ability of the Bank to pay dividends, to engage in transactions with us or our subsidiaries or affiliates and to engage in other banking activities.

Restrictions on Acquisitions. Savings and loan holding companies and their affiliates are prohibited from acquiring more than 5% of the voting shares, or from acquiring control, of any other savings association or savings and loan holding company, without prior approval of the OTS.

### The Bank

General. The Bank is a federal savings bank organized under the HOLA. The Bank is subject to regulation, supervision and examination by the OTS and by the FDIC. The business and activities of the Bank are reported in periodic filings with the OTS. Regulations apply to, among other things, insurance of deposit accounts, capital requirements, payment of dividends, the nature and amount of the investments that the Bank may make, transactions with affiliates, community reinvestment, lending, internal policies and controls and changes in control of the Bank as well as subsidiaries established by the Bank.

FDIC. The FDIC may terminate the deposit insurance of the Bank if the Bank engages in unsafe or unsound practices, is in an unsafe or unsound condition or has violated any applicable law, regulation, rule, order or condition imposed by the OTS or the FDIC. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. We are aware of no existing circumstances that would result in termination of the Bank's deposit insurance.

Regulatory Capital Requirements. Federal savings banks are subject to minimum capital requirements set forth by the OTS. The three capital requirements applicable to the Bank are discussed below.

Tangible Capital Requirement. Tangible capital is core capital less all intangibles other than qualifying mortgage servicing rights. Federal savings banks are required to maintain tangible capital of at least 1.5% of their adjusted total assets.

Core Capital Requirement. Core capital includes common stockholders' equity, non-cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries and certain non-withdrawable accounts and pledged deposits. Deductions from core capital include certain intangibles, disallowed servicing assets and disallowed deferred tax assets.

Risk-Based Capital Requirement. A savings bank is allowed to include both core capital and supplementary capital in the calculation of its total capital for purposes of the risk-based capital requirements, provided that the amount of supplementary capital included does not exceed the savings bank's core capital. Supplementary capital consists of certain capital instruments that do not qualify as core capital, including subordinated debt that meets specified requirements and loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. In determining the required amount of risk-based capital, total assets, as well as residual interests (including certain off-balance sheet items that are converted to on-balance sheet credit equivalents using a conversion factor of 0% to 100%), are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights assigned by the OTS for principal categories of assets currently range from 0% to 200%, depending on the type of asset. Deductions from risk-based capital include real estate acquired in satisfaction of a debt and held in excess of five years.

Following an examination by the OTS in late 1996 and early 1997, the Bank committed to the OTS to maintain a core capital ratio and a total risk-based capital ratio of at least 9% and 13%, respectively. The Bank continues to be in compliance with this commitment.

Prompt Corrective Action. Federal banking regulators have the authority to take "prompt corrective action" to resolve the problems of undercapitalized institutions. The regulations establish five categories with varying degrees of regulators' powers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." At December 31, 2003, the Bank was a "well capitalized" institution under the prompt corrective action regulations of the OTS; however, this classification is for limited purposes and may not be indicative of the Bank's financial condition. The regulations also permit the appropriate Federal banking regulator to downgrade an institution to the next lower category under certain circumstances. Depending upon the capital category of an institution, the regulators' corrective powers may affect capital and stock distributions, limits on asset growth, acquisitions and new lines of business, transactions with affiliates, the ability to accept brokered deposits and changes in officers and directors, among other things.

Qualified Thrift Lender Test. The Bank is required to meet the qualified thrift lender ("QTL") test set forth in the HOLA to avoid certain restrictions on their operations. Under the QTL test provisions, a savings institution must maintain at least 65% of portfolio assets in qualified thrift investments, which generally include loans, securities and other investments that are related to housing, small business and credit card lending. A savings bank that does not meet the QTL test must either convert to a bank charter or comply with the following restrictions on its operations:

- The association may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank,
- The branching powers of the association shall be restricted to those of a national bank; and
- Payment of dividends by the association shall be subject to the rules regarding payment of dividends by a national bank.

The Bank is currently and expects to remain in compliance with QTL standards.

Restrictions on Capital Distributions. The Bank is required to file a notice with the OTS at least 30 days prior to paying a dividend, or making any payment to repurchase, redeem, retire or otherwise acquire debt instruments included in total risk-based capital (each a "capital distribution") if (a) it is not eligible for expedited treatment under the OTS application processing regulations, (b) the total amount of the Bank's capital distributions (including the proposed distribution) for the calendar year exceeds the Bank's net income for the year to date plus retained net income for the previous two years, (c) the Bank would not be "adequately capitalized" following the proposed capital distribution or (d) the proposed capital distribution would violate any applicable statute, regulation, or an agreement between the Bank and the OTS, or a condition imposed upon the Bank by an OTS-approved application or notice. The OTS may deny the Bank's application or disapprove the Bank's notice if the OTS determines that (a) the Bank will be "undercapitalized," "significantly undercapitalized" or "critically under capitalized," as defined in the OTS capital regulations, following the capital distribution, (b) the proposed capital distribution raises safety and soundness concerns or (c) the proposed capital distribution violates a prohibition contained in any statute, regulation or agreement between the Bank and the OTS or a condition imposed on the Bank in an application or notice approved by the OTS. The Bank is and intends to remain in compliance with these restrictions.

Loan-To-One Borrower. The amount of loans and extensions of credit that may be extended by the Bank to any one borrower, including related entities, generally may not exceed 15% of the unimpaired capital and unimpaired surplus of the institution. Loans in an amount equal to an additional 10% of unimpaired capital and unimpaired surplus may be made to a borrower if the loans are fully secured by readily marketable collateral, which does not include real estate collateral. An institution's "unimpaired capital and unimpaired surplus" includes, among other things, the amount of its core capital and supplementary capital included in its total capital under OTS regulations.

The Bank is currently and expects to remain in compliance with the loan-to-one borrower limitation.

Affiliate Transactions and Tying. Transactions between the Bank and Ocwen Financial Corporation, OAC, OTX and their non-bank subsidiaries are subject to quantitative and qualitative restrictions. Such transactions with any one affiliate may not exceed 10% of the Bank's capital and surplus and with all affiliates in the aggregate may not exceed 20% of the Bank's capital and surplus. Certain such transactions (e.g., loans and guarantees) must meet collateralization requirements. A transaction between the Bank and its affiliate must be on terms and conditions at least as favorable to the Bank as those prevailing at the time for comparable transactions with non-affiliated companies. Savings banks are required to make and retain detailed records of transactions with affiliates. Additionally, the Bank is not permitted to make a loan or extension of credit to any affiliate unless the affiliate is engaged only in activities the Federal Reserve Board has determined to be permissible for bank holding companies. The Bank is also prohibited from purchasing or investing in securities issued by an affiliate, other than shares of a subsidiary.

Also, subject to certain exceptions, savings banks are prohibited from conditioning the availability or pricing of their products or services on the requirement that a customer obtain another product or service from the savings bank or an affiliate, provide another product or service to the savings bank or an affiliate or refrain from obtaining another product or service from a competitor of the savings bank or an affiliate.

Insider Loans. Savings banks are also subject to various limitations and reporting requirements on loans to insiders. These limitations require, among other things, that all loans or extensions of credit to insiders (generally executive officers, directors or 10% stockholders of the institution) or their "related interests" be made on substantially the same terms (including interest rates and collateral) as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with the general public and not involve more than the normal risk of repayment or present other unfavorable features.

Gramm-Leach-Bliley Act. Title V of the Gramm-Leach-Bliley Act imposes consumer financial privacy restrictions on savings banks. These restrictions require a savings bank to safeguard non-public personal information of consumers; provide notices to consumers about an institution's privacy policies and practices and the about the right of consumers to opt-out of certain information sharing by savings banks. Also, these laws provide consumers a right to prevent a savings bank from disclosing non-public personal information about the consumer to non-affiliated third parties, with exceptions.

Federal Reserve Regulation. Under Federal Reserve Board regulations, the Bank is required to maintain a reserve against its transaction accounts, which increases the Bank's cost of funds. The Bank may borrow from the Federal Reserve Bank discount window, but the Federal Reserve Board's regulations require the Bank to exhaust other reasonable alternative sources before borrowing from the Federal Reserve Bank. Numerous other regulations promulgated by the Federal Reserve Board affect the business operations of the Bank. These include regulations relating to equal credit opportunity, electronic fund transfers, collection of checks, truth in lending, truth in savings and availability of funds.

Federal Home Loan Bank System. The Federal Housing Finance Board is an agency of the federal government and is

generally responsible for regulating the FHLB System. FHLBs are federally chartered but privately owned institutions created by Congress. The primary purpose of the FHLBs is to provide funding to their members for making housing loans as well as for affordable housing and community development lending. Generally, an institution is eligible to be a member of the FHLB for the district where the member's principal place of business is located. The Bank, whose home office is in Ft. Lee, New Jersey, is a member of the New York FHLB. As an FHLB member, we are required to own FHLB capital stock based upon the aggregate outstanding advances from the FHLB. In addition, there are risk-based and leverage capital requirements that must be met by FHLB members, which are similar to those currently in place for depository institutions.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires financial institutions regulated by the federal banking agencies to ascertain and help meet the credit needs of their delineated communities, including low- to moderate-income neighborhoods within those communities, while maintaining safe and sound banking practices. The regulatory agency assigns one of four possible ratings to an institution's CRA performance: outstanding, satisfactory, needs to improve and substantial noncompliance. The institution's regulator must consider its financial capacity and size, legal impediments, local economic conditions and demographics, including the competitive environment in which it operates. The most recent review of the Bank's CRA performance resulted in a "satisfactory" rating from the OTS in 2002.

USA PATRIOT Act. Among other requirements, the USA PATRIOT Act requires savings banks to establish an anti-money laundering program and imposes limitations and due diligence requirements on private banking accounts and correspondent accounts with certain foreign nationals and foreign institutions. Also, the USA PATRIOT Act requires the federal banking agencies to adopt regulations that would require depository institutions, such as the Bank, to adopt customer identification programs. The federal banking agencies have not yet promulgated final customer identification program regulations.

Sarbanes-Oxley Act of 2002. In response to the recent series of regulatory enactments in furtherance of the provisions of the Sarbanes-Oxley Act, we have taken actions including, but not limited to:

- Review of the responsibilities and reporting practices of our auditors,
- Development of questionnaires to identify potential conflicts of interest,
- Establishment of Disclosure Review and Nomination/Governance Committees,
- Review of our procedures and policies with regard to independence of our board members serving on the Audit Committee and Audit Committee responsibilities consistent with Section 301 of the Act,
- Establishment of a Whistleblower Policy,
- Development of CEO and CFO certifications to accompany audit reports,
- Review of procedures in place to avoid any improper influence on conduct of audits,
- Update disclosures in periodic reports to conform with Section 401 of the Act,
- Establishment of ethics policies identifying prohibited activities under the Act,
- Expedite insider reporting of transactions,
- Review of internal controls by management,
- Development of practices for real time disclosure of material events and
- Establishment of procedures for document retention and control.

FEDERAL TAXATION

General. OCN and all of its domestic subsidiaries currently file, and expect to continue to file, a consolidated Federal income tax return based on a calendar year. Consolidated returns have the effect of eliminating inter-company transactions, including dividends, from the computation of taxable income.

Alternative Minimum Tax. In addition to the regular corporate income tax, corporations, including qualifying savings institutions, are subject to an alternative minimum tax. The 20% tax is computed on Alternative Minimum Taxable Income ("AMTI") and applies if it exceeds the regular tax liability. AMTI is equal to regular taxable income with certain adjustments. For taxable years beginning after 1989, AMTI includes an adjustment for 75% of the excess of "adjusted current earnings" over regular taxable income. Net operating loss carrybacks and carryforwards are permitted to offset only 90% of AMTI. Alternative minimum tax paid can be credited against regular tax due in later years.

Tax Residuals. From time to time, we acquired Real Estate Mortgage Investment Conduit ("REMIC") residuals or retained residual securities in REMICs that were formed by us in connection with the securitization and sale of loans. Although a tax residual may have little or no future economic cash flows from the REMIC from which it has been issued, the tax residual does bear the income tax liability or benefit resulting from the difference between the interest rate paid on the securities by the REMIC and the interest rate received on the mortgage loans held by the REMIC. This generally results in taxable income for us in the first several years of the REMIC and equal amounts of tax deductions thereafter, although the amount and timing with which we must report taxable income or deductions may vary based on the particular experience of the mortgage collateral supporting each REMIC. The tax residuals may also generate excess inclusion income that could create a tax liability for us if we have not otherwise earned taxable Income in a particular year.

Investments in Affordable Housing Properties. For a discussion of the tax effects of investments in affordable housing properties, see "Segments-Affordable Housing."

Examinations. The most recent examination by the IRS of our Federal income tax return was of the tax return filed for 1996. The statute of limitations has run with respect to 1997 and all prior tax years. Thus, the Federal income tax returns for the years 1998 and 1999 (due to a waiver of the statute of limitations) and 2000 through 2002 are open for examination. The Internal Revenue Service currently is completing an examination of the Company's Federal income tax returns for the years 1998 and 1999 and reviewing the tax years 1995 through 1997 as result of carryback claims filed. We do not anticipate any material adjustments as a result of any examination, although there can be no assurances in this regard.

STATE TAXATION

OCN's income is subject to tax by the States of Florida and California, which have statutory tax rates of 5.5% and 10.84%, respectively, and its taxable income in these states is determined based on certain apportionment factors. We are taxed in New Jersey on income, net of expenses, earned in New Jersey at a statutory rate of 9.0%. Currently no state return of ours is being examined, and we have received no notification from any state that intends to examine any of our tax returns. We do not anticipate any material adjustments as a result of any examination, although there can be no assurances in this regard.

ITEM 2. PROPERTIES (Dollars in thousands)

The following table sets forth information relating to our facilities at December 31, 2003:

| Location | Owned/Leased | Net Book Value of Property or Leasehold Improvements |
|---|---|---|
| Executive offices: | | |
| 1675 Palm Beach Lakes Boulevard | | |
| West Palm Beach, FL.................................... | Leased | $ 1,107 |
| Bank main office: | | |
| 2400 Lemoine Ave | | |
| Fort Lee, NJ........................................... | Leased | $ 6 |
| Servicing center: | | |
| 12650 Ingenuity Drive | | |
| Orlando, FL............................................ | Owned | $ 21,589 |
| Software development and servicing operations center: | | |
| Solarpuria Arena | | |
| 24 Hosur Luskar Road | | |
| Bangalore, India....................................... | Leased | $ 967 |
| Spectrum Towers | | |
| Mind Space Business District | | |
| Link Road, Malad West | | |
| Mumbai, India.......................................... | Leased | $ 262 |
| OTX offices (1): | | |
| REALTrans office: | | |
| 5050 Avenida Encinas, Suite 200 | | |
| Carlsbad, CA........................................... | Leased | $ 66 |
| GSS offices: | | |
| Taiwan office: | | |
| Taipei World Trade Center | | |
| 333 Keelung Road | | |
| Taipei, Taiwan......................................... | Leased | $ 74 |
| Japan office: | | |
| SK Building | | |
| 3F 2-7-4 Nishi -Shinbashi | | |
| Tokyo, Japan........................................... | Leased | $ 28 |
| China office | | |
| China World Tower 1 | | |
| No. 1 Jian Guo Men Wai Avenue | | |
| Beijing, Peoples' Republic of China.................... | Leased | $ -- |

(1) OTX's main office is located in facilities provided by OCN.

## ITEM 3. LEGAL PROCEEDINGS (Dollars in thousands)

A description of material pending or recently settled legal proceedings to which OCN or its subsidiaries are a party follows:

On April 20, 1999, a complaint was filed on behalf of a putative class of public shareholders of OCN in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida against OCN and OAC. On April 23, 1999, a complaint was filed on behalf of a putative class of public shareholders of OAC in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida, against OAC and certain directors of OAC. The plaintiffs in both complaints sought to enjoin consummation of the acquisition of OAC by OCN. The cases were consolidated, and on September 13, 1999 a consolidated amended complaint was filed. The injunction was denied, and on October 14, 1999 OCN was dismissed as a party. Plaintiffs' remaining claims were for damages for alleged breaches of common law fiduciary duties. In October 2001, the parties reached an agreement in principle, which provides for a payment to plaintiffs in complete settlement off all claims for damages and attorney's fees and costs. On September 29, 2003, the Court approved the settlement and entered final judgment, thus bringing the litigation to a conclusion. This matter did not have any material impact on our financial statements.

OCN and certain of its affiliates, including the Bank, have been named as defendants in a number of purported class action lawsuits challenging the Bank's mortgage servicing practices. The lawsuits allege that the defendants violated federal and state statutes, including the federal Real Estate Settlement Procedures Act, Fair Debt Collection Practices Act and state deceptive trade practices statutes, and assert common law claims. The lawsuits seek actual and punitive damages, and injunctive and other relief. These lawsuits are at an early stage of proceedings, and no court has yet considered a motion for class certification. A petition to consolidate the lawsuits is currently pending before the United States Judicial Panel on Multi-District Litigation, under caption styled: In re Ocwen Federal Bank FSB Mortgage Servicing Litigation, MDL Docket No. 1604. We are defending and intend to continue to defend the lawsuits vigorously. While the outcome of litigation is always uncertain, we believe that we have meritorious defenses to these lawsuits.

OCN and the Bank are also subject to various other pending legal proceedings. In our opinion, the resolution of these proceedings will not have a material effect on our financial condition, results of operations or cash flows.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of stockholders during the quarter ended December 31, 2003.

# PART II

## ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Information required by this Item appears under the caption "Shareholder Information" on page 116 of our 2003 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Information required by this Item appears under the caption "Selected Consolidated Financial Information" on pages 10 to 13 of our 2003 Annual Report to Shareholders and is incorporated herein by reference. See Item 8 below and Part IV, Item 15 regarding our consolidated financial statements and notes.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information required by this Item appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 14 to 65 of our 2003 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item appears under the captions "Asset and Liability Management" on pages 57 to 61, "Note 1: Summary of Significant Accounting Policies" on pages 74 to 83 and "Note 17: Derivative Financial Instruments" on pages 100 to 102 of our 2003 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this Item appears on pages 67 to 115 in our 2003 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act) as of December 31, 2003. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2003 our disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information contained in our definitive Proxy Statement with respect to our Annual Meeting of Shareholders to be held on May 18, 2004 and as filed with the Commission on or about March 15, 2004 (the "2004 Proxy Statement") under the captions "Election of Directors - Nominees for Director," "Executive Officers Who Are Not Directors," "Board of Directors and Corporate Governance - Committees of the Board of Directors - Audit Committee," "Security Ownership of Certain Beneficial Owners - Section 16(a) Beneficial Ownership Reporting Compliance" and "Board of Directors and Corporate Governance - Code of Ethics" is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in our 2004 Proxy Statement under the captions "Executive Compensation," "Board of Directors Compensation" and "Comparison of Cumulative Total Return" is incorporated herein by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained in our 2004 Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners and Related Stockholder Matters - - Beneficial Ownership of Common Stock" and "Security Ownership of Certain Beneficial Owners and Related Stockholder Matters - Equity Compensation Plan Information" are incorporated herein by reference.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

## ITEM 14. PRINCIPAL ACCONTING FEES AND SERVICES

The information required by this item is included in our 2004 Proxy Statement under the caption "Ratification of Appointment of Independent Auditor" and is incorporated herein by reference.

# PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES and REPORTS ON FORM 8-K

(a) 1 & 2 Financial Statements and Schedules. The following Consolidated Financial Statements of Ocwen Financial Corporation and Report of PricewaterhouseCoopers LLP, Independent Certified Public Accountants, are incorporated herein by reference from pages 70 to 119 of our Annual Report to Shareholders:

Report of Independent Certified Public Accountants

Consolidated Statements of Financial Condition at December 31, 2003 and 2002

Consolidated Statements of Operations for each of the three years in the period ended December 31, 2003

Consolidated Statements of Changes in Shareholders' Equity for each of the three years in the period ended December 31, 2003

Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2003

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2003

Notes to Consolidated Financial Statements

Financial statement schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

(a) 3 Exhibits.

| | |
|---|---|
| 2.1 | Agreement of Merger dated as of July 25, 1999 among Ocwen Financial Corporation, Ocwen Asset Investment Corp. and Ocwen Acquisition Company (1) |
| 3.1 | Amended and Restated Articles of Incorporation (2) |
| 3.2 | Amended and Restated Bylaws (3) |
| 4.0 | Form of Certificate of Common Stock (2) |
| 4.1 | Certificate of Trust of Ocwen Capital Trust I (4) |
| 4.2 | Amended and Restated Declaration of Trust of Ocwen Capital Trust I (4) |
| 4.3 | Form of Capital Security of Ocwen Capital Trust I (included in Exhibit 4.4) (4) |
| 4.4 | Form of Indenture relating to 10.875% Junior Subordinated Debentures due 2027 of OCN (4) |
| 4.5 | Form of 10.875% Junior Subordinated Debentures due 2027 of OCN (included in Exhibit 4.6) (4) |
| 4.6 | Form of Guarantee of OCN relating to the Capital Securities of Ocwen Capital Trust I (4) |
| 10.1 | Ocwen Financial Corporation 1996 Stock Plan for Directors, as amended (6) |
| 10.2 | Ocwen Financial Corporation 1998 Annual Incentive Plan (7) |
| 10.3 | Compensation and Indemnification Agreement, dated as of May 6, 1999, between OAC and the independent committee of the Board of Directors (8) |
| 10.4 | Indemnity agreement, dated August 24, 1999, among OCN and OAC's directors (9) |
| 10.5 | Amended Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, dated October 26, 1999 (9) |
| 10.6 | First Amendment to Agreement, dated March 30, 2000 between HCT Investments, Inc. and OAIC Partnership I, L.P. (9) |
| 10.7 | Form of Employment Agreement, dated as of April 1, 2001, by and between Ocwen Financial Corporation and Arthur D. Ringwald (10) |
| 11.1 | Computation of earnings per share (11) |
| 12.1 | Ratio of earnings to fixed charges (filed herewith) |
| 13.1 | Excerpts from the Annual Report to Shareholders for the year ended December 31, 2003 (filed herewith) |
| 21.0 | Subsidiaries (filed herewith) |
| 23.0 | Consent of PricewaterhouseCoopers LLP (filed herewith) |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith) |

(1) Incorporated by reference from a similarly described exhibit included with the Registrant's Current Report on Form 8-K filed with the Commission on July 26, 1999.

(2) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-1 (File No. 333-5153) as amended, declared effective by the commission on September 25, 1996.

(3) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998.

(4) Incorporated by reference from the similarly described exhibit filed in connection with our Registration Statement on Form S-1 (File No. 333-28889), as amended, declared effective by the Commission on August 6, 1997.

(5) Incorporated by reference from the similarly described exhibit filed in connection with Amendment No. 2 to Offering Circular on Form OC (on Form S-1) filed on June 7, 1995.

(6) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-8 (File No. 333-44999), effective when filed with the Commission on January 28, 1998.

(7) Incorporated by reference from the similarly described exhibit to our definitive Proxy Statement with respect to our 1998 Annual Meeting of Shareholders as filed with the Commission on March 31, 1998.

(8) Incorporated by reference from OAC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.

(9) Incorporated by reference from the similarly described exhibit included with the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.

(10) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on form 10-K for the year ended December 31, 2001.

(11) Incorporated by reference from "Note 16: Basic and Diluted Earnings per Share" on page 100 of our 2003 Annual Report to Shareholders.

(b) Reports on Form 8-K Filed during the Quarter Ended December 31, 2003

(1) A Form 8-K was filed by OCN on November 6, 2003 which contained a news release announcing our 2003 third quarter results and certain other information.

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 our behalf by the undersigned, thereunto duly authorized.

OCWEN FINANCIAL CORPORATION

By: /s/ William C. Erbey
--------------------------------
William C. Erbey
Chairman of the Board and
Chief Executive Officer
(duly authorized representative)

Date: March 15, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| | | |
|---|---|---|
| /s/ WILLIAM C. ERBEY<br>William C. Erbey, Chairman of the Board and Chief Executive Officer (principal executive officer) | Date: | March 15, 2004 |
| /s/ RONALD M. FARIS<br>Ronald M. Faris, President and Director | Date: | March 15, 2004 |
| /s/ RONALD J. KORN<br>Ronald J. Korn, Director | Date: | March 15, 2004 |
| /s/ WILLIAM H. LACY<br>Hon. William H. Lacy, Director | Date: | March 15, 2004 |
| /s/ W. MICHAEL LINN<br>W. Michael Linn, Director | Date: | March 15, 2004 |
| /s/ W. C. MARTIN<br>W.C. Martin, Director | Date: | March 15, 2004 |
| /s/ HERBERT B. TASKER<br>Herbert B. Tasker, Director | Date: | March 15, 2004 |
| /s/ BARRY N. WISH<br>Barry N. Wish, Director | Date: | March 15, 2004 |
| /s/ MARK S. ZEIDMAN<br>Mark S. Zeidman, Senior Vice President and Chief Financial Officer (principal financial officer) | Date: | March 15, 2004 |
| /s/ ROBERT J. LEIST, JR.<br>Robert J. Leist, Jr., Vice President and Chief Accounting Officer (principal accounting officer) | Date: | March 15, 2004 |

Exhibit 12.1

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
COMPUTATION OF EARNINGS TO FIXED CHARGES
(DOLLARS IN THOUSANDS)

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Earnings: | | | | | |
| (Loss) income from continuing operations before income taxes and effect of change in accounting principle | $ 5,028 | $ (82,057) | $ (41,782) | $ 21,139 | $ 23,293 |
| Less: | | | | | |
| (Losses) and undistributed income of equity investees | -- | -- | -- | (5,280) | (9,154) |
| Add: | | | | | |
| Interest expensed and capitalized, except interest on deposits, and amortization of capitalized debt expenses | 24,650 | 35,681 | 42,738 | 84,897 | 72,765 |
| Interest on deposits | 17,546 | 27,455 | 59,967 | 98,224 | 98,370 |
| Interest component of rental expense | 1,169 | 1,108 | 1,176 | 1,124 | 2,032 |
| Total fixed charges (1) | 43,365 | 64,244 | 103,881 | 184,245 | 173,167 |
| Earnings for computation purposes | $ 48,393 | $ (17,813) | $ 62,099 | $ 210,664 | $ 205,614 |
| Ratio of earnings to fixed charges: | | | | | |
| Including interest on deposits (2) | 1.12 | (3) | (3) | 1.14 | 1.19 |
| Excluding interest on deposits (2) | 1.19 | (3) | (3) | 1.31 | 1.43 |

(1) Fixed charges represent total interest expensed and capitalized, including and excluding interest on deposits, amortization of capitalized debt expenses, as well as the interest component of rental expense.

(2) The ratios of earnings to fixed charges were computed by dividing (x) income from continuing operations before income taxes and effect of change in accounting principal, adjusted for losses and undistributed income of equity investees plus fixed charges by (y) fixed charges.

(3) Due to our losses in 2002 and 2001, the ratio of earnings to fixed charges was less than 1:1. We would have had to generate additional earnings of $82,057 and $41,782, respectively, to achieve coverage of 1:1.

EXHIBIT 13.1

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SELECTED CONSOLIDATED FINANCIAL INFORMATION
(Dollars in thousands, except share data)

The following tables present selected consolidated financial information of Ocwen Financial Corporation and its subsidiaries at the dates and for the years indicated. Our historical operations and balance sheet data at and for the years ended December 31, 2003, 2002, 2001, 2000, and 1999 have been derived from our audited financial statements. We have reclassified certain amounts included in the 2002, 2001, 2000, and 1999 selected consolidated financial information to conform to the 2003 presentation. The selected consolidated financial information should be read in conjunction with, and is qualified in its entirety by reference to, the information we have provided in our Consolidated Financial Statements and the Notes to Consolidated Financial Statements on pages 67 to 115.

| | For the Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 (1) |
| **Balance Sheet Data** | | | | | |
| Total assets | $ 1,240,118 | $ 1,222,242 | $ 1,711,150 | $ 2,249,420 | $ 3,281,674 |
| Trading securities, at fair value (2) (3) | $ 49,520 | $ 58,895 | $ 226,249 | $ 390,242 | $ -- |
| Securities available for sale, at fair value (3) | $ -- | $ -- | $ -- | $ -- | $ 587,518 |
| Real estate (2) (6) | $ 103,943 | $ 120,715 | $ 240,779 | $ 291,850 | $ 555,366 |
| Affordable housing properties (2) | $ 7,410 | $ 15,319 | $ 102,069 | $ 640,052 | $ 150,989 |
| Loans, net (2) | $ 28,098 | $ 76,857 | $ 185,293 | $ 631,634 | $ 1,115,850 |
| Match funded assets, net (4) | $ 130,087 | $ 167,744 | $ 174,351 | $ 116,987 | $ 157,794 |
| Advances on loans and loans serviced for others (2) | $ 374,769 | $ 266,356 | $ 283,183 | $ 277,055 | $ 162,548 |
| Mortgage servicing rights (2) | $ 166,495 | $ 171,611 | $ 101,107 | $ 51,426 | $ 11,683 |
| Total liabilities | $ 921,574 | $ 853,497 | $ 1,270,885 | $ 1,666,464 | $ 2,662,232 |
| Deposits and escrows (7) | $ 562,832 | $ 510,956 | $ 730,443 | $ 1,258,360 | $ 1,814,647 |
| Bonds-match funded agreements (8) | $ 115,394 | $ 147,071 | $ 156,908 | $ 107,050 | $ 141,515 |
| Notes, debentures, lines of credit and other secured borrowings (9) (10) | $ 206,633 | $ 159,721 | $ 244,609 | $ 206,263 | $ 505,439 |
| Capital securities (10) | $ -- | $ 56,249 | $ 61,159 | $ 79,530 | $ 110,000 |
| Stockholders' equity (11) | $ 317,258 | $ 310,718 | $ 379,106 | $ 503,426 | $ 509,442 |
| **Other Data** | | | | | |
| Average assets | $ 1,300,491 | $ 1,435,105 | $ 1,983,656 | $ 3,108,367 | $ 3,187,683 |
| Average equity | $ 308,940 | $ 346,918 | $ 448,752 | $ 495,354 | $ 462,216 |
| Return on average assets: | | | | | |
| Income (loss) before effect of change in accounting principle | 0.37% | (5.92)% | (6.29)% | 0.07% | 0.62% |
| Net income (loss) | 0.37% | (4.79)% | (6.29)% | 0.07% | 0.62% |
| Return on average equity: | | | | | |
| Income (loss) before effect of change in accounting principle | 1.54% | (24.48)% | (27.81)% | 0.44% | 2.78% |
| Net income (loss) | 1.54% | (19.82)% | (27.81)% | 0.44% | 4.29% |
| Average equity to average assets | 23.76% | 24.19% | 22.62% | 15.94% | 14.50% |
| Net interest spread | 2.78% | 0.99% | 1.36% | 2.13% | 4.57% |
| Net interest margin | (4.69)% | (3.62)% | (1.03)% | 0.82% | 4.39% |
| Efficiency ratio (12) | 96.71% | 153.59% | 111.61% | 78.09% | 81.90% |
| Bank regulatory capital ratios at end of period: | | | | | |
| Tangible | 14.93% | 15.28% | 13.43% | 13.83% | 10.67% |
| Core (Leverage) | 15.09% | 15.51% | 13.64% | 13.83% | 10.67% |
| Risk-based | 14.95% | 21.71% | 23.33% | 21.83% | 19.12% |

SELECTED CONSOLIDATED FINANCIAL INFORMATION
(Dollars in thousands, except share data)

| | For the Years Ending December 31, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 (1) |
| **Operations Data** | | | | | |
| Net income (loss) | $ 4,772 | $ (68,775) | $ (124,782) | $ 2,192 | $ 19,832 |
| Net interest income (expense) (10) (13) | $ (14,594) | $ (18,527) | $ (9,958) | $ 15,726 | $ 97,682 |
| Provision for loan losses | $ (2,684) | $ 13,629 | $ 15,666 | $ 15,177 | $ 6,710 |
| Total non-interest income (16) | $ 177,497 | $ 134,012 | $ 174,288 | $ 201,973 | $ 140,500 |
| Servicing and other fees (2) (14) | $ 158,548 | $ 141,991 | $ 134,597 | $ 97,080 | $ 76,018 |
| Gain (loss) on interest-earning assets, net (15) | $ 28 | $ (3,485) | $ (3,949) | $ 17,625 | $ 44,298 |
| Gain (loss) on trading and match funded securities, net (3) | $ 3,344 | $ 7,012 | $ 16,330 | $ (3,971) | $ -- |
| Impairment charges on securities available for sale (3) | $ | $ -- | $ -- | $ (11,597) | $ (58,777) |
| Valuation gains (losses) on real estate (17) | $ (7,430) | $ (35,002) | $ (22,282) | $ (27,378) | $ (30,825) |
| Gain (loss) on sale of real estate | $ 466 | $ 4,098 | $ 14,156 | $ 45,464 | $ 38,018 |
| Operating income (loss) from real estate (18) | $ 5,128 | $ 7,864 | $ 4,495 | $ 17,538 | $ (8,577) |
| Amortization of excess of net assets acquired over purchase price (21) | $ -- | $ -- | $ 18,333 | $ 14,112 | $ 3,201 |
| Gain (loss) on repurchase of debt (9) | $ (445) | $ (1,461) | $ 3,774 | $ 29,703 | $ 8,474 |
| Equity in income (losses) of investments in unconsolidated entities (5) | $ 38 | $ 215 | $ 304 | $ (5,249) | $ (12,616) |
| Total non-interest expense (19) | $ 157,501 | $ 177,626 | $ 183,315 | $ 170,001 | $ 195,068 |
| Income tax expense (benefit) (20) | $ 748 | $ 2,983 | $ 83,000 | $ 18,947 | $ 4,099 |
| Effect of change in accounting principle (21) | $ -- | $ 16,166 | $ -- | $ -- | $ -- |
| **Earnings (loss) per share** | | | | | |
| Basic and Diluted: | | | | | |
| Net income (loss) before effect of accounting change | $ 0.07 | $ (1.26) | $ (1.86) | $ 0.03 | $ 0.31 |
| Effect of change in accounting principle, net of tax | -- | 0.24 | -- | -- | -- |
| Net income (loss) | $ 0.07 | $ (1.02) | $ (1.86) | $ 0.03 | $ 0.31 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 67,166,888 | 67,321,299 | 67,227,058 | 67,427,662 | 63,051,015 |
| Diluted | 68,063,873 | 67,321,299 | 67,227,058 | 67,464,043 | 63,090,282 |

SELECTED CONSOLIDATED FINANCIAL INFORMATION
(Dollars in thousands, except share data)

- ---------------------------------------------------------------------------

Notes to Selected Consolidated Financial Information

(1) Financial data we have presented for 1999 included our wholly-owned UK subsidiary, Ocwen UK Limited, formerly known as Ocwen UK plc ("Ocwen UK"). Ocwen UK was engaged in the subprime mortgage loan origination and servicing business, began operations on April 24, 1998 and was sold on September 30, 1999. The financial data presented also included Ocwen Asset Investment Corp. ("OAC"), which was acquired in October 1999. Previously, we accounted for our investment in OAC and its operating partnership subsidiary, Ocwen Partnership L.P. ("OPLP"), under the equity method.

(2) Beginning in late 1999 and early 2000, we ceased conducting the origination and acquisition of loans, real estate owned, investments in real estate, residual and subordinate trading securities and affordable housing properties. Since then, our results reflect the ongoing management and resolution of these assets. At the same time we shifted our focus toward growing fee-based businesses, primarily residential loan servicing and Ocwen Technology Xchange ("OTX"), our technology solutions business. As a result, our investment in mortgage servicing rights and servicing advances has grown, as well as the related residential servicing fees. Additionally, we have incurred losses in the development and marketing of OTX products. Those losses (pre-tax) amounted to $(11,520), $(24,144), $(36,392) and $(33,951) during 2003, 2002, 2001 and 2000, respectively. See "Overview of Risks and Related Critical Accounting Policies" and "Results of Operations - Segment Profitability".

(3) On September 30, 2000 we began to account for securities available for sale and match-funded securities as trading. For these securities, changes in fair value are reported in income in the period of change. Previously, we accounted for our securities as available for sale, and the unrealized gains and losses for these securities were reported as a separate component of accumulated other comprehensive income in stockholders' equity.

(4) Match funded assets at December 31, 1999 and 2000 were comprised solely of securitized loans and securities. Match funded assets at December 31, 2003, 2002 and 2001 also included $105,788, $121,702 and $101,963, respectively, of loan servicing advances which were sold but did not qualify as a sale for accounting purposes. We have accounted for these transactions as secured borrowings with pledges of collateral. We acquired the match-funded loans as a result of our acquisition of OAC. See "Changes in Financial Condition - Match Funded Assets".

(5) Losses we incurred for 2000 related primarily to our investment in Kensington Group PLC (Kensington) in 1999. Losses for 1999 related primarily to our investment in Kensington and our equity investments in OAC and OPLP, before their acquisition in October 1999.

(6) Balances at December 31, 2003, 2002, 2001, 2000 and 1999 included $48,210, $51,588, $78,544, $75,080 and $252,604, respectively, of properties that we acquired as a result of our acquisition of OAC. Balances also include properties we acquired by foreclosures on loans we owned, which have declined as a result of sales and our exit from the loan origination and acquisition businesses. See "Changes in Financial Condition - Real Estate".

(7) Since 2000, we have been reducing our reliance on brokered certificates of deposit as a source of funding. The amount of such deposits outstanding amounted to $84,328, $198,248, $484,698 and $968,432 at December 31, 2003, 2002, 2001 and 2000, respectively. We continue to rely on non-brokered deposits as a source of funding. See "Banking Operations" and "Liquidity, Commitments and Off-balance Sheet Risks".

(8) Balances included bonds-match funded agreements we assumed as a result of our acquisition of OAC in 1999. At December 31, 2003, 2002 and 2001 the balance also included $94,967, $106,797 and $91,766, respectively, collateralized by loan servicing advances. See "Changes in Financial Condition - Bonds-Match Funded Agreements".

(9) Balance at December 31, 1999 included $159,170 of lines of credit we acquired in connection with our acquisition of OAC. During 2000 we paid down these lines significantly as a result of real estate sales. See "Changes in Financial Condition - Lines of Credit and Other Secured Borrowings". Balance at December 31, 1999, also included $140,487 of 11.5% Notes we acquired in connection with our acquisition of OAC and repurchased during 2000. During 2003, 2002, 2001, 2000 and 1999 we repurchased a total of $33,500, $77,095, $13,025, $146,755 and $54,150, respectively, of fixed rate debt with high interest rates. Balance at December 31, 2003 includes the $56,249 outstanding balance of our Capital Securities. See (10) below and "Changes in Financial Condition - Notes and Debentures".

(10) Effective with our adoption of Statement of Financial Accounting Standard (`SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", on July 1, 2003, we reclassified the $56,249 outstanding balance of our Capital Securities to Notes and Debentures. Beginning with the third quarter of 2003, distributions are reported as interest expense. See Note 1 to the Consolidated Financial Statements.

(11) Stockholders' equity includes our issuance of 12,371,750 shares of common stock in the amount of $96,809 in connection with our acquisition of OAC in 1999. We repurchased 500,000 shares for $2,262, 1,388,300 shares for $8,996 and 4,611,700 shares for $30,691 during 2003, 2000 and 1999, respectively.

(12) The efficiency ratio represents non-interest expense divided by the sum of net interest income before provision for loan losses and non-interest income.

(13) Net interest income for 1999 included $21,827 earned by Ocwen UK prior to its sale.

(14) Servicing and other fees earned during 1999 included $9,691 attributed to Ocwen UK prior to its sale.

(15) We recognized $36,804 of net gains in connection with the securitization of loans during 1999. During the third quarter of 1999, we decided to structure future securitizations as financing transactions, thereby precluding our use of gain-on-sale accounting. The gains we earned from loan sales during 1999 included $8,940 from Ocwen UK prior to its sale.

(16) Non-interest income for 1999 included a $50,371 gain from the sale of Ocwen UK and 2000 included a gain of $20,025 from the sale of our unconsolidated investment in Kensington on November 22, 2000. Kensington was engaged in the subprime mortgage loan origination business in the UK.

(17) Valuation losses included impairment charges on real estate properties acquired in connection with our acquisition of OAC of $7,526, $14,549, $1,471 and $704 for 2003, 2002, 2001 and 2002, respectively. Gains on sales of real estate for 2000 included $20,806 from the sale of four office buildings we had acquired in connection with our acquisition of OAC. See "Results of Operations - Valuation Gains (Losses) on Real Estate" and "Gain (Loss) on Sales of Real Estate".

(18) Results for 2003, 2002, 2001 and 2000, and to a lesser extent 1999, included operating income from real estate properties acquired as a result of our acquisition of OAC. Only two properties remain at December 31, 2003, of which one was sold in January 2004 for proceeds that approximated carrying value. Results for 2003, 2002, 2001 and 2000 also included equity in earnings related to certain loans acquired during the first quarter of 2000 which we accounted for as investments in real estate under the equity method. These loans had been fully repaid as of December 31, 2003. See "Results of Operations -Operating Income (Loss) from Real Estate".

(19) Non-interest expenses for 1999 included $36,114 attributed to Ocwen UK prior to its sale.

(20) Income tax expense we recorded for 2001, 2000 and 1999 included $83,000, $17,500 and $2,500, respectively, of net provisions to increase the valuation allowance on prior years' deferred tax assets. No such provision was required for 2003 or 2002. See "Results of Operations - Income Tax Expense (Benefit)".

(21) Upon adoption of SFAS No. 142 effective January 1, 2002 we reversed the unamortized balance of the excess of net assets acquired over purchase price (negative goodwill) of $18,333 and recorded $3,333 of impairment charges on goodwill and intangible assets. These amounts have been reported as the effect of a change in accounting principle, net of an income tax benefit of $1,166. See Note 1 to our Consolidated Financial Statements.

The following discussion of our results of operations, consolidated financial condition and capital resources and liquidity should be read in conjunction with our Selected Consolidated Financial Information, Consolidated Financial Statements and the related notes, all included elsewhere herein.

Overview of Risks and Related Critical Accounting Policies

For the past several years, we have been undergoing a fundamental transition in the nature of our business. In late 1999 and early 2000, we began the execution of our strategic plan to shift our business activities away from capital-intensive businesses involving the purchase or origination of loans, real estate and related assets toward less capital-intensive businesses that generate fee-based revenues. As a result, we generally ceased to originate or invest in assets in certain of our business segments ("non-core businesses") unless contractually committed to do so. However, we continued to actively manage and resolve the remaining assets in these segments. As of December 31, 2003, our core and non-core businesses were as follows:

| Core Businesses | Non-Core Businesses |
|---|---|
| Residential Loan Servicing | Commercial Finance |
| Ocwen Technology Xchange ("OTX") | Affordable Housing |
| Ocwen Realty Advisors ("ORA") | Subprime Finance |
| Unsecured Collections | |
| Business Process Outsourcing | |
| International Operations | |

Additionally, we account for certain items of revenue and expense that are not directly related to a business unit in our Corporate Items and Other segment. Included in our Corporate Items and Other segment is interest income on short-term investments of cash and the related costs of financing these investments, certain technology and other corporate expenses, gains and losses on the early retirement of debt and amortization of negative goodwill recorded from the acquisition of OAC.

Principal Risk Factors. The following is a discussion of the principal risk factors that relate to our businesses and that may affect future results.

Potential for Inconsistent Earnings. Our corporate strategy focuses on growing our servicing of assets owned by others, growing our activities to provide business process outsourcing to others and the development of exportable loan servicing technology for the mortgage and real estate industries. Our past financial performance may not be considered a reliable indicator of future performance, and historical trends may not be reliable indicators of anticipated results or trends in future periods. In addition, there can be no assurance that we will be able to accomplish our strategic objectives as a result of changes in the nature of our operations over time or that such changes will not have a material adverse effect from time to time or generally on our business, financial condition or results of operations.

In addition to inconsistency in results caused by our entry into or exit from businesses in recent years, the consistency of our operating results has been and may continue to be significantly affected by inter-period variations in our current operations, including:

- The amount of servicing rights acquired, and the changes in realizable value of those assets due to increases or decreases in prepayment speeds;
- Gains or losses realized from the disposition of our remaining non-core assets;
- Growth in the earnings of our other core business segments.

In addition, our operating results have been significantly affected by certain non-recurring items. Items reported by us in prior periods may not be repeated in future periods, and we may experience substantial inter-period variations in our operating results.

Investment Risks. A component of our previous business strategy in the Residential Discount Loan and Subprime Finance non-core business lines was the acquisition, origination and securitization of residential mortgage loans. We had historically retained subordinate and residual interests in connection with the securitization of our loans and had acquired other residual interests in connection with our acquisition of OAC. The performance of these securities in prior years was negatively impacted by higher than expected prepayment speeds and credit losses experienced on the mortgage loans collateralizing the securities. We have reduced our exposure to loss on these investments by selling most of the portfolio. However, we remain subject to the risk of loss on our remaining securities primarily to the extent that future credit losses exceed expected credit losses.

We continue to own loans and match funded loans relating to our non-core businesses. We believe that we have established adequate allowances for losses for each of our loans and match funded loans in accordance with generally accepted accounting principles. Future additions to these allowances, in the form of provisions for losses on loans and match funded loans, may be necessary, however, due to changes in economic conditions and the performance of these portfolios. There can be no assurance that we will not determine to further increase our allowances for losses on loans. Increases in our provisions for losses on loans would adversely affect our results of operations.

International Operations. We conduct business in the United States, and we have established two software development and servicing operations centers in India. Through Global Servicing Solutions, LLC ("GSS"), a joint venture formed with Merill Lynch to service assets in other countries, we now have two fully operational offices located in Tokyo, Japan and Taipei, Taiwan. We are also in the process of establishing operations in London, England and Beijing, China, and are exploring additional international opportunities in Germany. Our foreign operations are subject to risks beyond those associated with our United States operations, including the following:

- Unexpected changes in local regulatory requirements,
- Unfavorable changes in trade protection laws,
- Difficulties in managing and staffing international operations,
- Potentially adverse tax consequences,
- Adaptability problems,
- Increased accounting and control expenses,
- The burden of complying with foreign laws,
- Adverse social, political, labor or economic conditions,
- Changes in foreign currency exchange rates, and
- Our limited international experience.

Although we implement hedging strategies to limit the effects of currency exchange rate fluctuations on our results of operations, there is no assurance that our strategies will achieve their intended purpose. Further, we may be unable to effectively manage the risks listed above in order to realize the benefits of international operations.

Retained Risk of Loans Sold. Historically, we purchased and originated loans that were subsequently pooled and securitized or sold outright. While we no longer purchase, originate or securitize loans, on substantially all loans sold we made representations or warranties at the time the loans were sold. We may be required to repurchase loans at a price equal to the then outstanding principal balance of the loan and any accrued and unpaid interest thereon, if there were a breach of those representations or warranties. Additionally, we may be required to advance funds to the securitization trusts or to indemnify the trustee or the underwriters of a securitization under specific circumstances.

Importance of the Chief Executive Officer. William C. Erbey, our Chairman and Chief Executive Officer, has had and will continue to have a significant role in the development and management of our business. The loss of his services could have an adverse effect on us. We do not have an employment agreement with Mr. Erbey, and we currently do not maintain key man life insurance relating to Mr. Erbey or any of our other officers.

Control by Shareholders. As of March 10, 2004, our directors and executive officers and their affiliates collectively owned or controlled 40.46% of our outstanding common stock. This includes 27.35% owned or controlled by our Chairman and Chief Executive Officer, William C. Erbey, and 12.82% owned or controlled by our director and former Chairman, Barry N. Wish. As a result, these shareholders could influence or control virtually all matters requiring shareholder approval, including amendment of our Articles of Incorporation, the approval of mergers or similar transactions and the election of all directors.

Dependence on Proprietary Information. Our success is in part dependent upon our proprietary information and technology. We rely on a combination of copyright, trade secret and contract protection to establish and protect our proprietary rights in our products and technology. In general we enter into intellectual property agreements with all employees (including our management and technical staff) and consultants as well as limit access to and distribution of our proprietary information. We cannot be sure that we have taken adequate steps to deter misappropriation of our proprietary rights or information. Independent third parties may develop products and technology substantially similar to ours. Although we believe that our products and technology do not infringe any proprietary rights of others, we could be subject to claims of infringement in the future.

Risks Related to Mortgage Servicing Rights. The primary risk associated with mortgage servicing rights is that they will lose a portion of their value as a result of higher than anticipated prepayments occasioned by declining interest rates or because of higher than anticipated delinquency rates occasioned by deteriorating credit conditions. Interest rates, prepayment speeds and the payment performance of the underlying loans significantly affect both our initial and ongoing valuations and the rate of amortization of mortgage servicing rights. In general, the value of mortgage servicing assets is affected by increased mortgage refinance activity that is influenced by changes in borrowers' credit ratings, shifts in value in the housing market and interest rates. While such assets tend to decrease in value as interest rates decrease, they tend to increase in value as interest rates increase. During 2003, increases in prepayment speeds resulted in a substantial increase in the amortization expense of our mortgage servicing rights. As of December 31, 2003, we held $166,495 of mortgage servicing rights.

We acquire servicing rights principally from mortgage origination companies and investment banks. Servicing rights are typically acquired based upon a competitive bidding process. A number of our competitors have access to greater capital resources, which may provide them with a competitive advantage if they seek to increase their market share. Although the market for the acquisition of servicing rights to subprime mortgage loans has grown in recent years, we may be unable to acquire the desired amount and type of servicing rights in future periods. In addition, the volume of servicing rights acquired by us may vary over time resulting in significant inter-period variations in our results of operations.

In determining the purchase price for servicing rights, management makes assumptions regarding the following, among other things:

- The rates of prepayment and repayment within the pools,
- Projected rates of delinquencies and defaults,
- Our cost to service the loans,
- Amounts of future servicing advances,
- Ancillary fee income,
- Our ability to service and resolve loans successfully, and
- Future interest rates.

If these assumptions are inaccurate or the bases for the assumptions change, the price we pay for servicing rights may be too high. This could result in reduced revenue or a loss to us. Therefore, our success is highly dependent upon accuracy in our pricing of servicing rights, as well as general economic conditions in the geographic areas in which we service loans.

Risks Related to Financing. Our financing strategy includes the use of leverage. Accordingly, our ability to remain in business and finance our operations rests in part on our ability to borrow money. Our ability to borrow money depends on a variety of factors, including:

- Our ability to meet our current debt service obligations on our existing debt,
- Our corporate credit rating as evaluated from time to time by rating agencies and the occasion of any changes to their published ratings,
- Our financial performance and the perception that existing and potential lenders have of our financial strength,
- Our ability to compete with other banks for deposits,
- Limitations imposed on us by regulatory agencies and/or existing lending agreements that limit our ability to raise additional debt, and
- General economic conditions and the impact they have on the availability of credit.

An event of default, a negative ratings action by a rating agency, the perception of financial weakness resulting from continuing operating losses, a material increase in the cost of competing for deposits, an action by a regulatory authority or a restriction imposed on us as a function of a debt covenant that serves to limit our ability to borrow money, or a general deterioration in the economy that constricts the availability of credit may increase our cost of funds and make it difficult for us to renew existing credit facilities and obtain new lines of credit.

Risks Associated with Technology. Rapid change and uncertainty due to new and emerging technologies characterize the software industry. Our ability to grow our technology revenue is dependent upon our ability to develop and introduce new products and enhance existing products to satisfy consumer demand for new technologies. Because the pace of change continues to accelerate and new opportunities for competitors arise, our business planning is subject to substantial uncertainty. If we do not successfully identify new product opportunities and develop and bring new products to market in a timely and efficient manner, our business will suffer. New platforms and products may gain popularity with customers, vendors and loan originators, reducing or eliminating the potential for future revenue.

There is fierce competition in the software industry; however, our products compete in a limited market. While we believe REALServicing, REALTrans and REALSynergy each present greater functionality and a better value than competing products in the market, our products may not realize any competitive advantage. Competitors may arrive at a technology that creates a new market altogether and renders our product offerings obsolete. We may not be successful in introducing the products to the market on a commercial basis or in translating the products' business, marketing and pricing models into revenue sufficient to produce net income.

The software industry is inherently complex. New products and product enhancements can require long development and testing periods. While we believe our products are attractive to the mortgage and real estate industries, the computer software industry is subject to rapid technological change, changing customer requirements, frequent new product introductions and evolving industry standards that may render existing products and services obsolete. We may experience future difficulties that could delay or prevent the successful development, introduction or marketing of its products. Further, our products and product enhancements may not meet the requirements of the marketplace and achieve market acceptance. If we are unable to develop and introduce products of acceptable quality in a timely manner in response to changing market conditions or customer requirements, our business could be adversely affected.

Critical Accounting Policies. Our strategies to exit non-core businesses and grow core businesses are affected by risks in the marketplace. Further, our ability to measure and report our operating results and financial position is heavily influenced by the need to estimate the impact or outcome of these risks or other future events. Our critical accounting policies are those that relate to the estimation and measurement of these risks; an understanding of these policies is fundamental to understanding Management's Discussion and Analysis of Results of Operations and Financial Condition. Our significant accounting policies are discussed in detail in Note 1 of our Consolidated Financial Statements (which are incorporated herein by reference). The following is a summary of our more subjective and complex accounting policies, as they relate to our overall business strategy.

Our exit from our capital intensive Commercial Finance, Affordable Housing and Subprime Finance businesses is largely focused on the orderly disposition or resolution of the assets associated with these lines of business. The critical accounting policies that affect the measurement of these businesses are those that determine the valuation of real estate and affordable housing assets as well as the determination of the allowance for loan losses.

Our remaining non-core assets are subject to ongoing impairment tests using various impairment methodologies. In general, none of our non-core assets have readily determinable fair values based on quoted market prices. In certain cases, we utilize appraisals or other market value estimates, in conjunction with estimates of completion costs or costs of disposition, to determine asset values. In other cases, we value these assets based on analyses of future cash flows. These cash flow analyses involve assumptions such as discount rates, anticipated rents received, etc. that are highly subject to management judgment and estimation. Our task of estimation is even more challenging given the current risks in the economic environment, which can result in material and sometimes rapid changes in valuation estimates.

The allowance for loan losses is established and maintained at levels we deem adequate to cover losses resulting from the inability of borrowers to make contractually required loan payments. Estimates for loan losses are developed by analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan administration and resolution, the views of our regulators, changes in the size and composition of the loan portfolio, and peer group information. Where there is a question as to the impairment of specific loans, we obtain valuations of the property or other collateral securing the loan, and, if applicable, the borrower's current financial information. We also include in our estimates of inherent probable loan losses the impact of economic events, the outcome of which are uncertain. These events may include, but are not limited to, deterioration in general economic conditions, increases or decreases in overall lending rates, political conditions, legislation that directly and indirectly affects the banking industry, and regional economic conditions affecting specific geographical areas in which we conduct business.

Our most significant business in recent years has been our residential loan servicing business, which has achieved increased transaction volumes during the past three years. Inherent in our growth of this business has been an increase in purchased mortgage servicing rights, an intangible asset representing the present value of the right to service loans in a portfolio. Therefore, the most critical

accounting policy for this business line is the methodology we use to determine the value of mortgage servicing rights. Application of this methodology requires the development of a number of estimates, including anticipated amortization and periodic revaluation. Interest rates, prepayment speeds and the payment performance of the underlying loans significantly affect both our initial and ongoing valuations and the rate of amortization of mortgage servicing rights. In general, during periods of declining interest rates, the value of mortgage servicing assets declines due to increasing prepayments attributable to increased mortgage refinance activity. We amortize mortgage servicing rights over the period of estimated net servicing income based on our projections of the amount and timing of future cash flows. The amount and timing of servicing asset amortization is adjusted periodically based on actual results and updated projections. During the past year, the prepayment speeds in our servicing portfolio have increased, resulting in a substantial increase in the amortization of servicing rights.

Another accounting policy that requires the use of estimates and the application of judgment is the determination of our overall tax provision and the evaluation of the realizability of our gross deferred tax assets in the near term. As of December 31, 2003 we had gross deferred tax assets of $208,991, and a corresponding valuation allowance of $201,445 resulting in a net deferred tax asset of $7,546. Our valuation allowance was primarily established in 2001, when we recorded an $83,000 provision to increase the valuation allowance on our prior years' deferred tax assets. During 2003 and 2002, we provided an additional valuation allowance equal to the amount of any deferred tax assets recorded during the year. The evaluation of the need to maintain our valuation allowance takes into consideration our recent earnings history, current tax position and estimates of taxable income in the near term. The tax character (ordinary versus capital) and the carry forward periods of certain tax attributes (e.g., capital losses and tax credits) must also be considered. Significant judgment is required in considering the relative impact of negative and positive evidence related to realizability of the deferred tax assets. The determination of the amount of the aggregate valuation allowance is based on scenario analyses of the projected results of operations by line of business resulting in a range of potential valuation allowances, within which a final amount is determined. Reversal of all or a portion of the valuation allowance may be required in the future based on the results or our operations.

Banking Operations

Ocwen Federal Bank FSB ("the Bank"), a wholly owned subsidiary, is a federally chartered savings bank. As such, it is subject to regulation, examination and supervision by the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC").

We operate one bank branch in Fort Lee, New Jersey. This location, which provides most of our retail banking services, is primarily focused on the issuance of retail certificates of deposit that serve as a supplementary source of financing for us. We do not conduct loan origination activities in the Fort Lee branch. In prior years, we had also issued brokered certificates of deposit from our offices in West Palm Beach, Florida. However, we ceased the issuance of brokered deposits in the summer of 2000 and have since paid off our maturing brokered deposits as they have come due.

We currently operate several of our core businesses primarily in the Bank: Residential Loan Servicing, ORA and portions of Unsecured Collections. In addition, our non-core Affordable Housing business operates in the Bank, as does a portion of our non-core Commercial Finance business. Despite the reduction in our reliance on brokered certificates of deposit as a funding source, the retail deposits issued by our banking operation continue to provide an important source of financing for these business activities. See "Liquidity, Commitments and Off-Balance Sheet Risks" for additional discussion of brokered and non-brokered deposits as a source of funding.

We have an active ongoing dialogue with the OTS regarding our various businesses and business plans, and we continue to be subject to a number of restrictions with respect to our future operations.

Since 1997, the Bank has committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9.00% and 13.00%, respectively. The Bank continues to be in compliance with this commitment as well as with the regulatory capital requirements of general applicability. In addition, we have committed to maintain our investment in mortgage servicing rights at approximately 60% of core capital (before any deduction thereto for mortgage servicing rights) at the Bank and 50% of stockholders' equity on a consolidated basis. We regularly review actual results, which currently exceed these committed levels of investment in mortgage servicing rights, with the OTS.

Following the completion of the annual safety and soundness examination of the OTS in 2000, we submitted a written business plan and budget to the OTS regarding our plans for the business, primarily that of the Bank, over the next several years. The OTS approved the initial plan in February 2001 and approved the revised plan submitted April of 2002. The plan included as its primary focus the reduction of risk through the sale or resolution of our non-core assets and the reduction of our reliance on brokered certificates of deposit as a source of funding. The plan was formally concluded on December 31, 2003.

Workforce and Operational Capacity

As of December 31, 2003, we had a total of 2,472 employees, of which 1,043 were in our United States facilities and 1,429 were in our India operations centers. We have developed our India operations centers over the past three years in order to benefit from the cost savings opportunities and quality workforce available in that country.

In the United States, our operations are concentrated in our headquarters in West Palm Beach, which had 413 employees as of December 31, 2003, and our operations center in Orlando, which had 614 staff members as of December 31, 2003. Our Orlando facility has the capacity to house 950 employees on a single shift. In addition, we had 8 employees at various other locations in the United States. At this time, we estimate that we will experience a modest reduction of our staff in the United States during 2004.

In India, our operations are located in the cities of Bangalore and Mumbai. Of the 1,429 members of the staff in India as of December 31, 2003, 699 were in Bangalore and 730 were in Mumbai. Our India workforce can be summarized by business as follows:

- 57% are engaged in activities for our Residential Loan Servicing business,
- 14% support Business Process Outsourcing,
- 10% support OTX and Technology Services,
- 13% work in various other business units, and
- 6% represent various support functions, including Human Resources and Corporate Services, Accounting and Risk Management.

We project additional growth in our India staff during 2004. The extent of this growth is dependent upon the growth of several of our new business initiatives, primarily Business Process Outsourcing. Business Process Outsourcing is a developing business focused on providing business process outsourcing services to third parties.

Results of Operations

General. We recorded net income of $4,772 for 2003, as compared to net losses of $(68,775) and ($124,782) for 2002 and 2001, respectively. Our net income per share was $0.07 for 2003, as compared to a loss per share of $(1.02) and $(1.86) for 2002 and 2001, respectively. As discussed in "Overview of Risks and Related Critical Accounting Policies", during 2003 we continued our transition in business strategy from non-core businesses to core businesses. Our operating results for the past three years reflect transaction volume growth in our residential loan servicing businesses, continued investment in the development of our technology products, cessation of loan origination and acquisition activities and continuing sales of those assets not associated with our core business segments.

The improvement in net earnings for 2003 as compared to 2002 and 2001 reflects in large part an improvement in both core and non-core operating results. Additionally, the 2001 net loss of $(124,782) included an income tax provision of $83,000 to provide for an increase in our valuation allowance on prior years' deferred tax assets. Our core businesses recorded combined pre-tax income of $29,202 for 2003, as compared to $13,529 for 2002 and a pre-tax loss of $(6,797) for 2001. The improvement in combined pre-tax income from our core business segments in 2003 is largely due to a decline in OTX losses. To a lesser degree, ORA, Unsecured Collections and Business Process Outsourcing also contributed to the improvement in pre-tax income from core businesses in 2003, offset in part by an increase in start-up losses from International Operations. Our non-core business segments incurred a pre-tax loss of $(11,357) in 2003 as compared to $(68,169) and $(41,778) in 2002 and 2001, respectively. The reduction in losses from our non-core segments in 2003 is primarily the result of a reduction in loss provisions and impairment charges on Commercial and Affordable Housing assets, offset in part by the $10,000 charge to Subprime Finance in 2003 resulting from the Admiral Home Loan arbitration settlement. Results of our Corporate Items and Other segment have also improved over 2002 as losses have continued to decline in 2003 largely due to reduced interest expense, resulting from reductions in corporate debt and brokered deposits, and reduced technology expenses. We discuss segment results in detail in our review of segment profitability, which follows.

Segment Profitability. In general, we have ceased conducting any new business activities related to our non-core businesses, although we are actively engaged in the sale or other resolution of the remaining non-core assets. These assets are comprised of loans, real estate, securities held in our residual and subordinate trading portfolio and affordable housing properties. As of December 31, 2003, we held $182,292 of non-core assets, compared to $250,230 and $593,199 of non-core assets at December 31, 2002 and 2001, respectively. As discussed in detail below, the combined pre-tax results of our core business segments, non-core segments and Corporate Items segment all improved significantly during 2003.

(Dollars in thousands, except share data)

The following tables present the pre-tax income (loss) and total assets for each of our reportable segments at and for the dates indicated:

| | Pre-Tax Income (Loss) For the Years Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Core businesses: | | | |
| Residential Loan Servicing | $ 31,043 | $ 31,974 | $ 34,591 |
| OTX | (11,520) | (24,144) | (36,392) |
| Ocwen Realty Advisors | 5,432 | 2,597 | 944 |
| Unsecured Collections | 5,300 | 4,006 | (5,020) |
| Business Process Outsourcing | 1,893 | 118 | -- |
| International Operations | (2,946) | (1,022) | (920) |
| | 29,202 | 13,529 | (6,797) |
| Non-core businesses: | | | |
| Residential Discount Loans | -- | 763 | (4,002) |
| Commercial Finance | (10,657) | (51,947) | (21,014) |
| Affordable Housing | (4,888) | (31,521) | (29,917) |
| Subprime Finance | 4,188 | 14,536 | 13,155 |
| | (11,357) | (68,169) | (41,778) |
| Corporate Items and Other | (12,817) | (27,417) | 6,793 |
| | $ 5,028 | $ (82,057) | $ (41,782) |

| | Total Assets December 31, | |
|---|---|---|
| | 2003 | 2002 |
| Core businesses: | | |
| Residential Loan Servicing | $ 672,779 | $ 579,114 |
| OTX | 5,292 | 6,173 |
| Ocwen Realty Advisors | 1,056 | 532 |
| Unsecured Collections | 323 | 296 |
| Business Process Outsourcing | 1,010 | 6 |
| International Operations | 5,212 | 5,366 |
| | 685,672 | 591,487 |
| Non-Core businesses: | | |
| Residential Discount Loans | -- | 44,831 |
| Commercial Finance | 133,044 | 196,270 |
| Affordable Housing | 48,974 | 62,092 |
| Subprime Finance | 39,162 | 41,950 |
| | 221,180 | 345,143 |
| Corporate Items and Other | 333,266 | 285,612 |
| | $ 1,240,118 | $ 1,222,242 |

(Dollars in thousands, except share data)

The following table summarizes our remaining investment in non-core assets, which are included in the total asset amounts presented above:

| | Non-Core Assets December 31, | |
|---|---|---|
| | 2003 | 2002 |
| Non-Core Businesses: | | |
| Residential Discount Loans | $ -- | $ 4,633 |
| Commercial Finance | 126,401 | 190,602 |
| Affordable Housing | 13,955 | 21,548 |
| Subprime Finance | 38,973 | 33,447 |
| Corporate Items and Other | 2,963 | -- |
| | $ 182,292 | $ 250,230 |

The following is a discussion of the pre-tax income (loss) for each of our reportable business segments.

Residential Loan Servicing. Through this core business we provide for a fee loan servicing, including asset management and resolution services, to third party owners of subprime residential mortgage and "high loan to value" loans. We acquire the rights to service loans by purchasing them outright or by entering into sub-servicing contracts. Results for the past three years reflect significant growth in the volume of mortgage loans serviced, as shown in the table below, continuing earnings pressure from current low interest rates and rising prepayments in our servicing portfolio.

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Number of loans at December 31 | 359,592 | 336,033 | 301,344 |
| Unpaid principal balance at December 31 | $ 37,697,358 | $ 30,733,677 | $ 21,943,417 |
| Average unpaid principal balance | $ 33,589,509 | $ 26,533,826 | $ 15,727,659 |

| | For the Years Ended December 31, | | |
|---|---|---|---|
| Selected information | 2003 | 2002 | 2001 |
| Pre-tax income (loss) | $ 31,043 | $ 31,974 | $ 34,591 |
| Net interest expense | 20,892 | 18,304 | 16,529 |
| Servicing and other fees, net | 118,319 | 118,251 | 117,585 |
| Non-interest expense | 69,196 | 69,746 | 68,370 |

- Although we have experienced significant growth in the volume of mortgage loans serviced, net servicing and other fees increased only slightly in 2003 and 2002. Increases in compensating interest expense on prepayments and amortization of servicing rights offset the increase in servicing fees that resulted from the volume growth. Additionally, we continue to experience low earnings on float balances reported as a component of fee income due to low short-term interest rates. The yield we earned on float balances averaged 1.01% during 2003 as compared to 1.56% and 2.83% during 2002 and 2001, respectively. The rate of amortization on servicing rights has increased in response to increased projected prepayment volumes. In spite of the fact that we purchased $88,829 of servicing rights during 2003, the balance of our mortgage servicing rights has declined due to the increased speed of amortization. We anticipate that prepayment speeds will remain at current levels for the near future. See "Non-Interest Income - Servicing and Other Fees" for details of the principal components of servicing and other fees.

- The trend of increasing net interest expense during the past three years reflects the funding costs associated with increased average balances of advances and mortgage servicing rights, which do not earn interest. See "Net interest Income (Expense)" for additional information regarding average balances.

- Non-interest expense declined slightly in 2003 as compared to 2002. This decline in non-interest expense occurred in spite of the fact that the number of assets we serviced actually increased during 2003 and was largely the result of cost reduction efforts. Although non-interest expense declined in 2003 as compared to 2002, these costs actually increased during the fourth quarter of 2003 as compared to the third quarter of 2003. This increase is the result of reassuming certain collection activities previously performed by a third party vendor.

(Dollars in thousands, except share data)

- Non-interest expense for 2002 included a $1,000 charge related to the settlement of a class action litigation claim and increased by only $1,363 or 2% as compared to 2001 despite an increase in the number of assets we serviced. Increases in compensation & employee benefits and occupancy & equipment costs were offset in large part by a decline in technology & communication costs.

OTX. Through this core segment we provide technology solutions for the mortgage and real estate industries. OTX products include a residential loan servicing system (REALServicing), a commercial loan servicing system (REALSynergy) and an internet-based mortgage loan processing application and vendor management system (REALTrans). The losses incurred by this segment, which began its operations in 1998, are a result of our continuing investment in the development and marketing of these technology products. The decline in the loss incurred for 2003 and 2002 is largely the result of ongoing cost reduction initiatives and an increase in software revenues.

| | For the Years Ended December 31, | | |
|---|---|---|---|
| Selected information | 2003 | 2002 | 2001 |
| Pre-tax income (loss) | $ (11,520) | $ (24,144) | $ (36,392) |
| Non-interest income | 9,933 | 6,522 | 2,149 |
| Non-interest expense | 21,453 | 30,667 | 38,542 |

- The increase in non-interest income is primarily due to an increase in transaction fees resulting from an increase in REALTrans transaction volumes.

- The decline in non-interest expenses in 2003 and 2002 primarily reflects a decline in compensation and employee benefits, and technology and communication costs as a result of cost reduction efforts. Technology and communication costs for 2002 and 2001 included payments of $1,068 and $3,185, respectively, related to the acquisition of a subsidiary in 1997. The payments in 2002 were the final compensatory payments related to this acquisition.

- Non-interest expenses for 2002 and 2001 also included goodwill amortization/writeoffs of $2,231 and $3,112, respectively. With the adoption of SFAS No. 142 effective January 1, 2002, we no longer amortize goodwill. We are, however, required to test goodwill for impairment at least annually. As a result of our annual impairment test in 2002, we wrote-off the remaining $2,231 balance of goodwill associated with our REALServicing product.

Ocwen Realty Advisors. Through ORA we provide residential property valuation services.

| | For the Years Ended December 31, | | |
|---|---|---|---|
| Selected information | 2003 | 2002 | 2001 |
| Pre-tax income (loss) | $ 5,432 | $ 2,597 | $ 944 |
| Non-interest income | 18,804 | 14,080 | 11,913 |
| Non-interest expense | 13,351 | 11,484 | 10,968 |

- Our improved profitability in this segment reflects an improved gross margin as valuation expenses declined from 71% of revenues in 2001 to 67% in 2002 and 57% in 2003.

(Dollars in thousands, except share data)

Unsecured Collections. This core business conducts collection activities for third party owners of unsecured receivables and for a portfolio of unsecured credit card receivables that we acquired at a discount in 1999 and 2000. We accounted for our collections of our unsecured credit card receivables portfolio under the cost recovery method through the end of 2001, when we reduced the net book value of our unsecured receivables to zero as a result of collections and additional reserves. Beginning in 2002, income is recognized as cash is collected.

| Selected information | For the Years Ended December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| Pre-tax income (loss) | $ 5,300 | $ 4,006 | $ (5,020) |
| Provision for loan losses | -- | (278) | 1,176 |
| Non-interest income: | 12,140 | 10,652 | 3,058 |
| Third-party collection fees | 9,151 | 6,461 | 2,500 |
| Recoveries of unsecured credit card receivables owned | 2,737 | 4,191 | -- |
| Other | 252 | -- | 558 |
| Non-interest expense | 6,840 | 6,925 | 7,042 |

Business Process Outsourcing. This business segment began operations in December 2002 and recorded pre-tax income of $1,893 for 2003. These results primarily reflect the initiation of new outsourcing contracts in the third quarter. Business Process Outsourcing provides business process outsourcing services to third parties and leverages the operational capacity of our facilities in India.

International Operations. This segment, which is being reported as a core business segment for the first time in 2003, recorded a pre-tax loss of $(2,946) for 2003. In 2002, International Operations reported a pre-tax loss of $(1,022). In 2003, this segment primarily represents the results of operations of GSS, our new joint servicing venture with Merrill Lynch for the servicing of assets in various countries. GSS offices in Tokyo, Japan and Taipei, Taiwan are now fully operational. Results for 2002 primarily reflect a one time consulting project for the government of Jamaica as well as other precedent ventures, now concluded.

Residential Discount Loans. Based on the relative insignificance of the non-core assets remaining in this segment, the remaining assets of this business and any related income or loss arising from their resolution have been included in the Corporate Items and Other segment beginning January 1, 2003. This segment consisted of operations to acquire at a discount and subsequently resolve sub-performing and non-performing residential mortgage loans. We completed our last acquisition of residential discount loans in 2000. See "Changes in Financial Condition - Loans, Net."

| Selected information | For the Years Ended December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| Pre-tax income (loss) | $ -- | $ 763 | $ (4,002) |
| Net interest income after provisions for loan losses | -- | 8,367 | 9,065 |
| Non-interest income | -- | (2,354) | (4,733) |
| Non-interest expense | -- | 5,250 | 8,333 |

Commercial Finance. Results for this non-core segment reflect our continuing exit from our loan and real estate businesses. We have not purchased any commercial assets since 2000. With the exception of loans made to facilitate the sale of our own assets, we have also not originated any loans since 2000. See "Changes in Financial Condition - Loans, Net." Since then, this business has consisted of the management, repositioning, and resolution of the remaining non-core assets. At December 31, 2003, the $126,401 of non-core assets remaining in this business consisted of nine loan and real estate assets and an unrated subordinate security with a fair value of $2,577. These nine assets consisted of three loans totaling $20,763 and six real estate assets totaling $103,061. Of the nine remaining assets, the three largest amount to $91,670, or 74%, of the total. In January 2004, we sold the office building, which had a carrying value of $37,553 at December 31, 2003, for proceeds that approximated carrying value. We also issued a loan to the buyer in the amount of $15,248 in order to facilitate this sale. While we believe that additional sales will occur during 2004, it is probable that some properties will not be sold until 2005 or later.

We regularly assess the value of our remaining assets and provide additional loss reserves or impairment charges as appropriate. During 2003, we recorded a total of $4,089 of impairment charges and loss provisions as compared to $46,127 and $19,583 in 2002 and 2001, respectively.

(Dollars in thousands, except share data)

| Selected information | 2003 | 2002 | 2001 |
|---|---|---|---|
| | For the Years Ended December 31, | | |
| Pre-tax income (loss) | $ (10,657) | $ (51,947) | $ (21,014) |
| Net interest expense | 7,217 | 7,627 | 3,220 |
| Provision for loan losses | (3,095) | 12,814 | 7,223 |
| Non-interest income | | | |
| Gain (loss) on interest earning assets, net | 27 | (981) | (3,487) |
| Valuation gains (losses) on real estate | (7,184) | (33,313) | (12,360) |
| Gain (loss) on sales of real estate | 97 | 1,055 | 3,439 |
| Operating income (loss) from real estate | 4,969 | 9,107 | 12,489 |
| Servicing fees | 2,636 | 2,841 | 2,816 |
| Other | 773 | 1,422 | 473 |
| Non-interest expense | 7,852 | 11,637 | 13,941 |

- Net interest expense reflects a declining balance of loans and a growing proportion of assets in this segment that do not earn interest. Our investment in loans has declined as a result of sales, repayments and resolutions. See "Changes in Financial Condition-Loans".

- The negative provision for loan losses for 2003 primarily resulted from the recovery of excess reserves on loan sales during 2003. The provision for loan losses increased in 2002, reflecting an increase in reserves. Reserve levels on our remaining commercial loans were 15% at December 31, 2003 as compared to 19% at December 31, 2002 and 4% at December 31, 2001.

- Valuation losses for 2002 reflect a significant increase in reserves on real estate owned. See "Non-Interest Income - Valuation Gains (Losses) on Real Estate".

- The decline in operating income in 2003 and 2002 reflects the decline in the number of real estate assets remaining as a result of sales. See "Non-Interest Income - Operating Income (Loss) from Real Estate".

- Non-interest expense for 2002 included a provision of $2,250 to provide for the settlement of a lawsuit.

Affordable Housing. Historically, we invested in affordable housing properties primarily through a series of limited partnerships. Except to complete those projects in which an investment had already been made, we ceased making investments in properties in 2000 as part of our shift in strategy to fee-based businesses and because the volume of tax credits being generated was exceeding our ability to utilize them effectively. Since that time, we have been marketing these properties for sale. Primarily as a result of sales, our investment in affordable housing properties had been reduced to $7,410 at December 31, 2003 from $15,319 at December 31, 2002. In addition, this segment has $6,545 of loans outstanding to limited partnership properties that we do not consolidate in our financial statements. While we cannot project sales with certainty, we believe that it is possible that we will sell the remaining properties before the end of 2004 and that new sources of financing will be established to repay the remaining loan balances. We regularly assess the carrying value of our remaining assets and provide additional loss reserves as appropriate. During 2003, we recorded $583 of loss provisions as compared to $24,686 in 2002 and $16,855 in 2001. At December 31, 2003, our combined reserves associated with affordable housing properties and loans amounted to 55% of the remaining book value of such assets as compared to 48% at December 31, 2002 and 16% at December 31, 2001.

| Selected earnings information | 2003 | 2002 | 2001 |
|---|---|---|---|
| | For the Years Ended December 31, | | |
| Pre-tax income (loss) | $ (4,888) | $ (31,521) | $ (29,917) |
| Net interest expense | 2,767 | 4,449 | 7,917 |
| Provision for loan losses | 151 | 3,392 | 1,207 |
| (Gain) loss on investments in affordable housing properties | 285 | 21,915 | 17,535 |

- Net interest expense has declined primarily because of a decline in the assets of this segment, most of which do not earn interest.

- The provision for loan losses increased in 2002 in connection with the increases to our loss reserves during the year. Reserve levels on loans increased from 7% at December 31, 2001 to 42% at December 31, 2002 and were 41% at December 31, 2003.

- Net losses include charges in the amount of $432, $17,350 and $15,587 we recorded during 2003, 2002 and 2001, respectively, for estimated losses on the sale of the properties. The reserves associated with our remaining properties amounted to 62% at

(Dollars in thousands, except share data)

December 31, 2003 as compared to 50% at December 31, 2002 and 17% at December 31, 2001. The loss for 2002 also included a $3,944 charge to record a discount arising from the long-term sale of seven properties. We are accreting this discount to income over the term of the related receivable balance, which extends through September 2014. See "Changes in Financial Condition - Affordable Housing Properties."

Subprime Finance. We were engaged in domestic subprime residential lending prior to ceasing originations in August of 1999; however, we have continued to manage and resolve the remaining non-core assets. At December 31, 2003, the non-core assets remaining in this business consisted primarily of trading securities with a fair value of $38,883. These securities are presently generating income and return of principal through cash flows. See "Changes in Financial Condition - Trading Securities".

| Selected information | For the Years Ended December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| Pre-tax income (loss) | $ 4,188 | $ 14,536 | $ 13,155 |
| Interest income | 16,717 | 14,661 | 9,143 |
| Interest expense | 1,507 | 2,874 | 6,486 |
| Gain (loss) on trading and match funded securities, net | 2,932 | 7,287 | 14,247 |
| Non-interest expense | 13,936 | 4,646 | 3,243 |

- The increase in interest income during 2003 and 2002 is primarily the result of an increase in cash flow distributions received on single family subprime residual securities.

- The $9,290 increase in non-interest expense in 2003 as compared to 2002 is primarily due to the $10,000 charge recorded in the first quarter related to the conclusion of the Admiral Home Loan arbitration.

Corporate Items and Other. Pre-tax results for this segment include business activities that are individually insignificant, interest income on cash and cash equivalents, interest expense on corporate assets, gains and losses from debt repurchases and general corporate expenses. The table below presents the more significant amounts included in each of the periods indicated.

| Selected information | For the Years Ended December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| Pre-tax income (loss) | $ (12,817) | $ (27,417) | $ 6,793 |
| Net interest expense | 6,119 | 14,850 | 13,399 |
| Amortization of negative goodwill | -- | -- | 18,333 |
| Gain (loss) on debt repurchases | (445) | (1,461) | 3,774 |
| Technology and corporate expenses | 7,243 | 11,047 | 2,251 |

- Net interest expense declined in 2003 and 2002 primarily as a result of debt repurchases and maturities, as well as the ongoing reduction in brokered deposits. See "Changes in Financial Condition - Notes and Debentures" and "Deposits".

- Effective with our adoption of SFAS No. 150 effective July 1, 2003, distributions on our Capital Securities are reported in the consolidated statement of operations as interest expense beginning in the third quarter of 2003. For purposes of this analysis, net interest expense includes distributions on Capital Securities for all periods. Distributions on Capital Securities were $6,118, $6,287 and $7,131 for 2003, 2002 and 2001, respectively.

- Technology and corporate expenses declined in 2003 as compared to 2002 largely as a result of cost savings initiatives that we completed in the fourth quarter of 2002. Technology and corporate expenses for 2002 included technology and communication expenses incurred in connection with the capacity expansion and migration of our corporate data centers.

See Note 25 to our Consolidated Financial Statements for additional information related to our operating segments.

Net Interest Income: 2003 versus 2002 and 2002 versus 2001. Net interest income (expense) is the difference between the interest income earned from our interest-earning assets and interest expense incurred on our interest-bearing liabilities. Net interest income (expense) is determined by net interest spread (i.e., the difference between the yield earned on our interest-earning assets and the rates incurred on our interest-bearing liabilities), the relative amount of interest-earning assets and interest-bearing liabilities and the degree of mismatch in the maturity and repricing characteristics of our interest-earning assets and interest-bearing liabilities.

In addition to interest income reported in this caption, we also earn interest on the balance of custodial accounts we hold in connection with our Residential Loan Servicing business. These amounts are reported as servicing fees and are not included in the following information.

Our net interest income and net interest margin began declining in 2000. This trend reflects a decline in the ratio of interest-earning assets to interest-bearing liabilities, which has fallen from 98% in 1999 to 40% in 2003. Both our acquisition of OAC in 1999 and our change in strategic direction from capital-intensive businesses to fee-based sources of income have contributed to an increase in the relative amount of non-interest-earning assets (such as real estate, advances on loans serviced for others and mortgage servicing rights) that are funded by interest-bearing liabilities. We expect this trend to continue as we dispose of our remaining non-core assets, a portion of which are interest-bearing, and increase non-interest-earning assets of our core businesses. While it has no impact on consolidated net income, the reclassification of our 10.875% Capital Securities to interest-bearing liabilities (notes and debentures) on July 1, 2003 as a result of our adoption of SFAS No. 150 does have a negative impact on net interest income, margin and spread. Our net interest income, spread and margin will, however, be positively impacted by our redemption of the remaining $33,065 balance of 12% subordinated debentures on September 30, 2003, the repayment of the remaining $43,475 of 11.875% notes on October 1, 2003 (the maturity date) and the continuing reduction in brokered certificates of deposit. See "Gain (Loss) on Repurchase of Debt" and "Changes in Financial Condition - Notes and Debentures".

The following table sets forth, for the years indicated, information regarding the total amount of income from our interest-earning assets and the resultant average yields, the interest expense associated with our interest-bearing liabilities, expressed in dollars and rates, and the net interest spread and net interest margin. Information is based on average daily balances during the indicated years:

(Dollars in thousands, except share data)

| | Years Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2003 | | | 2002 | | | 2001 | | |
| | Average Balance | Interest Income/ Expense | Average Yield/ Rate | Average Balance | Interest Income/ Expense | Average Yield/ Rate | Average Balance | Interest Income/ Expense | Average Yield/ Rate |
| Average Assets | | | | | | | | | |
| Interest earning cash and other ......... | $ 30,705 | $ 358 | 1.17% | $ 13,693 | $ 284 | 2.07 | $ 10,159 | $ 743 | 7.31% |
| Federal funds sold and repurchase agreements ........................... | 125,732 | 1,403 | 1.12 | 152,588 | 2,629 | 1.72 | 200,329 | 7,328 | 3.66 |
| Trading securities: | | | | | | | | | |
| U.S. government and sponsored enterprise securities and CMOs...... | 10,054 | (71) | (0.71) | 88,565 | 2,058 | 2.32 | 126,284 | 7,464 | 5.91 |
| Subordinates and residuals ........... | 38,679 | 17,416 | 45.03 | 44,251 | 14,522 | 32.82 | 97,051 | 11,401 | 11.75 |
| Loans (1) .............................. | 68,613 | 1,614 | 2.35 | 146,671 | 11,279 | 7.69 | 433,830 | 46,090 | 10.62 |
| Match funded loans and securities ....... | 37,513 | 3,402 | 9.07 | 66,233 | 6,463 | 9.76 | 103,320 | 10,345 | 10.01 |
| Total interest earning assets ........ | 311,296 | 24,122 | 7.75 | 512,001 | 37,235 | 7.27 | 970,973 | 83,371 | 8.59 |
| Non interest-earning cash ............... | 90,901 | | | 65,813 | | | 68,139 | | |
| Affordable housing properties ........... | 12,434 | | | 57,692 | | | 123,747 | | |
| Real estate ............................ | 112,595 | | | 171,795 | | | 264,710 | | |
| Advances on loans and loans serviced for others .................. | 324,834 | | | 267,572 | | | 303,382 | | |
| Mortgage servicing rights ............... | 177,171 | | | 137,323 | | | 76,145 | | |
| Match funded advances on loans serviced for others .................. | 117,219 | | | 101,863 | | | 274 | | |
| Receivables ............................. | 82,816 | | | 65,145 | | | 48,995 | | |
| Other assets ............................ | 71,225 | | | 55,901 | | | 127,291 | | |
| Total assets ......................... | $ 1,300,491 | | | $ 1,435,105 | | | $ 1,983,656 | | |
| Average Liabilities and Stockholders' Equity | | | | | | | | | |
| Interest-bearing demand deposits ........ | $ 16,525 | 195 | 1.18% | $ 14,749 | 245 | 1.66 | $ 10,377 | 398 | 3.84% |
| Savings deposits ........................ | 1,554 | 12 | 0.77 | 1,605 | 17 | 1.06 | 1,388 | 28 | 2.02 |
| Certificates of deposit ................. | 408,941 | 17,339 | 4.24 | 473,793 | 27,193 | 5.74 | 920,668 | 59,541 | 6.47 |
| Total interest-bearing deposits ...... | 427,020 | 17,546 | 4.11 | 490,147 | 27,455 | 5.60 | 932,433 | 59,967 | 6.43 |
| Securities sold under agreements to repurchase ........................... | 250 | 3 | 1.20 | 12,774 | 236 | 1.85 | 19,500 | 529 | 2.71 |
| Bonds-match funded agreements ........... | 129,438 | 5,414 | 4.18 | 147,139 | 6,573 | 4.47 | 86,171 | 7,315 | 8.49 |
| Lines of credit and other secured borrowings .......................... | 130,886 | 5,824 | 4.45 | 94,169 | 4,152 | 4.41 | 90,485 | 6,004 | 6.64 |
| Notes and debentures (2) ................ | 91,549 | 9,929 | 10.85 | 144,044 | 17,346 | 12.04 | 161,931 | 19,514 | 12.05 |
| Total interest-bearing liabilities ... | 779,143 | 38,716 | 4.97 | 888,273 | 55,762 | 6.28 | 1,290,520 | 93,329 | 7.23 |
| Non interest-bearing deposits ........... | 4,844 | | | 6,187 | | | 12,900 | | |
| Escrow deposits ......................... | 107,888 | | | 90,612 | | | 73,326 | | |
| Excess of net assets acquired over purchase price ....................... | -- | | | 1,478 | | | 28,866 | | |
| Other liabilities ....................... | 70,049 | | | 43,255 | | | 64,316 | | |
| Total liabilities .................... | 961,924 | | | 1,029,805 | | | 1,469,928 | | |
| Capital securities (2) .................. | 28,124 | | | 57,812 | | | 64,976 | | |
| Minority interest ....................... | 1,503 | | | 570 | | | -- | | |
| Stockholders' equity .................... | 308,940 | | | 346,918 | | | 448,752 | | |
| Total liabilities and stockholders' equity ............................ | $ 1,300,491 | | | $ 1,435,105 | | | $ 1,983,656 | | |
| Net interest income (expense) ........... | | $(14,594) | | | $ (18,527) | | | $(9,958) | |
| Net interest spread ..................... | | | 2.78% | | | 0.99% | | | 1.36% |
| Net interest margin ..................... | | | (4.69)% | | | (3.62)% | | | (1.03)% |
| Ratio of interest-earning assets to interest-bearing liabilities ......... | 40% | | | 58% | | | 75% | | |

(1) The average balances include non-performing loans, interest on which we recognize on a cash basis.

(2) Effective with our adoption of SFAS No. 150 on July 1, 2003, Capital Securities are classified as an interest bearing liability with notes and debentures. Distributions are reported as interest expense beginning in the third quarter of 2003 and totaled $3,059 for the last six months of 2003.

(Dollars in thousands, except share data)

The following table describes the extent to which changes in interest rates and changes in volume of our interest-earning assets and interest-bearing liabilities have affected our interest income and expense during the periods indicated. For each category of our interest-earning assets and interest-bearing liabilities, we have provided information on changes attributable to (i) changes in volume (change in volume multiplied by prior rate), (ii) changes in rate (change in rate multiplied by prior volume) and (iii) total change in rate and volume. We have allocated changes attributable to both volume and rate proportionately to the change due to volume and the change due to rate.

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2003 vs. 2002 | | | 2002 vs. 2001 | | |
| | Favorable (unfavorable) variance | | | Favorable (unfavorable) variance | | |
| | Rate | Volume | Total | Rate | Volume | Total |
| Interest-Earning Assets | | | | | | |
| Interest-earning cash and other | $ (165) | $ 239 | $ 74 | $ (657) | $ 198 | $ (459) |
| Federal funds sold and repurchase agreements | (818) | (408) | (1,226) | (3,240) | (1,459) | (4,699) |
| Trading securities: | | | | | | |
| U.S. government and sponsored enterprise securities and CMOs (AAA-rated) | (1,267) | (862) | (2,129) | (3,623) | (1,783) | (5,406) |
| Subordinates and residuals | 4,895 | (2,001) | 2,894 | 11,913 | (8,792) | 3,121 |
| Loans | (5,471) | (4,194) | (9,665) | (10,248) | (24,563) | (34,811) |
| Match funded loans and securities | (429) | (2,632) | (3,061) | (257) | (3,625) | (3,882) |
| Total interest-earning assets | (3,255) | (9,858) | (13,113) | (6,112) | (40,024) | (46,136) |
| Interest-Bearing Liabilities | | | | | | |
| Interest-bearing demand deposits | 77 | (27) | 50 | 280 | (127) | 153 |
| Savings deposits | 4 | 1 | 5 | 15 | (4) | 11 |
| Certificates of deposit | 6,466 | 3,388 | 9,854 | 6,088 | 26,260 | 32,348 |
| Total interest-bearing deposits | 6,547 | 3,362 | 9,909 | 6,383 | 26,129 | 32,512 |
| Securities sold under agreements to repurchase | 61 | 172 | 233 | 141 | 152 | 293 |
| Bonds-match funded agreements | 401 | 758 | 1,159 | 4,449 | (3,707) | 742 |
| Lines of credit and other secured borrowings | (39) | (1,633) | (1,672) | 2,088 | (236) | 1,852 |
| Notes and debentures | 1,589 | 5,828 | 7,417 | 14 | 2,154 | 2,168 |
| Total interest-bearing liabilities | 8,559 | 8,487 | 17,046 | 13,075 | 24,492 | 37,567 |
| Favorable (unfavorable) variance | $ 5,304 | $ (1,371) | $ 3,933 | $ 6,963 | $ (15,532) | $ (8,569) |

2003 versus 2002. We incurred net interest expense before provision for loan losses of $(14,594) for the year ended December 31, 2003 as compared to $(18,527) for the year ended December 31, 2002, a favorable variance of $3,933 or 21%. This variance was due to an increase in the net interest spread and a decrease in the average balance of our interest-bearing liabilities, offset by a decrease in the average balance of our interest-earning assets and a decrease in the net interest margin. The net interest spread increased 179 basis points as a result of a 48 basis-point increase in the weighted average yield on our interest-earning assets, and a 131 basis-point decrease in the weighted average rate on our interest-bearing liabilities. The net impact of these rate changes resulted in a $5,304 favorable variance. The average balance of our interest-earning assets decreased by $200,705 or 39% during 2003 and reduced interest income by $9,858. The average balance of our interest-bearing liabilities decreased by $109,130 or 12% during 2003 and decreased interest expense by $8,487. The net impact of these volume changes resulted in a $1,371 unfavorable variance.

As previously discussed in this section, the decline in the net interest margin is largely due to the decline in the ratio of interest -earning assets to interest-bearing liabilities. This trend is likely to persist as we continue our transition to fee-based businesses and dispose of interest-bearing non-core assets. Certain assets associated with our fee-based businesses, such as mortgage servicing rights and servicing advances, do not earn interest but are financed by interest-bearing debt.

Interest income we earned on our loans decreased by $9,665 or 86% during 2003 as compared to 2002 as a result of a $78,058 or 53% decline in the average balance of our investment and a 534 basis-point decrease in the average yield. Sales, foreclosures, resolutions and the absence of acquisitions and originations have resulted in the declines in the average balance of loans during 2003. The yield on our loans is likely to fluctuate from period to period as a result of the timing of resolutions and the mix of the overall portfolio between performing and non-performing loans. Gains on the resolution of loans, which we report as interest income, declined to $57 in 2003 as compared to $3,347 in 2002. This decline results from declines in loans during 2002 and 2003 as a result of sales and resolutions. See "Changes in Financial Condition - Loans, Net."

Interest income we earned from our trading securities on a combined basis increased from $16,580 in 2002 to $17,345 in 2003, a $765 or 5% increase. Interest income subordinates and residuals increased $2,894 as a result of a 1,221 basis-point increase in the average yield earned, offset in part by a $5,572 or 13% decrease in the average balance. The increase in the average yield on subordinate and residual securities in 2003 is largely the result of sales of low-yielding unrated subprime residuals during 2002 and an increase in interest on unrated single family subprime residuals. The decline in our average investment in subordinates and residuals during 2003 is primarily the result of sales, principal repayments and amortization, offset in part by the transfer in the second quarter of securities previously reported as match funded. The $2,894 increase in interest income on subordinates and residuals in 2003 was offset in part by a $2,129 decline in interest income on CMOs and U.S. government and sponsored enterprise securities, which resulted from an 89% decline in the average balance and a 303 basis-point decline in the average yield. The declines in our average investment in CMOs and U.S. government and sponsored enterprise securities during 2003 is primarily the result of principal maturities, principal repayments and amortization of premium related to CMOs. This trend reflects the fact that we no longer need to hold these securities to meet the Qualified Thrift Lender requirements of the Bank. The decline in the average yield on CMOs and U.S. government and sponsored enterprise securities is primarily the result of declining interest rates and increased prepayments of the underlying mortgages that back the CMO bonds. When prepayments occur faster than anticipated, the amortization of premiums paid when the CMO bonds were purchased is accelerated resulting in a lower or negative yield. See "Changes in Financial Condition - Trading Securities".

Interest income we earned on match funded loans and securities decreased $3,061 or 47% in 2003 as compared to 2002. This decrease is primarily due to a $28,720 or 43% decline in the average balances primarily as a result of principal repayments received on both the loans and securities and the transfer of match funded securities to residual trading securities during the second quarter of 2003. See "Changes in Financial Condition - Match Funded Assets".

Interest expense we incurred on our interest-bearing deposits decreased $9,909 or 36% during 2003 as compared to 2002 due to a $63,127 or 13% decrease in the average balance and 149 basis-point decline in the average rate. The decline in the average balance of deposits during 2003 resulted primarily from maturing brokered certificates of deposit, offset in part by an increase in non-brokered certificates of deposit. We have not issued any new brokered certificates of deposit since 2000 and, at this time, do not intend to issue any such deposits in the foreseeable future. We do, however, plan to retain non-brokered deposits as a source of financing. The declines in the average rates in 2003 reflects the replacement of maturing brokered certificates of deposit with non-brokered certificates of deposit which have a lower rate of interest. See "Changes in Financial Condition - Deposits."

Interest expense we incurred on notes and debentures decreased $7,417 or 43% during 2003 as compared to 2002 due to a $52,495 or 36% decrease in the average balance and a 119 basis-point decrease in the average rate. The decrease in the average balance is primarily due to repurchases of debt and maturities during 2003 and 2002. We repurchased $33,500 of our 12% subordinated notes and debentures on September 30, 2003. In addition, $43,475 of our 11.875% notes matured on October 1, 2003. During 2002, we repurchased $77,095 of our notes and debentures. Offsetting these redemptions and maturities was the transfer to notes and debentures of our $56,249 of 10.875% Capital Securities on July 1, 2003, in accordance with the provisions of SFAS No. 150. See "Gain (Loss) on Repurchases of Debt" and "Changes in Financial Condition - Notes and Debentures."

2002 versus 2001. We incurred net interest expense before provision for loan losses of $(18,527) for the year ended December 31, 2002 as compared to net interest expense of $(9,958) for the year ended December 31, 2001, an unfavorable variance of $8,569 or 86%. This variance was due to a decrease in the average balance of our interest-earning assets and a decrease in the net interest spread and margin, offset by a decrease in the average balance of our interest-bearing liabilities. The average balance of our interest-earning assets decreased by $458,972 or 47% during 2002 and reduced interest income by $(40,024). The average balance of our interest-bearing liabilities decreased by $402,247 or 31% during 2002 and decreased interest expense by $24,492. The net impact of these volume changes resulted in a $(15,532) unfavorable variance. The net interest spread decreased 37 basis points as a result of a 132 basis-point decrease in the weighted average yield on our interest-earning assets, offset by a 95 basis-point decrease in the weighted average rate on our interest-bearing liabilities. The net impact of these rate changes resulted in a $6,963 favorable variance.

Interest income we earned on our loans decreased by $34,811 or 76% during 2002 as compared to 2001 as a result of a $287,159 or 66% decline in the average balance of our investment and a 293 basis-point decrease in the average yield. Sales, foreclosures, resolutions and the absence of acquisitions and originations have resulted in a decline in the average balance of loans during 2002. The yield on our loans is likely to fluctuate from period to period as a result of the timing of resolutions and the mix of the overall portfolio between performing and non-performing loans. Gains on the resolution of loans, which we report as interest income, declined to $3,347 in 2002 as compared to $10,657 in 2001. This decline primarily relates to single family loans, the balance of which declined significantly during 2001 and 2002 as a result of sales and resolutions. See "Changes in Financial Condition - Loans, Net."

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Interest income we earned from our trading securities on a combined basis declined from $18,865 in 2001 to $16,580 in 2002, a $2,285 or 12% decline. The decline in interest income is primarily due to a $37,719 or 30% decline in our average investment in U.S. government and sponsored enterprise securities and CMOs and a $52,800 or 54% decline in our average investment in subordinates and residuals. The decline in the average balance of our U.S. government and sponsored enterprise securities and CMOs during 2002 as compared to 2001 reflects a reduced need to hold these securities to meet the Qualified Thrift Lender requirements. The decline in the average balance of our subordinates and residuals during 2002 was primarily due to sales of subprime residuals and amortization. These declines were significantly offset by a 2,107 basis point increase in the yield on subordinates and residuals. This increase in yield was a result of sales of certain low-yielding unrated subprime residuals and an increase in interest payments received on our remaining subprime residual securities. Because CMOs have less cash flow variability, their average lives and yields to maturity are more stable, and therefore, CMOs are priced to yield less than subordinates and residuals that are less stable. The decline in the average yield on CMOs during 2002 is primarily the result of declining interest rates and increased prepayments of the underlying mortgages that back the bonds.

Interest income we earned on match funded assets decreased $3,882 or 38% in 2002 as compared to 2001. This decrease is primarily due to a $37,087 or 36% decline in the average balances primarily as a result of principal repayments received on both the loans and securities. See "Changes in Financial Condition - Match Funded Assets".

Interest expense we incurred on our interest-bearing deposits decreased $32,512 or 54% during 2002 as compared to 2001 due to a $442,286 or 47% decrease in the average balance and, to a lesser degree, an 83 basis point decline in the rate. The decline in the average balance resulted primarily from maturing brokered certificates of deposit. We did not issue any new brokered certificates of deposit during 2002 or 2001 and, at this time, do not intend to issue any such deposits in the foreseeable future. We continue to rely on non-brokered deposits as a source of financing. See "Changes in Financial Condition - Deposits."

Interest expense we incurred on notes and debentures decreased $2,168 or 11% during 2002 as compared to 2001 primarily due to a $17,887 or 11% decrease in the average balance. The decrease in the average balance is primarily due to debt repurchases that we made during 2002 and 2001. We repurchased $77,095 of our notes and debentures during 2002, including $73,545 we redeemed at a premium in November. During 2001, we repurchased $13,025 of our notes. See "Gain (Loss) on Repurchases of Debt" and "Changes in Financial Condition - Notes and Debentures".

Interest expense we incurred on our lines of credit and other secured borrowings decreased $1,852 or 31% during 2002 as compared to 2001 due to a 223 basis-point decline in the average rate, offset in part by a $3,684 or 4% increase in the average outstanding balance. Interest rates on our lines of credit are adjusted periodically based on changes in LIBOR. The decline in the average rate is primarily due to declines in LIBOR. During 2001 and part of 2002, we used lines of credit to fund real estate investments and commercial construction loans. These lines expired and were repaid in May 2002. Beginning in April 2001, we entered into lines of credit to fund servicing advances we purchased in connection with the acquisition of loans serviced for others. Average balances outstanding under our lines of credit increased during 2002 primarily because of increases in our funding of residential loan servicing advances under a new line offset in part by the expiration and repayment of the lines collateralized by real estate and commercial loans. See "Changes in Financial Condition -Lines of Credit and Other Secured Borrowings".

(Dollars in thousands, except share data)

Provisions for Loan Losses. As of December 31, 2003, our total net loan balance was $28,098 or 2.3% of total assets, as compared to $76,857 or 6.3% of total assets as of December 31, 2002. Of the balance remaining at December 31, 2003, $20,763 represents three non-residential loans held in our Commercial Finance segment and $6,545 represents three multi-family loans held in our Affordable Housing segment. Because of the small number of remaining loans, we are able to perform a specific risk assessment on each Commercial Finance and Affordable Housing loan. Our risk assessment of Commercial Finance loans includes a review of the underlying loan collateral, general and local economic conditions, property type risk, borrower's capacity and willingness to pay, and projections of prospective cash flows based on property-specific events. For loans held in our Affordable Housing business, we project the amounts to be realized from the disposition of the property to determine the appropriate allowance for loan losses. We also analyze the historical trends in the gains or losses on disposition and resolution of loans as compared to the allowance for loan losses at the time of disposition and resolution. The results of this analysis are also taken into consideration in evaluating the allowance for loan losses on the remaining loans. The allowance for loan losses is management's best estimate of probable inherent loan losses incurred as of December 31, 2003.

The following table presents the provisions for loan losses for the years indicated:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Loans: | | | |
| Unsecured Collections | $ -- | $ (278) | $ 1,176 |
| Residential Discount Loans | -- | (2,273) | 5,872 |
| Commercial Finance | (3,095) | 12,814 | 7,223 |
| Affordable Housing | 151 | 3,392 | 1,207 |
| Corporate Items and Other | 311 | -- | -- |
| | (2,633) | 13,655 | 15,478 |
| Match funded loans: | | | |
| Residential Discount Loans | -- | (26) | 188 |
| Corporate Items and Other | (51) | -- | -- |
| | $ (2,684) | $ 13,629 | $ 15,666 |

The negative provision that we recorded during 2003 results primarily from the recovery of reserves on sales of Commercial Finance loans, which were non-performing, during the second quarter. Our allowance for loan losses as a percentage of non-performing loans has increased from 11.0% at December 31, 2001 to 27.5% at December 31, 2002 and 38.7% at December 31, 2003.

The decline in provision on Residential Discount Loans in 2002 as compared to 2001 is primarily the result of sales of loans that were significantly reserved. The increase in the provision on Affordable Housing loans is largely the result of increased reserve levels on affordable housing construction loans based on estimated permanent financing proceeds. The increased provision on Commercial Finance loans in 2002 reflected an increase in reserve levels on the seven loans remaining at December 31, 2002.

As indicated in the table below, our allowance as a percentage of loans increased from 5.3% at December 31, 2001 to 21.3% at December 31, 2002 and 23.2% at December 31, 2003.

(Dollars in thousands, except share data)

The following table sets forth the allowance for loan losses as a percentage of the respective loan balances at the dates indicated:

| | Allowance | Loan Balance | Allowance as a % of Loan Balance |
|---|---|---|---|
| **December 31, 2003** | | | |
| Loans: | | | |
| Commercial Finance | $ 3,786 | $ 24,549 | 15.4% |
| Affordable Housing | 4,579 | 11,124 | 41.2% |
| Corporate Items and Other | 105 | 895 | 11.7% |
| | 8,470 | 36,568 | 23.2% |
| Match funded loans: | | | |
| Corporate Items and Other | 94 | 24,393 | 0.4% |
| | $ 8,564 | $ 60,961 | 14.0% |
| **December 31, 2002** | | | |
| Loans: | | | |
| Residential Discount Loans | $ 154 | $ 1,400 | 11.0% |
| Commercial Finance | 16,179 | 85,377 | 19.0% |
| Affordable Housing | 4,428 | 10,657 | 41.6% |
| Subprime Finance | -- | 184 | --% |
| | 20,761 | 97,618 | 21.3% |
| Match funded loans: | | | |
| Residential Discount Loans | 144 | 38,129 | 0.4% |
| | $ 20,905 | $ 135,747 | 15.4% |
| **December 31, 2001** | | | |
| Loans: | | | |
| Residential Discount Loans | $ 3,401 | $ 41,150 | 8.3% |
| Commercial Finance | 5,744 | 135,548 | 4.2% |
| Affordable Housing | 1,269 | 18,484 | 6.9% |
| Subprime Finance | -- | 525 | --% |
| | 10,414 | 195,707 | 5.3% |
| Match funded loans: | | | |
| Residential Discount Loans | 170 | 53,123 | 0.3% |
| | $ 10,584 | $ 248,830 | 4.3% |

For additional information regarding our allowance for loan losses on the above portfolios, see "Changes in Financial Condition - Allowances for Loan Losses." For information relating to our valuation allowance on real estate, see "Changes in Financial Condition - Real Estate - Real Estate Owned, Net."

Non-Interest Income. The following table sets forth the principal components of our non-interest income during the years indicated:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Servicing and other fees | $ 158,548 | $ 141,991 | $ 134,597 |
| Gain (loss) on interest earning assets, net | 28 | (3,485) | (3,949) |
| Gain (loss) on trading and match funded securities, net | 3,344 | 7,012 | 16,330 |
| Valuation gains (losses) on real estate | (7,430) | (35,002) | (22,282) |
| Gain (loss) on sales of real estate | 466 | 4,098 | 14,156 |
| Operating income (loss) from real estate | 5,128 | 7,864 | 4,495 |
| Amortization of excess of net assets acquired over purchase price | -- | -- | 18,333 |
| Gain (loss) on repurchase of debt | (445) | (1,461) | 3,774 |
| Equity in income (loss) of investment in unconsolidated entities | 38 | 215 | 304 |
| Other income | 17,820 | 12,780 | 8,530 |
| Non-interest income | $ 177,497 | $ 134,012 | $ 174,288 |

(Dollars in thousands, except share data)

Servicing and Other Fees. Our servicing and other fees are primarily comprised of fees we earned from investors for servicing residential mortgage loans on their behalf. The following table sets forth the principal components of our servicing and other fees for the years indicated:

| Residential Loan Servicing: | 2003 | 2002 | 2001 |
|---|---|---|---|
| Loan servicing and related fees: | | | |
| Loan servicing fees (1) | $ 166,425 | $ 139,178 | $ 106,441 |
| Late charges | 35,461 | 28,075 | 21,071 |
| Interest on custodial accounts (2) | 10,821 | 7,757 | 8,530 |
| Special servicing fees (3) | 1,933 | 3,884 | 9,049 |
| Compensating interest expense (4) | (32,315) | (19,758) | (12,126) |
| Amortization of servicing rights (5) | (93,558) | (58,045) | (28,870) |
| Other, net | 5,691 | 2,547 | 3,633 |
| | 94,458 | 103,638 | 107,728 |
| Other fees: | | | |
| Default servicing fees | 3,956 | 4,418 | 3,917 |
| Retail banking fees | 7,349 | 5,036 | 2,664 |
| Other | 12,556 | 5,159 | 3,276 |
| | 118,319 | 118,251 | 117,585 |
| Other Segments: | | | |
| Loan servicing and related fees: | | | |
| Loan servicing fees | 10,583 | 6,710 | 3,439 |
| Late charges | 897 | 960 | 255 |
| Special servicing fees (3) | -- | -- | (555) |
| Amortization of servicing rights | -- | (108) | (971) |
| Other, net | 8,536 | 1,518 | 2,587 |
| | 20,016 | 9,080 | 4,755 |
| Other fees: | | | |
| Property valuation fees (ORA) | 18,803 | 14,204 | 11,789 |
| Default servicing fees | 581 | -- | -- |
| Retail banking fees | 21 | 27 | 26 |
| Other | 808 | 429 | 442 |
| | 40,229 | 23,740 | 17,012 |
| | $ 158,548 | $ 141,991 | $ 134,597 |

(1) The increase in loan servicing fees during 2003 and 2002 is largely due to the growth in residential loans we serviced for others. The average unpaid principal balance of all loans we serviced during 2003, 2002 and 2001 amounted to $34,568,316, $27,956,823 and $16,738,337, respectively.

(2) Interest we earned on custodial accounts during the holding period between collection of borrower payments and remittance to investors. These custodial accounts are held by an unaffiliated bank and are excluded from our statement of financial condition. The average balances held in these custodial accounts were approximately $993,000, $494,000 and $248,000 during 2003, 2002 and 2001, respectively.

(3) Fees we earned under special servicing arrangements wherein we act as a special servicer for third parties, typically as part of a securitization. Under these arrangements, we service loans that become greater than 90 days past due and receive base special servicing fees plus incentive fees to the extent we achieve certain loss mitigation parameters. We have not entered into any new special servicing arrangements since the middle of 2001. As a result, special servicing fees have declined in 2002 and 2003.

(4) A servicer of securitized loans is typically obligated to pay to the securitization trust the difference between a full month of interest and the interest collected on loans that are repaid before the end of a calendar month.

(5) The increases in amortization expense reflect increases in our purchases of rights to service loans for others and an increase in the rate of amortization to reflect projected prepayment volumes. See "Changes in Financial Condition - Mortgage Servicing Rights."

(Dollars in thousands, except share data)

The following table sets forth our loans serviced for others at the dates indicated:

| | Subprime Loans (1) | | Other Loans and REO | | Total | |
|---|---|---|---|---|---|---|
| | Amount | No. of Loans | Amount | No. of Loans | Amount | No. of Loans |
| **December 31, 2003** | | | | | | |
| Performing (2): | | | | | | |
| Residential servicing ............. | $ 32,811,398 | 293,493 | $ 961,766 | 17,894 | $ 33,773,164 | 311,387 |
| Commercial servicing .............. | -- | -- | 437,011 | 262 | 437,011 | 262 |
| | $ 32,811,398 | 293,493 | $ 1,398,777 | 18,156 | $ 34,210,175 | 311,649 |
| Non-performing (2)(3): | | | | | | |
| Residential servicing ............. | $ 3,173,976 | 35,470 | $ 750,218 | 12,735 | $ 3,924,194 | 48,205 |
| Commercial servicing .............. | -- | -- | 379,146 | 280 | 379,146 | 280 |
| | $ 3,173,976 | 35,470 | $ 1,129,364 | 13,015 | $ 4,303,340 | 48,485 |
| Total loans serviced for others: | | | | | | |
| Residential servicing ............. | $ 35,985,374 | 328,963 | $ 1,711,984 | 30,629 | $ 37,697,358 | 359,592 |
| Commercial servicing .............. | -- | -- | 816,157 | 542 | 816,157 | 542 |
| | $ 35,985,374 | 328,963 | $ 2,528,141 | 31,171 | $ 38,513,515 | 360,134 |
| **December 31, 2002** | | | | | | |
| Performing (2): | | | | | | |
| Residential servicing ............. | $ 26,817,731 | 282,926 | $ 1,089,109 | 17,204 | $ 27,906,840 | 300,130 |
| Commercial servicing .............. | -- | -- | 752,722 | 407 | 752,722 | 407 |
| | $ 26,817,731 | 282,926 | $ 1,841,831 | 17,611 | $ 28,659,562 | 300,537 |
| Non-performing (2): | | | | | | |
| Residential servicing ............. | $ 2,565,823 | 31,626 | $ 261,014 | 4,277 | $ 2,826,837 | 35,903 |
| Commercial servicing .............. | -- | -- | 582,964 | 238 | 582,964 | 238 |
| | $ 2,565,823 | 31,626 | $ 843,978 | 4,515 | $ 3,409,801 | 36,141 |
| Total loans serviced for others: | | | | | | |
| Residential servicing ............. | $ 29,383,554 | 314,552 | $ 1,350,123 | 21,481 | $ 30,733,677 | 336,033 |
| Commercial servicing .............. | -- | -- | 1,335,686 | 645 | 1,335,686 | 645 |
| | $ 29,383,554 | 314,552 | $ 2,685,809 | 22,126 | $ 32,069,363 | 336,678 |
| **December 31, 2001** | | | | | | |
| Performing (2): | | | | | | |
| Residential servicing ............. | $ 18,068,542 | 242,664 | $ 919,639 | 18,074 | $ 18,988,181 | 260,738 |
| Commercial servicing .............. | -- | -- | 1,062,345 | 1,962 | 1,062,345 | 1,962 |
| | $ 18,068,542 | 242,664 | $ 1,981,984 | 20,036 | $ 20,050,526 | 262,700 |
| Non-performing (2): | | | | | | |
| Residential servicing ............. | $ 2,638,235 | 35,585 | $ 317,001 | 5,021 | $ 2,955,236 | 40,606 |
| Commercial servicing .............. | -- | -- | 158,250 | 247 | 158,250 | 247 |
| | $ 2,638,235 | 35,585 | $ 475,251 | 5,268 | $ 3,113,486 | 40,853 |
| Total loans serviced for others: | | | | | | |
| Residential servicing ............. | $ 20,706,777 | 278,249 | $ 1,236,640 | 23,095 | $ 21,943,417 | 301,344 |
| Commercial servicing .............. | -- | -- | 1,220,595 | 2,209 | 1,220,595 | 2,209 |
| | $ 20,706,777 | 278,249 | $ 2,457,235 | 25,304 | $ 23,164,012 | 303,553 |

(1) Subprime loans represent loans we service which were made by others to borrowers who generally did not qualify under guidelines of the Fannie Mae and Freddie Mac ("nonconforming loans").

(2) Non-performing loans serviced for others have been delinquent for 90 days or more. Performing loans serviced for others are current or have been delinquent for less than 90 days.

(3) Includes $480,388 of residential REO properties serviced for The U.S. Department of Veterans Affairs under a contract entered into in September 2003.

(Dollars in thousands, except share data)

Gain (Loss) on Interest Earning Assets. The following table sets forth the principal components of net gains (losses) we earned on our interest earning assets for the years indicated:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Gain (loss) on loan sales | $ 27 | $ (4,105) | $ (4,380) |
| Other | 1 | 620 | 431 |
| | $ 28 | $ (3,485) | $ (3,949) |

Gain on Trading and Match Funded Securities Net. The net gain recorded on trading and match funded securities includes both unrealized gains (losses) on securities to record them at fair value and realized gains (losses) resulting from sales thereof. Realized net gains from sales of trading securities totaled $366, $4,992 and $11,117 during 2003, 2002 and 2001, respectively. The value of our trading securities has declined from $226,249 at December 31, 2001 to $58,895 at December 31, 2002 and $49,520 at December 31, 2003 as a result of sales, maturities and repayments. See "Changes in Financial Condition - Trading Securities" and Notes 1, 3 and 5 to our Consolidated Financial Statements.

Valuation Gains (losses) on Real Estate. We regularly assess the value of our remaining real estate assets and provide additional loss reserves or impairment charges as appropriate. Valuation gains (losses) on real estate primarily consist of provisions for losses in fair value on real estate owned and impairment charges on properties acquired for investment, as indicated in the table below.

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Provisions for loss in fair value on real estate owned, net: | | | |
| Residential Discount Loans (1) | $ -- | $ (1,648) | $ (9,689) |
| Commercial Finance (2) | 342 | (17,996) | (7,845) |
| Subprime Finance | -- | (12) | (172) |
| Corporate Items and Other | (246) | (29) | (60) |
| | 96 | (19,685) | (17,766) |
| Impairment charges: | | | |
| Commercial Finance: | | | |
| Properties acquired for investment | (7,526) | (14,549) | (1,471) |
| Loans accounted for as investments in real estate | -- | -- | (409) |
| Investment in real estate partnerships | -- | (768) | (411) |
| Assisted living facilities | -- | -- | (2,225) |
| | (7,526) | (15,317) | (4,516) |
| | $ (7,430) | $ (35,002) | $ (22,282) |

(1) The decline in the provision reflects a decline in the number of properties from 372 at December 31, 2001 to 47 at December 31, 2002 and 17 at December 31, 2003. See "Changes in Financial Condition - Real Estate - Real Estate Owned, Net".

(2) The provision in 2002 reflects a significant increase in reserve levels. Only two commercial properties remained as of December 31, 2003. See "Changes in Financial Condition - Real Estate - Real Estate Owned, Net".

(Dollars in thousands, except share data)

Gain (Loss) on Sales of Real Estate. The following table sets forth the principal components of net gains (losses) we recorded on sales of our real estate for the years indicated:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Gains on sales of real estate owned (1):** | | | |
| Residential Discount Loans | $ -- | $ 3,025 | $ 10,639 |
| Commercial Finance | 47 | 60 | 3,395 |
| Subprime Finance | 1 | 17 | 77 |
| Corporate Items and Other | 368 | 1 | -- |
| | 416 | 3,103 | 14,111 |
| **Gains on sales of other real estate:** | | | |
| Commercial Finance | 50 | 995 | 45 |
| | $ 466 | $ 4,098 | $ 14,156 |

(1) The decline in gains from sales of real estate owned reflects significant declines in the number of properties sold. Only 20 properties remain to be sold at December 31, 2003. See "Changes in Financial Condition - Real Estate - Real Estate Owned, Net."

Operating Income (Loss) from Real Estate. The following table sets forth the operating results of our real estate for the years indicated:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Real estate owned, net (1):** | | | |
| Residential Discount Loans | $ -- | $ (987) | $ (7,574) |
| Commercial Finance | 1,104 | 2,104 | 2,307 |
| Subprime Finance | (5) | (11) | (97) |
| Corporate Items and Other | 164 | (244) | (237) |
| | 1,263 | 862 | (5,601) |
| **Properties acquired for investment (2):** | | | |
| Commercial Finance | 3,008 | 3,035 | 6,127 |
| Corporate Items and Other | -- | -- | (86) |
| | 3,008 | 3,035 | 6,041 |
| **Equity in earnings of loans accounted for as investments in real estate (3):** | | | |
| Commercial Finance | 857 | 3,967 | 3,338 |
| **Assisted living facilities:** | | | |
| Commercial Finance | -- | -- | 717 |
| | $ 5,128 | $ 7,864 | $ 4,495 |

(1) Includes rental income and expenses associated with holding and maintaining the properties.

(2) Includes rental income, depreciation expense and operating expenses associated with holding and maintaining our properties acquired for investment. The decrease in operating income during 2002 is primarily due to the sale of a shopping center property during 2002. Only two properties remained at December 31, 2003 and 2002.

(3) The balance of loans we accounted for as investments in real estate had been fully repaid as of December 31, 2003.

See "Changes in Financial Condition - Real Estate".

Amortization of Excess of Net Assets Acquired over Purchase Price. The amortization of excess of net assets acquired over purchase price (negative goodwill) resulted from our acquisition of OAC on October 7, 1999. Our acquisition resulted in an excess of net assets acquired over the purchase price of $60,042, which we amortized on a straight-line basis through 2001. On January 1, 2002, upon adoption of Statement of Financial Accounting Standard ("SFAS") No. 142, we reversed the unamortized balance of $18,333 to income as the effect of a change in accounting principle as required by this statement. See Note 1 to our Consolidated Financial Statements.

(Dollars in thousands, except share data)

Gain (Loss) on Repurchase of Debt. The following table sets forth the components of the gains (losses) resulting from our repurchase of our debt securities during the years indicated:

| | 2003 | 2002 (3) | 2001 |
|---|---|---|---|
| 10.875% Capital Securities due August 1, 2027: | | | |
| Face amount repurchased | $ -- | $ 4,910 | $ 18,371 |
| Gain (loss) | $ -- | $ 1,074 | $ 3,722 |
| 11.875% Notes due October 1, 2003 (1): | | | |
| Face amount repurchased | $ -- | $ 43,550 | $ 13,025 |
| Gain (loss) | $ -- | $ (1,508) | $ 52 |
| 11.5% Redeemable Notes due July 1, 2005: | | | |
| Face amount repurchased | $ -- | $ 45 | $ -- |
| Gain (loss) | $ -- | $ (2) | $ -- |
| 12.0% Subordinated Debentures due June 15, 2005 (2): | | | |
| Face amount repurchased | $ 33,500 | $ 33,500 | $ -- |
| Gain (loss) | $ (445) | $ (1,025) | $ -- |
| Total debt repurchases: | | | |
| Face amount repurchased | $ 33,500 | $ 82,005 | $ 31,396 |
| Gain (loss) | $ (445) | $ (1,461) | $ 3,774 |

(1) The remaining $43,475 balance of our 11.875% Notes matured on October 1, 2003 and were repaid in full.

(2) On September 30, 2003 we exercised our redemption option and called the remaining $33,065 balance of our 12.0% Subordinated Debentures at a price of 101.333%, or a premium of $441. Earlier in the year, we had repurchased $435 in the open market resulting in a loss of $4.

(3) In November 2002 we exercised redemption options on three of our outstanding debt obligations for a combined debt reduction of $73,545. As provided for in the terms of the indentures, we exercised our redemption option and called $40,000 of our 11.875% Notes at a price of 102.969%, $33,500 of our 12% Subordinated Debentures at a price of 102.667% and the remaining $45 of our 11.5% Redeemable Notes at a price of 105.75%. As a result of these early redemptions at a premium, we incurred $2,499 of loss, including the write-off of $416 of unamortized issuance costs.

See "Changes in Financial Condition - Notes and Debentures" and "Company Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company" and Note 15 to our Consolidated Financial Statements.

Other Income. Other income consists primarily of software revenue earned by OTX, collections of credit card receivables accounted for under the cost recovery method, brokerage commissions earned from sales of real estate and consulting fees. See Note 23 to our Consolidated Financial Statements for a disclosure of the components of other income for 2003, 2002 and 2001. The $5,040 increase in other income for 2003 as compared to 2002 was primarily the result of a $6,877 increase in OTX software revenues (primarily from REALTrans), offset in part by declines in consulting fees and collections of credit card receivables. Consulting fees for 2002 include $1,398 earned from a one-time contract with the government of Jamaica.

The $4,250 increase in other income during 2002 as compared to 2001 was largely the result of $4,191 of collections of unsecured receivables that were accounted for under the cost recovery method until they had been reduced to zero as of December 31, 2001 through collections and reserves.

(Dollars in thousands, except share data)

Non-Interest Expense. The following table sets forth the principal components of our non-interest expense for the years indicated:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Compensation and employee benefits | $ 72,221 | $ 77,778 | $ 84,914 |
| Occupancy and equipment | 13,159 | 11,843 | 11,577 |
| Technology and communication costs | 21,121 | 25,270 | 26,768 |
| Loan expenses | 14,252 | 12,605 | 15,811 |
| (Gain) loss on affordable housing properties | 285 | 21,915 | 17,535 |
| Amortization/writeoff of excess of purchase price over net assets acquired | -- | 2,231 | 3,112 |
| Professional services and regulatory fees | 26,054 | 16,383 | 14,749 |
| Other operating expenses | 10,409 | 9,601 | 8,849 |
| | $ 157,501 | $ 177,626 | $ 183,315 |

Compensation and Employee Benefits. The following table presents the principal components of compensation and benefits for the years indicated:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Salaries (1) | $ 49,811 | $ 53,746 | $ 58,012 |
| Bonuses (2) | 9,771 | 7,904 | 9,544 |
| Payroll taxes | 3,708 | 4,352 | 4,763 |
| Commissions | 2,460 | 3,370 | 3,541 |
| Insurance | 2,251 | 2,668 | 2,682 |
| Severance | 1,397 | 2,316 | 1,701 |
| Contract programmers | 51 | 531 | 1,539 |
| Relocation | 578 | 759 | 1,049 |
| Other (3) | 2,194 | 2,132 | 2,083 |
| | $ 72,221 | $ 77,778 | $ 84,914 |

(1) Salaries include fees paid for the services of temporary employees.

(2) Bonuses include compensation related to employee incentive awards of restricted stock and stock options.

(3) Other consists primarily of recruiting expenses, matching contributions to our 401(K) plan and fees paid to directors.

The decline in compensation and benefits in 2003 and 2002 was primarily due to a decrease in salaries. This decline in costs has occurred in spite of an increase in the average number of our employees and is due in large part to our ongoing globalization initiative to reduce labor costs through the migration of certain functions (primarily in support of our Residential Loan Servicing, Business Process Outsourcing and OTX businesses) to our offices in Bangalore and Mumbai, India. This initiative has resulted in a significant increase in the concentration of our workforce in India. The average total number of our full-time employees (domestic and international combined) amounted to 2,083, 1,790 and 1,536 during 2003, 2002 and 2001, respectively. The number of employees in our India offices averaged 1,134 during 2003 as compared to 543 during 2002 and 151 during 2001. We may experience additional growth in our India workforce during 2004 depending upon the growth of recent business initiatives, primarily Business Process Outsourcing. See "Workforce and Operational Capacity" for additional information regarding our operations and workforce in India. The decline in salaries, in spite of the increase in the number of employees, is also the result of a change in the mix of our workforce in the United States to a greater concentration of call center and similar level positions. This change in mix has occurred as we have exited capital-intensive businesses in favor of fee-based businesses, primarily residential loan servicing.

Occupancy and Equipment. Occupancy and equipment costs consist principally of rents, depreciation (excluding hardware and software), building maintenance, postage and mailing services, delivery charges and other costs of our office operations. The increase in occupancy and equipment expense in 2003 as compared to 2002 is primarily attributed to the growth of our Business Process Outsourcing and International segments, as well as expansion of our India operations.

(Dollars in thousands, except share data)

Technology and Communication Costs. The following table presents the principle components of technology and communication costs for the years indicated:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Depreciation expense: | | | |
| Hardware (1) | $ 6,579 | $ 7,154 | $ 5,465 |
| Software | 2,455 | 2,562 | 2,344 |
| Other | 437 | 326 | 93 |
| | 9,471 | 10,042 | 7,902 |
| Telecommunications expense (2) | 5,927 | 4,990 | 4,491 |
| Consulting fees - technology | 1,552 | 1,729 | 1,610 |
| Amortization expense: | | | |
| Capitalized software development costs | 1,511 | 1,424 | 1,213 |
| Intellectual property | -- | 1,029 | 1,060 |
| | 1,511 | 2,453 | 2,273 |
| Equipment lease expense (1) | 1,462 | 1,312 | 29 |
| Other (3) | 1,198 | 4,744 | 10,463 |
| | $ 21,121 | $ 25,270 | $ 26,768 |

(1) The increase in depreciation and leasing expense in 2002 was largely the result of upgrades to our computer servers and other hardware, as well as new hardware purchased for expanding our India operations centers.

(2) The increase in telecommunication expense during 2003 and 2002 is largely due to increased costs of telecommunication lines as a result of our expansion in India.

(3) Other technology costs for 2002 and 2001 included $1,068 and $3,185, respectively, of payments related to the acquisition of Amos, Inc., an OTX subsidiary, in 1997. The final compensatory payment due in connection with this acquisition was recorded in 2002.

(Gain) loss on Affordable Housing Properties. Net losses we recorded on investments in affordable housing properties during the past three years included loss provisions in the amount of $432, $17,350 and $15,587, respectively, for expected losses on the sale of properties. Losses for 2002 also included a $3,944 charge to record a discount on a long-term sale of seven properties during the second quarter. We are accreting this discount to income over the term of the related receivable balance, which extends through 2014. (Gains) losses from sales of affordable housing properties amounted to ($1,050,) $(445) and $955 during 2003, 2002 and 2001, respectively. See "Changes in Financial Condition - Affordable Housing Properties."

Amortization/Writeoff of Excess of Purchase Price over Net Assets Acquired ("Goodwill"). Goodwill amortization and writeoffs that we recognized during 2002 and 2001 related entirely to OTX. In accordance with the provisions of SFAS No. 142, which we adopted on January 1, 2002, we ceased amortization of the remaining balance of our goodwill beginning in 2002. However, we test our goodwill annually for impairment. As a result of our annual impairment testing in 2002, we wrote-off the remaining $2,231 of goodwill associated with the 1997 acquisition of Amos, Inc. No write-off was required as a result of our 2003 impairment testing. See Note 1 to our Consolidated Financial Statements.

Loan Expenses. Loan expenses for 2003, 2002 and 2001 included $10,649, $9,463 and $8,426, respectively, of appraisal fees incurred in connection with property valuation services we provided through ORA. See "Segment Profitability - - ORA". Loan expenses also include other miscellaneous expenses incurred in connection with loans we own and those we service for others. Loan expenses for 2001 included a charge to write-off $1,485 of deferred costs on commercial loans we owned.

(Dollars in thousands, except share data)

Professional Services and Regulatory Fees. The following table presents the principal components of professional services and regulatory fees for the years indicated:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Legal fees and settlements (1) | $ 18,245 | $ 8,308 | $ 4,107 |
| Consulting fees (non-technology) | 2,183 | 2,873 | 3,392 |
| Audit and accounting fees | 1,745 | 1,236 | 1,269 |
| Corporate insurance | 1,513 | 1,010 | 725 |
| FDIC insurance (2) | 299 | 398 | 2,585 |
| Other | 2,069 | 2,558 | 2,671 |
| | $ 26,054 | $ 16,383 | $ 14,749 |

(1) The $9,937 increase in legal fees and settlements in 2003 as compared to 2002 is primarily the result of a $10,000 settlement in connection with the arbitration award to the former owners of Admiral Home Loan. Legal fees and settlements for 2002 included $3,250 related to the settlement of two litigation claims.

(2) The $2,187 decline in FDIC insurance in 2002 as compared to 2001 resulted from a decline in both our deposit liabilities and the FDIC assessment rates.

Other Operating Expenses. Other operating expenses include travel and related costs, check processing and other deposit related costs, amortization of deferred costs and provisions for uncollectible receivables. See Note 24 to our Consolidated Financial Statements for a disclosure of the components of other operating expenses for 2003, 2002 and 2001.

Distributions on Company Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company. Cash distributions on our Capital Securities are payable semi-annually in arrears on February 1 and August 1 of each year at an annual rate of 10.875%. We recorded $6,117, $6,287, and $7,131 of distributions to holders of the Capital Securities during 2003, 2002 and 2001, respectively. Effective July 1, 2003 with our adoption of SFAS No. 150, these distributions are reported in the consolidated statement of operations as interest expense. The decline in distributions is the result of repurchases we made during 2002 and 2001. See "Non-Interest Income - Gain (Loss) on Repurchase of Debt", Note 15 to our Consolidated Financial Statements and "Changes in Financial Condition - Company-Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company."

Income Tax Expense (Benefit). The following table provides details of our income tax expense (benefit) and effective tax rates for the years indicated:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Income tax expense (benefit) on income (loss) before taxes and effect of change in accounting principle | $ (1,427) | $ (31,066) | $ (23,348) |
| Provision for valuation allowance on current year's deferred tax asset | 2,175 | 34,049 | 23,348 |
| Provision for valuation allowance on prior year's deferred tax asset | -- | -- | 83,000 |
| Income tax expense | 748 | 2,983 | 83,000 |
| Income tax benefit on effect of change in accounting principle | -- | (1,166) | -- |
| Total income tax expense | $ 748 | $ 1,817 | $ 83,000 |

For 2003, 2002 and 2001 our effective tax rate before the provision for the deferred tax valuation allowance was (28.4)%, 48.1% and 55.9% respectively, and reflected tax credits of $2,394, $2,686 and $2,078, respectively, resulting from our investment in affordable housing properties.

The provision for deferred tax asset valuation allowance is a non-cash charge that we recorded to increase the aggregate valuation allowance, which amounted to $201,445 and $199,270 at December 31, 2003 and 2002, respectively. We estimated this valuation allowance based on our assessment of the portion of the deferred tax asset that more likely than not will not be realized. Reversal of all or a portion of the valuation allowance may be required in the future based on the results of our operations.

See Notes 8 and 18 to our Consolidated Financial Statements, and "Changes in Financial Condition - Affordable Housing Properties."

(Dollars in thousands, except share data)

## Changes in Financial Condition

Trading Securities. The following table sets forth the fair value of our trading securities at the dates indicated:

| | December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| U.S. Treasury securities and Collateralized mortgage obligations: | | | |
| U.S. Treasury securities | $ 6,679 | $ 1,016 | $ -- |
| Collateralized mortgage obligations (AAA-rated) (1) | -- | 20,540 | 161,191 |
| | $ 6,679 | $ 21,556 | $ 161,191 |
| Subordinates and residuals: (2) | | | |
| Single family residential | | | |
| BB rated subordinates | $ 579 | $ 599 | $ 625 |
| B-rated subordinates | 580 | 606 | 799 |
| Unrated subordinates | 222 | 344 | 1,008 |
| Unrated subprime residuals | 38,883 | 33,213 | 60,049 |
| | 40,264 | 34,762 | 62,481 |
| Nonresidential unrated subordinates | 2,577 | 2,577 | 2,577 |
| | $ 42,841 | $ 37,339 | $ 65,058 |

(1) During the year ended December 31, 2003, our CMO trading securities declined to $0 as a result of maturities and principal repayments. During 2002, the $140,651 decline was primarily due to $227,100 of maturities and principal repayments offset in part by purchases of $88,938. We have not replaced maturing CMOs with new purchases primarily because we no longer need these securities to meet the Qualified Thrift Lender requirements of the Bank.

(2) During the year ended December 31, 2003, our subordinate and residual trading securities increased by $5,502. This increase was principally the result of the transfer of $5,926 match funded securities to trading securities in June 2003 as a result of early redemption of the related bonds-match funded agreements. These securities had a fair value of $5,146 at December 31, 2003. See "Changes in Financial Condition - Match Funded Assets". Principal repayments and amortization during the year were largely offset by increases in fair value. During the year ended December 31, 2002, our subordinate and residual trading securities declined by $27,719. This decline was primarily due to $7,419 of maturities and principal repayments and $26,438 of sales, partly offset by $1,946 of net discount accretion.

Subordinate and residual interests in mortgage-related securities provide credit support to the more senior classes of the mortgage-related securities. Principal from the underlying mortgage loans generally is allocated first to the senior classes, with the most senior class having a priority right to the cash flow from the mortgage loans until its payment requirements are satisfied. To the extent that there are defaults and unrecoverable losses on the underlying mortgage loans, resulting in reduced cash flows, the most subordinate security will be the first to bear this loss. Because subordinate and residual interests generally have no credit support, to the extent there are realized losses on the mortgage loans comprising the mortgage collateral for such securities, we may not recover the full amount or, indeed, any of our remaining investment in such subordinate and residual interests.

Subordinate and residual interests are affected by the rate and timing of payments of principal (including prepayments, repurchase, defaults and liquidations) on the mortgage loans underlying a series of mortgage-related securities. The rate of principal payments may vary significantly over time depending on a variety of factors, such as the level of prevailing mortgage loan interest rates and economic, demographic, tax, legal and other factors. Prepayments on the mortgage loans underlying a series of mortgage-related securities are generally allocated to the more senior classes of mortgage-related securities. Although in the absence of defaults or interest shortfalls all subordinates receive interest, amounts otherwise allocable to residuals generally are used to make payments on more senior classes or to fund a reserve account for the protection of senior classes until over collateralization or the balance in the reserve account reaches a specified level. For residual interests in residential mortgage-backed securities, over collateralization is the amount by which the collateral balance exceeds the sum of the bond principal amounts. Over collateralization is achieved by applying monthly a portion of the interest payments of the underlying mortgages toward the reduction of the senior class certificate principal amounts, causing them to amortize more rapidly than the aggregate loan balance. Over collateralization represents the first tier of loss protection afforded to the non-residual holders. To the extent not consumed by losses on more highly rated bonds, over collateralization is remitted to the residual holders. In periods of declining interest rates, rates of prepayments on mortgage loans generally increase, and if the rate of prepayments is faster than anticipated, then the yield on subordinates will be positively affected and the yield on residuals will be negatively affected.

(Dollars in thousands, except share data)

We periodically assess the carrying value of our subordinate securities and residual securities retained. There can be no assurance that our estimates used to determine the value of subordinate securities and residual securities retained will remain appropriate for the life of each securitization. If actual loan prepayments or defaults exceed our estimates, the carrying value of our subordinate securities and residual securities retained may be decreased during the period in which we recognized the disparity.

The following table presents information regarding our trading subordinate and residual securities summarized by classification and rating at December 31, 2003:

| Rating/Description (1) | Fair Value | Percent Owned by Ocwen | Anticipated Yield to Maturity at Purchase (2)(3) | Anticipated Yield to Maturity at 12/31/03 (2)(4) | Coupon | Anticipated Weighted Average Remaining Life (2)(5) |
|---|---|---|---|---|---|---|
| Single-family residential: | | | | | | |
| BB-rated subordinates............ | $ 579 | 100.00% | 16.80% | 9.73% | 6.00% | 3.52 |
| B-rated subordinates............. | 580 | 100.00 | 17.39 | 24.85 | 6.06 | 1.95 |
| Unrated subordinates............. | 222 | 100.00 | 14.47 | 31.45 | 6.90 | 0.06 |
| Unrated subprime residuals....... | 38,883 | 100.00 | 17.15 | 7.99 | N/A | 4.62 |
| | 40,264 | | | | | |
| Commercial: | | | | | | |
| Unrated subordinates............. | 2,577 | 25.00 | 22.15 | 12.10 | N/A | 1.35 |
| | $ 42,841 | | | | | |

(1) Refers to the credit rating designated by the rating agency for each securitization transaction. Classes designated "A" have a superior claim on payment to those rated "B". Additionally, multiple letters have a superior claim to designations with fewer letters. Thus, for example, "BBB" is superior to "BB", which in turn is superior to "B". The lower class designations in any securitization will receive interest payments after senior classes and will experience losses before any senior class. The lowest potential class designation is "unrated" which, if included in a securitization, will always receive interest last and experience losses first.

(2) Subordinate and residual securities do not have a contractual maturity but are paid down over time as cash distributions are received. Because they do not have a stated maturity, we disclose the weighted average life of these securities.

(3) Represents the effective yield from inception to maturity based on the purchase price and anticipated future cash flows under pricing assumptions.

(4) Represents the effective yield based on the purchase price, actual cash flows received from inception until the respective date, and the then current estimate of future cash flows under the assumptions at the respective date. Changes in the December 31, 2003 anticipated yield to maturity from that originally anticipated are primarily the result of changes in prepayment assumptions and loss assumptions.

(5) Represents the weighted average life in years based on the December 31, 2003 book value.

The following table sets forth the principal amount of mortgage loans by the geographic location of the properties securing the mortgages that underlie our trading subordinate and residual securities at December 31, 2002:

| Description | U.K | California | New York | New Jersey | Texas | Other (1) | Total |
|---|---|---|---|---|---|---|---|
| Single family residential .... | $ 66,494 | $ 30,640 | $ 26,659 | $ 24,348 | $ 24,527 | $ 207,082 | $ 379,750 |
| Commercial ................... | -- | 6,986 | -- | -- | -- | 38,762 | 45,748 |
| Multi-family ................. | -- | 477 | 211 | 570 | -- | 1,946 | 3,204 |
| Total ........................ | $ 66,494 | $ 38,103 | $ 26,870 | $ 24,918 | $ 24,527 | $ 247,790 | $ 428,702 |
| Percentage of total .......... | 15.51% | 8.89% | 6.27% | 5.81% | 5.72% | 57.80% | 100.00% |

(1) Consists of properties located in 46 other states, none of which aggregated over $22,861 in any one state.

See Note 1 and Note 3 to our Consolidated Financial Statements.

(Dollars in thousands, except share data)

Real Estate. Our real estate consisted of the following at the dates indicated:

| | December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| Properties acquired for investment: | | | |
| Office buildings | $ 21,448 | $ 27,602 | $ 32,132 |
| Retail | 11,402 | 9,090 | 29,637 |
| Building improvements | 15,884 | 17,387 | 17,513 |
| Tenant improvements and lease commissions | 6,558 | 2,795 | 4,537 |
| Furniture and fixtures | 36 | 30 | 52 |
| | 55,328 | 56,904 | 83,871 |
| Accumulated depreciation | (7,118) | (5,316) | (5,327) |
| | 48,210 | 51,588 | 78,544 |
| Nonresidential loans accounted for as investments in real estate | -- | 2,188 | 30,436 |
| Investment in real estate partnerships | 5,220 | 4,900 | 7,916 |
| Assisted living facilities (1) | -- | -- | 13,418 |
| Real estate owned, net | 50,513 | 62,039 | 110,465 |
| | $ 103,943 | $ 120,715 | $ 240,779 |

(1) Consisted of three facilities that were sold during the first quarter of 2002 for a gain of $669. We had recorded impairment charges of $2,225 during 2001 based on sales proceeds anticipated at that time.

Properties Acquired for Investment. Properties acquired for investment at December 31, 2003 consisted of one office building (approximately 62% leased) located in Jacksonville, Florida and one shopping center (approximately 73% leased) located in Halifax, Nova Scotia. We acquired these properties as a result of our acquisition of OAC in 1999. The $3,378 decline in the aggregate carrying value of these two properties during 2003 was largely due to $7,526 of impairment charges and $1,802 of depreciation expense, offset in part by $6,303 of capitalized improvements. We sold our office building property in January 2004 for proceeds that approximated carrying value. We also issued a loan to the buyer in the amount of $15,248 in order to facilitate this sale. The $26,956 decline in the aggregate net carrying value of investments during 2002 was primarily due to the sale of our shopping center in Bradenton, Florida, which had a carrying value of $19,902, and impairment charges of $14,549 to reduce the remaining properties to our estimate of their net realizable value, offset in part by $8,771 of net capitalized improvements.

Loans Accounted for as Investments in Real Estate. We acquired certain acquisition, development and construction loans in January 2000 in which we participated in the expected residual profits of the underlying real estate, and where the borrower had not contributed substantial equity to the project. As such, we accounted for these loans under the equity method of accounting as though we had an investment in a real estate limited partnership. The one loan remaining at December 31, 2002 was repaid during 2003.

Investment in Real Estate Partnerships. Consists of interests in two limited partnerships operating as real estate ventures, consisting of multi-family type properties.

Real Estate Owned, Net. Real estate owned, net, consists of properties we acquired by foreclosure or deed-in-lieu thereof on loans, primarily those that we had previously acquired at a discount. Real estate owned has been declining since 1998 as sales more than offset loan foreclosures during those years. At December 31, 2003 our portfolio of real estate owned consisted of only 20 properties, of which two are commercial and the remainder are single family residential. Declines in our originations and acquisitions of loans are the principal reason for the decline in foreclosures.

(Dollars in thousands, except share data)

The following table sets forth the composition of real estate owned, net, by property type and segment at the dates indicated:

| | December 31, 2003 | December 31, 2002 | December 31, 2001 |
|---|---|---|---|
| Single family residential: | | | |
| Residential Discount Loans | $ -- | $ 1,837 | $ 16,150 |
| Subprime Finance | 89 | 50 | 274 |
| Corporate Items and Other | 793 | -- | -- |
| | 882 | 1,887 | 16,424 |
| Nonresidential real estate: | | | |
| Commercial Finance | 49,631 | 60,152 | 94,041 |
| | $ 50,513 | $ 62,039 | $ 110,465 |

The following tables set forth the activity in real estate owned during the years indicated:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Amount | | | |
| Balance at beginning of period | $ 62,039 | $ 110,465 | $ 146,419 |
| Properties acquired through foreclosure or deed-in-lieu thereof: | | | |
| Loans | 178 | 16,000 | 92,949 |
| Less discount transferred | (50) | (6,756) | (35,698) |
| Add advances transferred | 33 | 248 | 6,790 |
| | 161 | 9,492 | 64,041 |
| Capital improvements | 2,534 | 2,298 | 12,737 |
| Sales | (17,533) | (53,670) | (111,776) |
| Decrease (increase) in valuation allowance (1) | 3,312 | (6,546) | (956) |
| Balance at end of period | $ 50,513 | $ 62,039 | $ 110,465 |

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Number of Properties | | | |
| Balance at beginning of period | 55 | 391 | 1,298 |
| Properties acquired through foreclosure or deed-in-lieu thereof | 3 | 21 | 747 |
| Sales | (38) | (357) | (1,654) |
| Balance at end of period | 20 | 55 | 391 |

(1) Excludes basis adjustment in 2002, which had no effect on the net carrying value, as discussed in the table below.

(Dollars in thousands, except share data)

The following tables set forth the amount of time that we have held our real estate owned at the dates indicated:

| December 31, 2003 | Commercial Finance | | Corporate Items and Other | | Subprime Finance | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Net Book Value | Count | Net Book Value | Count | Net Book Value | Count | Net Book Value | Count |
| Holding Period: | | | | | | | | |
| One to six months............ | $ -- | -- | $ 9 | 1 | $ -- | -- | $ 9 | 1 |
| Seven to 12 months........... | -- | -- | 60 | 1 | 89 | 1 | 149 | 2 |
| 13 to 24 months.............. | -- | -- | 132 | 1 | -- | -- | 132 | 1 |
| Over 24 months............... | 49,631 | 2 | 592 | 14 | -- | -- | 50,223 | 16 |
| | $ 49,631 | 2 | $ 793 | 17 | $ 89 | 1 | $ 50,513 | 20 |

| December 31, 2003 | Commercial Finance | | Residential Discount | | Subprime Finance | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Net Book Value | Count | Net Book Value | Count | Net Book Value | Count | Net Book Value | Count |
| Holding Period: | | | | | | | | |
| One to six months............ | $ -- | -- | $ -- | -- | $ -- | -- | $ -- | -- |
| Seven to 12 months........... | -- | -- | 176 | 3 | -- | -- | 176 | 3 |
| 13 to 24 months.............. | 18,616 | 4 | 574 | 18 | 35 | 1 | 19,225 | 23 |
| Over 24 months............... | 41,536 | 2 | 1,087 | 26 | 15 | 1 | 42,638 | 29 |
| | $ 60,152 | 6 | $ 1,837 | 47 | $ 50 | 2 | $ 62,039 | 55 |

| December 31, 2003 | Commercial Finance | | Residential Discount | | Subprime Finance | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Net Book Value | Count | Net Book Value | Count | Net Book Value | Count | Net Book Value | Count |
| Holding Period: | | | | | | | | |
| One to six months............ | $ -- | -- | $ 6,020 | 145 | $ 130 | 3 | $ 6,150 | 148 |
| Seven to 12 months........... | 21,607 | 4 | 5,805 | 126 | 10 | 1 | 27,422 | 131 |
| 13 to 24 months.............. | 377 | 1 | 3,718 | 84 | 119 | 2 | 4,214 | 87 |
| Over 24 months............... | 72,057 | 6 | 607 | 17 | 15 | 2 | 72,679 | 25 |
| | $ 94,041 | 11 | $ 16,150 | 372 | $ 274 | 8 | $ 110,465 | 391 |

Our sales of real estate owned resulted in gains of $416, $3,103 and $14,111 during 2003, 2002 and 2001, respectively. Commercial Finance real estate owned that we have held in excess of 24 months at December 31, 2003 consisted of a large retail shopping mall with a carrying value of $43,460 and a hotel with a carrying value of $6,171. As anticipated, the shopping mall property migrated into the over 24 month category in 2000 because it was being repositioned for sale. Commercial Finance properties held for 13 to 24 months as of December 31, 2002 consisted of four hotels, three of which were sold in 2003. The average period during which we held the real estate owned which was sold during the years ended December 31, 2003, 2002 and 2001, was 31 months, 13 months and 8 months, respectively.

(Dollars in thousands, except share data)

The following table sets forth the activity, in aggregate, in the valuation allowance on our real estate owned during the years indicated:

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Balance at beginning of year | $ 4,591 | $ 19,098 | $ 18,142 | $ 17,181 | $ 15,325 |
| Provisions for losses | (96) | 19,685 | 17,766 | 26,674 | 28,008 |
| Charge-offs | (2,459) | (5,304) | (2,352) | (4,129) | (8,012) |
| Sales | (757) | (7,835) | (14,458) | (21,584) | (18,140) |
| Basis adjustment (1) | -- | (21,053) | -- | -- | -- |
| Balance at end of year | $ 1,279 | $ 4,591 | $ 19,098 | $ 18,142 | $ 17,181 |
| Valuation allowance as a percentage of total gross real estate owned | 2.5% | 6.9% | 14.7% | 11.0% | 9.3% |

(1) Our shopping mall property, which we have held for more than one year, is being repositioned for future sale. This valuation allowance had been established to carry this asset at the lower of cost or fair value less estimated costs to dispose. Under SFAS No. 144, "Accounting for the Impairment or Disposal of Long - Lived Assets", which became effective in 2002, we now account for this property similar to real estate properties acquired for investment, and we applied the valuation allowance as a reduction of cost.

See Note 6 to our Consolidated Financial Statements for geographic information related to real estate owned.

Affordable Housing Properties. Historically, we invested in multi-family residential projects which have been allocated low-income housing tax credits under Section 42 of the Internal Revenue Code of 1986, as amended, by a state tax credit allocating agency. We ceased making new investments in 2000 as part of our shift in strategy to fee-based businesses and because the volume of tax credits being generated was exceeding our ability to utilize them effectively. Since that time, we have been marketing each of these properties for sale. As a result, our investment in affordable housing properties has been declining and consisted of only four properties at December 31, 2003. The carrying values of our affordable housing investments are as follows at the dates indicated:

| | December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Properties subject to sale agreements (1) | $ -- | $ 4,458 | $ 49,893 |
| Properties not yet sold | 7,410 | 10,861 | 52,176 |
| Total | $ 7,410 | $ 15,319 | $ 102,069 |
| Number of properties | 4 | 8 | 25 |

(1) Certain of our properties were subject to sales agreements that resulted in the transfer of tax credits and operating results for these properties to the purchaser but did not qualify as sales for accounting purposes due to insufficient cash received or contingencies with respect to potential repurchase requirements.

The decline in our investment during 2003 and 2002 was due to sales and loss provisions to increase reserves, offset by additional investments to complete existing projects under construction. Loss provisions represent estimated losses from future sales or from sales that have not yet qualified as such for accounting purposes and include revisions to completion cost estimates and modifications to projected sales results. During 2003, the $7,909 decline in our investment was primarily due to sales of $6,145 (net of reserves) and loss provisions of $432. During 2002, sales of $73,087 (net of reserves) and loss provisions of $17,350 exceeded additional investments of $3,687.

Low-income housing tax credit partnerships in which we invest both as a limited and, through a subsidiary, as general partner are presented on a consolidated basis and totaled $1,374, $3,357 and $73,463 at December 31, 2003, 2002 and 2001, respectively. We account for investments made on or after May 18, 1995, in which we invest solely as a limited partner, using the equity method. We account for limited partnership investments made prior to May 18, 1995 under the effective yield method as a reduction of income tax expense.

(Dollars in thousands, except share data)

See Note 8 to our Consolidated Financial Statements for additional information regarding our investment in affordable housing properties.

Loans, Net. Our net investment in loans of $28,098 at December 31, 2003 represents 2.3% of total assets and consisted of only 22 loans. Our loans have been declining since 1998 as sales, resolutions and foreclosures more than offset acquisitions and originations. This reflects our strategy to dispose of assets associated with non-core business lines. Originations in 2003, 2002 and 2001 represent loans made to facilitate sales of commercial real estate assets that we owned and fundings of pre-existing commitments on construction loans. Otherwise, we have not originated or acquired any loans since 2000. This reflects our strategy to dispose of assets associated with non-core business lines.

Composition of Loans. The following table sets forth the composition of our loans by business segment at the dates indicated:

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| **Residential Discount Loans: (1)** | | | | | |
| Single family residential loans | $ -- | $ 1,965 | $ 57,954 | $ 297,790 | $ 612,115 |
| Unaccreted discount and deferred fees | -- | (565) | (16,804) | (74,341) | (148,160) |
| Allowance for loan losses | -- | (154) | (3,401) | (3,493) | (11,169) |
| | -- | 1,246 | 37,749 | 219,956 | 452,786 |
| **Affordable Housing: (2)** | | | | | |
| Multifamily residential loans | 10,924 | 10,803 | 19,714 | 32,330 | 6,650 |
| Land and other | 200 | 200 | 200 | 1 | 2,239 |
| | 11,124 | 11,003 | 19,914 | 32,331 | 8,889 |
| Deferred fees | -- | -- | -- | (46) | (67) |
| Undisbursed loan funds | -- | (346) | (1,430) | (4,586) | (541) |
| Allowance for loan losses | (4,579) | (4,428) | (1,269) | (139) | (459) |
| | 6,545 | 6,229 | 17,215 | 27,560 | 7,822 |
| **Commercial Finance:** | | | | | |
| Office buildings | -- | 41,215 | 56,713 | 98,425 | 162,529 |
| Hotels | 10,600 | 11,668 | 38,576 | 102,120 | 113,444 |
| Retail properties | -- | 27,500 | 47,492 | 85,924 | 105,247 |
| Multifamily residential loans | 14,964 | 15,215 | 13,605 | 118,411 | 266,638 |
| Land and other | -- | 1,188 | 607 | 36,608 | 91,146 |
| | 25,564 | 96,786 | 156,993 | 441,488 | 739,004 |
| Unaccreted discount and deferred fees | (1,015) | (11,409) | (19,962) | (45,918) | (98,232) |
| Undisbursed loan funds | -- | -- | (1,483) | (4,293) | (24,113) |
| Allowance for loan losses | (3,786) | (16,179) | (5,744) | (10,877) | (13,545) |
| | 20,763 | 69,198 | 129,804 | 380,400 | 603,114 |
| **Subprime Finance: (3)** | | | | | |
| Single family residential loans | -- | 199 | 512 | 3,540 | 34,091 |
| Unamortized (discount) premium | -- | (15) | 13 | (45) | 396 |
| | -- | 184 | 525 | 3,495 | 34,487 |
| **Unsecured Collections:** | | | | | |
| Consumer | -- | -- | -- | 17,188 | 17,664 |
| Allowance for loan losses | -- | -- | -- | (8,770) | (1,267) |
| | -- | -- | -- | 8,418 | 16,397 |
| **Corporate Items and Other: (1)** | | | | | |
| Single family residential loans | 1,307 | -- | -- | 223 | 1,244 |
| Unaccreted discount and deferred fees | (412) | -- | -- | -- | -- |
| Allowance for loan losses | (105) | -- | -- | -- | -- |
| | 790 | -- | -- | 223 | 1,244 |
| Loans, net | $ 28,098 | $ 76,857 | $ 185,293 | $ 640,052 | $ 1,115,850 |

(Dollars in thousands, except share data)

(1) Loans and all other assets of the Residential Discount Loans segment were transferred to the Corporate Items and Other segment, effective January 1, 2003. These loans were acquired by us at a discount and are secured by mortgages on single family residential properties.

(2) Loans we made to affordable housing properties in which we have invested as a limited partner but do not consolidate in our financial statements.

(3) We record these loans at the lower of cost, after considering unamortized (discount) premium and deferred fees, or aggregate market value.

Contractual Principal Repayments. The following table sets forth certain information at December 31, 2003 regarding the dollar amount of loans maturing based on scheduled contractual amortization, as well as the dollar amount of loans that have fixed or adjustable interest rates. We report demand loans (loans having no stated schedule of repayments and no stated maturity) and overdrafts as due in one year or less. We have not reduced loan balances for (i) undisbursed loan proceeds, unearned fees and the allowance for loan losses or (ii) non-performing loans.

| | Maturing in | | | | |
|---|---|---|---|---|---|
| | One Year or Less | After One Year Through Five Years | After Five Years Through Ten Years | After Ten Years | Total |
| Commercial Finance | $ 17,411 | $ 8,153 | $ -- | $ -- | $ 25,564 |
| Affordable Housing | -- | 859 | -- | 10,265 | 11,124 |
| Corporate Items and Other | 139 | 80 | 124 | 964 | 1,307 |
| | $ 17,550 | $ 9,092 | $ 124 | $ 11,229 | $ 37,995 |
| Interest rate terms on amounts due: | | | | | |
| Fixed | $ 17,550 | $ 9,013 | $ 124 | $ 10,962 | $ 37,649 |
| Adjustable | -- | 79 | -- | 267 | 346 |
| | $ 17,550 | $ 9,092 | $ 124 | $ 11,229 | $ 37,995 |

Scheduled contractual principal repayments may not reflect the actual maturities of loans because of prepayments and, in the case of conventional mortgage loans, due-on-sale clauses.

(Dollars in thousands, except share data)

Activity in Loans. The following table sets forth the activity in our net loans during the periods indicated:

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| **Amount** | | | | | |
| Balance at beginning of period | $ 76,857 | $ 185,293 | $ 640,052 | $ 1,115,850 | $ 1,434,670 |
| Acquisitions (1) | 420 | 1,018 | -- | 221,940 | 937,902 |
| Originations (2) | 6,277 | 18,478 | 18,144 | 39,792 | 749,459 |
| Resolutions and repayments (3) | (29,362) | (50,965) | (139,232) | (312,856) | (541,286) |
| Loans transferred to real estate owned | (157) | (16,000) | (92,949) | (201,010) | (220,775) |
| Sales (4) | (49,110) | (77,636) | (343,262) | (369,630) | (1,237,178) |
| Decrease (increase) in undisbursed loan proceeds | 346 | 2,569 | 5,965 | 15,774 | (17,555) |
| Decrease (increase) in discount | 10,537 | 24,447 | 83,710 | 125,406 | 9,441 |
| Decrease (increase) in allowance | 12,290 | (10,347) | 12,865 | 4,786 | 1,172 |
| Balance at end of period | $ 28,098 | $ 76,857 | $ 185,293 | $ 640,052 | $ 1,115,850 |

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| **Number of Loans** | | | | | |
| Balance at beginning of period | 38 | 931 | 4,282 | 8,765 | 12,425 |
| Acquisitions (1) | 8 | 17 | -- | 2,231 | 8,017 |
| Originations (2) | 1 | 3 | 4 | 4 | 4,306 |
| Resolutions and repayments (3) | (19) | (77) | (662) | (1,572) | (2,656) |
| Loans transferred to real estate owned | (3) | (21) | (747) | (2,455) | (2,534) |
| Sales (4) | (3) | (815) | (1,946) | (2,691) | (10,793) |
| Balance at end of period (5) | 22 | 38 | 931 | 4,282 | 8,765 |

(1) The decline in acquisitions reflect our strategic decision to exit non-core businesses and dispose of the related assets. Acquisitions in 2002 and 2003 represent repurchases of single-family residential discount loans previously sold. Acquisitions in 2000 and 1999 included $164,920 (2,208 loans) and $516,744 (6,606 loans), respectively, of single-family residential discount loans. Acquisitions during 1999 also included $121,113 of loans we acquired as a result of our acquisition of OAC.

(2) Originations in 2003, 2002, 2001 and 2000 represent loans made to facilitate sales of our own commercial assets and fundings of construction loans we originated in prior years. Originations for 1999 included approximately $509,800 of subprime single-family residential loans originated by Ocwen UK prior to its sale on September 30, 1999.

(3) Resolutions and repayments consists of loans which we resolved in a manner which resulted in partial or full repayment of the loan to us, as well as principal payments on loans which have been brought current in accordance with their original or modified terms (whether pursuant to forbearance agreements or otherwise) or on other loans which have not been resolved.

(4) Sales in 1999 included securitizations of performing single-family residential discount and subprime loans.

(5) Of the 22 loans remaining at December 31, 2003, three are nonresidential loans in the Commercial Finance segment, two are multi-family loans in the Affordable Housing segment and the remainder are single family loans in the Corporate Items and Other Segments.

(Dollars in thousands, except share data)

The following table sets forth certain information relating to our non-performing loans and allowance for loan losses at the dates indicated:

| | December 31, 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Non-performing loans (1) | $ 21,898 | $ 75,549 | $ 94,307 | $ 297,547 | $ 449,647 |
| Non-performing loans as a percentage of: (1) | | | | | |
| Total loans (2) | 59.9% | 77.4% | 48.2% | 44.9% | 39.4% |
| Total assets | 1.8% | 6.2% | 5.5% | 13.2% | 13.7% |
| Allowance for loan losses as a percentage of: | | | | | |
| Total loans (2) | 23.2% | 21.3% | 5.3% | 3.5% | 2.3% |
| Non-performing loans (1) | 38.7% | 27.5% | 11.0% | 7.8% | 5.9% |

(1) Loans, which are contractually past due 90 days or more in accordance with the original terms of the loan agreement. We do not accrue interest on loans past due 90 days or more.

(2) Total loans are net of unaccreted discount, unamortized deferred fees and undisbursed loan funds.

See Note 4 to our Consolidated Financial Statements for additional information regarding loans.

Allowances for Loan Losses. As discussed in the "Results of Operations - - Provision for Loan Losses" section, we maintain an allowance for loan losses for each of our loans at a level that we consider adequate to provide for probable losses based upon an evaluation of known and inherent risks. The following tables set forth (a) the breakdown of the allowance for loan losses on our loans in each segment and (b) the percentage of loans in each segment to total loans in the respective segments at the dates indicated:

| | December 31, 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Amount: | | | | | |
| Residential Discount Loans | $ -- | $ 154 | $ 3,401 | $ 3,493 | $ 11,169 |
| Commercial Finance (1) | 3,786 | 16,179 | 5,744 | 10,877 | 13,545 |
| Affordable Housing | 4,579 | 4,428 | 1,269 | 139 | 459 |
| Unsecured Collections | -- | -- | -- | 8,770 | 1,267 |
| Corporate Items and Other | 105 | -- | -- | -- | -- |
| | $ 8,470 | $ 20,761 | $ 10,414 | $ 23,279 | $ 26,440 |

(1) The decline in the allowance on Commercial Finance loans during 2003 is primarily the result of sales. The allowance as a percentage of loan value for this segment was 15.4% at December 31, 2003 as compared to 19.0% at December 31, 2002 and 4.2% at December 31, 2001. See "Results of Operations-Provisions for Loan Losses" for additional information regarding our allowance as a percentage of loans.

| | December 31, 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Percentage of Loans to Total Loans: | | | | | |
| Residential Discount Loans | --% | 1.4% | 21.0% | 33.7% | 40.6% |
| Commercial Finance | 67.1 | 87.5 | 69.3 | 59.0 | 54.0 |
| Affordable Housing | 30.4 | 10.9 | 9.4 | 4.2 | 0.7 |
| Subprime Finance | -- | 0.2 | 0.3 | 0.5 | 3.0 |
| Unsecured Collections | -- | -- | -- | 2.6 | 1.5 |
| Corporate Items and Other | 2.5 | -- | -- | -- | 0.2 |
| | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

(Dollars in thousands, except share data)

The allocation of the allowance to each segment is not necessarily indicative of future losses and does not restrict our use of the allowance to absorb losses in any other segment.

The following table sets forth an analysis of activity in the allowance for loan losses relating to our loans during the periods indicated:

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| Balance at beginning of period | $ 20,761 | $ 10,414 | $ 23,279 | $ 26,440 | $ 26,330 |
| Provision for loan losses | (2,633) | 13,655 | 15,478 | 15,270 | 7,070 |
| Charge-offs | (9,658) | (3,756) | (28,827) | (19,068) | (8,060) |
| Recoveries | -- | 448 | 484 | 637 | 397 |
| Net charge-offs | (9,658) | (3,308) | (28,343) | (18,431) | (7,663) |
| Acquired allowance (OAC acquisition) | -- | -- | -- | -- | 703 |
| Balance at end of period | $ 8,470 | $ 20,761 | $ 10,414 | $ 23,279 | $ 26,440 |

Match Funded Assets. Our match funded assets were comprised of the following at the dates indicated:

| | December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Single family residential loans | $ 24,393 | $ 38,129 | $ 53,123 |
| Allowance for loan losses | (94) | (144) | (170) |
| Match funded loans, net | 24,299 | 37,985 | 52,953 |
| Match funded securities | -- | 8,057 | 19,435 |
| Match funded advances on loans serviced for others: | | | |
| Principal and interest | 54,516 | 66,524 | 65,705 |
| Taxes and insurance | 30,176 | 30,301 | 21,900 |
| Other | 21,096 | 24,877 | 14,358 |
| | 105,788 | 121,702 | 101,963 |
| | $ 130,087 | $ 167,744 | $ 174,351 |

We acquired single family residential match funded loans in connection with our acquisition of OAC. OAC had previously securitized these loans and transferred them to a real estate mortgage investment conduit on November 13, 1998. The transfer did not qualify as a sale for accounting purposes since we retained effective control of the loans transferred. Accordingly, we recorded the proceeds we received from the transfer as a secured borrowing with pledge of collateral (bonds-match funded agreements). Non-performing loans amounted to $2,321, $3,120 and $4,405 at December 31, 2003, 2002 and 2001, respectively. The declines in the balance during 2003 and 2002 were due to repayment of loan principal.

Match funded securities resulted from our transfer of four unrated residual securities to a trust on December 16, 1999 in exchange for non-recourse notes. The transfer did not qualify as a sale for accounting purposes since we retained effective control over the securities transferred. Accordingly, we reported the amount of proceeds we received from the transfer as a secured borrowing with pledge of collateral (bonds-match funded agreements). In June 2003, the Ocwen NIM Trust 1999 - OAC1 adopted a plan of complete liquidation, which caused the early redemption of the related bonds-match funded agreements. The match funded securities, which had a fair value of $5,926 at the time of transfer, were transferred to trading securities. See "Changes in Financial Conditions - Trading Securities" and - "Bonds - Match Funded Agreements."

Match funded advances on loans serviced for others resulted from our transfer of certain residential loan servicing related advances to a third party in exchange for cash. The original and subsequent transfers did not qualify as a sale for accounting purposes since we retained effective control of the advances. Accordingly, we report the amount of proceeds we received from the sale as a secured borrowing with pledge of collateral (bonds-match funded agreements.) See "Bonds-Match Funded Agreements" and Note 12 to our Consolidated Financial Statements.

(Dollars in thousands, except share data)

Advances on Loans and Loans Serviced for Others. Advances related to our loan portfolios and loans we serviced for others consisted of the following at the dates indicated:

| | December 31, 2003 | December 31, 2002 | December 31, 2001 |
|---|---|---|---|
| Loans (1): | | | |
| Taxes and insurance | $ 101 | $ 136 | $ 2,214 |
| Other | 335 | 502 | 4,135 |
| | 436 | 638 | 6,349 |
| Loans serviced for others: | | | |
| Principal and interest | 118,024 | 63,326 | 107,319 |
| Taxes and insurance | 145,507 | 117,937 | 99,972 |
| Other | 110,802 | 84,455 | 69,543 |
| | 374,333 | 265,718 | 276,834 |
| | $ 374,769 | $ 266,356 | $ 283,183 |

(1) The decline in advances on loans reflects the decline in our investment in loans. See "Changes in Financial Condition - Loans, Net".

During any period in which the borrower is not making payments, we are required under certain servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for certain investors, pay property taxes and insurance premiums and process foreclosures. We generally recover such advances from borrowers for reinstated and performing loans and from investors for foreclosed loans. We record a charge to servicing income to the extent that we estimate that advances are uncollectible under provisions of the servicing contracts, taking into consideration historical loss and delinquency experience, length of delinquency and amount of the advance. The balances of advances on loans serviced for others do not include match funded advances that are transferred to a third party in a transaction that does not qualify as a sale for accounting purposes and that we account for as a secured borrowing. See "Match Funded Assets".

Mortgage Servicing Rights. The unamortized balance of mortgage servicing rights is predominantly residential. The increase in our investment since 2001 reflects the growth of our residential loan servicing business through purchases of rights to service loans for others. Our investment declined slightly during 2003 as amortization exceeded purchases. The rate of amortization has increased in response to increased projected prepayment volumes on subprime residential mortgage loans. See "Results of Operations - Non-Interest Income - Servicing and Other Fees" and Note 7 to our Consolidated Financial Statements.

| | December 31, 2003 | December 31, 2002 | December 31, 2001 |
|---|---|---|---|
| Balance at beginning of period | $ 171,611 | $ 101,107 | $ 51,426 |
| Purchases | 88,829 | 128,891 | 79,522 |
| Amortization | (93,558) | (58,153) | (29,841) |
| Impairment | (387) | -- | -- |
| Sales | -- | (234) | -- |
| Balance at end of period | $ 166,495 | $ 171,611 | $ 101,107 |

At December 31, 2003, we serviced loans under approximately 420 servicing agreements for 22 investors. Purchases during 2003 were all residential and $18,184 were acquired under flow agreements with third party lenders whereby we have committed to purchase newly originated mortgage servicing rights up to an agreed upon amount.

(Dollars in thousands, except share data)

Receivables. Receivables consisted of the following at the dates indicated:

| | December 31, 2003 | December 31, 2002 | December 31, 2001 |
|---|---|---|---|
| Residential Loan Servicing (1) | $ 18,564 | $ 10,982 | $ 9,548 |
| OTX | 962 | 532 | 1,351 |
| Ocwen Realty Advisors | 1,442 | 1,193 | 511 |
| Unsecured Collections | 260 | 296 | -- |
| Business Process Outsourcing | 969 | -- | -- |
| International Operations | 1,314 | 680 | 157 |
| Residential Discount Loans | -- | 1,286 | 1,851 |
| Commercial Finance | 2,858 | 2,530 | 2,940 |
| Affordable Housing (2) | 25,581 | 40,327 | 13,230 |
| Subprime Finance | -- | -- | 800 |
| Corporate Items and Other (3) | 36,449 | 21,118 | 24,822 |
| | $ 88,399 | $ 78,944 | $ 55,210 |

(1) Consist principally of fees earned and reimbursable expenses due from investors.

(2) Primarily represents future payments of proceeds from the sale of investments in affordable housing properties, net of an unaccreted discount of $2,901 and $3,400 at December 31, 2003 and 2002, respectively. See "Results of Operations - Segment Profitability - Affordable Housing" and "Changes in Financial Condition - Affordable Housing Properties". Balances are net of reserves for doubtful accounts.

(3) Primarily comprised of federal tax refund claims, which are pending completion of Internal Revenue Service examination that is required by the Joint Committee before the claims can be paid. The claims amounted to $21,465, $20,841 and $20,842 at December 31, 2003, 2002 and 2001, respectively. The balance as of December 31, 2003, included amounts related to our overnight collection account activities.

Other Assets. Other assets consisted of the following at the dates indicated:

| | December 31, 2003 | December 31, 2002 | December 31, 2001 |
|---|---|---|---|
| Interest earning insurance collateral deposits (1) | $ 8,813 | $ -- | $ -- |
| Capitalized software development costs, net | 2,599 | 4,010 | 6,059 |
| Deferred debt issuance costs, net | 3,114 | 2,946 | 1,750 |
| Investment securities, at cost | 4,293 | 5,361 | 4,659 |
| Deferred tax asset, net (2) | 7,547 | 8,387 | 8,411 |
| Goodwill | 1,618 | 1,618 | 6,971 |
| Other | 5,381 | 6,964 | 9,816 |
| | $ 33,365 | $ 29,286 | $ 37,666 |

(1) These deposits were required by us in order to obtain surety bonds for affordable housing properties that we sold before the end of the fifteen-year tax credit amortization period, and on which we have previously claimed tax credits on our income tax returns. The surety bond is necessary in order to avoid the recapture of those tax credits previously claimed.

(2) Deferred tax assets are net of valuation allowances of $201,445, $199,270 and $165,221, respectively. See "Results of Operations - Income Tax Expense (Benefit)".

Deposits. Our customer deposits decreased during 2002 primarily as a result of maturing brokered certificates of deposits. Brokered certificates of deposits continued to decline in 2003, but this decline was more than offset by an increase in non-brokered certificates of deposit. We have not issued any new brokered certificates of deposit since 2000 and, at this time, do not intend to issue any such deposits in the foreseeable future. We do continue to rely on non-brokered deposits as a source of financing our operations.

(Dollars in thousands, except share data)

The following table sets forth information related to our deposits at the dates indicated:

| | 2003 Amount | 2003 Weighted Average Rate | 2003 % of Total Deposits | 2002 Amount | 2002 Weighted Average Rate | 2002 % of Total Deposits | 2001 Amount | 2001 Weighted Average Rate | 2001 % of Total Deposits |
|---|---|---|---|---|---|---|---|---|---|
| Non interest- bearing checking accounts | $ 4,879 | --% | 1.1% | $ 4,378 | --% | 1.0% | $ 5,624 | --% | 0.8% |
| NOW and money market checking accounts | 18,313 | 0.90% | 4.1% | 17,720 | 1.20% | 4.2% | 15,479 | 1.44% | 2.4% |
| Savings accounts | 1,657 | 1.00% | 0.4% | 1,592 | 1.00% | 0.4% | 1,287 | 1.25% | 0.2% |
| | 24,849 | | 5.6% | 23,690 | | 5.6% | 22,390 | | 3.4% |
| Certificates of deposit (1)(2) | 421,657 | | | 402,917 | | | 636,037 | | |
| Unamortized deferred fees | (118) | | | (637) | | | (1,549) | | |
| Total certificates of deposit | 421,539 | 3.41% | 94.4% | 402,280 | 4.89% | 94.4% | 634,488 | 6.06% | 96.6% |
| | $ 446,388 | | 100.0% | $ 425,970 | | 100.0% | 656,878 | | 100.0% |

(Years Ended December 31,)

(1) Included $84,328, $198,248 and $484,698 at December 31, 2003, 2002 and 2001, respectively, of brokered deposits originated through national, regional and local investment banking firms that solicit deposits from their customers, all of which are non-cancelable. During the second quarter of 2003, we exercised our right to call brokered certificates of deposit with a face value of $18,194 that carried an interest rate of 6%.

(2) At December 31, 2003, 2002, and 2001, certificates of deposit with outstanding balances of $100 or more amounted to $142,408, $125,451 and $82,771, respectively. Of the $142,408 of such deposits at December 31, 2003, $41,276 were from political subdivisions in New Jersey and were secured or collateralized as required under state law. The basic insured amount of a depositor is $100. Deposits maintained in different categories of legal ownership are separately insured.

The following table sets forth remaining maturities for our term deposits in amounts of $100 or more at December 31, 2003:

| | |
|---|---|
| Matures within three months | $ 60,753 |
| Matures after three months through six months | 19,036 |
| Matures after six months through twelve months | 30,206 |
| Matures after twelve months | 32,413 |
| | $ 142,408 |

Escrow Deposits. Escrow deposits on our loans and loans we serviced for others amounted to $116,444, $84,986 and $73,565 at December 31, 2003, 2002 and 2001, respectively. The balance consisted principally of custodial deposit balances representing collections that we made from borrowers for the payment of taxes and insurance premiums on mortgage properties underlying loans that we serviced for others. Such balances amounted to $96,924, $72,254 and $71,796 at December 31, 2003, 2002 and 2001, respectively. The increase in the balance reflects an increase in the volume of loans we service for others. See "Results of Operations - Non-Interest Income - Servicing and Other Fees."

Bonds-Match Funded Agreements. Bonds-match funded agreements represent proceeds received from transfers of loans, residual securities and advances on our loans serviced for others. Because we retained effective control over the assets transferred, these transfers did not qualify as sales for accounting purposes and, therefore, we report them as secured borrowings with pledges of collateral. Our bonds-match funded agreements were comprised of the following at the dates indicated:

| Collateral | Interest rate | December 31, 2003 | 2002 | 2001 |
|---|---|---|---|---|
| Single family loans (1) | LIBOR plus 65-70 basis points | $ 20,427 | $ 32,217 | $ 46,145 |
| Unrated residual securities (2) | 9.50% | -- | 8,057 | 18,997 |
| Advances on loans serviced for others (3) | LIBOR plus 160 basis points | 94,967 | 106,797 | 91,766 |
| | | $ 115,394 | $ 147,071 | $ 156,908 |

(1) The decline in the outstanding balance was primarily due to principal repayments, offset in part by discount amortization.

(Dollars in thousands, except share data)

(2) During the second quarter of 2003, the Ocwen NIM Trust 1999 - OAC1 adopted a plan of complete liquidation and, thereby, caused the early redemption of the bonds-match funded agreements that were secured by residual securities. See "Changes in Financial Condition - Match Funded Assets."

(3) Under the terms of the agreement, we are eligible to sell additional advances on loans serviced for others up to a maximum balance of $200,000.

See "Changes in Financial Condition - Bonds-Match Funded Assets" and "Liquidity, Commitments and Off-Balance Sheet Risks - Liquidity".

Notes and Debentures. Notes and debentures mature as follows:

| | December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| 2003: | | | |
| 11.875% Notes due October 1 (1) | $ -- | $ 43,475 | $ 87,025 |
| 2005: | | | |
| 12% Subordinated Debentures due June 15 (2) | -- | 33,500 | 67,000 |
| 11.5% Redeemable Notes due July 1 (3) | -- | -- | 45 |
| 2027: | | | |
| 10.875% Capital Securities due August 1 (4) | 56,249 | -- | -- |
| | $ 56,249 | $ 76,975 | $ 154,070 |

(1) The remaining $43,475 balance of these notes matured on October 1, 2003. On November 26, 2002 we had exercised our redemption option and called $40,000 of these notes at a price of 102.969%. Earlier during 2002, we had repurchased $3,550 of these notes in the open market.

(2) On September 30, 2003 we exercised our redemption option and called the remaining balance of $33,065 at a price of 101.333%, or a premium of $441. Also, during the second quarter of 2003 we repurchased $435 in the open market resulting in a loss of $4. On November 26, 2002 we had exercised our redemption option and called $33,500 of these debentures at a price of 102.667%.

(3) On November 5, 2002 we exercised our redemption option and called the remaining balance of these notes at a price of 105.75%.

(4) Capital Securities were reclassified to notes and debentures effective July 1, 2003 with our adoption of SFAS No. 150. See Note 1 to our Consolidated Financial Statements.

For additional information regarding our notes and debentures, see "Results of Operations - Gain (Loss) on Repurchase of Debt" and Note 14 to our Consolidated Financial Statements.

(Dollars in thousands, except share data)

Lines of Credit and Other Secured Borrowings. We have obtained secured line of credit arrangements from unaffiliated financial institutions as follows at the dates indicated:

| Borrowing Type | Collateral | Maturity | Interest Rate (1) | December 31, 2003 | December 31, 2002 |
|---|---|---|---|---|---|
| Line of credit | Advances on loans serviced for others (2) (3) | March 2004 | LIBOR + 200 basis points | $ 68,548 | $ 78,511 |
| Line of credit | Advances on loans serviced for others (2) | October 2004 | LIBOR + 200 basis points | 9,386 | -- |
| Mortgage note | Real estate - office building (4) | May 2005 | LIBOR + 350 basis points, floor of 5.75% | 20,000 | -- |
| Secured loan | Trading securities - unrated subprime residuals (UK) | June 2004 | LIBOR + 275 basis points | 11,562 | -- |
| Senior secured credit agreement | Purchased mortgage servicing rights and advances on loans serviced for others (5) | April 2004 | LIBOR + 162.5 or 225 basis points | 35,321 | -- |
| Installment notes | Purchased mortgage servicing rights | July 2004 | 2.81% | 2,332 | -- |
| Term loan | Loan receivable | March 2005 | LIBOR + 250 basis points, floor of 8.00% | 3,235 | 4,235 |
| | | | | $ 150,384 | $ 82,746 |

(1) 1-month LIBOR was 1.12% and 1.38% at December 31, 2003 and December 31, 2002, respectively.

(2) Maximum amount of borrowing under this facility is $100,000. These lines were entered into to fund advances purchased in connection with our acquisition of rights to service loans for others.

(3) This line was fully repaid subsequent to December 31, 2003 and will not be renewed upon maturity.

(4) We sold our office building in January 2004 and the buyer assumed this note at that time.

(5) Maximum amount of borrowing under this facility is $60,000. We anticipate that this facility will be renewed.

During 2003, we have entered in to a number of additional secured borrowing agreements. These actions are consistent with the strategic plan that we adopted in 2000, which included, among other things, a commitment to reduce our reliance on brokered deposits and long-term debt as sources of financing for our operations. See "Liquidity, Commitments and Off-Balance Sheet Risks."

Company Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company ("Capital Securities"). As indicated above, the outstanding balance of the 10.875% Capital Securities due August 1, 2027 of $56,249 has been classified as a liability ("Notes and Debentures") effective July 1, 2003 upon our adoption of SFAS No. 150. See Notes 1 and 15 to the Consolidated Financial Statements .The outstanding balance of the 10.875% Capital Securities amounted to $56,249 and $61,159, respectively, at December 31, 2002 and 2001. During 2002 and 2001, we repurchased $4,910 and $18,371, respectively, of our Capital Securities in the open market. See "Results of Operations -Gain (Loss) on Repurchase of Debt".

Minority Interest in Subsidiaries. Minority interest of $1,286 and $1,778 at December 31, 2003 and 2002, respectively, represents the investment by others in Global Servicing Solutions, LLC, which we formed during the third quarter of 2002 to establish, license and operate distressed asset management servicing companies in various countries around the world. See the Principles of Consolidation section of Note 1 to our Consolidated Financial Statements.

Stockholders' Equity. Stockholders' equity amounted to $317,258 at December 31, 2003 as compared to $310,718 at December 31, 2002 and $379,106 at December 31, 2001. The $6,540 increase in stockholders' equity during 2003 was primarily due to net income of $4,772, the issuance of 359,419 shares of common stock as a result of stock option exercises and the issuance of 236,461 shares of restricted stock to employees as part of our annual incentive awards for service in 2002. These increases were offset in part by our repurchase of 500,000 shares of common stock. The $68,388 decline in equity during 2002 was primarily due to the $68,775 net loss we incurred for that year. See Consolidated Statements of Changes in Stockholders' Equity and Notes 1 and 19 to our Consolidated Financial Statements.

Asset and Liability Management

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. Our objective is to control risks associated with interest rate and foreign currency exchange rate movements. Our Asset/Liability Management Committee (the "Committee"), which is composed of certain of our officers, formulates and monitors our asset and liability management strategy in accordance with policies approved by our Board of Directors. The Committee meets to review, among other things, the sensitivity of our assets and liabilities to interest rate changes and foreign currency exchange rate changes, the book and market values of assets and liabilities, unrealized gains and losses, including those attributable to hedging transactions, purchase and sale activity, and maturities of investments and borrowings. The Committee also approves and establishes pricing and funding decisions with respect to overall asset and liability composition.

The Committee's methods for evaluating interest rate risk include an analysis of the our interest rate sensitivity "gap," which is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

The following table sets forth the estimated maturity or repricing of our interest-earning assets and interest-bearing liabilities at December 31, 2003. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, except:

- Adjustable-rate loans, performing discount loans and securities are included in the period in which they are first scheduled to adjust and not in the period in which they mature,
- Fixed-rate mortgage-related securities reflect prepayments that were estimated based on analyses of broker estimates, the results of a prepayment model we use and empirical data,
- Non-performing discount loans reflect the estimated timing of resolutions that result in repayment to us,
- NOW and money market checking deposits and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which are based on our detailed studies of each such category of deposit and,
- Escrow deposits and other non interest-bearing checking accounts, which amounted to $121,323 at December 31, 2003, are excluded.

(Dollars in thousands, except share data)

We believe that these assumptions approximate actual experience and consider them reasonable; however, the interest rate sensitivity of our assets and liabilities in the table could vary substantially if we were to use different assumptions or actual experience differs from the historical experience on which we based the assumptions.

| | December 31, 2003 | | | | |
|---|---|---|---|---|---|
| | Within Three Months | Four to Twelve Months | More Than One Year to Three Years | Three Years and Over | Total |
| Rate-Sensitive Assets: | | | | | |
| Interest-earning deposits | $ 324 | $ -- | $ -- | $ -- | $ 324 |
| Trading securities | 4,563 | 12,549 | 15,604 | 16,804 | 49,520 |
| Investment securities, net | 4,293 | -- | -- | -- | 4,293 |
| Loans, net (1) | 767 | 14,879 | 8,205 | 4,247 | 28,098 |
| Match funded loans (1)(2) | 2,766 | 10,564 | 6,987 | 3,982 | 24,299 |
| Total rate-sensitive assets | 12,713 | 37,992 | 30,796 | 25,033 | 106,534 |
| Rate-Sensitive Liabilities: | | | | | |
| NOW and money market checking deposits | 16,313 | 230 | 491 | 1,279 | 18,313 |
| Savings deposits | 1,657 | -- | -- | -- | 1,657 |
| Certificates of deposit | 101,277 | 171,295 | 139,571 | 9,396 | 421,539 |
| Total interest-bearing deposits | 119,247 | 171,525 | 140,062 | 10,675 | 441,509 |
| Bonds-match funded agreements | 115,394 | -- | -- | -- | 115,394 |
| Lines of credit and other secured borrowings | 150,384 | -- | -- | -- | 150,384 |
| Notes and debentures | -- | -- | -- | 56,249 | 56,249 |
| Total rate-sensitive liabilities | 385,025 | 171,525 | 140,062 | 66,924 | 763,536 |
| Interest rate sensitivity gap (4) | $ (372,312) | $ (133,533) | $ (109,266) | $ (41,891) | $ (657,002) |
| Cumulative interest rate sensitivity gap (3) | $ (372,312) | $ (505,845) | $ (615,111) | $ (657,002) | |
| Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets | (349.48)% | (474.82)% | (577.38)% | (616.71)% | |
| As of December 31, 2002: | | | | | |
| Cumulative interest rate sensitivity gap (3) | $ (161,606) | $ (340,958) | $ (426,209) | $ (464,988) | |
| Cumulative interest rate sensitivity gap on a percentage of total rate-sensitive assets | (53.37)% | (112.60)% | (140.75)% | (140.35)% | |

(1) We have not reduced balances for non-performing loans.

(2) Excludes match funded advances on loans serviced for others, which do not earn interest, of $105,788 at December 31, 2003.

(3) We have experienced a large negative interest rate sensitivity gap in recent years. The negative interest rate sensitivity gap reflects the economics of our residential loan servicing business. Servicing advances, the largest asset class on our balance sheet, is not sensitive to changes in interest rates. However, we finance servicing advances with interest rate sensitive liabilities.

(4) We had no rate-sensitive financial instruments outstanding at December 31, 2003.

(Dollars in thousands, except share data)

The OTS has established specific minimum guidelines for thrift institutions to observe in the area of interest rate risk as described in Thrift Bulletin No. 13a, "Management of Interest Rate Risk, Investment Securities, and Derivative Activities" ("TB 13a"). Under TB 13a, institutions are required to establish and demonstrate quarterly compliance with board-approved limits on interest rate risk that are defined in terms of net portfolio value ("NPV"), which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments. These limits specify the minimum net portfolio value ratio ("NPV Ratio") allowable under current interest rates and hypothetical interest rate scenarios. An institution's NPV Ratio for a given interest rate scenario is calculated by dividing the NPV that would result in that scenario by the present value of the institution's assets in that same scenario. The hypothetical scenarios are represented by immediate, permanent, parallel movements (shocks) in the term structure of interest rates of plus 100, 200 and 300 basis points and minus 100 basis points from the actual term structure observed at quarter end. The current NPV Ratio for each of the five rate scenarios and the corresponding limits approved by the Board of Directors, as applied to Ocwen Financial Corporation and its subsidiaries, are as follows at December 31, 2003:

| Rate Shock in basis points | Board Limits (minimum NPV Ratios) | Current NPV Ratios |
|---|---|---|
| +300 | 5.00% | 33.01% |
| +200 | 6.00% | 30.49% |
| +100 | 7.00% | 28.38% |
| 0 | 8.00% | 26.03% |
| -100 | 7.00% | 23.65% |

The Committee also regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income or expense and NPV and evaluating such impacts against the maximum potential changes in net interest income and NPV that is authorized by the Board of Directors, as applied to Ocwen Financial Corporation and its subsidiaries. The following table quantifies the potential changes in net interest expense and net portfolio value should interest rates go up or down (shocked) 300 or 100 basis points, respectively, assuming the yield curves of the rate shocks will be parallel to each other. We calculate the cash flows associated with the loan portfolios and securities available for sale based on prepayment and default rates that vary by asset. We generate projected losses, as well as prepayments, based upon the actual experience with the subject pool, as well as similar, more seasoned pools. To the extent available, we use loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty terms and product types to produce the projected loss and prepayment assumptions that are included in the cash flow projections of the securities. When we shock interest rates we further adjust these projected loss and prepayment assumptions. The base interest rate scenario assumes interest rates at December 31, 2003. Actual results of Ocwen Financial Corporation and its subsidiaries could differ significantly from the results estimated in the following table:

| | Estimated Changes in | |
|---|---|---|
| Rate Shock in basis points | Net Interest | NPV |
| +300 | 52.56% | 36.35% |
| +200 | 35.04% | 22.37% |
| +100 | 17.52% | 11.53% |
| 0 | 0.00% | 0.00% |
| -100 | (17.52)% | (11.09)% |

(Dollars in thousands, except share data)

The following table shows our financial instruments that are sensitive to changes in interest rates, categorized by expected maturity or repricing characteristics, and the fair values of those instruments at December 31, 2003:

| | Expected Maturity Date At December 31, 2003 (1) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total Balance | Fair Value |
| **Rate-Sensitive Assets:** | | | | | | | | |
| Interest-earning deposits | $ 324 | $ -- | $ -- | $ -- | $ -- | $ -- | $ 324 | $ 324 |
| Average interest rate | 0.15% | --% | --% | --% | --% | --% | 0.15% | |
| Trading securities | 17,112 | 8,367 | 7,237 | 4,499 | 2,649 | 9,656 | 49,520 | 49,520 |
| Average interest rate | 14.28% | 18.71% | 16.51% | 17.56% | 19.90% | 24.52% | 17.95% | |
| Investment securities, net | 4,293 | -- | -- | -- | -- | -- | 4,293 | 4,293 |
| Average interest rate | 0.69% | --% | --% | --% | --% | --% | 0.69% | |
| Loans, net (2) | 15,646 | 7,235 | 970 | 722 | 628 | 2,897 | 28,098 | 29,407 |
| Average interest rate | 7.97% | 7.63% | 5.77% | 5.05% | 5.05% | 5.06% | 7.37% | |
| Match funded loans (2)(3) | 13,330 | 6,336 | 651 | 615 | 467 | 2,900 | 24,299 | 23,072 |
| Average interest rate | 6.55% | 6.36% | 8.76% | 8.73% | 8.87% | 8.94% | 6.94% | |
| Total rate-sensitive assets. | $ 50,705 | $ 21,938 | $ 8,858 | $ 5,836 | $ 3,744 | $ 15,453 | $ 106,534 | $ 106,616 |
| **Rate-Sensitive Liabilities:** | | | | | | | | |
| NOW and money market checking deposits | $ 16,543 | $ 266 | $ 226 | $ 192 | $ 163 | $ 923 | $ 18,313 | $ 17,931 |
| Average interest rate | 0.44% | 0.19% | 0.19% | 0.19% | 0.19% | 0.19% | 0.42% | |
| Savings deposits | 1,657 | -- | -- | -- | -- | -- | 1,657 | 1,578 |
| Average interest rate | 0.99% | --% | --% | --% | --% | --% | 0.99% | |
| Certificates of deposit | 272,572 | 112,514 | 27,057 | 7,233 | 2,163 | -- | 421,539 | 427,627 |
| Average interest rate | 3.26% | 3.71% | 3.28% | 4.27% | 5.13% | --% | 3.41% | |
| Total interest-bearing deposits | 290,772 | 112,780 | 27,283 | 7,425 | 2,326 | 923 | 441,509 | 447,136 |
| Bonds-match funded agreements | 115,394 | -- | -- | -- | -- | -- | 115,394 | 115,401 |
| Average interest rate | 2.68% | --% | --% | --% | --% | --% | 2.68% | |
| Lines of credit and other secured borrowings | 150,384 | -- | -- | -- | -- | -- | 150,384 | 150,384 |
| Average interest rate | 3.53% | --% | --% | --% | --% | --% | 3.53% | |
| Notes and debentures | -- | -- | -- | -- | -- | 56,249 | 56,249 | 55,581 |
| Average interest rate | --% | --% | --% | --% | --% | 10.88% | 10.88% | |
| Total rate-sensitive liabilities | $ 556,550 | $ 112,780 | $ 27,283 | $ 7,425 | $ 2,326 | $ 57,172 | $ 763,536 | $ 768,502 |

(1) Expected maturities are contractual maturities adjusted for prepayments of principal. We use certain assumptions to estimate fair values and expected maturities. For assets, expected maturities are based upon contractual maturity, projected repayments and prepayments of principal. We base the prepayment experience reflected herein on our historical experience. The actual maturities of these instruments could vary substantially if future prepayments differ from our historical experience.

(2) We have not reduced balances for non-performing loans.

(3) Excludes match funded advances on loans serviced for others, which do not earn interest, of $105,788 at December 31, 2003.

(4) The expected maturity or repricing dates of interest rate-sensitive assets and liabilities as of December 31, 2003, 2002 and 2001 compare as follows:

(Dollars in thousands, except share data)

| | 1st Year | 2nd Year | 3rd Year | 4th Year | 5th Year | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Total rate-sensitive assets: | | | | | | | |
| 2003 | | | | | | | |
| Amount | $ 50,705 | $ 21,938 | $ 8,858 | $ 5,836 | $ 3,744 | $ 15,453 | $ 106,534 |
| Percent of total | 47.59% | 20.59% | 8.31% | 5.48% | 3.51% | 14.52% | 100.00% |
| 2002 | | | | | | | |
| Amount | $ 216,990 | $ 47,774 | $ 9,460 | $ 6,198 | $ 4,494 | $ 17,888 | $ 302,804 |
| Percent of total | 71.66% | 15.78% | 3.12% | 2.05% | 1.48% | 5.91% | 100.00% |
| 2001 | | | | | | | |
| Amount | $ 563,761 | $ 67,274 | $ 20,843 | $ 11,700 | $ 10,587 | $ 52,002 | $ 726,167 |
| Percent of total | 77.64% | 9.26% | 2.87% | 1.61% | 1.46% | 7.16% | 100.00% |
| Total rate-sensitive liabilities: | | | | | | | |
| 2003 | | | | | | | |
| Amount | $ 556,550 | $ 112,780 | $ 27,283 | $ 7,425 | $ 2,326 | $ 57,172 | $ 763,536 |
| Percent of total | 72.89% | 14.77% | 3.57% | 0.97% | 0.30% | 7.50% | 100.00% |
| 2002 | | | | | | | |
| Amount | $ 558,541 | $ 79,554 | $ 62,929 | $ 1,852 | $ 4,213 | $ 21,295 | $ 728,384 |
| Percent of total | 76.69% | 10.92% | 8.64% | 0.25% | 0.58% | 2.92% | 100.00% |
| 2001 | | | | | | | |
| Amount | $ 750,269 | $ 204,721 | $ 61,675 | $ 93,035 | $ 1,347 | $ 21,129 | $ 1,132,176 |
| Percent of total | 66.27% | 18.08% | 5.45% | 8.22% | 0.12% | 1.86% | 100.00% |

We believe that the broad geographic distribution of our loans and match funded loans reduces the risks that would otherwise result from concentrating such loans in limited geographic areas. See Notes 4 and 5 to our Consolidated Financial Statements.

The Committee is authorized to utilize a wide variety of off-balance sheet financial techniques to assist it in the management of interest rate risk and foreign currency exchange rate risk. These techniques include interest rate exchange contracts or "swap" agreements, interest rate caps and floors, U.S. Treasury interest rate futures contracts, foreign currency futures contracts, foreign currency forwards and European swaptions and put options.

Interest Rate Risk Management. The amortizing caps and floors we had purchased to hedge the interest rate exposure relating to our match funded loans and securities, matured in October 2003 and were not renewed or replaced. An interest rate cap or interest rate floor is designed to provide protection against the interest rate on a floating-rate instrument rising above some level (cap) or falling below some level (floor). These caps and floors had an aggregate notional amount of $111,799 and $30,563, respectively, at December 31, 2002. See the "Derivative Financial Instruments" section of Note 1 and the "Interest Rate Management" section of Note 17 to our Consolidated Financial Statements.

Foreign Currency Exchange Rate Risk Management. We have entered into foreign currency futures to hedge our net investments in foreign subsidiaries that own residual interests backed by residential loans originated in the UK ("UK residuals") and the shopping center located in Halifax, Nova Scotia (the "Nova Scotia shopping center"). Our principal exposure to foreign currency exchange rates exists with the British Pound versus the U.S. dollar and the Canadian Dollar versus the U.S. dollar. Our policy is to periodically adjust the amount of foreign currency derivative contracts that we have entered into in response to changes in our recorded investment in these foreign entities as well as to changes in our assets denominated in a foreign currency. Our net exposures are subject to gain or loss if foreign currency exchange rates fluctuate. See the "Derivatives Financial Instruments" section of Note 1 and the "Foreign Currency Management" section of Note 17 to our Consolidated Financial Statements.

Liquidity, Commitments and Off-Balance Sheet Risks

Liquidity. Our primary sources of funds for liquidity are:

- Deposits
- Lines of credit and other secured borrowings
- Match funded debt
- Securities sold under agreements to repurchase
- Payments received on loans and securities
- Proceeds from sales of assets
- Servicing fees

We continue to rely on non-brokered deposits as a source of financing our operations while at the same time reducing our reliance on brokered deposits. We plan to reduce this reliance by using proceeds from the sale of non-core assets to pay off maturing brokered deposits and by diversifying our funding sources through obtaining credit facilities for servicing rights and advances. Our ability to continue to attract new non-brokered deposits and rollover existing non-brokered deposits depends largely on our ability to compete with interest rates offered by other banks in the northern New Jersey area. In 2003 and 2002, we were able to increase the amount of non-brokered deposits outstanding. If we are unable to maintain the amount of non-brokered deposits outstanding and must replace them with alternative sources of funds, it is likely that we would incur higher interest costs to fund our assets.

In the last several years, our Residential Loan Servicing business has grown through the purchase of servicing rights. Servicing rights entitle the owner to earn servicing fees and other types of ancillary income and impose various obligations on the servicer. Among these are the obligations to advance our own funds to meet contractual principal and interest payments for certain investors and to pay taxes, insurance and various other items that are required to preserve the assets being serviced.

Our ability to continue to expand our servicing business depends in part on our ability to obtain additional financing to purchase new servicing rights and to fund servicing advances. We currently use a variety of sources of debt to finance these assets, including deposits, credit facilities and seller financing. Our credit facilities provide financing to us at amounts that are less than the full value of the related servicing assets that serve as collateral for the credit facilities. If we cannot replace or renew these sources as they mature or obtain additional sources of financing, we may be unable to acquire new servicing rights and make the associated advances.

Under a match funding agreement that we entered into on December 20, 2001, we are eligible to sell advances on loans serviced for others up to a maximum debt balance of $200,000 at any one time. At December 31, 2003, we had $94,967 of bonds-match funded agreements outstanding under this facility. This facility, which originally matured in December 2003, was extended in January 2004 with a maturity of January 2006. The sales of advances do not qualify as sales for accounting purposes; therefore, we report them as secured borrowings with pledges of collateral. We have accounted for additional sales under this facility in the same manner.

Under a revolving credit facility executed in April 2001 we have the right to pledge servicing advances as collateral for a loan up to $100,000. The facility was fully repaid subsequent to December 31, 2003 and will not be renewed upon maturity in March 2004. The balance outstanding under this facility at December 31, 2003 was $68,548. In October 2003, we executed a similar revolving credit facility under which we have the right to borrow up to $100,000 secured by a pledge of servicing advances as collateral. At December 31, 2003, we had $9,386 outstanding under this facility, which matures in October 2004.

In April 2003, we also entered into a $60,000 secured credit agreement that may be used to fund servicing advances and acquisitions of servicing rights. The agreement matures April 2004 and bears interest at LIBOR plus 162.5 basis points for funding of servicing advances or 225 basis points for funding of acquisitions of servicing rights. At December 31, 2003, we had a balance outstanding under this agreement of $35,321. We anticipate that this facility will be renewed.

In June 2003, we entered into an agreement for seller financing of purchased mortgage servicing rights. At December 31, 2003, we had $2,332 outstanding under this agreement with an interest rate of 2.81%.

Also in June 2003, we entered into a secured loan agreement under which we borrowed $18,846. This agreement, which is secured by the assignment of our interest in certain unrated subprime residual securities, matures in June 2004 and bears interest at LIBOR plus 275 basis points. At December 31, 2003 the outstanding balance had been reduced to $11,562 through the assignment of principal and interest payments received on our unrated subprime residual securities.

We closely monitor our liquidity position and ongoing funding requirements. At December 31, 2003, we also had $206,705 of unrestricted cash and cash equivalents. Among the risks and challenges associated with our funding activities are the following:

- Scheduled maturities of all certificates of deposit for 2004, 2005 and thereafter amount to $272,572, $112,514 and $36,453, respectively.
- The maturity of existing collateralized lines of credit and other secured borrowings totaling $127,149 at various times in 2004.
- Potential extension of resolution and sale timelines for non-core assets.
- Ongoing cash requirements to fund operations of our holding company.
- Cash requirements to fund our acquisition of additional servicing rights and related advances.

We believe that our existing sources of liquidity, including internally generated funds, will be adequate to fund our planned activities for the foreseeable future, although there can be no assurances in this regard. As discussed above, we continue to evaluate other sources of liquidity, such as lines of credit from unaffiliated parties, match funded debt and other secured and unsecured borrowings. See the "Short-Term Highly Liquid Investments," "Securities Sold Under Agreements to Repurchase," and "Derivative Financial Instruments" sections of Note 1 and Note 14 to our Consolidated Financial Statements.

Our operating activities provided $33,129, $251,559 and $51,474 of cash flows during 2003, 2002 and 2001, respectively. During 2002 and 2001 cash was generated from operating activities, despite the net losses recorded, for two reasons. First, the net losses included a significant amount of non-cash reserves and impairment charges. Second, our securities portfolio generated positive cash flow through sales and interest and principal payments.

Our investing activities provided (used) cash flows totaling $(18,777), $75,940 and $428,415 during 2003, 2002 and 2001, respectively. During the foregoing years, cash flows from our investing activities were provided primarily from principal payments on our loans, and proceeds from sales of loans and real estate. We used cash flows from our investing activities primarily to purchase mortgage servicing rights and fund loans made to facilitate sales of real estate. The decline in net cash provided by investing activities is primarily due to a decline in principal payments received on loans and a decline in proceeds from sales of loans and real estate.

Our financing activities provided (used) cash flows of $9,489, $(395,907) and $(372,970) during 2003, 2002 and 2001, respectively. Cash flows related to our financing activities primarily resulted from changes in deposits, changes in lines of credit, repurchases and repayment of debt and issuance of match funded debt. A decline in the amount of maturing deposits during 2002 was offset by repayments of securities sold under agreements to repurchase, an increase in the repurchase of debt and a decline in proceeds from lines of credit as compared to 2001. Cash flows from financing activities in 2003 reflect our continuing effort to pay off our high yield bonds and replace them with less expensive sources of financing including secured credit facilities and non-brokered deposits.

On March 14, 2003, Fitch Ratings raised the long-term deposit rating of Ocwen Federal Bank FSB to B+ from B and revised the ratings outlooks for Ocwen Financial Corporation and Ocwen Federal Bank FSB to Stable from Negative. All other ratings were affirmed.

On November 17, 2003, Standard & Poor's revised the ratings outlooks on Ocwen Financial Corporation and Ocwen Federal Bank FSB to Stable from Negative.

On February 6, 2004, Moody's Investors Service placed the ratings of Ocwen Financial Corporation and its subsidiaries on review for possible downgrade due to concerns regarding the ability to sustain recent profitability improvements.

On February 17, 2004, Moody's Investors Service lowered the ratings of Ocwen Federal Bank for Primary Servicer of residential subprime mortgage loans and for Special Servicer to SQ2 ("Above Average") from SQ1 ("Strong"). In its press release Moody's indicates that the ratings reflect the Bank's excellent servicing performance but also expresses concern regarding the sustainability of profitability improvements, including a possible negative outcome with respect to potential class action lawsuits. See Note 26 to our Consolidated Financial Statements. Certain of our servicing agreements require minimum servicer ratings; we remain well in excess of those requirements.

These rating actions have not had a material impact on our business or financing activities. However, further negative rating actions may adversely impact our business and financing activities.

(Dollars in thousands, except share data)

Commitments. The following table sets forth certain information regarding amounts we owe to others as of December 31, 2003 under contractual obligations based on maturities and payment due dates:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Less Than One Year | After One Year Through Three Years | After Three Years Through Five Years | After Five Years | Total |
| Capital Trust Securities | $ -- | $ -- | $ -- | $ 56,249 | $ 56,249 |
| Operating leases | 3,289 | 2,505 | 805 | -- | 6,599 |
| Certificates of deposit | 272,572 | 139,571 | 9,396 | -- | 421,539 |
| Lines of credit and other secured borrowings | 127,149 | 23,235 | -- | -- | 150,384 |
| Total | $ 403,010 | $ 165,311 | $ 10,201 | $ 56,249 | $ 634,771 |

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. See Note 26 to our Consolidated Financial Statements for additional information regarding commitments and contingencies.

Off-Balance Sheet Risks. In addition to commitments to extend credit, we are party to various off-balance sheet financial instruments in the normal course of our business to manage our interest rate risk and foreign currency exchange rate risk. See Note 26 to our Consolidated Financial Statements and "Asset and Liability Management" above.

We conduct business with a variety of financial institutions and other companies in the normal course of business, including counterparties to our off-balance sheet financial instruments. We are subject to potential financial loss if the counterparty is unable to complete an agreed upon transaction. We seek to limit counterparty risk through financial analysis, dollar limits and other monitoring procedures.

## Regulatory Capital and Other Requirements

See Note 21 to our Consolidated Financial Statements.

## Recent Accounting Developments

For information relating to the effects of our adoption of recent accounting standards, see Note 1 to our Consolidated Financial Statements.

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## Forward-Looking Statements

This Annual 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, including, but not limited to the following:

- Estimates regarding the benefits of cost saving opportunities and quality workforce in India,
- Projections for staff reduction in the United States and growth in our India workforce,
- Predictions as to the potential business opportunities in business process outsourcing,
- Predictions regarding sales of our commercial and affordable housing assets, and
- Intentions related to the issuance of brokered deposits and other sources of financing.

Forward-looking statements are not guarantees of future performance and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially. Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, but are not limited to, the following:

- General economic and market conditions,
- Prevailing interest or currency exchange rates,
- Availability of servicing rights for purchase,
- Governmental regulations and policies,
- International political and economic uncertainty,
- Availability of adequate and timely sources of liquidity,
- Uncertainty related to dispute resolution and litigation, and
- Real estate market conditions and trends.

Further information on the risks specific to our business are detailed within this report and our other reports and filings with the Securities and Exchange Commission, including our periodic reports on Form 10-K, Form 10-Q and Form 8-K. The forward-looking statements speak only as of the date they are made and should not be relied upon. OCN undertakes no obligation to update or revise the forward-looking statements.

REPORT OF MANAGEMENT

The management of Ocwen Financial Corporation is responsible for the accompanying consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America applied on a consistent basis. In preparing the financial statements, it is necessary for management to make informed judgments and best estimates giving due consideration to materiality. In the opinion of management, the consolidated financial statements fairly reflect our financial position and results of operations. Information, both financial and non-financial, presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

To ensure that the financial statements are reliable, the Company established and maintains an effective system of internal financial reporting controls and procedures that provide reasonable assurance that assets are safeguarded and transactions are properly recorded and executed in accordance with corporate policy and management authorization. The Company believes that its financial reporting controls provide reasonable assurance that errors or irregularities, which could be material to the financial statements, are prevented or would be detected within a timely period and corrected in the normal course of business.

PricewaterhouseCoopers LLP was engaged to perform an audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. Such standards include the consideration of internal controls over financial reporting to determine the nature, timing and extent of their audit procedures. In addition to the use of independent certified public accountants, the Company maintains a professional staff of internal auditors who conduct financial, procedural and special audits and make recommendations on both administrative and accounting controls.

The Audit Committee of the Board of Directors is comprised solely of independent directors and is responsible for overseeing and monitoring the quality of our accounting and auditing practices. The independent accountants and internal auditors have direct access to the Audit Committee and meet periodically with the committee to discuss the scope and results of their work, internal controls over financial reporting and financial reporting matters.

| | |
|---|---|
| /s/ William C. Erbey | /s/ Mark S. Zeidman |
| William C. Erbey | Mark S. Zeidman |
| Chairman and Chief Executive Officer | Senior Vice President and Chief Financial Officer |

PRICEWATERHOUSECOOPERS LLP [GRAPHIC LOGO OMITTED]

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Suite 360
West Palm Beach, FL 33401-6136
Telephone (561) 832 0038
Facsimile (561) 805 8181

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Ocwen Financial Corporation

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, of comprehensive income (loss), of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Ocwen Financial Corporation and its subsidiaries (the "Company") at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2002, the Company changed its method of accounting for goodwill and intangible assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", and on July 1, 2003, its classification of Capital Securities in accordance with SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity".

PRICEWATERHOUSECOOPERS LLP
West Palm Beach, Florida
March 8, 2004

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

| | December 31, 2003 | December 31, 2002 |
|---|---|---|
| **Assets** | | |
| Cash and amounts due from depository institutions | $ 215,764 | $ 76,598 |
| Interest earning deposits | 324 | 30,649 |
| Federal funds sold and repurchase agreements | -- | 85,000 |
| Trading securities, at fair value | | |
| U.S. government and sponsored enterprise securities and CMOs (AAA-rated) | 6,679 | 21,556 |
| Subordinates and residuals | 42,841 | 37,339 |
| Real estate | 103,943 | 120,715 |
| Affordable housing properties | 7,410 | 15,319 |
| Loans, net | 28,098 | 76,857 |
| Match funded assets | 130,087 | 167,744 |
| Premises and equipment, net | 41,944 | 44,268 |
| Advances on loans and loans serviced for others | 374,769 | 266,356 |
| Mortgage servicing rights | 166,495 | 171,611 |
| Receivables | 88,399 | 78,944 |
| Other assets | 33,365 | 29,286 |
| Total assets | $ 1,240,118 | $ 1,222,242 |
| **Liabilities and Stockholders' Equity** | | |
| Liabilities | | |
| Deposits | $ 446,388 | $ 425,970 |
| Escrow deposits | 116,444 | 84,986 |
| Bonds - match funded agreements | 115,394 | 147,071 |
| Lines of credit and other secured borrowings | 150,384 | 82,746 |
| Notes and debentures | 56,249 | 76,975 |
| Accrued interest payable | 4,789 | 7,435 |
| Accrued expenses, payables and other liabilities | 31,926 | 28,314 |
| Total liabilities | 921,574 | 853,497 |
| Minority interest in subsidiaries | 1,286 | 1,778 |
| Company obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company | -- | 56,249 |
| Commitments and Contingencies (Note 26) | | |
| Stockholders' Equity | | |
| Common stock, $.01 par value; 200,000,000 shares authorized; 67,467,220 and 67,339,773 shares issued and outstanding at December 31, 2003 and December 31, 2002, respectively | 675 | 673 |
| Additional paid-in capital | 225,559 | 224,454 |
| Retained earnings | 90,409 | 85,637 |
| Accumulated other comprehensive income (loss), net of taxes | | |
| Net unrealized foreign currency translation gain (loss) | 615 | (46) |
| Total stockholders' equity | 317,258 | 310,718 |
| Total liabilities and stockholders' equity | $ 1,240,118 | $ 1,222,242 |

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

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

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Net interest income (expense) | | | |
| Income | $ 24,122 | $ 37,235 | $ 83,371 |
| Expense | 38,716 | 55,762 | 93,329 |
| Net interest income (expense) before provision for loan losses | (14,594) | (18,527) | (9,958) |
| Provision for loan losses | (2,684) | 13,629 | 15,666 |
| Net interest income (expense) after provision for loan losses | (11,910) | (32,156) | (25,624) |
| Non-interest income | | | |
| Servicing and other fees | 158,548 | 141,991 | 134,597 |
| Gain (loss) on interest earning assets, net | 28 | (3,485) | (3,949) |
| Gain (loss) on trading and match funded securities, net | 3,344 | 7,012 | 16,330 |
| Valuation gains (losses) on real estate | (7,430) | (35,002) | (22,282) |
| Gain (loss) on sales of real estate | 466 | 4,098 | 14,156 |
| Operating income (loss) from real estate | 5,128 | 7,864 | 4,495 |
| Amortization of excess of net assets acquired over purchase price | -- | -- | 18,333 |
| Gain (loss) on repurchase of debt | (445) | (1,461) | 3,774 |
| Equity in income (losses) of investments in unconsolidated entities | 38 | 215 | 304 |
| Other income | 17,820 | 12,780 | 8,530 |
| Non-interest income | 177,497 | 134,012 | 174,288 |
| Non-interest expense | | | |
| Compensation and employee benefits | 72,221 | 77,778 | 84,914 |
| Occupancy and equipment | 13,159 | 11,843 | 11,577 |
| Technology and communication costs | 21,121 | 25,270 | 26,768 |
| Loan expenses | 14,252 | 12,605 | 15,811 |
| (Gain) loss on investments in affordable housing properties | 285 | 21,915 | 17,535 |
| Amortization/writeoff of excess of purchase price over net assets acquired | -- | 2,231 | 3,112 |
| Professional services and regulatory fees | 26,054 | 16,383 | 14,749 |
| Other operating expenses | 10,409 | 9,601 | 8,849 |
| Non-interest expense | 157,501 | 177,626 | 183,315 |
| Distributions on Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company | 3,058 | 6,287 | 7,131 |
| Income (loss) before minority interest, income taxes and effect of change in accounting principle | 5,028 | (82,057) | (41,782) |
| Minority interest in net income (loss) of consolidated subsidiaries | (492) | (99) | -- |
| Income tax expense | 748 | 2,983 | 83,000 |
| Net income (loss) before effect of change in accounting principle | 4,772 | (84,941) | (124,782) |
| Effect of change in accounting principle, net of taxes | -- | 16,166 | -- |
| Net income (loss) | $ 4,772 | $ (68,775) | $ (124,782) |
| Earnings (loss) per share | | | |
| Basic | | | |
| Net income (loss) before effect of change in accounting principle | $ 0.07 | $ (1.26) | $ (1.86) |
| Effect of change in accounting principle, net of taxes | -- | 0.24 | -- |
| Net income (loss) | $ 0.07 | $ (1.02) | $ (1.86) |
| Diluted | | | |
| Net income (loss) before effect of change in accounting principle | $ 0.07 | $ (1.26) | $ (1.86) |
| Effect of change in accounting principles | -- | 0.24 | -- |
| Net income (loss) | $ 0.07 | $ (1.02) | $ (1.86) |
| Weighted average common shares outstanding | | | |
| Basic | 67,166,888 | 67,321,299 | 67,227,058 |
| Diluted | 68,063,873 | 67,321,299 | 67,227,058 |

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

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

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Net income (loss) | $ 4,772 | $ (68,775) | $ (124,782) |
| Other comprehensive income (loss), net of taxes | | | |
| Net change in unrealized foreign currency translation loss (net of tax benefit (expense) of $(459), $43 and $284 for 2003, 2002 and 2001, respectively) | 661 | 75 | (518) |
| Other comprehensive income (loss) | 661 | 75 | (518) |
| Comprehensive income (loss) | $ 5,433 | $ (68,700) | $ (125,300) |

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 and 2001
(Dollars in thousands, except share data)

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Taxes | Total |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balances at December 31, 2000 | 67,152,363 | $ 672 | $ 223,163 | $ 279,194 | $ 397 | $ 503,426 |
| Net loss | -- | -- | -- | (124,782) | -- | (124,782) |
| Exercise of common stock options | 128,155 | 1 | 901 | -- | -- | 902 |
| Directors' compensation | 8,795 | -- | 78 | -- | -- | 78 |
| Other comprehensive income, net of taxes | | | | | | |
| Change in accounting principle for derivative financial instruments | -- | -- | -- | -- | 59 | 59 |
| Reclassification of gain on derivative financial instruments to earnings | -- | -- | -- | -- | (59) | (59) |
| Change in unrealized foreign currency translation gain | -- | -- | -- | -- | (518) | (518) |
| Balances at December 31, 2001 | 67,289,313 | 673 | 224,142 | 154,412 | (121) | 379,106 |
| Net loss | -- | -- | -- | (68,775) | -- | (68,775) |
| Exercise of common stock options | 32,937 | -- | 214 | -- | -- | 214 |
| Directors' compensation | 17,523 | -- | 98 | -- | -- | 98 |
| Other comprehensive income, net of taxes | | | | | | |
| Change in unrealized foreign currency translation gain | -- | -- | -- | -- | 75 | 75 |
| Balances at December 31, 2002 | 67,339,773 | 673 | 224,454 | 85,637 | (46) | 310,718 |
| Net income | -- | -- | -- | 4,772 | -- | 4,772 |
| Issuance of restricted common stock awards to employees | 236,461 | 2 | 955 | -- | -- | 957 |
| Repurchase of common stock | (500,000) | (5) | (2,257) | -- | -- | (2,262) |
| Exercise of common stock options | 359,419 | 4 | 2,325 | -- | -- | 2,329 |
| Directors' compensation | 31,567 | 1 | 82 | -- | -- | 83 |
| Other comprehensive income, net of taxes | | | | | | |
| Change in unrealized foreign currency translation gain | -- | -- | -- | -- | 661 | 661 |
| Balances at December 31, 2003 | 67,467,220 | $ 675 | $ 225,559 | $ 90,409 | $ 615 | $ 317,258 |

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

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

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| **Cash flows from operating activities** | | | |
| Net income (loss) | $ 4,772 | $ (68,775) | $ (124,782) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities | | | |
| Net cash provided by trading activities | 20,807 | 186,511 | 192,069 |
| Premium amortization (discount accretion) on securities, net | 2,402 | 1,469 | 7,337 |
| Depreciation and amortization | 107,088 | 70,040 | 24,461 |
| Provision for loan losses | (2,684) | 13,629 | 15,666 |
| Gain (loss) on interest-earning assets, net | (28) | 3,485 | 3,949 |
| (Gain) loss on trading and match funded securities | (3,344) | (7,012) | (16,330) |
| Valuation (gains) losses on real estate | 7,430 | 35,002 | 22,281 |
| Provisions for losses on affordable housing properties | 432 | 21,294 | 15,587 |
| (Gain) loss on sale of real estate | (466) | (4,098) | (14,156) |
| (Gain) loss on sale of affordable housing properties | (1,050) | (444) | 956 |
| (Gain) loss on repurchase of debt | 445 | 1,461 | (3,774) |
| Effect of change in accounting principle before taxes | -- | (15,000) | -- |
| (Increase) decrease in advances and match funded advances on loans and loans serviced for others | (92,532) | (4,945) | (165,123) |
| (Increase) decrease in other assets, net | (11,108) | 24,261 | 109,559 |
| Increase (decrease) in accrued expense, interest payable and other liabilities | 965 | (5,319) | (16,226) |
| Net cash provided (used) by operating activities | 33,129 | 251,559 | 51,474 |
| **Cash flows from investing activities** | | | |
| Principal payments received on match funded loans | 13,736 | 16,490 | 30,552 |
| Investment in affordable housing properties | -- | (3,687) | (30,496) |
| Proceeds from sale of affordable housing properties | 5,257 | 25,017 | 52,076 |
| Purchase of mortgage servicing rights | (88,442) | (128,891) | (79,522) |
| Proceeds from sale of loans | 30,153 | 60,118 | 288,387 |
| Principal payments received on loans | 28,337 | 45,014 | 102,071 |
| Originations and funded commitments of loans, net | (6,201) | (21,722) | (25,326) |
| Capital improvements to real estate | (8,837) | (9,340) | (20,733) |
| Proceeds from sale of real estate | 17,573 | 105,743 | 123,698 |
| Additions to premises and equipment | (10,353) | (12,802) | (12,292) |
| Net cash provided (used) by investing activities | (18,777) | 75,940 | 428,415 |

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

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

| | For the Years Ended December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| Cash flows from financing activities | | | |
| Decrease in deposits and escrow deposits | 51,876 | (216,330) | (525,476) |
| Proceeds from (repayment of) securities sold under agreement to repurchase | -- | (79,405) | 79,405 |
| (Repayment of) proceeds from lines of credit, net | 67,638 | (5,793) | 51,371 |
| Proceeds from issuance of bonds - match funded agreements | -- | -- | 91,766 |
| Repayments of bonds - match funded agreements | (31,677) | (10,275) | (43,144) |
| Repurchase and repayment of notes and debentures | (77,420) | (79,214) | (13,233) |
| Exercise of common stock options | 1,334 | 103 | 588 |
| Repurchase of Capital Securities, net | -- | (3,796) | (14,247) |
| Repayment of other interest-bearing obligations, net | -- | (1,197) | -- |
| Repurchase of common stock | (2,262) | -- | -- |
| Net cash provided (used) by financing activities | 9,489 | (395,907) | (372,970) |
| Net increase (decrease) in cash and cash equivalents | 23,841 | (68,408) | 106,919 |
| Cash and cash equivalents at beginning of period | 192,247 | 260,655 | 153,736 |
| Cash and cash equivalents at end of period | $ 216,088 | $ 192,247 | $ 260,655 |
| Reconciliation of cash and cash equivalents at end of period | | | |
| Cash and amounts due from depository institutions | 215,764 | $ 76,598 | $ 23,081 |
| Interest-earning deposits | 324 | 30,649 | 111,574 |
| Federal funds sold and repurchase agreements | -- | 85,000 | 126,000 |
| | $ 216,088 | $ 192,247 | $ 260,655 |
| Supplemental disclosure of cash flow information | | | |
| Cash paid during the period for | | | |
| Interest | $ 41,362 | $ 61,163 | $ 75,834 |
| Income tax refunds (payments) | (869) | 2,444 | (14,816) |
| Supplemental schedule of non-cash investing and financing activities | | | |
| Real estate owned acquired through foreclosure | 161 | 9,492 | 64,041 |
| Exchange of note receivable for real estate held for sale | -- | 9,153 | -- |
| Accounts receivable from sale of affordable housing properties | 2,767 | 44,591 | 11,427 |

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Ocwen Financial Corporation ("OCN") is a financial services company whose primary business activities consist of the servicing and resolution of nonconforming, subperforming and nonperforming residential and commercial mortgage loans. We also specialize in the related development of loan servicing technology and software for the mortgage and real estate industries. Our consolidated financial statements include the accounts of OCN and its subsidiaries. We own directly and indirectly all of the outstanding common and preferred stock of our primary subsidiaries, Ocwen Federal Bank FSB (the "Bank"), Investors Mortgage Insurance Holding Company ("IMI"), Ocwen Technology Xchange, Inc. ("OTX"), Ocwen Asset Investment Corp. ("OAC") and Ocwen Financial Solutions Pvt. Ltd. In 2002, we formed Global Servicing Solutions, LLC ("GSS"). We own 70% of GSS with the remaining 30% owned by Merrill Lynch. We have eliminated all significant intercompany transactions and balances in consolidation.

The Bank is a federally chartered savings bank regulated by the Office of Thrift Supervision ("OTS").

Reclassification

Certain amounts included in our 2002 and 2001 consolidated financial statements have been reclassified to conform to the 2003 presentation.

Consolidated Statements of Cash Flows

For purposes of reporting cash flows, our cash and cash equivalents include cash on hand, interest-bearing and non-interest-bearing deposits and all investments in highly liquid debt instruments that we purchased with an original maturity of three months or less. Cash flows associated with items we intended as hedges of identifiable transactions or events are classified in the same category as the cash flows from the items being hedged.

Short-Term Highly Liquid Investments

Our short-term highly liquid investments generally consist of federal funds sold and assets we purchased under agreements to resell. We invest in these assets to maximize the return on liquid funds. At December 31, 2003, we had no short-term highly liquid investments. At December 31, 2002, such investments amounted to $85,000 of federal funds sold which had an overnight maturity. The average balance of our investment in federal funds sold and assets purchased under agreements to resell amounted to $125,732 and $152,588 during 2003 and 2002, respectively.

The Federal Reserve System requires that the Bank maintain non-interest-earning cash reserves against certain of its transaction accounts and time deposit accounts. Such reserves totaled $9,383 and $6,811 at December 31, 2003 and 2002, respectively.

Securities

We report securities in our statement of financial condition at fair value. We determine fair value within a range based on third party dealer quotations, where available, and internal values, subject to an internal review process.

We currently account for our securities as trading. For these securities, we reported changes in fair value in income in the period of change.

Loans

We report loans at amortized cost, less an allowance for loan losses, discounts, deferred loan fees and undisbursed loan funds. We defer loan origination fees and certain direct loan origination costs and recognize them over the lives of the related loans as a yield adjustment that we include in interest income using the interest method applied on a loan-by-loan basis.

For loans acquired, we accounted for the initial investment in these pools of loans based upon the pricing methodologies used to bid on the pool. We allocated the acquisition cost to each loan within the pool when we determined the bid price; we made these allocations based upon an analysis of the expected future cash flows of each individual loan. We accounted for the acquisition cost in the aggregate when we determined the bid price using assumptions concerning the expected future cash flows from groups of loans within the pool. For those single family residential mortgage loans that are brought current by the borrower and certain multi-family and commercial real estate loans that are current and that we believe will remain current, we accrete the remaining unamortized discount into interest income as a yield adjustment using the interest method over the contractual maturity of the loan. For all other loans, we report interest as cash is received. We report gains on the repayment and discharging of loans as interest income.

The resolution alternatives applied to loans are:

- The borrower brings the loan current in accordance with original or modified terms
- The borrower repays the loan or a negotiated amount
- The borrower agrees to a deed-in-lieu of foreclosure, in which case we classify it as real estate owned and held for sale
- We foreclose on the loan and the property is either acquired at the foreclosure sale by a third-party or by us, in which case it is classified as real estate owned and held for sale.

We accrue interest income as it is earned. We place loans on non-accrual status after being delinquent greater than 89 days or earlier if the borrower is deemed by management to be unable to continue performance. When we place a loan on non-accrual status, we reverse interest accrued but not received. In addition, we suspend the amortization of deferred loan fees when we place a loan on nonaccrual status. We return loans to accrual status only when we reinstate the loan and have no doubt regarding ultimate collectibility.

In situations where we foreclose upon the collateral, we transfer the loans to real estate owned upon receipt of title to the property.

### Allowance for Loan Losses

We maintain the allowance for loan losses at a level that, based upon our evaluation of known and inherent risks in the portfolio, we consider adequate to provide for probable losses. We establish specific valuation allowances for impaired loans in the amount by which the carrying value, before allowance for probable losses, exceeds the fair value of collateral less costs to dispose on an individual loan basis. In the case of single family residential mortgage loans and consumer loans, we generally evaluate for impairment as homogeneous pools of loans. We consider a loan to be impaired when, based upon current information and events, we believe that we will probably be unable to collect on a timely basis all amounts due according to the contractual terms of the loan agreement. We measure these impaired loans at the fair value of the collateral underlying the loans, less estimated disposal costs. We may leave impaired loans on accrual status during the period we are pursuing repayment of the loan. We place these loans on non-accrual status at such time that either: (i) the loans become 90 days delinquent; or (ii) we determine that the borrower is incapable of, or has ceased efforts toward, curing the cause of the non-payment. We recognize impairment losses through an increase in the allowance for loan losses and a corresponding charge to the provision for loan losses. When we either sell, transfer to real estate owned ("REO") or charge-off an impaired loan, we remove valuation allowance from the allowance for loan losses. Charge-offs occur when we consider loans, or a portion thereof, uncollectible and of such little value that we consider unwarranted their continuance as bankable assets. We base our ongoing evaluation of the allowance for loan losses upon an analysis of the portfolio, historical loss experience, economic conditions and trends, collateral values and other relevant factors. We may make subsequent adjustments to the allowance if these factors differ substantially from the assumptions used in making the evaluation.

### Mortgage Servicing Rights

We acquire mortgage servicing rights, which we record at the price paid. We amortize mortgage servicing assets in proportion to and over the period of estimated net servicing income. We determine estimated net servicing income using the estimated future balance of the underlying mortgage loan portfolio, which, absent new purchases, declines over time from prepayments and scheduled loan amortization. We adjust amortization prospectively in response to changes in estimated projections of future cash flows. We evaluate the mortgage servicing assets for impairment based on the fair value of the servicing assets by strata. We stratify the servicing assets based on loan type. We estimate fair value by discounting underlying loan cash flows using discount and prepayment rates that we believe market participants would use. To the extent the carrying value of the servicing assets exceeds their fair value by strata, we establish a valuation allowance, which we may adjust in the future, as the value of the servicing assets increases or decreases.

Mortgage Servicing Fees and Advances on Loans Serviced for Others

We receive fees from investors for servicing mortgage loans. We collect servicing fees, generally expressed as a percent of the unpaid principal balance, from the borrowers' payments. We also include late charge income and other ancillary fees, net of amortization of our servicing assets, in servicing income. During any period in which the borrower is not making payments, we are required under certain servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for certain investors, pay property taxes and insurance premiums and process foreclosures. We generally recover such advances from borrowers for reinstated and performing loans and from investors for foreclosed loans. We record a charge to servicing income to the extent that we estimate that advances are uncollectible under provisions of the servicing contracts, taking into consideration historical loss and delinquency experience, length of delinquency and the amount of the advance.

Real Estate

We record real estate properties acquired for investment at cost less accumulated depreciation. We review our investments for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We charge expenditures for repairs and maintenance to operations as incurred but capitalize significant improvements. We classify our leases as operating. We defer fees and costs incurred in the successful negotiation of leases and amortize them on a straight-line basis over the terms of the respective leases. We report rental income on a straight-line basis over the terms of the respective leases. We compute depreciation on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings and improvements | 39 - 40 years |
| Tenant improvements | Lesser of lease term or useful life |
| Land improvements | 20 years |
| Furniture, fixtures and equipment | 5 - 10 years |

When we commit to a plan to sell real estate assets, we discontinue depreciation and record the assets at the lower of the carrying amount or fair value less costs to sell.

Our investments in real estate partnerships are accounted for under the equity method of accounting. Under the equity method of accounting, we record an investment in the shares or other interests of an investee at cost of the shares or interests acquired and thereafter periodically increase (decrease) the investment by our proportionate share of earnings (losses) of the investee and decrease it by the dividends or distributions that we receive from the investee.

In addition, we acquired certain acquisition, development and construction loans in which we participated in the residual profits of the underlying real estate, and the borrower had not contributed substantial equity to the project. As such, we accounted for these loans under the equity method of accounting as though we had made an investment in a real estate limited partnership.

We value properties acquired through foreclosure and held less than one year at the lower of the adjusted cost basis of the loan or fair value less estimated costs of disposal of the property after the date of foreclosure. We periodically re-evaluate properties held to determine that we are carrying them at the lower of cost or fair value less estimated costs to dispose. We recognize sales proceeds and related costs with passage of title to the buyer and, in cases where we finance the sale, receipt of sufficient down payment. We report rental income related to properties as a part of operating income on real estate, as earned. We report holding and maintenance costs related to properties as period costs as incurred. We record no depreciation expense related to the properties held less than one year. We recognize decreases in the fair value of foreclosed real estate after foreclosure as a valuation allowance on a property specific basis. We report subsequent increases in fair value of the foreclosed real estate as reductions in the valuation allowance, but only to the extent the valuation allowance reaches zero. We charge or credit to income such changes in the valuation allowance. Properties acquired through foreclosure that are held longer than one year are accounted for similar to real estate properties acquired for investment.

Affordable Housing Properties

Affordable housing partnerships own multi-family residential properties that have been allocated tax credits under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The obligations of the partnership to sustain qualifying status of the properties covers a 15-year period; however, tax credits generally accrue over a 10-year period on a straight-line basis. We account for investments in affordable housing partnerships that we made on or after May 18, 1995 and in which we invest solely as a limited partner using the equity method. For our limited partnership investments made before this date, we record our receipt of income tax credits and other tax benefits on a level yield basis over the 15-year obligation period and report the tax credits and tax benefits net of amortization of our investment in the limited partnership as a reduction of income tax expense. We consolidate affordable housing partnerships in which we have invested as a limited partner, and through which a subsidiary acts as the general partner, and include them in our consolidated financial statements. For all investments in affordable housing partnerships made after May 18, 1995, we capitalize interest expense and certain direct costs incurred during the pre-operating period.

(Dollars in thousands, except share data)

We report affordable housing properties for which we have entered into an agreement to sell at the lower of cost or fair value less costs to sell.

Excess of Cost over Net Assets Acquired

We report the excess of purchase price over net assets of acquired businesses ("goodwill") at cost. Prior to our adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002, we amortized goodwill on a straight-line basis over the estimated future periods to be benefited, ranging from 3 to 7 years. Effective January 1, 2002 we no longer amortize our goodwill, but we do review the carrying value at least annually for impairment in accordance with the provisions of SFAS No. 142.

SFAS No. 142 prescribes a methodology for performing the impairment analyses for goodwill and other intangibles. This methodology uses an approach based on fair value of the assets rather than on undiscounted cash flows, as was the case prior to adoption. We perform this analysis using projections of future income discounted at a market rate. The determination of market discount rates is subjective and may vary by product based on the nature of the underlying business, stage of development and sales to date.

See "Current Accounting Pronouncements," below, for a discussion of the initial impact on our financial statements from the adoption of SFAS No. 142.

Premises and Equipment

We report premises and equipment at cost and, except for land, depreciate them over their estimated useful lives on the straight-line method as follows:

| | |
|---|---|
| Buildings | 39 years |
| Land improvements | 39 years |
| Furniture and fixtures | 5 years |
| Computer hardware and software | 3 years |
| Leasehold improvements | Life of the lease, with maximum lease term of 10 years. |

Capitalized Software Costs

We currently expense all costs attributable to enhancing our OTX technology solutions. Prior to 2000, we capitalized certain costs, although we expensed costs incurred up to the establishment of technological feasibility as research and development costs. Once the products were made available for general release to customers, we began amortization of the capitalized costs using the straight-line method over the estimated economic lives of the individual products. At each balance sheet date, we perform an impairment analysis by product by comparing unamortized capitalized costs to the net realizable value. An impairment charge is recorded to the extent the unamortized capitalized costs exceed the net realizable value.

Securities Sold Under Agreements to Repurchase

We periodically enter into sales of securities under agreements to repurchase the same securities. We report repurchase agreements as financings and report the obligations to repurchase securities sold as a liability in our consolidated statements of financial condition. We report all securities underlying repurchase agreements as assets in our consolidated statements of financial condition. Custodians hold these securities in safekeeping.

Excess of Net Assets Acquired over Purchase Price

The effects of our acquisition of OAC in 1999 resulted in a new basis of accounting reflecting fair values of assets and liabilities at the date of acquisition. We reported the excess of assets over the purchase price of acquired net assets resulting from the acquisition at cost and amortized it on a straight-line basis over the estimated future periods to be benefited. Effective January 1, 2002, we reversed the unamortized balance of the excess of net assets acquired over purchase price to income in accordance with the provisions of SFAS No. 141.

Derivative Financial Instruments

We use derivative financial instruments for the purpose of managing our exposure to adverse fluctuations in interest and foreign currency exchange rates. While these instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged. We do not enter into any derivative financial instruments for trading purposes.

We record all of our derivative instruments in the statement of financial condition at fair value. We record changes in the fair value of derivatives each period in current earnings or other comprehensive (loss) income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction and the effectiveness of the hedge.

For cash-flow hedge transactions in which we hedge the variability of cash flows related to a variable-rate asset, liability or a forecasted transaction, we report the effective portions of the changes in the fair value of the derivative instruments in other comprehensive (loss) income. The gains and losses on the derivative instrument that are reported in other comprehensive (loss) income are reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item.

For hedge transactions of net investments in foreign operations, we record the effective portions of the changes in fair value of the derivative instruments as a cumulative translation adjustment and include as a component of accumulated other comprehensive (loss) income in stockholders' equity.

We recognize the ineffective portions of all hedges in our current period earnings.

We account for all other derivative instruments used for risk management purposes that do not meet the hedge accounting criteria and, therefore, do not qualify for hedge accounting at fair value with changes in fair value recorded in our consolidated statement of operations.

On January 1, 2001, we adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137 and SFAS No. 138 (collectively, "SFAS No. 133") and recorded, net of tax, a cumulative effect adjustment in accumulated other comprehensive income to recognize at fair value the interest rate swap that was designated as a cash-flow hedging of an outstanding line of credit. The swap matured in April 2001, and we have reclassified to earnings all of this transaction adjustment.

Adoption of SFAS 133 did not have a material impact on our use of futures contracts to hedge the net investments in our foreign subsidiaries, as the SFAS 133 accounting is similar to the pre-existing accounting. In addition, adoption of SFAS 133 did not have an impact on our other risk management instruments that do not meet the hedge criteria as these derivatives were already accounted for at a fair value with changes in fair value recognized currently in earnings.

Foreign Currency Translation

Where the functional currency is not the U.S. dollar, we translate assets and liabilities of foreign entities into U.S. dollars at the current rate of exchange existing at the statement of financial condition date and revenues and expenses at average monthly rates. We include the resulting translation adjustments as a component of accumulated other comprehensive income in stockholders' equity. Where the functional currency of a foreign entity is the U.S. dollar, translation adjustments are included in the results of operations.

Income Taxes

We file consolidated Federal income tax returns with our subsidiaries. Consolidated income tax is allocated among the subsidiaries participating in the consolidated return as if each subsidiary that has one or more subsidiaries filed its own consolidated return and those with no subsidiaries filed separate returns.

We account for income taxes using the asset and liability method, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Additionally, we adjust deferred taxes for subsequent tax rate changes. We conduct periodic evaluations to determine whether it is more likely than not that some or all of our deferred tax asset will not be realized. Among the factors considered in this evaluation are estimates of future earnings, the future reversal of temporary differences and the impact of tax planning strategies that we can implement if warranted.

Investment in Unconsolidated Entities

We account for our investments in unconsolidated entities under the equity method of accounting. Under the equity method of accounting, we initially record an investment in the shares or other interests of an investee at the cost of the shares or interests acquired. Thereafter, we periodically increase (decrease) the investment by our proportionate share of the earnings (losses) of the investee and decrease it by the dividends or distributions that we receive from the investee.

Basic and Diluted Earnings Per Share

We calculate basic earnings per share based upon the weighted average number of shares of common stock outstanding during the year. We calculate diluted earnings per share based upon the weighted average number of shares of common stock outstanding and all dilutive potential common shares outstanding during the year. The computation of diluted earnings per share includes the impact of the exercise of the outstanding options to purchase common stock and assumes that the proceeds from such issuance are used to repurchase common shares at fair value. If the Company incurs a net loss for the period, we exclude common stock equivalents from the diluted calculation since the common stock equivalents would be antidilutive.

Comprehensive Income

Comprehensive income represents the change in equity of a business enterprise during a period from transactions and other events and circumstances excluding those resulting from investments by and distributions to owners. We present comprehensive income beginning with net income and adding the elements of comprehensive income not included in the determination of net income to arrive at comprehensive income. We present accumulated other comprehensive income net of income taxes and include unrealized foreign currency translation gains and losses.

Risks and Uncertainties

In the normal course of business, we encounter two significant types of risk: economic and regulatory. There are three main components of economic risk: credit risk, market risk and concentration of credit risk. Credit risk is the risk of default on our loan portfolios and derivative financial instruments that results from a borrower's inability or unwillingness to make contractually required payments. Market risk includes interest rate risk, foreign currency exchange rate risk and liquidity risk. We are exposed to interest rate risk to the degree that our interest-bearing liabilities mature or reprice at different speeds, or different bases, than our interest-earning assets. We are exposed to foreign currency exchange rate risk in connection with our investment in non-U.S. dollar functional currency operations and to the extent our foreign exchange positions remain unhedged. Market risk also reflects the risk of declines in the valuation of trading securities, and in the value of the collateral underlying loans and the value of real estate held. Concentration of credit risk refers to the risk that, if we extend a significant portion of the total outstanding credit to borrowers in a specific geographical area or industry or on the security of a specific form of collateral, we may experience disproportionately high levels of default and losses if those borrowers, or the value of such type of collateral, is adversely affected by economic or other factors that are particularly applicable to such borrowers or collateral.

We are also exposed to liquidity risk. Our business requires substantial cash to support the residential loan servicing business, including acquisitions of mortgage servicing rights and the unfinanced portion of servicing advances and to fund holding company operations, including OTX operations. In general, we finance our operations through operating cash flows and various other sources, including OFB deposits, long-term debt and financing facilities, some of which have 90% advance rates. As we continue to purchase mortgage servicing contracts and fund OTX and other segment operations from operating cash flows, we must secure additional capital to support our growth. Failure to secure additional financing sources or to achieve profitable operations could result in a significant adverse effect on our financial position and results of operations.

The Bank is subject to the regulations of various government agencies. These regulations can and do change significantly from period to period. The Bank also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions resulting from the regulators' judgments based on information available to them at the time of their examination.

The preparation of financial statements in conformity with generally accepted accounting principles requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly significant in the near or medium term relate to our determination of the allowance for loan losses and our valuation of securities, real estate, affordable housing properties, servicing rights, intangibles and our deferred tax asset.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. Certain provisions of the statement were effective December 31, 2002. Management currently intends to continue to account for stock-based compensation under the intrinsic value method set forth in Accounting Principles Board ("APB") Opinion 25 and related interpretations. For this reason, the transition guidance of SFAS No. 148 does not have an impact on Ocwen's consolidated financial position or consolidated results of operations. The Statement does amend existing guidance with respect to required disclosures, regardless of the method of accounting used.

Ocwen maintains stock-based compensation plans that provide for the granting of stock and stock options to Ocwen's employees and directors. Ocwen accounts for its stock option plans based on the intrinsic value method set forth in APB Opinion No. 25 and related Interpretations, under which no compensation cost has been recognized, except with respect to stock options that are granted with an exercise price that is less than the fair value of the Company's stock at the date of the grant, as disclosed in the accompanying table. The following table presents Ocwen's net income, basic and diluted earnings per share as reported and pro forma net income and pro forma earnings per share. We have determined pro forma amounts by assuming that compensation costs for Ocwen's stock options plans had been determined based on the fair value at the grant dates for awards under those plans granted after December 31, 1994, consistent with the method described by SFAS No. 123.

(Dollars in thousands, except share data)

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Net income | | | |
| Net income (loss) as reported | $ 4,772 | $ (68,775) | $ (124,782) |
| Add stock-based compensation expense included in reported net income, net of tax | 797 | 599 | 675 |
| Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of tax | (1,559) | (1,344) | (1,690) |
| Pro forma net income (loss) | $ 4,010 | $ (69,520) | $ (125,797) |
| Basic EPS | | | |
| As reported | $ 0.07 | $ (1.02) | $ (1.86) |
| Pro forma | $ 0.06 | $ (1.03) | $ (1.87) |
| Diluted EPS | | | |
| As reported | $ 0.07 | $ (1.02) | $ (1.86) |
| Pro forma | $ 0.06 | $ (1.03) | $ (1.87) |

We estimate the fair value of our option grants using the Black-Scholes option-pricing model with the following assumptions:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Expected dividend yield | 0.00% | 0.00% | 0.00% |
| Expected stock price volatility | 48.00 | 62.00 | 52.00 |
| Risk-free interest rate | 3.25% | 2.73% | 4.23% |
| Expected life of options | 5 years | 5 years | 5 years |

Current Accounting Pronouncements

We adopted the provisions of Statement of Financial Accounting Standard ("SFAS") No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002. As a result, we reversed the unamortized balance of the excess of net assets acquired over purchase price ("negative goodwill"). This reversal resulted in a credit to income of $18,333. The impact from the adoption of other elements of SFAS No. 142 resulted in our recording impairment charges of $3,333 on goodwill and intangible assets originally recorded in connection with the formation of REALSynergy, Inc. in 1999. These amounts have been reported in the first quarter of 2002 as the effect of a change in accounting principle, net of an income tax benefit of $1,166.

(Dollars in thousands, except share data)

The following tables present the pro forma effect on prior periods of the adoption of SFAS No. 142:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Income (loss) before effect of change in accounting principle................ | $ 4,772 | $ (84,941) | $ (124,782) |
| Adjustments related to adoption of SFAS No. 142 | | | |
| Deduct amortization of negative goodwill................................ | -- | -- | (18,333) |
| Add back amortization of goodwill, net of tax........................... | -- | -- | 2,023 |
| | -- | -- | (16,310) |
| Adjusted income (loss) before effect of change in accounting principle...... | $ 4,772 | $ (84,941) | $ (141,092) |
| Net income (loss)........................................................... | $ 4,772 | $ (68,775) | $ (124,782) |
| Adjustments related to adoption of SFAS No. 142 | | | |
| Deduct amortization of negative goodwill................................ | -- | -- | (18,333) |
| Add back amortization of good will, net of tax.......................... | -- | -- | 2,023 |
| | -- | -- | (16,310) |
| | $ 4,772 | $ (68,775) | $ (141,092) |
| Earnings (loss) per share | | | |
| Income (loss) before effect of change in accounting principle.............. | $ 0.07 | $ (1.26) | $ (1.86) |
| Adjustments related to adoption of SFAS No. 142 | | | |
| Deduct amortization of negative goodwill................................ | -- | -- | (0.27) |
| Add back amortization of goodwill, net of tax........................... | -- | -- | 0.03 |
| Adjusted income (loss) before effect of change in accounting principle...... | $ 0.07 | $ (1.26) | $ (2.10) |
| Net income (loss)........................................................... | $ 0.07 | $ (1.02) | $ (1.86) |
| Adjustments related to adoption of SFAS No. 142 | | | |
| Deduct amortization of negative goodwill................................ | -- | -- | (0.27) |
| Add back amortization of goodwill, net of tax........................... | -- | -- | 0.03 |
| | $ 0.07 | $ (1.02) | $ (2.10) |
| Weighted average common shares outstanding.................................. | 67,166,888 | 67,321,299 | 67,227,058 |

In June 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF 94-3). The principal difference between SFAS No. 146 and EITF 94-3 relates to SFAS No. 146's requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost as generally defined in EITF 94-3 was recognized at the date of an entity's commitment to an exit plan. We adopted the new standard effective January 1, 2003. The adoption of SFAS No. 146 did not have a material impact on our results of operations, financial position or cash flows.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The interpretation elaborates on the disclosures to be made by a guarantor in its financial statements under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. We adopted the disclosure requirements of the Interpretation as of December 31, 2002, the date upon which they became effective. These provisions of the Interpretation require disclosure of the nature of the guarantee, the maximum potential amount of future payments that the guarantor could be required to make under the guarantee, and the current amount of the liability, if any, for the guarantor's obligations under the guarantee. The recognition requirements of the Interpretation were effective January 1, 2003. The implementation of the recognition requirements of the Interpretation did not have a significant effect on our consolidated results of operations or financial condition.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation provides guidance with respect to the identification of variable interest entities and when assets, liabilities, noncontrolling interests, and the results of operations of a variable interest entity need to be included in a company's consolidated financial statements. The Interpretation requires consolidation by business enterprises of variable interest entities in certain cases. The factors to be considered in making this determination include the adequacy of the equity of the entity and the nature of the risks, rights and rewards of the equity investors in the entity. The Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. Due to significant implementation concerns, the FASB modified the wording of FIN 46 and issued FIN 46R in December of 2003. FIN 46R deferred the effective date for the provisions of FIN 46 to entities other than Special Purpose Entities ("SPEs") until financial statements are issued for periods ending after March 15, 2004. SPEs are subject to the provisions of either FIN 46 or FIN 46R as of December 15, 2003. We are in the process of assessing the impact of FIN 46R. We are a limited partner in three partnerships that developed low-income housing properties and may be subject to the provisions of FIN 46. We do not consolidate these partnerships but rather record our investment in them using the equity method of accounting. As of December 31, 2003, our investment in such limited partnerships amounted to $6,036. In addition, we had loans to these partnerships with a net book value of $5,771 at December 31, 2003.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with the characteristics of both liabilities and equity. The statement requires that certain securities, such as our Capital Securities, which are classified between liabilities and equity in the statement of financial condition, be classified as liabilities. Further, the distributions on such securities are to be classified as interest cost. No restatement of periods prior to the adoption of SFAS No. 150 is permitted. The impact from our adoption of SFAS No. 150 effective for the quarter beginning July 1, 2003 was to reclassify our Capital Securities as liabilities (included with notes and debentures) and begin reporting distributions on our Capital Securities as interest expense. Our adoption of SFAS No. 150 had no other effect on our financial statements.

NOTE 2 FAIR VALUE OF FINANCIAL INSTRUMENTS

A majority of our assets, liabilities and off-balance sheet instruments and commitments are considered financial instruments. For the majority of our financial instruments, principally loans and deposits, fair values are not readily available since there are no available trading markets as characterized by current exchanges between willing parties. Accordingly, fair values can only be derived or estimated using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. In addition, for those financial instruments with option-related features, prepayment assumptions are incorporated into the valuation techniques. Minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values.

The fair values reflected below are indicative of the interest rate environments as of December 31, 2003 and 2002, and do not take into consideration the effects of interest rate fluctuations. In different interest rate environments, fair value results can differ significantly, especially for certain fixed-rate financial instruments and non-accrual assets. In addition, the fair values presented do not attempt to estimate the value of our fee generating businesses and anticipated future business activities. In other words, they do not represent our value as a going concern. Furthermore, the differences between the carrying amounts and the fair values presented may not be realized.

Reasonable comparability of fair values among financial institutions is difficult due to the wide range of permitted valuation techniques and numerous estimates that must be made in the absence of secondary market prices. This lack of objective pricing standards introduces a degree of subjectivity to these derived or estimated fair values. Therefore, while disclosure of estimated fair values of financial instruments is required, readers are cautioned in using this data for purposes of evaluating our financial condition.

The methodologies used and key assumptions made to estimate fair value, the estimated fair values determined and recorded carrying values follow:

Cash and Cash Equivalents

We have valued cash and cash equivalents at their carrying amounts as these are reasonable estimates of fair value given the relatively short period of time between origination of the instruments and their expected realization.

Securities

We adjust our securities portfolio to fair value within a range based on third party dealer quotations, where available, and internal values, subject to an internal review process. For those securities, which do not have an available market quotation, we will request market values and underlying assumptions from the various securities dealers that underwrote, are currently financing the securities or have had prior experience with the type of security to be valued. When we obtain quotations from two or more dealers, we generally use the average dealer quote.

Loans and Match Funded Loans and Securities

We estimate the fair value of our performing loans based upon quoted market prices for similar whole loan pools. We base the fair value of our non-performing loans on estimated cash flows discounted using a rate commensurate with the risk associated with the estimated cash flows. We estimate the fair value of our match funded loans and our loans based upon current market yields at which recent pools of similar mortgages have traded taking into consideration the timing and amount of expected cash flows. We mark our match funded securities to fair value in the same manner as securities.

Advances on Loans and Loans Serviced for Others

We value advances we make on our loans and loans we service for others at their carrying amounts because they have no stated maturity, do not bear interest and we believe that there is no substantial risk of uncollectibility.

Receivables

The carrying value of receivables approximates fair value because of the relatively short period of time between their origination and realization. Certain long-term receivables are carried at a discounted value that we believe approximates fair value.

Deposits

The fair value of our demand deposits, savings accounts and money market deposits is the amount payable on demand at the reporting date. We estimate the fair value of fixed-maturity certificates of deposit by discounting the required cash payments at the market rates offered for deposits with similar maturities on the respective financial statement dates.

Borrowings

We base the fair value of our bonds-match funded loan agreements, notes and debentures and Capital Securities on quoted market prices. The fair value of our other borrowings, including securities sold under agreements to repurchase and obligations outstanding under lines of credit, approximates carrying value because these borrowings are either short-term or bear interest at a rate that is adjusted regularly based on a market index.

Derivative Financial Instruments

We base the fair values of our derivative financial instruments on quoted market prices.

(Dollars in thousands, except share data)

Loan Commitments, Letters of Credit and Guarantees

The fair values of loan commitments, letters of credit and guarantees are estimated considering the difference between interest rates on the respective financial statement dates and the committed rates.

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

| | December 31, 2003 | | December 31, 2002 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Interest earning and non-interest earning cash | $ 216,088 | $ 216,088 | $ 107,247 | $ 107,247 |
| Federal funds sold and repurchase agreements | -- | -- | 85,000 | 85,000 |
| Trading securities | 49,520 | 49,520 | 58,895 | 58,895 |
| Loans, net | 28,098 | 29,407 | 76,857 | 89,957 |
| Match funded assets | 130,087 | 128,860 | 167,744 | 167,800 |
| Advances on loans and loans serviced for others | 374,769 | 374,769 | 266,356 | 266,356 |
| Receivables | 88,399 | 88,399 | 78,944 | 78,944 |
| Financial liabilities: | | | | |
| Deposits | 446,388 | 452,015 | 425,970 | 439,360 |
| Escrow deposits on loans and loans serviced for others | 116,444 | 116,444 | 84,986 | 84,986 |
| Bonds - match funded agreements | 115,394 | 115,401 | 147,071 | 147,091 |
| Lines of credit and other secured borrowings | 150,384 | 150,384 | 82,746 | 82,746 |
| Notes and debentures | 56,249 | 55,581 | 76,975 | 78,514 |
| Capital Securities | -- | -- | 56,249 | 44,998 |
| Derivative financial instruments: | | | | |
| Caps and floors | -- | -- | 592 | 592 |
| British Pound futures | (737) | (737) | (793) | (793) |
| Canadian Dollar futures | (34) | (34) | 78 | 78 |
| Other: | | | | |
| Loan commitments | -- | 451 | -- | 346 |
| Letters of credit | -- | 190 | -- | 210 |
| Guarantees | -- | -- | -- | 467 |

NOTE 3 TRADING SECURITIES

The fair value of our trading securities are as follows at December 31:

| | 2003 | 2002 |
|---|---|---|
| U.S. government and sponsored enterprise securities and collateralized mortgage obligations ("CMOs") (AAA-rated) | | |
| U.S. government and sponsored enterprise securities | $ 6,679 | $ 1,016 |
| Collateralized mortgage obligations | -- | 20,540 |
| | $ 6,679 | $ 21,556 |
| Subordinates and residual securities | | |
| Single family residential | | |
| BB-rated subordinates | $ 579 | $ 599 |
| B-rated subordinates | 580 | 606 |
| Unrated subordinates | 222 | 344 |
| Unrated subprime residuals | 38,883 | 33,213 |
| | 40,264 | 34,762 |
| Nonresidential unrated subordinates | 2,577 | 2,577 |
| | $ 42,841 | $ 37,339 |

(Dollars in thousands, except share data)

At December 31, 2003, we had pledged securities from our portfolio of U.S. government and sponsored enterprise securities with a fair value of $6,130 as security for certificates of deposit in excess of $100 issued to municipalities in the State of New Jersey.

A profile of the maturities of our trading securities at December 31, 2003 follows. Mortgage-backed securities are included based on their weighted-average maturities, reflecting anticipated future prepayments.

| | U.S. Government and Sponsored Enterprise Securities | | Subordinates and Residuals | |
|---|---|---|---|---|
| | Weighted Average Yield | Fair Value | Weighted Average Yield | Fair Value |
| Due within one year | 2.22% | $ 6,679 | 22.00% | $ 10,433 |
| Due after 1 through 5 years | -- | -- | 17.92 | 22,752 |
| Due after 5 through 10 years | -- | -- | 23.53 | 6,517 |
| Due after 10 years | -- | -- | 26.55 | 3,139 |
| | | $ 6,679 | | $ 42,841 |

Realized and unrealized gains on trading and match funded securities for the years ended December 31, 2003, and 2002 was comprised of the following:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Unrealized gains (losses): | | | |
| Trading securities | $ 3,226 | $ 1,727 | $ 3,125 |
| Match funded securities | (248) | 293 | 2,088 |
| | 2,978 | 2,020 | 5,213 |
| Realized gains: | | | |
| Trading securities | 366 | 4,992 | 11,117 |
| | $ 3,344 | $ 7,012 | $ 16,330 |

Our residual and subordinate securities classified as trading securities at December 31, 2003 and 2002 include retained interests with a fair value of $1,346 and $1,465, respectively, from securitizations of our loans completed in prior years. We have not securitized any loans since 1999.

(Dollars in thousands, except share data)

NOTE 4 LOANS

Our loans consisted of the following property types by business segment at December 31:

| | 2003 | 2002 |
|---|---|---|
| Residential Discount Loans: (1) | | |
| Unpaid principal balance | | |
| Single family residential loans | $ -- | $ 1,965 |
| Unaccreted discount and deferred fees | -- | (565) |
| Allowance for loan losses | -- | (154) |
| | -- | 1,246 |
| Affordable Housing: | | |
| Unpaid principal balance | | |
| Multi-family residential loans | 11,124 | 11,003 |
| Undisbursed loan funds | -- | (346) |
| Allowance for loan losses | (4,579) | (4,428) |
| | 6,545 | 6,229 |
| Commercial Finance: | | |
| Unpaid principal balance | | |
| Office buildings | -- | 41,215 |
| Hotels | 10,600 | 11,668 |
| Retail properties | -- | 27,500 |
| Multifamily residential loans | 14,964 | 15,215 |
| Other properties | -- | 1,188 |
| | 25,564 | 96,786 |
| Unaccreted discount and deferred fees | (1,015) | (11,409) |
| Allowance for loan losses | (3,786) | (16,179) |
| | 20,763 | 69,198 |
| Subprime Finance: | | |
| Unpaid principal balance | | |
| Single family residential loans | -- | 199 |
| Unaccreted discount | -- | (15) |
| | -- | 184 |
| Corporate Items and Other: | | |
| Unpaid principal balance | | |
| Single family residential loans | 1,307 | -- |
| Unaccreted discount and deferred fees | (412) | -- |
| Allowance for loan losses | (105) | -- |
| | 790 | -- |
| Loans, net | $ 28,098 | $ 76,857 |

(1) Loans and all other assets of the Residential Discount Loans segment were transferred to the Corporate Items and Other segment, effective January 1, 2003. These loans were acquired by us at a discount and are secured by mortgages on single family residential properties.

(Dollars in thousands, except share data)

Our loans are secured by mortgages on properties located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing our loans were located at December 31, 2003:

| | Affordable Housing | Commercial Finance | | | Corporate Items and Other | |
|---|---|---|---|---|---|---|
| | Multi-family Residential | Multi-family Residential | Nonresidential Real Estate | Subtotal | Single Family Residential | Grand Total |
| New Jersey | $ 5,771 | $ -- | $ -- | $ -- | $ -- | $ 5,771 |
| Michigan | -- | -- | 5,400 | 5,400 | -- | 5,400 |
| Texas | -- | 4,771 | -- | 4,771 | -- | 4,771 |
| Pennsylvania | -- | 3,567 | -- | 3,567 | 182 | 3,749 |
| Ohio | -- | 3,567 | -- | 3,567 | -- | 3,567 |
| Other (1) | 774 | -- | 3,458 | 3,458 | 608 | 4,840 |
| | $ 6,545 | $ 11,905 | $ 8,858 | $ 20,763 | $ 790 | $ 28,098 |

(1) Consists of properties located in 9 other states, none of which aggregated over $3,458 in any one state.

The following table presents a summary of our non-performing loans, allowance for loan losses and significant ratios for our loans, excluding match funded loans, at and for the years ended December 31:

| | 2003 | 2002 |
|---|---|---|
| Non-performing loans | $ 21,898 | $ 75,549 |
| Allowance for loan losses: | | |
| Balance, beginning of year | $ 20,761 | $ 10,414 |
| Provision for loan losses | (2,633) | 13,655 |
| Net charge-offs | (9,658) | (3,308) |
| Balance, end of year | $ 8,470 | $ 20,761 |
| Significant ratios: | | |
| Non-performing loans as a percentage of | | |
| Total loans | 59.9% | 77.4% |
| Total assets | 1.8 | 6.2 |
| Allowance for loan losses as a percentage of | | |
| Total loans | 23.2% | 21.3% |
| Non-performing loans | 38.7 | 27.5 |

If non-accrual loans had been current in accordance with their original terms, interest income for the years ended December 31, 2003, 2002 and 2001, would have been greater by approximately $1,614, $4,235 and $10,841, respectively.

(Dollars in thousands, except share data)

The following table sets forth the geographic distribution of properties securing our non-performing loans, net of allowance, at December 31, 2003:

| | Affordable Housing | Commercial Finance | | | Corporate Items and Other | |
|---|---|---|---|---|---|---|
| | Multi-family Residential | Multi family Residential | Nonresidential Real Estate | Subtotal | Single Family Residential | Grand Total |
| New Jersey | $ 5,259 | $ -- | $ -- | $ -- | $ -- | $ 5,259 |
| Texas | -- | 4,771 | -- | 4,771 | -- | 4,771 |
| Virginia | -- | -- | 3,458 | 3,458 | -- | 3,458 |
| Florida | 774 | -- | -- | -- | -- | 774 |
| Massachusetts | -- | -- | -- | -- | 207 | 207 |
| Other (1) | -- | -- | -- | -- | 583 | 583 |
| Total | $ 6,033 | $ 4,771 | $ 3,458 | $ 8,229 | $ 790 | $ 15,052 |

(1) Consists of properties located in 7 states, none of which aggregated over $182 in any one state.

The following table presents information regarding our impaired loans at and for the years ended December 31:

| | 2003 | 2002 |
|---|---|---|
| Book value | $ 14,486 | $ 43,035 |
| Allowance for loan losses | (5,257) | (12,985) |
| Carrying value | $ 9,229 | $ 30,050 |
| Average carrying value of impaired loans during the year | $ 32,895 | $ 58,064 |

Impaired loans at both December 31, 2003 and 2002 consisted of two loans, one nonresidential loan and one multi-family loan. We have maintained an allowance for losses on each of these loans.

## NOTE 5 MATCH FUNDED ASSETS

Our match funded assets are comprised of the following at December 31:

| | 2003 | 2002 |
|---|---|---|
| Single family residential loans (1) | $ 24,393 | $ 38,129 |
| Allowance for loan losses | (94) | (144) |
| Match funded loans, net | 24,299 | 37,985 |
| Match funded securities at fair value | -- | 8,057 |
| Match funded advances on loans serviced for others | | |
| Principal and interest | 54,516 | 66,524 |
| Taxes and insurance | 30,176 | 30,301 |
| Other | 21,096 | 24,877 |
| | 105,788 | 121,702 |
| | $ 130,087 | $ 167,744 |

(1) Included $2,321 and $3,120 of non-performing loans at December 31, 2003 and 2002, respectively.

Match funded loans were acquired as a result of our acquisition of OAC in 1999. These loans were securitized and transferred by OAC to OAC Mortgage Residential Securities, Inc., a real estate mortgage investment conduit (the "Trust") on November 13, 1998. On that date, the Trust issued two classes of notes secured by the related group of mortgage loans. At December 31, 2003, Loan Group I consisted of approximately 181 mortgage loans with original terms of up to 30 years that are secured by first liens on single family residential properties. At that same date, Loan Group II consisted of approximately 122 mortgage loans with original terms of up to 30 years that are secured by first or second liens on single family residential properties. Upon the transfer, OAC received approximately $173,900 of proceeds.

(Dollars in thousands, except share data)

Each class of the notes is subject to redemption at our option at such time when the remaining aggregate principal balance of the loans has declined to less than 20% of the initial aggregate principal balance of the loans at the transfer date. The transfer of the loans to the trust did not qualify for sales treatment for accounting purposes, since OAC retained effective control of the loans transferred. Accordingly, the proceeds received from the transfer are reported as a secured borrowing with pledge of collateral (bonds-match funded agreements) in our consolidated statement of financial condition. See Note 13.

Our match funded loans are secured by mortgages on properties located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing our loans were located at December 31, 2003:

| | |
|---|---|
| Michigan | $ 3,678 |
| Texas | 2,564 |
| California | 1,420 |
| Connecticut | 1,417 |
| Illinois | 1,375 |
| Other (1) | 13,939 |
| | $ 24,393 |

(1) Consists of properties located in 34 other states, none of which aggregated over $1,249 in any one state.

Match funded securities resulted from our transfer of four unrated residual securities to a trust on December 16, 1999 in exchange for non-recourse notes. The transfer did not qualify as a sale for accounting purposes since we retained effective control over the securities transferred. Accordingly, we reported the amount of proceeds we received from the transfer as a secured borrowing with pledge of collateral (bonds-match funded agreements). In June 2003, the Ocwen NIM Trust 1999 - OAC1 adopted a plan of complete liquidation that caused the early redemption of the related bonds-match funded agreements. The match funded securities, which had a fair value of $5,926 at the time of transfer, were transferred to trading securities.

Match funded advances on loans serviced for others resulted from the transfer of certain advances on loans serviced for others to a third party. According to the terms of transfer agreement, we retain the option, at any time, to purchase from the transferee up to 5% of the aggregate advances outstanding and the right to select the specific advances to be repurchased. Accordingly, we retain control of the advances and therefore the transfer did not qualify as a sale for accounting purposes. As a result, the proceeds we received from the transfer are reported as a secured borrowing with pledge of collateral (bonds-match funded agreements) in our consolidated statement of financial condition. See Note 13.

(Dollars in thousands, except share data)

NOTE 6 REAL ESTATE

Our real estate assets consisted of the following at December 31:

| | 2003 | 2002 |
|---|---|---|
| Properties acquired for investment (1) | | |
| Office buildings | $ 21,448 | $ 27,602 |
| Retail shopping center | 11,402 | 9,090 |
| Building improvements | 15,884 | 17,387 |
| Tenant improvements and lease commissions | 6,558 | 2,795 |
| Furniture and fixtures | 36 | 30 |
| | 55,328 | 56,904 |
| Accumulated depreciation | (7,118) | (5,316) |
| | 48,210 | 51,588 |
| Nonresidential loan accounted for as investment in real estate (2) | -- | 2,188 |
| Investment in real estate partnerships (3) | 5,220 | 4,900 |
| Real estate owned, net | 50,513 | 62,039 |
| | $ 103,943 | $ 120,715 |

(1) We acquired these properties as a result of our acquisition of OAC in 1999. The properties at December 31, 2003 and 2002 are comprised of one office building located in Jacksonville, Florida and one retail shopping center located in Halifax, Nova Scotia. During 2002, we sold our shopping center located in Bradenton, Florida. We recorded impairment charges on these properties of $7,526, $14,549 and $1,471 during 2003, 2002, and 2001, respectively.

(2) We acquired certain acquisition, development and construction loans in January 2000 in which we participate in the expected residual profits of the underlying real estate, and where the borrower had not contributed substantial equity to the project. As such we accounted for these loans under the equity method of accounting as though we had an investment in a real estate limited partnership. Our investment at December 31, 2002 consisted of one loan, which was repaid during 2003.

(3) Consists of interests in two limited partnerships operating as real estate ventures, consisting of multi-family type properties.

Real estate owned, net of valuation allowance, was acquired through foreclosure and is comprised of the following property types by segment at December 31:

| | 2003 | 2002 |
|---|---|---|
| Single family residential: | | |
| Residential Discount Loans | $ -- | $ 1,837 |
| Subprime Finance | 89 | 50 |
| Corporate Items and Other | 793 | -- |
| | 882 | 1,887 |
| Nonresidential real estate: | | |
| Commercial Finance (1) | 49,631 | 60,152 |
| | $ 50,513 | $ 62,039 |

(1) Consisted of one large retail shopping mall and one hotel at December 31, 2003.

(Dollars in thousands, except share data)

The following table sets forth by type of property certain geographical information related to our real estate owned, net, at December 31, 2003:

| | Commercial Finance | | Subprime Finance | | Corporate Items and Other | | | |
|---|---|---|---|---|---|---|---|---|
| | Nonresidential | | Single Family Residential | | Single Family Residential | | Total | |
| | Amount | No. of Properties | Amount | No. of Properties | Amount | No. of Properties | Amount | No. of Properties |
| Florida.............. | $ 43,460 | 1 | $ -- | -- | $ -- | -- | $ 43,460 | 1 |
| Michigan............. | 6,171 | 1 | -- | -- | -- | -- | 6,171 | 1 |
| New York............. | -- | -- | -- | -- | 354 | 2 | 354 | 2 |
| North Carolina........ | -- | -- | -- | -- | 132 | 1 | 132 | 1 |
| Illinois............. | -- | -- | 89 | 1 | -- | -- | 89 | 1 |
| Other (1)............ | -- | -- | -- | -- | 307 | 14 | 307 | 14 |
| | $ 49,631 | 2 | $ 89 | 1 | $ 793 | 17 | $ 50,513 | 20 |

(1) Consists of properties located in 10 other states, none of which aggregated over $65 in any one state.

The following schedule presents the activity, in aggregate, in the valuation allowance on our real estate owned for the years ended December 31:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Balance at beginning of year.......... | $ 4,591 | $ 19,098 | $ 18,142 |
| Provision for losses.......... | (96) | 19,685 | 17,766 |
| Charge-offs.......... | (2,459) | (5,304) | (2,352) |
| Sales.......... | (757) | (7,835) | (14,458) |
| Basis adjustment (1).......... | -- | (21,053) | -- |
| Balance at end of year.......... | $ 1,279 | $ 4,591 | $ 19,098 |

(1) Our shopping mall property, which we have held for more than one year, is being repositioned for future sale. This valuation allowance had been established to carry this asset at the lower of cost or fair value less estimated costs to dispose. Under SFAS No. 144, "Accounting for the Impairment or Disposal of Long - Lived Assets", which became effective in 2002, we now account for this property similar to real estate properties acquired for investment, and we applied the valuation allowance as a reduction of cost.

NOTE 7 MORTGAGE SERVICING

Under contractual servicing agreements with investors, we service mortgage and non-mortgage loans that we do not own. The total unpaid principal balance of such loans we serviced for others was $38,513,515 and $32,069,363 at December 31, 2003 and 2002, respectively, and is excluded from our consolidated statements of financial condition. We similarly exclude from our statements of financial condition funds representing collections of principal and interest we have received from borrowers that are on deposit with an unaffiliated bank. Those funds amounted to $1,429,986 and $581,507 at December 31, 2003 and 2002, respectively. Servicing fees and other servicing-related income we earned on loans we serviced for others, net of servicing rights amortization, amounted to $114,474, $112,718 and $112,483 for the years ended December 31, 2003, 2002 and 2001, respectively. These net fees are included in servicing and other fees in our consolidated statements of operations. In general, these servicing agreements include guidelines and procedures for servicing the loans, including servicing, remittance and reporting requirements, among other provisions.

(Dollars in thousands, except share data)

We earn servicing and sub-servicing income primarily on mortgage loans secured by real estate in 50 states. At December 31, 2003, the geographic distribution based on the unpaid principal balance of the loans we serviced was as follows:

| | Amount (1) | No. of Loans (1) |
|---|---|---|
| California | $ 11,168,126 | 64,156 |
| Florida | 2,907,650 | 29,966 |
| New York | 2,014,999 | 15,953 |
| Texas | 1,935,412 | 26,974 |
| Illinois | 1,826,172 | 16,576 |
| Other (2) | 18,661,156 | 206,509 |
| | $ 38,513,515 | 360,134 |

(1) Included 1,288 non-mortgage loans with an unpaid principal balance of $202,838.

(2) Consisted of loans in 45 other states, none of which aggregated over $1,209,435 in any one state.

The risk inherent in such concentrations is dependent upon regional and general economic conditions that affect property values.

The following table summarizes the activity in our servicing rights for the years ended December 31:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Balance at the beginning of year | $ 171,611 | $ 101,107 | $ 51,426 |
| Purchases | 88,829 | 128,891 | 79,522 |
| Amortization | (93,558) | (58,153) | (29,841) |
| Impairment | (387) | -- | -- |
| Sales | -- | (234) | -- |
| Balance at the end of the year | $ 166,495 | $ 171,611 | $ 101,107 |

At December 31, 2003 and 2002, we estimated the fair value of our servicing rights to be $227,825 and $219,600, respectively, by discounting future underlying loan cash flows. We use independent third-party industry accepted tools (QRM and LPS Risk model) for modeling and forecasting those cash flows. Cost and rate assumptions used in the modeling and forecasting are benchmarked with industry and market information. For purposes of the December 31, 2003 valuation, we used a discount rate of 18% and a constant prepayment rate (CPR) of 32% to 47% depending on loan type.

Advances related to our loans serviced for others consisted of the following at December 31:

| | 2003 | 2002 |
|---|---|---|
| Principal and interest | $ 118,024 | $ 63,326 |
| Taxes and insurance | 145,507 | 117,937 |
| Other | 110,802 | 84,455 |
| | $ 374,333 | $ 265,718 |

Advances related to our loans serviced for others do not include advances on our loan portfolios of $436 and $638 at December 31, 2003 and 2002, respectively. These advances also do not include advances reported as part of match funded assets. See Note 5.

NOTE 8 AFFORDABLE HOUSING PROPERTIES

Our investments in affordable housing properties were as follows at December 31:

| | 2003 | 2002 |
|---|---|---|
| Investments solely as a limited partner made before May 18, 1995 (1) | $ -- | $ -- |
| Investments solely as a limited partner made on or after May 18, 1995 | 6,036 | 11,962 |
| Investments both as a limited and, through subsidiaries, as a general partner | 1,374 | 3,357 |
| | $ 7,410 | $ 15,319 |

(1) Consists of one fully reserved investment with a gross recorded value of $1,618.

(Dollars in thousands, except share data)

The qualified affordable housing projects underlying our investments in affordable housing properties are geographically located throughout the United States. At December 31, 2003, our largest single investment was $5,006, which related to a project located in N. Wildwood, New Jersey.

We record income on our limited partnership investments made before May 18, 1995 under the level yield method as a reduction of income tax expense. This income amounted to $549, $521 and $388 for the years ended December 31, 2003, 2002 and 2001, respectively. For limited partnership investments made after May 18, 1995, and for investments as a limited and, through subsidiaries, as a general partner, we recognized tax credits of $1,845, $2,164 and $1,690 for the years ended December 31, 2003, 2002 and 2001, respectively. For these investments, we also recorded a loss after depreciation of $903, $1,066 and $993 from operations on the underlying real estate for the years ended December 31, 2003, 2002 and 2001, respectively, which are included in gains (losses) on investments in affordable housing properties.

Included in gains (losses) on investments in affordable housing properties, for the years ended December 31, 2003, 2002 and 2001, are gains (losses) of $1,050, $445 and $(955), respectively, on the sales of affordable housing properties. The properties sold in 2003, 2002 and 2001 had carrying values, net of reserves, of $5,888, $73,087 and $55,652, respectively.

During 2003, 2002 and 2001, we recorded charges of $432, $17,350, and $15,587, respectively, to reserve for estimated losses from the sales of properties. We incurred an additional charge during 2002 of $3,944 to record a discount on a long-term note receivable taken in consideration for the sale of seven properties. We are accreting this discount to income over the term of the related receivable balance, which extends through September 2014.

## NOTE 9 PREMISES AND EQUIPMENT

Our premises and equipment are summarized as follows at December 31:

| | 2003 | 2002 |
|---|---|---|
| Computer hardware and software | $ 61,748 | $ 64,730 |
| Building | 19,601 | 19,530 |
| Leasehold improvements | 8,985 | 10,011 |
| Land and land improvements | 4,041 | 4,041 |
| Furniture and fixtures | 8,395 | 9,072 |
| Office equipment and other | 3,573 | 2,564 |
| Less accumulated depreciation and amortization | (64,399) | (65,680) |
| | $ 41,944 | $ 44,268 |

Depreciation expense amounted to $12,406, $13,004 and $11,398 for 2003, 2002 and 2001, respectively (of which $2,455, $2,562 and $2,344 for 2003, 2002 and 2001, respectively, related to computer software). Building represents our customer service and collection facility in Orlando, Florida.

(Dollars in thousands, except share data)

NOTE 10 RECEIVABLES

Receivables consisted of the following at the dates indicated:

| | December 31, 2003 | December 31, 2002 |
|---|---|---|
| Residential Loan Servicing (1) | $ 18,564 | $ 10,982 |
| OTX | 962 | 532 |
| Ocwen Realty Advisors | 1,442 | 1,193 |
| Unsecured Collections | 260 | 296 |
| Business Process Outsourcing | 969 | -- |
| International Operations | 1,314 | 680 |
| Residential Discount Loans | -- | 1,286 |
| Commercial Finance | 2,858 | 2,530 |
| Affordable Housing (2) | 25,581 | 40,327 |
| Corporate Items and Other (3) | 36,449 | 21,118 |
| | $ 88,399 | $ 78,944 |

(1) Consist principally of fees earned and reimbursable expenses due from investors.

(2) Primarily represents future payments of proceeds from the sale of affordable housing properties, net of unaccreted discount of $2,901 and $3,400 at December 31, 2003 and 2002, respectively. Balances are net of reserves for doubtful accounts.

(3) Primarily comprised of federal tax refund claims, which are pending completion of Internal Revenue Service examination that is required by the Joint Committee before the claims can be paid. The claims which amounted to $21,465, $20,841 and $20,842 at December 31, 2003, 2002 and 2001, respectively. The balance as of December 31, 2003, included amounts related to our overnight collection account activities.

NOTE 11 DEPOSITS

Our deposits consisted of the following at December 31:

| | 2003 | 2002 |
|---|---|---|
| Non-interest-bearing deposits | $ 4,879 | $ 4,378 |
| NOW and money market checking accounts | 18,313 | 17,720 |
| Savings accounts | 1,657 | 1,592 |
| | 24,849 | 23,690 |
| Certificates of deposit (1)(2) | 421,657 | 402,917 |
| Unamortized deferred fees | (118) | (637) |
| | 421,539 | 402,280 |
| | $ 446,388 | $ 425,970 |

(1) At December 31, 2003 and 2002, certificates of deposit, net of unamortized deferred fees, included $84,328 and $198,248, respectively, of brokered deposits originated through national, regional and local investment banking firms which solicit deposits from their customers, all of which are non-cancelable. We have not issued any new brokered certificates of deposit since 2000 and, at this time, do not intend to issue any such deposits in the foreseeable future.

(2) At December 31, 2003 and 2002, certificates of deposit with outstanding balances of $100 or more amounted to $142,408 and $125,451, respectively. Of such deposits at December 31, 2003, $41,276 were from political subdivisions in New Jersey and are secured or collateralized as required under state law.

(Dollars in thousands, except share data)

The contractual remaining maturity of our certificates of deposit at December 31, 2003 is as follows:

| | |
|---|---|
| Within one year | $ 272,572 |
| Within two years | 112,514 |
| Within three years | 27,057 |
| Within four years | 7,233 |
| Within five years | 2,163 |
| | $ 421,539 |

We amortize deferred fees on certificates of deposit on a straight-line basis over the term of the respective certificates of deposit. Such amortization amounted to $519, $912 and $2,441 for the years ended December 31, 2003, 2002 and 2001, respectively, and is included in interest expense on deposits. Interest expense we incurred by type of deposit account was as follows for the years ended December 31:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| NOW accounts and money market checking | $ 193 | $ 239 | $ 393 |
| Savings | 14 | 18 | 29 |
| Certificates of deposit | 17,339 | 27,198 | 59,545 |
| | $ 17,546 | $ 27,455 | $ 59,967 |

Accrued interest payable on our deposits amounted to $1,693 and $3,093 at December 31, 2003 and 2002, respectively.

NOTE 12 ESCROW DEPOSITS

Escrow deposits on loans we own and on loans we serviced for others consisted of the following at December 31:

| | 2003 | 2002 |
|---|---|---|
| Taxes and insurance payments held on loans serviced for others | $ 96,924 | $ 72,254 |
| Other escrow deposits | 19,520 | 12,732 |
| | $ 116,444 | $ 84,986 |

NOTE 13 BONDS-MATCH FUNDED AGREEMENTS

Our bonds-match funded agreements are accounted for as secured borrowings with pledges of collateral and were comprised of the following at December 31:

| Collateral | 2003 | 2002 |
|---|---|---|
| Single family residential loans | $ 20,427 | $ 32,217 |
| Unrated residual securities | -- | 8,057 |
| Advances on loans serviced for others | 94,967 | 106,797 |
| | $ 115,394 | $ 147,071 |

Our bonds-match funded agreements are obligations secured by the collateral underlying the related match funded assets, and are repaid through the cash proceeds arising from those assets.

At December 31, 2003 and 2002, our bonds-match funded agreements had a weighted average interest rate of 2.56% and 3.13%, respectively. Accrued interest payable on our bonds-match funded agreements amounted to $71 and $108 at December 31, 2003 and 2002, respectively. We incurred interest expense on our bonds-match funded agreements of $5,414, $6,573 and $7,315 during 2003, 2002 and 2001, respectively.

Our bonds-match funded agreements contain various qualitative and quantitative covenants that, among other things, establish requirements for the monitoring and reporting of specified financial transactions and reporting on defined events affecting the collateral underlying the agreements.

(Dollars in thousands, except share data)

The facility underlying our bonds-match funded agreements collateralized by advances on loans serviced for others matured in December 2003 but was extended to January 2006.

During the second quarter of 2003, the Ocwen NIM Trust 1999-OACI adopted a plan of complete liquidation and, thereby, caused the early redemption of the bonds-match funded agreements that were secured by residual securities.

NOTE 14 LINES OF CREDIT AND OTHER SECURED BORROWINGS

Through our subsidiaries we have obtained secured lines of credit from various unaffiliated financial institutions as follows:

| Borrowing Type | Collateral | Maturity | Interest Rate (1) | December 31, 2003 | December 31, 2002 |
|---|---|---|---|---|---|
| Line of credit | Advances on loans serviced for others (2) (3) | March 2004 | LIBOR + 200 basis points | $ 68,548 | $ 78,511 |
| Line of credit | Advances on loans serviced for others (2) | October 2004 | LIBOR + 200 basis points | 9,386 | -- |
| Mortgage note | Real estate - office building (4) | May 2005 | LIBOR + 350 basis points, floor of 5.75% | 20,000 | -- |
| Secured loan | Trading securities - unrated subprime residuals (UK) | June 2004 | LIBOR + 275 basis points | 11,562 | -- |
| Senior secured credit agreement | Purchased mortgage servicing rights and advances on loans serviced for others (5) | April 2004 | LIBOR + 162.5 or 225 basis points | 35,321 | -- |
| Installment notes | Purchased mortgage servicing rights | July 2004 | 2.81% | 2,332 | -- |
| Term loan | Loan receivable | March 2005 | LIBOR + 250 basis points, floor of 8.00% | 3,235 | 4,235 |
| | | | | $ 150,384 | $ 82,746 |

(1) LIBOR was 1.12% and 1.38% at December 31, 2003 and 2002, respectively.

(2) Maximum amount of borrowing is $100,000 under each facility

(3) This line was fully repaid subsequent to December 31, 2003 and will not be renewed.

(4) We sold our office building in January 2004 and the buyer assumed this note at that time.

(5) Maximum amount of borrowing under this facility is $60,000. We anticipate that this facility will be renewed.

In addition to the specific requirements discussed below, each of our lines contains qualitative and quantitative covenants that establish, among other things, the maintenance of specified net worth and restrictions on future indebtedness, as well as the monitoring and reporting of various specified transactions or events.

The maximum month end amount outstanding under lines of credit and other secured borrowings was $188,947 and $110,869 for the years ended December 31, 2003 and 2002, respectively. The average balance of obligations outstanding under lines of credit and other secured borrowings was $130,886 and $94,169 during the years ended December 31, 2003 and 2002, respectively, and the weighted average interest rates were 4.45% and 4.41%, respectively.

Accrued interest payable on our obligations outstanding under lines of credit and other secured borrowings amounted to $516 and $226 at December 31, 2003 and 2002, respectively. Interest expense we incurred on our obligations outstanding under lines of credit and other secured borrowings amounted to $5,824, $4,152 and $6,004 during 2003, 2002 and 2001, respectively.

(Dollars in thousands, except share data)

At December 31, 2003 and 2002, we had no repurchase agreements outstanding. The maximum month end amount of our borrowings through repurchase agreements was $0 and $66,817 during the years ended December 31, 2003 and 2002, respectively. The average balance of repurchase agreements outstanding was $250 and $12,774 during the years ended December 31, 2003 and 2002, respectively, and the weighted average interest rates were 1.20% and 1.85%, respectively.

As of December 31, the weighted average interest rates of our obligations outstanding under lines of credit and other secured borrowings were 3.59% and 3.38% at December 31, 2003 and 2002, respectively.

NOTE 15 NOTES AND DEBENTURES

Our notes and debentures and other interest-bearing obligations mature as follows:

| | December 31, 2003 | December 31, 2002 |
|---|---|---|
| 2003: | | |
| 11.875% Notes due October 1 | $ -- | $ 43,475 |
| 2005: | | |
| 12% Subordinated Debentures due June 15 | -- | 33,500 |
| 2007: | | |
| 10.875% Capital Securities due August 1 | 56,249 | -- |
| | $ 56,249 | $ 76,975 |

In addition to the specific requirements discussed below, each of our notes and debentures contain qualitative and quantitative covenants that establish, among other things, the maintenance of specified net worth and restrictions on future indebtedness, as well as the monitoring and reporting of various specified transactions or events.

Our 11.875% Notes (the "Notes") matured on October 1, 2003 and were repaid in full at that time. We originally issued the Notes in the amount of $125,000 with interest payable semiannually on April 1 and October 1. The Notes were unsecured general obligations and were subordinated in right of payment to the claims of creditors of our subsidiaries.

On November 26, 2002 we exercised our redemption option and called $40,000 of the Notes at a price of 102.969%. Earlier in 2002, we also repurchased $3,550 of the Notes in the open market. We incurred a loss of $1,508 on these transactions in 2002. During 2001, we repurchased $13,025 of our Notes in the open market, resulting in gains of $52.

In connection with the issuance of the Notes, we incurred certain costs that we capitalized and amortized through the maturity date of the Notes. The unamortized balance of these issuance costs amounted to $253 at December 31, 2002 and is included in other assets. Accrued interest payable on the Notes amounted to $1,291 at December 31, 2002. We incurred interest expense on the Notes of $3,871, $9,681 and $11,465 during 2003, 2002 and 2001 respectively.

On September 30, 2003 the Bank exercised its redemption option and called the remaining $33,065 balance of its 12% Subordinated Debentures due 2005 (the "Debentures") at a price of 101.333%, or a premium of $441. During the second quarter of 2003, the Bank repurchased $435 in the open market resulting in a loss of $4. On November 26, 2002 the Bank exercised its redemption option and called $33,500 of the Debentures at a redemption price of 102.667%, resulting in a loss of $1,025. There were no repurchases during 2001.

The Bank had issued the Debentures in the original amount of $100,000 with interest payable semiannually on June 15 and December 15. The Debentures were unsecured general obligations of the Bank and were subordinated in right of payment to all existing and future senior debt. The unamortized balance of issuance costs amounted to $94 at December 31, 2002 and is included in other assets. Accrued interest payable on the Debentures amounted to $168 at December 31, 2002. We incurred interest expense on the Debentures of $2,999, $7,660 and $8,040 during 2003, 2002 and 2001, respectively.

In August 1997, Ocwen Capital Trust ("OCT") issued $125,000 of 10.875% Capital Securities (the "Capital Securities"). OCT invested the proceeds from issuance of the Capital Securities in 10.875% Junior Subordinated Debentures issued by OCN. The Junior Subordinated Debentures, which represent the sole assets of OCT, will mature on August 1, 2027. Prior to our adoption of SFAS No. 150

on July 1, 2003, we presented the Capital Securities in a separate caption between liabilities and stockholders' equity in our consolidated statement of financial condition as "Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely Junior Subordinated Debentures of the Company", and distributions were reported on the Capital Securities in a separate caption immediately following non-interest expense in our consolidated statement of operations. As disclosed in Note 1, effective with our adoption of SFAS No. 150 on July 1, 2003, the Capital Securities are presented as a liability in the consolidated statement of financial condition as a component of notes and debentures. At the same time, we began reporting distributions on the Capital Securities as a component of interest expense in the consolidated statement of operations. During 2002 and 2001, we repurchased $4,910 and $18,371, respectively, of our Capital Securities in the open market, resulting in gains of $1,074 and $3,723, respectively.

Holders of the Capital Securities are entitled to receive cumulative cash distributions accruing from the date of original issuance and payable semiannually in arrears on February 1 and August 1 of each year, commencing on February 1, 1998, at an annual rate of 10.875% of the liquidation amount of $1,000 per Capital Security. OCN guarantees payment of distributions out of moneys held by OCT, and payments on liquidation of OCT or the redemption of Capital Securities, to the extent OCT has funds available. If Ocwen Financial Corporation does not make principal or interest payments on the Junior Subordinated Debentures, OCT will not have sufficient funds to make distributions on the Capital Securities, in which event the guarantee shall not apply to such distributions until OCT has sufficient funds available therefore. Distributions on Capital Securities amounted to $6,118 in 2003, of which $3,059 has been reported as interest expense as discussed in the paragraph above. Accumulated distributions payable on the Capital Securities amounted to $2,549 at both December 31, 2003 and 2002, and are included in accrued interest payable.

We have the right to defer payment of interest on the Junior Subordinated Debentures at any time or from time to time for a period not exceeding 10 consecutive semiannual periods with respect to each deferral period, provided that no extension period may extend beyond the stated maturity of the Junior Subordinated Debentures. Upon the termination of any such extension period and the payment of all amounts then due on any interest payment date, we may elect to begin a new extension period. Accordingly, there could be multiple extension periods of varying lengths throughout the term of the Junior Subordinated Debentures. If we defer interest payments on the Junior Subordinated Debentures, distributions on the Capital Securities will also be deferred, and we may not, nor may any of our subsidiaries, (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, their capital stock or (ii) make any payment of principal, interest or premium, if any, on or repay, repurchase or redeem any debt securities that rank pari passu with or junior to the Junior Subordinated Debentures. During an extension period, interest on the Junior Subordinated Debentures will continue to accrue at the rate of 10.875% per annum, compounded semiannually.

We may redeem the Junior Subordinated Debentures before maturity at our option, subject to the receipt of any necessary prior regulatory approval, (i) in whole or in part on or after August 1, 2007, at a redemption price equal to 105.438% of the principal amount thereof on August 1, 2007, declining ratably on each August 1 thereafter to 100% on or after August 1, 2017, plus accrued interest thereon, or (ii) at any time, in whole (but not in part), upon the occurrence and continuation of a special event (defined as a tax event, regulatory capital event or an investment company event) at a redemption price equal to the greater of (a) 100% of the principal amount thereof or (b) the sum of the present values of the principal amount and premium payable with respect to an optional redemption of such Junior Subordinated Debentures on August 1, 2007, together with scheduled payments of interest from the prepayment date to August 1, 2007, discounted to the prepayment date on a semiannual basis at the adjusted Treasury rate plus accrued interest thereon to the date of prepayment. The Capital Securities are subject to mandatory redemption, in whole or in part, upon repayment of the Junior Subordinated Debentures at maturity or their earlier redemption, in an amount equal to the amount of the related Junior Subordinated Debentures maturing or being redeemed and at a redemption price equal to the redemption price of the Junior Subordinated Debentures, plus accumulated and unpaid distributions thereon to the date of redemption.

For financial reporting purposes, we treat OCT as a subsidiary and, accordingly, the accounts of OCT are included in our consolidated financial statements. We eliminate intercompany balances and transactions with OCT, including the balance of Junior Subordinated Debentures outstanding, in our consolidated financial statements.

In connection with our issuance of the Capital Securities, we incurred certain costs that we capitalized and are amortizing over the term of the Capital Securities. The unamortized balance of these issuance costs amounted to $1,766 and $1,841 at December 31, 2003 and 2002, respectively, and is included in other assets.

(Dollars in thousands, except share data)

## NOTE 16 BASIC AND DILUTED EARNINGS PER SHARE

We are required to present both basic and diluted EPS on the face of our statement of operations. Basic EPS excludes common stock equivalents and is calculated by dividing net income by the weighted average number of common shares outstanding during the year. We calculate diluted EPS by dividing net income by the weighted average number of common shares outstanding, including the dilutive potential common shares related to outstanding stock options.

The following is a reconciliation of the calculation of basic EPS to diluted EPS for the years ended December 31:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Net income (loss) | $ 4,772 | $ (68,775) | $ (124,782) |
| Basic EPS: | | | |
| Weighted average shares of common stock | 67,166,888 | 67,321,299 | 67,227,058 |
| Basic EPS | $ 0.07 | $ (1.02) | $ (1.86) |
| Diluted EPS: | | | |
| Weighted average shares of common stock | 67,166,888 | 67,321,299 | 67,227,058 |
| Effect of dilutive securities: | | | |
| Stock options (1) | 493,889 | -- | -- |
| Restricted stock awards | 403,096 | -- | -- |
| | 68,063,873 | 67,321,299 | 67,227,058 |
| Diluted EPS | $ 0.07 | $ (1.02) | $ (1.86) |

(1) Excludes the effect of all options in the years 2002 and 2001, because options are antidilutive in the event of a loss, and the effect of an average of 2,818,332 of options that were antidilutive for 2003 because their exercise price was greater than the average market price of our stock.

## NOTE 17 DERIVATIVE FINANCIAL INSTRUMENTS

Because interest rate futures and foreign currency futures contracts are exchange traded, holders of these instruments look to the exchange for performance under these contracts and not the entity holding the offsetting futures contract, thereby minimizing the risk of nonperformance under these contracts. We are exposed to credit loss in the event of nonperformance by the counterparty to the interest rate and currency swaps and control this risk through credit monitoring procedures. The notional principal amount does not represent our exposure to credit loss.

### Interest Rate Risk Management

In managing our interest rate risk, we enter into interest rate swaps from time to time. Under interest rate swaps, we agree with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional amount. The terms of the interest rate swaps provided for us to receive a floating rate of interest based on the London Interbank Offered Rate ("LIBOR") and to pay fixed interest rates. We used these interest rate swaps to alter the interest rate on LIBOR rate debt incurred to fund our acquisitions of real estate, subordinate and residual securities and securities sold under agreements to repurchase.

We are exposed to credit loss when we enter into interest rate swaps if: (i) the counterparty to the interest rate swap does not perform and (ii) the floating interest rate that we receive exceeds the fixed interest rate that we pay. All the counterparties had long-term debt ratings of A+ or above by Standard and Poor's and A1 or above by Moody's. Although a swap generally may not be sold or transferred without the consent of the counterparty, management does not believe that this consent would be withheld. Although none of our interest rate swaps were exchange-traded, there are a number of financial institutions that enter into these types of transactions as part of their day-to-day activities.

We had no interest rate swaps outstanding at December 31, 2003 or 2002. Our swaps had the effect of increasing net interest income by $2 for the year ended December 31, 2001. During 2003, we realized gains of $1,076 on swaps that we included in non-interest income. During 2001 we realized losses of $(9) on swaps that we included in operating income (loss) from real estate. We entered into no swap agreements during 2002.

(Dollars in thousands, except share data)

We have purchased amortizing caps and floors to hedge our interest rate exposure relating to our match funded loans and securities. An interest rate cap or interest rate floor is designed to provide protection against the interest rate on a floating-rate instrument rising above some level (cap) or falling below some level (floor). The interest rate representing the cap or the floor is referred to as the "strike rate." We receive payments from the seller on caps when the current interest rate rises above the strike rate and on floors when the current interest rate falls below the strike rate. The amount received represents the difference between the current rate and the strike rate applied to the notional amount. The caps and floors matured in October 2003. The terms of our outstanding caps and floors at December 31, 2002 were as follows:

| | Notional Amount | Maturity | Index | Strike Rate | Fair Value |
|---|---|---|---|---|---|
| Caps........................ | $ 111,799 | October 2003 | LIBOR 1-Month | 7.00% | $ -- |
| Floors...................... | 30,563 | October 2003 | CMT 2-Year | 4.35 | 592 |
| | | | | | $ 592 |

During 2001, we determined that our caps and floors no longer qualified for hedge accounting. Net realized and unrealized gains and (losses) included in earnings to record our caps and floors at fair value during 2003, 2002 and 2001 amounted to $(592), $188 and $404, respectively. Amortization of premiums on the caps and floors amounted to $394 during the year ended December 31, 2001.

We purchased no swaptions, put options, U.S. Treasury futures contracts or US Agency futures contracts during 2003 or 2002. The fair value of our interest rate swaps and caps and floors represents the estimated amount that we would receive or pay to terminate these agreements taking into account current interest rates. Market quotes are available for these agreements. The following table summarizes our use of interest rate risk management instruments:

| | Notional Amount | | |
|---|---|---|---|
| | Interest Rate Swaps | Caps | Floors |
| Balance, December 31, 2001............................................... | $ -- | $ 125,933 | $ 34,101 |
| Maturities............................................................... | -- | (14,134) | (3,538) |
| Balance, December 31, 2002............................................... | -- | 111,799 | 30,563 |
| Purchases................................................................ | 200,000 | -- | -- |
| Maturities............................................................... | -- | (111,799) | (30,563) |
| Terminations............................................................. | (200,000) | -- | -- |
| Balance, December 31, 2003............................................... | $ -- | $ -- | $ -- |

Foreign Currency Exchange Rate Risk Management

We enter into foreign currency derivatives to hedge our investments in our foreign subsidiaries which own residual interests backed by residential loans originated in the UK ("UK residuals") and in our shopping center located in Halifax, Nova Scotia ("the Nova Scotia shopping center"). It is our policy to periodically adjust the amount of foreign currency derivative contracts we have entered into in response to changes in our investments in these assets. Currency futures are commitments to either purchase or sell foreign currency at a future date for a specified price.

We have determined that the local currency of our investment in UK residuals and our investment in the Nova Scotia Shopping Center is the functional currency. Our foreign currency derivative financial instruments qualify for hedge accounting. Accordingly, we include the gains or losses in the net unrealized foreign currency translation in accumulated other comprehensive income in stockholders' equity.

(Dollars in thousands, except share data)

The following table sets forth the terms and values of our foreign currency financial instruments at December 31, 2003 and 2002:

| | Position | Maturity | Notional Amount | | Strike Rate | Fair Value |
|---|---|---|---|---|---|---|
| December 31, 2003: | | | | | | |
| Canadian Dollar currency futures............ | Short | March 2004 | C$ | 10,000 | 0.7660 | $ (34) |
| British Pound currency futures.............. | Short | March 2004 | (pound) | 16,500 | 1.7292 | (737) |
| | | | | | | $ (771) |
| December 31, 2002: | | | | | | |
| Canadian Dollar currency futures............ | Short | March 2003 | C$ | 11,400 | 0.6390 | $ 78 |
| British Pound currency futures.............. | Short | March 2003 | (pound) | 18,750 | 1.5599 | (793) |
| | | | | | | $ (715) |

NOTE 18 INCOME TAXES

The components of income tax expense (benefit) were as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| Current: | 2003 | 2002 | 2001 |
| Federal.............................................................. | $ 667 | $ 1,817 | $ -- |
| State.............................................................. | 49 | -- | -- |
| Foreign.............................................................. | 163 | -- | -- |
| | 879 | 1,817 | -- |
| Deferred: | | | |
| Federal.............................................................. | (2,401) | (30,798) | (21,339) |
| State.............................................................. | 95 | (2,085) | (2,009) |
| Provision for valuation allowance on prior year's deferred tax asset........ | -- | -- | 83,000 |
| Provision for valuation allowance on current year's deferred tax asset...... | 2,175 | 34,049 | 23,348 |
| Income tax expense before change in accounting principle................... | 748 | 2,983 | 83,000 |
| Income tax benefit on change in accounting principle....................... | -- | (1,166) | -- |
| Total.............................................................. | $ 748 | $ 1,817 | $ 83,000 |

Income tax expense before the effect of change in accounting principle differs from the amounts computed by applying the U.S. Federal corporate income tax rate of 35% as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Expected income tax expense (benefit) at statutory rate.................. | $ 1,760 | $ (27,933) | $ (14,532) |
| Differences between expected and actual expense (benefit) | | | |
| Excess of cost over net assets acquired, net.......................... | (931) | 1,051 | 1,108 |
| Excess of net assets acquired over purchase price..................... | -- | -- | (6,416) |
| State tax (after Federal tax benefit)................................ | 94 | (1,355) | (1,306) |
| Low-income housing tax credits....................................... | (2,393) | (2,685) | (2,078) |
| Deferred tax asset valuation allowance current year tax benefit....... | 2,175 | 34,049 | 23,348 |
| Deferred tax asset valuation allowance prior year..................... | -- | -- | 83,000 |
| Other.............................................................. | 43 | (144) | (124) |
| Actual income tax expense (benefit)................................ | $ 748 | $ 2,983 | $ 83,000 |

(Dollars in thousands, except share data)

The net deferred tax asset was comprised of the following as of:

| | December 31, 2003 | December 31, 2002 |
|---|---|---|
| Deferred Tax Assets: | | |
| Tax residuals and deferred income on tax residuals | $ 5,688 | $ 4,506 |
| State taxes | 8,456 | 7,944 |
| Accrued incentive compensation | 2,609 | 2,597 |
| Accrued other liabilities | 418 | 317 |
| Interest expense related to discount loan portfolio | 5,453 | 7,031 |
| Valuation allowance on real estate owned | 10,455 | 11,895 |
| Gain on loan foreclosure | 4,430 | 4,891 |
| Bad debt and allowance for loan losses | 7,936 | 14,936 |
| Impairment on securities available for sale and unrealized gains and losses on trading securities | 10,011 | 57,709 |
| Mortgage servicing rights amortization | 24,094 | 11,564 |
| Goodwill amortization | 1,152 | 1,267 |
| Foreign currency exchange | 1,075 | 1,075 |
| Capital loss carryforward | 21,110 | 9,347 |
| Net operating loss carryforward | 71,061 | 26,178 |
| Partnership losses and low-income housing tax credits | 42,550 | 51,078 |
| Other | -- | 2,821 |
| | 216,498 | 215,156 |
| Deferred Tax Liabilities: | | |
| Deferred interest income on loans | 6,421 | 6,421 |
| Research and development costs | 647 | 1,078 |
| Other | 439 | -- |
| | 7,507 | 7,499 |
| | 208,991 | 207,657 |
| Valuation allowances | (201,445) | (199,270) |
| Net deferred tax asset | $ 7,546 | $ 8,387 |

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. Among the factors considered in this evaluation are estimates of future taxable income, the future reversal of temporary differences, tax character and the impact of tax planning strategies that can be implemented if warranted. As a result of this evaluation, we included in the tax provision an increase of $2,175, $34,049 and $106,348 to the valuation allowance for 2003, 2002 and 2001 respectively.

As of December 31, 2003, we had a deferred tax asset valuation allowance totaling $201,445. This allowance is comprised of $38,873 relating to built-in loss limitations arising from our acquisition of OAC and $160,397 relating to our evaluation of the future realization of prior years deferred tax asset and $2,175 related to the future realization of our current year tax benefit.

Before our acquisition of OAC, OAC was a REIT for federal tax purposes and filed a REIT federal income tax return through October 20, 1999. We have included OAC in our consolidated federal income tax return since October 21, 1999. OAC had, at October 6, 1999, approximately $131,567 of net unrealized built-in losses. Any such losses recognized within the five-year period beginning on October 7, 1999 (the "recognition period") are treated as pre-change losses and, as such, are subject to an annual limit as to the amount which may offset the taxable income of Ocwen Financial Corporation and its subsidiaries ("the IRC section 382 limitation"). A net unrealized built-in loss is an amount by which the tax basis of the corporation's assets at the time of the change in ownership exceeds the aggregate fair market value of those assets at that time. The IRC section 382 limitation is determined by multiplying the value of OAC's stock by the federal long-term tax-exempt rate and amounts to approximately $5,700. If a deduction is denied for any recognized built-in loss in any post-change year, the loss is carried forward to subsequent years under rules similar to the standard loss carryforward rules. As a result of these limitations, we established a corresponding deferred tax asset valuation allowance at the acquisition date as part of purchase accounting in the amount of $38,873. At December 31, 2003, we had realized built-in losses of $103,878 which consists of net operating loss carryforwards of $79,330 and capital loss carryforwards of $24,548.

Deferred tax assets, net of deferred fees, include tax residuals which result from the ownership of Real Estate Mortgage Investment Conduits ("REMIC"). While a tax residual is anticipated to have little or no future cash flows from the REMIC from which it has been issued, the tax residual does bear the income tax liability and benefit resulting from the annual differences between the interest paid on the debt instruments issued by the REMIC and the interest received on the mortgage loans held by the REMIC. Typically this difference generates taxable income to the Company in the first several years of the REMIC and equal amounts of tax losses thereafter, thus resulting in the deferred tax asset. The current Federal tax expense in 2003 and 2002 is the result of excess inclusion income generated by REMIC residuals.

At December 31, 2003, we had net operating loss carryforwards of $123,699, of which $10,771 expire in 2021, $105,317 expire in 2022 and $7,611 expire in 2023. At December 31, 2003, we had capital loss carryforwards of $35,767, of which $15,180 expire in 2006 and $20,587 expire in 2007. At December 31, 2003, we had tax credit carryforwards of $35,675 related to our low-income housing tax credits, which expire in the years 2018 through 2023.

Prior to December 31, 1996, The Bank was permitted to deduct from taxable income an allowance for bad debts, which was in excess of the provision for such losses charged to income. Accordingly, at December 31, 2003 retained earnings includes $5,700, for which no provision for income tax has been provided. The base reserves will continue to be subject to recapture, and the Bank could be required to recognize a tax liability if: (1) the Bank fails to qualify as a "bank" for federal income tax purposes, (2) certain distributions are made with respect to the stock of the Bank, (3) the bad debt reserves are used for any purpose other than to absorb bad debt losses or (4) there is a change in federal tax law.

We have not recognized a deferred tax liability for the tax bad debt reserves of the Bank. If in the future, this portion of retained earnings is distributed or Ocwen Federal Bank no longer qualifies as a bank for tax purposes, federal income tax of approximately $2,000 would be imposed.

## NOTE 19 EMPLOYEE BENEFIT AND COMPENSATION PLANS

We maintain a defined contribution plan to provide postretirement benefits to our eligible employees. We also adopted a number of compensation plans for certain of our employees. We designed these plans to facilitate a pay-for-performance policy, further align the interests of our officers and key employees with the interests of our shareholders and assist in the attraction and retention of employees vital to our long-term success. These plans are summarized below.

### Retirement Plan

We maintain a defined contribution 401(k) plan. We match 50% of each employee's contributions, limited to 2% of the employee's compensation. Our contributions to the 401(k) plan for the years ended December 31, 2003, 2002 and 2001, were $417, $593 and $613, respectively.

In connection with our acquisition of Berkeley Federal Savings Bank in June 1993, the Bank assumed the obligations under a noncontributory defined benefit pension plan (the "Plan") covering substantially all employees upon their eligibility under the terms of the Plan. We froze and fully funded the Plan after the plan year ended December 31, 1993.

### Annual Incentive Plan

The Ocwen Financial Corporation 1998 Annual Incentive Plan (the "AIP") is our primary incentive compensation plan for executives and other key employees. Under the terms of the AIP participants can earn cash and equity based awards as determined by the Compensation Committee. The awards are based on objective performance criteria established by the Committee, including growth in our core businesses, reduction in non-core assets, cost savings through Six Sigma initiatives and utilization of India operations and the achievement of other established performance goals. Non-qualified stock options to purchase our common stock are issued as part of the AIP and are granted pursuant to the Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan.

(Dollars in thousands, except share data)

The following table provides a summary of our stock option activity for the years ended December 31, 2003, 2002 and 2001, respectively, and stock options exercisable at the end of each of those years:

| | 2003 | | 2002 | | 2001 | |
|---|---|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding at beginning of year | 4,723,166 | $ 7.97 | 4,655,269 | $ 9.01 | 3,424,594 | $ 13.11 |
| Granted (1) | 431,982 | $ 6.15 | 634,228 | $ 1.87 | 1,584,093 | $ 7.67 |
| Exercised | (359,419) | $ 4.51 | (32,937) | $ 4.62 | (128,156) | $ 4.59 |
| Forfeited | (214,359) | $ 7.74 | (533,394) | $ 9.98 | (225,262) | $ 4.87 |
| Outstanding at end of year | 4,581,370 | $ 8.08 | 4,723,166 | $ 7.97 | 4,655,269 | $ 9.01 |
| Exercisable at end of year | 2,541,593 | $ 9.72 | 2,744,160 | $ 9.46 | 2,483,697 | $ 11.29 |

(1) The weighted average grant-date fair value was $8.74 in 2003, $2.67 in 2002 and $8.36 in 2001.

The following table summarizes information about our stock options outstanding at December 31, 2003:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Award Year | Number of Options | Weighted Average Exercise Price (1) | Remaining Contractual Life | Number of Options | Weighted Average Exercise Price |
| 2003 | 431,982 | $ 6.15 | 10 | 84,396 | $ 6.18 |
| 2002 | 573,286 | $ 1.87 | 9 | 141,307 | $ 1.87 |
| 2001 | 1,253,393 | $ 7.95 | 8 | 365,356 | $ 5.79 |
| 2000 | 902,873 | $ 4.09 | 7 | 530,698 | $ 4.09 |
| 1999 | 151,303 | $ 6.25 | 6 | 151,303 | $ 6.25 |
| 1998 | 83,121 | $ 12.31 | 5 | 83,121 | $ 12.31 |
| 1997 | 572,200 | $ 20.35 | 4 | 572,200 | $ 20.35 |
| 1996 | 524,212 | $ 11.00 | 3 | 524,212 | $ 11.00 |
| 1995 | 89,000 | $ 2.88 | 2 | 89,000 | $ 2.88 |
| | 4,581,370 | $ 8.08 | | 2,541,593 | $ 9.72 |

(1) With the exception of 2001 and 2003, the weighted average exercise price of outstanding options represents the actual exercise price. For 2001, 400,000 options are outstanding with an exercise price of $12.55 and 853,393 have an exercise price of $5.79. Options outstanding for 2003 include 10,000 options with an exercise price of $4.92 and 421,982 with an exercise price of $6.18.

After the awards of 431,982 options for 2003, the number of authorized shares remaining and available for future awards of stock options is 6,293,554.

Stock options we awarded under the annual incentive plan prior to 1998 have a one-year vesting period. Stock options we awarded under the AIP for 1998 and 1999 vest ratably over a three-year period. Stock options we awarded under the AIP for 2000 and thereafter vest ratably over a five-year period including the award year. The term of all options granted is ten years from the grant date. We treat the difference, if any, between the fair market value of our stock at the date of grant and the exercise price as compensation expense. We record compensation expense ratably over the vesting period of the grant. Included in compensation expense for the years ended December 31, 2003, 2002 and 2001 was $1,226, $922 and $1,038, respectively, related to options granted below fair market value.

NOTE 20 STOCKHOLDERS' EQUITY

On May 9, 2000, we announced that our Board of Directors authorized the repurchase of up to six million of our issued and outstanding shares of common stock. On May 16, 2003 we announced our initiation of a stock repurchase program to purchase approximately 700,000 shares of our issued and outstanding common stock with the intent to utilize these repurchased shares as a portion of our annual incentive awards to employees for service in 2002. During 2003, we repurchased 500,000 shares and issued 236,461 to employees.

NOTE 21 REGULATORY REQUIREMENTS

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 and the regulations promulgated thereunder established certain minimum levels of regulatory capital for savings institutions subject to OTS supervision. The Bank must follow specific capital guidelines stipulated by the OTS, which involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items. An institution that fails to comply with its regulatory capital requirements must obtain OTS approval of a capital plan and can be subject to a capital directive and certain restrictions on its operations.

At December 31, 2003 and 2002, the Bank was "well capitalized" under the prompt corrective action regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991. To be categorized as "well capitalized," the Bank must maintain minimum core capital, Tier 1 risk-based capital and risk-based capital ratios as set forth in the following table. The Bank's capital amounts and classification are subject to review by federal regulators regarding components, risk-weightings and other factors. There are no conditions or events since December 31, 2003 that we believe have changed the Bank's category.

Since 1997, the Bank has committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9.00% and 13.00%, respectively. The Bank continues to be in compliance with this commitment as well as with the regulatory capital requirements of general applicability (as indicated in the table below). In addition during 2002, we committed to maintain our investment in mortgage servicing rights at approximately 60% of core capital (before any deduction thereto for mortgage servicing rights) at the Bank and 50% of stockholders' equity on a consolidated basis. We regularly review actual results, which currently exceed these committed levels of investment in mortgage servicing rights, with the OTS.

Following the completion of the annual safety and soundness examination of the OTS in 2000, we submitted a written business plan and budget to the OTS regarding our plans for the business, primarily that of the Bank, over the next several years. The OTS approved the initial plan in February 2001, and also approved the revised plan submitted to them in April of 2002. The Plan included as its primary focus the reduction of risk through the sale or resolution of our non-core assets and the reduction of our reliance on brokered certificates of deposit as a source of funding. This plan formally concluded on December 31, 2003.

(Dollars in thousands, except share data)

The following table summarizes the Bank's actual and required regulatory capital at December 31, 2003 and 2002:

| | Actual | | Minimum For Capital Adequacy Purposes | | To Be Well Capitalized For Prompt Corrective Action Provisions | | Committed Capital Requirements |
|---|---|---|---|---|---|---|---|
| | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **December 31, 2003** | | | | | | | |
| Stockholders' equity and ratio to total assets | 18.10% | $ 183,230 | | | | | |
| Non-includable subsidiary | | (839) | | | | | |
| Disallowed deferred tax assets | | (21,052) | | | | | |
| Disallowed servicing assets | | (10,846) | | | | | |
| Intangible assets (1) | | (3,078) | | | | | |
| Tier 1 (core) capital and ratio to adjusted total assets | 15.09% | 147,415 | 4.00% | $ 39,064 | 5.00% | $ 48,830 | 9.00% |
| Non-mortgage servicing assets | | (1,892) | | | | | |
| Tangible capital and ratio to tangible assets | 14.93% | $ 145,523 | 1.50% | $ 14,621 | | | |
| Tier 1 capital and ratio to risk-weighted assets | 20.00% | $ 147,415 | | | 6.00% | $ 44,230 | |
| Allowance for loan losses | | 6,247 | | | | | |
| Qualifying subordinated debentures (2) | | -- | | | | | |
| Tier 2 capital | | 6,247 | | | | | |
| Real estate owned required to be deducted (3) | | (43,460) | | | | | |
| Total risk-based capital and ratio to risk-weighted assets | 14.95% | $ 110,202 | 8.00% | $ 58,973 | 10.00% | $ 73,717 | 13.00% |
| Total regulatory assets | | $ 1,012,437 | | | | | |
| Adjusted total assets | | $ 976,606 | | | | | |
| Tangible assets | | $ 974,714 | | | | | |
| Risk-weighted assets | | $ 737,168 | | | | | |
| **December 31, 2002** | | | | | | | |
| Stockholders' equity and ratio to total assets | 16.62% | $ 161,242 | | | | | |
| Non-includable subsidiary | | (875) | | | | | |
| Disallowed deferred tax assets | | (1,053) | | | | | |
| Disallowed servicing assets | | (10,662) | | | | | |
| Tier 1 (core) capital and ratio to adjusted total assets | 15.51% | 148,652 | 4.00% | $ 38,325 | 5.00% | $ 47,907 | 9.00% |
| Non-mortgage servicing rights | | (2,703) | | | | | |
| Tangible capital and ratio to tangible assets | 15.28% | $ 145,949 | 1.50% | $ 14,331 | | | |
| Tier 1 capital, and ratio to risk-weighted assets | 18.76% | $ 148,652 | | | 6.00% | $ 47,555 | |
| Allowance for loan losses | | 10,019 | | | | | |
| Qualifying subordinated debentures | | 13,400 | | | | | |
| Tier 2 capital | | 23,419 | | | | | |
| Total risk-based capital and ratio to risk-weighted assets | 21.71% | $ 172,071 | 8.00% | $ 63,407 | 10.00% | $ 79,259 | 13.00% |
| Total regulatory assets | | $ 969,945 | | | | | |
| Adjusted total assets | | $ 958,133 | | | | | |
| Tangible assets | | $ 955,430 | | | | | |
| Risk-weighted assets | | $ 792,589 | | | | | |

===========

(1) Unamortized balance of capitalized computer software.

(2) On September 30, 2003 we redeemed the remaining $33,065 of our 12% subordinated debentures at a price of 101.333%.

(3) Nonresidential commercial real estate, which we originally acquired in satisfaction of a debt and have held in excess of five years.

(Dollars in thousands, except share data)

NOTE 22 NET INTEREST INCOME (EXPENSE) BEFORE PROVISION FOR LOAN LOSSES

The following table presents the components of net interest income (expense) for each category of our interest-earning assets and interest-bearing liabilities for the years ended December 31:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Interest income: | | | |
| Federal funds sold and repurchase agreements | $ 1,403 | $ 2,629 | $ 7,328 |
| Trading securities | 17,345 | 16,580 | 18,865 |
| Loans | 1,614 | 11,279 | 46,090 |
| Match funded loans and securities | 3,402 | 6,463 | 10,345 |
| Interest earning cash and other | 358 | 284 | 743 |
| | 24,122 | 37,235 | 83,371 |
| Interest expense: | | | |
| Deposits | 17,546 | 27,455 | 59,967 |
| Securities sold under agreements to repurchase | 3 | 236 | 529 |
| Notes and debentures | 9,929 | 17,346 | 19,514 |
| Bonds - match funded agreements | 5,414 | 6,573 | 7,315 |
| Lines of credit and other secured borrowings | 5,824 | 4,152 | 6,004 |
| | 38,716 | 55,762 | 93,329 |
| Net interest income (expense) before provision for loan losses | $ (14,594) | $ (18,527) | $ (9,958) |

NOTE 23 OTHER INCOME

The following table presents the principal components of other income we earned during the years ended December 31:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Software revenue (OTX) | $ 10,023 | $ 3,146 | $ 2,181 |
| Collections of credit card receivables (1) | 2,737 | 4,191 | -- |
| Brokerage commissions | 2,487 | 2,112 | 1,386 |
| Consulting fees | 208 | 1,596 | 2,041 |
| Other | 2,365 | 1,735 | 2,922 |
| | $ 17,820 | $ 12,780 | $ 8,530 |

(1) We recorded collections on charged-off unsecured credit card receivables that we have purchased from third parties on the cost recovery method through the end of 2001, at which time we reduced the net book value of these receivables to zero as a result of collections and reserves. In 2003 and 2002, we recorded all collections on the receivables as other income.

NOTE 24 OTHER OPERATING EXPENSES

The following table presents the principal components of other operating expenses we incurred during the years ended December 31:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Travel, lodging, meals and entertainment | $ 2,864 | $ 2,585 | $ 2,508 |
| Amortization of deferred costs | 1,197 | 1,436 | 926 |
| Deposit related expenses | 912 | 1,198 | 897 |
| Bad debt expense | 554 | 39 | 413 |
| Conferences and seminars | 361 | 475 | 534 |
| Marketing | 345 | 241 | 757 |
| Investment and treasury services | 282 | 340 | 272 |
| Other | 3,894 | 3,287 | 2,342 |
| | $ 10,409 | $ 9,601 | $ 8,649 |

NOTE 25 BUSINESS SEGMENT REPORTING

Public enterprises like ours are required to report financial and descriptive information about their reportable operating segments. An operating segment is defined as a component of an enterprise that (a) engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (c) for which discrete financial information is available.

(Dollars in thousands, except share data)

| | Net Interest Income (Expense) | Provision for Loan Losses | Non-Interest Income | Non-Interest Expense | Pre-Tax Income (Loss) | Total Assets |
|---|---|---|---|---|---|---|
| At or for the year ended December 31, 2003 | | | | | | |
| Core businesses: | | | | | | |
| Residential Loan Servicing | $ (20,892) | $ -- | $ 121,132 | $ 69,196 | $ 31,043 | $ 672,779 |
| OTX | -- | -- | 9,933 | 21,453 | (11,520) | 5,292 |
| Ocwen Realty Advisors | (21) | -- | 18,804 | 13,351 | 5,432 | 1,056 |
| Unsecured Collections | -- | -- | 12,140 | 6,840 | 5,300 | 323 |
| Business Process Outsourcing | (5) | -- | 4,496 | 2,597 | 1,893 | 1,010 |
| International Operations | (52) | -- | 4,490 | 7,384 | (2,946) | 5,212 |
| | (20,970) | -- | 170,995 | 120,821 | 29,202 | 685,672 |
| Non-core businesses: | | | | | | |
| Commercial Finance | (7,217) | (3,095) | 1,318 | 7,852 | (10,657) | 133,044 |
| Affordable Housing | (2,767) | 151 | 1,595 | 3,565 | (4,888) | 48,974 |
| Subprime Financing | 15,210 | 311 | 2,914 | 13,936 | 4,188 | 39,162 |
| | 5,226 | (2,633) | 5,827 | 25,353 | (11,357) | 221,180 |
| Corporate Items and Other | 1,150 | (51) | 675 | 11,327 | (12,817) | 333,266 |
| | $ (14,594) | $ (2,684) | $ 177,497 | $ 157,501 | $ 5,028 | $ 1,240,118 |
| At or for the year ended December 31, 2002 | | | | | | |
| Core businesses: | | | | | | |
| Residential Loan Servicing | $ (18,304) | $ -- | $ 120,024 | $ 69,746 | $ 31,974 | $ 579,114 |
| OTX | 1 | -- | 6,522 | 30,667 | (24,144) | 6,173 |
| Ocwen Realty Advisors | -- | -- | 14,080 | 11,484 | 2,597 | 532 |
| Unsecured Collections | -- | (278) | 10,652 | 6,925 | 4,006 | 296 |
| Business Process Outsourcing | -- | -- | 206 | 88 | 118 | 6 |
| International Operations | (51) | -- | 1,582 | 2,554 | (1,022) | 5,366 |
| | (18,354) | (278) | 153,066 | 121,464 | 13,529 | 591,487 |
| Non-core businesses: | | | | | | |
| Residential Discount Loans | 6,068 | (2,299) | (2,354) | 5,250 | 763 | 44,831 |
| Commercial Finance | (7,627) | 12,814 | (19,869) | 11,637 | (51,947) | 196,270 |
| Affordable Housing | (4,449) | 3,392 | 864 | 24,544 | (31,521) | 62,092 |
| Subprime Finance | 11,787 | -- | 7,395 | 4,646 | 14,536 | 41,950 |
| | 5,779 | 13,907 | (13,964) | 46,077 | (68,169) | 345,143 |
| Corporate Items and Other | (5,952) | -- | (5,090) | 10,085 | (27,417) | 285,612 |
| | $ (18,527) | $ 13,629 | $ 134,012 | $ 177,626 | $ (82,057) | $ 1,222,242 |
| At or for the year ended December 31, 2001 | | | | | | |
| Core businesses: | | | | | | |
| Residential Loan Servicing | $ (16,529) | $ -- | $ 119,490 | $ 68,370 | $ 34,591 | $ 492,563 |
| OTX | -- | -- | 2,149 | 38,542 | (36,392) | 13,231 |
| Ocwen Realty Advisors | -- | -- | 11,913 | 10,968 | 944 | 1,351 |
| Unsecured Collections | 140 | 1,176 | 3,058 | 7,042 | (5,020) | -- |
| International Operations | (13) | -- | 2,341 | 3,248 | (920) | 1,054 |
| | (16,402) | 1,176 | 138,951 | 128,170 | (6,797) | 508,199 |
| Non-core businesses: | | | | | | |
| Residential Discount Loans | 15,125 | 6,060 | (4,733) | 8,333 | (4,002) | 117,051 |
| Commercial Finance | (3,220) | 7,223 | 3,370 | 13,941 | (21,014) | 364,012 |
| Affordable Housing | (7,917) | 1,207 | 107 | 20,900 | (29,917) | 132,725 |
| Subprime Finance | 2,657 | -- | 13,742 | 3,243 | 13,155 | 82,324 |
| | 6,645 | 14,490 | 12,486 | 46,417 | (41,778) | 696,112 |
| Corporate Items and Other | (201) | -- | 22,851 | 8,728 | 6,793 | 506,839 |
| | $ (9,958) | $ 15,666 | $ 174,288 | $ 183,315 | $ (41,782) | $ 1,711,150 |

A brief description of our segments follows:

Core Businesses

- Residential Loan Servicing. Through this business we provide loan servicing including asset management and resolution services to third party owners of subprime residential mortgage and high loan-to-value loans for a fee. We acquire the rights to service loans and obtain such rights by purchasing them outright or by entering into sub-servicing contracts.

- OTX. Through this segment we provide technology solutions for the mortgage and real estate industries. OTX products include a residential loan servicing system (REALServicing(TM)), a commercial loan servicing system (REALSynergy(TM)) and an Internet based mortgage loan processing application and vendor management system (REALTrans(SM)).

- Ocwen Realty Advisors (ORA). Through ORA we provide residential property valuation services.

- Unsecured Collections. This core business conducts collection activities for third party owners of unsecured receivables and for a portfolio of unsecured credit card receivables that we acquired at a discount in 1999 and 2000.

- Business Process Outsourcing. This core business segment began operations in December 2002. Business Process Outsourcing provides business process outsourcing services to third parties and leverages the operational capacity of our facilities in India.

- International Operations. This segment is being reported as a business segment for the first time this year. In 2003, this segment primarily represents the results of operations of Global Servicing Solutions, LLC, our new joint servicing venture with Merrill Lynch for the servicing of assets in various countries. Results for 2002 primarily reflect a one time consulting project for the government of Jamaica as well as other precedent ventures.

Non-Core Businesses

- Residential Discount Loans. This segment consisted of operations to acquire at a discount and subsequently resolve sub-performing and non-performing residential mortgage loans. We completed our last acquisition of residential loans in 2000. Based on the relative insignificance of the non-core assets remaining in this segment, the remaining assets of this business and any related income or loss arising from their resolution have been included in the Corporate Items and Other segment beginning January 1, 2003.

- Commercial Finance. This segment comprised operations to acquire sub-performing commercial loans at a discount, as well as operations to invest in and reposition under-performing real estate assets. No assets have been acquired since 2000; since that time, this business has consisted of the repositioning, management and resolution of the remaining loan and real estate assets.

- Affordable Housing. Includes our investments, primarily through limited partnerships, in qualified low-income rental housing for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Code. Except to complete those projects in which an investment had already been made, we ceased making investments in properties in 2000.

- Subprime Finance. In August 1999, we closed our domestic subprime origination business, which had been conducted primarily through OFS. Previously, activities of this segment included our acquisition and origination of single family residential loans to non-conforming borrowers. We have continued to manage and resolve the remaining non-core assets, which consist primarily of unrated single family subprime residual securities.

Corporate Items and Other

This segment includes business activities that are individually insignificant, interest income on cash and cash equivalents, interest expense on corporate assets, gains and losses from debt repurchases and general corporate expenses.

We allocate interest income and expense to each business segment for the investment of funds raised or funding of investments made taking into consideration the duration of such liabilities or assets. We also make allocations of non-interest expense generated by corporate support services to each business segment based upon our estimate of time and effort spent in the respective activity.

(Dollars in thousands, except share data)

NOTE 26 COMMITMENTS AND CONTINGENCIES

We lease certain premises under various non-cancelable operating leases with terms expiring at various times through 2006, exclusive of renewal option periods. Our annual aggregate minimum rental commitments under these leases are summarized as follows:

| | |
|---|---|
| 2004 | $ 3,289 |
| 2005 | 1,635 |
| 2006 | 870 |
| 2007 | 799 |
| Thereafter | 6 |
| Minimum lease payments | $ 6,599 |

We converted rental commitments for our facilities outside the United States of America to U.S. dollars using exchange rates in effect at December 31, 2003. Rent expense for the years ended December 31, 2003, 2002 and 2001 was $3,511, $3,326 and $3,533, respectively.

Through our investment in subordinated securities and subprime residuals, which had a fair value of $42,841 at December 31, 2003, we support senior classes of securities.

On April 20, 1999, a complaint was filed on behalf of a putative class of public shareholders of OCN in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida against OCN and OAC. On April 23, 1999, a complaint was filed on behalf of a putative class of public shareholders of OAC in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida, against OAC and certain directors of OAC. The plaintiffs in both complaints sought to enjoin consummation of the acquisition of OAC by OCN. The cases were consolidated, and on September 13, 1999 a consolidated amended complaint was filed. The injunction was denied, and on October 14, 1999 OCN was dismissed as a party. Plaintiffs' remaining claims were for damages for alleged breaches of common law fiduciary duties. In October 2001, the parties reached an agreement in principle, which provides for a payment to plaintiffs in complete settlement of all claims for damages and attorney's fees and costs. The agreement in principle also requires us to pay a share of certain additional administrative costs attendant to the settlement, in an amount not yet determined. The agreement in principle is subject to the approval of the Court. This matter is not expected to have a material impact on our financial statements. On September 29, 2003, the Court approved the settlement and entered final judgment, thus bringing the litigation to a conclusion. This matter did not have any material impact on our financial statements.

The Bank has been named as a defendant in a number of purported class action lawsuits challenging its mortgage servicing practices. None of these lawsuits has been certified by any court as a class action. A petition to consolidate the lawsuits is presently pending before the United States Judicial Panel on Multi-District Litigation, under caption styled: In re Ocwen Federal Bank FSB Mortgage Servicing Litigation, MDL Docket No. 1604. We believe the challenges to the Bank's servicing practices are without merit and are defending the lawsuits vigorously.

The Bank and OCN are also subject to various other pending legal proceedings. In our opinion, the resolution of the purported class actions and other claims will not have a material effect on our financial statements.

(Dollars in thousands, except share data)

NOTE 27 PARENT COMPANY ONLY FINANCIAL INFORMATION

Condensed Statements of Financial Condition of Ocwen Financial Corporation

| | December 31, 2003 | December 31, 2002 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 22 | $ 116 |
| Cash held at Bank subsidiary | 19,708 | 10,647 |
| Investments in subsidiaries | | |
| Bank subsidiary | 178,838 | 158,471 |
| Non-Bank subsidiaries | 374,876 | 406,538 |
| Advance due from Bank subsidiary | 3,345 | 1,641 |
| Loan, net | 7,134 | 8,009 |
| Investment in Capital Trust Securities issued by non Bank subsidiary | 68,751 | 68,751 |
| Income taxes receivable | 21,217 | 20,870 |
| Mortgage servicing rights | 58,033 | 64,996 |
| Other assets | 6,867 | 799 |
| | $ 738,791 | $ 740,838 |
| Liabilities and Stockholders' Equity | | |
| 11.875% Note payable | $ -- | $ 43,475 |
| Secured borrowings | 5,567 | 4,235 |
| Notes and debentures payable to non-Bank subsidiaries | 131,251 | 131,251 |
| Accrued interest payable to non-Bank subsidiaries | 8,562 | 8,205 |
| Advance due to non-Bank subsidiaries | 244,614 | 213,051 |
| Deferred tax liability | 20,645 | 20,194 |
| Other liabilities | 10,894 | 9,709 |
| Total liabilities | 421,533 | 430,120 |
| Stockholders' equity | 317,258 | 310,718 |
| | $ 738,791 | $ 740,838 |

Condensed Statements of Operations of Ocwen Financial Corporation

| | For the Years Ended December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| Interest income | $ 782 | $ 555 | $ 1,947 |
| Interest income from subsidiaries | | | |
| Bank subsidiary | 87 | 222 | 775 |
| Non-Bank subsidiaries | 1,878 | -- | -- |
| Interest expense | 4,263 | 9,937 | 11,465 |
| Interest expense - non-Bank subsidiaries | 14,372 | 14,372 | 14,387 |
| Net interest expense before provision for loan losses | (15,888) | (23,532) | (23,130) |
| Provision for loan losses | (125) | 1,144 | 1,495 |
| Net interest expense after provision for loan losses | (15,763) | (24,676) | (24,625) |
| Non-interest income | 32,094 | 9,919 | 543 |
| Non-interest expense | 21,150 | 3,731 | (37) |
| Servicing fee expense - Bank subsidiary | 21,392 | 10,772 | 5,907 |
| Income (loss) before income taxes | (26,211) | (29,260) | (29,952) |
| Income tax expense (benefit) | 3 | (1,658) | 37,195 |
| Income (loss) before equity in net income (losses) of subsidiaries | (26,214) | (27,602) | (67,147) |
| Equity in net income (losses) of subsidiaries | | | |
| Bank subsidiary | 20,366 | (40,341) | (57,590) |
| Non-bank subsidiaries | 10,620 | (832) | (45) |
| Net income (loss) | $ 4,772 | $ (68,775) | $ (124,782) |

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2003, 2002, AND 2001
(Dollars in thousands, except share data)

Condensed Statements of Cash Flows of Ocwen Financial Corporation

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| **Cash flows from operating activities** | | | |
| Net income (loss) | $ 4,772 | $ (68,775) | $ (124,782) |
| Adjustments to reconcile net income to net cash (used) provided by operating activities | | | |
| Equity in (income) loss of Bank subsidiary | (20,366) | 40,341 | 57,590 |
| Equity in (income) loss of non-Bank subsidiaries | (10,620) | 832 | 45 |
| Equity in loss (income) of unconsolidated entity, net | (38) | (142) | -- |
| Amortization of purchased mortgage servicing rights | 35,889 | 9,125 | -- |
| Premium amortization, net | -- | -- | 408 |
| Provision for loan losses | (125) | 1,144 | 1,495 |
| Gain on repurchase of long-term debt | -- | -- | (53) |
| Impairment charges on purchased mortgage servicing rights | 387 | -- | -- |
| Increase in deferred tax liability | 451 | 3,945 | 38,624 |
| Decrease (increase) in other assets | (3,347) | 3,297 | (1,458) |
| Decrease (increase) in income taxes receivable | (321) | (4,046) | 925 |
| Increase (decrease) in accrued expenses and other liabilities | 2,501 | (578) | 2,417 |
| Net cash used by operating activities | 9,183 | (14,857) | (24,789) |
| **Cash flows from investing activities** | | | |
| Net investments in and advances (to) from subsidiaries | 71,051 | 118,323 | (33,731) |
| Purchase of mortgage servicing rights | (29,196) | (74,121) | -- |
| Origination of loans | -- | (9,153) | -- |
| Principal payments received on loans | 1,000 | -- | 6,922 |
| Decrease (increase) in investment in real estate | -- | 1,797 | 1,503 |
| Net cash provided (used) by investing activities | 42,855 | 36,846 | (25,306) |
| **Cash flows from financing activities** | | | |
| Proceeds from secured borrowings | 5,980 | 4,235 | -- |
| Repurchase or maturity of notes | (43,475) | (43,550) | (13,233) |
| Repayment of secured borrowings | (4,648) | -- | -- |
| Exercise of common stock options | 1,334 | 103 | 588 |
| Repurchase of common stock | (2,262) | -- | -- |
| Net cash used by financing activities | (43,071) | (39,212) | (12,645) |
| Net increase (decrease) in cash and cash equivalents | 8,967 | (17,223) | (62,740) |
| Cash and cash equivalents at beginning of year | 10,763 | 27,986 | 90,726 |
| Cash and cash equivalents at end of year | $ 19,730 | $ 10,763 | $ 27,986 |

(Dollars in thousands, except share data)

NOTE 28 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

| | Quarters Ended | | | |
|---|---|---|---|---|
| | December 31, 2003 | September 30, 2003 | June 30, 2003 | March 31, 2003 |
| Interest income | $ 6,296 | $ 4,071 | $ 6,998 | $ 6,757 |
| Interest expense | 9,162 | 10,823 | 9,405 | 9,326 |
| Provision for loan losses | (14) | 415 | (3,251) | 166 |
| Net interest income (expense) after provision for loan losses | (2,852) | (7,167) | 844 | (2,735) |
| Non-interest income | 48,871 | 46,843 | 39,401 | 42,382 |
| Non-interest expense | 41,619 | 35,027 | 34,335 | 46,520 |
| Distributions on Capital Securities | -- | -- | 1,529 | 1,529 |
| Income (loss) before minority interest and income taxes. | 4,400 | 4,649 | 4,381 | (8,402) |
| Minority interest in net income (loss) of subsidiaries | 184 | (28) | 73 | 263 |
| Income taxes expense (benefit) | 130 | 6 | 305 | 307 |
| Net income (loss) | $ 4,454 | $ 4,615 | $ 4,149 | $ (8,446) |
| Earnings (loss) per share | | | | |
| Basic | $ 0.07 | $ 0.07 | $ 0.06 | $ (0.13) |
| Diluted | $ 0.07 | $ 0.07 | $ 0.06 | $ (0.13) |

| | Quarters Ended | | | |
|---|---|---|---|---|
| | December 31, 2002 | September 30, 2002 | June 30, 2002 | March 31, 2002 |
| Interest income | $ 7,103 | $ 8,612 | $ 8,806 | $ 12,714 |
| Interest expense | 11,727 | 12,925 | 14,714 | 16,396 |
| Provision for loan losses | 3,119 | (901) | 10,732 | 679 |
| Net interest income (expense) after provision for loan losses | (7,743) | (3,412) | (16,640) | (4,361) |
| Non-interest income | 41,978 | 37,520 | 12,593 | 41,921 |
| Non-interest expense | 41,065 | 36,586 | 44,585 | 55,390 |
| Distributions on Capital Securities | 1,529 | 1,529 | 1,566 | 1,663 |
| Income (loss) before income taxes and effect of change in accounting principle | (8,359) | (4,007) | (50,198) | (19,493) |
| Minority interest in net loss of subsidiaries | (99) | -- | -- | -- |
| Income taxes expense (benefit) | 1,818 | -- | -- | 1,165 |
| Income (loss) before effect of change in accounting principle | (10,078) | (4,007) | (50,198) | (20,658) |
| Effect of change in accounting principle, net of taxes | -- | -- | -- | 16,166 |
| Net income (loss) | $ (10,078) | $ (4,007) | $ (50,198) | $ (4,492) |
| Earnings (loss) per share | | | | |
| Basic and diluted | $ (0.15) | $ (0.06) | $ (0.75) | $ (0.07) |

## SHAREHOLDER INFORMATION

### Price Range of the Company's Common Stock

Our common stock is traded under the symbol "OCN" on the New York Stock Exchange ("NYSE"). The following table sets forth the high and low sales prices for our common stock, as traded on the NYSE:

| | High | Low |
|---|---|---|
| 2003 | | |
| First quarter | $ 3.40 | $ 2.71 |
| Second quarter | 4.87 | 3.13 |
| Third quarter | 5.09 | 4.12 |
| Fourth quarter | 8.88 | 4.60 |
| 2002 | | |
| First quarter | $ 8.48 | $ 6.47 |
| Second quarter | 7.50 | 5.31 |
| Third quarter | 5.80 | 2.67 |
| Fourth quarter | 3.05 | 2.28 |

At the close of business on March 10, 2004, our common stock price was $9.49.

We do not currently pay cash dividends on common stock and have no current plans to do so in the future. The timing and amount of future dividends, if any, will be determined by our Board of Directors and will depend, among other factors, upon our earnings, financial condition, cash requirements, the capital requirements of the Bank and other subsidiaries and investment opportunities at the time any such payment is considered. In addition, the indentures relating to the Notes and the Junior Subordinated Debentures contain certain limitations on the payment of dividends by us.

As a holding company, the payment of any dividends by us will be significantly dependent on dividends and other payments received from our subsidiaries, including the Bank. For a description of limitations on our ability to pay dividends on our common stock and on the ability of the Bank to pay dividends, see Note 21 to our Consolidated Financial Statements.

### Number of Holders of Common Stock

At March 10, 2004, 67,960,607 shares of our common stock were outstanding and held by approximately 1,292 holders of record. Such number of stockholders does not reflect the number of individuals or institutional investors holding our stock in nominee name through banks, brokerage firms and others.

Exhibit 21.0

SIGNIFICANT DIRECT AND INDIRECT SUBSIDIARIES OF OCWEN FINANCIAL CORPORATION

| Name | State or Other Jurisdiction of Organization |
|---|---|
| Ocwen Federal Bank FSB | New Jersey |
| Ocwen Partnership, L.P. | Virginia |
| Ocwen Asset Investment Corp. | Florida |
| Ocwen General, Inc. | Virginia |
| Investors Mortgage Insurance Holding Company | Delaware |
| Ocwen Properties, Inc. | New York |
| Ocwen Capital Trust I | Delaware |
| Ocwen Asset Investment - UK, LLC | Delaware |
| Ocwen Technology Xchange, Inc. | Florida |
| Rocaille Acquisition Subsidiary, Inc. | Florida |
| Berkeley Realty Group, Inc | New Jersey |
| OAIC Halifax, LLC | Delaware |
| OAIC Jacksonville, LLC | Delaware |
| OAIC Mortgage Residential Holdings, LLC | Delaware |
| Residential Real Estate Solutions, Inc. | Florida |
| RMSI, Inc | New Jersey |
| Ocwen NIMS Corp. | Florida |
| REALTrans.Com, Inc. | Florida |
| Ocwen Financial Solutions Private Limited | India |
| Taiwan Bo Lin Service Co., Ltd. | Taiwan |
| SSJ Servicer Co., Ltd. | Japan |

Exhibit 23.0

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 filed on January 27, 1998 (Registration No. 333-44999), Registration Statement on Form S-8 filed on August 25, 1998 (Registration No. 333-62217) and Registration Statement on Form S-3 filed on November 5, 1998 (Registration No. 333-64915) of Ocwen Financial Corporation of our report dated March 8, 2004 relating to the financial statements, which appears on page 67 of the 2003 Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP
West Palm Beach, Florida
March 12, 2004

Exhibit 31.1

CERTIFICATIONS

I, William C. Erbey, certify that:

1. I have reviewed this annual report on Form 10-K 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 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)) 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) 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

   (c) Disclosed in this report any changes 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: March 15, 2004

/s/ WILLIAM C. ERBEY
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William C. Erbey
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Mark S. Zeidman, certify that:

1. I have reviewed this annual report on Form 10-K 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 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)) 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) 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

    (c) Disclosed in this report any changes 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: March 15, 2004

/s/ MARK S. ZEIDMAN
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Mark S. Zeidman
Chief Financial Officer

Exhibit 32.1

CERTIFICATIONS

I, William C. Erbey, state and attest that:

(1) I am the Chief 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 Annual Report on Form 10-K of the Registrant for the year ended December 31, 2003 (the "periodic report") containing financial statements fully complies with the requirements of Section 13(a) or 15(d) 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/ WILLIAM C. ERBEY

Title: Chief Executive Officer

Date: March 15, 2004

Exhibit 32.2

CERTIFICATIONS

I, Mark S. Zeidman, state and attest that:

(1) I am the Chief 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 Annual Report on Form 10-K of the Registrant for the year ended December 31, 2003 (the "periodic report") containing financial statements fully complies with the requirements of Section 13(a) or 15(d) 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/ MARK S. ZEIDMAN

Title: Chief Financial Officer

Date: March 15, 2004