

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: _____ to _____

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of incorporation or organization)

1661 Worthington Road, Suite 100
West Palm Beach, Florida

(Address of principal executive office)

65-0039856

(I.R.S. Employer Identification No.)

33409

(Zip Code)

(561) 682-8000

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

Number of shares of common stock outstanding as of October 31, 2022: 7,590,348 shares

OCWEN FINANCIAL CORPORATION
FORM 10-Q
TABLE OF CONTENTS

	<u>PAGE</u>
PART I - FINANCIAL INFORMATION	
Item 1. Unaudited Consolidated Financial Statements	5
Consolidated Balance Sheets at September 30, 2022 and December 31, 2021	5
Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2022 and 2021	6
Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2022 and 2021	7
Consolidated Statements of Changes in Equity for the Three and Nine Months Ended September 30, 2022 and 2021	8
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2022 and 2021	10
Notes to Unaudited Consolidated Financial Statements	11
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	59
Item 3. Quantitative and Qualitative Disclosures about Market Risk	98
Item 4. Controls and Procedures	102
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	102
Item 1A. Risk Factors	102
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	103
Item 6. Exhibits	103
Signatures	104

FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact included in this report, including statements regarding our financial position, business strategy and other plans and objectives for our future operations, are forward-looking statements.

Forward-looking statements may be identified by a reference to a future period or by the use of forward-looking terminology. Forward-looking statements are typically identified by words such as “expect”, “believe”, “foresee”, “anticipate”, “intend”, “estimate”, “goal”, “strategy”, “plan”, “target” and “project” or conditional verbs such as “will”, “may”, “should”, “could” or “would” or the negative of these terms, although not all forward-looking statements contain these words. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Readers should bear these factors in mind when considering forward-looking statements and should not place undue reliance on such statements. Forward-looking statements involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those suggested by such statements. In the past, actual results have differed from those suggested by forward-looking statements and this may happen again. Important factors that could cause actual results to differ include, but are not limited to, the risks discussed under Part I, Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2021 and the following:

- the potential for ongoing disruption in the financial markets and in commercial activity generally related to changes in monetary and fiscal policy, international events including the conflict in Ukraine and other sources of instability;
- the impacts of inflation, employment disruption, and other financial difficulties facing our borrowers;
- our ability to timely reduce operating costs, or generate offsetting revenue, in proportion to the recent industry-wide decrease in originations activity and the impact of cost-reduction initiatives on our business and operations;
- the amount of common stock that we may repurchase under any future stock repurchase programs, the timing of such repurchases, and the long-term impact, if any, of repurchases on the trading price of our stock;
- uncertainty relating to the continuing impacts of the COVID-19 pandemic, including with respect to the response of the U.S. government, state governments, the Federal National Mortgage Association (Fannie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac) (together, the GSEs), the Government National Mortgage Association (Ginnie Mae) and regulators;
- the proportion of borrowers who enter into forbearance plans, the financial ability of borrowers to resume repayment and their timing for doing so;
- the extent to which our mortgage servicing rights (MSR) joint venture with Oaktree Capital Management L.P. and its affiliates (Oaktree), other transactions and our enterprise sales initiatives will generate additional subservicing volume and result in increased profitability;
- our ability, and the ability of MSR Asset Vehicle LLC (MAV), to bid competitively for, and close acquisitions of, MSRs on terms that will enable us to achieve our growth objectives and a favorable return on our investment in MAV;
- our ability to identify, enter into and close additional strategic transactions, including the ability to obtain regulatory approvals, enter into definitive financing arrangements, and satisfy closing conditions, and the timing for doing so;
- our ability to efficiently integrate the operations and assets of acquired businesses and to retain their employees and customers over time;
- the extent to which we will be able to execute call rights transactions, and whether such transactions will generate the returns anticipated;
- the adequacy of our financial resources, including our sources of liquidity and ability to sell, fund and recover servicing advances, forward and reverse whole loans, and Home Equity Conversion Mortgage (HECM) and forward loan buyouts and put-backs, as well as repay, renew and extend borrowings, borrow additional amounts as and when required, meet our MSR or other asset investment objectives and comply with our debt agreements, including the financial and other covenants contained in them;
- increased servicing costs based on rising borrower delinquency levels or other factors, including an increase in severe weather events resulting in property damage and financial hardship to our borrowers;
- reduced collection of servicing fees and ancillary income and delayed collection of servicing revenue as a result of forbearance plans and moratoria on evictions and foreclosure proceedings;
- our ability to improve our financial performance through cost re-engineering initiatives and other actions;

- our ability to maintain and increase market share in our target markets, including in forward and reverse servicing;
- our ability to reduce expenses in our mortgage origination business in response to market adjustments;
- uncertainty related to our long-term relationship with Rithm Capital Corp. (formerly New Residential Investment Corp., our largest subservicing client as of September 30, 2022);
- uncertainty related to past, present or future claims, litigation, cease and desist orders and investigations relating to our business practices, including those brought by private parties and state regulators, the Consumer Financial Protection Bureau (CFPB), State Attorneys General, the Securities and Exchange Commission (SEC), the Department of Justice or the Department of Housing and Urban Development (HUD);
- adverse effects on our business as a result of regulatory investigations, litigation, cease and desist orders or settlements and the reactions of key counterparties, including lenders, the GSEs and Ginnie Mae;
- the costs of complying with the terms of our settlements with regulatory agencies and disputes as to whether we have fully complied;
- any adverse developments in existing legal proceedings or the initiation of new legal proceedings;
- our ability to efficiently manage our regulatory and contractual compliance obligations and fully comply with all applicable requirements;
- uncertainty related to changes in legislation, regulations, government programs and policies, industry initiatives, best servicing and lending practices, and media scrutiny of our business and industry;
- the extent to which changes in the law as well as changes in the interpretation of law may require us to modify our business practices and expose us to increased expense and litigation risk;
- our ability to interpret correctly and comply with current or future liquidity, net worth and other financial and other requirements of regulators, the GSEs and Ginnie Mae, as well as those set forth in our debt and other agreements, including our ability to identify and implement a cost-effective response to Ginnie Mae's recently announced risk-based capital requirements that take effect in late 2024;
- our ability to comply with our servicing agreements, including our ability to comply with our agreements with the GSEs and Ginnie Mae and maintain our seller/servicer and other statuses with them;
- our servicer and credit ratings as well as other actions from various rating agencies, including the impact of prior or future downgrades of our servicer and credit ratings;
- failure of our, or our vendors', information technology or other security systems or breach of our, or our vendors', privacy protections, including any failure to protect customers' data;
- our reliance on our technology vendors to adequately maintain and support our systems, including our servicing systems, loan originations and financial reporting systems, and uncertainty relating to our ability to transition to alternative vendors, if necessary, without incurring significant cost or disruption to our operations;
- increased difficulty recruiting and retaining existing or new senior managers and key employees;
- increased compensation and benefits expense as a result of rising inflation and labor market trends;
- uncertainty related to the actions of loan owners and guarantors, including mortgage-backed securities investors, the GSEs, Ginnie Mae and trustees regarding loan put-backs, penalties and legal actions;
- uncertainty related to the GSEs substantially curtailing or ceasing to purchase our conforming loan originations or the Federal Housing Administration (FHA) of the HUD, Department of Veterans Affairs (VA) or United States Department of Agriculture (USDA) ceasing to provide insurance;
- uncertainty related to our ability to continue to collect certain expedited payment or convenience fees and potential liability for charging such fees;
- uncertainty related to our reserves, valuations, provisions and anticipated realization of assets;
- uncertainty related to the ability of third-party obligors and financing sources to fund servicing advances on a timely basis on loans serviced by us;
- the characteristics of our servicing portfolio, including prepayment speeds along with delinquency and advance rates;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;
- uncertainty related to the processes for judicial and non-judicial foreclosure proceedings, including potential additional costs or delays or moratoria in the future or claims pertaining to past practices;
- our ability to adequately manage and maintain real estate owned (REO) properties and vacant properties collateralizing loans that we service;
- our ability to realize anticipated future gains from future draws on existing loans in our reverse mortgage portfolio;
- our ability to effectively manage our exposure to interest rate changes and foreign exchange fluctuations;

- our ability to effectively transform our operations in response to changing business needs, including our ability to do so without unanticipated adverse tax consequences;
- increasingly frequent and costly disruptions to our operations as a result of severe weather events;
- uncertainty related to the political or economic stability of the United States and of the foreign countries in which we have operations; and
- our ability to maintain positive relationships with our large shareholders and obtain their support for management proposals requiring shareholder approval.

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the SEC including our Annual Report on Form 10-K for the year ended December 31, 2021, our Quarterly Report on Form 10-Q and our Current Reports on Form 8-K since such date. Forward-looking statements speak only as of the date they were made and we disclaim any obligation to update or revise forward-looking statements whether because of new information, future events or otherwise.

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

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

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Assets		
Cash and cash equivalents	\$ 226,570	\$ 192,792
Restricted cash (\$11,859 and \$9,759 related to variable interest entities (VIEs))	45,269	70,654
Mortgage servicing rights (MSRs), at fair value	2,714,225	2,250,147
Advances, net (\$540,142 and \$587,059 related to VIEs)	642,461	772,433
Loans held for sale (\$725,218 and \$917,534 carried at fair value) (\$0 and \$462,144 related to VIEs)	729,638	928,527
Loans held for investment, at fair value (\$6,802 and \$7,879 related to VIEs)	7,402,285	7,207,641
Receivables, net	170,838	180,707
Investment in equity method investee	38,711	23,297
Premises and equipment, net	18,782	13,674
Other assets (\$25,014 and \$21,886 carried at fair value) (\$2,857 and \$1,530 related to VIEs)	371,290	507,250
Total assets	<u>\$ 12,360,069</u>	<u>\$ 12,147,123</u>
Liabilities and Equity		
Liabilities		
Home Equity Conversion Mortgage-Backed Securities (HMBS) related borrowings, at fair value	\$ 7,208,385	\$ 6,885,022
Other financing liabilities, at fair value (\$341,965 and \$238,144 due to related party) (\$6,802 and \$7,879 related to VIEs)	989,722	804,963
Advance match funded liabilities (\$456,233 and \$512,297 related to VIEs)	457,452	512,297
Mortgage loan warehouse facilities	819,557	1,085,076
MSR financing facilities, net	1,020,606	900,760
Senior notes, net (\$228,122 and \$222,242 due to related party)	597,129	614,797
Other liabilities (\$23,747 and \$3,080 carried at fair value)	721,112	867,514
Total liabilities	<u>11,813,963</u>	<u>11,670,429</u>
Commitments and Contingencies (Notes 21 and 22)		
Stockholders' Equity		
Common stock, \$.01 par value; 13,333,333 shares authorized; 7,934,594 and 9,208,312 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	79	92
Additional paid-in capital	556,290	592,572
Accumulated deficit	(8,229)	(113,604)
Accumulated other comprehensive loss, net of income taxes	(2,034)	(2,366)
Total stockholders' equity	<u>546,106</u>	<u>476,694</u>
Total liabilities and stockholders' equity	<u>\$ 12,360,069</u>	<u>\$ 12,147,123</u>

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue				
Servicing and subservicing fees	\$ 215,562	\$ 206,585	\$ 643,316	\$ 562,764
Reverse mortgage revenue, net	6,885	5,035	17,379	56,162
Gain (loss) on loans held for sale, net	18,931	59,702	16,665	108,136
Other revenue, net	8,344	11,779	26,084	29,078
Total revenue	<u>249,722</u>	<u>283,101</u>	<u>703,444</u>	<u>756,140</u>
MSR valuation adjustments, net	95,159	(6,320)	190,989	(57,562)
Operating expenses				
Compensation and benefits	71,320	68,960	223,202	209,413
Servicing and origination	18,998	27,932	52,264	82,044
Technology and communications	14,380	14,737	43,983	41,050
Professional services	17,196	18,379	38,049	61,245
Occupancy and equipment	12,396	8,962	32,121	25,699
Other expenses	7,118	6,466	23,178	15,422
Total operating expenses	<u>141,408</u>	<u>145,436</u>	<u>412,797</u>	<u>434,873</u>
Other income (expense)				
Interest income	13,732	7,869	30,590	15,993
Interest expense (\$10,578, \$10,238, \$31,461 and \$21,351 on amounts due to related party)	(50,395)	(40,623)	(126,131)	(102,591)
Pledged MSR liability expense (\$28,845, \$(2,094), \$104,202, and \$(2,094) on amounts due to related party)	(131,635)	(91,160)	(292,616)	(168,820)
Earnings of equity method investee	3,346	932	19,281	1,282
Gain (loss) on extinguishment of debt	—	—	914	(15,458)
Other, net	(5,538)	1,900	(9,936)	5,554
Total other income (expense), net	<u>(170,490)</u>	<u>(121,082)</u>	<u>(377,898)</u>	<u>(264,040)</u>
Income (loss) before income taxes	32,983	10,263	103,738	(335)
Income tax expense (benefit)	(3,956)	(11,289)	(1,637)	(20,108)
Net income	<u>\$ 36,939</u>	<u>\$ 21,552</u>	<u>\$ 105,375</u>	<u>\$ 19,773</u>
Earnings per share				
Basic	\$ 4.33	\$ 2.35	\$ 11.71	\$ 2.21
Diluted	\$ 4.17	\$ 2.29	\$ 11.34	\$ 2.13
Weighted average common shares outstanding				
Basic	8,530,209	9,189,030	8,998,298	8,960,696
Diluted	8,866,925	9,401,858	9,295,857	9,270,751

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 36,939	\$ 21,552	\$ 105,375	\$ 19,773
Other comprehensive income (loss), net of income taxes:				
Change in unfunded pension plan obligation liability	91	(386)	273	(1,119)
Other	16	18	60	63
Comprehensive income	<u>\$ 37,047</u>	<u>\$ 21,184</u>	<u>\$ 105,707</u>	<u>\$ 18,717</u>

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Dollars in thousands)

	Common Stock		Additional Paid- in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Income Taxes	Total
	Shares	Amount				
Balance at June 30, 2022	9,189,005	\$ 92	\$ 591,132	\$ (45,168)	\$ (2,141)	\$ 543,915
Net income	—	—	—	36,939	—	36,939
Repurchase of common stock	(1,254,411)	(13)	(36,494)	—	—	(36,507)
Equity-based compensation and other	—	—	1,652	—	—	1,652
Other comprehensive income, net of income taxes	—	—	—	—	107	107
Balance at September 30, 2022	7,934,594	\$ 79	\$ 556,290	\$ (8,229)	\$ (2,034)	\$ 546,106
Balance at June 30, 2021	9,189,030	\$ 92	\$ 590,252	\$ (133,461)	\$ (9,783)	\$ 447,100
Net income	—	—	—	21,552	—	21,552
Equity-based compensation and other	—	—	1,587	—	—	1,587
Other comprehensive loss, net of income taxes	—	—	—	—	(368)	(368)
Balance at September 30, 2021	9,189,030	\$ 92	\$ 591,839	\$ (111,909)	\$ (10,151)	\$ 469,871

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Dollars in thousands)

	Common Stock		Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss, Net of Income Taxes	Total
	Shares	Amount				
Balance at December 31, 2021	9,208,312	\$ 92	\$ 592,572	\$ (113,604)	\$ (2,366)	\$ 476,694
Net income	—	—	—	105,375	—	105,375
Repurchase of common stock	(1,338,498)	(13)	(38,755)	—	—	(38,768)
Equity-based compensation and other	64,780	1	2,473	—	—	2,474
Other comprehensive income, net of income taxes	—	—	—	—	332	332
Balance at September 30, 2022	<u>7,934,594</u>	<u>\$ 79</u>	<u>\$ 556,290</u>	<u>\$ (8,229)</u>	<u>\$ (2,034)</u>	<u>\$ 546,106</u>
Balance at December 31, 2020	8,687,750	\$ 87	\$ 556,062	\$ (131,682)	\$ (9,095)	\$ 415,372
Net income	—	—	—	19,773	—	19,773
Issuance of common stock	426,705	4	12,165	—	—	12,169
Issuance of common stock warrants, net of issuance costs	—	—	19,956	—	—	19,956
Equity-based compensation and other	74,575	1	3,656	—	—	3,657
Other comprehensive income, net of income taxes	—	—	—	—	(1,056)	(1,056)
Balance at September 30, 2021	<u>9,189,030</u>	<u>\$ 92</u>	<u>\$ 591,839</u>	<u>\$ (111,909)</u>	<u>\$ (10,151)</u>	<u>\$ 469,871</u>

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

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

	For the Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities		
Net income	\$ 105,375	\$ 19,773
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
MSR valuation adjustments, net	(190,989)	57,562
Loss on sale of MSRs, net	317	64
Provision for bad debts	15,235	16,069
Depreciation	7,649	7,527
Amortization of debt issuance costs and discount	7,526	5,438
Amortization of intangibles	3,332	—
Equity-based compensation expense	2,773	3,697
Loss (gain) on extinguishment of debt	(914)	15,458
Loss on valuation of Pledged MSR financing liability	184,936	71,273
Net loss (gain) on valuation of loans held for investment and HMBS-related borrowings	15,802	(9,993)
Earnings of equity method investee	(19,281)	(1,282)
Distribution of earnings from equity method investee	5,175	—
Gain on loans held for sale, net	(16,665)	(108,136)
Origination and purchase of loans held for sale	(13,489,346)	(12,987,522)
Proceeds from sale and collections of loans held for sale	13,527,586	12,411,398
Changes in assets and liabilities:		
Decrease in advances, net	101,753	69,868
Decrease in receivables and other assets, net	22,350	9,659
Decrease (increase) in other liabilities	(23,083)	9,582
Other, net	83	(3,271)
Net cash provided by (used in) operating activities	<u>259,614</u>	<u>(412,836)</u>
Cash flows from investing activities		
Origination of loans held for investment	(1,493,951)	(1,214,772)
Principal payments received on loans held for investment	1,322,519	1,172,011
Acquisition of loans held for investment, net	(4,089)	—
Acquisition of reverse mortgage subservicing agreements	(6,906)	—
Purchase of MSRs	(174,886)	(785,194)
Proceeds from sale of MSRs	149,051	—
Proceeds from sale of advances	2,462	305
Additions to premises and equipment	(4,760)	(2,062)
Purchase of real estate	(863)	(6,057)
Proceeds from sale of real estate	6,156	8,350
Proceeds from sale of premises and equipment	135	624
Investment in equity method investee	(33,750)	(18,512)
Distribution of capital from equity method investee	32,385	—
Other, net	(1)	(74)
Net cash used in investing activities	<u>(206,498)</u>	<u>(845,381)</u>
Cash flows from financing activities		
Repayment of advance match funded liabilities, net	(54,845)	(64,716)
Repayment of other financing liabilities	(85,476)	(62,076)
Proceeds from (repayment of) mortgage loan warehouse facilities, net	(265,519)	617,457
Proceeds from MSR financing facilities	379,739	680,711
Repayment of MSR financing facilities	(257,757)	(170,500)
Repurchase and repayment of Senior notes	(23,625)	(319,156)
Proceeds from issuance of Senior notes and warrants	—	647,944
Repayment of senior secured term loan (SSTL) borrowings	—	(188,700)
Payment of debt issuance costs	(1,261)	(16,173)
Proceeds from sale of MSRs accounted for as secured financing	78,742	130,024
Proceeds from Excess Servicing Spread (ESS) liability financing	36,241	—
Proceeds from sale of Home Equity Conversion Mortgages (HECM, or reverse mortgages) accounted for as a financing (HMBS-related borrowings)	1,507,617	1,119,742
Repayment of HMBS-related borrowings	(1,319,811)	(1,161,609)
Issuance of common stock	—	9,878
Repurchase of common stock	(38,768)	—
Other, net	—	(525)
Net cash provided by (used in) financing activities	<u>(44,723)</u>	<u>1,222,301</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	8,393	(35,916)
Cash, cash equivalents and restricted cash at beginning of year	263,446	357,265
Cash, cash equivalents and restricted cash at end of period	<u>\$ 271,839</u>	<u>\$ 321,349</u>
Supplemental non-cash investing and financing activities:		
Loans held for investment acquired at fair value	\$ 224,052	\$

Loans held for investment acquired at fair value	\$	224,032	\$	—
HMBS-related borrowings assumed at fair value		(219,509)		—
Purchase price holdback		(454)		—
Net cash paid to acquire loans held for investment	\$	4,089	\$	—
Recognition of gross right-of-use asset and lease liability:				
Right-of-use asset	\$	8,043	\$	3,955
Lease liability		8,026		3,955
Transfers of loans held for sale to real estate owned (REO)		1,031		5,879
Derecognition of MSR and financing liabilities:				
MSRs	\$	39,045	\$	—
Financing liability - MSRs pledged		35,925		—

Supplemental information - Sale and deconsolidation of subsidiary

Cash proceeds received	\$	—	\$	4,409
Equity / cash balance held by subsidiary upon sale		—		(5,250)

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

	September 30, 2022	September 30, 2021
Cash and cash equivalents	\$ 226,570	\$ 236,072
Restricted cash and equivalents:		
Debt service accounts	16,074	13,271
Other restricted cash	29,195	72,006
Total cash, cash equivalents and restricted cash reported in the statements of cash flows	<u>\$ 271,839</u>	<u>\$ 321,349</u>

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022
(Dollars in thousands, except per share data and unless otherwise indicated)

Note 1 - Organization and Basis of Presentation

Organization

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

Ocwen directly or indirectly owns all of the outstanding common stock of its operating subsidiaries, including PMC since its acquisition on October 4, 2018, Ocwen Financial Solutions Private Limited (OFSPL) and Ocwen USVI Services, LLC (OVIS). Effective May 3, 2021, Ocwen holds a 15% equity interest in MAV Canopy HoldCo I, LLC (MAV Canopy) that invests in mortgage servicing assets through its licensed mortgage subsidiary MSR Asset Vehicle LLC (MAV). See Note 10 - Investment in Equity Method Investee and Related Party Transactions for additional information.

We perform servicing activities related to our own MSR portfolio (primary) and on behalf of other servicers (subservicing), the largest being Rithm Capital Corp. (Rithm), formerly known as New Residential Investment Corp. (NRZ), and investors (primary and master servicing), including the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively referred to as GSEs), the Government National Mortgage Association (Ginnie Mae, and together with the GSEs, the Agencies) and private-label securitizations (PLS, or non-Agency). As a subservicer or primary servicer, we may be required to make advances for certain property tax and insurance premium payments, default and property maintenance payments and principal and interest payments on behalf of delinquent borrowers to mortgage loan investors before recovering them from borrowers. Most, but not all, of our subservicing agreements provide for us to be reimbursed for any such advances by the owner of the servicing rights. Advances made by us as primary servicer are generally recovered from the borrower or the mortgage loan investor. As master servicer, we collect mortgage payments from primary servicers and distribute the funds to investors in the mortgage-backed securities. To the extent the primary servicer does not advance the scheduled principal and interest, as master servicer we are responsible for advancing the shortfall, subject to certain limitations.

We source our servicing portfolio through multiple channels, including retail, wholesale, correspondent, flow MSR purchase agreements, the Agency Cash Window programs and bulk MSR purchases. We originate, sell and securitize conventional (conforming to the underwriting standards of Fannie Mae or Freddie Mac; collectively referred to as Agency or GSE) loans and government-insured (Federal Housing Administration (FHA), Department of Veterans Affairs (VA) or United States Department of Agriculture (USDA)) forward mortgage loans, generally with servicing retained. The GSEs or Ginnie Mae guarantee these mortgage securitizations. We originate and purchase Home Equity Conversion Mortgage (HECM) loans, or reverse mortgages, that are mostly insured by the FHA and we are an approved issuer of Home Equity Conversion Mortgage-Backed Securities (HMBS) that are guaranteed by Ginnie Mae.

We had a total of approximately 5,100 employees at September 30, 2022 of which approximately 3,300 were located in India and approximately 400 were based in the Philippines. Our operations in India and the Philippines provide internal support services to our loan servicing and originations businesses and our corporate functions.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions of the Securities and Exchange Commission (SEC) to Form 10-Q and SEC Regulation S-X, Article 10, Rule 10-01 for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The results of operations and other data for the three and nine months ended September 30, 2022 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2022. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2021.

Use of Estimates and Assumptions

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

Recently Adopted Accounting Standards

Earnings Per Share (ASC 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (ASC 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (a consensus of the FASB Emerging Issues Task Force) (ASU 2021-04)

The amendments in this ASU provide the following guidance for a modification or an exchange of a freestanding equity-classified written call option that is not within the scope of another Topic: (1) treat a modification of the terms or conditions or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as an exchange of the original instrument for a new instrument, (2) measure the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange and (3) recognize the effect of a modification or an exchange of a freestanding equity-classified written call option to compensate for goods or services in accordance with the guidance in ASC 718. In a multiple-element transaction (for example, one that includes both debt financing and equity financing), the total effect of the modification should be allocated to the respective elements in the transaction.

Our adoption of this standard on January 1, 2022 did not have a material impact on our consolidated financial statements.

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

This standard provides for optional expedients and other guidance regarding the accounting related to modifications of contracts, hedging relationships and other transactions affected by the phase-out of certain tenors of the London Inter-bank Offered Rate (LIBOR) by the end of 2021 (or June 30, 2023 for U.S. dollar LIBOR of certain tenors). This guidance is effective upon issuance in March 2020 through December 31, 2022 and allows for retrospective application to contract modifications as early as January 1, 2020. We elected to retrospectively adopt this ASU as of January 1, 2020 which resulted in no immediate impact on our consolidated financial statements. Although we do not have any hedge accounting relationships, many of our debt facilities and loan agreements incorporate LIBOR as the referenced interest rate. Some of these facilities and loan agreements either matured prior to September 30, 2022 or have terms in place that provide for an alternative to LIBOR upon its phase-out.

Accounting Standards Issued but Not Yet Adopted

Business Combinations (ASC 805) - Accounting for Contract Assets and Contract Liabilities (ASU 2021-08)

The amendments in this Update apply to all entities that enter into a business combination within the scope of Subtopic 805-10, Business Combinations— Overall. The amendments in this ASU are issued to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to the following: (1) recognition of an acquired contract liability and (2) payment terms and their effect on subsequent revenue recognized by the acquirer. The amendments in this ASU require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with ASC 606 as if it had originated the contracts. To achieve this, an acquirer may assess how the acquiree applied ASC 606 to determine what to record for the acquired revenue contracts. Generally, this should result in an acquirer recognizing and measuring the acquired contract assets and contract liabilities consistent with how they were recognized and measured in the acquiree’s financial statements (if the acquiree prepared financial statements in accordance with generally accepted accounting principles (GAAP)).

The amendments in this ASU are effective for us on January 1, 2023. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

Note 2 – Securitizations and Variable Interest Entities

We securitize, sell and service forward and reverse residential mortgage loans and regularly transfer financial assets in connection with asset-backed financing arrangements. We have aggregated these transfers of financial assets and asset-backed financing arrangements using special purpose entities (SPEs) or variable interest entities (VIEs) into the following groups: (1) securitizations of residential mortgage loans, (2) financings of loans held for sale, (3) financings of advances and (4) MSR financings. Financing transactions that do not use SPEs or VIEs are disclosed in Note 13 – Borrowings.

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

Securitizations of Residential Mortgage Loans

Transfers of Forward Loans

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Proceeds received from securitizations	\$ 5,227,470	\$ 5,823,765	\$ 12,925,295	\$ 12,220,596
Servicing fees collected (1)	21,577	16,440	67,154	43,968
Purchases of previously transferred assets, net of claims reimbursed	(3,500)	(6,065)	(10,324)	(16,085)
	<u>\$ 5,245,547</u>	<u>\$ 5,834,140</u>	<u>\$ 12,982,125</u>	<u>\$ 12,248,479</u>

- (1) We receive servicing fees based upon the securitized loan balances and certain ancillary fees, all of which are reported in Servicing and subservicing fees in the unaudited consolidated statements of operations.

In connection with these transfers, we retained MSRs of \$70.2 million and \$176.2 million during the three and nine months ended September 30, 2022, respectively, and \$66.4 million and \$136.5 million during the three and nine months ended September 30, 2021, respectively. We securitize forward and reverse residential mortgage loans involving the GSEs and loans insured by the FHA, VA or USDA through Ginnie Mae.

Certain obligations arise from the agreements associated with our transfers of loans. Under these agreements, we may be obligated to repurchase the loans, or otherwise indemnify or reimburse the investor or insurer for losses incurred due to material breach of contractual representations and warranties. We receive customary origination representations and warranties from our network of approved correspondent lenders. To the extent that we have recourse against a third-party originator, we may recover part or all of any loss we incur. Also refer to Note 22 – Contingencies - Loan Put-Back and Related Contingencies.

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

	September 30, 2022	December 31, 2021
Carrying value of assets		
MSRs, at fair value	\$ 510,427	\$ 360,830
Advances	63,396	151,166
UPB of loans transferred (1)	34,060,639	31,864,769
Maximum exposure to loss (2)	<u>\$ 34,634,462</u>	<u>\$ 32,376,765</u>

- (1) Includes \$6.3 billion and \$5.6 billion of loans delivered to Ginnie Mae as of September 30, 2022 and December 31, 2021, respectively, and includes loan modifications repurchased and delivered through the Ginnie Mae Early Buyout Program (EBO).

- (2) The maximum exposure to loss does not take into consideration any recourse available to us, including from the underlying collateral or from correspondent sellers. Also, refer to Loan Put-Back and Related Contingencies in Note 22 – Contingencies.

At September 30, 2022 and December 31, 2021, 2.4% and 3.6%, respectively, of the transferred residential loans that we service were 60 days or more past due, including 60 days or more past due loans under forbearance. This includes 7.7% and 12.0%, respectively, of loans delivered to Ginnie Mae that are 60 days or more past due.

Transfers of Reverse Mortgages

We pool HECM loans into HMBS that we sell into the secondary market with servicing rights retained. We have determined that loan transfers in the HMBS program do not meet the definition of a participating interest and the servicing requirements require the issuer/servicer to absorb some level of interest rate risk, cash flow timing risk and incidental credit risk. As a result, the transfers of the HECM loans do not qualify for sale accounting, and therefore, we account for these transfers as financings. Under this accounting treatment, the HECM loans are classified as Loans held for investment, at fair value, on our unaudited consolidated balance sheets. Holders of participating interests in the HMBS have no recourse against the assets of Ocwen, except with respect to standard representations and warranties and our contractual obligation to service the HECM loans and the HMBS.

Financing of Loans Held for Sale using SPEs

We entered into a warehouse mortgage loan financing facility with a third-party lender involving an SPE (trust). This facility is structured as a gestation repurchase facility whereby Agency mortgage loans are transferred by PMC to the trust for collateralization purposes. We have designed the trust to facilitate the third party financing facility and have determined that the trust is a VIE for which we are the primary beneficiary. Therefore, we have included the trust in our consolidated financial statements. As of September 30, 2022, the certificates issued by the trust that are pledged as collateral have been reduced to zero. See Note 13 – Borrowings.

The table below presents the carrying value and classification of the assets and liabilities of the loans held for sale financing facility:

	September 30, 2022	December 31, 2021
Mortgage loans (Loans held for sale, at fair value)	\$ —	\$ 462,144
Outstanding borrowings (Mortgage loan warehouse facilities)	—	459,344

Financings of Advances using SPEs

Match funded advances, i.e., advances that are pledged as collateral to our advance facilities, result from our transfers of residential loan servicing advances to SPEs in exchange for cash. We consolidate these SPEs because we have determined that we are the primary beneficiary of the SPEs. Through wholly-owned subsidiaries we hold the sole equity interests in the SPEs and service the mortgage loans that generate the advances. These SPEs issue debt supported by collections on the transferred advances, and we refer to this debt as Advance match funded liabilities. Holders of the debt issued by the SPEs have recourse only to the assets of the SPE for satisfaction of the debt.

The table below presents the carrying value and classification of the assets and liabilities of the advance financing facilities:

	September 30, 2022	December 31, 2021
Match funded advances (Advances, net)	\$ 540,142	\$ 587,059
Debt service accounts (Restricted cash)	10,064	7,687
Unamortized deferred lender fees (Other assets)	2,379	1,305
Prepaid interest (Other assets)	477	225
Advance match funded liabilities	456,233	512,297

MSR Financings using SPEs

We established two SPEs (trusts) in connection with a third-party financing facility secured by certain Fannie Mae and Freddie Mac MSRs (Agency MSRs). We determined that the trusts are VIEs for which we are the primary beneficiary. Therefore, we have included the trusts in our consolidated financial statements. We have the power to direct the activities of the VIEs that most significantly impact the VIE's economic performance given that we are the servicer of the Agency MSRs that result in cash flows to the trusts. In addition, we have designed the trusts at inception to facilitate the third-party funding facility under which we have the obligation to absorb the losses of the VIEs that could be potentially significant to the VIEs.

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

	September 30, 2022	December 31, 2021
MSRs pledged (MSRs, at fair value)	\$ 820,382	\$ 630,605
Unamortized deferred lender fees (Other assets)	1,716	1,495
Debt service account (Restricted cash)	103	104
Outstanding borrowings (MSR financing facilities, net)	412,287	317,523

In 2019, we issued Ocwen Excess Spread-Collateralized Notes, Series 2019-PLS1 Class A (PLS Notes) secured by certain of PMC's private label MSRs (PLS MSRs). On March 15, 2022, we replaced the existing PLS Notes with a new series of notes, Ocwen Excess Spread-Collateralized Notes, Series 2022-PLS1 Class A, at an initial principal amount of \$75.0 million. An SPE, PMC PLS ESR Issuer LLC (PLS Issuer), was established in this connection as a wholly owned subsidiary of PMC. Ocwen guarantees the obligations of PLS Issuer under the facility.

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

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

	September 30, 2022	December 31, 2021
MSRs pledged (MSRs, at fair value)	\$ 129,586	\$ 99,833
Debt service account (Restricted cash)	1,692	1,968
Outstanding borrowings (MSR financing facilities, net)	61,752	41,663
Unamortized debt issuance costs (MSR financing facilities, net)	884	413

Note 3 – Fair Value

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

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

	Level	September 30, 2022		December 31, 2021	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets					
Loans held for sale					
Loans held for sale, at fair value (a) (e)	3, 2	\$ 725,218	\$ 725,218	\$ 917,534	\$ 917,534
Loans held for sale, at lower of cost or fair value (b)	3	4,420	4,420	10,993	10,993
Total Loans held for sale		<u>\$ 729,638</u>	<u>\$ 729,638</u>	<u>\$ 928,527</u>	<u>\$ 928,527</u>

	Level	September 30, 2022		December 31, 2021	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Loans held for investment					
Loans held for investment - Reverse mortgages (a)	3	\$ 7,395,483	\$ 7,395,483	\$ 7,199,762	\$ 7,199,762
Loans held for investment - Restricted for securitization investors (a)	3	6,802	6,802	7,879	7,879
Total loans held for investment		<u>\$ 7,402,285</u>	<u>\$ 7,402,285</u>	<u>\$ 7,207,641</u>	<u>\$ 7,207,641</u>
Advances, net (c)	3	\$ 642,461	\$ 642,461	\$ 772,433	\$ 772,433
Receivables, net (c)	3	170,838	170,838	180,707	180,707
Mortgage-backed securities (a)	3	—	—	1	1
Corporate bonds (a)	2	211	211	211	211
Financial liabilities:					
Advance match funded liabilities (c)	3	\$ 457,452	\$ 457,452	\$ 512,297	\$ 511,994
Financing liabilities:					
HMBS-related borrowings (a)	3	\$ 7,208,385	\$ 7,208,385	\$ 6,885,022	\$ 6,885,022
Other financing liabilities					
Financing liability -Transferred MSR liability (a)	3	\$ 946,619	\$ 946,619	\$ 797,084	\$ 797,084
Financing liability - Excess Servicing Spread (ESS) (a)	3	36,301	36,301	—	—
Financing liability - Owed to securitization investors (a)	3	6,802	6,802	7,879	7,879
Total Other financing liabilities		<u>\$ 989,722</u>	<u>\$ 989,722</u>	<u>\$ 804,963</u>	<u>\$ 804,963</u>
Mortgage loan warehouse facilities (c)	3	819,557	819,557	1,085,076	1,085,076
MSR financing facilities (c) (d)	3	1,020,606	999,022	900,760	873,820
Senior notes:					
PMC Senior secured notes due 2026 (c) (d)	2	\$ 369,007	\$ 325,736	\$ 392,555	\$ 413,472
OFC Senior secured notes due 2027 (c) (d)	3	228,122	218,647	222,242	261,455
Total Senior notes		<u>\$ 597,129</u>	<u>\$ 544,383</u>	<u>\$ 614,797</u>	<u>\$ 674,927</u>
Derivative financial instrument assets (liabilities), net					
Interest rate lock commitments (IRLCs) (a)	3	\$ (12,190)	\$ (12,190)	\$ 18,085	\$ 18,085
Forward trades - Reverse Loans (a)	2	87	87	364	364
TBA / Forward mortgage-backed securities (MBS) trades (a)	1	21,769	21,769	(240)	(240)
Interest rate swap futures (a)	1	(7,274)	(7,274)	1,734	1,734
Option contracts (a)	2	(1,172)	(1,172)	(277)	(277)
Other (a)	3	(164)	(164)	(1,070)	(1,070)
MSRs (a)	3	\$ 2,714,225	\$ 2,714,225	\$ 2,250,147	\$ 2,250,147

(a) Measured at fair value on a recurring basis.

(b) Measured at fair value on a non-recurring basis.

(c) Disclosed, but not measured, at fair value.

(d) The carrying values are net of unamortized debt issuance costs and discount. See Note 13 – Borrowings for additional information.

(e) Loans repurchased from Ginnie Mae securitizations with a fair value of \$30.5 million and \$220.9 million at September 30, 2022 and December 31, 2021, respectively, are classified as Level 3. The remaining balance of loans held for sale at fair value is classified as Level 2.

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

	Loans Held for Investment - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Loans Held for Sale - Fair Value	ESS Financing Liability	IRLCs
Three months ended September 30, 2022					
Beginning balance	\$ 7,289	\$ (7,289)	\$ 41,363	\$ —	\$ 5,746
Purchases, issuances, sales and settlements					
Purchases	—	—	9,478	—	—
Issuances (1)	—	—	—	(36,241)	50,912
Sales	—	—	(16,569)	—	—
Settlements	(487)	487	—	644	—
Transfers (to) from:					
Loans held for sale, at fair value (1)	—	—	—	—	17,643
Receivables, net	—	—	(1,581)	—	—
	(487)	487	(8,672)	(35,597)	68,555
Change in fair value included in earnings (1)	—	—	(2,171)	(704)	(86,491)
Ending balance	\$ 6,802	\$ (6,802)	\$ 30,520	\$ (36,301)	\$ (12,190)

	Loans Held for Investment - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Loans Held for Sale - Fair Value	Mortgage- Backed Securities	IRLCs
Three months ended September 30, 2021					
Beginning balance	\$ 8,680	\$ (8,680)	\$ 138,842	\$ 1,607	\$ 17,437
Purchases, issuances, sales and settlements					
Purchases	—	—	136,996	—	—
Issuances (1)	—	—	—	—	184,995
Sales	—	—	(64,032)	—	—
Settlements	(676)	676	—	—	—
Transfers (to) from:					
Loans held for sale, at fair value (1)	—	—	—	—	(182,783)
Receivables, net	—	—	(558)	—	—
	(676)	676	72,406	—	2,212
Change in fair value included in earnings (1)	—	—	(496)	11	(5,619)
Ending balance	<u>\$ 8,004</u>	<u>\$ (8,004)</u>	<u>\$ 210,752</u>	<u>\$ 1,618</u>	<u>\$ 14,030</u>

	Loans Held for Investment - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Loans Held for Sale - Fair Value	ESS Financing Liability	IRLCs
Nine Months Ended September 30, 2022					
Beginning balance	\$ 7,879	\$ (7,879)	\$ 220,940	\$ —	\$ 18,085
Purchases, issuances, sales and settlements					
Purchases	—	—	127,715	—	—
Issuances (1)	—	—	—	(36,241)	212,764
Sales	—	—	(308,181)	—	—
Settlements	(1,077)	1,077	—	644	—
Transfers (to) from:					
Loans held for sale, at fair value (1)	—	—	—	—	(36,220)
Receivables, net	—	—	(3,350)	—	—
	(1,077)	1,077	(183,816)	(35,597)	176,544
Change in fair value included in earnings (1)	—	—	(6,604)	(704)	(206,819)
Ending balance	<u>\$ 6,802</u>	<u>\$ (6,802)</u>	<u>\$ 30,520</u>	<u>\$ (36,301)</u>	<u>\$ (12,190)</u>

	Loans Held for Investment - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Loans Held for Sale - Fair Value	Mortgage-backed Securities	IRLCs
Nine Months Ended September 30, 2021					
Beginning balance	\$ 9,770	\$ (9,770)	\$ 51,072	\$ 2,019	\$ 22,706
Purchases, issuances, sales and settlements					
Purchases	—	—	303,117	—	—
Issuances (1)	—	—	—	—	446,751
Sales	—	—	(135,088)	—	—
Settlements	(1,766)	1,766	—	—	—
Transfers (to) from:					
Loans held for sale, at fair value (1)	—	—	—	—	(425,169)
Other assets	—	—	(377)	—	—
Receivables, net	—	—	(1,113)	—	—
	(1,766)	1,766	166,539	—	21,582
Change in fair value included in earnings (1)	—	—	(6,859)	(401)	(30,258)
Ending balance	\$ 8,004	\$ (8,004)	\$ 210,752	\$ 1,618	\$ 14,030

(1) IRLC activity (issuances and transfers) represent changes in fair value included in earnings. This activity is presented on a gross basis in the table for disclosure purposes. Total net change in fair value included in earnings attributed to IRLCs is a gain (loss) of \$(17.9) million and \$(30.3) million for the three and nine months ended September 30, 2022, respectively, and \$(3.4) million and \$(8.7) million for the three and nine months ended September 30, 2021, respectively. See Note 16 – Derivative Financial Instruments and Hedging Activities.

A reconciliation from the beginning balances to the ending balances of Loans Held for Investment and HMBS-related borrowings, MSRs and Pledged liabilities that we measure at fair value on a recurring basis is disclosed in Note 5 - Reverse Mortgages, Note 7 – Mortgage Servicing and Note 8 — MSR Transfers Not Qualifying for Sale Accounting, respectively.

During the nine months ended September 30, 2022, there have been no changes to the methodologies that we use in estimating fair values or classifications under the valuation hierarchy as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021. The significant unobservable assumptions that we make to estimate the fair value of significant assets and liabilities classified as Level 3 and measured at fair value on a recurring or non-recurring basis are provided below.

Loans Held for Sale

The fair value of loans we purchased from Ginnie Mae guaranteed securitizations is estimated using both observable and unobservable inputs, including published forward Ginnie Mae prices or existing sale contracts, as well as estimated default, prepayment, and discount rates. The significant unobservable input in estimating fair value is the estimated default rate. Accordingly, these repurchased Ginnie Mae loans are classified as Level 3 within the valuation hierarchy.

Loans Held for Investment - Reverse Mortgages

Reverse mortgage loans held for investment are carried at fair value and classified as Level 3 within the valuation hierarchy. Significant unobservable assumptions include conditional prepayment rate and discount rate. The conditional prepayment rate assumption displayed in the table below is inclusive of voluntary (repayment or payoff) and involuntary (inactive/delinquent status and default) prepayments. The discount rate assumption is primarily based on an assessment of current market yields on reverse mortgage loan and tail securitizations, expected duration of the asset and current market interest rates.

Significant unobservable assumptions	September 30,	December 31,
	2022	2021
Life in years		
Range	0.4 to 7.2	1.0 to 8.2
Weighted average	4.8	5.7
Conditional prepayment rate, including voluntary and involuntary prepayments		
Range	13.0% to 48.1%	11.2% to 36.6%
Weighted average	18.7 %	16.0 %
Discount rate	5.1 %	2.6 %

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

MSRs

MSRs are carried at fair value and classified within Level 3 of the valuation hierarchy. The fair value is equal to the fair value mark provided by the third-party valuation experts, without adjustment, except in the event we have a potential or completed sale, including transactions where we have executed letters of intent, in which case the fair value of the MSRs is recorded at the estimated sale price.

A change in the valuation inputs or assumptions may result in a significantly higher or lower fair value measurement. Changes in market interest rates predominantly impact the fair value of Agency MSRs via prepayment speeds by altering the borrower refinance incentive and the non-Agency MSRs due to the impact on advance funding costs. The significant unobservable assumptions used in the valuation of these MSRs include prepayment speeds, delinquency rates, cost to service and discount rates.

Significant unobservable assumptions	September 30, 2022		December 31, 2021	
	Agency	Non-Agency	Agency	Non-Agency
Weighted average prepayment speed	6.6 %	9.3 %	8.5 %	12.1 %
Weighted average lifetime delinquency rate	1.4 %	10.3 %	1.2 %	11.9 %
Weighted average discount rate	9.1 %	10.6 %	8.5 %	11.2 %
Weighted average cost to service (in dollars)	\$ 72	\$ 193	\$ 71	\$ 205

Because the mortgages underlying these MSRs permit the borrowers to prepay the loans, the value of the MSRs generally tends to diminish in periods of declining interest rates, an improving housing market or expanded product availability (as prepayments increase) and increase in periods of rising interest rates, a deteriorating housing market or reduced product availability (as prepayments decrease). The following table summarizes the estimated change in the value of the MSRs as of September 30, 2022 given hypothetical increases in lifetime prepayments and yield assumptions:

Adverse change in fair value	10%	20%
Weighted average prepayment speeds	\$ (60,457)	\$ (118,162)
Weighted average discount rate	(76,572)	(147,150)

Financing Liabilities

HMBS-Related Borrowings

HMBS-related borrowings are carried at fair value and classified as Level 3 within the valuation hierarchy. These borrowings are not actively traded, and therefore, quoted market prices are not available.

Significant unobservable assumptions include yield spread and discount rate. The yield spread and discount rate assumption for these liabilities are primarily based on an assessment of current market yields for newly issued HMBS, expected duration and current market interest rates.

Significant unobservable assumptions	September 30, 2022	December 31, 2021
Life in years		
Range	0.4 to 7.2	1.0 to 8.2
Weighted average	4.8	5.7
Conditional prepayment rate		
Range	13.0% to 48.1%	11.2% to 36.6%
Weighted average	18.7 %	16.0 %
Discount rate	5.0 %	2.5 %

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

Pledged MSR Liabilities

Pledged MSR liabilities are carried at fair value and classified as Level 3 within the valuation hierarchy. We determine the fair value of the pledged MSR liability consistent with the prices provided by third-party valuation experts for the related MSR, considering retained cash flows.

Significant unobservable assumptions	September 30, 2022	December 31, 2021
Weighted average prepayment speed	8.5 %	10.9 %
Weighted average delinquency rate	7.2 %	8.8 %
Weighted average discount rate	10.1 %	10.5 %
Weighted average cost to service (in dollars)	\$ 169	\$ 182

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

ESS Financing Liability

The Excess Servicing Spread (ESS) financing liability consists of the obligation to remit to a third party a specified percentage of future servicing fee collections on a reference pool of GSE mortgage loans, which we are entitled to as owner of the related MSRs. We have elected to carry the ESS Financing liability at fair value and have classified it as Level 3 within the valuation hierarchy. The fair value represents the net present value of the excess servicing spread cash flows, consistent with the valuation model, inputs and assumptions of the underlying MSR, as applicable. The significant unobservable assumptions used in the valuation of the ESS financing liability include prepayment speeds, delinquency rates, and discount rates. Refer to MSRs above for description of significant unobservable assumptions. Also see Note 12 - Other Financing Liabilities.

Derivative Financial Instruments

IRLCs are classified as Level 3 assets as fallout rates were determined to be significant unobservable assumptions.

Note 4 – Loans Held for Sale

Loans Held for Sale - Fair Value	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Beginning balance	\$ 683,140	\$ 680,866	\$ 917,534	\$ 366,364
Originations and purchases	5,334,747	6,366,795	13,489,346	12,987,522
Proceeds from sales	(5,191,548)	(6,098,495)	(13,365,766)	(12,362,149)
Principal collections	(60,653)	(22,334)	(155,884)	(39,037)
Transfers from (to):				
Loans held for investment, at fair value	10,807	1,220	30,437	2,898
Receivables, net	28,884	(7,625)	61,095	(25,151)
REO (Other assets)	(649)	(1,767)	(673)	(5,312)
Gain (loss) on sale of loans	(62,148)	1,793	(248,751)	(13,006)
Capitalization of advances on Ginnie Mae modifications	2,585	7,334	15,698	14,625
Increase (decrease) in fair value of loans	(22,064)	(5,336)	(23,493)	(6,025)
Other	2,117	(830)	5,675	892
Ending balance (1)	<u>\$ 725,218</u>	<u>\$ 921,621</u>	<u>\$ 725,218</u>	<u>\$ 921,621</u>

(1) At September 30, 2022 and 2021, the balances include \$(27.8) million and \$(9.3) million, respectively, of fair value adjustments.

Loans Held for Sale - Lower of Cost or Fair Value	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Beginning balance - before Valuation Allowance	\$ 8,138	\$ 20,278	\$ 15,365	\$ 27,652
Proceeds from sales	—	(2,916)	(5,160)	(9,583)
Principal collections	(156)	(415)	(776)	(629)
Transfers from (to):				
Receivables, net	105	(444)	(1,087)	(1,160)
REO (Other assets)	—	(22)	(358)	(567)
Gain on sale of loans	—	35	4	549
Other	81	144	180	398
Ending balance - before Valuation Allowance	<u>8,168</u>	<u>16,661</u>	<u>8,168</u>	<u>16,661</u>
Beginning balance - Valuation Allowance	\$ (3,813)	\$ (5,124)	\$ (4,372)	\$ (6,180)
(Provision for) reversal of valuation allowance	44	602	81	1,582
Transfer to Liability for indemnification obligations (Other liabilities)	21	(60)	543	16
Ending balance - Valuation Allowance	<u>(3,748)</u>	<u>(4,582)</u>	<u>(3,748)</u>	<u>(4,582)</u>
Ending balance, net	<u>\$ 4,420</u>	<u>\$ 12,079</u>	<u>\$ 4,420</u>	<u>\$ 12,079</u>

Gain (Loss) on Loans Held for Sale, Net	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Gain (loss) on sales of loans, net				
MSRs retained on transfers of forward mortgage loans	\$ 70,225	\$ 66,420	\$ 176,190	\$ 136,482
Gain (loss) on sale of forward mortgage loans (1) (2)	(59,814)	(2,601)	(222,408)	(25,440)
Gain (loss) on sale of repurchased Ginnie Mae loans (1)(3)	(116)	3,962	(9,780)	12,277
	10,294	67,781	(55,998)	123,319
Change in fair value of IRLCs	(17,687)	(4,135)	(28,854)	(9,225)
Change in fair value of loans held for sale	(21,160)	(3,491)	(20,798)	(3,323)
Gain (loss) on economic hedge instruments (4)	48,389	780	124,613	592
Other	(906)	(1,233)	(2,299)	(3,227)
	\$ 18,931	\$ 59,702	\$ 16,665	\$ 108,136

(1) Realized gain (loss) on sale of loans, excluding retained MSR.

(2) Includes \$22.5 million gain in the three and nine months ended September 30, 2021 related to loans purchased through the exercise of our servicer call rights with respect to certain Non-Agency trusts and sold, servicing released.

(3) Activity for the nine months ended September 30, 2022 includes an \$8.8 million loss during the three months ended June 30, 2022 on certain delinquent and aged loans repurchased in connection with the Ginnie Mae EBO program with an aggregated UPB of \$299.7 million, net of the associated MSR fair value adjustment.

(4) Excludes gains of \$2.0 million and \$15.4 million during the three and nine months ended September 30, 2022, respectively, and \$1.5 million and \$25.5 million during the three and nine months ended September 30, 2021, respectively, on inter-segment economic hedge derivatives presented within MSR valuation adjustments, net. Third-party derivatives are hedging the net exposure of MSR and pipeline, and the change in fair value of derivatives are reported within MSR valuation adjustments, net. Inter-segment derivatives are established to transfer risk and allocate hedging gains/losses to the pipeline separately from the MSR portfolio. Refer to Note 19 – Business Segment Reporting.

Note 5 - Reverse Mortgages

	Three Months Ended September 30,			
	2022		2021	
	Loans Held for Investment - Reverse Mortgages	HMBS - Related Borrowings (2)	Loans Held for Investment - Reverse Mortgages	HMBS - Related Borrowings (2)
Beginning balance	\$ 7,376,527	\$ (7,155,251)	\$ 7,112,273	\$ (6,823,911)
Originations	349,095	—	494,330	—
Securitization of HECM loans accounted for as a financing	—	(357,741)	—	(452,262)
Additional proceeds from securitization of HECM loans and tails	—	(7,822)	—	(7,751)
Repayments (principal payments received)	(326,320)	326,323	(449,236)	446,277
Transfers to:				
Loans held for sale, at fair value	(6,541)	—	(1,220)	—
Receivables, net	(16,727)	—	(84)	—
Other assets	(108)	—	(121)	—
Change in fair value included in earnings (3)	19,557	(13,894)	(55,216)	55,083
Ending balance	<u>\$ 7,395,483</u>	<u>\$ (7,208,385)</u>	<u>\$ 7,100,726</u>	<u>\$ (6,782,564)</u>
Securitized loans (pledged to HMBS-Related Borrowings)	\$ 7,267,982	\$ (7,208,385)	\$ 6,874,025	\$ (6,782,564)
Unsecuritized loans	127,501		226,701	
Total	<u>\$ 7,395,483</u>		<u>\$ 7,100,726</u>	

	Nine Months Ended September 30,			
	2022		2021	
	Loans Held for Investment - Reverse Mortgages	HMBS - Related Borrowings (2)	Loans Held for Investment - Reverse Mortgages	HMBS - Related Borrowings (2)
Beginning balance	\$ 7,199,762	\$ (6,885,022)	\$ 6,997,127	\$ (6,772,711)
Originations	1,493,951	—	1,214,772	—
Securitization of HECM loans accounted for as a financing (incl. realized fair value changes)	—	(1,507,617)	—	(1,119,742)
Additional proceeds from securitization of HECM loans and tails	—	(30,124)	—	(34,918)
Acquisition (1)	211,258	(209,057)	—	—
Repayments (principal payments received)	(1,321,442)	1,319,811	(1,170,245)	1,161,609
Transfers to:				
Loans held for sale, at fair value	(26,187)	—	(2,898)	—
Receivables, net	(66,121)	—	(169)	—
REO (Other assets)	(240)	—	(316)	—
Change in fair value (3)	(95,498)	103,624	62,455	(16,802)
Ending balance	<u>\$ 7,395,483</u>	<u>\$ (7,208,385)</u>	<u>\$ 7,100,726</u>	<u>\$ (6,782,564)</u>

(1) During the three months ended March 31, 2022, we purchased a reverse mortgage servicing portfolio of HECM loans securitized in Ginnie Mae pools. As the Ginnie Mae HMBS program does not qualify for sale accounting, the transaction conveyed the HECM loans and associated HMBS-related borrowings to us. We have accounted for this transaction as a secured financing, as a purchase of loans held for investment and assumption of an HMBS securitization liability for the obligation to Ginnie Mae.

(2) Represents amounts due to the holders of beneficial interests in Ginnie Mae guaranteed HMBS that did not qualify for sale accounting treatment of HECM loans. Under this accounting treatment, the HECM loans securitized with Ginnie Mae remain on our consolidated balance sheets and the proceeds from the sale are recognized as a financing liability, which is recorded at fair value consistent with the

related HECM loans. The beneficial interests in Ginnie Mae guaranteed HMBS have no maturity dates, and the borrowings mature as the related loans are repaid. The interest rate is the pass-through rate of the loans less applicable margin. See Note 2 – Securitizations and Variable Interest Entities

(3) See further breakdown in the table below.

Reverse Mortgage Revenue, net	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Gain on new originations (1)	\$ 9,299	\$ 12,900	\$ 42,642	\$ 46,170
Change in fair value of securitized loans held for investment and HMBS-related borrowings, net	(3,636)	(13,033)	(34,517)	(517)
Change in fair value included in earnings, net (2)	5,663	(133)	8,125	45,653
Loan fees and other	1,222	5,168	9,254	10,509
	<u>\$ 6,885</u>	<u>\$ 5,035</u>	<u>\$ 17,379</u>	<u>\$ 56,162</u>

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

(2) See breakdown between loans held-for-investment and HMBS - related borrowings in the table above.

Note 6 – Advances

	September 30, 2022	December 31, 2021
Principal and interest	\$ 224,684	\$ 228,041
Taxes and insurance	279,502	381,025
Foreclosures, bankruptcy, REO and other	144,473	170,385
	648,660	779,451
Allowance for losses	(6,199)	(7,018)
Advances, net	<u>\$ 642,461</u>	<u>\$ 772,433</u>

The following table summarizes the activity in net advances:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Beginning balance - before Allowance for Losses	\$ 653,768	\$ 768,864	\$ 779,451	\$ 834,512
Acquisition of advances in connection with the purchase of MSRs	—	—	—	4,495
New advances	153,193	181,567	540,467	565,284
Sales of advances	(1,643)	(80)	(2,473)	(328)
Collections of advances and other (1)	(156,658)	(204,078)	(668,785)	(657,690)
Ending balance - before Allowance for Losses	<u>648,660</u>	<u>746,273</u>	<u>648,660</u>	<u>746,273</u>
Beginning balance - Allowance for Losses	\$ (6,601)	\$ (6,891)	\$ (7,018)	\$ (6,273)
Provision expense	(1,965)	(1,581)	(5,841)	(5,478)
Net charge-offs and other	2,368	1,795	6,661	5,074
Ending balance - Allowance for Losses	<u>(6,199)</u>	<u>(6,677)</u>	<u>(6,199)</u>	<u>(6,677)</u>
Ending balance, net	<u>\$ 642,461</u>	<u>\$ 739,596</u>	<u>\$ 642,461</u>	<u>\$ 739,596</u>

(1) Activity for the nine months ended September 30, 2022 includes \$22.6 million tax, insurance and other advances transferred during the three months ended June 30, 2022 on the repurchase of certain delinquent and aged loans in connection with the Ginnie Mae EBO program. See Note 4 – Loans Held for Sale.

Note 7 – Mortgage Servicing

MSRs – At Fair Value	Three Months Ended September 30,					
	2022			2021		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	\$ 1,816,604	\$ 669,075	\$ 2,485,679	\$ 1,408,420	\$ 664,098	\$ 2,072,518
Sales of MSRs	3	—	3	—	—	—
Additions:						
Recognized on the sale of residential mortgage loans	70,225	—	70,225	66,420	—	66,420
Purchase of MSRs	75,461	—	75,461	36,153	—	36,153
Servicing transfers and adjustments (1)	(39,052)	(83)	(39,135)	17	(4,723)	(4,706)
Changes in fair value:						
Changes in valuation inputs or assumptions	99,099	91,546	190,645	6,983	67,836	74,819
Realization of expected cash flows	(46,891)	(21,762)	(68,653)	(38,186)	(30,758)	(68,944)
Ending balance	<u>\$ 1,975,449</u>	<u>\$ 738,776</u>	<u>\$ 2,714,225</u>	<u>\$ 1,479,807</u>	<u>\$ 696,453</u>	<u>\$ 2,176,260</u>

MSRs – At Fair Value	Nine Months Ended September 30,					
	2022			2021		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	\$ 1,571,837	\$ 678,310	\$ 2,250,147	\$ 578,957	\$ 715,860	\$ 1,294,817
Sales of MSRs	(149,336)	(24)	(149,360)	—	—	—
Additions:						
Recognized on the sale of residential mortgage loans	176,190	—	176,190	136,482	—	136,482
Purchase of MSRs	159,123	—	159,123	806,469	—	806,469
Servicing transfers and adjustments (1)	(24,331)	(907)	(25,238)	73	(6,913)	(6,841)
Changes in fair value:						
Changes in valuation inputs or assumptions	379,530	132,888	512,418	47,132	73,306	120,438
Realization of expected cash flows	(137,564)	(71,491)	(209,055)	(89,306)	(85,800)	(175,106)
Ending balance	<u>\$ 1,975,449</u>	<u>\$ 738,776</u>	<u>\$ 2,714,225</u>	<u>\$ 1,479,807</u>	<u>\$ 696,453</u>	<u>\$ 2,176,260</u>

(1) Servicing transfers and adjustments for the three months ended September 30, 2022 include a \$39.0 million derecognition of MSRs previously sold to MAV in a transaction which did not qualify for sale accounting treatment. We derecognized the MSRs with a UPB of \$2.9 billion from our balance sheet upon the sale of the MSRs by MAV to a third party in the three months ended September 30, 2022. See Note 8 — MSR Transfers Not Qualifying for Sale Accounting for further information.

The following table summarizes delinquency status of the loans underlying our MSRs:

Delinquent loans	September 30, 2022			December 31, 2021		
	Agency	Non - Agency	Total	Agency	Non - Agency	Total
30 days	1.5 %	7.6 %	4.3 %	1.4 %	7.2 %	4.1 %
60 days	0.4	2.9	1.5	0.4	2.8	1.6
90 days or more	1.2	8.2	4.4	1.9	8.0	4.8
Total 30-60-90 days or more	<u>3.1 %</u>	<u>18.7 %</u>	<u>10.2 %</u>	<u>3.7 %</u>	<u>18.0 %</u>	<u>10.5 %</u>

MSR UPB and Fair Value

	September 30, 2022		December 31, 2021		September 30, 2021	
	Fair Value	UPB	Fair Value	UPB	Fair Value	UPB
Owned MSRs	\$ 1,742,978	\$ 123,440,335	\$ 1,422,546	\$ 127,919,800	\$ 1,457,347	\$ 136,316,900
Rithm transferred MSRs (1) (2)	604,654	48,354,675	558,940	53,652,843	574,020	56,141,289
MAV transferred MSRs (1)	366,593	26,194,483	268,661	24,018,904	144,893	13,570,892
Total	\$ 2,714,225	\$ 197,989,493	\$ 2,250,147	\$ 205,591,547	\$ 2,176,260	\$ 206,029,081

(1) MSRs subject to sale agreements with Rithm and MAV that do not meet sale accounting criteria. During the nine months ended September 30, 2022, we transferred MSRs with a UPB of \$7.1 billion to MAV. See Note 8 — MSR Transfers Not Qualifying for Sale Accounting.

(2) At September 30, 2022, the UPB of MSRs transferred to Rithm for which title is retained by Ocwen was \$11.0 billion and the UPB of MSRs transferred to Rithm for which title has passed was \$37.3 billion.

We purchased MSRs with a UPB of \$13.7 billion and \$72.2 billion from unrelated third-parties during the nine months ended September 30, 2022 and 2021, respectively. We sold MSRs, service released, with a UPB of \$11.1 billion and \$18.0 million during the nine months ended September 30, 2022 and 2021, respectively, to unrelated third parties.

Servicing Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Loan servicing and subservicing fees				
Servicing	\$ 83,348	\$ 103,094	\$ 252,773	\$ 246,363
Subservicing	18,858	2,867	53,890	8,971
MAV (1)	19,275	1,575	54,735	1,575
Rithm (1)	63,362	75,034	195,237	233,135
	184,844	182,570	556,635	490,044
Ancillary income				
Late charges	10,559	10,656	32,317	31,335
Reverse subservicing ancillary fees	4,918	—	14,308	—
Recording fees	1,819	3,726	7,693	10,579
Loan collection fees	2,644	2,858	8,463	8,568
Boarding and deboarding fees	769	1,627	4,394	6,830
Custodial accounts (float earnings)	7,521	1,234	10,307	3,547
GSE forbearance fees	219	262	583	1,334
Other, net	2,268	3,652	8,616	10,525
	30,718	24,016	86,681	72,720
Total Servicing and subservicing fees	\$ 215,562	\$ 206,585	\$ 643,316	\$ 562,764

(1) Includes servicing fees related to transferred MSRs and subservicing fees. See Note 8 — MSR Transfers Not Qualifying for Sale Accounting.

Float balances (balances in custodial accounts, which represent collections of principal and interest that we receive from borrowers on behalf of investors) are held in escrow by unaffiliated banks and are excluded from our unaudited consolidated balance sheets. Float balances amounted to \$2.0 billion, \$2.1 billion and \$3.3 billion at September 30, 2022, December 31, 2021 and September 30, 2021, respectively.

Note 8 — MSR Transfers Not Qualifying for Sale Accounting

MSRs transferred or sold in transactions which do not qualify for sale accounting treatment are accounted for as secured financings. Until such time as the transaction qualifies as a sale for accounting purposes, we continue to recognize the MSRs and related financing liability on our unaudited consolidated balance sheets, as well as the full amount of servicing fee collected

as revenue and the servicing fee remitted as Pledged MSR liability expense in our unaudited consolidated statements of operations. In addition, changes in fair value of the transferred MSRs are recognized in MSR valuation adjustments, net in the unaudited consolidated statements of operations, while changes in fair value of the related MSR financing liability are reported in Pledged MSR liability expense.

In 2021 and 2022, PMC entered into agreements to sell MSR portfolios to MAV on a bulk and flow basis. In each such agreement, PMC has been retained as subservicer for the sold portfolio in accordance with the terms of the subservicing agreement entered into on May 3, 2021. The transactions do not qualify for sale accounting treatment predominantly due to the termination restrictions of the subservicing agreement. See Note 10 - Investment in Equity Method Investee and Related Party Transactions.

Starting in 2012, Ocwen entered into agreements to sell MSRs or Rights to MSRs and the related servicing advances to Rithm (formerly NRZ), and in all cases have been retained by Rithm as subservicer. In May 2022, Ocwen entered into amendments to the subservicing agreements to extend their terms to December 31, 2023 and establish a process for subsequent term extensions. In addition, the amendments provide for a modification of the sharing of some ancillary income between PMC and Rithm. Due to the length of the non-cancellable term of the subservicing agreements, the transactions do not qualify for sale accounting treatment which results in such transactions being accounted for as secured financings. In the case of Rights to MSRs transactions with Rithm, legal title was retained by Ocwen, causing the transactions to be accounted for as secured financings.

The following tables present the activity of the pledged MSR liability recorded in connection with the MSR transfer agreements with Rithm and MAV that do not qualify for sale accounting.

Pledged MSR Liability	Three Months Ended September 30,					
	2022			2021		
	Original Rights to MSRs Agreements - Rithm	MAV Agreements (2)	Total	Original Rights to MSRs Agreements - Rithm	MAV Agreements (2)	Total
Beginning Balance	\$ 550,808	\$ 355,530	\$ 906,338	\$ 535,571	\$ —	\$ 535,571
MSR transfers	—	13,420	13,420	—	132,003	132,003
Changes in fair value	71,072	18,533	89,605	63,762	(2,433)	61,329
Runoff and settlement	(17,142)	(9,592)	(26,735)	(21,100)	(683)	(21,783)
Derecognition of financing liability(3)	—	(35,925)	(35,925)	—	—	—
Calls (1)	(84)	—	(84)	(4,213)	—	(4,213)
Ending Balance	<u>\$ 604,654</u>	<u>\$ 341,965</u>	<u>\$ 946,619</u>	<u>\$ 574,020</u>	<u>\$ 128,887</u>	<u>\$ 702,907</u>

Pledged MSR Liability	Nine Months Ended September 30,					
	2022			2021		
	Original Rights to MSRs Agreements - Rithm	MAV Agreements (2)	Total	Original Rights to MSRs Agreements - Rithm	MAV Agreements (2)	Total
Beginning Balance	\$ 558,940	\$ 238,144	\$ 797,085	\$ 566,952	\$ —	\$ 566,952
MSR transfers	—	84,921	84,921	—	132,003	132,003
Changes in fair value (4)	102,606	82,329	184,935	73,706	(2,433)	71,273
Runoff and settlement	(56,249)	(27,504)	(83,753)	(59,626)	(683)	(60,309)
Derecognition of financing liability(3)	—	(35,925)	(35,925)	—	—	—
Calls (1)	(643)	—	(643)	(7,012)	—	(7,012)
Ending Balance	<u>\$ 604,654</u>	<u>\$ 341,965</u>	<u>\$ 946,619</u>	<u>\$ 574,020</u>	<u>\$ 128,887</u>	<u>\$ 702,907</u>

- (1) Represents the carrying value of MSRs in connection with call rights exercised by Rithm, or by Ocwen at Rithm's direction. Ocwen derecognizes the MSRs and the related financing liability upon collapse of the securitization.
- (2) The fair value of the Pledged MSR liability differs from the fair value of the associated transferred MSR asset mostly due to the portion of ancillary income that is retained by PMC (shared between PMC and MAV) and other contractual cash flows under the terms of the

subservicing agreement. As the MSR sales to MAV do not achieve sale accounting, the MSR asset transferred remains on the consolidated balance sheet and the proceeds from the sale are initially recognized as a financing liability (Pledged MSR liability), which is recorded at fair value with changes in fair value reported in Pledged MSR liability expense.

- (3) During the three months ended September 30, 2022, we derecognized a portion of the MAV Pledged MSR liability upon sale of the related MSRs by MAV to a third party with a UPB of \$2.9 billion.
- (4) The changes in fair value of the MAV Pledged MSR Liability in the nine months ended September 30, 2022 include a \$14.1 million loss associated with the amendment to the MAV Subservicing Agreement in March 2022, resulting in lower contractually retained ancillary income by PMC. See Note 10 - Investment in Equity Method Investee and Related Party Transactions.

The following table presents selected assets and liabilities recorded on our unaudited consolidated balance sheets in connection with the MSR transfer agreements with Rithm that do not qualify for sale accounting (refer to Note 9 – Receivables and Note 14 – Other Liabilities for receivables and other liabilities, respectively, related to MAV):

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Balance Sheet		
Rithm - Transferred MSRs, at fair value	\$ 604,654	\$ 558,940
Other financing liability - Pledged MSR liability, at fair value		
Rithm - Original Rights to MSRs Agreements	604,654	558,940
Due from Rithm (Receivables) - Advance funding, subservicing fees and reimbursable expenses	2,245	3,781
Due to Rithm (Other liabilities)	\$ 80,438	\$ 76,590

The following tables present selected items in our unaudited consolidated statements of operations in connection with the MSR transfer agreements with Rithm and MAV that do not qualify for sale accounting.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Statements of Operations				
Servicing fees				
Servicing fees collected on behalf of Rithm	\$ 63,362	\$ 75,034	\$ 195,237	\$ 233,135
Servicing fees collected on behalf of MAV	17,844	1,001	51,048	1,001
	<u>\$ 81,205</u>	<u>\$ 76,035</u>	<u>\$ 246,284</u>	<u>\$ 234,136</u>
Pledged MSR liability expense				
Rithm (see further details below)	\$ 102,790	\$ 93,253	\$ 188,414	\$ 170,914
MAV (see further details below)	28,845	(2,094)	104,202	(2,094)
	<u>\$ 131,635</u>	<u>\$ 91,160</u>	<u>\$ 292,616</u>	<u>\$ 168,820</u>

<i>Rithm Pledged MSR liability expense:</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Servicing fees collected on behalf of Rithm	\$ 63,362	\$ 75,034	\$ 195,237	\$ 233,135
Less: Subservicing fee retained by Ocwen	17,828	21,475	55,966	67,987
Net servicing fees remitted to Rithm	45,534	53,559	139,271	165,148
Less: Reduction (increase) in Pledged MSR liability				
Changes in fair value due to valuation inputs or assumptions - Original Rights to MSR Agreements	(71,072)	(63,762)	(102,606)	(73,706)
Runoff and settlement - Original Rights to MSR Agreements	17,142	21,100	56,249	59,627
Other	(3,326)	2,968	(2,786)	8,313
Pledged MSR liability expense - Rithm	<u>\$ 102,790</u>	<u>\$ 93,253</u>	<u>\$ 188,414</u>	<u>\$ 170,914</u>

<i>MAV Pledged MSR liability expense:</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Servicing fees collected on behalf of MAV	\$ 17,844	\$ 1,001	\$ 51,048	\$ 1,001
Less: Subservicing fee retained by Ocwen	2,313	178	6,678	178
Net servicing fees remitted to MAV	15,531	823	44,370	823
Less: Reduction (increase) in Pledged MSR liability				
Changes in fair value due to valuation inputs or assumptions	(19,770)	2,433	(83,566)	2,433
Runoff and settlement (1)	6,472	683	24,384	683
Other	(16)	(199)	(650)	(199)
Pledged MSR liability expense - MAV	<u>\$ 28,845</u>	<u>\$ (2,094)</u>	<u>\$ 104,202</u>	<u>\$ (2,094)</u>

(1) Includes \$3.1 million expense recognized during the three months ended September 30, 2022, representing the fair value of the MSR in excess of the Pledged MSR Liability derecognized upon the sale of the related MSR by MAV to a third party.

Rithm - Ocwen Transactions

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

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

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

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

On May 2, 2022, Ocwen entered into amendments to the following three agreements with certain subsidiaries of Rithm: (a) the Shellpoint Subservicing Agreement; (b) the NRM Subservicing Agreement; and (c) the New RMSR Agreement, including the attached Servicing Addendum, dated as of January 18, 2018 with NRM, HLLS Holdings, LLC and HLSS MSR – EBO Acquisition LLC (the New RMSR Agreement or the Servicing Addendum). The amendments modified the terms of the Subservicing Agreements and the Servicing Addendum as follows: (i) the term of each Agreement was extended to December 31, 2023 (“Second Term”), with the Initial Term ending on May 1, 2022 and the Second Term beginning on May 2, 2022; (ii) subsequent term extensions will be automatic one-year renewals, unless Ocwen provides six months’ advance notice of termination (by July 1), or the Rithm parties provide three months’ advance notice of termination (by October 1) at the end of the then-current term as described below; and (iii) the parties will share a portion of some ancillary revenues. In addition, the amendments provided for certain immaterial modifications and clarifications of existing terms. The amendments on May 2, 2022 do not result in the prior transfers of MSR from Ocwen to Rithm qualifying for sale accounting prior to December 31, 2023, absent any subsequent amendment.

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

Pursuant to the amendments noted above, the Subservicing Agreements and Servicing Addendum may be terminated by Ocwen or Rithm without cause (in effect a non-renewal) by providing notice in advance of the end of the Second Term or the end of each one-year extension of the applicable terms after the Second Term. Ocwen must provide a notice of termination by July 1, 2023, with respect to the Second Term or by July 1 of each one-year extended term after the Second Term and Rithm must provide notice by October 1, 2023 with respect to the Second Term or by October 1 of each one-year extended term after the Second Term.

In addition, Rithm and Ocwen have the ability to terminate the Subservicing Agreements and Servicing Addendum for cause if certain specified conditions occur. The terminations must be terminations in whole (i.e., cover all the loans under the relevant Subservicing Agreement or Servicing Addendum) and not in part, except for limited circumstances specified in the agreements. In addition, if Rithm terminates any of the NRM or Shellpoint Subservicing Agreements or the Servicing Addendum for cause, the other agreements will also terminate automatically.

As of September 30, 2022, the UPB of MSR's subject to the Servicing Agreements and the New RMSR Agreements is \$50.3 billion, including \$11.0 billion for which title has not transferred to Rithm and \$1.9 billion for which Ocwen is servicer and Rithm servicer of record. As the third-party consents required for title to the MSR's to transfer were not obtained by May 31, 2019, the New RMSR Agreements set forth a process under which Rithm’s \$11.0 billion Rights to MSR's may (i) be acquired by Ocwen at a price determined in accordance with the terms of the New RMSR Agreements, at the option of Ocwen, or (ii) be sold, together with Ocwen’s title to those MSR's, to a third party in accordance with the terms of the New RMSR Agreements, subject to an additional Ocwen option to acquire at a price based on the winning third-party bid rather than selling to the third party. If the Rights to MSR's are not transferred pursuant to these alternatives, then the Rights to MSR's will remain subject to the New RMSR Agreements.

As stated above, Rithm has the right to terminate the \$11.0 billion New RMSR Agreements for convenience, in whole but not in part, subject to approximately three months’ advance notice of termination at the end of the Second Term or the end of the then-applicable annual extended term. If Rithm exercises this termination right, Rithm has the option of seeking (i) the transfer of the MSR's through a sale to a third party of its Rights to MSR's (together with a transfer of Ocwen’s title to those MSR's) or (ii) a substitute RMSR arrangement that substantially replicates the Rights to MSR's structure (a Substitute RMSR Arrangement) under which we would transfer title to the MSR's to a successor servicer and Rithm would continue to own the economic rights and obligations related to the MSR's. In the case of option (i), we have a purchase option as specified in the New RMSR Agreements. If Rithm is not able to sell the Rights to MSR's or establish a Substitute RMSR Arrangement with another servicer, Rithm has the right to revoke its termination notice and re-instate the Servicing Addendum or to establish a subservicing arrangement whereby the MSR's remaining subject to the New RMSR Agreements would be transferred to up to three subservicers who would subservice under Ocwen’s oversight. If such a subservicing arrangement were established, Ocwen would receive an oversight fee and reimbursement of expenses. We may also agree on alternative arrangements that are not contemplated under our existing agreements or that are variations of those contemplated under our existing agreements.

Note 9 – Receivables

	September 30, 2022	December 31, 2021
Servicing-related receivables:		
Government-insured loan claims - Forward	\$ 70,089	\$ 90,603
Government-insured loan claims - Reverse	48,840	39,895
Due from custodial accounts	29,900	7,777
Receivable from sale of MSR's (holdback)	7,794	—
Servicing fees	7,033	6,662
Reimbursable expenses	6,770	6,056
Subservicing fees and reimbursable expenses - Due from Rithm	2,245	3,781
Subservicing fees, reimbursable expenses and other - Due from MAV	1,594	4,933
Other	948	1,223
	<u>175,213</u>	<u>160,930</u>
Income taxes receivable	27,815	56,776
Due from MAV	432	990
Other receivables	4,542	3,760
	<u>208,002</u>	<u>222,456</u>
Allowance for losses	(37,164)	(41,749)
	<u>\$ 170,838</u>	<u>\$ 180,707</u>

At September 30, 2022 and December 31, 2021, the allowance for losses primarily related to receivables of our Servicing business. The allowance for losses related to FHA-, VA- or USDA insured loans repurchased from Ginnie Mae guaranteed securitizations (government-insured claims) was \$36.5 million and \$41.5 million at September 30, 2022 and December 31, 2021, respectively. The government-insured claims that do not exceed HUD, VA, FHA or USDA insurance limits are not subject to any allowance for losses as guaranteed by the U.S. government. The receivable amount in excess of the guaranteed claim limits or recoverable amounts per insurer guidelines or as a result of servicer error, such as exceeding key filing or foreclosure timelines, is subject to an allowance for losses. Receivables are financial assets subject to the credit loss allowance model under ASC 326: Financial Instruments - Credit Losses (CECL). The allowance for expected credit losses is estimated based on relevant qualitative and quantitative information about past events, including historical collection and loss experience, current conditions, and reasonable and supportable forecasts that affect collectability. We generally charge off the receivable balance when management determines the receivable to be uncollectible and when the receivable has been classified as a loss by our servicing claims analysis process.

Allowance for Losses - Government-Insured Loan Claims	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Beginning balance	\$ 39,751	\$ 41,216	\$ 41,495	\$ 38,339
Provision	3,319	2,990	8,816	10,526
Charge-offs and other, net	(6,577)	(3,141)	(13,818)	(7,800)
Ending balance	<u>\$ 36,493</u>	<u>\$ 41,065</u>	<u>\$ 36,493</u>	<u>\$ 41,065</u>

Note 10 - Investment in Equity Method Investee and Related Party Transactions

Investment in MAV Canopy. On December 21, 2020, Ocwen entered into a transaction agreement (the Transaction Agreement) with Oaktree Capital Management L.P. and certain affiliates (collectively Oaktree) to form a strategic relationship to invest in MSR's exclusively subserviced by PMC. The parties have agreed to invest their pro rata portions of up to an aggregate of \$250.0 million in an intermediate holding company, MAV Canopy, held 15% by Ocwen and 85% by Oaktree. Also refer to Note 23 – Subsequent Events.

On May 3, 2021, pursuant to the Transaction Agreement, Ocwen contributed 100% of its equity interest in MAV, which had total member's equity and cash balances of approximately \$5.0 million at the time of its contribution, to MAV Canopy. In exchange for its contribution, Ocwen received 15% equity interest of MAV Canopy plus \$4.4 million cash consideration from

MAV Canopy that was representative of the remaining 85% of MAV. MAV is a licensed mortgage servicing company approved to purchase GSE MSRs. PMC and MAV entered into a number of definitive agreements which govern the terms of their business relationship:

We account for our 15% investment in MAV Canopy under the equity method. Our investment activity may be summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Beginning balance	\$ 38,821	\$ 11,878	\$ 23,297	\$ —
Capital contributions	17,250	6,984	33,750	18,512
Capital distributions	(15,531)	—	(32,442)	—
Earnings distributions	(5,175)	—	(5,175)	—
Earnings of equity method investee (1)	3,346	932	19,281	1,282
Ending balance	\$ 38,711	\$ 19,794	\$ 38,711	\$ 19,794

(1) Note that MAV Canopy accounts for its MSR portfolio under the fair value option.

Under the Amended & Restated Limited Liability Company Agreement with MAV Canopy, Ocwen is entitled to receive its 15% percentage interest share of MAV Canopy's earnings, subject to certain adjustments. In addition, upon MAV Canopy liquidation or upon determination of the MAV Canopy Board of Directors to make advance distributions, Ocwen is entitled to receive a specified portion of the distribution amount available ("Promote Distribution"), after satisfaction of required distribution thresholds, including a specified internal rate of return threshold on Oaktree member's gross adjusted capital contributions. We determined that the Promote Distribution represents an incentive fee under our various service agreements with MAV with a variable consideration and is recognized in earnings when it is probable that a significant reversal will not occur. As of September 30, 2022, Ocwen has not recognized any such Promote Distribution income.

Subservicing Agreement. Effective May 3, 2021, PMC entered into a subservicing agreement with MAV for exclusive rights to service the mortgage loans underlying MSRs owned by MAV in exchange for a per-loan subservicing fee and certain other ancillary fees. The subservicing agreement will continue until terminated by mutual agreement of the parties or for cause, as defined. If either party terminates the agreement for cause, the other party is required to pay certain fees and costs. MAV is permitted to sell the underlying MSR without Ocwen's consent after May 3, 2024. As of September 30, 2022, PMC subserviced a total \$38.5 billion UPB on behalf of MAV, of which \$26.2 billion MSR remains reported on the consolidated balance sheet of PMC - see below for information on MSR sales by PMC to MAV that do not achieve sale accounting. Subserviced loans exclude UPB of \$10.1 billion that have not yet transferred to our servicing system as of September 30, 2022. Effective March 1, 2022, PMC and MAV amended certain provisions of the subservicing agreement to adjust down the ancillary fee retained by PMC to enhance the competitiveness of MAV when buying MSRs and generate additional subservicing volume to PMC. The amendment resulted in a \$14.1 million fair value loss (as a change in the present value of future contractual cash flows) on the Pledged MSR liability that is reported at fair value in the three months ended March 31, 2022.

Joint Marketing Agreement and Recapture Agreement. Effective May 3, 2021, in conjunction with the subservicing agreement, PMC and MAV entered into a joint marketing agreement and a flow MSR sale agreement (MSR recapture), whereby PMC is entitled to the exclusive right to solicit and refinance borrowers with loans underlying the MSR owned by MAV, and is obligated to transfer to MAV the MSR associated with the loans so originated. Under the agreements, the parties share the recapture benefits, whereby PMC realizes gains or losses on loans sold and MAV is delivered the recaptured MSR for no cash consideration. The joint marketing agreement and flow MSR sale agreement will continue until terminated by mutual agreement of the parties or for cause, as defined, or at the option of either party if the subservicing agreement is terminated. During the nine months ended September 30, 2022, PMC transferred UPB of \$261.3 million under this agreement.

Right of First Offer. Following the execution of the Transaction Agreement and until the parties have contributed their pro rata portions of the \$250.0 million aggregate capital contributions, Ocwen and its affiliates may not acquire, without Oaktree’s prior written approval, GSE MSR that meet certain underwriting and other criteria (such criteria are referred to as the “buy-box”) unless Ocwen notifies MAV of the opportunity and MAV does not pursue it by submitting a competitive bid to the MSR seller. In addition, until the earlier of (i) the time that MAV has been fully funded and (ii) May 3, 2024 (subject to two annual extensions by mutual agreement), if Ocwen seeks to sell any GSE MSR that meet the buy-box, Ocwen must first offer such MSR to MAV before initiating a sale process with a third party. If MAV does not accept Ocwen’s offer, Ocwen may sell the MSR to a third party on terms no more favorable to the purchaser than those offered to MAV. The price at which Ocwen and its affiliates will offer MSR to MAV will be based on the valuation of an independent third-party. This first offer provision does not apply to MSR acquired by PMC prior to May 3, 2021. As of September 30, 2022, MAV Canopy aggregated capital contributions amounted to \$139.9 million, net of distributions (excluding earnings distributions).

Forward Bulk Servicing Rights Purchase and Sale Agreement: On September 9, 2021, PMC and MAV entered into an MSR purchase and sale agreement whereby PMC sells MAV on a monthly basis certain Fannie Mae MSR at the price acquired by PMC, subject to certain adjustments. During the nine months ended September 30, 2022, PMC transferred MSR with UPB of \$6.3 billion to MAV under this agreement.

Bulk Mortgage Servicing Rights Purchase and Sale Agreements. During the nine months ended September 30, 2022, PMC transferred MAV certain MSR in bulk transactions for an aggregate UPB of approximately \$598.3 million.

The MSR sale transactions between PMC and MAV do not qualify for sale accounting primarily due to the termination restrictions of the subservicing agreement, and are accounted for as secured borrowings. See Note 8 — MSR Transfers Not Qualifying for Sale Accounting for a summary of transactions under this agreement.

Administrative Services Agreement: Ocwen provides certain administrative services to MAV, including accounting, treasury, human resources, management information, MSR transaction management support, and certain licensing, regulatory and risk management support. Ocwen is entitled to a fee for such services, subject to an annual cap of \$0.5 million.

MAV Canopy, MAV and Oaktree are deemed related parties to Ocwen. In addition to its investment in MAV Canopy, the subservicing agreement by PMC and the other agreements described above, Ocwen issued common stock, warrants and senior secured notes to Oaktree in 2021 as described in Note 13 – Borrowings and Note 17 – Interest Expense.

Note 11 – Other Assets

	September 30, 2022	December 31, 2021
Contingent loan repurchase asset	\$ 249,755	\$ 403,740
Derivative margin deposit	26,104	2,024
Derivatives, at fair value	24,760	21,675
Prepaid expenses	20,791	21,498
Intangible assets, net (net of accumulated amortization of \$4.1 million and \$0.7 million)	18,622	14,335
REO	9,968	10,075
Prepaid lender fees, net	7,872	7,150
Prepaid representation, warranty and indemnification claims - Agency MSR sale	5,173	15,173
Deferred tax asset, net	3,323	3,329
Security deposits	900	1,174
Other	4,022	7,077
	<u>\$ 371,290</u>	<u>\$ 507,250</u>

Intangible assets, net are primarily comprised of a reverse subservicing contract intangible asset with an unamortized balance of \$18.0 million and \$13.7 million at September 30, 2022 and December 31, 2021, respectively. On April 1, 2022, PMC boarded approximately 19,000 reverse mortgage loans with a UPB of \$4.1 billion onto our servicing platform under the five-year subservicing agreement executed on October 1, 2021 with Mortgage Assets Management, LLC (formerly known as Reverse Mortgage Solutions, Inc.) (MAM (RMS)). A purchase price of \$6.9 million was paid on April 7, 2022 with the assumption of a liability for curtailments and \$8.1 million was recognized as a subservicing contract intangible asset, based on its relative fair value, to be amortized ratably over the five-year term of the subservicing contract based on portfolio runoff. This boarding is in addition to approximately 40,000 reverse mortgage loans with a UPB of \$9.1 billion boarded during the first quarter of 2022.

Note 12 - Other Financing Liabilities

The following table presents financing liabilities carried at fair value, which include transferred MSR liabilities recorded in connection with MSR transfers that do not qualify for sale accounting, liabilities of consolidated mortgage-backed securitization trusts and MSR excess servicing spread (ESS) financing liability carried at fair value.

Borrowing Type	Collateral	Maturity	Outstanding Balance	
			September 30, 2022	December 31, 2021
Original Rights to MSRs Agreements, at fair value - Rithm (1)	MSRs	(1)	\$ 604,654	\$ 558,940
Pledged MSR liability, at fair value - MAV (1)	MSRs	(1)	341,965	238,144
			946,619	797,084
Financing liability - Owed to securitization investors, at fair value:				
Residential Asset Securitization Trust 2003-A11 (RAST 2003-A11) (2)	Loans held for investment	Oct. 2033	6,802	7,879
ESS financing liability, at fair value (3)	MSRs (3)	N/A	36,301	—
Total Other financing liabilities, at fair value			\$ 989,722	\$ 804,963

(1) See Note 8 — MSR Transfers Not Qualifying for Sale Accounting for additional information.

(2) Consists of securitization debt certificates due to third parties that represent beneficial interests in trusts that we include in our unaudited consolidated financial statements. Holders of the debt issued by the consolidated securitization trust entities have recourse only to the assets of the SPE for satisfaction of the debt and have no recourse against the assets of Ocwen. Similarly, the general creditors of Ocwen have no claim on the assets of the trusts. The certificates in the trust pay interest based on fixed rates ranging between 4.25% and 5.75% and a variable rate based on 1ML plus applicable margin, and include principal-only certificates that are not entitled to receive distributions of interest. The maturity of the certificates occurs upon maturity of the loans held by the trust.

(3) Consists of the obligation to remit to a third party a specified percentage of future servicing fee collections on a reference pool of \$3.4 billion UPB GSE mortgages, which we are entitled to as owner of the related MSRs. During the three months ended September 30, 2022, we recognized \$1.3 million expense for servicing fee remittance and changes in fair value of the liability, reported in Other, net. On September 28, 2022, Ocwen entered into an ESS letter of intent with a third party for an additional \$9.4 billion UPB to be settled in the fourth quarter of 2022.

Note 13 – Borrowings

Advance Match Funded Liabilities

Borrowing Type	Maturity (1)	Amort. Date (1)	Borrowing Capacity		Outstanding Balance	
			Total	Available (2)	September 30, 2022	December 31, 2021
Advance Receivables Backed Notes - Series 2015-VF5 (3)	Aug. 2053	Aug. 2023	\$ 450,000	\$ 32,559	\$ 417,441	\$ 14,231
Advance Receivables Backed Notes, Series 2020-T1 (4)	Aug. 2052	Aug. 2022	—	—	—	475,000
Total Ocwen Master Advance Receivables Trust (OMART)			450,000	32,559	417,441	489,231
Ocwen GSE Advance Funding (OGAF) - Advance Receivables Backed Notes, Series 2015-VF1 (5)	Aug. 2053	Aug. 2023	50,000	11,208	38,792	23,065
EBO Advance facility (6)	May 2026	NA	20,000	18,781	\$ 1,219	\$ —
Total Servicing Advance Financing Facilities			\$ 520,000	\$ 62,548	\$ 457,452	\$ 512,297
Weighted average interest rate (7)					5.47 %	1.54 %

(1) The amortization date of our facilities is the date on which the revolving period ends under each advance facility note and repayment of the outstanding balance must begin if the note is not renewed or extended. The maturity date is the date on which all outstanding balances must be repaid. In all of our advance facilities, there are multiple notes outstanding. After the amortization date for each note, all collections that represent the repayment of advances pledged to the facility must be applied ratably to each outstanding amortizing note to reduce the balance and, as such, the collection of advances allocated to the amortizing note may not be used to fund new advances.

- (2) The committed borrowing capacity under the OMART and OGAF facilities is available to us provided that we have sufficient eligible collateral to pledge. At September 30, 2022, none of the available borrowing capacity of the OMART and OGAF advance financing notes could be used based on the amount of eligible collateral.
- (3) Interest is computed based on the lender's cost of funds plus applicable margin. Effective August 15, 2022, we extended the amortization date of Series 2015-VF5 variable funding notes to August 14, 2023, increased the borrowing capacity from \$80.0 million to \$450.0 million and modified the interest rate margins.
- (4) We voluntarily repaid the outstanding balance of the Series 2020-T1 term notes at the amortization date in August 2022 and replaced with variable funding notes. See (3) above. The range of interest rates on the individual classes of the repaid notes was between 1.28% to 5.42%.
- (5) Interest is computed based on the lender's cost of funds plus applicable margin. On January 31, 2022, we amended the Ocwen Freddie Advance Funding (OFAF) advance facility to include Fannie Mae advances as eligible collateral and renamed the facility Ocwen GSE Advance Funding (OGAF). On August 26, 2022, the amortization date of the facility was extended to August 25, 2023, the committed borrowing capacity was increased from \$40.0 million to \$50.0 million and the interest rate margin was modified.
- (6) On May 2, 2022, we entered into a loan and security agreement and issued a \$1.7 million promissory note to the lender. The facility has total uncommitted borrowing capacity of \$20.0 million to finance the acquisition of advances in connection with the early buyout of certain fixed-rate, fully-amortizing FHA-insured residential mortgage loans, at an interest rate of 1M Term Secured Overnight Financing Rate (SOFR) plus applicable margin. At September 30, 2022, none of the available borrowing capacity of the facility could be used based on the amount of eligible collateral.
- (7) The weighted average interest rate, excluding the effect of the amortization of prepaid lender fees, is computed using the outstanding balance of each respective note and its interest rate at the financial statement date. At September 30, 2022 and December 31, 2021, the balance of unamortized prepaid lender fees was \$2.4 million and \$1.3 million, respectively, and are included in Other assets in our consolidated balance sheets.

Mortgage Loan Warehouse Facilities			Available Borrowing Capacity		Outstanding Balance	
			Un-committed	Committed (1)	September 30, 2022	December 31, 2021
Borrowing Type	Collateral	Maturity				
Master repurchase agreement (2)	Loans held for sale (LHFS), Receivables and REO	Aug. 2023	\$ 86,097	\$ —	\$ 88,903	\$ 109,437
Master repurchase agreement (3)	LHFS and Loans Held for Investment (LHFI)	Dec. 2022	250,000	6,797	193,203	160,882
Master repurchase agreement (4)	LHFS	N/A	50,000	—	—	—
Participation agreement (5)	LHFS	June 2023	250,000	—	—	45,186
Master repurchase agreement (5)	LHFS and LHFI	June 2023	—	45,156	127,844	1,766
Master repurchase agreement	LHFS	June 2023	—	1,000	—	—
Mortgage warehouse agreement (6)	LHFS and LHFI	Mar. 2023	—	34,090	15,910	11,792
Mortgage warehouse agreement (7)	LHFS and LHFI	Mar. 2023	171,659	—	32,341	87,813
Mortgage warehouse agreement (8)	LHFS and Receivables	(8)	205,945	—	24,055	192,023
Master repurchase agreement (9)	LHFS	(9)	—	—	—	459,344
Loan and security agreement (10)	LHFS and Receivables	Mar. 2023	—	14,924	35,076	16,834
Master repurchase agreement (11)	LHFS	Apr. 2023	197,774	—	302,226	—
Total mortgage loan warehouse facilities			\$ 1,211,475	\$ 101,968	\$ 819,557	\$ 1,085,076
Weighted average interest rate (12)					4.36 %	2.61 %

- (1) Of the borrowing capacity on mortgage loan warehouse facilities extended on a committed basis, none of the available borrowing capacity could be used at September 30, 2022 based on the amount of eligible collateral that could be pledged.
- (2) The maximum borrowing under this agreement is \$175.0 million, of which \$50.0 million is available on a committed basis and the remainder is available at the discretion of the lender. On June 29, 2022, the interest rate was modified from 1ML plus applicable margin to 1M Term SOFR plus applicable margin. On July 29, 2022, the total maximum borrowing under this agreement was reduced from \$275.0 million to \$175.0 million. The borrowing available on a committed basis was reduced to \$50.0 million and uncommitted capacity was increased to \$125.0 million. On August 31, 2022, the maturity date of the facility was extended to August 30, 2023 and the applicable interest rate margins were modified.

- (3) The maximum borrowing under this agreement is \$450.0 million, of which \$200.0 million is available on a committed basis and the remainder is available on an uncommitted basis. The interest rate for this facility is 1ML plus applicable margin.
- (4) The lender provides financing for up to \$50.0 million at the discretion of the lender. The agreement has no stated maturity date. Interest on this facility is based on the SOFR. The interest rate for this facility is SOFR plus applicable margin, with a SOFR floor.
- (5) On August 11, 2022, the uncommitted borrowing capacity under the participation agreement of \$150.0 million was temporarily increased to \$200.0 million and permanently increased to \$250.0 million on September 16, 2022. On June 23, 2022, the maturity date was extended to June 22 2023 and the interest rate on the participation agreement was modified to the greater of the stated interest rate of the mortgage loans less an agreed upon servicing fee percentage or the 1M Term SOFR, plus the applicable margin. The previous interest rate was the stated interest rate of the mortgage loans, less applicable margin with an interest rate floor for new originations.
- On June 23, 2022, the committed borrowing capacity under the repurchase agreement was increased from \$100.0 million to \$173.0 million. Also on June 23, 2022, the maturity date was extended to June 22, 2023 and the interest rate was modified to 1M Term SOFR plus applicable margin, with an interest rate floor for Ginnie Mae modifications, Ginnie Mae buyouts and RMBS bond clean-up loans. The previous interest rate was the stated interest rate of the mortgage loans, less applicable margin with an interest rate floor for new originations and less applicable margin with an interest rate floor for Ginnie Mae modifications, Ginnie Mae buyouts and RMBS bond clean-up loans.
- The participation and repurchase agreements allow the lender to acquire a 100% beneficial interest in the underlying mortgage loans.
- (6) Under this agreement, the lender provides financing for up to \$50.0 million on a committed basis. The interest rate for this facility was modified to 1M Term SOFR plus applicable margin with an interest rate floor. On January 14, 2022, the maturity date of this facility was extended to March 16, 2022 when it was further extended to March 16, 2023.
- (7) Under this agreement, the lender provides financing for up to \$204.0 million on an uncommitted basis. On February 20, 2022, the interest rate for this facility was modified to 1M Term SOFR plus applicable margin, with an interest rate floor. On June 16, 2022, the maturity date of the facility was extended to March 16, 2023.
- (8) The total borrowing capacity of this facility, all of which is uncommitted, was increased from \$200.0 million to \$250.0 million on January 5, 2022. The agreement has no stated maturity date, however each transaction has a maximum duration of four years. The cost of this line is set at each transaction date and is based on the interest rate and type of the collateral. On May 2, 2022, \$20.0 million of the uncommitted capacity of this facility was assigned to a new EBO advance facility.
- (9) This repurchase agreement provides borrowing at our discretion up to a certain maximum amount of capacity on a rolling 30-day committed basis. This facility is structured as a gestation repurchase facility whereby dry Agency mortgage loans are transferred to a trust which issues a trust certificate that is pledged as the collateral for the borrowings. See Note 2 – Securitizations and Variable Interest Entities for additional information. Each certificate is renewed monthly and the interest rate for this facility is 1ML plus applicable margin. During first half of 2022, we voluntarily reduced the trust certificates by \$325.0 million and by an additional \$125.0 million during the third quarter of 2022.
- (10) This revolving facility agreement provides up to \$50.0 million of committed borrowing capacity secured by eligible HECM loans that are active buyouts (ABO), as defined in the agreement. On April 29, 2022, the maturity date was extended to March 16, 2023 and the interest rate was modified from Prime Rate plus applicable margin (with an interest rate floor) to 1M Term SOFR plus applicable margin, with an interest rate floor.
- (11) On April 11, 2022, we entered into a warehouse line (master repurchase agreement) with a total borrowing capacity of \$350.0 million, of which \$100.0 million is committed, to finance loans held for sale and loans held for investment at an interest rate of daily simple SOFR plus applicable margin. On August 11, 2022, we temporarily increased the uncommitted capacity from \$250.0 million to \$350.0 million, with an additional temporary increase to \$400.0 million on September 11, 2022 extended through November 9, 2022.
- (12) 1ML was 3.14% and 0.10% at September 30, 2022 and December 31, 2021, respectively. Prime Rate was 3.25% at December 31, 2021, 1M Term SOFR was 3.04% and 0.05% at September 30, 2022 and December 31, 2021, respectively. The weighted average interest rate excludes the effect of the amortization of prepaid lender fees. At September 30, 2022 and December 31, 2021, unamortized prepaid lender fees were \$0.9 million and \$1.2 million, respectively, and are included in Other assets in our consolidated balance sheets.

MSR financing facilities, net			Available Borrowing Capacity		Outstanding Balance	
			Un-committed	Committed (1)	September 30, 2022	December 31, 2021
Borrowing Type	Collateral	Maturity				
Agency MSR financing facility (2)	MSRs	June 2023	\$ —	\$ 37,713	\$ 412,287	\$ 317,523
Ginnie Mae MSR financing facility (3)	MSRs, Advances	Feb. 2023	33,255	—	141,745	131,694
Ocwen Excess Spread-Collateralized Notes, Series 2019/2022-PLS1 (4)	MSRs	Feb. 2025	—	—	61,752	41,663
Secured Notes, Ocwen Asset Servicing Income Series Notes, Series 2014-1 (5)	MSRs	Feb. 2028	—	—	34,663	39,529
Agency MSR financing facility - revolving loan (6)	MSRs	June 2026	—	7,929	277,071	277,071
Agency MSR financing facility - term loan (6)	MSRs	June 2023	—	—	94,178	94,178
Total MSR financing facilities			<u>\$ 33,255</u>	<u>\$ 45,642</u>	<u>\$ 1,021,696</u>	<u>\$ 901,658</u>
Unamortized debt issuance costs - PLS Notes and Agency MSR financing - term loan (7)					(1,090)	(898)
Total MSR financing facilities, net					<u>\$ 1,020,606</u>	<u>\$ 900,760</u>
Weighted average interest rate (8) (9)					5.96%	3.71%

- (1) Of the borrowing capacity on MSR financing facilities extended on a committed basis, \$28.1 million of the available borrowing capacity could be used at September 30, 2022 based on the amount of eligible collateral that could be pledged.
- (2) PMC's obligations under this facility are secured by a lien on the related MSRs. Ocwen guarantees the obligations of PMC under this facility. On June 30, 2022, the maturity date was extended to June 30, 2023, the maximum amount which we may borrow pursuant to the repurchase agreements was increased to \$450.0 million (from \$350.0 million) on a committed basis and the interest rate was modified from 1ML plus applicable margin to 1M Term SOFR plus applicable margin. See Note 2 – Securitizations and Variable Interest Entities for additional information. We are subject to daily margining requirements under the terms of the facility. Declines in fair value of our MSRs due to declines in market interest rates, assumption updates or other factors require that we provide additional collateral to our lenders under these facilities.
- (3) In connection with this facility, PMC entered into a repurchase agreement pursuant to which PMC has sold a participation certificate representing certain economic interests in the Ginnie Mae MSRs and servicing advances and has agreed to repurchase such participation certificate at a future date at the repurchase price set forth in the repurchase agreement. PMC's obligations under this facility are secured by a lien on the related Ginnie Mae MSRs and servicing advances. Ocwen guarantees the obligations of PMC under the facility. See (2) above regarding daily margining requirements. On January 31, 2022, the maturity date of this facility was extended to February 28, 2022. On February 28, 2022, the maturity date was extended to February 28, 2023, the borrowing capacity was increased from \$150.0 million to \$175.0 million (\$50.0 million available on a committed basis) and the interest rate was modified to adjusted daily simple SOFR plus applicable margin (with an adjusted SOFR floor).
- (4) PLS Issuer's obligations under the facility are secured by a lien on the related PLS MSRs. Ocwen guarantees the obligations of PLS Issuer under the facility. The Class A PLS Notes issued pursuant to the credit agreement had an initial principal amount of \$100.0 million and a fixed interest rate of 5.07%. On March 15, 2022, we replaced the existing notes with a new series of notes (Series 2022-PLS1) at an initial principal amount of \$75.0 million and a fixed interest rate of 5.114%. The principal balance amortizes in accordance with a predetermined schedule subject to modification under certain events, with a final payment due in February 2025. See Note 2 – Securitizations and Variable Interest Entities for additional information.
- (5) OASIS noteholders are entitled to receive a monthly payment equal to the sum of: (a) 21 basis points of the UPB of the reference pool of Freddie Mac mortgages; (b) any termination payment amounts; (c) any excess refinance amounts; and (d) the note redemption amounts, each as defined in the indenture supplement for the notes. Monthly amortization of the liability is estimated using the proportion of monthly projected service fees on the underlying MSRs as a percentage of lifetime projected fees, adjusted for the term of the notes.
- (6) This facility includes a \$94.2 million (\$135.0 million original balance) term loan and a \$285.0 million revolving loan secured by a lien on certain of PMC's Agency MSRs. See (2) above regarding daily margining requirements. On September 1, 2022, the interest rate for this facility was modified from 1-year swap rate plus applicable margin to 1M Term SOFR plus applicable margin, with an interest rate floor.
- (7) At September 30, 2022 and December 31, 2021, unamortized debt issuance costs included \$1.1 million and \$0.9 million, respectively, on the PLS Notes and the Agency MSR financing facility - term loan. At September 30, 2022 and December 31, 2021, unamortized prepaid lender fees related to revolving type MSR financing facilities were \$4.6 million and \$4.7 million, respectively, and are included in Other assets in our consolidated balance sheets.
- (8) Weighted average interest rate at, excluding the effect of the amortization of debt issuance costs and prepaid lender fees.
- (9) 1ML was 3.14% and 0.10% at September 30, 2022 and December 31, 2021, respectively. The 1-year swap rate was 0.19% at December 31, 2021. 1M Term SOFR was 3.04% and 0.05% at September 30, 2022 and December 31, 2021, respectively.

Senior Notes	Interest Rate (1)	Maturity	Outstanding Balance	
			September 30, 2022	December 31, 2021
PMC Senior Secured Notes	7.875%	March 2026	\$ 375,000	\$ 400,000
OFC Senior Secured Notes (due to related parties)	12% paid in cash or 13.25% paid-in-kind (see below)	March 2027	285,000	285,000
Principal balance			660,000	685,000
Discount (2)				
PMC Senior Secured Notes			(1,415)	(1,758)
OFC Senior Secured Notes (3)			(49,095)	(54,176)
			(50,510)	(55,934)
Unamortized debt issuance costs (2)				
PMC Senior Secured Notes			(4,578)	(5,687)
OFC Senior Secured Notes			(7,782)	(8,582)
			(12,360)	(14,269)
			\$ 597,129	\$ 614,797

(1) Excluding the effect of the amortization of debt issuance costs and discount.

(2) The discount and debt issuance costs are amortized to interest expense through the maturity of the respective notes.

(3) Includes original issue discount (OID) and additional discount related to the concurrent issuance of warrants and common stock. See below for additional information.

Redemption of 6.375% Senior Unsecured Notes due 2021 and 8.375% Senior Secured Notes due 2022

On March 4, 2021, we redeemed all of PHH's outstanding 6.375% Senior Notes due August 2021 at a price of 100% of the principal amount, plus accrued and unpaid interest, and all of PMC's 8.375% Senior Secured Notes due November 2022 at a price of 102.094% of the principal amount, plus accrued and unpaid interest. The redemption resulted in our recognition of a \$7.1 million loss on debt extinguishment.

Issuance of 7.875% Senior Secured Notes due 2026

On March 4, 2021, PMC completed the issuance and sale of \$400.0 million aggregate principal amount of 7.875% senior secured notes due March 15, 2026 (the PMC Senior Secured Notes) at a discount of \$2.1 million. The PMC Senior Secured Notes are guaranteed on a senior secured basis by Ocwen and PHH and were sold in an offering exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act).

Interest on the PMC Senior Secured Notes accrues at a rate of 7.875% per annum and is payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2021.

On or after March 15, 2023, PMC may redeem some or all of the PMC Senior Secured Notes at its option at the following redemption prices, plus accrued and unpaid interest, if any, on the notes redeemed to, but excluding, the redemption date if redeemed during the 12-month period beginning on March 15th of the years indicated below:

Redemption Year	Redemption Price
2023	103.938 %
2024	101.969
2025 and thereafter	100.000

Prior to March 15, 2023, PMC may, on any one or more occasions, redeem some or all of the PMC Senior Secured Notes at its option at a redemption price equal to 100% of the principal amount of the notes being redeemed, plus a "make-whole" premium equal to the greater of (i) 1.0% of the then outstanding principal amount of such note and (ii) the excess of (1) the present value at the redemption date of the sum of (A) the redemption price of the note at March 15, 2023 (such redemption price is set forth in the table above) plus (B) all required interest payments due on such notes through March 15, 2023 (excluding accrued but unpaid interest), such present value to be computed using a discount rate equal to the Treasury Rate (as defined in the indenture governing the PMC Senior Secured Notes (Indenture)) as of such redemption date plus 50 basis points; over (2) the then outstanding principal amount of such notes, plus accrued and unpaid interest, if any, on the notes redeemed to, but excluding, the redemption date.

In addition, on or prior to March 15, 2023, PMC may also redeem up to 35.0% of the principal amount of all of the PMC Senior Secured Notes originally issued under the Indenture (including any additional PMC Senior Secured Notes issued under the Indenture) using the net proceeds of certain equity offerings at a redemption price equal to 107.875% of the principal amount thereof, plus accrued and unpaid interest to, but excluding, the date of redemption (subject to the rights of holders of notes on the relevant regular record date to receive interest due on the relevant interest payment date that is on or prior to the applicable date of redemption); provided that: (i) at least 65.0% of the principal amount of all PMC Senior Secured Notes issued under the Indenture remains outstanding immediately after any such redemption; and (ii) PMC makes such redemption not more than 120 days after the consummation of any such equity offering.

The Indenture contains customary covenants for debt securities of this type that limit the ability of PHH and its restricted subsidiaries (including PMC) to, among other things, (i) incur or guarantee additional indebtedness, (ii) incur liens, (iii) pay dividends on or make distributions in respect of PHH's capital stock or make other restricted payments, (iv) make investments, (v) consolidate, merge, sell or otherwise dispose of certain assets, and (vi) enter into transactions with Ocwen's affiliates.

During the three months ended June 30, 2022, we repurchased a total of \$25.0 million of the PMC Senior Secured Notes in the open market for a price of \$23.6 million, and recognized a \$0.9 million gain on debt extinguishment, net of the respective write-off of unamortized discount and debt issuance costs.

Issuance of OFC Senior Secured Notes

On March 4, 2021, Ocwen completed the private placement of \$199.5 million aggregate principal amount of senior secured notes (the OFC Senior Secured Notes) with an OID of \$24.5 million to certain entities owned by funds and accounts managed by Oaktree Capital Management, L.P. (the Oaktree Investors). Concurrent with the issuance of the OFC Senior Secured Notes, Ocwen issued to the Oaktree Investors warrants to purchase shares of its common stock. The \$158.5 million proceeds were allocated to the OFC Senior Secured Notes on a relative fair value basis resulting in an initial discount.

On May 3, 2021, Ocwen issued to Oaktree the second tranche of the OFC Senior Secured Notes in an aggregate principal amount of \$85.5 million with an OID of \$10.5 million. Concurrent with the issuance of the second tranche of OFC Senior Secured Notes, Ocwen issued to the Oaktree Investors shares and warrants to purchase shares of its common stock. The \$68.0 million proceeds were allocated to the OFC Senior Secured Notes on a relative fair value basis resulting in an initial discount.

The OFC Senior Secured Notes mature on March 4, 2027 with no amortization of principal. Interest is payable quarterly in arrears on the last business day of each March, June, September and December and accrues at the rate of 12% per annum to the extent interest is paid in cash or 13.25% per annum to the extent interest is "paid-in-kind" through an increase in the principal amount or the issuance of additional notes (PIK Interest). Prior to March 4, 2022, all of the interest on the OFC Senior Secured Notes may, at our option, be paid as PIK Interest. On or after March 4, 2022, a minimum amount of interest is required to be paid in cash equal to the lesser of (i) 7% per annum of the outstanding principal amount of the OFC Senior Secured Notes and (ii) the total amount of unrestricted cash of Ocwen and its subsidiaries less the greater of \$125.0 million and the minimum liquidity amounts required by any agency.

The OFC Senior Secured Notes are solely the obligation of Ocwen and are secured by a pledge of substantially all of the assets of Ocwen, including a pledge of the equity of Ocwen's directly held subsidiaries. The lien on Ocwen's assets securing the OFC Senior Secured Notes is junior to the lien securing Ocwen's guarantee of the 7.875% PMC Senior Secured Notes described above. The OFC Senior Secured Notes are not guaranteed by any of Ocwen's subsidiaries nor are they secured by a pledge or lien on any assets of Ocwen's subsidiaries.

Prior to March 4, 2026, we are permitted to redeem the OFC Senior Secured Notes in whole or in part at any time at a redemption price equal to par, plus a make-whole premium, plus accrued and unpaid interest. On and after March 4, 2026, we will be permitted to redeem the OFC Senior Secured Notes in whole or in part at any time at a redemption price equal to par plus accrued and unpaid interest.

Credit Ratings

Credit ratings are intended to be an indicator of the creditworthiness of a company's debt obligations. At September 30, 2022, the S&P issuer credit rating for Ocwen was "B-". On January 24, 2022, S&P raised the assigned rating of the PMC Senior Secured Notes from "B-" to 'B' and maintained a stable issuer outlook citing improved profitability and an increase in assets. Moody's reaffirmed their ratings of Caa1 and revised their outlook to Stable from Negative on February 24, 2021. On August 15, 2022, Moody's reaffirmed PMC's long-term corporate family ratings of Caa1 and revised their outlook to Positive from Stable. It is possible that additional actions by credit rating agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Covenants

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

- Financial covenants, including, but not limited to, specified levels of net worth, liquidity and leverage;
- Covenants to operate in material compliance with applicable laws;
- Restrictions on our ability to engage in various activities, including but not limited to incurring or guarantying additional forms of debt, paying dividends or making distributions on or purchasing equity interests of Ocwen and its subsidiaries, repurchasing or redeeming capital stock or junior capital, repurchasing or redeeming subordinated debt prior to maturity, issuing preferred stock, selling or transferring assets or making loans or investments or other restricted payments, entering into mergers or consolidations or sales of all or substantially all of the assets of Ocwen and its subsidiaries or of PHH or PMC and their respective subsidiaries, creating liens on assets to secure debt, and entering into transactions with affiliates;
- Monitoring and reporting of various specified transactions or events, including specific reporting on defined events affecting collateral underlying certain debt agreements; and
- Requirements to provide audited financial statements within specified timeframes, including requirements that Ocwen's financial statements and the related audit report be unqualified as to going concern.

The most restrictive consolidated net worth requirement contained in our debt agreements with borrowings outstanding at September 30, 2022 is a minimum of \$300.0 million tangible net worth at Ocwen, as defined in certain of our mortgage warehouse, MSR financing and advance financing facilities agreements. See also Note 20 – Regulatory Requirements. The most restrictive liquidity requirement under our debt agreements with borrowings outstanding at September 30, 2022 is for a minimum of \$75.0 million in consolidated liquidity, as defined, under certain of our MSR financing facilities agreements.

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

Collateral

Our assets held as collateral for secured borrowings and other unencumbered assets which may be subject to a lien under various collateralized borrowings are as follows at September 30, 2022:

	Assets	Pledged Assets	Collateralized Borrowings	Unencumbered Assets (1)
Cash	\$ 226,570	\$ —	\$ —	\$ 226,570
Restricted cash	45,269	45,269	—	—
Loans held for sale	729,638	685,428	683,430	44,210
Loans held for investment - securitized (2)	7,267,982	7,267,982	7,208,385	—
Loans held for investment - unsecuritized	127,501	94,884	88,021	32,617
MSRs (3)	1,742,978	1,750,870	1,028,262	4,578
Advances, net	642,461	545,520	487,186	96,941
Receivables, net	170,838	40,580	44,211	130,259
REO	9,968	4,539	3,895	5,429
Total (4)	<u>\$ 10,963,206</u>	<u>\$ 10,435,071</u>	<u>\$ 9,543,390</u>	<u>\$ 540,605</u>

(1) Certain assets are pledged as collateral to the \$375.0 million PMC Senior Secured Notes and \$285.0 million OFC Senior Secured (second lien) Notes.

(2) Reverse mortgage loans and real estate owned are pledged as collateral to the HMBS beneficial interest holders, and are not available to satisfy the claims of our creditors. Ginnie Mae, as guarantor of the HMBS, is obligated to the holders of the HMBS in an instance of PMC's default on its servicing obligations, or if the proceeds realized on HECMs are insufficient to repay all outstanding HMBS related obligations. Ginnie Mae has recourse to PMC in connection with certain claims relating to the performance and obligations of PMC as both issuer of HMBS and servicer of HECMs underlying HMBS.

- (3) Excludes MSRs transferred to Rithm and MAV and associated Pledged MSR liability recorded as sale accounting criteria are not met. Pledged assets exceed the MSR asset balance due to the netting of certain PLS MSR portfolios with negative and positive fair values as eligible collateral.
- (4) The total of selected assets disclosed in the above table does not represent the total consolidated assets of Ocwen. For example, the total excludes premises and equipment and certain other assets.

The OFC Senior Secured Notes due 2027 have a second lien priority on specified assets carried on PMC's balance sheet, as defined under the OFC Senior Secured Note Agreement and listed in the table below, and have a priority lien on the following assets: investments by OFC in subsidiaries not guaranteeing the \$375.0 million PMC Senior Secured Notes, including PHH and MAV; cash and investment accounts at OFC; and certain other assets, including receivables.

	September 30, 2022
Specified net servicing advances	\$ 116,980
Specified deferred servicing fee	21,591
Specified MSR value less borrowings	796,556
Specified unrestricted cash balances	146,849
Specified advance facility reserves	10,064
Specified loan value	84,754
Specified residual value	79,513
Total (PMC)	<u>\$ 1,256,305</u>

Note 14 – Other Liabilities

	September 30, 2022	December 31, 2021
Contingent loan repurchase liability	\$ 249,755	\$ 403,740
Due to Rithm - Advance collections, servicing fees and other	80,438	76,590
Other accrued expenses	80,138	104,931
Liability for indemnification obligations	52,489	51,243
Checks held for escheat	49,527	44,866
Accrued legal fees and settlements	47,102	43,990
Servicing-related obligations	37,583	32,366
Derivative related payables	24,894	3,714
Derivatives, at fair value	23,704	3,080
MSR purchase price holdback	16,402	32,620
Lease liability	15,836	16,842
Liability for uncertain tax positions	11,587	14,730
Accrued interest payable	9,206	11,998
Liability for unfunded India gratuity plan	5,885	6,263
Due to MAV	3,649	2,134
Liability for unfunded pension obligation	3,115	4,183
Other	9,802	14,224
	<u>\$ 721,112</u>	<u>\$ 867,514</u>

Note 15 – Stockholders' Equity

On May 20, 2022, Ocwen's Board of Directors authorized a share repurchase program for an aggregate amount of up to \$50.0 million of Ocwen's issued and outstanding shares of common stock. The repurchase program is intended to qualify for the affirmative defense provided by Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. Through September 30, 2022, we have completed the repurchase of 1,338,498 shares of our common stock in the open market under this program at prevailing market prices for a total purchase price of \$38.7 million (excluding commissions) at an average price per share of \$28.93. The repurchased shares were retired as of September 30, 2022. Unless Ocwen amends the share repurchase program or

repurchases the full \$50.0 million amount by an earlier date, the share repurchase program will continue through November 20, 2022. No assurances can be given as to the amount of shares, if any, that Ocwen may repurchase in any given period. Also refer to Note 23 – Subsequent Events.

Note 16 – Derivative Financial Instruments and Hedging Activities

The table below summarizes the fair value, notional and maturity of our derivative instruments. The notional amount of our contracts does not represent our exposure to credit loss. None of the derivatives were designated as a hedge for accounting purposes as of or during the nine months ended September 30, 2022 and 2021.

	September 30, 2022			December 31, 2021		
	Maturities	Notional	Fair value	Maturities	Notional	Fair value
Derivative Assets (Other assets)						
Forward sales of reverse loans	Oct. 2022	\$ 40,000	\$ 173	Feb. 2022	\$ 175,000	\$ 364
Forward loans IRLCs	N/A	—	—	Jan. - Apr. 2022	1,021,978	16,074
Reverse loans IRLCs	Oct. 2022	19,224	610	Jan. 2022	63,327	2,011
TBA forward MBS trades	Oct. - Dec. 2022	1,448,000	23,977	Jan. - Mar. 2022	587,000	946
Interest rate swap futures	N/A	—	—	Mar. 2022	792,500	1,734
Interest rate option contracts	N/A	—	—	Jan. 2022	125,000	547
Total		\$ 1,507,224	\$ 24,760		\$ 2,764,805	\$ 21,675
Derivative Liabilities (Other liabilities)						
Forward loans IRLCs	Nov. 2022 - Feb. 2023	\$ 1,289,388	\$ (12,800)	N/A	\$ —	\$ —
Forward sales of reverse loans	Oct. 2022	30,000	(85)	N/A	—	—
TBA forward MBS trades	Oct. - Dec. 2022	418,000	(2,208)	Jan. - Mar. 2022	1,195,000	(1,185)
Interest rate swap futures	Dec. 2022	440,000	(7,274)	N/A	—	—
Interest rate option contracts	Oct. 2022	500,000	(1,172)	Feb. 2022	450,000	(824)
Other	N/A	11,907	(164)	N/A	—	(1,070)
Total		\$ 2,689,295	\$ (23,704)		\$ 1,645,000	\$ (3,080)

The table below summarizes the net gains and losses of our derivative instruments recognized in our consolidated statement of operations.

Gain (loss)	Three Months Ended September 30,		Nine Months Ended September 30,		Financial Statement Line
	2022	2021	2022	2021	
Derivative Instruments					
Forward loans IRLCs	\$ (17,953)	\$ (3,743)	\$ (28,834)	\$ (8,817)	Gain on loans held for sale, net
Reverse loans IRLCs	(250)	327	(1,421)	141	Reverse mortgage revenue, net
Reverse loans IRLCs (Equity IQ loans)	266	—	(20)	—	Gain on loans held for sale, net
TBA trades (economically hedging forward pipeline trades and EBO pipeline)	48,389	780	124,613	592	Gain on loans held for sale, net (Economic hedge)
TBA trades (economically hedging reverse pipeline trades)	(131)	—	(209)	—	Reverse mortgage revenue, net
Interest rate swap futures, TBA trades and interest rate option contracts	(23,814)	(12,607)	(107,490)	(3,310)	MSR valuation adjustments, net
Forward sales of Reverse loans	(478)	274	(276)	471	Reverse mortgage revenue, net
Other	—	(423)	—	(439)	Gain on loans held for sale, net
Other	(31)	—	906	—	Other, net
Total	\$ 5,998	\$ (15,392)	\$ (12,730)	\$ (11,362)	

Interest Rate Risk

MSR Hedging

MSRs are carried at fair value with changes in fair value being recorded in earnings in the period in which the changes occur. The fair value of MSRs is subject to changes in market interest rates among other inputs and assumptions.

Through May 2021, management implemented a macro-hedging strategy to reduce the volatility of the MSR portfolio attributable to interest rate changes. As a general matter, the impact of interest rates on the fair value of our MSR portfolio is naturally offset by other exposures, including our loan pipeline and our economic MSR value embedded in our reverse mortgage loan portfolio. Our hedging strategy was targeted at mitigating the residual exposure, which we referred to as our net MSR portfolio exposure. We defined our net MSR portfolio exposure as follows:

- our more interest rate-sensitive Agency MSR portfolio,
- less the Agency MSRs subject to our agreements with Rithm (See Note 8 — MSR Transfers Not Qualifying for Sale Accounting),
- less the unsecuritized reverse mortgage loans and tails classified as held for investment,
- less the asset value for securitized HECM loans, net of the corresponding HMBS-related borrowings, and
- less the net value of our held for sale loan portfolio and lock commitments (pipeline).

Effective May 2021, management started hedging its MSR portfolio and its pipeline separately (see below for further description of pipeline hedging), effectively ending the macro-hedge strategy previously in place. Under the new MSR hedging strategy, the interest-rate sensitive MSR portfolio exposure is now defined as follows:

- Agency MSR portfolio,
- expected Agency MSR bulk transactions subject to letters of intent (LOI),
- less the Agency MSRs subject to our sale agreements with Rithm and MAV (See Note 8 — MSR Transfers Not Qualifying for Sale Accounting),
- less the asset value for securitized HECM loans, net of the corresponding HMBS-related borrowings.

The objective of our MSR policy is to provide partial hedge coverage of interest-rate sensitive MSR portfolio exposure, considering market and liquidity conditions. The hedge coverage ratio, defined as the ratio of hedge and asset rate sensitivity (referred to as DV01) is subject to lower and upper thresholds, as modeled. As of September 30, 2022, a minimum 25% and 30% hedge coverage ratios were required for interest rate declines less than, and more than 50 basis points, respectively. Prior to September 30, 2022, the hedge coverage ratio was required to remain within a minimum of 40% and maximum of 60%. Accordingly, the changes in fair value of our hedging instruments may not fully offset the changes in fair value of our net MSR

portfolio exposure attributable to interest rate changes. We periodically evaluate the hedge coverage ratio at the intended shock interval to determine if it is relevant or warrants adjustment based on market conditions, symmetry of interest rate risk exposure, and liquidity impacts of both the hedge and asset profile under shock scenarios. As the market dictates, management may choose to maintain hedge coverage ratio levels at or beyond the above thresholds, with approval of the Market Risk Committee, in order to preserve liquidity and/or optimize asset returns. In addition, while DV01 measures may remain within the range of our hedging strategy's objective, actual changes in fair value of the derivatives and MSR portfolio may not offset to the same extent, due to non-parallel changes in the interest rate curve and the basis risk inherent in the MSR profile and hedging instruments, among other factors. We continuously evaluate the use of hedging instruments to strive to enhance the effectiveness of our interest rate hedging strategy.

Our derivative instruments include forward trades of MBS or Agency TBAs with different banking counterparties, exchange-traded interest rate swap futures and interest rate options. These derivative instruments are not designated as accounting hedges. TBAs, or To-Be-Announced securities, are actively traded, forward contracts to purchase or sell Agency MBS on a specific future date. From time-to-time, we enter into exchange-traded options contracts with purchased put options financed by written call options. We report changes in fair value of these derivative instruments in MSR valuation adjustments, net in our consolidated statements of operations, within the Servicing segment. We may, from time to time, establish inter-segment derivative instruments between the MSR and pipeline hedging strategies to optimize the use of third party derivatives. Such inter-segment derivatives are eliminated in our consolidated financial statements.

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

Pipeline Hedging - Interest Rate Lock Commitments and Loans Held for Sale, at Fair Value

In our Originations business, we are exposed to interest rate risk and related price risk during the period from the date of the interest rate lock commitment through (i) the lock commitment cancellation or expiration date or (ii) through the date of sale or securitization of the resulting loan into the secondary mortgage market. Loan commitments for forward loans generally range from 5 to 90 days, with the majority of our commitments to borrowers for 55 to 75 days and our commitments to correspondent sellers for 7 days. Loans held for sale are generally funded and sold within 3 to 20 days. This interest rate exposure was not individually hedged until May 2021, but rather used as an offset to our MSR exposure and managed as part of our MSR macro-hedging strategy described above. Effective May 2021, we implemented a new pipeline hedging strategy, whereby the interest rate exposure of loans and IRLCs is economically hedged with derivative instruments, including forward sales of Agency TBAs. The objective of our pipeline hedging strategy is to reduce the volatility of the fair value of IRLCs and loans due to market interest rates, thus to preserve the initial gain on sale margin at lock date. We report changes in fair value of these derivative instruments as gain or loss on economic hedge instruments within either Gain on loans held for sale, net and Reverse mortgage revenue, net in our consolidated statements of operations, respectively.

EBO and Loan Modification Hedging – Loans Held for Sale, at fair value

Effective February 2022, management started hedging certain Ginnie Mae EBO loans as well as loans in process of modification pending redelivery/re-securitization to manage interest rate risk. Such interest rate exposure on these loans held for sale accounted for at fair value is economically hedged using forward trades of TBAs. Changes in fair value of these derivative instruments are reported as gain or loss on economic hedge instruments within Gain on loans held for sale, net in our consolidated statements of operations.

Foreign Currency Exchange Rate Risk

Our operations in India and the Philippines expose us to foreign currency exchange rate risk to the extent that our foreign exchange positions remain unhedged. Depending on the magnitude and risk of our positions we may enter into forward exchange contracts to hedge against the effect of changes in the value of the India Rupee or Philippine Peso. We currently do not hedge our foreign currency exposure with derivative instruments. Foreign currency remeasurement exchange gains (losses) were \$(0.2) million and \$(0.2) million for the three and nine months ended September 30, 2022, respectively, and \$0.2 million and \$0.3 million during the three and nine months ended September 30, 2021, respectively, and are reported in Other, net in the consolidated statements of operations.

Note 17 – Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
OFC Senior Secured Notes (1)	\$ 10,578	\$ 10,238	\$ 31,461	\$ 21,351
PHH and PMC senior notes	7,748	8,245	24,002	23,581
MSR financing facilities	13,839	8,623	30,206	17,950
Mortgage loan warehouse facilities	10,785	8,985	24,574	20,673
Advance match funded liabilities	5,021	2,809	10,523	11,570
SSTL	—	—	—	2,956
Escrow	2,424	1,723	5,365	4,510
	<u>\$ 50,395</u>	<u>\$ 40,623</u>	<u>\$ 126,131</u>	<u>\$ 102,591</u>

(1) Notes issued to Oaktree affiliates, inclusive of amortization of debt issuance costs and discount of \$2.0 million and \$5.9 million for the three and nine months ended September 30, 2022, respectively, and \$1.6 million and \$3.4 million for the three and nine months ended September 30, 2021, respectively.

Note 18 – Basic and Diluted Earnings per Share

Basic earnings or loss per share excludes common stock equivalents and is calculated by dividing net income or loss attributable to Ocwen common stockholders by the weighted average number of common shares outstanding during the period. We calculate diluted earnings or loss per share by dividing net income or loss attributable to Ocwen by the weighted average number of common shares outstanding including the potential dilutive common shares related to outstanding restricted stock awards, stock options and warrants as determined using the treasury stock method.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Basic earnings per share				
Net income	\$ 36,939	\$ 21,552	\$ 105,375	\$ 19,773
Weighted average shares of common stock	8,530,209	9,189,030	8,998,298	8,960,696
Basic earnings per share	\$ 4.33	\$ 2.35	\$ 11.71	\$ 2.21
Diluted earnings per share				
Net income	\$ 36,939	\$ 21,552	\$ 105,375	\$ 19,773
Weighted average shares of common stock	8,530,209	9,189,030	8,998,298	8,960,696
Effect of dilutive elements				
Common stock warrants	131,092	65,593	136,471	97,426
Stock option awards	—	—	24	—
Common stock awards	205,624	147,235	161,064	161,049
Dilutive weighted average shares of common stock	8,866,925	9,401,858	9,295,857	9,270,751
Diluted earnings per share	\$ 4.17	\$ 2.29	\$ 11.34	\$ 2.13
Stock options and common stock awards excluded from the computation of diluted earnings per share				
Anti-dilutive (1)	271,933	166,153	276,988	155,213
Market-based (2)	68,236	87,509	68,236	87,509

(1) Includes stock options and stock awards that are anti-dilutive based on the application of the treasury stock method.

(2) Shares that are issuable upon the achievement of certain market-based performance criteria related to Ocwen's stock price.

Note 19 – Business Segment Reporting

Our business segments reflect the internal reporting that we use to evaluate operating performance of services and to assess the allocation of our resources. Our reportable business segments consist of Servicing, Originations, and Corporate Items and Other. During the nine months ended September 30, 2022, there have been no changes to our business segments as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021, with the exception of certain reclassifications disclosed below.

Effective in the first quarter of 2022, we recognize revaluation gains on Fannie Mae MSRs purchased through the Agency Cash Window Program within the Servicing segment that were historically reported in the Originations segment. MSR valuation adjustments, net for the Servicing and Originations segments have been revised for prior periods to conform to the current segment presentation. Such revaluation gains were \$1.5 million for the three and nine months ended September 30, 2021.

Revenues and expenses directly associated with each respective business segments are included in determining its results of operations. We allocate certain expenses incurred by corporate support services to each business segment using various methodologies intended to approximate the utilization of such services. We allocate overhead costs incurred by corporate support services to the Servicing and Originations segments which incorporates the utilization of various measurements primarily based on time studies, personnel volumes and service consumption levels. Support services costs not allocated to the Servicing and Originations segments are retained in the Corporate Items and Other segment along with certain other costs including certain litigation and settlement related expenses or recoveries, costs related to our re-engineering initiatives, and other costs related to operating as a public company. Interest expense on direct asset-backed financings are recorded in the respective Servicing and Originations segments. We allocate interest expense on corporate debt from Corporate Items and Other to the Servicing segment and the Originations segment (starting in the fourth quarter of 2021) based on relative financing requirements. Effective in the first quarter of 2022, we no longer allocate interest expense on the OFC Senior Secured Notes to the Servicing and Originations segments. Interest expense allocated to the Servicing and Originations segments for prior

periods has been revised to conform to the current period presentation. The interest expense allocation adjustment for the three and nine months ended September 30, 2021 is \$7.5 million (\$7.3 million Servicing and \$0.2 million Originations) and \$14.9 million (\$14.7 million Servicing and \$0.2 million Originations), respectively.

As a result of our risk management strategy to hedge the interest rate risk of our net MSR portfolio, the fair value changes of third-party derivative instruments were reported within MSR valuation adjustments, net. For management segment reporting purposes, we established inter-segment derivative instruments to transfer the risks and allocate the associated fair value changes of derivatives between Servicing and Originations, and specifically between MSR valuation adjustments, net and Gain on loans held for sale, net (Gain/loss on economic hedge instruments). In the second quarter of 2021, we began separately hedging our MSR portfolio and pipeline. We may, from time to time, establish intersegment derivative instruments between our MSR and pipeline hedging strategies to optimize the use of third-party derivatives. The inter-segment derivative fair value changes are eliminated in the consolidated financial statements in the Corporate Eliminations column in the table below.

Financial information for our segments is as follows:

Results of Operations	Three Months Ended September 30, 2022				
	Servicing	Originations	Corporate Items and Other	Corporate Eliminations (1)	Business Segments Consolidated
Servicing and subservicing fees	\$ 214,977	\$ 585	\$ —	\$ —	\$ 215,562
Reverse mortgage revenue, net	(3,636)	10,521	—	—	6,885
Gain (loss) on loans held for sale, net (1)	154	20,746	—	(1,969)	18,931
Other revenue, net	343	6,457	1,544	—	8,344
Revenue	211,838	38,309	1,544	(1,969)	249,722
MSR valuation adjustments, net (1)	89,569	3,621	—	1,969	95,159
Operating expenses (2)	86,100	33,256	22,052	—	141,408
Other (expense) income:					
Interest income	2,895	10,361	476	—	13,732
Interest expense	(30,907)	(8,931)	(10,557)	—	(50,395)
Pledged MSR liability expense	(131,672)	—	37	—	(131,635)
Earnings of equity method investee	3,346	—	—	—	3,346
Other	(4,000)	(605)	(933)	—	(5,538)
Other income (expense), net	(160,338)	825	(10,977)	—	(170,490)
Income (loss) before income taxes	\$ 54,969	\$ 9,499	\$ (31,485)	\$ —	\$ 32,983

Three Months Ended September 30, 2021

Results of Operations	Servicing	Originations	Corporate Items and Other	Corporate Eliminations (1)	Business Segments Consolidated
Servicing and subservicing fees	\$ 205,430	\$ 1,155	\$ —	\$ —	\$ 206,585
Reverse mortgage revenue, net	(13,032)	18,067	—	—	5,035
Gain on loans held for sale, net (1)	31,555	29,604	—	(1,457)	59,702
Other revenue, net	303	9,947	1,529	—	11,779
Revenue	<u>224,256</u>	<u>58,773</u>	<u>1,529</u>	<u>(1,457)</u>	<u>283,101</u>
MSR valuation adjustments, net (1)	(9,117)	1,340	—	1,457	(6,320)
Operating expenses	80,849	43,966	20,621	—	145,436
Other (expense) income:					
Interest income	2,417	5,348	104	—	7,869
Interest expense	(21,643)	(6,542)	(12,438)	—	(40,623)
Pledged MSR liability expense	(91,120)	—	(40)	—	(91,160)
Earnings of equity method investee	932	—	—	—	932
Other	1,443	122	335	—	1,900
Other expense, net	<u>(107,971)</u>	<u>(1,072)</u>	<u>(12,039)</u>	<u>—</u>	<u>(121,082)</u>
Income (loss) before income taxes	<u>\$ 26,319</u>	<u>\$ 15,075</u>	<u>\$ (31,131)</u>	<u>\$ —</u>	<u>\$ 10,263</u>

Nine Months Ended September 30, 2022

Results of Operations	Servicing	Originations	Corporate Items and Other	Corporate Eliminations (1)	Business Segments Consolidated
Servicing and subservicing fees	\$ 641,679	\$ 1,638	\$ —	\$ —	\$ 643,316
Reverse mortgage revenue, net	(34,517)	51,896	—	—	17,379
Gain on loans held for sale, net (1)	(14,015)	46,059	—	(15,379)	16,665
Other revenue, net	1,107	19,999	4,978	—	26,084
Revenue	<u>594,254</u>	<u>119,592</u>	<u>4,978</u>	<u>(15,379)</u>	<u>703,444</u>
MSR valuation adjustments, net (1)	168,300	7,310	—	15,379	190,989
Operating expenses (2)	242,882	121,966	47,949	—	412,797
Other (expense) income:					
Interest income	9,946	19,942	701	—	30,590
Interest expense	(76,305)	(18,301)	(31,525)	—	(126,131)
Pledged MSR liability expense	(292,677)	—	61	—	(292,616)
Earnings of equity method investee	19,281	—	—	—	19,281
Gain (loss) on extinguishment of debt	(33)	—	947	—	914
Other	(7,564)	(1,731)	(641)	—	(9,936)
Other expense, net	<u>(347,352)</u>	<u>(90)</u>	<u>(30,457)</u>	<u>—</u>	<u>(377,898)</u>
Income (loss) before income taxes	<u>\$ 172,320</u>	<u>\$ 4,846</u>	<u>\$ (73,428)</u>	<u>\$ —</u>	<u>\$ 103,738</u>

Nine Months Ended September 30, 2021

Results of Operations	Servicing	Originations	Corporate Items and Other	Corporate Eliminations (1)	Business Segments Consolidated
Servicing and subservicing fees	\$ 556,927	\$ 5,837	\$ —	\$ —	\$ 562,764
Reverse mortgage revenue, net	(511)	56,673	—	—	56,162
Gain on loans held for sale, net (1)	39,206	94,471	—	(25,541)	108,136
Other revenue, net	1,302	23,450	4,326	—	29,078
Revenue	<u>596,924</u>	<u>180,431</u>	<u>4,326</u>	<u>(25,541)</u>	<u>756,140</u>
MSR valuation adjustments, net (1)	(101,755)	18,652	—	25,541	(57,562)
Operating expenses	247,228	121,877	65,768	—	434,873
Other (expense) income:					
Interest income	4,905	10,776	312	—	15,993
Interest expense	(57,861)	(14,794)	(29,936)	—	(102,591)
Pledged MSR liability expense	(168,847)	—	27	—	(168,820)
Earnings of equity method investee	1,282	—	—	—	1,282
Gain (loss) on extinguishment of debt	—	—	(15,458)	—	(15,458)
Other	4,787	4	763	—	5,554
Other expense, net	<u>(215,734)</u>	<u>(4,014)</u>	<u>(44,292)</u>	<u>—</u>	<u>(264,040)</u>
Income (loss) before income taxes	<u>\$ 32,207</u>	<u>\$ 73,192</u>	<u>\$ (105,734)</u>	<u>\$ —</u>	<u>\$ (335)</u>

- (1) Corporate Eliminations includes inter-segment derivatives eliminations of \$2.0 million and \$15.4 million for the three and nine months ended September 30, 2022, respectively, and \$1.5 million and \$25.5 million for the three and nine months ended September 30, 2021, respectively, reported as Gain on loans held for sale, net with a corresponding offset in MSR valuation adjustments, net.
- (2) Included in Professional services expense are reimbursements received from mortgage loan investors related to prior year legal expenses and payments received following resolution of legacy litigation matters of \$4.3 million (Servicing) and \$25.3 million (\$18.4 million Servicing and \$6.9 million Corporate) during the three and nine months ended September 30, 2022, respectively.

Total Assets	Servicing	Originations	Corporate Items and Other	Business Segments Consolidated
September 30, 2022	\$ 11,322,586	\$ 731,057	\$ 306,426	\$ 12,360,069
December 31, 2021	\$ 10,999,204	\$ 823,530	\$ 324,389	\$ 12,147,123
September 30, 2021	\$ 10,810,298	\$ 865,018	\$ 364,922	\$ 12,040,238

Depreciation and Amortization Expense	Servicing		Originations		Corporate Items and Other		Business Segments Consolidated	
Three months ended September 30, 2022								
Depreciation expense	\$	245	\$	108	\$	2,127	\$	2,480
Amortization of debt issuance costs and discount		203		—		2,240		2,443
Amortization of intangibles		1,207		—		—		1,207
Three months ended September 30, 2021								
Depreciation expense	\$	137	\$	77	\$	2,247	\$	2,461
Amortization of debt issuance costs and discount		129		—		2,076		2,205
Nine months ended September 30, 2022								
Depreciation expense	\$	669	\$	322	\$	6,658	\$	7,649
Amortization of debt issuance costs and discount		618		—		6,908		7,526
Amortization of intangibles		3,332		—		—		3,332
Nine months ended September 30, 2021								
Depreciation expense	\$	514	\$	125	\$	6,888	\$	7,527
Amortization of debt issuance costs and discount		388		—		5,050		5,438

Note 20 – Regulatory Requirements

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

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

In addition, a number of foreign laws and regulations apply to our operations outside of the U.S., including laws and regulations that govern licensing, privacy, employment, safety, payroll and other taxes and insurance and laws and regulations that govern the creation, continuation and the winding up of companies as well as the relationships between shareholders, our corporate entities, the public and the government in these countries. Our foreign subsidiaries are subject to inquiries and examinations from foreign governmental regulators in the countries in which we operate outside of the U.S.

Our licensed entities are required to renew their licenses, typically on an annual basis, and to do so they must satisfy the license renewal requirements of each jurisdiction, which generally include financial requirements such as providing audited

financial statements and satisfying minimum net worth requirements and non-financial requirements such as satisfactory completion of examinations relating to the licensee's compliance with applicable laws and regulations. We are also subject to seller/servicer obligations under agreements with the GSEs, HUD, FHA, VA and Ginnie Mae, including capital requirements related to tangible net worth, as defined by the applicable agency, an obligation to provide audited financial statements within 90 days of the applicable entity's fiscal year end as well as extensive requirements regarding servicing, selling and other matters. We believe our licensed entities were in compliance with all of their minimum net worth requirements at September 30, 2022. Our non-Agency servicing agreements also contain requirements regarding servicing practices and other matters, and a failure to comply with these requirements could have a material adverse impact on our business. The most restrictive of the various net worth requirements for licensing and seller/servicer obligations referenced above is based on the UPB of assets serviced by PMC. Under the applicable formula, the required minimum net worth was \$364.9 million at September 30, 2022. PMC's adjusted net worth was \$678.7 million at September 30, 2022. The most restrictive of the various liquidity requirements for licensing and seller/servicer obligations referenced above pertains to PMC and was \$40.3 million at September 30, 2022. PMC's liquid assets were \$205.3 million at September 30, 2022.

On August 17, 2022, the FHFA and Ginnie Mae announced updated minimum financial eligibility requirements for GSE seller/servicers and Ginnie Mae issuers. The updated minimum financial eligibility requirements modify the definitions of tangible net worth and eligible liquidity, modify their minimum standard measurement and include a new risk-based capital ratio, among other changes. On September 21, 2022, at the direction of the FHFA, Fannie Mae and Freddie Mac announced similar revisions to minimum financial eligibility requirements. The majority of the updated requirements are effective on September 30, 2023. On October 21, 2022, Ginnie Mae extended the compliance date for its risk-based capital requirements to December 31, 2024. We are currently evaluating the potential impacts of these updated requirements.

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

California Department of Financial Protection and Innovation (CA DFPI). In January 2015 and February 2017, Ocwen Loan Servicing, LLC (OLS) entered into consent orders with the CA DFPI (formerly known as the California Department of Business Oversight) relating to our alleged failure to produce certain information and documents during a routine licensing examination and relating to alleged servicing practices. We have completed all of our obligations under each of these consent orders. We continue to work with the CA DFPI to address matters they raise with us, including regarding the post-boarding process to verify loan and payment terms are properly implemented, calculated, and applied.

Note 21 — Commitments

Unfunded Lending Commitments

We have originated floating-rate reverse mortgage loans under which the borrowers have additional borrowing capacity of \$1.7 billion at September 30, 2022. This additional borrowing capacity is available on a scheduled or unscheduled payment basis. During the nine months ended September 30, 2022, we funded \$181.2 million out of the \$1.5 billion borrowing capacity as of December 31, 2021. We also had short-term commitments to lend \$1.3 billion and \$19.2 million in connection with our forward and reverse mortgage loan IRLCs, respectively, outstanding at September 30, 2022. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, referred to as warehouse lines.

HMBS Issuer Obligations

As an HMBS issuer, we are required to purchase loans out of the Ginnie Mae securitization pools once the outstanding principal balance of a reverse mortgage loan is equal to or greater than 98% of the maximum claim amount (MCA repurchases),

or when they become inactive (the borrower is deceased, no longer occupies the property or is delinquent on tax and insurance payments). Our subservicing clients bear the financial obligation and risks associated with purchasing loans out of securitization pools within the portfolio we subservice.

Activity with regard to HMBS repurchases, primarily MCA repurchases, are as follows:

	Nine Months Ended September 30, 2022					
	Active		Inactive		Total	
	Number	Amount	Number	Amount	Number	Amount
Beginning balance	138	\$ 35,322	448	\$ 93,813	586	\$ 129,135
Additions	435	115,149	154	39,118	589	154,267
Recoveries, net (1)	(370)	(98,782)	(147)	(34,732)	(517)	(133,514)
Transfers	(11)	(4,791)	11	4,791	—	—
Changes in value	—	74	—	(2,787)	—	(2,713)
Ending balance	<u>192</u>	<u>\$ 46,972</u>	<u>466</u>	<u>\$ 100,203</u>	<u>658</u>	<u>\$ 147,175</u>

(1) Includes amounts received upon assignment of loan to HUD, loan payoff, REO liquidation and claim proceeds less any amounts charged off as unrecoverable.

Rithm Relationship (formerly NRZ)

Our Servicing segment has exposure to concentration risk and client retention risk. As of September 30, 2022, our servicing portfolio included significant client relationships with Rithm which represented 18% and 28% of our total servicing portfolio UPB and loan count, respectively, and approximately 69% of all delinquent loans that Ocwen services. Our Subservicing Agreements and Servicing Addendum with Rithm are in their Second Terms that end December 31, 2023. At the end of the Second Term, subject to notice by October 1, 2023, Rithm has the right to terminate the Subservicing Agreements and Servicing Addendum for convenience. If Rithm exercised its right to terminate all or some of the agreements for convenience at the end of the Second Term on December 31, 2023, we might need to right-size certain aspects of our servicing business as well as the related corporate support functions. Receivables and Other liabilities recorded on our consolidated balance sheets as well as the impacts to our consolidated statements of operations in connection with our Rithm agreements are disclosed in Note 8 — MSR Transfers Not Qualifying for Sale Accounting.

Note 22 – Contingencies

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

Litigation

In the ordinary course of business, we are a defendant in, or a party or potential party to, many threatened and pending legal proceedings, including proceedings brought by borrowers, regulatory agencies (discussed further under “Regulatory” below), those brought on behalf of various classes of claimants, and those brought derivatively on behalf of Ocwen against certain current or former officers and directors or others, and those brought under the False Claims Act by private citizens on behalf of the U.S. In addition, we may be a party or potential party to threatened or pending legal proceedings brought by fair-housing advocates, current and former commercial counterparties and market competitors, including, among others, claims related to the sale or purchase of loans, MSRs or other assets, and breach of contract actions, parties on whose behalf we service or serviced mortgage loans, parties who provide ancillary services including property preservation and other post-foreclosure related services, and parties who provide or provided consulting, subservicing, or other services to Ocwen.

The majority of these proceedings are based on alleged violations of federal, state and local laws and regulations governing our mortgage servicing and lending activities, including, among others, the Dodd-Frank Act, the Gramm-Leach-Bliley Act, the

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

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

Where we determine that a loss contingency is probable in connection with a pending or threatened legal proceeding and the amount of our loss can be reasonably estimated, we record an accrual for the loss. We have accrued for losses relating to threatened and pending litigation that we believe are probable and reasonably estimable based on current information regarding these matters. Where we determine that a loss is not probable but is reasonably possible or where a loss in excess of the amount accrued is reasonably possible, we disclose an estimate of the amount of the loss or range of possible losses for the claim if a reasonable estimate can be made, unless the amount of such reasonably possible loss is not material to our financial position, results of operations or cash flows. It is possible that we will incur losses relating to threatened and pending litigation that materially exceed the amount accrued. Our accrual for probable and estimable legal and regulatory matters, including accrued legal fees, was \$47.1 million at September 30, 2022. We cannot currently estimate the amount, if any, of reasonably possible losses above amounts that have been recorded at September 30, 2022.

As previously disclosed, we are subject to individual lawsuits relating to our FDCPA compliance and putative state law class actions based on the FDCPA and similar state statutes. We are currently defending five class actions challenging, under state and federal law, our practice of charging borrowers a fee to use certain optional payment methods (*Morris v. PHH Mortg. Corp., et al.* (S.D. FL), *Torliatt v. PHH Mortg. Corp., et al.* (N.D. Ca), *Thacker v. PHH Mortg. Corp., et al.* (N.D. WV), *Forest v. PHH Mortg. Corp., et al.* (D. RI), and *Williams v. PHH Mortg. Corp., et al.* (S.D. TX). We have reached settlements in four of these class actions. In the *Torliatt* matter, the Court granted preliminary approval of the parties' proposed settlement and scheduled the final fairness hearing for November 16, 2022. In the *Thacker* class action, the Court granted preliminary approval of the parties' proposed settlement and scheduled the final fairness hearing for November 14, 2022. Finally, we have reached tentative agreements with the plaintiffs in both the *Morris* and *Williams* class actions and we are currently finalizing the settlement agreements in both matters before filing motions for preliminary approval.

In addition, we continue to be involved in legacy matters arising prior to Oewen's October 2018 acquisition of PHH, including a putative class action filed in 2008 in the United States District Court for the Eastern District of California against PHH and related entities alleging that PHH's legacy mortgage reinsurance arrangements between its captive reinsurer, Atrium Insurance Corporation, and certain mortgage insurance providers violated RESPA. See *Munoz v. PHH Mortgage Corp. et al.* (Eastern District of California). In June 2015, the court certified a class of borrowers who obtained loans with private mortgage insurance through PHH's captive reinsurance arrangement between June 2007 and December 2009. PHH asserted numerous defenses to the merits of the case. Following pre-trial developments in August 2020, the only issues remaining for trial were whether the plaintiffs had standing to bring their claims and whether the reinsurance services provided by PHH's captive reinsurance subsidiary, Atrium, were actually provided in order for the safe harbor provision of RESPA to apply. On January 31, 2022, the Court denied a motion by the plaintiffs to enter new evidence and a motion by PHH to decertify the class, which motion PHH may renew if the case ultimately goes to trial. Following the entry of this order, at the request of the parties, the Court dismissed all of the plaintiffs' claims for lack of standing and entered judgment in favor of PHH. The plaintiffs appealed.

to the United States Court of Appeals for the Ninth Circuit and that appeal is now fully briefed. Ocwen will continue to vigorously defend itself. Our current accrual with respect to this matter is included in the \$47.1 million legal and regulatory accrual referenced above. At this time, Ocwen is unable to predict the outcome of this lawsuit or the possible loss or range of loss, if any, associated with the resolution of such lawsuit. If our efforts to defend this lawsuit are not successful, our business, reputation, financial condition, liquidity and results of operations could be materially and adversely affected.

The same plaintiffs who filed a TCPA class action against Ocwen subsequently filed a similar class action against trustees of RMBS trusts based on vicarious liability for Ocwen's alleged non-compliance with the TCPA. This class action filed against the trustees has settled, and while the trustees previously have indicated their intent to seek indemnification from Ocwen based on the vicarious liability claims, they have yet to take any formal action. Additional lawsuits have been and may be filed against us in relation to our TCPA compliance. However, a recent Supreme Court decision significantly undercuts the predominant theory of liability under the TCPA, and should provide even greater defenses on which Ocwen can rely when defending existing lawsuits or any additional lawsuits that may be filed. Nevertheless, given the recency of this Supreme Court decision, and the lack of opportunity for lower courts to interpret and apply it, it remains difficult to predict the possible loss or range of loss, if any, above the amount accrued or the potential impact such lawsuits may have on us or our operations. Ocwen intends to vigorously defend against these lawsuits. If our efforts to defend these lawsuits are not successful, our business, reputation, financial condition, liquidity and results of operations could be materially and adversely affected.

Ocwen is a defendant in a certified class action in the U.S. District Court in the Eastern District of California where the plaintiffs claim Ocwen marked up fees for property valuations and title searches in violation of California state law. See *Weiner v. Ocwen Financial Corp., et al.* In May 2020, the court ruled that plaintiff's recoverable damages are limited to out-of-pocket costs, *i.e.*, the amount of marked-up fees actually paid, rather than the entire cost of the valuation that plaintiffs sought. Following further pre-trial developments, on August 3, 2022, the Court entered an order granting our motion to decertify each of the three classes. On August 17, 2022, plaintiffs filed a petition for permission to appeal the decertification decision and a motion asking the trial court to reconsider its decertification decision, each of which we opposed and are pending a ruling. At this time, Ocwen is unable to predict the outcome of this lawsuit or any additional lawsuits that may be filed, the possible loss or range of loss, if any, associated with the resolution of such lawsuits or the potential impact such lawsuits may have on us or our operations. Ocwen intends to vigorously defend against this lawsuit. If our efforts to defend this lawsuit are not successful, our business, financial condition liquidity and results of operations could be materially and adversely affected. Ocwen may have affirmative indemnification rights and/or other claims against third parties related to the allegations in the lawsuit. Although we may pursue these claims, we cannot currently estimate the amount, if any, of recoveries from these third parties.

We are currently involved in a dispute with a former subservicing client, HSBC Bank USA, N.A. (HSBC), which filed a complaint in the Supreme Court of the State of New York against PHH. See *HSBC Bank USA, N.A. v. PHH Mortgage Corp.* (Supreme Court of the State of New York). HSBC's claims relate to alleged breaches of agreements entered into under a prior subservicing arrangement and origination assistance agreement. In its complaint, HSBC also asserted a claim for fraud, which was dismissed by the Court. PHH has answered the complaint and has asserted counterclaims against HSBC for breach of contract. We believe we have strong factual and legal defenses to the remaining claims and are vigorously defending the action. Ocwen is currently unable to predict the outcome of this dispute or estimate the size of any loss which could result from a potential resolution reached through litigation or otherwise.

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

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

In addition, several RMBS trustees have received notices of events of default alleging material failures by servicers to comply with applicable servicing agreements. Although Ocwen has not been sued by an RMBS trustee in response to an event of default notice, there is a risk that Ocwen could be replaced as servicer as a result of said notices, that the trustees could take legal action on behalf of the trust certificate holders, or, under certain circumstances, that the RMBS investors who issue notices

of event of default could seek to press their allegations against Ocwen, independent of the trustees. We are unable at this time to predict what, if any, actions any trustee will take in response to an event of default notice, nor can we predict at this time the potential loss or range of loss, if any, associated with the resolution of any event of default notice or the potential impact on our operations. If Ocwen were to be terminated as servicer, or other related legal actions were pursued against Ocwen, it could have an adverse effect on Ocwen's business, reputation, financial condition, liquidity and results of operations.

Regulatory

We are subject to a number of ongoing federal and state regulatory examinations, consent orders, inquiries, subpoenas, civil investigative demands, requests for information and other actions. We may also on occasion be subject to foreign regulatory actions in the countries where we operate outside the U.S. Where we determine that a loss contingency is probable in connection with a regulatory matter and the amount of our loss can be reasonably estimated, we record an accrual for the loss. Where we determine that a loss is not probable but is reasonably possible or where a loss in excess of the amount accrued is reasonably possible, we disclose an estimate of the amount of the loss or range of possible losses for the claim if a reasonable estimate can be made, unless the amount of such reasonably possible loss is not material to our financial position, results of operations or cash flows. It is possible that we will incur losses relating to regulatory matters that materially exceed any accrued amount. Our accrual for probable and estimable legal and regulatory matters, including accrued legal fees, was \$47.1 million at September 30, 2022. We cannot currently estimate the amount, if any, of reasonably possible losses above amounts that have been recorded at September 30, 2022. Predicting the outcome of any regulatory matter is inherently difficult and we generally cannot predict the eventual outcome of any regulatory matter or the eventual loss, if any, associated with the outcome.

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

CFPB

In April 2017, the CFPB filed a lawsuit in the federal district court for the Southern District of Florida against Ocwen, Ocwen Mortgage Servicing, Inc. (OMS) and OLS alleging violations of federal consumer financial laws relating to our servicing business dating back to 2014. The CFPB's claims include allegations regarding (1) the adequacy of Ocwen's servicing system and integrity of Ocwen's mortgage servicing data, (2) Ocwen's foreclosure practices and (3) various purported servicer errors with respect to borrower escrow accounts, hazard insurance policies, timely cancellation of private mortgage insurance, handling of customer complaints, and marketing of optional products. The CFPB alleges violations of laws prohibiting unfair, deceptive or abusive acts or practices, as well as violations of other laws or regulations. The CFPB does not claim specific monetary damages, although it does seek consumer relief, disgorgement of allegedly improper gains, and civil money penalties. The parties participated in mediation in October 2020 and subsequently held additional settlement discussions. However, the parties were unable to reach a resolution of the litigation.

On March 4, 2021, the court issued an order granting in part and reserving ruling in part on Ocwen's motion for summary judgment. In that order, the court granted Ocwen summary judgment on 9 of 10 counts in the CFPB's amended complaint, finding that the CFPB's allegations were barred under the principles of claim preclusion or *res judicata* to the extent those claims are premised on servicing activity occurring prior to February 26, 2017 and are covered by a 2014 Consent Judgment entered by the United States District Court for the District of Columbia. The CFPB subsequently filed its Second Amended Complaint to remove count 10 as well as allegations in counts 1-9 concerning servicing activity that occurred after February 26, 2017. On April 21, 2021, the court entered final judgment in our favor, denied all pending motions as moot, and closed the case. The CFPB thereafter filed a notice of appeal. Appellate briefing concluded August 26, 2021, and oral argument before the Eleventh Circuit occurred on February 10, 2022. On April 6, 2022, the Eleventh Circuit issued its opinion, largely adopting the district court's decision precluding the CFPB from bringing claims covered by the National Mortgage Settlement, but vacating and remanding the case back to the district court to determine which, if any, claims are not covered and may still be brought by the CFPB. Neither party sought rehearing of the Eleventh Circuit's decision. Opening briefs were filed with the district court on September 1, 2022 and response briefs were filed on September 22, 2022. Ocwen will continue to vigorously defend itself.

Our current accrual with respect to this matter is included in the \$47.1 million legal and regulatory accrual referenced above. The outcome of the matters raised by the CFPB, whether through negotiated settlements, court rulings or otherwise, could potentially involve monetary fines or penalties or additional restrictions on our business and could have a material adverse impact on our business, reputation, financial condition, liquidity and results of operations.

State Licensing, State Attorneys General and Other Matters

Our licensed entities are required to renew their licenses, typically on an annual basis, and to do so they must satisfy the license renewal requirements of each jurisdiction, which generally include financial requirements such as providing audited financial statements or satisfying minimum net worth requirements and non-financial requirements such as satisfactorily completing examinations as to the licensee's compliance with applicable laws and regulations. Failure to satisfy any of the requirements to which our licensed entities are subject could result in a variety of regulatory actions ranging from a fine, a directive requiring a certain step to be taken, entry into a consent order, a suspension or ultimately a revocation of a license, any of which could have a material adverse impact on our results of operations and financial condition. In addition, we receive information requests and other inquiries, both formal and informal in nature, from our state financial regulators as part of their general regulatory oversight of our servicing and lending businesses, as well as from state attorneys general, the CFPB and other federal agencies, including the Department of Justice and various inspectors general. For example, we have received requests regarding the charging of certain fees to borrowers; the post-boarding process to verify loan and payment terms are properly implemented, calculated, and applied; bankruptcy practices; COVID-19-related forbearance and post-forbearance options; and Homeowner Assistance Fund participation and implementation. Many of our regulatory engagements arise from a complaint that the entity is investigating, although some are formal investigations or proceedings. The GSEs (and their conservator, FHFA), HUD, FHA, VA, Ginnie Mae, the United States Treasury Department, and others also subject us to periodic reviews and audits. We have in the past resolved, and may in the future resolve, matters via consent orders, payments of monetary amounts and other agreements in order to settle issues identified in connection with examinations or other oversight activities, and such resolutions could have material and adverse effects on our business, reputation, operations, results of operations and financial condition.

In April 2017 and shortly thereafter, mortgage and banking regulatory agencies from 29 states and the District of Columbia took administrative actions against OLS and certain other Ocwen companies that alleged deficiencies in our compliance with laws and regulations relating to our servicing and lending activities. We resolved the majority of these matters in 2017 and resolved the remaining matters in early 2018. An additional state regulator brought legal action together with that state's attorney general, which we resolved in 2020. In resolving these matters, we entered into agreements that contained certain restrictions and commitments with respect to the operation of our business and our regulatory compliance activities, including certain restrictions and conditions relating to acquisitions of MSRs, a transition to an alternate loan servicing system from the REALServicing system, engagement of third-party auditors, escrow and data testing, error remediation, and financial condition reporting. We also provided certain borrower financial remediation and made payments to state regulators. We believe we have completed all material obligations under these agreements, although a few remaining reporting and other such obligations are ongoing.

On occasion, we engage with agencies of the federal government on various matters. For example, Ocwen was named as a defendant in a HUD administrative complaint filed by a non-profit organization in 2017 alleging discrimination in the manner in which Ocwen maintains REO properties in minority communities. In February 2018, this matter was administratively closed, and similar claims were filed in federal court. We believe these claims are without merit and intend to vigorously defend ourselves.

In 2017, Ocwen received a subpoena from the Office of the Special Inspector General for the Troubled Asset Relief Program requesting documents and information related to Ocwen's participation in the Treasury Department's Making Home Affordable Program. Ocwen has also received subpoenas that appear to relate to federal government agency initiatives relating to our industry generally, since we understand other lenders and servicers have received similar subpoenas. These include subpoenas in 2016 and 2017 from the Office of Inspector General of HUD requesting documentation related to HECM loans and lender-placed insurance arrangements with a mortgage insurer and a 2019 subpoena from the VA Office of the Inspector General requesting documentation related to the origination and underwriting of loans guaranteed by the Veterans Benefits Administration. In each instance, we have provided documents and information in response to these subpoenas.

Loan Put-Back and Related Contingencies

We have exposure to representation, warranty and indemnification obligations relating to our Originations business, including lending, loan sales and securitization activities, and relating to our servicing practices. We do not provide or assume any origination representations and warranties in connection with our MSR purchases through MSR flow purchase agreements or Agency Cash Window programs.

At September 30, 2022 and September 30, 2021, we had outstanding representation and warranty repurchase demands of \$53.3 million UPB (280 loans) and \$59.6 million UPB (301 loans), respectively. We review each demand and monitor through resolution, primarily through rescission, loan repurchase or make-whole payment.

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

	Nine Months Ended September 30,	
	2022	2021
Beginning balance (1)	\$ 49,430	\$ 40,374
Provision (reversal) for representation and warranty obligations	1,800	1,483
New production liability	2,299	3,227
Charge-offs and other (2)	(2,730)	(2,530)
Ending balance (1)	<u>\$ 50,798</u>	<u>\$ 42,554</u>

(1) The liability for representation and warranty obligations and compensatory fees for foreclosures is reported in Other liabilities (a component of Liability for indemnification obligations) on our unaudited consolidated balance sheets.

(2) Includes principal and interest losses realized in connection with repurchased loans, make-whole, indemnification and fee payments and settlements net of recoveries, if any.

We believe that it is reasonably possible that losses beyond amounts currently recorded for potential representation and warranty obligations and other claims described above could occur, and such losses could have an adverse impact on our results of operations, financial condition or cash flows. However, based on currently available information, we are unable to estimate a range of reasonably possible losses above amounts that have been recorded at September 30, 2022.

Other

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

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

Note 23 – Subsequent Events

During October 2022, we completed the repurchase of 344,246 shares of our common stock in the open market at prevailing market prices for a total purchase price of \$9.0 million and at an average price paid per share of \$26.13. These shares were repurchased under the \$50.0 million program authorized by Ocwen's Board of Directors in May 2022. See Note 15 – Stockholders' Equity for additional information.

On November 2, 2022, Ocwen and Oaktree entered into an agreement modifying certain terms relating to the capitalization, management and operations of the MSR joint venture, MAV Canopy. Under the terms of the agreement, Ocwen and Oaktree agreed to increase the aggregate capital contributions to MAV Canopy by up to an additional \$250 million through May 2, 2024, subject to extension. Ocwen may elect to contribute its 15% *pro rata* share of the additional capital commitment. To the extent Ocwen does not contribute its *pro rata* share of the additional capital commitment, the ownership percentages held by Ocwen and Oaktree will be adjusted based on the parties' current percentage interests, capital contributions and book value. In connection with the increased commitment, the parties agreed to reduce Ocwen's Promote Distribution. Also refer to Note 10 - Investment in Equity Method Investee and Related Party Transactions.

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

We are a leading non-bank mortgage servicer and originator providing solutions through our primary brands, PHH Mortgage and Liberty Reverse Mortgage. PHH Mortgage is one of the largest servicers in the country, focused on delivering a variety of servicing and lending programs. Liberty is one of the nation's largest reverse mortgage lenders dedicated to education and providing loans that help customers meet their personal and financial needs. We serviced 1.4 million loans with a total UPB of \$283.3 billion on behalf of more than 3,800 investors and 95 subservicing clients as of September 30, 2022. We service all mortgage loan classes, including conventional, government-insured, non-Agency, small-balance commercial and multi-family loans. Our originations business is part of our balanced business model to generate gains on loan sales and profitable returns, and to support the replenishment and the growth of our servicing portfolio. Through our retail, correspondent and wholesale channels, we originate and purchase conventional and government-insured forward and reverse mortgage loans that we sell or securitize on a servicing retained basis. In addition, we grow our mortgage servicing volume through MSR flow purchase agreements, Agency Cash Window programs, bulk MSR purchase transactions, and subservicing agreements.

The table below summarizes the volume of Originations by channel, in the third quarter of 2022, compared with the preceding quarter, and the nine months ended September 30, 2022 compared with the corresponding period of the prior year. The volume of Originations is a key driver of the profitability of our Originations segment, together with margins, and a key driver of the replenishment and growth of our Servicing segment.

\$ in billions

	UPB			
	Three Months Ended		Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2022	September 30, 2021
Mortgage servicing originations				
Retail - Consumer Direct MSR (1)	\$ 0.16	\$ 0.32	\$ 1.14	\$ 1.71
Correspondent MSR (1)	5.07	3.94	11.69	10.51
Flow and Agency Cash Window MSR purchases (2)	2.05	3.21	9.35	17.06
Reverse mortgage servicing (3)	0.29	0.43	1.27	1.03
Total servicing	7.57	7.90	23.45	30.30
Bulk purchases (2)	4.33	—	4.33	55.13
Bulk purchases - reverse (2)	—	—	0.21	—
Total servicing additions	11.90	7.90	27.99	85.44
Subservicing additions (4)	5.86	18.93	37.03	23.24
Total servicing and subservicing UPB additions	\$ 17.76	\$ 26.83	\$ 65.02	\$ 108.68

- (1) Represents the UPB of loans that have been originated or purchased (funded UPB) during the respective periods and for which we recognize a new MSR on our consolidated balance sheets upon sale or securitization.
- (2) Represents the UPB of loans for which the MSR is purchased. Bulk purchases include 12,931 loans with a UPB of \$4.1 billion for which PMC was previously performing the subservicing that were purchased from third parties during the third quarter of 2022.
- (3) Represents the UPB of reverse mortgage loans that have been securitized on a servicing retained basis. The loans are recognized on our consolidated balance sheets under GAAP without any separate recognition of MSRs.
- (4) Includes interim subservicing, including the volume of UPB associated with short-term interim subservicing for certain clients as a support to their originate-to-sell business, with \$2.5 billion and \$5.3 billion for the three months ended September 30, 2022 and June 30, 2022, respectively, and \$10.7 billion and \$12.2 billion for the nine months ended September 30, 2022 and September 30, 2021, respectively.

In addition to interim subservicing, subservicing additions for the three months ended September 30, 2022 and June 30, 2022 in the table above include reverse mortgage loan subservicing and new subservicing on behalf of MAV. On October 1, 2021, in connection with the transaction with MAM (RMS), PMC became the subservicer for approximately 57,000 reverse mortgages, or approximately \$14.3 billion in UPB pursuant to subservicing agreements with various clients, including MAM (RMS). Under the five-year subservicing agreement with MAM (RMS), we added subservicing of approximately 40,000

reverse mortgage loans or approximately \$9.1 billion in UPB in the first quarter of 2022, and approximately 19,000 reverse mortgage loans with a UPB of \$4.1 billion in the second quarter of 2022. In the second quarter of 2021, we launched our joint venture MSR investment with Oaktree with MAV. MAV purchased approximately \$2.5 billion and \$8.5 billion GSE MSRs from unrelated third parties that PMC began subservicing in the third quarter of 2022 and second quarter of 2022, respectively.

The following table summarizes the average volume of our Servicing segment during the third quarter of 2022, compared with the preceding quarter, and the nine months ended September 30, 2022 compared with the corresponding period of the prior year. The average volume of Servicing is a key driver of the profitability of our Servicing segment. The relative weight of performing and delinquent loans or servicing and subservicing also drive the gross revenue and expenses, and their timing. In the third quarter of 2022, our total average servicing portfolio decreased by \$3.2 billion as compared to the second quarter of 2022, mostly due to reductions in our forward interim subservicing portfolio and the portfolio runoff, offset by MSR acquisitions by MAV.

\$ in billions

	Average UPB			
	Three Months Ended		For the Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2022	September 30, 2021
Owned MSR	\$ 119.5	\$ 115.6	\$ 120.8	\$ 113.6
Rithm (formerly NRZ)	51.0	52.6	52.8	62.9
MAV	46.4	42.3	41.1	7.4
Subservicing (incl. interim subservicing)	57.7	67.5	56.6	21.0
Reverse mortgage loans (owned)	7.4	7.4	7.3	6.7
Commercial and other servicing	0.9	0.8	0.9	1.1
Total serviced and subserviced UPB (average)	\$ 282.9	\$ 286.1	\$ 279.4	\$ 212.7

As of September 30, 2022, the total serviced and subserviced UPB amounted to \$283.3 billion.

Financial Highlights

Results of operations for the third quarter of 2022

- Net income of \$37 million, or \$4.33 per share basic and \$4.17 per share diluted
- Servicing fee revenue of \$216 million
- Originations gain on sale of \$21 million
- \$67 million MSR valuation gain on our owned MSRs attributable to rate and assumption changes, net of hedging

Financial condition at the end of the third quarter of 2022

- Stockholders' equity of \$546 million, or \$68.83 book value per common share
- MSR investment of \$2.7 billion, up \$229 million, and \$3.2 billion decrease in the average serviced and subserviced UPB in the quarter
- Cash liquidity position of \$227 million
- Total assets of \$12.4 billion

Business Initiatives

We have established the following key operating objectives to return to sustainable profitability and drive improved value for shareholders in 2022:

- Leveraging the core strengths of our balanced and diversified business model through a continued focus on servicing as well as sizing originations to the market environment and maintaining agility to address a potential recession;
- Driving prudent growth adapted for the environment, including emphasis on subservicing to drive servicing portfolio UPB growth and expansion of higher margin originations products and clients;
- Reducing cost structure across the organization to achieve industry cost leadership by maintaining continuous cost improvement discipline and optimizing technology, global operations, and scale;
- Optimizing liquidity, diversifying capital sources and repositioning for higher rates; and
- Allocating capital to deliver value for shareholders, including leveraging our MSR asset vehicle with Oaktree and expanding multi-investor partnership model to fund new MSR originations.

In the first nine months of 2022, market interest rates rose faster and higher than the industry consensus, significantly reducing the production volumes and margins of our Consumer Direct channel and adversely affecting Originations profitability. To achieve our profitability goals for 2022, we have responded to the market shift by rapidly scaling down our Consumer Direct operations in 2022 and we expect to continue to reduce our expenses in the fourth quarter of 2022. We are also accelerating our goals relating to business process rationalization and optimization, including further off-shoring of operations, enterprise-wide.

Our growth strategy includes acquiring assets and/or operations of complementary businesses, by means of acquisition, merger or other transaction forms. Our strategy may also include pursuing large transactions, including bulk purchases or sales of MSRs. We have engaged in such transactions in the past, and we continue to explore opportunities that may be accretive to our business and stockholders' value.

Results of Operations and Financial Condition

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our unaudited consolidated financial statements and the related notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Results of Operations Summary	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30 2022	% Change	September 30, 2022	September 30, 2021	% Change
Revenue						
Servicing and subservicing fees	\$ 215.6	\$ 215.1	— %	\$ 643.3	\$ 562.8	14 %
Reverse mortgage revenue, net	6.9	(2.6)	(365)	17.4	56.2	(69)
Gain (loss) on loans held for sale, net	18.9	0.9	n/m	16.7	108.1	(85)
Other revenue, net	8.3	8.7	(5)	26.1	29.1	(10)
Total revenue	<u>249.7</u>	<u>222.2</u>	12	<u>703.4</u>	<u>756.1</u>	(7)
MSR valuation adjustments, net	95.2	33.2	187	191.0	(57.6)	(432)
Operating expenses						
Compensation and benefits	71.3	83.9	(15)	223.2	209.4	7
Servicing and origination	19.0	19.1	(1)	52.3	82.0	(36)
Technology and communications	14.4	14.7	(2)	44.0	41.1	7
Professional services	17.2	8.7	98	38.0	61.2	(38)
Occupancy and equipment	12.4	9.7	28	32.1	25.7	25
Other expenses	7.1	8.4	(15)	23.2	15.4	51
Total operating expenses	<u>141.4</u>	<u>144.4</u>	(2)	<u>412.8</u>	<u>434.9</u>	(5)
Other income (expense)						
Interest income	13.7	9.7	41	30.6	16.0	91
Interest expense	(50.4)	(37.9)	33	(126.1)	(102.6)	23
Pledged MSR liability expense	(131.6)	(74.1)	78	(292.6)	(168.8)	73
Earnings of equity method investee	3.3	3.9	(15)	19.3	1.3	n/m
Gain (loss) on extinguishment of debt	—	0.9	(100)	0.9	(15.5)	(106)
Other, net	(5.5)	(4.2)	31	(9.9)	5.6	(277)
Total other income (expense), net	<u>(170.5)</u>	<u>(101.6)</u>	68	<u>(377.9)</u>	<u>(264.0)</u>	43
Income (loss) before income taxes	33.0	9.4	251	103.7	(0.3)	n/m
Income tax expense (benefit)	(4.0)	(0.9)	344	(1.6)	(20.1)	(92)
Net income (loss)	<u>\$ 36.9</u>	<u>\$ 10.4</u>	257	<u>\$ 105.4</u>	<u>\$ 19.8</u>	432
Segment income (loss) before income taxes						
Servicing	\$ 55.0	\$ 38.6	42 %	\$ 172.3	\$ 32.2	435
Originations	9.5	(1.8)	(628)	4.8	73.2	(93)
Corporate Items and Other	(31.5)	(27.3)	15	(73.4)	(105.7)	(31)
	<u>\$ 33.0</u>	<u>\$ 9.4</u>	250%	<u>\$ 103.7</u>	<u>\$ (0.3)</u>	n/m

n/m: not meaningful

Total Revenue

The below table presents total revenue by segment and at the consolidated level:

Revenue	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30 2022	% Change	September 30, 2022	September 30, 2021	% Change
Servicing	\$ 211.8	\$ 184.4	15 %	\$ 594.3	\$ 596.9	— %
Originations	38.3	36.3	6	119.6	180.4	(34)
Corporate	1.5	1.6	(6)	5.0	4.3	16
Total segment revenue	251.7	222.3	13	718.8	781.7	(8)
Inter-segment elimination (1)	(2.0)	(0.1)	n/m	(15.4)	(25.5)	(39)
Total revenue	\$ 249.7	\$ 222.2	12	\$ 703.4	\$ 756.1	(7)

(1) The fair value change of inter-segment economic hedge derivatives reported within Total revenue (Gain on loans held for sale, net) is eliminated at the consolidated level with an offset in MSR valuation adjustments, net. Refer to Item 3 - Quantitative and Qualitative Disclosures about Market Risk for further detail.

Total segment revenue was \$251.7 million for the three months ended September 30, 2022, \$29.4 million or 13% higher than the three months ended June 30, 2022, driven by a \$27.4 million revenue increase from Servicing and a \$2.0 million revenue increase from Originations. The Servicing revenue increase is mostly due to a \$15.4 million improvement in Reverse mortgage revenue, net driven by lower unrealized fair value losses on the HECM loan portfolio, and an \$8.8 million loss recognized in the second quarter of 2022 on the repurchase of delinquent loans in connection with the Ginnie Mae EBO program. The increase in Originations revenue is mostly due to an \$8.2 million increase in Gain on loans held for sale, net due to higher volumes and margins in the forward Correspondent channel, offset in part by a \$5.9 million decrease in reverse mortgage originations revenue, net driven by lower loan production volume in all three channels and lower margin in our retail channel resulting from unfavorable market interest rate and spread conditions.

As compared to the nine months ended September 30, 2021, total segment revenue for the nine months ended September 30, 2022 was \$62.9 million or 8% lower, due to a \$60.8 million decrease in Originations revenue and a \$2.6 million decline in Servicing revenue. The decrease in Originations revenue is primarily due to a \$54.2 million decrease in Gain on loans held for sale, net in our Consumer Direct channel driven by a decline in margin and lower recapture volume in the context of rising interest rates at a historic pace during the nine months ended September 30, 2022. The decline in Servicing revenue includes a \$53.2 million decline in Gain on loans held for sale, net due to lower redelivery gains and losses on repurchased and sold delinquent loans in connection with the Ginnie Mae EBO program and \$22.5 million gain recorded in the nine months ended September 30, 2021 related to the exercise of our servicer call rights of certain Non-Agency trusts, a \$34.0 million decline in Reverse mortgage revenue, net due to higher unrealized fair value losses on the HECM loan portfolio, net attributable to lower margins resulting from continued increase in interest rates and the widening of yield spreads, largely offset by an \$84.8 million increase in Servicing and subservicing fees due to the portfolio growth, the launch of MAV and the acquisition of reverse subservicing from MAM (RMS).

See the respective Segment Results of Operations for additional information.

MSR Valuation Adjustments, Net

The table below presents the key components of MSR valuation adjustments, net:

Segment Results	Three Months Ended			Nine Months Ended		
	September 30,	June 30	% Change	September 30,	September 30,	% Change
	2022	2022		2022	2021	
MSR realization of expected cash flows (1)	\$ (68.6)	\$ (67.6)	1 %	\$ (209.1)	\$ (175.1)	19 %
MSR fair value changes due to interest rate and assumption updates	184.0	115.1	60 %	500.2	102.2	389 %
Derivative fair value gain (loss)	(25.8)	(17.0)	52 %	(122.9)	(28.9)	325 %
Total Servicing	89.6	30.5	194 %	168.3	(101.8)	(265)%
Originations - MSR fair value changes	3.6	2.6	38 %	7.3	18.7	(61)%
Inter-segment elimination - derivative fair value gain (loss)	2.0	0.1	n/m	15.4	25.5	(40)%
MSR valuation adjustments, net	\$ 95.2	\$ 33.2	187 %	\$ 191.0	\$ (57.6)	(432)%

(1) The terms realization of expected cash flows and runoff may be used interchangeably within this discussion.

We reported a \$95.2 million gain in MSR valuation adjustments, net in the three months ended September 30, 2022, \$62.0 million higher than the three months ended June 30, 2022. The net gain is driven by favorable MSR fair value changes due to rising interest rates, net of hedging. The increase in the net gain in the third quarter of 2022 as compared to the second quarter of 2022 is mostly driven by a higher increase in rates during the respective periods. The 10-year swap rate increased by 81 basis points in the third quarter of 2022 and 65 basis points in the second quarter of 2022.

For the nine months ended September 30, 2022, we reported a \$191.0 million gain in MSR valuation adjustments, net, as compared to a \$57.6 million loss for the nine months ended September 30, 2021. The loss in the nine months ended September 30, 2021 is mostly due to MSR portfolio runoff and a lower MSR fair value gain due to interest rate and assumption updates, net of hedging. The higher net fair value gain in the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 is mostly driven by a higher increase in rates during the respective periods. The 10-year swap rate increased by 228 basis points in the nine months ended September 30, 2022 and 58 basis points in the nine months ended September 30, 2021.

See the respective Segment Results of Operations sections for additional information.

Compensation and Benefits

Compensation and benefits expense for the three months ended September 30, 2022 decreased \$12.6 million, or 15%, as compared to the three months ended June 30, 2022, primarily due to a 6% headcount reduction and incentive compensation reduction. Specifically, the decline is due to a \$7.2 million decrease in incentive compensation, a \$5.6 million decrease in salaries and benefits and a \$2.0 million decline in commissions, partially offset by a \$3.2 million increase in severance expense. The decrease in incentive compensation expense is the result of a \$3.8 million decrease in estimated annual incentive plan award for 2022 and the reduction in headcount, and a \$3.4 million decrease in expense for cash-settled share-based awards due to our common stock price decline during the third quarter of 2022. Salaries and benefits expense declined 10%, due to the 6% overall headcount reduction, predominantly in the U.S. Headcount reduction is driven by a 25% decrease in Originations, mostly Consumer Direct, and an 11% decrease in Corporate functions, as part of our continued efforts to right size our resources to market opportunities and our continuous improvement initiatives.

As compared to the nine months ended September 30, 2021, Compensation and benefits expense for the nine months ended September 30, 2022 increased \$13.8 million, or 7% largely due to a \$16.4 million increase in salaries and benefits primarily due to an 11% increase in total average headcount, mostly attributed to a 19% increase in Servicing headcount to support the development of our reverse mortgage subservicing platform and the MAM (RMS) subservicing portfolio acquisition. In addition, severance expense increased \$9.9 million predominantly due to headcount reductions in forward Originations and Corporate functions in the second and third quarters of 2022, as well as a U.S. headcount reduction in Servicing in the third quarter of 2022. These increases in expense were partially offset by a \$10.5 million decline in expense for cash-settled share-based awards as a result of a decrease in our common stock price and a reduction in expense due to forfeitures recognized in the first quarter of 2022, a \$1.9 million decline in estimated annual incentive plan award and \$1.2 million decrease driven by lower employee retention expenses.

Servicing and Origination Expense

Servicing and origination expense for the three months ended September 30, 2022 remained flat as compared to the three months ended June 30, 2022 primarily due to a \$2.1 million increase in provision for indemnification related to our Servicing business, offset by a \$1.6 million decrease in satisfaction and interest on payoff expense due to lower payoffs, and a \$1.3 million decrease in loan origination expense, primarily due to a decrease in production volume in our Consumer Direct and Reverse channels.

As compared to the nine months ended September 30, 2021, Servicing and origination expense for the nine months ended September 30, 2022 decreased \$29.7 million, or 36%, mostly attributed to the Servicing segment. The decline is primarily due to a \$13.5 million decrease in satisfaction and interest on payoff expense attributable to lower payoff volume, an \$8.7 million decrease in reverse subservicing expenses with the transfer of a subservicer to our reverse servicing platform beginning in the fourth quarter of 2021, a \$4.5 million reduction in interim subservicing costs incurred on bulk acquisitions in the nine months ended September 30, 2021, a \$1.7 million decline in provision expense on government-insured claims receivables primarily due to decreased claim volumes, and a \$1.1 million net decrease in provision for indemnification related to our Servicing business driven by favorable settlements.

See Segment Results of Operations - Servicing for additional information.

Other Operating Expenses

Professional services expense for the three months ended September 30, 2022 increased \$8.5 million, or 98%, as compared to the three months ended June 30, 2022. Reimbursements received in the third quarter of 2022 from mortgage loan investors related to prior year legal expenses and payments received following resolution of legacy litigation matters were \$6.8 million lower than the second quarter of 2022, and expenses related to other legal matters increased \$2.8 million as compared to the second quarter. These increases were partially offset by a \$1.5 million decrease in other professional fees.

As compared to the nine months ended September 30, 2021, Professional services expense for the nine months ended September 30, 2022 decreased \$23.2 million, or 38%, primarily due to a decline in legal expenses as other professional fees remained flat. The decline in legal expenses is largely due to reimbursements received from mortgage loan investors related to prior year legal expenses, and to payments received following resolution of legacy litigation matters.

Occupancy and equipment expense for the three months ended September 30, 2022 increased \$2.7 million, or 28%, as compared to the three months ended June 30, 2022, primarily due to repairs required in connection with our exit of our New Jersey leased office facility. As compared to the nine months ended September 30, 2021, Occupancy and equipment expense for the nine months ended September 30, 2022 increased \$6.4 million, or 25%, largely driven by a \$3.4 million increase in postage and mailing expenses associated with an increased average number of loans serviced and the acquisition of reverse mortgage subservicing, and the \$2.9 million facility repair obligation described above.

Technology and communication expense for the three months ended September 30, 2022 remained flat as compared to the three months ended June 30, 2022. As compared to the nine months ended September 30, 2021, Technology and communication expense for the nine months ended September 30, 2022 increased \$2.9 million, or 7%, largely driven by higher fees related to our forward loan servicing system due to the increase in the average number of loans serviced.

Other expenses for the three months ended September 30, 2022 decreased \$1.3 million as compared to the three months ended June 30, 2022 primarily driven by a reduction in bank charges due to higher earnings credits as a result of the increase in interest rates. As compared to the nine months ended September 30, 2021, Other expenses for the nine months ended September 30, 2022 increased \$7.8 million mainly due to a \$2.7 million increase in advertising expense in our Reverse Originations business, \$3.3 million of amortization expense on the reverse subservicing contract intangible asset recognized in October 2021 and April 2022, and a \$3.3 million increase in miscellaneous other expenses, including travel and licensing expenses. These increases were offset by a \$2.0 million decline in bank charges due to higher earnings credits as a result of higher interest rates.

Other Income (Loss)

Interest income increased \$4.0 million during the three months ended September 30, 2022 as compared to the three months ended June 30, 2022 primarily attributable to higher forward loan production volumes in Originations and increasing interest rates. As compared to the nine months ended September 30, 2021, interest income for the nine months ended September 30, 2022 increased \$14.6 million, primarily due to higher forward loan production volumes in Originations and increasing interest rates, as well as higher average balances of loans held for sale in our Servicing segment.

Interest expense for the three months ended September 30, 2022 increased \$12.5 million, or 33%, as compared to the three months ended June 30, 2022, due to a \$108.4 million increase in average debt balance on our asset backed financing, primarily driven by the same factors described above, specifically higher origination production volume and an average 137 bps higher cost of funds following an increase in underlying reference interest rates.

As compared to the nine months ended September 30, 2021, Interest expense for the nine months ended September 30, 2022 increased \$23.5 million, or 23%, primarily due to higher cost of corporate debt that is mostly related to the OFC senior secured notes issued on March 4, 2021 and May 3, 2021. The notes were issued to Oaktree together with warrants that resulted in an additional discount, the accretion of which is reported as interest expense, a \$364.2 million or 13% higher average debt balance on our asset backed financing, primarily to finance our higher loan production volumes and MSR portfolio growth, and an increase in cost of funds of our asset backed financing, primarily driven by increased underlying reference interest rates.

See Segment Results of Operations - Servicing for information regarding Pledged MSR liability expense.

Gain on debt extinguishment of \$0.9 million for the nine months ended September 30, 2022 resulted from our repurchase of \$25.0 million PMC 7.875% Senior Secured Notes due March 2026 at a discount during the second quarter of 2022. Loss on debt extinguishment of \$15.5 million for the nine months ended September 30, 2021 was recognized in the first quarter of 2021 and resulted from our early repayment of the SSTL due May 2022, PHH 6.375% senior unsecured notes due August 2021, and PMC 8.375% senior secured notes due November 2022.

Earnings of equity method investee represent our 15% share of MAV Canopy from May 3, 2021. The \$19.3 million earnings for the nine months ended September 30, 2022 are predominantly driven by the fair value gains recorded by MAV Canopy on its MSR portfolio due to rising interest rates. See Note 10 - Investment in Equity Method Investee and Related Party Transactions for further detail.

Other, net expense for the three months ended September 30, 2022 increased by \$1.3 million as compared to the three months ended June 30, 2022, primarily due to \$3.3 million expense in connection with our new ESS financing liability. For the nine months ended September 30, 2022, Other, net expense increased \$15.5 million, as compared to the nine months ended September 30, 2021, primarily due to \$4.6 million deal call revenue recorded in 2021, \$3.3 million loss on MSR recaptured and delivered to MAV for zero cash proceeds (offset by a corresponding amount recorded within Gain on loans held for sale, net), \$3.3 million expense recognized in connection with the ESS financing transaction, \$2.3 million early payout protection in connection with our MSR sales, and \$1.8 million increase in loss adjustment expense related to our CRL reinsurance business due to higher claims.

Income Tax Benefit (Expense)

	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30, 2022	% Change	September 30, 2022	September 30, 2021	% Change
Income tax expense (benefit)	\$ (4.0)	\$ (0.9)	344 %	\$ (1.6)	\$ (20.1)	(92)
Income (loss) before income taxes	\$ 33.0	\$ 9.4	251 %	\$ 103.7	\$ (0.3)	n/m
Effective tax rate	(12.1)%	(9.6)%	26 %	(1.5)%	6700.0 %	(100)

Our effective tax rate for the periods indicated in the table above differs from the federal statutory income tax rate primarily due to the full valuation allowance recorded on our net U.S. federal and state deferred tax assets. We conduct periodic evaluations of positive and negative evidence to determine whether it is more likely than not that the deferred tax asset can be realized in future periods. In these evaluations, Ocwen considers its sources of future taxable income as the deferred tax assets represent future tax deductions. Taxable income of the appropriate character, within the appropriate time frame, is necessary for the realization of deferred tax assets. While Ocwen generates positive income before income taxes, the U.S. filing jurisdiction is in a cumulative loss position for the three-year period ended September 30, 2022. We recognize that cumulative losses in recent years is an objective form of negative evidence in assessing the need for a valuation allowance and that such negative evidence is difficult to overcome. We evaluated all positive and negative evidence and determined that a full valuation allowance at September 30, 2022 remains appropriate. The income tax expense (benefit) is primarily comprised of income taxes in foreign jurisdictions and changes in uncertain tax positions. Also refer to Note 21 - Income Taxes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2021 for further details on deferred tax assets.

The \$4.0 million income tax benefit recognized in the three months ended September 30, 2022 was driven primarily by our recognition of \$3.5 million of income tax benefit related to the favorable resolution of an uncertain tax position, as well as a decrease in the projected annual effective tax rate applied to year-to-date pre-tax earnings. The income tax benefit recognized in the three months ended June 30, 2022 was driven primarily by a decrease in the projected annual effective tax rate applied to year-to-date pre-tax earnings.

For the nine months ended September 30, 2022, income tax benefit of \$1.6 million was driven by projected income tax expense related to pre-tax earnings, offset by income tax benefit related to the favorable resolution of uncertain tax positions. As compared with the nine months ended September 30, 2021, income tax benefit for the nine months ended September 30,

2022 declined \$18.5 million primarily due to higher pre-tax earnings, a \$12.8 million reduction in the amount of income tax benefit recognized under the CARES Act, and a \$ 3.6 million reduction in the amount of income tax benefit related to the favorable resolution of uncertain tax positions. The decline in the effective tax rate is primarily due to the \$104.0 million increase in pre-tax earnings in the nine months ended September 30, 2022 compared to the same period in 2021, as well as the reduction in income tax benefit recognized under the CARES Act and a reduction in income tax benefit related to the favorable resolution of uncertain tax positions.

Under our transfer pricing agreements, our operations in India and Philippines are compensated on a cost-plus basis for the services they provide, such that even when we have a consolidated pre-tax loss from operations these foreign operations have taxable income, which is subject to statutory tax rates in these jurisdictions that are higher than the U.S. statutory rate of 21%.

Financial Condition

Financial Condition Summary	September 30, 2022	December 31, 2021	\$ Change	% Change
Cash	\$ 226.6	\$ 192.8	\$ 33.8	18 %
Restricted cash	45.3	70.7	(25.4)	(36)
MSRs, at fair value	2,714.2	2,250.1	464.1	21
Advances, net	642.5	772.4	(130.0)	(17)
Loans held for sale	729.6	928.5	(198.9)	(21)
Loans held for investment, at fair value	7,402.3	7,207.6	194.6	3
Receivables	170.8	180.7	(9.9)	(5)
Investment in equity method investee	38.7	23.3	15.4	66
Other assets	390.1	520.9	(130.9)	(25)
Total assets	<u>\$ 12,360.1</u>	<u>\$ 12,147.1</u>	<u>\$ 212.9</u>	<u>2 %</u>
Total Assets by Segment				
Servicing	\$ 11,322.6	\$ 10,999.2	\$ 323.4	3 %
Originations	731.1	823.5	(92.5)	(11)
Corporate Items and Other	306.4	324.4	(18.0)	(6)
	<u>\$ 12,360.1</u>	<u>\$ 12,147.1</u>	<u>\$ 212.9</u>	<u>2 %</u>
HMBS-related borrowings, at fair value	\$ 7,208.4	\$ 6,885.0	\$ 323.4	5 %
Other financing liabilities, at fair value	989.7	805.0	184.8	23
Advance match funded liabilities	457.5	512.3	(54.8)	(11)
Mortgage loan warehouse facilities	819.6	1,085.1	(265.5)	(24)
MSR financing facilities, net	1,020.6	900.8	119.8	13
Senior notes, net	597.1	614.8	(17.7)	(3)
Other liabilities	721.1	867.5	(146.4)	(17)
Total liabilities	<u>11,814.0</u>	<u>11,670.4</u>	<u>143.6</u>	<u>1 %</u>
Total stockholders' equity	546.1	476.7	69.4	15
Total liabilities and equity	<u>\$ 12,360.1</u>	<u>\$ 12,147.1</u>	<u>\$ 212.9</u>	<u>2 %</u>
Total Liabilities by Segment				
Servicing	\$ 10,785.3	\$ 10,474.5	\$ 310.8	3 %
Originations	694.6	832.7	(138.0)	(17)
Corporate Items and Other	334.1	363.3	(29.2)	(8)
	<u>\$ 11,814.0</u>	<u>\$ 11,670.4</u>	<u>\$ 143.6</u>	<u>1 %</u>
Book value per share	\$ 68.83	\$ 51.77	\$ 17.06	33 %

Total assets increased \$212.9 million, or 2%, between December 31, 2021 and September 30, 2022 due to a \$464.1 million increase in our MSR portfolio mostly attributed to fair value gains due to rising interest rates and additions through purchases and retained servicing on loan sales, partially offset by a sale of MSRs to an unrelated third party, and a \$194.6 million increase in Loans held for investment, mostly driven by our reverse mortgage origination and bulk acquisition. These increases were offset by a \$198.9 million decline in our loans held for sale portfolio driven by lower forward loan production volumes than sales, a \$130.9 million decrease in other assets mostly attributable to the decrease in contingent repurchase rights related to delinquent loans that have been repurchased under the Ginnie Mae EBO program, and a \$130.0 million decline in servicing advances, mainly due to seasonal reduction of escrow balances, increased recoveries on delinquent and default loans, and loan repurchases under the Ginnie Mae EBO program.

Total liabilities increased by \$143.6 million, or 1%, as compared to December 31, 2021, with similar effects as described above. Our HMBS-related borrowings increased by \$323.4 million due to the continued growth of our reverse mortgage business and its securitization. The \$184.8 million increase in Other financing liabilities is primarily due to additional transfers of MSRs to MAV in the nine months ended September 30, 2022 which did not qualify for sale accounting and related fair value changes, and the new \$36.2 million ESS financing liability. Borrowings under our MSR financing facilities increased \$119.8 million to fund the increase in our MSR portfolio. Our borrowings under warehouse lines declined \$265.5 million due to lower loan production volumes. Advance match funded liabilities decreased \$54.8 million consistent with the decline in Servicing advances. Senior notes, net decreased \$17.7 million mostly due to our repurchase of \$25.0 million PMC 7.875% Senior Secured Notes due March 2026 in the second quarter of 2022. Other liabilities declined \$146.4 million mostly due to a decrease in the Ginnie Mae contingent repurchase rights of delinquent loans.

Total equity increased \$69.4 million during the nine months ended September 30, 2022 mostly due to \$105.4 million net income, partially offset by \$38.7 million stock repurchased under the \$50.0 million repurchase program approved in May 2022. See Note 15 – Stockholders' Equity for additional information.

Key Trends

The following discussion provides information regarding certain key drivers of our financial performance. Also refer to the Segment results of operations section for further detail, the description of our business environment, initiatives and risks.

Servicing and subservicing fee revenue - Our servicing fee revenue is a function of the volume being serviced - UPB for servicing fees and loan count for subservicing fees. We expect we will continue to replenish and grow our servicing portfolio through our multi-channel Originations platform and through MAV and other capital partners for the remainder of 2022. In addition, we continuously evaluate the relative mix between servicing and subservicing volume.

Gain on sale of loans held for sale - Our gain on sale is driven by both volume and margin and is channel-sensitive. Origination volume is negatively impacted by rising interest rates, high inflation and home price appreciation due to limited housing supply, among other recent market conditions. We expect volumes in our Consumer Direct channel to remain at depressed levels absent any significant interest rate decrease and expect lower margins due to heightened competition. We expect to continue to prudently manage our Correspondent volume at margins that are accretive to the business.

Reverse mortgage revenue, net - The reverse mortgage origination gain is driven by the same factors as gain on sale of loans held for sale, with smaller volumes in the reverse mortgage market and generally larger margins. With our experience and brand in the marketplace, we expect to continue to maintain or prudently grow our volumes albeit with some channel mix changes. We expect total origination market volume to decline with rising interest rates and increased volatility, and a downward trend in our margins due to continued uncertain market interest rate and spread conditions. The fair value of the net reverse servicing asset is expected to continue to follow market conditions, and is part of our forward MSR hedging strategy.

MSR valuation adjustments, net - Our net MSR fair value changes include multiple components. First, amortization of our investment is a function of the UPB, capitalized value of the MSR relative to the UPB, and the level of scheduled payments and prepayments. We expect the MSR realization of cash flows to increase as we continue to grow our MSR portfolio. Second, MSR fair value changes are driven by changes in interest rates and assumptions, such as forecasted prepayments. Third, the MSR fair value changes are partially offset by derivative fair value changes that economically hedge the MSR portfolio. We are exposed to increased interest rate volatility due to our interest rate sensitive GSE MSR portfolio. Our hedging strategy provides only partial hedge coverage and we would expect net MSR fair value losses if interest rates drop and conversely, net MSR fair value gains if interest rates rise. Refer to the sensitivity analysis in Item 3 - Quantitative and Qualitative Disclosures About Market Risk for further detail.

Operating expenses - Compensation and benefits are a significant component of our cost-to-service and cost-to-originate and is directly correlated to headcount levels. Headcount in Servicing is primarily driven by the number of loans or UPB being serviced and subserviced, and by the relative mix of performing, delinquent and defaulted loans. As servicing volume is expected to modestly increase (see above), we expect a modest increase in our workforce with partial offset from an increased relative share of performing loans. We expect to continue to right size and prudently manage our Originations headcount and

operating expenses to align with funded volume. Other operating expenses are expected to correlate with volumes, with some productivity and efficiencies expected through our technology and continuous improvement initiatives. A continuing rise in inflation may result in higher operating expenses due to increases in salaries and benefits and rates charged by our vendors.

Stockholders' equity - With the above considerations and uncertainties, we expect our businesses to generate net income and increase our equity, absent any significant adverse change in interest rates and if we continue to be successful in our business initiatives.

SEGMENT RESULTS OF OPERATIONS

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

SERVICING

We earn contractual monthly servicing fees pursuant to servicing agreements pertaining to MSR's we own, which are typically payable as a percentage of UPB, as well as ancillary fees, including late fees, modification incentive fees, REO referral commissions, float earnings and convenience or other loan collection fees, where permitted. We also earn fees under both subservicing and special servicing arrangements with banks and other institutions, including MAV, that own the MSR's. Subservicing and special servicing fees are earned either as a percentage of UPB or on a per-loan basis. Subservicing per-loan fees typically vary based on type of investor and on loan delinquency status.

As of September 30, 2022, we serviced 1.4 million mortgage loans with an aggregate UPB of \$283.3 billion. The average UPB of loans serviced during the third quarter of 2022 decreased by 1% or \$3.2 billion compared to the second quarter of 2022, mostly driven by reductions in our forward subservicing portfolio and runoff, offset by owned MSR acquisitions and MAV acquisitions. Compared to the nine months ended September 30, 2021, the average UPB of loans serviced during the nine months ended September 30, 2022 increased by 31% or \$66.7 billion mostly due to MSR acquisitions, forward and reverse subservicing additions and MSR originations, offset in part by portfolio runoff. We manage the size of our servicing portfolio with our Originations business and by selectively purchasing MSR's based on capital allocation and financial return targets.

In May 2021, PMC entered into a subservicing agreement with MAV for exclusive rights to service the mortgage loans underlying MSR's owned by MAV. MAV provides us with a source of additional subservicing volume, either with the MSR's that MAV purchases outright from third parties or with the MSR's that MAV purchases from PMC but the transactions do not achieve sale accounting. In November 2022, we upsized MAV Canopy capacity with an additional \$250 million capital commitment with Oaktree. Refer to Note 23 – Subsequent Events.

In addition, in October 2021, PMC acquired reverse mortgage subservicing contracts from MAM (RMS) and became its exclusive servicer under a five-year subservicing agreement. PMC boarded approximately 40,000 and 19,000 additional reverse mortgage loans onto our servicing platform in the first quarter of 2022 and second quarter of 2022, respectively.

Rithm (formerly NRZ) remains our largest subservicing client, accounting for 18% and 28% of the total serviced UPB and loan count, respectively, in our servicing portfolio as of September 30, 2022. Rithm servicing fees retained by Ocwen represented approximately 10% of the total servicing and subservicing fees earned by Ocwen, net of servicing fees remitted to Rithm, for the third quarter of 2022, and 12% the second quarter of 2022. This compares to 11% and 17% for the nine months ended September 30, 2022 and 2021, respectively. Rithm's portfolio represents approximately 69% of all delinquent loans that Ocwen serviced, for which the cost to service and the associated risks are higher. Consistent with a subservicing relationship, Rithm is responsible for funding the advances we service for Rithm.

The financial performance of our servicing segment is impacted by the changes in fair value of the MSR portfolio due to changes in market interest rates, among other factors. Our MSR portfolio is carried at fair value, with changes in fair value recorded in earnings within MSR valuation adjustments, net. The fair value of our MSR's is typically correlated to changes in market interest rates; as interest rates decrease, the value of the servicing portfolio typically decreases as a result of higher anticipated prepayment speeds, and the reverse is true. The sensitivity of MSR fair value to interest rates is typically higher for higher credit quality loans, such as our Agency loans. Our Non-Agency portfolio is significantly seasoned, with an average loan age of approximately 17 years, exhibiting little response to movements in market interest rates. Our hedging strategy is designed to reduce the volatility of the MSR portfolio to interest rates.

For those MSR sale transactions with Rithm and MAV that do not achieve sale accounting treatment, we present on a gross basis the transferred MSR as an asset at fair value and the corresponding liability amount as a pledged MSR liability at fair value on our balance sheet. The changes in fair value of the MSR are reflected as MSR valuation adjustments, net and the

corresponding changes in fair value of the pledged MSR liability are reported within Pledged MSR liability expense. Similarly, we present on a gross basis the total servicing fees collected on behalf of Rithm and MAV within Servicing and subservicing fees, net and the total servicing fee remittance to Rithm and MAV within Pledged MSR liability expense.

As of September 30, 2022, we managed 18,063 loans under forbearance associated with borrowers impacted by the COVID-19 pandemic (or 1.3% of our total portfolio), 3,872 of which related to our owned MSRs, or 0.6% of our owned MSR servicing portfolio (excluding Rithm and MAV), a reduction of 37% and 43%, respectively, compared to December 31, 2021.

Loan Resolutions

We have a strong track record of success as a leader in the servicing industry in foreclosure prevention and loss mitigation that helps homeowners stay in their homes and improves financial outcomes for mortgage loan investors. Reducing delinquencies also enables us to recover advances and recognize additional ancillary income, such as late fees, which we do not recognize on delinquent loans until they are brought current. Loan resolution activities address the pipeline of delinquent loans and generally lead to (i) modification of the loan terms, (ii) repayment plan alternatives, (iii) a discounted payoff of the loan (e.g., a “short sale”), or (iv) foreclosure or deed-in-lieu-of-foreclosure and sale of the resulting REO. Loan modifications must be made in accordance with the applicable servicing agreement as such agreements may require approvals or impose restrictions upon, or even forbid, loan modifications. To select an appropriate loan modification option for a borrower, we perform a structured analysis, using a proprietary model, of all options using information provided by the borrower as well as external data, including recent broker price opinions to value the mortgaged property. Our proprietary model includes, among other things, an assessment of re-default risk.

Our future financial performance will be less impacted by loan resolutions because, under our Rithm agreements, Rithm receives all deferred servicing fees. Deferred servicing fees related to delinquent borrower payments were \$132.3 million at September 30, 2022, of which \$107.6 million were attributable to Rithm agreements.

Advance Obligation

As a servicer, we are generally obligated to advance funds in the event borrowers are delinquent on their monthly mortgage related payments. We advance principal and interest (P&I Advances), taxes and insurance (T&I Advances) and legal fees, property valuation fees, property inspection fees, maintenance costs and preservation costs on properties that have been foreclosed (Corporate Advances). For certain loans in non-Agency securitization trusts, we have the ability to cease making P&I advances and immediately recover advances previously made from the general collections of the respective trust if we determine that our P&I advances cannot be recovered from the projected future cash flows. With T&I and Corporate advances, we continue to advance if net future cash flows exceed projected future advances without regard to advances already made.

Most of our advances have the highest reimbursement priority (i.e., they are “top of the waterfall”) so that we are entitled to repayment from respective loan or REO liquidation proceeds before any interest or principal is paid on the bonds that were issued by the trust. In the majority of cases, advances in excess of respective loan or REO liquidation proceeds may be recovered from pool-level proceeds. The costs incurred in meeting these obligations consist principally of the interest expense incurred in financing the servicing advances. Most subservicing agreements, including our agreements with Rithm, provide for prompt reimbursement of any advances from the owner of the servicing rights.

Third-Party Servicer Ratings

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

The following table summarizes our key servicer ratings:

	PHH Mortgage Corporation (PMC)		
	Moody's	S&P	Fitch
Forward			
Residential Prime Servicer	SQ3	Average	RPS3+
Residential Subprime Servicer	SQ3	Average	RPS3+
Residential Special Servicer	SQ3	Average	RSS3
Residential Second/Subordinate Lien Servicer	SQ3	Average	RPS3
Residential Home Equity Servicer	—	—	RPS3
Residential Alt-A Servicer	—	—	RPS3
Master Servicer	SQ3+	Above Average	RMS3
Ratings Outlook	N/A	Stable	Positive / Stable
Date of last action	September 28, 2021	June 29, 2021	August 2, 2022
Reverse			
Residential Reverse Servicer	—	Above Average	—
Ratings Outlook	—	Stable	—
Date of initial rating	—	May 27, 2022	—

In addition to servicer ratings, each of the agencies will from time to time assign an outlook (or a ratings watch such as Moody's review status) to the rating status of a mortgage servicer. A negative outlook is generally used to indicate that a rating "may be lowered," while a positive outlook is generally used to indicate a rating "may be raised. On September 28, 2021, Moody's upgraded the servicer quality (SQ) assessment for PMC as a master servicer of residential mortgage loans from SQ3 to SQ3+, reflecting solid reporting and remitting processes and proactive servicer oversight. On June 29, 2021, S&P affirmed PMC's servicer rating as Average, raising management and organization ranking to Above Average. In addition, S&P raised PMC's master servicer rating from Average to Above Average reflecting the industry experience of PMC's management, multiple levels of internal controls to monitor operations, and resolution of regulatory actions, among other factors mentioned by S&P. On August 2, 2022, Fitch affirmed and upgraded PMC's servicer ratings and upgraded its outlook from Stable to Positive for prime and subprime products. The ratings for the other products remain the same and the related rating outlook remains Stable. The ratings reflect PMC's strong post-pandemic performance, effective enterprise-wide risk environment and compliance management framework, competitive loan servicing performance metrics, and highly automated technology environment. The ratings also consider the financial condition of PMC's parent, Ocwen Financial Corporation. The upgrades and positive outlook on PMC's prime and subprime servicer ratings are reflective of the company's continued portfolio growth, diversified sourcing strategies and improved performance with respect to these loan types, which represent 85% of the total servicing portfolio.

On May 27, 2022, S&P assigned an Above Average ranking to PMC as a residential reverse mortgage loan servicer. The ranking outlook is Stable. This is the initial rating for PMC as a reverse mortgage loan servicer. S&P's ranking reflects i) PMC's highly experienced management teams and staff with sound overall levels of turnover, ii) well-designed information technology infrastructure, cybersecurity controls, and business continuity and disaster recovery processes, iii) sound internal control environment, with multiple lines of defense and automated systems to support each function, iv) lack of material internal or external audit findings noted, based on provided reports, v) good focus on systems and workflow automation throughout loan administration processes, vi) robust default management function and claims processes, vii) scale as one of the largest reverse mortgage servicer's in the country, with highly experienced management and staff and technology largely from prior established legacy reverse servicers; ix) and good overall reverse servicing performance metrics, except for the elevated home retention department management and staff turnover rates and call center metrics in the contact center operations.

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

	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30 2022	% Change	September 30, 2022	September 30, 2021	% Change
Revenue						
Servicing and subservicing fees	\$ 215.0	\$ 214.5	— %	641.7	\$ 556.9	15 %
Gain (loss) on loans held for sale, net	0.2	(11.5)	(102)	(14.0)	39.2	(136)
Reverse mortgage revenue, net	(3.6)	(19.0)	(81)	(34.5)	(0.5)	n/m
Other revenue, net	0.3	0.4	(25)	1.1	1.3	(15)
Total revenue	211.8	184.4	15	594.3	596.9	—
MSR valuation adjustments, net	89.6	30.4	195	168.3	(101.8)	(265)
Operating expenses						
Compensation and benefits	33.6	34.9	(4)	97.5	74.9	30
Servicing expense	15.9	15.6	2	42.4	72.0	(41)
Occupancy and equipment	7.6	7.7	(1)	23.2	18.7	24
Professional services	9.6	3.4	182	19.9	24.2	(18)
Technology and communications	5.8	6.6	(12)	18.9	17.0	11
Corporate overhead allocations	12.0	11.7	3	34.8	36.5	(5)
Other expenses	1.7	2.6	(35)	6.3	4.0	58
Total operating expenses	86.1	82.5	4	242.9	247.2	(2)
Other income (expense)						
Interest income	2.9	3.0	(3)	9.9	4.9	102
Interest expense	(30.9)	(22.3)	39	(76.3)	(57.9)	32
Pledged MSR liability expense	(131.7)	(74.1)	78	(292.7)	(168.8)	73
Earnings of equity method investee	3.3	3.9	(15)	19.3	1.3	n/m
Other, net	(4.0)	(4.3)	(7)	(7.6)	4.8	(258)
Total other income (expense), net	(160.3)	(93.7)	71	(347.4)	(215.7)	61
Income (loss) before income taxes	\$ 55.0	\$ 38.6	42 %	\$ 172.3	\$ 32.2	435 %

n/m: not meaningful

The following table provides selected operating statistics:

	September 30, 2022	June 30, 2022	% Change	September 30, 2021	% Change
Assets Serviced					
<i>Unpaid principal balance (UPB) in billions:</i>					
Performing loans (1)	\$ 268.9	\$ 273.4	(2)%	\$ 239.7	12 %
Non-performing loans	13.9	14.2	(2)	7.7	81
Non-performing real estate	0.6	0.7	(14)	0.8	(25)
Total	<u>\$ 283.3</u>	<u>\$ 288.3</u>	(2)%	<u>\$ 248.3</u>	14 %
Conventional loans (2)	\$ 180.9	\$ 185.5	(2)%	\$ 145.9	24 %
Government-insured loans	29.9	29.3	2	33.4	(10)
Non-Agency loans	72.5	73.5	(1)	69.0	5
Total	<u>\$ 283.3</u>	<u>\$ 288.3</u>	(2)%	<u>\$ 248.3</u>	14 %
Servicing portfolio (3)	\$ 131.7	\$ 124.4	6 %	\$ 144.6	(9)%
Subservicing portfolio					
Subservicing - forward	29.5	42.2	(30)	23.9	23
Subservicing - reverse	24.1	25.0	(4)	—	n/m
Total subservicing	53.6	67.2	(20)	23.9	124
MAV (4) (5)	47.8	45.1	6	21.4	123
Rithm (formerly NRZ) (5) (6)	50.3	51.7	(3)	58.4	(14)
Total	<u>\$ 283.3</u>	<u>\$ 288.3</u>	(2)%	<u>\$ 248.3</u>	14 %
<i>Number (in 000's):</i>					
Performing loans (1)	1,307.2	1,335.2	(2)%	1,255.6	4 %
Non-performing loans					
Non-performing loans - Rithm	28.4	29.0	(2)	27.4	4
Non-performing loans - Other	34.0	35.0	(3)	13.7	148
	62.4	63.9	(2)	41.1	52
Non-performing real estate	3.8	4.3	(12)	5.2	(27)
Total	<u>1,373.4</u>	<u>1,403.4</u>	(2)%	<u>1,301.9</u>	5 %
Conventional loans (2)	726.0	745.6	(3)%	608.6	19 %
Government-insured loans	160.9	167.5	(4)	190.6	(16)
Non-Agency loans	486.5	490.3	(1)	502.7	(3)
Total	<u>1,373.4</u>	<u>1,403.4</u>	(2)%	<u>1,301.9</u>	5 %
Servicing portfolio	600.0	581.9	3 %	675.9	(11)%
Subservicing portfolio					
Subservicing - forward	104.1	148.5	(30)	93.2	12
Subservicing - reverse	99.1	104.2	(5)	—	n/m
Total subservicing	203.1	252.7	(20)	93.2	118
MAV (5)	180.5	169.6	6	90.1	100
Rithm (5)	389.8	399.2	(2)	442.8	(12)
Total	<u>1,373.4</u>	<u>1,403.4</u>	(2)%	<u>1,301.9</u>	5 %

	Three Months Ended			Nine Months Ended		
	September 30,	June 30	% Change	September 30,	September 30,	% Change
	2022	2022		2022	2021	
<i>Prepayment speed (CPR) (7):</i>						
% Voluntary CPR	6.1 %	8.9 %	(31)%	8.8 %	18.2 %	(52)%
% Involuntary CPR	0.4	0.4	—	0.4	0.7	(43)
% Total CPR	9.8	12.5	(22)	12.4	21.8	(43)
Number of completed modifications (<i>in 000's</i>)	4.8	4.8	— %	13.6	13.4	1 %
Revenue recognized in connection with loan modifications	\$ 5.8	\$ 5.7	2 %	\$ 17.8	\$ 20.5	(13)%

- (1) Performing loans include those loans that are less than 90 days past due and those loans for which borrowers are making scheduled payments under loan modification, forbearance or bankruptcy plans. We consider all other loans to be non-performing.
- (2) Conventional loans include 67,752 and 68,985 prime loans with a UPB of \$13.3 billion and \$13.4 billion at September 30, 2022 and June 30, 2022, respectively, that we service or subservice. This compares to 77,522 prime loans with a UPB of \$14.2 billion at September 30, 2021. Prime loans are generally good credit quality loans that meet GSE underwriting standards.
- (3) Includes \$7.5 billion UPB of reverse mortgage loans that are recognized in our consolidated balance sheet at September 30, 2022.
- (4) Includes \$21.6 billion UPB subserviced, including \$9.2 billion in interim subservicing pending transfer off of the PMC servicing system in the fourth quarter of 2022, and \$26.2 billion UPB of MSR sold to MAV that did not achieve sale accounting treatment at September 30, 2022. Excludes subserviced loans with a UPB of \$10.1 billion that have not yet transferred onto the PMC servicing system as of September 30, 2022.
- (5) Loans serviced or subserviced pursuant to our agreements with Rithm or MAV.
- (6) Includes \$1.9 billion UPB of subserviced loans at September 30, 2022.
- (7) Total 3 and 9-month % CPR includes voluntary and involuntary prepayments, as shown in the table, plus scheduled principal amortization.

The following table provides the rollforward of activity of our portfolio of mortgage loans serviced that includes MSRs, whole loans and subserviced loans, both forward and reverse:

	Amount of UPB (\$ in billions)		Count (000's)	
	2022	2021	2022	2021
Portfolio at January 1	\$ 268.0	\$ 188.8	1,353.2	1,107.6
Additions (1) (2)	31.5	13.5	116.9	49.4
MSR sales (2)	(11.1)	—	(38.9)	(0.1)
Servicing transfers	(2.3)	(10.9)	(9.0)	(42.5)
Runoff	(10.8)	(12.1)	(47.1)	(51.2)
Portfolio at March 31	\$ 275.3	\$ 179.4	1,375.1	1,063.2
Additions	26.8	68.7	89.0	256.8
Sales	—	—	(0.1)	—
Servicing transfers (1)	(4.0)	—	(16.1)	(0.2)
Runoff	(9.8)	(10.7)	(44.5)	(49.9)
Portfolio at June 30	288.3	237.3	1,403.4	1,269.9
Additions (1) (3) (4)	13.7	26.5	42.7	97.9
Sales	—	—	(0.1)	—
Servicing transfers (1) (2)	(11.2)	(1.8)	(39.3)	(6.7)
Runoff	(7.5)	(13.7)	(33.3)	(59.2)
Portfolio at September 30	\$ 283.3	\$ 248.3	1,373.4	1,301.9

- (1) Includes the volume UPB associated with short-term interim subservicing for some clients as a support to their originate-to-sell business, where loans are boarded and deboarded within the same quarter.
- (2) Includes MSRs sold to an unrelated third party in the first quarter of 2022 consisting of 38,850 loans with a UPB of \$11.1 billion, with the remaining active loans transferred out of the PMC servicing system in the third quarter of 2022, and for which PMC performed interim subservicing.

- (3) Additions include purchased MSRs on portfolios consisting of 962 loans with a UPB of \$258.8 million that have not yet transferred to the PMC servicing system as of September 30, 2022. Because we have legal title to the MSRs, the UPB and count of the loans are included in our reported servicing portfolio. The seller continues to subservice the loans on an interim basis between the transaction closing date and the servicing transfer date.
- (4) Excludes MSRs acquired from unrelated third parties in the third quarter of 2022 consisting of 12,931 loans with a UPB of \$4.1 billion for which PMC was previously performing the subservicing.

The following table provides a breakdown of our servicer advances:

Advances by investor type	September 30, 2022				December 31, 2021			
	Principal and Interest	Taxes and Insurance	Foreclosures, bankruptcy, REO and other	Total	Principal and Interest	Taxes and Insurance	Foreclosures, bankruptcy, REO and other	Total
Conventional	\$ 3	\$ 34	\$ 7	\$ 44	\$ 2	\$ 66	\$ 7	\$ 75
Government-insured	2	22	20	44	1	55	23	79
Non-Agency	220	223	112	555	225	261	133	618
Total, net	\$ 224	\$ 279	\$ 139	\$ 642	\$ 228	\$ 381	\$ 164	\$ 772

The following table provides selected operating statistics related to our reverse mortgage loans reported within our Servicing segment:

	September 30, 2022	June 30, 2022	% Change	September 30, 2021	% Change
Reverse Mortgage Loans					
<i>Unpaid principal balance (UPB) in millions:</i>					
Loans held for investment (1)	\$ 7,090.4	\$ 6,990.9	1 %	\$ 6,390.0	11 %
Active Buyouts (2)	49.1	46.7	5	31.6	55
Inactive Buyouts (2)	112.3	108.9	3	91.3	23
Total	\$ 7,251.8	\$ 7,146.4	1 %	\$ 6,512.9	11 %
<i>Inactive buyouts % to total</i>	1.55 %	1.52 %	2 %	1.40 %	11 %
<i>Future draw commitments (UPB) in millions:</i>	1,749.8	1,745.0	— %	1,247.4	40 %
<i>Fair value in millions:</i>					
Loans held for investment (1)	\$ 7,268.0	\$ 7,220.8	1 %	\$ 6,874.0	6 %
HMBS related borrowings	7,208.4	7,155.3	1	6,782.6	6
Net asset value	\$ 59.6	\$ 65.5	(9)%	\$ 91.5	(35)%
Net asset value to UPB	0.84 %	0.94 %		1.43 %	

- (1) Securitized loans only; excludes unsecuritized loans reported within the Originations segment.
- (2) Buyouts are reported as Loans held for sale, Accounts Receivable or REO depending on the loan and foreclosure status.

Servicing and Subservicing Fees

	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30, 2022	% Change	September 30, 2022	September 30, 2021	% Change
Loan servicing and subservicing fees:						
Servicing	\$ 83.3	\$ 80.9	3 %	\$ 252.8	\$ 246.4	3 %
Subservicing	18.9	20.4	(7)	53.9	9.0	499
MAV	19.3	18.8	3	54.7	1.6	n/m
Rithm	63.4	64.7	(2)	195.2	233.1	(16)
Servicing and subservicing fees	184.9	184.8	—	556.6	490.0	14
Ancillary income	30.1	29.7	1	85.0	66.9	27
	<u>\$ 215.0</u>	<u>\$ 214.5</u>	<u>— %</u>	<u>\$ 641.7</u>	<u>\$ 556.9</u>	<u>15 %</u>

The \$0.5 million increase in total servicing and subservicing fees for the three months ended September 30, 2022 as compared to the three months ended June 30, 2022 is primarily driven by the increase in our average owned servicing portfolio partially offset by the decrease in our average forward subservicing and Rithm portfolios, as further discussed below.

The \$84.8 million, or 15% increase in total servicing and subservicing fees in the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 is primarily driven by our successful volume growth strategy, selectively balanced between servicing and subservicing, and the gradual replacement of the Rithm volumes with new relationships and volumes sourced by our Originations business.

The following table presents the respective drivers of residential loan servicing (owned MSR) and subservicing fees.

	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30, 2022	% Change	September 30, 2022	September 30, 2021	% Change
Servicing and subservicing fee						
Servicing fee (owned MSR)	\$ 83.3	\$ 80.9	3 %	\$ 252.8	\$ 246.4	3 %
Average servicing fee (% of UPB) (1)	0.28	0.28	— %	0.28	0.29	(3)%
Subservicing fee (excluding MAV and Rithm)						
Subservicing fee (excluding MAV and Rithm)	\$ 18.9	\$ 20.4	(7)	\$ 53.9	\$ 9.0	499 %
Average monthly fee per loan (in dollars) (2)	\$ 29	\$ 27	7	\$ 28	\$ 12	133 %
Residential assets serviced						
<i>Average UPB (\$ in billions):</i>						
Servicing portfolio - Owned	\$ 127.8	\$ 123.7	3 %	\$ 129.0	\$ 121.5	6 %
Subservicing portfolio						
Subservicing - forward	33.1	42.9	(23)	35.1	21.0	67 %
Subservicing - reverse	24.6	24.6	—	21.5	—	n/m
Total subservicing	57.7	67.5	(15)	56.6	21.0	170 %
MAV	46.4	42.3	10	41.1	7.4	455 %
Rithm	51.0	52.6	(3)	52.8	62.9	(16)%
Total	<u>\$ 282.9</u>	<u>\$ 286.1</u>	(1)%	<u>\$ 279.4</u>	<u>\$ 212.7</u>	31 %
<i>Average number (in 000's):</i>						
Servicing portfolio	590.4	583.9	1 %	602.0	596.6	1 %
Subservicing portfolio						
Subservicing - forward	116.6	152.2	(23)	124.8	83.6	49 %
Subservicing - reverse	101.6	102.7	(1)	88.2	—	n/m
Total subservicing	218.2	254.9	(14)	213.0	83.6	155 %
MAV	174.9	160.9	9	157.5	31.8	395 %
Rithm	394.4	405.1	(3)	407.7	472.6	(14)%
	<u>1,377.9</u>	<u>1,404.8</u>	(2)%	<u>1,380.2</u>	<u>1,184.6</u>	17 %

(1) Excludes owned reverse mortgages effective with the three months ended June 30, 2022. Prior periods have been recast to conform to the current presentation.

(2) Excludes MAV portfolio and includes reverse subservicing in the three and nine months ended September 30, 2022 and three months ended June 30, 2022.

For the three months ended September 30, 2022 as compared to the three months ended June 30, 2022, servicing and subservicing fees were flat. The \$2.4 million, or 3% increase in servicing fee income on our owned MSRs is due to a 3% increase in our average UPB serviced, primarily driven by MSR originations and acquisitions partially offset by runoff, and the \$0.5 million increase in MAV servicing fees due to our ongoing use of MAV to grow our servicing volume. These increases were offset by a \$1.5 million, or 7% decrease in subservicing fees primarily due to a decline in average balance due to \$11.1 billion interim subserviced loans that transferred out of the PMC servicing system in the third quarter of 2022 and a \$1.3 million decline in fees collected on behalf of Rithm due to portfolio runoff.

The table above and fee structure reflects our strategy to grow our subservicing business and the increased use of MAV to grow our servicing volume. Year over year, when comparing the nine months ended September 30, 2022 with the nine months ended September 30, 2021, our subservicing fee income grew by \$44.9 million and we generated a new source of fee income with the \$54.7 million servicing fee from MAV. On our owned MSR portfolio, servicing fee income increased by \$6.4 million or 3%. We achieved a total \$66.6 million fee increase, or 14%, despite a \$37.9 million reduction in fees collected on behalf of Rithm due to portfolio runoff. The \$44.9 million increase in subservicing fees is mostly due to the boarding of approximately 59,000 reverse mortgage loans under the subservicing agreement with MAM (RMS) in the first half of 2022. The average subservicing fee per loan increased from \$12 to \$28 dollars, driven by the inclusion of reverse mortgage loans that yield relatively higher compensation for both active and inactive loans.

The following table presents both servicing fees collected and subservicing fees retained by Ocwen under the Rithm (formerly NRZ) agreements. See Note 8 — MSR Transfers Not Qualifying for Sale Accounting for additional information.

Rithm servicing and subservicing fees	Three Months Ended		Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2022	September 30, 2021
Servicing fees collected on behalf of Rithm	\$ 63.4	\$ 64.7	\$ 195.2	\$ 233.1
Servicing fees remitted to Rithm (1)	(45.5)	(46.0)	(139.3)	(165.1)
Retained subservicing fees on Rithm agreements (2)	<u>\$ 17.8</u>	<u>\$ 18.8</u>	<u>\$ 56.0</u>	<u>\$ 68.0</u>
Average Rithm UPB (\$ in billions)	\$ 51.0	\$ 52.6	\$ 52.8	\$ 62.9
Average annualized retained subservicing fees as a % of Rithm UPB	0.14 %	0.14 %	0.14 %	0.14 %

(1) Reported within Pledged MSR liability expense. The Rithm servicing fee includes the total servicing fees collected on behalf of Rithm relating to the MSR sold but not derecognized from our balance sheet. Under GAAP, we separately present servicing fees collected and remitted on a gross basis, with the servicing fees remitted to Rithm reported as Pledged MSR liability expense.

(2) Excludes ancillary income.

For the three months ended September 30, 2022, the net retained fee on our Rithm portfolio declined \$1.0 million as compared to the three months ended June 30, 2022. The net retained fee on our Rithm portfolio decreased \$12.0 million in the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021. The decline in the Rithm fee collection and remittance is primarily driven by the decline in the average UPB of 3% and 16% in the three and nine months ended September 30, 2022, respectively, due to portfolio runoff and prepayments.

The following table presents the detail of our ancillary income:

Ancillary Income	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30, 2022	% Change	September 30, 2022	September 30, 2021	% Change
Late charges	\$ 10.6	\$ 11.7	(9)%	\$ 32.3	\$ 31.3	3 %
Reverse subservicing ancillary fees	4.9	6.3	(22)	14.3	—	n/m
Loan collection fees	2.6	2.9	(10)	8.5	8.6	(1)
Recording fees	1.8	2.6	(31)	7.7	10.6	(27)
Custodial accounts (float earnings)	7.5	1.8	317	10.3	3.5	194
Boarding and deboarding fees	0.3	1.3	(77)	3.0	1.6	88
GSE forbearance fees	0.2	0.2	—	0.6	1.3	(54)
Other	2.2	2.9	(24)	8.4	9.9	(15)
Ancillary income	<u>\$ 30.1</u>	<u>\$ 29.7</u>	1 %	<u>\$ 85.0</u>	<u>\$ 66.9</u>	27 %

Ancillary income for the three months ended September 30, 2022 increased by \$0.4 million as compared to the three months ended June 30, 2022 primarily because of a \$5.7 million increase in float earnings driven by the increase in interest rates, offset by a \$1.4 million decline in reverse subservicing ancillary fees, a \$1.0 million decrease in boarding and deboarding fees related to reverse mortgage loans, a \$1.1 million decrease in late charges due to borrower payment behavior and a \$1.8 million decline in all other fee categories.

As compared to the nine months ended September 30, 2021, ancillary income increased by \$18.1 million largely due to \$14.3 million of reverse subservicing fees recognized during the nine months ended September 30, 2022 on reverse mortgage loans boarded under the subservicing agreement with MAM (RMS) during the first and second quarters of 2022 and the fourth quarter of 2021. In addition, float earnings increased \$6.8 million due to higher interest rates and recording fees were \$2.9 million lower due to the reduction in payoff volume.

Gain (loss) on Loans Held for Sale, Net

Gain on loans held for sale, net for the three months ended September 30, 2022 improved \$11.7 million as compared to the three months ended June 30, 2022 largely due to the \$8.8 million loss recognized in the second quarter of 2022 on certain delinquent and aged loans repurchased in connection with the Ginnie Mae EBO program, net of the associated Ginnie Mae MSR fair value adjustment and advances.

Loss on loans held for sale, net for the nine months ended September 30, 2022 was \$14.0 million, a \$53.2 million unfavorable change as compared to a \$39.2 million gain recognized in the nine months ended September 30, 2021. In addition to the EBO program repurchase of certain delinquent and aged loans discussed above, losses in the nine months ended September 30, 2022 are driven by decreased volume and margins on redelivery gains of repurchased loans in connection with Ginnie Mae loan modifications and EBO activities, that became minimal in 2022, as a result of higher market interest rates. The unfavorable change is also explained by a \$22.5 million gain recorded in the nine months ended September 30, 2021 related to the exercise of our servicer call rights of certain Non-Agency trusts.

Reverse Mortgage Revenue, Net

Reverse mortgage revenue, net reported in the Servicing segment is the net change in fair value of securitized loans held for investment and HMBS-related borrowings. Reverse mortgage revenue, net excludes reverse subservicing that is reflected in Servicing and subservicing fees. The following table presents the components of the net fair value change and is comprised of net interest income and other fair value gains or losses. Net interest income is primarily driven by the volume of securitized UPB as it is the interest income earned on the securitized loans offset against interest expense incurred on the HMBS-related borrowings, and represents a component of our compensation for servicing the portfolio, that is a percentage of the outstanding UPB. Other fair value changes are primarily driven by changes in market-based inputs or assumptions. Lower interest rates generally result in favorable net fair value impacts on our HECM reverse mortgage loans and the related HMBS financing liability and higher interest rates generally result in unfavorable net fair value impacts. Note that the fair value changes of the net asset value between securitized HECM loans and HMBS (referred to as our reverse MSR) attributable to interest rate changes are effectively used as a hedge of our forward MSR portfolio. See further description of our hedging strategy in Item 3. Quantitative and Qualitative Disclosures about Market Risk.

	Three Months Ended			Nine Months Ended		
	September 30,	June 30,	% Change	September 30,	September 30,	% Change
	2022	2022		2022	2021	
Net interest income (servicing fee)	\$ 5.5	\$ 5.4	2 %	\$ 16.3	\$ 14.9	9 %
Other fair value changes (1)	(9.2)	(24.5)	(62)	(50.8)	(15.4)	230
Reverse mortgage revenue, net (Servicing)	\$ (3.6)	\$ (19.0)	(81)%	\$ (34.5)	\$ (0.5)	n/m

(1) Includes \$2.6 million and \$2.8 million of realized gains on tail securitization for the three months ended September 30, 2022 and June 30, 2022, respectively, and \$9.3 million and \$16.9 million for the nine months ended September 30, 2022 and 2021, respectively.

Reverse mortgage revenue, net increased \$15.4 million for the three months ended September 30, 2022 as compared to the three months ended June 30, 2022 due to lower unrealized fair value losses on the HECM loan portfolio, net of HMBS, driven by higher fair value losses in the second quarter of 2022 due to wider yield spreads and other unfavorable model assumptions. For the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021, Reverse mortgage revenue, net declined \$34.0 million primarily due to higher unrealized fair value losses, driven by increasing interest rates and widening yield spread directly impacting projected asset life and the tail value of the HECM reverse mortgage loans. Tail value declined by \$0.2 million and \$7.6 million in the three and nine months ended September 30, 2022, respectively. Tails represent the future draws of borrowers, scheduled and unscheduled, as well as capitalized interest and are included in the fair value of the underlying loans. As our HECM loan portfolio is predominantly comprised of ARMs, higher interest rates cause the loan balance to accrue and reach the 98% maximum claim amount liquidation event more quickly. Tails are securitized on a monthly basis and a widening yield spread results in lower cash gain on securitization.

MSR Valuation Adjustments, Net

The following tables summarize the MSR valuation adjustments, net reported in our Servicing segment, with the breakdown of the total MSRs recorded on our balance sheet between our owned MSRs and the MSRs transferred to Rithm (formerly NRZ) and MAV that did not achieve sale accounting treatment:

	Three Months Ended September 30, 2022			Three Months Ended June 30, 2022		
	Total (1)	Owned MSR (1)	Pledged MSR (Rithm and MAV) (2)	Total (1)	Owned MSR (1)	Pledged MSR (Rithm and MAV) (2)
Runoff (3)	\$ (68.6)	\$ (45.0)	\$ (23.6)	\$ (67.6)	\$ (38.8)	\$ (28.8)
Rate and assumption change (1)	184.0	93.2	90.8	115.1	75.2	39.9
Hedging gain (loss)	(25.8)	(25.8)	—	(17.0)	(17.0)	—
Total	\$ 89.6	\$ 22.4	\$ 67.2	\$ 30.4	\$ 19.3	\$ 11.1

	Nine Months Ended September 30, 2022			Nine Months Ended September 30, 2021		
	Total (1)	Owned MSR	Pledged MSR (Rithm and MAV) (2)	Total (1)	Owned MSR (1)	Pledged MSR (Rithm and MAV) (2)
Runoff (3)	\$ (209.1)	\$ (128.4)	\$ (80.6)	\$ (175.1)	\$ (114.8)	\$ (60.3)
Rate and assumption change (1)	500.2	314.1	186.2	102.2	30.9	71.3
Hedging gain (loss)	(122.9)	(122.9)	—	(28.9)	(28.9)	—
Total	\$ 168.3	\$ 62.8	\$ 105.5	\$ (101.8)	\$ (112.8)	\$ 11.0

- (1) Excludes gains of \$3.6 million and \$2.6 million in the three months ended September 30, 2022 and June 30, 2022, respectively, and \$7.3 million and \$18.7 million in the nine months ended September 30, 2022 and 2021, respectively, on the revaluation of MSRs purchased at a discount, that is reported in the Originations segment as MSR valuation adjustments, net. Effective in the first quarter of 2022, we recognize revaluation gains or losses on Fannie Mae MSRs purchased through the Agency Cash Window Program within the Servicing segment that were historically reported in the Originations segment. Segment results for prior periods have been recast to conform to the current segment presentation. Such revaluation gains were \$1.5 million for the nine months ended September 30, 2021.
- (2) MSR sale transactions with Rithm and MAV that do not achieve sale accounting treatment. See Note 8 — MSR Transfers Not Qualifying for Sale Accounting for further information.
- (3) The terms runoff and realization of expected future cash flows may be used interchangeably within this discussion.

We reported an \$89.6 million gain in MSR valuation adjustments, net for the three months ended September 30, 2022, comprised of a \$22.4 million gain on our owned MSRs and a \$67.2 million gain on the MSRs transferred to Rithm and MAV. The \$22.4 million gain on our owned MSRs for the three months ended September 30, 2022 is comprised of a \$93.2 million gain on the MSR portfolio attributable to rate and assumption changes, a \$25.8 million hedging loss and \$45.0 million MSR portfolio runoff. MSR portfolio runoff represents the realization of expected cash flows and yield based on projected borrower behavior, including scheduled amortization of the loan UPB together with projected voluntary prepayments. The fair value gain due to rate and assumption changes is primarily due to an increase in market interest rates (e.g., the 10-year swap rate increased by 81 basis points in the three months ended September 30, 2022), partially offset by an increase in the Agency discount rate and certain other model assumption updates.

The \$59.2 million increase in gain on MSR valuation adjustments, net for the three months ended September 30, 2022 as compared to the three months ended June 30, 2022 is primarily due to a \$68.9 million increase in the gain attributed to rate and assumption change, partially offset by an \$8.8 million increase in the hedging loss. The higher fair value gains attributed to rate and assumption change are mostly driven by higher increases in rates in the respective periods. The 10-year swap rate increased by 81 basis points in the third quarter of 2022 and 65 basis points in the second quarter of 2022. Our MSR hedging policy is designed to reduce the volatility of the MSR portfolio fair value due to market interest rates. Refer to Item 3 - Quantitative and Qualitative Disclosures about Market Risk for further detail on our hedging strategy and its effectiveness.

For the nine months ended September 30, 2022, we reported a \$168.3 million gain in MSR valuations, net as compared to a loss of \$101.8 million for the nine months ended September 30, 2021. This favorable variance of \$270.1 million is due to a \$398.0 million increase in the gain attributed to rate and assumption change offset by an \$94.0 million increase in the hedging loss and a \$34.0 million increase in runoff. The increase in gain on rate and assumption change is primarily due to an increase in market interest rates (e.g., the 10-year swap rate increased by 228 basis points in the nine months ended September 30, 2022 and increased by 58 basis points in the nine months ended September 30, 2021). The increase in runoff is due to an increase in MSR portfolio size mostly due to significant bulk MSR acquisitions.

The following table provides information regarding the changes in the fair value and the UPB of our portfolio of owned MSRs (excluding Rithm and MAV related MSRs) during the third quarter of 2022, with the breakdown by investor type.

	Owned MSR Fair Value (1)				Owned MSR UPB (\$ in billions) (1)			
	GSEs	Ginnie Mae	Non-Agency	Total	GSEs	Ginnie Mae	Non-Agency	Total
Beginning balance	\$ 1,281.4	\$ 158.5	\$ 112.7	\$ 1,552.6	\$ 88.9	\$ 11.6	\$ 15.8	\$ 116.3
Additions								
New cap.	54.5	15.5	—	70.0	4.5	0.6	—	5.1
Purchases	68.2	7.3	—	75.5	5.9	0.5	—	6.4
Sales/servicing transfers	—	—	—	—	—	—	—	—
Sales/calls (3)	(14.2)	—	—	(14.2)	(1.2)	—	—	(1.2)
Change in fair value:								
Inputs and assumptions (2)	67.5	13.5	19.3	100.3	—	—	—	—
Realization of cash flows	(33.3)	(3.5)	(4.4)	(41.2)	(2.2)	(0.4)	(0.5)	(3.1)
Ending balance	\$ 1,424.1	\$ 191.3	\$ 127.6	\$ 1,743.0	\$ 95.9	\$ 12.3	\$ 15.3	\$ 123.4
Fair value (% of UPB)	1.49 %	1.56 %	0.84 %	1.41 %				
Fair value multiple (4)	5.82 x	4.19 x	2.54 x	5.12 x				
New cap. fair value multiple (4)	4.83 x	4.51 x						

(1) See Note 7 – Mortgage Servicing and Note 8 — MSR Transfers Not Qualifying for Sale Accounting for further information on the Rithm and MAV portfolios.

(2) Mostly changes in interest rates, except for gains of \$3.6 million on the revaluation of purchased MSRs, that are reported in the Originations segment.

(3) Includes \$14.4 million fair value and \$1.2 billion UPB of MSR sales to MAV that did not achieve sale accounting treatment.

(4) Multiple of average servicing fee and UPB.

The \$67.2 million gain on the transferred MSRs not qualifying for sale accounting (transferred to Rithm and MAV) for the three months ended September 30, 2022 includes \$90.8 million fair value gain attributable to rates and assumptions and \$23.6 million runoff. The \$90.8 million fair value gain attributable to rates and assumptions during the three months ended September 30, 2022 is mostly driven by non-Agency prepayment assumption update, with additional gain attributed to the increase in market rates during the quarter. This MSR fair value gain is partially offset by a fair value loss recorded on the associated Rithm and MAV MSR pledged liability. The runoff is explained by the same factors underlying our owned MSR, discussed above, the transfers of MSRs to MAV beginning in the third quarter of 2021 and the decline in the Rithm MSR portfolio.

Compensation and Benefits

	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30, 2022	% Change	September 30, 2022	September 30, 2021	% Change
Compensation and benefits	\$ 33.6	\$ 34.9	(4)%	\$ 97.5	\$ 74.9	30 %
Average Employment						
India and other	2,761	2,637	5 %	2,634	2,429	8
U.S.	991	1,082	(8)	1,029	657	57
Total	3,752	3,719	1 %	3,663	3,086	19 %

Compensation and benefits expense for the three months ended September 30, 2022 declined \$1.3 million, or 4%, as compared to the three months ended June 30, 2022 primarily due to a \$1.8 million decrease in salaries and benefit expense, mostly attributed to an 8% decrease in our average U.S. based headcount as part of our cost reduction efforts, a \$1.2 million decrease in estimated annual incentive plan award, and a \$0.9 million decrease in the fair value of cash-settled share-based awards associated with the decline in our common stock price during the quarter. These declines in expense were partially offset by a \$3.1 million increase in severance expense in connection with U.S. headcount reductions.

As compared to the nine months ended September 30, 2021, Compensation and benefits expense for the nine months ended September 30, 2022 increased \$22.6 million, or 30%, primarily due to a \$20.0 million increase in salaries and benefit expense driven by a 19% increase in our average Servicing headcount, mostly onshore. The increase in average servicing headcount primarily reflects the hiring of employees to support the growth of the reverse servicing platform, specifically the acquisition of reverse mortgage subservicing from MAM (RMS). In addition, severance expense increased \$2.6 million due to U.S. headcount reductions in the third quarter of 2022 and commissions were \$1.2 million higher primarily driven by the MAM (RMS) acquisition. Partially offsetting these increases in expense, incentive compensation decreased \$2.2 million primarily due to a \$2.0 million decrease in cash-settled share-based awards expense associated with the decrease in our common stock price and forfeitures of unvested awards.

Servicing Expense

Servicing expense primarily includes claim losses and interest curtailments on government-insured loans, provision expense for advances and servicing representation and warranties, and certain loan-volume related expenses.

Servicing expense increased in the three months ended September 30, 2022 by \$0.3 million as compared to the three months ended June 30, 2022, primarily due to a \$2.1 million increase in provision for indemnification related to private investor and government-insured loans largely offset by a \$1.6 million decrease in satisfaction and interest on payoff expense due to lower payoffs.

As compared to the nine months ended September 30, 2021, Servicing expense for the nine months ended September 30, 2022 declined \$29.6 million. The decline is primarily due to a \$13.5 million decrease in satisfaction and interest on payoff expense attributable to lower payoff volume, an \$8.7 million decrease in reverse subservicing expenses driven by the transfer of our owned reverse portfolio from a subservicer onto our platform beginning in the fourth quarter of 2021, a \$4.5 million reduction in interim subservicing costs incurred on bulk acquisitions in the nine months ended September 30, 2021, a \$1.7 million decline in provision expense on government-insured claims receivables primarily due to decreased claim volumes, and a \$1.1 million net decrease in provision for indemnification driven by favorable settlements.

Other Operating Expenses

Other operating expenses (total operating expenses less Compensation and benefit expense and Servicing expense) for the three months ended September 30, 2022 increased \$4.6 million as compared to the three months ended June 30, 2022 primarily due to a \$6.2 million increase in Professional services expense offset in part by a \$0.9 million decrease in bank charges. The increase in Professional services expense was driven by \$4.8 million lower reimbursements received from mortgage loan investors related to prior year legal expenses and payments received following resolution of legacy litigation matters, and a \$2.4 million increase in other litigation and legal expenses, partially offset by a \$1.1 million decrease in other professional fees that was primarily due to costs incurred during three months ended June 30, 2022 related to MSR sales and our reverse subservicing business. The decrease in bank charges is mostly due to higher earning credits, driven by an increase in interest rates.

Other operating expenses increased by \$2.7 million for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021. Occupancy and equipment expense increased \$4.5 million primarily due to an increase in printing and mailing expenses mostly as a result of the increase in the average number of loans serviced and additional mailing driven by our acquisition of reverse mortgage subservicing. Technology and communications increased \$1.9 million primarily due to higher fees related to our forward loan servicing system driven by the increase in the average number of loans serviced. Other expense increased by \$2.3 million driven primarily by the \$3.3 million amortization expense recognized during the nine months ended September 30, 2022 on the reverse subservicing contract intangible asset recorded in October 2021 and April 2022 as part of the transactions with MAM (RMS), partially offset by a \$1.6 million decrease in bank charges driven by increased earning credits due to interest rate increases. Offsetting these increases, Professional services declined \$4.3 million due to a \$14.9 million decrease in legal expenses, mostly driven by reimbursements received from mortgage loan investors related to prior year legal expenses and to payments received following resolution of legacy litigation matters, partially offset by an increase in other litigation and legal expenses and a \$9.8 million increase in other professional fees primarily related to our reverse subservicing business and MSR sales.

Other Income (Expense)

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

	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30, 2022	% Change	September 30, 2022	September 30, 2021	% Change
Interest expense						
Advance match funded liabilities	\$ 5.0	\$ 2.8	79 %	\$ 10.5	\$ 11.6	(9)%
Mortgage loan warehouse facilities	2.0	1.8	11	6.9	6.0	15
MSR financing facilities	13.8	8.6	60	30.2	17.9	69
Corporate debt interest expense allocation (1)	7.6	8.0	(5)	23.3	17.8	31
Escrow	2.4	1.2	100	5.4	4.5	20
Total interest expense	\$ 30.9	\$ 22.3	39 %	\$ 76.3	\$ 57.9	32 %
Average balances						
Advances	\$ 640.0	\$ 692.2	(8)%	\$ 693.7	\$ 755.6	(8)%
Advance match funded liabilities	436.1	467.9	(7)	463.9	511.9	(9)
Mortgage loan warehouse facilities	153.8	205.1	(25)	242.1	245.4	(1)
MSR financing facilities	960.7	901.6	7	929.5	629.2	48
Effective average interest rate						
Advance match funded liabilities	4.60 %	2.39 %	92 %	3.02 %	3.01 %	— %
Mortgage loan warehouse facilities	5.25	3.50	50	3.79	3.27	16
MSR financing facilities	5.76	3.80	52	4.33	3.80	14
Average 1ML	2.46 %	1.01 %	144 %	1.24 %	0.10 %	n/m
Average 1M Term SOFR	2.44 %	0.92 %	165 %	1.19 %	0.04 %	n/m

(1) Effective in the first quarter of 2022, interest expense on the OFC Senior Secured Notes is no longer allocated to the Servicing segment. Corporate debt interest expense allocation for prior periods has been recast to conform to the current period presentation. The interest expense allocation adjustment for the nine months ended September 30, 2021 is \$14.7 million.

Interest expense for the three months ended September 30, 2022 increased by \$8.6 million or 39% as compared to the three months ended June 30, 2022, mostly due to a \$5.2 million increase in interest expense on MSR financing facilities and a \$2.2 million increase in interest expense on advance match funded facilities. The increase in interest expense on MSR financing facilities is the result of a larger MSR portfolio and higher funding costs driven by increases in reference rates. The increase in interest expense on advance match funded facilities is due to higher funding cost, driven by increasing market interest rates and our repayment of low cost OMART term notes during three months ended September 30, 2022, offset in part by lower average balances.

As compared to the nine months ended September 30, 2021, interest expense for the nine months ended September 30, 2022 increased \$18.4 million, or 32%, due to an overall increase in the average debt balances to finance the growth of the MSR portfolio and a higher funding cost driven by increasing market interest rates.

Interest income for the three months ended September 30, 2022 was mostly unchanged as compared to the three months ended June 30, 2022. As compared to the nine months ended September 30, 2021, interest income for the nine months ended September 30, 2022 increased \$5.0 million primarily due to higher Ginnie Mae EBO loan repurchases and increasing interest rates.

Pledged MSR liability expense relates to the MSR transfers that do not qualify for sale accounting and are presented on a gross basis in our financial statements. See Note 8 — MSR Transfers Not Qualifying for Sale Accounting to the Unaudited Consolidated Financial Statements. Pledged MSR liability expense includes the servicing fee remittance for these transfers and the fair value changes of the pledged MSR liability.

The following table provides information regarding Pledged MSR liability expense:

	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30 2022	% Change	September 30, 2022	September 30, 2021	% Change
Net servicing fee remittance (1)	\$ 61.1	\$ 61.2	— %	\$ 183.6	\$ 166.0	11 %
Pledged MSR liability fair value (gain) loss (1)	67.2	11.1	505	105.5	11.0	859
Other	3.4	1.8	89	3.5	(8.1)	(143)
Pledged MSR liability expense	<u>\$ 131.7</u>	<u>\$ 74.1</u>	78 %	<u>\$ 292.7</u>	<u>\$ 168.8</u>	73 %

(1) See Note 8 — MSR Transfers Not Qualifying for Sale Accounting.

Pledged MSR liability expense for the three months ended September 30, 2022 increased \$57.6 million, as compared to the three months ended June 30, 2022, largely due to a \$56.1 million increase in fair value losses. Fair value adjustments of our MSR pledged liability (losses in the first, second and third quarter of 2022 driven by rising interest rates) are partially offset by fair value adjustments (gains) to the related MSR asset, which are recorded in MSR valuation adjustments, net. Refer to the above discussions of MSR valuation adjustments, net (Pledged MSR) and Servicing and subservicing fees (Rithm and MAV).

Pledged MSR liability expense for the nine months ended September 30, 2022 increased \$123.9 million, as compared to the nine months ended September 30, 2021, primarily due to a \$94.5 million increase in fair value losses on the pledged MSR liability and a \$17.6 million increase in net servicing fee remittance. These changes are largely driven by rising interest rates in the nine months ended September 30, 2022, as well as the launch of MAV in the second half of 2021 and the associated recognition of the MAV pledged MSR liability that is more interest rate sensitive than the Rithm pledged MSR liability. Fair value losses recognized in the nine months ended September 30, 2022 include \$14.1 million recognized in the first quarter of 2022 as a result of the amendment in March 2022 of the MAV Subservicing agreement to adjust down the ancillary income retained by PMC.

Other, net expense for the nine months ended September 30, 2022 increased \$12.4 million, as compared to the nine months ended September 30, 2021, primarily due to \$4.6 million deal call revenue recorded in 2021, \$3.3 million loss on MSR recaptured and delivered to MAV for zero cash proceeds (offset by a corresponding amount recorded within Gain on loans held for sale, net), \$3.3 million expense recognized in connection with the ESS financing transaction, and \$2.3 million early payout protection in connection with our MSR sales.

ORIGINATIONS

We originate and purchase loans and MSRs through multiple channels, including retail, wholesale, correspondent, flow MSR purchase agreements, the Agency Cash Window and Co-issue programs and bulk MSR purchases.

We originate and purchase conventional loans (conforming to the underwriting standards of Fannie Mae or Freddie Mac; collectively referred to as Agency loans) and government-insured (FHA, VA or USDA) forward mortgage loans. The GSEs and Ginnie Mae guarantee these mortgage securitizations. We originate HECM loans, or reverse mortgages, that are mostly insured by the FHA and we are an approved issuer of HMBS that are guaranteed by Ginnie Mae.

Within retail, our Consumer Direct channel for forward mortgage loans focuses on targeting existing servicing customers by offering them competitive mortgage refinance opportunities, where permitted by the governing servicing and pooling agreement. In doing so, we generate revenues for our forward lending business and protect the servicing portfolio by retaining these customers. A portion of our servicing portfolio is susceptible to refinance activity during periods of declining interest rates. Origination recapture volume and related gains are a natural economic hedge, to a certain degree, to the impact of declining MSR values as interest rates decline. To the extent we refinance a loan underlying the MSRs subject to the MAV Subservicing Agreement, we are obligated to transfer such recaptured MSR to MAV under the terms of the Joint-Marketing Agreement. In addition to refinance activities, our Consumer Direct channel targets purchase mortgage loans, cash-out, debt consolidation, mortgage insurance premium reduction, and new customer acquisition.

Our forward lending correspondent channel drives higher servicing portfolio replenishment. We purchase closed loans that have been underwritten to investor guidelines from our network of correspondent sellers and sell and securitize them, on a servicing retained basis. We offer correspondent sellers the choice to take out mandatory or best efforts contracts, under which the seller's obligation to deliver the mortgage loan becomes mandatory only when and if the mortgage is closed and funded. Additionally, we offer correspondent sellers the opportunity to leverage a non-delegated underwriting option for best-efforts deliveries. As of September 30, 2022, we have relationships with 558 approved correspondent sellers, or 120 new sellers since December 31, 2021.

We originate and purchase reverse mortgage loans through retail, wholesale, correspondent lending channels under the guidelines of the HECM reverse mortgage insurance program of the FHA. Loans originated under this program are generally insured by the FHA, which provides protection against risk of borrower default.

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

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

We purchase MSRs through flow purchase agreements, the Agency Cash Window programs and bulk MSR purchases. The Agency Cash Window programs we participate in, and purchase MSR from, allow mortgage companies and financial institutions to sell whole loans to the respective agency and sell the MSR to the winning bidder servicing released. In addition, we partner with other originators to replenish our MSRs through flow purchase agreements. We do not provide any origination representations and warranties in connection with our MSR purchases through MSR flow purchase agreements or Agency Cash Window programs. As of September 30, 2022, we have relationships with 217 approved sellers through the Agency Cash Window co-issue programs, or 63 new sellers since December 31, 2021.

We initially recognize our MSR origination with the associated economics in our Originations segment, and transfer the MSR to our Servicing segment once the MSR is initially recognized on our balance sheet with all subsequent performance associated with the MSR, including funding cost, run-off and other fair value changes reflected in our Servicing segment. However, effective first quarter of 2022, we report MSRs purchased through the Fannie Mae Cash Window program and the associated economics in our Servicing segment upon acquisition, as such MSRs are transferred to MAV monthly under an MSR flow sale agreement and subserviced by PMC. Segment results for prior periods have been recast as applicable to conform to the current segment presentation. See the “MSR Valuations Adjustments, net” section below for additional information.

We source additional servicing volume through our subservicing and interim servicing agreements, through our existing relationships and our enterprise sales initiatives. We do not report any revenue or gain associated with subservicing within the Originations segment as the impact is captured in the Servicing segment. However, sales efforts and certain costs - marginal compensation and benefits - are managed and reported within the Originations segment.

For the third quarter of 2022, our Originations business originated or purchased forward and reverse mortgage loans with a UPB of \$5.2 billion and \$292.3 million, respectively. In addition, we purchased \$2.0 billion UPB MSR through the Agency Cash Window and flow purchase programs during the third quarter of 2022.

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

	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30, 2022	% Change	September 30, 2022	September 30, 2021	% Change
Revenue						
Gain on loans held for sale, net	\$ 20.7	\$ 12.5	66 %	\$ 46.1	\$ 94.5	(51)%
Reverse mortgage revenue, net	10.5	16.4	(36)	51.9	56.7	(8)
Other revenue, net (1)	7.0	7.3	(4)	21.6	29.3	(26)
Total revenue	38.3	36.3	6	119.6	180.4	(34)
MSR valuation adjustments, net (2)	3.6	2.6	38	7.3	18.7	(61)
Operating expenses						
Compensation and benefits	17.6	24.6	(28)	70.6	71.9	(2)
Origination expense	2.2	3.5	(37)	9.3	9.6	(3)
Occupancy and equipment	0.9	1.3	(31)	3.8	4.8	(21)
Technology and communications	2.3	2.6	(12)	7.4	6.6	12
Professional services	1.0	1.5	(33)	4.2	7.5	(44)
Corporate overhead allocations	6.0	5.5	9	16.7	14.8	13
Other expenses	3.2	3.6	(11)	9.9	6.6	50
Total operating expenses	33.3	42.5	(22)	122.0	121.9	—
Other income (expense)						
Interest income	10.4	6.6	58	19.9	10.8	84
Interest expense	(8.9)	(5.1)	75	(18.3)	(14.8)	24
Other, net	(0.6)	0.3	(300)	(1.7)	—	n/m
Total other income (expense), net	0.8	1.8	(56)	(0.1)	(4.0)	(98)
Income (loss) before income taxes	<u>\$ 9.5</u>	<u>\$ (1.8)</u>	<u>(628)%</u>	<u>\$ 4.8</u>	<u>\$ 73.2</u>	<u>(93)%</u>

- (1) Includes ancillary fee income related to MSR acquisitions reported as Servicing and subservicing fees at the consolidated level of \$0.6 million and \$0.6 million for the three months ended September 30, 2022 and June 30, 2022, respectively, and \$1.6 million and \$5.8 million for the nine months ended September 30, 2022 and September 30, 2021, respectively.
- (2) Effective in the first quarter of 2022, we report MSRs purchased through the Fannie Mae Cash Window program and the associated economics in our Servicing segment upon acquisition, as such MSRs are transferred to MAV monthly under an MSR flow sale agreement and subserviced by PMC. Segment results for prior periods have been recast as applicable to conform to the current segment presentation. The MSR valuation adjustments, net reclassified to the Servicing segment for the nine months ended September 30, 2021 was \$1.5 million.

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

	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30, 2022	% Change	September 30, 2022	September 30, 2021	% Change
Loan Production by Channel						
Forward loans						
Correspondent	\$ 5,074.7	\$ 3,937.4	29 %	\$ 11,686.1	\$ 10,509.5	11 %
Consumer Direct	157.2	323.7	(51)	1,143.6	1,706.4	(33)
	<u>\$ 5,231.9</u>	<u>\$ 4,261.1</u>	23 %	<u>\$ 12,829.8</u>	<u>\$ 12,215.9</u>	5 %
% Purchase production	85 %	69 %	23	67 %	28 %	139
% Refinance production	15	31	(52)	34	72	(53)
Reverse loans (1)						
Correspondent	\$ 116.0	\$ 206.0	(44)%	\$ 603.5	\$ 564.3	7 %
Wholesale	87.8	90.2	(3)	296.1	180.5	64
Retail	88.6	135.3	(35)	371.2	286.0	30
	<u>\$ 292.3</u>	<u>\$ 431.5</u>	(32)%	<u>\$ 1,270.9</u>	<u>\$ 1,030.8</u>	23 %
MSR Purchases by Channel						
Agency Cash Window / Flow MSR	\$ 2,046.1	\$ 3,207.9	(36)%	9,345.5	\$ 17,055.3	(45)%
Bulk MSR purchases	4,333.8	—	n/m	4,333.8	55,133.5	(92)
Bulk reverse purchases	—	—	n/m	209.1	—	n/m
	<u>\$ 6,379.9</u>	<u>\$ 3,207.9</u>	99	<u>\$ 13,888.3</u>	<u>\$ 72,188.8</u>	(81)
Total	<u>\$ 11,904.1</u>	<u>\$ 7,900.6</u>	51%	<u>\$ 27,989.0</u>	<u>\$ 85,435.5</u>	(67)%
Short term loan commitment (at period end)						
Forward loans	\$ 1,289.4	\$ 526.2	145 %	\$ 1,289.4	\$ 1,221.5	6 %
Reverse loans	19.2	31.2	(38)	19.2	80.5	(76)
Average Employment						
Forward						
U.S.	217	365	(41)	399	471	(15)
India and other	338	413	(18)	422	333	27
	<u>555</u>	<u>778</u>	(29)	<u>821</u>	<u>804</u>	2
Reverse						
U.S.	182	220	(17)	201	161	25
India and other	72	81	(11)	81	26	212
	<u>254</u>	<u>301</u>	(16)	<u>282</u>	<u>187</u>	51
Total Originations	<u>809</u>	<u>1,079</u>	(25)%	<u>1,103</u>	<u>991</u>	11 %

(1) Loan production excludes reverse mortgage loan draws by borrowers disbursed subsequent to origination that are reported within the Servicing segment.

Gain on Loans Held for Sale, Net

The following table provides information regarding Gain on loans held for sale by channel and the related forward loan origination volume and margins (excluding fees that are presented in Other revenue, net):

	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30, 2022	% Change	September 30, 2022	September 30, 2021	% Change
Gain on Loans Held for Sale (1)						
Correspondent	\$ 13.8	\$ 5.6	146 %	\$ 19.5	\$ 13.7	42 %
Consumer Direct	7.0	7.0	—	26.6	80.8	(67)
	<u>\$ 20.7</u>	<u>\$ 12.5</u>	66 %	<u>\$ 46.1</u>	<u>\$ 94.5</u>	(51)%
% Gain on Sale Margin (2)						
Correspondent	0.27 %	0.14 %	93 %	0.17 %	0.13 %	31 %
Consumer Direct	4.43	2.15	106	2.32 %	4.73	(51)
	<u>0.40 %</u>	<u>0.29 %</u>	38 %	<u>0.36 %</u>	<u>0.77 %</u>	(53)%
Origination UPB (3)						
Correspondent	\$ 5,074.7	\$ 3,937.4	29 %	\$ 11,686.1	\$ 10,509.5	11 %
Consumer Direct	157.2	323.7	(51)	1,143.6	1,706.4	(33)
	<u>\$ 5,231.9</u>	<u>\$ 4,261.1</u>	23 %	<u>\$ 12,829.8</u>	<u>\$ 12,215.9</u>	5 %

(1) Includes realized gains on loan sales and related new MSR capitalization, changes in fair value of IRLCs, changes in fair value of loans held for sale and economic hedging gains and losses.

(2) Ratio of gain on Loans held for sale to Origination UPB. Note that the ratio differs from the day-one gain on sale margin upon lock.

(3) Defined as the UPB of loans funded in the period.

Gain on loans held for sale, net for the three months ended September 30, 2022 increased by \$8.2 million, or 66% as compared to the three months ended June 30, 2022 due to higher gains in the Correspondent channel, with a \$1.1 billion, or 29% increase in loan production volume and increase in margin, as detailed in the above table. In the third quarter of 2022, with our efforts to prudently manage volatile market conditions and improve execution, we were able to continue to grow volume at margin levels that met our targets. For the Consumer Direct channel, Gain on sale was unchanged in the third quarter as compared to the second quarter as the higher margin was offset by the reduction in loan production volume. The Consumer Direct new production volume reduction is driven by the rising interest rates during 2022, significantly reducing opportunities for existing borrowers to refinance.

As compared to the nine months ended September 30, 2021, Gain on loans held for sale, net for the nine months ended September 30, 2022 declined \$48.4 million, or 51% primarily due to a \$54.2 million decrease in our Consumer Direct channel, driven by a decline in margin and 33% decrease in loan production attributed to this channel, as detailed in the above table. Our Consumer Direct channel benefited from historical low rate conditions during the nine months ended September 30, 2021 and was exposed to rapidly changing and unfavorable market conditions for borrower refinancing due to rising interest rates during the nine months ended September 30, 2022. Our loan production volume for our Correspondent channel increased \$1.2 billion, or 11% as a result of our channel growth strategy. On June 1, 2021, we expanded our network of correspondent lenders through the assignment by Texas Capital Bank (TCB) to us, of all its correspondent loan purchase agreements with its correspondent sellers (approximately 220 sellers). Margins of our Correspondent channel increased when comparing the nine months ended September 30, 2022 with the nine months ended September 30, 2021 due to our prudent pricing and growth of higher margin execution, including best efforts during 2022, as discussed above.

Reverse Mortgage Revenue, Net

The following table provides information regarding Reverse mortgage revenue, net of the Originations segment that comprises fair value changes of the pipeline and unsecuritized reverse mortgage loans held for investment, at fair value, together with volume and margin:

	Three Months Ended			Nine Months Ended		
	September 30,	June 30,	% Change	September 30,	September 30,	% Change
	2022	2022		2022	2021	
Origination UPB (1)	\$ 292.3	\$ 431.5	(32)%	\$ 1,270.9	\$ 1,030.8	23 %
Origination margin (2)	3.60 %	3.80 %	(5)	4.08 %	5.50 %	(26)
Reverse mortgage revenue, net (Originations) (3)	\$ 10.5	\$ 16.4	(36)%	\$ 51.9	\$ 56.7	(8)%

(1) Defined as the UPB of loans funded in the period.

(2) Ratio of origination gain and fees - see (3) below - to origination UPB. Note that the ratio includes gains or losses on interest rate lock commitments.

(3) Includes gain on new origination, and loan fees and other. Includes non-cash gain on securitization of newly originated loans of \$6.3 million and \$27.6 million during the three and nine months ended September 30, 2022, respectively, \$10.2 million for the three months ended June 30, 2022, and \$23.4 million during the nine months ended September 30, 2021.

We reported \$10.5 million Originations Reverse mortgage revenue, net for the three months ended September 30, 2022, a \$5.9 million, or 36% decrease as compared to the three months ended June 30, 2022. The decrease is driven by a lower average margin in our retail channel and lower volume across the three channels. Our higher-margin reverse retail channel generated a net \$5.3 million revenue decrease quarter over quarter due to the decline in volume as well as margin. The decrease in margin is primarily due to the continued increase in market interest rates and the widening of spreads.

As compared to the nine months ended September 30, 2021, Reverse mortgage revenue, net for the nine months ended September 30, 2022 decreased \$4.8 million, or 8%. The decrease is primarily driven by lower margins in all three channels, partially offset by a favorable increase in volume in each of our channels. The lower margins were mostly due to the increase in market interest rates and higher level of yield spread widening observed in the market. Our higher-margin reverse Retail channel generated a net \$1.8 million revenue decrease in the nine months ended September 30, 2022 as compared to the same period of 2021.

Other Revenue, net

Other revenue for the three months ended September 30, 2022 was mostly unchanged as compared to the three months ended June 30, 2022. As compared to the nine months ended September 30, 2021, Other revenue for the nine months ended September 30, 2022 declined \$7.7 million, primarily due to a \$4.2 million decline in ancillary fee income related to MSR acquisitions due to a decline in bulk acquisitions and Agency cash window/flow purchases, and a \$2.7 million decline in setup fees earned for loans boarded on our servicing platform, mostly related to flow purchases.

MSR Valuation Adjustments, Net

MSR valuation adjustments, net for the three months ended September 30, 2022 increased \$1.0 million as compared to the three months ended June 30, 2022 due to additional revaluation gains on certain MSRs opportunistically purchased through the Agency Cash Window programs, and flow purchases. As an aggregator of MSRs, we may purchase MSRs from smaller originators with a purchase price at a discount to fair value and we recognize valuation adjustments for differences in exit markets in accordance with the accounting fair value guidance. We record such valuation adjustments as MSR valuation adjustments, net within the Originations segment since the segment's business objective is the sourcing of new MSRs at targeted returns.

As compared to the nine months ended September 30, 2021, MSR valuation adjustments, net for the nine months ended September 30, 2022 decreased 11.4 million. Opportunities for fair value discount or margins were greater in the early period of the pandemic and have reduced as markets normalized.

Operating Expenses

Operating expenses for the three months ended September 30, 2022 decreased \$9.2 million, or 22%, as compared to the three months ended June 30, 2022, primarily due to a \$7.0 million, or 28% decrease in Compensation and benefits. The decrease in salaries and benefits expense of \$3.9 million was mostly attributed to a 25% lower average total headcount. Forward Originations headcount, mostly Consumer Direct, declined in the three months ended September 30, 2022 by 29% as part of our efforts to right size our resources to market opportunities. The \$2.0 million decline in commissions was driven by lower Reverse origination volumes, and the \$1.3 million decline in incentive compensation is mainly due to a decrease in the

fair value of cash-settled share-based awards associated with the decrease in our common stock price during the quarter and a decrease in the estimated annual incentive plan award. Origination expense for the three months ended September 30, 2022 decreased \$1.3 million compared to the three months ended June 30, 2022, primarily due to a decrease in production volume in our Consumer Direct and Reverse channels.

As compared to the nine months ended September 30, 2021, Operating expenses for the nine months ended September 30, 2022 increased \$0.1 million. Compensation and benefits decreased \$1.3 million, or 2% with a \$3.2 million decline in incentive compensation and retention bonuses and a \$1.6 million decrease in salaries and benefit expense, offset by a \$3.8 million increase in severance expense due to headcount reductions in the second and third quarters of 2022. The decline in incentive compensation and retention bonuses is primarily due to a decrease in the fair value of cash-settled share-based awards associated with the decrease in our common stock price at September 30, 2022 as compared to September 30, 2021, and a reduction in employee retentions. Originations average total headcount increased 11% as compared to the nine months ended September 30, 2021, mostly in Reverse Originations reflecting an increase in loan production. The increase in headcount due to the acquisition of the TCB Correspondent network was largely offset by the decline in headcount in Consumer Direct. The offshore-to-total average headcount ratio for Originations increased from 36% for the nine months ended September 30, 2021 to 46% for the nine months ended September 30, 2022. Other operating expenses increased \$1.4 million primarily due to higher volumes compared to nine months ended September 30, 2021, including a \$2.5 million increase in advertising expense mostly attributed to Reverse Originations and a \$1.9 million increase in corporate overhead allocations offset by a \$3.3 million decrease in Professional services, explained by outsourced surge resources utilized during the nine months ended September 30, 2021 to support production volumes.

Certain other operating expenses are variable, and as a result, as origination volume increased or decreased so did the related expenses. Examples include credit reports, appraisals, settlement fees, and tax service fees recorded in Origination expenses or certain outsourced services including surge resources recorded in Professional services.

Other Income (Expense)

Interest income consists primarily of interest earned on newly-originated and purchased loans prior to sale to investors. Interest expense is incurred to finance the mortgage loans prior to sale or securitization, which is generally within 15 days. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, commonly referred to as warehouse lines.

Interest income for the three months ended September 30, 2022 increased \$3.8 million as compared to the three months ended June 30, 2022. As compared to the nine months ended September 30, 2021, interest income for the nine months ended September 30, 2022 increased \$9.1 million. These increases are primarily due to the increase in average held for sale loan balances due to higher forward loan production volumes and rising interest rates.

Interest expense for the three months ended September 30, 2022 increased \$3.8 million as compared to the three months ended June 30, 2022 due to an increase in effective interest rates driven by base rate increases and the increase in average warehouse facility debt balances due to higher forward loan production volumes. Interest expense for the nine months ended September 30, 2022 increased \$3.5 million compared to nine months ended September 30, 2021, primarily due to increase in average warehouse facility debt balances due to higher forward loan production volumes.

CORPORATE ITEMS AND OTHER

Corporate Items and Other includes revenues and expenses of corporate support services, our reinsurance business CRL, inactive entities, and our other business activities that are currently individually insignificant, revenues and expenses that are not directly related to other reportable segments, interest income on short-term investments of cash, gain or loss on repurchases of debt, interest expense on unallocated corporate debt and foreign currency exchange gains or losses. Interest expense on corporate debt is allocated to the Servicing segment and the Originations segment based on relative financing requirements. Effective in the first quarter of 2022, we no longer allocate the OFC Senior Secured Notes and related interest expense to the Servicing and Originations segments. Accordingly, the financing cost of the Servicing and Originations segments reflects and is consistent with the financing structure of the licensed entity PMC that carries out these businesses and does not depend on the financing structure strategy of its parent, as a holding company. Interest expense allocated to the Servicing and Originations segments for prior periods has been recast to conform to the current period presentation. The interest expense allocation adjustment for the nine months ended September 30, 2021 is \$14.9 million.

Corporate support services include finance, facilities, human resources, internal audit, legal, risk and compliance, capital markets and technology functions. Certain expenses incurred by corporate support services are allocated to the Servicing and Originations segments using various methodologies intended to approximate the utilization of such services. Various measurements of utilization of corporate support services are maintained, primarily time studies, personnel volumes and service consumption levels. Support service costs not allocated to the Servicing and Originations segments are retained in the Corporate

Items and Other segment along with certain other costs including certain litigation and settlement related expenses or recoveries, and other costs related to operating as a public company.

CRL, our wholly-owned captive reinsurance subsidiary, provides re-insurance related to coverage on REO properties owned or serviced by us. CRL assumes a quota share of REO insurance coverage written by a third-party insurer under a blanket policy issued to PMC. The underlying REO policy provides coverage for direct physical loss on commercial and residential properties, subject to certain limitations. Under the terms of the reinsurance agreement, CRL assumes a 60% quota share of premiums and all related losses and loss adjustment expenses incurred by the third-party insurer, effective March 2021, with a 50% quota through February 2021. The reinsurance agreement expires December 31, 2023, but may be terminated by either party at any time with six months advance written notice. The agreement will automatically renew for additional one-year terms unless either party provides 60 days advance written notice prior to renewal.

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

	Three Months Ended			Nine Months Ended		
	September 30, 2022	June 30 2022	% Change	September 30, 2022	September 30, 2021	% Change
Revenue						
Reinsurance premiums (CRL)	\$ 1.5	\$ 1.5	— %	\$ 4.6	\$ 3.5	31 %
Other revenue	0.1	0.1	—	0.4	0.8	(50)
Total revenue	1.5	1.6	(6)	5.0	4.3	16
Operating expenses						
Compensation and benefits	20.1	24.4	(18)	55.1	62.6	(12)
Professional services	6.6	3.8	74	14.0	29.6	(53)
Technology and communications	6.3	5.5	15	17.7	17.5	1
Occupancy and equipment	3.8	0.6	533	5.1	2.2	132
Servicing and origination	0.8	—	n/m	0.6	0.4	50
Other expenses	2.3	2.2	5	7.0	4.8	46
Total operating expenses before corporate overhead allocations	40.0	36.5	10	99.4	117.0	(15)
Corporate overhead allocations						
Servicing segment	(12.0)	(11.7)	3	(34.8)	(36.5)	(5)
Originations segment	(6.0)	(5.5)	9	(16.7)	(14.8)	13
Total operating expenses	22.1	19.4	14	47.9	65.8	(27)
Other income (expense), net						
Interest income	0.5	0.1	400	0.7	0.3	133
Interest expense	(10.6)	(10.4)	2	(31.5)	(29.9)	5
Gain (loss) on extinguishment of debt	—	0.9	(100)	0.9	(15.5)	(106)
Other, net	(0.9)	(0.2)	350	(0.6)	0.8	(175)
Total other income (expense), net	(11.0)	(9.6)	15	(30.5)	(44.3)	(31)
Income (loss) before income taxes	\$ (31.5)	\$ (27.3)	15 %	\$ (73.4)	\$ (105.7)	(31)%

n/m: not meaningful

Compensation and Benefits

Compensation and benefits expense for the three months ended September 30, 2022 declined \$4.3 million, or 18%, as compared to the three months ended June 30, 2022 primarily as a result of a \$3.7 million decrease in incentive compensation and a \$0.5 million decrease in severance. The decrease in incentive compensation is due to a \$1.9 million decrease in the fair value of cash-settled share-based awards associated with the decline in our common stock price during the quarter, a \$1.9 million decrease in estimated annual incentive plan award for 2022 and the reduction in headcount. The average Corporate

headcount declined 11% and the offshore-to-total average headcount ratio increased from 71% for the three months ended June 30, 2022 to 73% for the three months ended September 30, 2022.

As compared to the nine months ended September 30, 2021, Compensation and benefits expense for the nine months ended September 30, 2022 decreased \$7.5 million, or 12%, primarily as a result of a \$9.6 million decrease in incentive compensation and a \$2.0 million decline in salaries and benefit expense, partially offset by a \$3.4 million increase in severance. The decline in incentive compensation is primarily due to a \$7.4 million decrease of cash-settled share-based awards expense associated with the decrease in our common stock price and forfeitures of unvested awards, a \$1.1 million decrease in estimated annual incentive plan award compensation for 2022 and the reduction in headcount. The decline in salaries and benefit expense and the increase in severance expense are due to headcount reductions as part of our cost reduction efforts. The average Corporate headcount declined by 13% and the mix between onshore and offshore was unchanged.

Professional Services

Professional services expense for the three months ended September 30, 2022 increased \$2.8 million, or 74%, as compared to the three months ended June 30, 2022 primarily due to \$2.1 million reimbursements received from mortgage loan investors in the second quarter of 2022 related to prior year legal expenses.

As compared to the nine months ended September 30, 2021, Professional services expense for the nine months ended September 30, 2022 declined \$15.6 million, or 53%, primarily due to a \$10.2 million decrease in legal expenses due to \$6.8 million reimbursements received from mortgage loan investors related to prior year legal expenses in the nine months ended September 30, 2022 and a decrease in expenses related to other legal matters. Other professional fees declined \$5.6 million primarily due to \$3.2 million of advisory fees related to our MSR investment joint venture with Oaktree, MAV Canopy, which closed on May 3, 2021 and higher utilization of professional services in the nine months ended September 30, 2021, including consulting services related to corporate strategy and business initiatives.

Occupancy and equipment expense for the three months ended September 30, 2022 increased \$3.2 million, or 533%, as compared to the three months ended June 30, 2022 primarily due to \$2.9 million facility repairs required in connection with our exit of our New Jersey leased office facility. As compared to the nine months ended September 30, 2021, Occupancy and equipment expense for the nine months ended September 30, 2022 increased \$2.9 million, or 132%, due to the same factors as described in the three-month discussion.

Other operating expenses for the three months ended September 30, 2022 remained mostly flat as compared to the three months ended June 30, 2022. Other operating expenses for the nine months ended September 30, 2022 increased \$2.2 million as compared to the nine months ended September 30, 2021 primarily driven by license fees, increased travel expenses, and certain franchise tax credits in the nine months ended September 30, 2021.

Other Income (Expense)

Interest expense remained flat for the three months ended September 30, 2022 as compared to three months ended June 30, 2022. The debt balance of the Corporate segment is comprised mostly of the OFC Senior Secured Notes issued by Ocwen (parent company) as the PMC Senior Secured Notes are largely allocated to the Servicing and Originations segments.

As compared to the nine months ended September 30, 2021, interest expense for the nine months ended September 30, 2022 increased \$1.6 million, or 5%. The increase is primarily driven by a higher cost of corporate debt that is mostly due to the OFC senior secured notes issued on March 4, 2021 and May 3, 2021. The notes were issued to Oaktree together with warrants that resulted in an additional discount, the accretion of which is reported as interest expense.

During the second quarter of 2022, we recognized a gain on debt extinguishment of \$0.9 million resulting from our repurchase of \$25.0 million PMC 7.875% Senior Secured Notes due March 2026 at a discount, net of the proportionate write-off of unamortized discount and debt issuance costs. In March 2021, we recognized a loss on debt extinguishment of \$15.5 million resulting from our early repayment of the SSTL due May 2022 and our early redemption of our 6.375% PHH senior unsecured notes due August 2021 and our 8.375% PMC senior secured notes due November 2022. The loss on debt extinguishment includes the write-off of unamortized debt issuance costs and discount, as well as contractual prepayment premiums.

LIQUIDITY AND CAPITAL RESOURCES

Overview

In the normal course of business, we are actively engaged with our lenders and as a result, renew, replace or extend our debt agreements to the extent necessary to finance our operations. See Note 13 – Borrowings to the Unaudited Consolidated Financial Statements for additional information. We actively monitor and, during the nine months ended September 30, 2022,

we have adjusted our borrowing capacity on our various collateralized debt agreements to align with our financing needs and to optimize our financing costs.

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

	September 30, 2022			December 31, 2021		
	Total Borrowing Capacity (1)	Available Borrowing Capacity - Committed (1)	Available Borrowing Capacity - Uncommitted (1)	Total Borrowing Capacity (1)	Available Borrowing Capacity - Committed (1)	Available Borrowing Capacity - Uncommitted (1)
Advance facilities	\$ 520.0	\$ 43.8	\$ 18.8	\$ 595.0	\$ 82.7	\$ —
Mortgage loan warehouse facilities	2,133.0	102.0	1,211.5	2,119.3	240.3	794.0
MSR financing facilities	910.0	45.6	33.3	785.0	40.4	18.3
Total	\$ 3,563.0	\$ 191.4	\$ 1,263.5	\$ 3,499.3	\$ 363.4	\$ 812.3
Total Capacity increase (decrease)	\$ 63.7	\$ (172.0)	\$ 451.2			
Advance facilities	(75.0)	(38.9)	18.8			
Mortgage loan warehouse facilities	13.7	(138.3)	417.5			
MSR financing facilities	125.0	5.2	15.0			

(1) Total Borrowing Capacity represents the maximum amount which can be borrowed, subject to eligible collateral. Available Borrowing Capacity represents Total Borrowing Capacity less outstanding borrowings.

Our total borrowing capacity increased by \$63.7 million, or 2% in the nine months ended September 30, 2022, mostly driven by a \$125.0 million, or 16% increase in the capacity of our MSR financing facilities to fund our MSR portfolio growth. Partially offsetting this increase is a \$75.0 million decrease in capacity on our advance facilities, consistent with the decrease in our advances. At September 30, 2022, none of the available borrowing capacity under our advance financing facilities could be funded based on the amount of eligible collateral that had been pledged to such facilities. Also, none of our uncommitted borrowing capacity was available to fund advances at September 30, 2022 under our Ginnie Mae MSR financing facility based on the amount of eligible collateral. We may utilize committed borrowing capacity under our mortgage loan warehouse facilities and MSR financing facilities to the extent we have sufficient eligible collateral to borrow against and otherwise satisfy the applicable conditions to funding. At September 30, 2022, we had no committed borrowing capacity under our mortgage loan warehouse facilities and \$28.1 million committed borrowing capacity under our MSR financing facilities, based on the amount of eligible collateral. Uncommitted amounts can be advanced at the discretion of the lender, and there can be no assurance that any uncommitted amounts will be available to us at any particular time.

At September 30, 2022, our unrestricted cash position was \$226.6 million compared to \$192.8 million at December 31, 2021. We typically invest cash in excess of our immediate operating needs in deposit accounts and other liquid assets.

We strive to optimize our daily cash position to reduce financing costs while closely monitoring our liquidity needs and ongoing funding requirements. We regularly monitor and project cash flows over various time horizons as a way to anticipate and mitigate liquidity risk.

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

- Financial projections for ongoing net income, excluding the impact of non-cash items, and working capital needs including loan origination and repurchases;
- Requirements for amortizing and maturing liabilities;
- The projected change in advances compared to the projected borrowing capacity to fund such advances under our facilities, including capacity for monthly peak needs;
- Projected funding requirements for acquisitions of MSRs and other investment opportunities, including our equity contributions to MAV Canopy;
- Funding capacity for whole loans and tail draws under our reverse mortgage commitments subject to warehouse eligibility requirements;
- Potential payments or recoveries related to legal and regulatory matters, insurance, taxes and others; and
- Margining requirements associated with our borrowing facilities and hedging program.

Use of Funds

Our primary near-term uses of funds in the normal course include:

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

We have originated floating-rate reverse mortgage loans under which the borrowers have additional borrowing capacity of \$1.7 billion at September 30, 2022. This additional borrowing capacity is available on a scheduled or unscheduled payment basis. During the nine months ended September 30, 2022, we funded \$181.2 million out of the \$1.5 billion borrowing capacity available as of December 31, 2021. We also had short-term commitments to lend \$1.3 billion and \$19.2 million in connection with our forward and reverse mortgage loan IRLCs, respectively, outstanding at September 30, 2022. As an HMBS issuer, we assume certain obligations related to each security issued. The most significant obligation is the requirement to purchase loans out of the Ginnie Mae securitization pools once the outstanding principal balance of the related HECM is equal to or greater than 98% of the maximum claim amount (MCA repurchases), or when they become inactive (the borrower is deceased, no longer occupies the property or is delinquent on tax and insurance payments). Our subservicing clients bear the financial obligation and risks associated with purchasing loans out of securitization pools within the portfolio we subservice. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, referred to as warehouse lines.

Regarding the current maturities of our borrowings, as of September 30, 2022, we have approximately \$1.9 billion of debt outstanding that would either come due, begin amortizing or require partial repayment in the next 12 months. This amount is comprised of \$819.6 million of borrowings under forward and reverse mortgage warehouse facilities, \$456.2 million of notes under advance financing facilities that will enter their respective amortization periods, \$648.2 million outstanding under Agency and Ginnie Mae MSR financing facilities maturing in the next 12 months and \$18.6 million of scheduled principal amortization on the PLS Notes secured by PLS MSRs.

We are generally subject to daily margining requirements under the terms of our MSR financing facilities and daily cash calls for our TBAs, interest rate swap futures or other derivatives. Declines in fair value of our MSRs due to declines in market interest rates, assumption updates or other factors require that we provide additional collateral to our lenders under MSR financing facilities. Similarly, declines in fair value of our derivative instruments require that we provide additional collateral to the clearing counterparties. Refer to the sensitivity analysis in Item 3, Quantitative and qualitative disclosures about market risk.

On May 20, 2022, Ocwen's Board of Directors authorized a share repurchase program for an aggregate amount of up to \$50.0 million of Ocwen's issued and outstanding shares of common stock. Through October 2022, we completed the repurchase of 1,682,744 shares of our common stock under this program for a total purchase price of \$47.7 million. Unless Ocwen amends the share repurchase program or repurchases the full \$50.0 million amount by an earlier date, the share repurchase program will continue through November 20, 2022. We intend to finance the remaining share repurchases with available cash.

Our medium- and long-term requirements for cash include:

- Payment of interest and principal repayment of our corporate debt that matures in 2026 and 2027;
- Any payments associated with the confirmation of loss contingencies; and
- Any other payments required under contractual obligations discussed above that extend beyond one year.

We are focused on ensuring that we have sufficient liquidity sources to continue to operate and support our business initiatives. We continuously evaluate alternative financings to diversify our sources of funds, optimize maturities and reduce our funding cost. See "Sources of Funds" below.

Sources of Funds

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

- Collections of servicing and subservicing fees and ancillary revenues;
- Collections of advances in excess of new advances;
- Proceeds from match funded advance financing facilities;
- Proceeds from other borrowings, including warehouse facilities and MSR financing facilities;

- Proceeds from sales and securitizations of originated loans and repurchased loans; and
- Net positive working capital from changes in other assets and liabilities.

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

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

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

We regularly evaluate financing structure options that we believe will most effectively provide the necessary capacity to support our investment plans, address upcoming debt maturities and accommodate our business needs. We continuously evaluate the allocation of our capital to MSR investments, the related returns, funding and liquidity requirements. The relationship with MAV may continue to provide PMC with an additional means to finance MSRs and maintain liquidity while maintaining servicing volume. With the development of MAV and our relationships with other clients, additional opportunities to rebalance our servicing and subservicing portfolio mix are available to us and may result in the sale of MSRs while we would perform subservicing for the sold portfolio. In the third quarter of 2022, we issued an excess servicing spread financing to a third party that allows us to continue to perform servicing while enhancing our liquidity.

Covenants

Our debt agreements contain various qualitative and quantitative covenants including financial covenants, covenants to operate in material compliance with applicable laws and regulations, monitoring and reporting obligations and restrictions on our ability to engage in various activities, including but not limited to incurring or guarantying additional debt, paying dividends or making distributions on or purchasing equity interests of Ocwen and its subsidiaries, repurchasing or redeeming capital stock or junior capital, repurchasing or redeeming subordinated debt prior to maturity, issuing preferred stock, selling or transferring assets or making loans or investments or other restricted payments, entering into mergers or consolidations or sales of all or substantially all of the assets of Ocwen and its subsidiaries, creating liens on assets to secure debt, and entering into transactions with affiliates. These covenants may limit the manner in which we conduct our business and may limit our ability to engage in favorable business activities or raise additional capital to finance future operations or satisfy future liquidity needs. In addition, breaches or events that may result in a default under our debt agreements include, among other things, nonpayment of principal or interest, noncompliance with our covenants, breach of representations, the occurrence of a material adverse change, insolvency, bankruptcy, certain material judgments and litigation and changes of control. See Note 13 – Borrowings to the Unaudited Consolidated Financial Statements for additional information regarding our covenants. The most restrictive liquidity requirement under our debt agreements is for a minimum of \$75.0 million in consolidated liquidity, as defined, under certain of our MSR financing facilities agreements. At September 30, 2022, we held unrestricted cash in excess of this minimum amount.

In addition, our debt agreements generally include cross default provisions such that a default under one agreement could trigger defaults under other agreements. If we fail to comply with our debt agreements and are unable to avoid, remedy or secure a waiver of any resulting default, we may be subject to adverse action by our lenders, including termination of further funding, acceleration of outstanding obligations, enforcement of liens against the assets securing or otherwise supporting our obligations, and other legal remedies, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations. We believe that we are in compliance with the covenants in our debt agreements as of the date this Quarterly Report on Form 10-Q is filed with the SEC.

Credit Ratings

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

Rating Agency	Long-term Corporate Rating	Review Status / Outlook	Date of last action
Moody's	Caa1	Positive	August 15, 2022
S&P	B-	Stable	January 24, 2022

On August 15, 2022, Moody's reaffirmed their ratings of Caa1 and revised their outlook to Positive from Stable. In its affirmation of PMC's ratings, Moody's referenced currently weak but improving profitability and modest capital levels. In its change in PMC's outlook to Positive from Stable, Moody's cited the progress the company is making in transitioning its strategy to focus on originations and servicing of non-delinquent forward and reverse mortgages from the servicing of seriously delinquent loans, which should lead to a more resilient business model and more stable earnings profile. The Positive outlook also reflects Moody's expectation that PMC will maintain stable financial metrics in the next 12-18 months with respect to capitalization and liquidity, continue to strengthen its servicing and origination franchises and make progress with respect to its strategic plan to improve profitability.

On February 24, 2021, concurrent with the launch of the \$400.0 million PMC Senior Secured Notes offering, both Moody's and S&P reaffirmed the long-term corporate ratings at Caa1 and B-, respectively. In addition, both agencies revised the outlook of the issuer corporate ratings to Stable from Negative. This change in outlook was driven by the elimination of the short debt maturity runway and refinancing risk, which was listed as an area of concern by both Moody's and S&P. On January 24, 2022, S&P affirmed the long-term corporate rating at B-.

On January 24, 2022, S&P raised the assigned rating to the PMC Senior Secured Notes from 'B-' to 'B' and maintained a stable outlook citing improved profitability and increase in assets. It is possible that additional actions by credit rating agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Cash Flows

Our operating cash flow is primarily impacted by operating results, including Originations gains on loan sales, changes in our servicing advance balances, the level of mortgage loan production, the timing of sales and securitizations of mortgage loans, and the margin calls required under our MSR financing facilities or derivative instruments. We classify purchases of MSRs through flow purchase agreements, Agency Cash Window and bulk acquisitions as investing activity. MSR investments represent a key indicator of our ability to generate future income in our Servicing business, together with originated MSRs. We classify changes in HECM loans held for investment as investing activity and changes in the related HMBS borrowings as financing activity.

Our Rithm agreements represent an important component of our liquidity and our liquidity management, and have a significant impact on consolidated statements of cash flows. Excluding the impact of changes to the secured financings attributed to changes in fair value, changes in the balance of these secured financings are reflected in cash flows from operating activities despite having no impact on our consolidated cash balance.

Our cash flows are summarized as follows:

<i>\$ in millions</i>	Nine Months Ended September 30,	
	2022	2021
Net cash provided by (used in) operating activities	\$ 260	\$ (413)
Net cash provided by (used in) investing activities	(206)	(845)
Net cash provided by (used in) financing activities	(45)	1,222
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 8	\$ (36)
Cash, cash equivalents and restricted cash at end of period	\$ 272	\$ 321

Cash flows for the nine months ended September 30, 2022

Our operating activities provided \$259.6 million of cash including net collections of servicing advances of \$101.8 million, mostly T&I advances, and net cash received on loans held for sale of \$38.2 million for the nine months ended September 30, 2022 due to higher forward loan production volumes. In addition, we received earnings distributions of \$5.2 million from our equity method investee MAV Canopy.

Our investing activities used \$206.5 million of cash. The primary uses of cash in our investing activities include \$174.9 million to purchase MSR, \$171.4 million net cash outflows in connection with our HECM reverse mortgages and \$6.9 million acquisition of reverse subservicing agreement. Offsetting cash inflows include \$149.1 million proceeds from the sale of MSR to an unrelated third party. Capital distributions of \$32.4 million received from our equity method investee MAV Canopy were offset by \$33.8 million of capital contributions.

Our financing activities used \$44.7 million of cash. Cash outflows include \$143.5 million net repayments of borrowings under our mortgage warehouse and MSR financing facilities due to the decline in loans held for sale, \$54.8 million of net repayments on advance match funded liabilities due to the decline in servicing advances, and \$83.8 million of net payments on the financing liabilities related to MSR transferred due to runoff. We also paid \$23.6 million to repurchase \$25.0 million of our 7.875% PMC Senior Secured Notes and \$38.8 million to repurchase 1,338,498 shares of our common stock. Cash inflows include \$1.5 billion received in connection with our reverse mortgage securitizations, which are accounted for as secured financings, partially offset by repayments on the related financing liability of \$1.3 billion, \$78.7 million of proceeds from sale of MSR accounted for as a financing in connection with sales of MSR to MAV and \$36.2 million of proceeds from the excess servicing spread financing.

Cash flows for the nine months ended September 30, 2021

Our operating activities used \$412.8 million of cash largely due to the growth of our new Originations production with net cash paid on loans held for sale of \$576.1 million for the nine months ended September 30, 2021, partially offset by \$69.9 million of net collections of servicing advances, mostly P&I advances.

Our investing activities used \$845.4 million of cash. The primary uses of cash in our investing activities include \$785.2 million to purchase MSR, mostly through bulk acquisitions, and \$18.5 million of contributions to our equity method investee MAV Canopy. These cash outflows were partially offset by net cash inflows in connection with our HECM reverse mortgages of \$42.8 million.

Our financing activities provided \$1.2 billion of cash. Cash inflows include \$647.9 million from the issuance of the PMC Senior Secured Notes and the OFC Senior Secured Notes, warrants and common stock to Oaktree and \$1.1 billion received in connection with our reverse mortgage securitizations, which are accounted for as secured financings, partially offset by repayments on the related financing liability of \$1.2 billion, \$130.0 million of proceeds from the sale of MSR accounted for as a financing in connection with sales of MSR to MAV, and an \$897.6 million net increase in borrowings under our mortgage warehouse and MSR financing facilities. Cash outflows include \$319.2 million to repay our 6.375% senior unsecured notes and 8.375% senior secured notes, \$188.7 million repayment of the SSTL, \$64.7 million of net repayments on advance match funded liabilities and \$60.3 million of net payments on the financing liabilities related to MSR pledged.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our ability to measure and report our financial position and operating results is influenced by the need to estimate the impact or outcome of future events based on information available at the date of the financial statements. An accounting estimate is considered critical if it requires that management make assumptions about matters that were highly uncertain at the time the accounting estimate was made. If actual results differ from our judgments and assumptions, then it may have an adverse impact on the results of operations and cash flows. We have processes in place to monitor these judgments and assumptions, and management is required to review critical accounting policies and estimates with the Audit Committee of the Board of Directors.

Our accounting policies and estimates involving significant judgments primarily relate to fair value measurements, income taxes, allowance for losses on assets, and the provision for losses that may arise from contingencies, including indemnification obligations and litigation proceedings. We use fair value measurements to record fair value adjustments to certain instruments in our statement of operations and to determine fair value disclosures, including but not limited to MSR, Pledged MSR liabilities and Reverse mortgage loans held for investment. As of September 30, 2022, 88% of our assets and 70% of our liabilities were reported at fair value, with fair value changes reported in our statement of operations. Substantially all our assets and liabilities at fair value were classified as Level 3 instruments due to unobservable inputs.

Our significant accounting policies and critical accounting estimates are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021 in Note 1 to the Consolidated Financial Statements and in Management's Discussion and

Analysis of Financial Condition and Results of Operations under “Critical Accounting Policies and Estimates.” There have not been any material changes to our critical accounting policies and the methods we used and judgments we made relating to estimates as disclosed in the Annual Report on Form 10-K.

RECENT ACCOUNTING DEVELOPMENTS

See Note 1 - Organization and Basis of Presentation to the Unaudited Consolidated Financial Statements for information related to recent accounting standards updates.

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

Interest Rates

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

Our management-level Market Risk Committee establishes and maintains policies that govern our risk appetite and associated hedging programs, including such factors as market volatility, duration and interest rate sensitivity measures, limits, targeted hedge ratios, the hedge instruments that we are permitted to use in our hedging activities and the counterparties with whom we are permitted to enter into hedging transactions and our liquidity risk profile. See Note 16 – Derivative Financial Instruments and Hedging Activities to the Unaudited Consolidated Financial Statements for additional information regarding our use of derivatives.

MSR Hedging Strategy

MSRs are carried at fair value with changes in fair value being recorded in earnings in the period in which the changes occur. The fair value of MSRs is subject to changes in market interest rates, among other inputs and assumptions.

The objective of our risk management MSR policy is to provide partial hedge coverage of interest-rate sensitive MSR portfolio exposure, considering market and liquidity conditions. The interest-rate sensitive MSR portfolio exposure is defined as follows:

- Agency MSR portfolio,
- expected Agency MSR bulk transactions subject to letters of intent (LOI),
- less the Agency MSRs subject to our sale agreements with Rithm (formerly NRZ) and MAV (See Note 8 — MSR Transfers Not Qualifying for Sale Accounting),
- less the asset value for securitized HECM loans, net of the corresponding HMBS-related borrowings (Reverse).

The hedge coverage ratio, defined as the ratio of hedge and asset rate sensitivity (referred to as DV01) at the time of measurement, is subject to lower and upper thresholds, as modeled. As of September 30, 2022, a minimum 25% and 30% hedge coverage ratios were required for interest rate declines less than, and more than 50 basis points, respectively. Prior to September 30, 2022, the hedge coverage ratio was required to remain within a minimum of 40% and maximum of 60%. MSRs subject to LOI may be covered under a separate hedge coverage ratio requirement sufficient to preserve the economics of the intended transactions. Accordingly, the changes in fair value of our hedging instruments may not fully offset the changes in fair value of our net MSR portfolio exposure attributable to interest rate changes. We periodically evaluate the hedge coverage ratio at the intended shock interval to determine if it is relevant or warrants adjustment based on market conditions, symmetry of interest rate risk exposure, and liquidity impacts of both the hedge and asset profile under shock scenarios. As the market dictates, management may choose to maintain hedge coverage ratio levels at or beyond the above thresholds, with approval of the Market Risk Committee, in order to preserve liquidity and/or optimize asset returns. In addition, while DV01 measures may remain within the range of our hedging strategy’s objective, actual changes in fair value of the derivatives and MSR portfolio may not offset to the same extent, due to non-parallel changes in the interest rate curve and the basis risk inherent in the MSR profile and hedging instruments, among other factors. We continuously evaluate the use of hedging instruments to strive to enhance the effectiveness and efficiency of our interest rate hedging strategy.

The following table illustrates the interest rate sensitivity of our MSR portfolio exposure and associated hedges at September 30, 2022. Hypothetical change in values of the MSR and hedges are presented under a set instantaneous +/- 25 basis point parallel move in rates. Refer to the description below under Sensitivity Analysis for more details. Changes in fair value cannot be extrapolated because the relationship to the change in fair value may not be linear. The amounts based on market risk sensitive measures are hypothetical and presented for illustrative purposes only.

	Fair value at September 30, 2022	Hypothetical change in fair value due to 25 bps rate decrease (1)	Hypothetical change in fair value due to 25 bps rate increase (1)
Agency MSRs - interest rate sensitive (excluding Rithm and MAV)	\$ 1,615.4	\$ (33.4)	\$ 31.8
Asset value of securitized HECM loans, net of HMBS-related borrowing	59.6	3.9	(4.0)
MSR hedging derivative instruments	\$ (9.0)	7.1	(6.8)
Total hedge position		\$ 11.0	\$ (10.8)
Hypothetical hedge coverage ratio (2)		33 %	34 %
Hypothetical residual exposure to changes in interest rates		\$ (22.4)	\$ 20.9

(1) The baseline for the hypothetical change in fair value is based on a 10-year Treasury Rate of 3.86% at September 30, 2022.

(2) The hypothetical hedge coverage ratio above is calculated as the change in fair value of the total hedge position divided by the change in value of the Agency MSR position.

Our derivative instruments include forward trades of MBS or Agency TBAs with different banking counterparties, exchange-traded interest rate swap futures, interest rate options. These derivative instruments are not designated as accounting hedges. TBAs, or To-Be-Announced securities are actively traded, forward contracts to purchase or sell Agency MBS on a specific future date. From time-to-time, we enter into exchange-traded options contracts with purchased put options financed by written call options. We report changes in fair value of these derivative instruments in MSR valuation adjustments, net in our consolidated statements of operations, within the Servicing segment. We may, from time to time, establish inter-segment derivative instruments between the MSR and pipeline hedging strategies to optimize the use of third party derivatives. Such inter-segment derivatives are eliminated in our consolidated financial statements.

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

Loans Held for Investment and HMBS-related Borrowings

The fair value of our HECM loan portfolio generally decreases as market interest rates rise and increases as market rates fall. As our HECM loan portfolio is predominantly comprised of ARMs, higher interest rates cause the loan balance to accrue and reach a 98% maximum claim amount liquidation event more quickly, with lower interest rates extending the timeline to liquidation.

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

Pipeline Hedging Strategy - Loans Held for Sale and IRLCs

In our Originations business, we are exposed to interest rate risk and related price risk during the period from the date of the interest rate lock commitment through (i) the lock commitment cancellation or expiration date or (ii) through the date of sale of the resulting loan into the secondary mortgage market. Loan commitments for forward loans generally range from 5 to 90 days, with the majority of our commitments to borrowers for 55 to 75 days and our commitments to correspondent sellers for 7 days. Loans held for sale are generally funded and sold within 3 to 20 days. The interest rate exposure of loans held for sale and IRLCs is economically hedged with derivative instruments, including forward sales of Agency TBAs. The objective of our pipeline hedging strategy is to provide hedge coverage of locks and loans within certain tolerance levels. The net daily market risk position of net pull-through adjusted locks and loans held for sale, less the offsetting hedges of the forward and reverse pipelines, is monitored daily and its daily limit is the greater of +/- 5% or +/- \$15 million. We report changes in fair value of these derivative instruments in gain on loans held for sale in our consolidated statements of operations, within the Originations segment. We establish inter-segment derivative instruments between the MSR and pipeline hedging strategies to optimize the use of third party derivatives. Such inter-segment derivatives are eliminated in our consolidated financial statements. Reverse pipeline is hedged under the same principles as described below, for unsecuritized loans held for investment.

EBO and Loan Modification Hedging – Loans Held for Sale, at fair value

In our Servicing business, effective February 2022, management started hedging certain Ginnie Mae EBO loans repurchased out of securitization pools for modification and reperformance with TBAs to manage the interest rate risk while these loans await redelivery.

Advance Match Funded Liabilities

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

Interest Rate-Sensitive Financial Instruments

The tables below present the notional amounts of our financial instruments that are sensitive to changes in interest rates and the related fair value of these instruments at the dates indicated. We use certain assumptions to estimate the fair value of these instruments.

	September 30, 2022		December 31, 2021	
	Balance	Fair Value (1)	Balance	Fair Value (1)
Rate-Sensitive Assets:				
Interest-earning cash	\$ 170.0	\$ 170.0	\$ 136.7	\$ 136.7
Loans held for sale, at fair value	725.2	725.2	917.5	917.5
Loans held for sale, at lower of cost or fair value (2)	4.4	4.4	11.0	11.0
Loans held for investment, at fair value	7,395.5	7,395.5	7,199.8	7,199.8
Debt service accounts and time deposits	16.6	16.6	10.6	10.6
Total rate-sensitive assets	<u>\$ 8,311.8</u>	<u>\$ 8,311.8</u>	<u>\$ 8,275.5</u>	<u>\$ 8,275.5</u>

Rate-Sensitive Liabilities (3):				
Advance match funded liabilities	\$ 457.5	\$ 457.5	\$ 512.3	\$ 512.0
HMBS-related borrowings, at fair value	7,208.4	7,208.4	6,885.0	6,885.0
Mortgage loan warehouse facilities	819.6	819.6	1,085.1	1,085.1
MSR financing facilities, net (4)	1,021.7	999.0	901.7	873.8
Senior notes (4)	660.0	544.4	685.0	674.9
Total rate-sensitive liabilities	<u>\$ 10,167.1</u>	<u>\$ 10,028.8</u>	<u>\$ 10,069.1</u>	<u>\$ 10,030.8</u>

	September 30, 2022		December 31, 2021	
	Notional Balance	Fair Value (1)	Notional Balance	Fair Value (1)
Rate-Sensitive Derivative Financial Instruments:				
Derivative assets (liabilities):				
IRLCs	\$ 1,308.6	\$ (12.2)	\$ 1,085.3	\$ 18.1
Forward sales of reverse loans	70.0	0.1	175.0	0.4
Interest rate swap futures	440.0	(7.3)	792.5	1.7
TBA forward MBS trades	1,866.0	21.8	1,782.0	(0.2)
Interest rate option contracts	500.0	(1.2)	575.0	(0.3)
Derivatives, net	<u>\$ 4,184.6</u>	<u>\$ 1.2</u>	<u>\$ 4,409.8</u>	<u>\$ 19.7</u>

(1) See Note 3 – Fair Value to the Unaudited Consolidated Financial Statements for additional fair value information on financial instruments.

(2) Net of valuation allowances and including non-performing loans.

(3) Excludes financing liabilities that result from sales of assets that do not qualify as sales for accounting purposes and, therefore, are accounted for as secured financings, which have no contractual maturity and are amortized over the life of the related assets.

(4) Amounts are exclusive of any related discount or unamortized debt issuance costs.

Sensitivity Analysis

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

The following table summarizes the estimated change in the fair value of our MSRs, HECM loans held for investment and loans held for sale that we have elected to carry at fair value as well as any related derivatives at September 30, 2022, given hypothetical instantaneous parallel shifts in the yield curve. We used September 30, 2022 market rates to perform the sensitivity analysis. The estimates are based on the interest rate risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves. These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship to the change in fair value may not be linear.

	Change in Fair Value	
	Down 25 bps	Up 25 bps
Asset value of securitized HECM loans, net of HMBS-related borrowing	\$ 3.9	\$ (4.0)
Loans held for investment - Unsecuritized HECM loans and tails	—	—
Loans held for sale	20.0	(20.7)
Derivative instruments	(12.6)	13.8
Total MSRs - Agency and non-Agency (1)	(33.4)	31.8
Interest rate lock commitments (2)	(1.0)	1.4
Total, net	<u>\$ (23.2)</u>	<u>\$ 22.3</u>

(1) Primarily reflects the impact of market interest rate changes on projected prepayments on the Agency MSR portfolio. Fair value adjustments to our MSRs are offset, in part, by fair value adjustments related to the Rithm and MAV financing liabilities, which are recorded in Pledged MSR liability expense.

(2) Forward mortgage loans only.

The decrease in our net sensitivity from December 31, 2021 to September 30, 2022 (from approximately \$35 - \$39 million) to \$22 - \$23 million for a 25 basis point parallel shift in the yield curve) is primarily driven by the effect of the increase in interest rates on the MSR portfolio (due to convexity), the sale of an MSR portfolio and the change in our hedging instruments in the nine months ended September 30, 2022.

Borrowings

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

Based on September 30, 2022 balances, if interest rates were to increase by 100 bps on our variable-rate debt and interest earning cash and float balances, we estimate a net positive impact of approximately \$0.6 million resulting from an increase of \$22.4 million in annual interest income and other credits on deposits, and an increase of \$21.8 million in annual interest expense.

Foreign Currency Exchange Rate Risk

Our operations in India and the Philippines expose us to foreign currency exchange rate risk to the extent that our foreign exchange positions remain unhedged. Depending on the magnitude and risk of our positions we may enter into forward exchange contracts to hedge against the effect of changes in the value of the India Rupee or Philippine Peso. We have not entered into any foreign currency hedging derivative instruments during the nine months ended September 30, 2022.

Home Prices

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

ITEM 4. CONTROLS AND PROCEDURES

Our management, under the supervision of and with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), as of September 30, 2022.

Based on such evaluation, management concluded that our disclosure controls and procedures as of September 30, 2022 were (1) designed and functioning effectively to ensure that material information relating to Ocwen, including its consolidated subsidiaries, is made known to our principal executive officer and principal financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) operating effectively in that they provided reasonable assurance that information required to be disclosed by Ocwen in the reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including our principal executive officer or principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There have not been any changes in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

An investment in our common stock involves significant risk. We describe the most significant risks that management believes affect or could affect us under Part I, Item 1.A. of our Annual Report on Form 10-K for the year ended December 31, 2021. Understanding these risks is important to understanding any statement in such reports and in our subsequent SEC filings (including this Form 10-Q) and to evaluating an investment in our common stock. You should carefully read and consider the risks and uncertainties described therein together with all the other information included or incorporated by reference in such Annual Report and in our subsequent SEC filings before you make any decision regarding an investment in our common stock. You should also consider the information set forth under “Forward-Looking Statements.” If any of the risks actually occur, our business, financial condition, liquidity and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could significantly decline, and you could lose some or all of your investment.

In addition to the risks described in our Annual Report on Form 10-K for the year ended December 31, 2021, you should consider the following:

If we are unable to identify and execute a cost-effective business response to Ginnie Mae's updated financial eligibility requirements, our financial results could be negatively impacted.

On August 17, 2022, the FHFA and Ginnie Mae announced updated minimum financial eligibility requirements for GSE seller/servicers and Ginnie Mae issuers. The updated minimum financial eligibility requirements modify the definitions of tangible net worth and eligible liquidity, modify their minimum standard measurement and include a new risk-based capital ratio, among other changes. The majority of the updated requirements will become effective on September 30, 2023. On October 21, 2022, Ginnie Mae extended the compliance date for its risk-based capital requirements to December 31, 2024. On a pro forma basis, as if the updated requirements were in effect as of September 30, 2022, we believe PMC would be in compliance with all of the updated requirements except for the new risk-based capital requirement. We are currently evaluating the potential impacts of these updated requirements, the costs and benefits of achieving compliance, and possible courses of action involving external investor solutions, structural solutions or exiting Ginnie Mae forward originations and owned servicing activities. If we are unable to identify and execute a cost-effective solution that allows us to continue these businesses and are unable to replace the lost income from these activities, or if we misjudge the magnitude of the costs and benefits and their impacts on our business, our financial results could be negatively impacted. As of September 30, 2022, our forward owned servicing portfolio included 81,949 government-insured loans with a UPB of \$12.1 billion, 10% of our total forward owned MSR or 4% of our total UPB serviced and subserviced. In addition, during the nine months ended September 30, 2022, we originated and purchased a total of 4,050 government-insured loans with a UPB of \$1.3 billion, 9% of our total Originations UPB.

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

Purchases of Equity Securities by the Issuer and Affiliates

On May 20, 2022, Ocwen's Board of Directors authorized a share repurchase program for an aggregate amount of up to \$50.0 million of Ocwen's issued and outstanding shares of common stock. Repurchases may be made through open market purchases. The timing and execution of any share repurchases are subject to market conditions, among other factors, and Ocwen may modify, discontinue or suspend the repurchase program at any time. Any shares repurchased will be retired and canceled. Unless Ocwen amends the share repurchase program or repurchases the full \$50.0 million amount by an earlier date, the share repurchase program will continue through November 20, 2022. No assurances can be given as to the amount of shares, if any, that Ocwen may repurchase in any given period.

Information regarding repurchases of our common stock during the third quarter of 2022 is as follows:

Period	Total number of shares purchased	Average price paid per share (1)	Total number of shares purchased as part of a publicly announced repurchase program	Approximate dollar value of shares that may yet be purchased under the repurchase program
July 1 - July 31	490,317	\$ 29.7801	490,317	\$ 33.1 million
August 1 - August 31	403,644	\$ 30.2169	403,644	\$ 20.9 million
September 1 - September 30	360,450	\$ 26.8283	360,450	\$ 11.3 million
Total	1,254,411	\$ 29.0725	1,254,411	

(1) Average price paid per share does not reflect payment of commissions totaling \$37,632 (thirty seven thousand six hundred thirty-two dollars).

ITEM 6. EXHIBITS

- 3.1 Amended and Restated Articles of Incorporation, as amended (1)
- 3.2 Amended and Restated Bylaws of Ocwen Financial Corporation (2)
- 4.1 The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to the issuance of long-term debt of the Company and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of the Company and its subsidiaries.
- 31.1 Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1 Certification of the principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
- 32.2 Certification of the principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
- 101 The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 were formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Equity, (v) Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Consolidated Financial Statements, tagged as blocks of text and including detailed tags.
- 104 The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in Inline XBRL (Included as Exhibit 101).

(1) Incorporated by reference to the similarly described exhibit to the Registrant's Form 10-Q for the period ended September 30, 2020 filed on November 3, 2020.

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

Signatures

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

Ocwen Financial Corporation

By: /s/ Sean B. O'Neil
Sean B. O'Neil
Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and as its principal financial officer)

Date: November 3, 2022

CERTIFICATIONS

I, Glen A. Messina, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Ocwen Financial Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and the other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(f) and 15d—15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2022

/s/ Glen A. Messina

Glen A. Messina, President
and Chief Executive Officer

CERTIFICATIONS

I, Sean B. O'Neil, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Ocwen Financial Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and the other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(f) and 15d—15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2022

/s/ Sean B. O'Neil

Sean O'Neil, Executive Vice President and Chief Financial Officer

CERTIFICATIONS

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

- (1) I am the principal executive officer of Ocwen Financial Corporation (the Registrant).
- (2) I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - the Quarterly Report on Form 10-Q of the Registrant for the quarter ended September 30, 2022 (the periodic report) containing financial statements fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
 - the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ Glen A. Messina
Title: President and Chief Executive Officer
Date: November 3, 2022

CERTIFICATIONS

I, Sean B. O'Neil, state and attest that:

- (1) I am the principal financial officer of Ocwen Financial Corporation (the Registrant).
- (2) I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - the Quarterly Report on Form 10-Q of the Registrant for the quarter ended September 30, 2022 (the periodic report) containing financial statements fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
 - the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ Sean B. O'Neil
Title: Executive Vice President and Chief Financial Officer
Date: November 3, 2022