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

# FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2024

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

# Onity Group Inc.

(Exact name of registrant as specified in its charter)

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

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

Ocwen Financial Corporation
(Former name, former address and former fiscal year, if changed since last report)

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 | ONIT | New York Stock Exchange |

*The registrant changed its name to Onity Group Inc. and its trading symbol to ONIT on June 10, 2024. The registrant's common stock was previously traded under the trading symbol OCN.

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 ☒ No ☐

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

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

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

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

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

Number of shares of common stock outstanding as of July 30, 2024: 7,845,055 shares

**ONITY GROUP INC. CORPORATION**
**FORM 10-Q**
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## FORWARD-LOOKING STATEMENTS

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

Forward-looking statements may be identified by a reference to a future period or by the use of forward-looking terminology. Forward-looking statements are typically identified by words such as “expect”, “believe”, “foresee”, “anticipate”, “intend”, “estimate”, “goal”, “strategy”, “plan”, “target” and “project” or conditional verbs such as “will”, “may”, “should”, “could” or “would” or the negative of these terms, although not all forward-looking statements contain these words. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. 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, 2023 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, United States political developments, geopolitical events and other sources of instability;
- the impacts of inflation, employment disruption, and other financial difficulties facing our borrowers;
- the impact of the recent failures and re-organization of banking institutions and continued uncertainty in the banking industry;
- the timing for completion of our rebranding and its impact on our business and third parties’ perceptions of us;
- our ability to timely reduce operating costs or generate offsetting revenue in proportion to the industry-wide decrease in originations activity, and the impact of cost-reduction initiatives on our business, operations, and financial performance;
- our ability to maintain and increase market share in our target markets, including in forward and reverse servicing;
- breach or failure of Onity’s, our contractual counterparties’, or our vendors’ information technology or other security systems or privacy protections, including any failure to protect customers’ data, resulting in disruption to our operations, loss of income, reputational damage, costly litigation and regulatory penalties;
- 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;
- our ability to interpret correctly and comply with current or future liquidity, net worth and other financial and other requirements of regulators, the Federal National Mortgage Association (Fannie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac) (together, the GSEs), and the Government National Mortgage Association (Ginnie Mae), as well as those set forth in our debt and other agreements, including our ability to implement, in a timely and cost-effective manner, our planned response to Ginnie Mae’s risk-based capital requirements that take effect on December 31, 2024;
- the amount of common stock or senior debt that we may repurchase under any future stock or debt repurchase programs, the timing of such repurchases, and the long-term impact, if any, of repurchases on the trading price of our stock or our financial condition;
- the timing of actions to refinance our senior secured notes and the terms of any such refinancing;
- our ability to repay, renew and extend our other borrowings, borrow additional amounts as and when required, meet our mortgage servicing rights (MSR) or other asset investment objectives and comply with our debt agreements, including the financial and other covenants contained in them;
- the extent to which our 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;
- uncertainty related to the future of MAV, one of our largest subservicing clients as of June 30, 2024, MAV’s continued ownership of its MSR portfolio after May 3, 2024, and any impact on our servicing revenue and MSR valuation adjustments as a result of the sale of MAV’s MSRs;
- the extent to which our ownership stake in MAV’s holding company may be diluted, resulting in a reduced ability for us to participate in certain routine management decisions;

- uncertainty related to our long-term relationship with Rithm Capital Corp. (Rithm), one of our largest subservicing clients as of June 30, 2024;
- 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 adequacy of our financial resources, including our sources of liquidity and ability to sell, fund and recover servicing advances, forward and reverse whole loans, future draws on existing reverse loans, and Home Equity Conversion Mortgage (HECM) and forward loan buyouts and put-backs;
- 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;
- increased servicing costs and reduced or delayed servicing income due to rising borrower delinquency levels, forbearance plans, moratoria on evictions and delays in foreclosure proceedings;
- the characteristics of our servicing portfolio, including prepayment speeds along with delinquency and advance rates;
- our ability to continue to collect certain expedited payment or convenience fees and potential liability for charging such fees;
- an increase in severe weather or natural disaster events resulting in costly disruptions to our operations and increased servicing costs due to property damage;
- our ability to successfully modify delinquent loans, manage foreclosures and maintain and sell foreclosed properties;
- adverse effects on our business 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);
- scrutiny of our compliance with COVID-19-related rules and regulations, including requirements instituted by state governments, the GSEs, Ginnie Mae and regulators;
- the reactions of key counterparties, including lenders, the GSEs and Ginnie Mae, to our regulatory engagements and litigation matters;
- 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, and the costs of doing so;
- 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, or in the interpretation of, laws or regulations may require us to modify our business practices and expose us to increased expense, regulatory engagement and litigation risk, including with respect to the collection of expedited payment, or convenience, fees;
- 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;
- 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;
- our ability to recruit and retain senior managers and key employees;
- increased compensation and benefits expense as a result of rising inflation and labor market trends;
- uncertainty related to our reserves, valuations, provisions and anticipated realization of assets;
- 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;
- political or economic stability in the foreign countries in which we operate; 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, 2023, 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**

**ONITY GROUP INC. AND SUBSIDIARIES**
**UNAUDITED CONSOLIDATED BALANCE SHEETS**
**(Dollars in millions, except per share data)**

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 203.1 | $ 201.6 |
| Restricted cash ($22.5 and $24.2 related to variable interest entities (VIEs)) | 46.3 | 53.5 |
| Mortgage servicing rights (MSRs), at fair value | 2,327.7 | 2,272.2 |
| Advances, net ($467.9 and $573.0 related to VIEs) | 550.6 | 678.8 |
| Loans held for sale ($1,103.9 and $674.2 carried at fair value) ($428.8 and $269.6 related to VIEs) | 1,107.0 | 677.3 |
| Loans held for investment, at fair value ($5.4 and $5.6 related to VIEs) | 8,227.8 | 7,975.5 |
| Receivables, net ($33.1 and $19.9 related to VIEs) | 153.4 | 154.8 |
| Investment in equity method investee | 31.3 | 37.8 |
| Premises and equipment, net | 12.3 | 13.1 |
| Other assets ($12.8 and $22.0 carried at fair value) ($22.4 and $18.6 related to VIEs) | 84.3 | 106.2 |
| Contingent loan repurchase asset | 341.0 | 343.0 |
| Total assets | $ 13,084.7 | $ 12,513.7 |
| **Liabilities and Stockholder's Equity** | | |
| **Liabilities** | | |
| Home Equity Conversion Mortgage-Backed Securities (HMBS) related borrowings, at fair value | $ 8,035.4 | $ 7,797.3 |
| Other financing liabilities, at fair value ($333.1 and $409.2 due to related party) ($5.4 and $5.6 related to VIEs) | 845.9 | 900.0 |
| Advance match funded liabilities ($404.3 and $498.9 related to VIEs) | 405.0 | 499.7 |
| Mortgage loan financing facilities, net ($280.1 and $143.4 related to VIEs) | 1,190.5 | 710.6 |
| MSR financing facilities, net | 927.7 | 916.2 |
| Senior notes, net ($245.3 and $239.7 due to related parties) | 555.2 | 595.8 |
| Other liabilities ($10.1 and $7.2 carried at fair value) | 337.9 | 349.3 |
| Contingent loan repurchase liability | 341.0 | 343.0 |
| Total liabilities | 12,638.4 | 12,111.9 |
| **Commitments and Contingencies (Notes 20 and 21)** | | |
| **Stockholders' Equity** | | |
| Common stock, $.01 par value; 13,333,333 shares authorized; 7,845,055 and 7,684,401 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively | 0.1 | 0.1 |
| Additional paid-in capital | 556.9 | 554.5 |
| Accumulated deficit | (111.0) | (151.6) |
| Accumulated other comprehensive loss, net of income taxes | 0.2 | (1.2) |
| Total stockholders' equity | 446.2 | 401.8 |
| Total liabilities and stockholders' equity | $ 13,084.7 | $ 12,513.7 |

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

**ONITY GROUP INC. AND SUBSIDIARIES**
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Dollars in millions, except per share data)**

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| **Revenue** | | | | |
| Servicing and subservicing fees | $ 210.8 | $ 237.6 | $ 415.3 | $ 469.7 |
| Gain on reverse loans held for investment and HMBS-related borrowings, net | 8.5 | 0.7 | 23.9 | 21.9 |
| Gain on loans held for sale, net | 16.5 | 25.3 | 27.4 | 28.1 |
| Other revenue, net | 10.6 | 8.5 | 18.8 | 14.1 |
| Total revenue | 246.4 | 272.0 | 485.5 | 533.9 |
| **MSR valuation adjustments, net** | (32.7) | (48.9) | (44.3) | (117.9) |
| **Operating expenses** | | | | |
| Compensation and benefits | 55.0 | 57.7 | 108.6 | 115.7 |
| Servicing and origination | 13.9 | 17.6 | 29.0 | 33.3 |
| Technology and communications | 13.0 | 13.0 | 25.7 | 26.4 |
| Professional services | 10.7 | (16.9) | 22.8 | (3.6) |
| Occupancy, equipment and mailing | 7.5 | 7.7 | 15.2 | 16.5 |
| Other expenses | 3.9 | 5.1 | 7.2 | 10.1 |
| Total operating expenses | 104.0 | 84.3 | 208.4 | 198.4 |
| **Other income (expense)** | | | | |
| Interest income | 22.5 | 20.3 | 40.0 | 34.4 |
| Interest expense ($11.4, $10.9, 22.6 and 21.7 on amounts due to related parties) | (73.1) | (68.3) | (140.5) | (130.5) |
| Pledged MSR liability expense ($15.3, $13.2, $30.7 and $27.3 on amounts due to related party) | (46.1) | (73.0) | (91.0) | (143.3) |
| Earnings of equity method investee | 3.1 | 2.9 | 5.8 | 3.1 |
| Gain on extinguishment of debt | — | — | 1.4 | — |
| Other, net | (2.7) | (4.4) | (3.4) | (3.2) |
| Other income (expense), net | (96.2) | (122.5) | (187.5) | (239.5) |
| Income (loss) before income taxes | 13.5 | 16.3 | 45.3 | (22.0) |
| Income tax expense | 3.0 | 0.9 | 4.7 | 2.7 |
| **Net income (loss)** | $ 10.5 | $ 15.5 | $ 40.6 | (24.7) |
| **Earnings (loss) per share** | | | | |
| Basic | $ 1.34 | $ 2.02 | $ 5.23 | $ (3.25) |
| Diluted | $ 1.33 | $ 1.95 | $ 5.09 | $ (3.25) |
| **Weighted average common shares outstanding** | | | | |
| Basic | 7,821,128 | 7,652,563 | 7,766,331 | 7,593,391 |
| Diluted | 7,918,672 | 7,919,587 | 7,982,429 | 7,593,391 |

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

**ONITY GROUP INC. AND SUBSIDIARIES**
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**(Dollars in millions)**

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Net income (loss) | $ 10.5 | $ 15.5 | $ 40.6 | $ (24.7) |
| Other comprehensive income (loss), net of income taxes: | | | | |
| Change in unfunded pension plan obligation liability | 1.3 | — | 1.4 | — |
| Other | — | — | — | 0.1 |
| Comprehensive income (loss) | $ 11.8 | $ 15.5 | $ 42.0 | $ (24.6) |

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

**ONITY GROUP INC. AND SUBSIDIARIES**
**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE THREE MONTHS ENDED JUNE 30, 2024 AND 2023**
**(Dollars in millions)**

| | Common Stock | | Additional Paid-in Capital | (Accumulated Deficit) Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Income Taxes | Total |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | | | | |
| **Balance at March 31, 2024** | 7,784,253 | $ 0.1 | $ 554.6 | $ (121.5) | $ (1.1) | $ 432.1 |
| Net income | — | — | — | 10.5 | — | 10.5 |
| Equity-based compensation and other | 60,802 | — | 2.3 | — | — | 2.3 |
| Other comprehensive income, net of income taxes | — | — | — | — | 1.3 | 1.3 |
| **Balance at June 30, 2024** | 7,845,055 | $ 0.1 | $ 556.9 | $ (111.0) | $ 0.2 | $ 446.2 |
| | | | | | | |
| **Balance at March 31, 2023** | 7,638,611 | $ 0.1 | $ 546.7 | $ (128.1) | $ (2.4) | $ 416.3 |
| Net income | — | — | — | 15.5 | — | 15.5 |
| Equity-based compensation and other | 38,397 | — | 2.0 | — | — | 2.0 |
| Other comprehensive income, net of income taxes | — | — | — | — | — | — |
| **Balance at June 30, 2023** | 7,677,008 | $ 0.1 | $ 548.7 | $ (112.6) | $ (2.4) | $ 433.8 |

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

**ONITY GROUP INC. AND SUBSIDIARIES**
**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023**
**(Dollars in millions)**

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-in Capital | (Accumulated Deficit) Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Income Taxes | Total |
| **Balance at December 31, 2023** | 7,684,401 | $ 0.1 | $ 554.5 | $ (151.6) | $ (1.2) | $ 401.8 |
| Net income | — | — | — | 40.6 | — | 40.6 |
| Equity-based compensation and other | 160,654 | — | 2.4 | — | — | 2.4 |
| Other comprehensive income, net of income taxes | — | — | — | — | 1.4 | 1.4 |
| **Balance at June 30, 2024** | 7,845,055 | $ 0.1 | $ 556.9 | $ (111.0) | $ 0.2 | $ 446.2 |
| | | | | | | |
| **Balance at December 31, 2022** | 7,526,117 | $ 0.1 | $ 547.0 | $ (87.9) | $ (2.5) | $ 456.6 |
| Net loss | — | — | — | (24.7) | — | (24.7) |
| Equity-based compensation and other | 150,891 | — | 1.7 | — | — | 1.7 |
| Other comprehensive income, net of income taxes | — | — | — | — | 0.1 | 0.1 |
| **Balance at June 30, 2023** | 7,677,008 | $ 0.1 | $ 548.7 | $ (112.6) | $ (2.4) | $ 433.8 |

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

**ONITY GROUP INC. AND SUBSIDIARIES**
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Dollars in millions)**

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2024 | 2023 |
| **Cash flows from operating activities** | | |
| Net income (loss) | $ 40.6 | $ (24.7) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| MSR valuation adjustments, net | 81.5 | 162.9 |
| Provision for bad debts (advances and receivables) | 14.2 | 12.5 |
| Provision for indemnification obligations | 2.0 | 3.3 |
| Depreciation | 2.8 | 3.4 |
| Amortization of debt issuance costs and discount | 17.9 | 6.1 |
| Amortization of intangibles | 1.7 | 2.9 |
| Gain on extinguishment of debt | (1.4) | — |
| Equity-based compensation expense | 4.8 | 4.1 |
| Gain on reverse loans held for investment and HMBS-related borrowings, net | (16.0) | (13.7) |
| Gain on loans held for sale, net | (27.4) | (28.1) |
| Origination and purchase of loans held for sale | (7,409.4) | (5,412.3) |
| Proceeds from sale and collections of loans held for sale | 6,888.1 | 4,624.3 |
| Changes in assets and liabilities: | | |
| Decrease in advances | 112.8 | 114.0 |
| Decrease in receivables and other assets | 23.2 | 12.5 |
| Increase in derivatives | (78.8) | (49.7) |
| Decrease in other liabilities | (17.1) | (56.8) |
| Other, net | (14.6) | (9.3) |
| Net cash used in operating activities | (375.0) | (648.7) |
| **Cash flows from investing activities** | | |
| Origination of loans held for investment | (520.3) | (507.4) |
| Principal payments received on loans held for investment | 599.1 | 528.0 |
| Purchase of MSRs | (62.1) | (52.3) |
| Proceeds from sale of MSRs | 96.0 | 0.3 |
| Proceeds from sale of advances | 9.3 | 5.1 |
| Purchase of real estate | (12.1) | (10.2) |
| Proceeds from sale of real estate | 12.3 | 8.1 |
| Additions to premises and equipment | (0.2) | (1.8) |
| Proceeds from sale of premises and equipment | — | 0.1 |
| Distribution from (investment in) equity method investee, net | 6.5 | 7.6 |
| Net cash provided by (used in) investing activities | 128.4 | (22.5) |
| **Cash flows from financing activities** | | |
| Repayment of advance match funded liabilities, net | (94.7) | (83.2) |
| Proceeds from mortgage loan financing facilities, net | 471.9 | 816.0 |
| Proceeds from MSR financing facilities | 605.4 | 443.4 |
| Repayment of MSR financing facilities | (592.7) | (531.8) |
| Repurchase of Senior notes | (45.5) | — |
| Payment of debt issuance costs | (3.4) | (3.4) |
| Proceeds from other financing liabilities - Sale of MSRs accounted for as secured financing | 17.7 | 88.3 |
| Proceeds from other financing liabilities - Excess Servicing Spread (ESS) liability | — | 68.7 |
| Repayment of other financing liabilities | (37.4) | (45.7) |
| Proceeds from sale of Home Equity Conversion Mortgages (HECM, or reverse mortgages) accounted for as a financing (HMBS-related borrowings) | 507.7 | 502.3 |
| Repayment of HMBS-related borrowings | (588.1) | (525.1) |
| Net cash provided by financing activities | 240.8 | 729.5 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (5.7) | 58.3 |
| Cash, cash equivalents and restricted cash at beginning of year | 255.1 | 274.2 |
| Cash, cash equivalents and restricted cash at end of period | $ 249.4 | $ 332.5 |
| **Supplemental non-cash investing and financing activities:** | | |
| Recognition (derecognition) of gross right-of-use asset and lease liability: | | |
| Right-of-use asset | $ 1.9 | $ (1.5) |
| Lease liability | 1.9 | (1.5) |
| Transfer from loans held for investment to loans held for sale | 1.9 | 3.1 |
| Transfers of loans held for sale to real estate owned (REO) | 7.3 | 11.5 |
| Derecognition of MSRs and Other financing liabilities, at fair value: | | |
| MSR, at fair value | $ (85.7) | $ (32.5) |
| Other financing liability, at fair value - MSR pledged liability | (85.7) | (32.5) |

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:

| | June 30, 2024 | June 30, 2023 |
|---|---|---|
| Cash and cash equivalents | $ 203.1 | $ 213.4 |
| Restricted cash and equivalents: | | |
| Debt service accounts | 27.0 | 71.2 |
| Other restricted cash | 19.3 | 47.9 |
| Total cash, cash equivalents and restricted cash reported in the statements of cash flows | $ 249.4 | $ 332.5 |

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

## Note 1 - Organization and Basis of Presentation

### Organization

Onity Group Inc. (formerly Ocwen Financial Corporation) (Onity, 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 (PHH, formerly referred to as 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. Onity is a Florida corporation organized in February 1988. On June 10, 2024, Ocwen Financial Corporation changed its name to Onity Group Inc. and continued to be publicly traded on the New York Stock Exchange under the new ticker symbol “ONIT” (formerly “OCN").

Onity directly or indirectly owns all of the outstanding common stock of its operating subsidiaries, including PHH since its acquisition on October 4, 2018, Ocwen Financial Solutions Private Limited (OFSPL) and Ocwen USVI Services, LLC (OVIS). Onity 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).

We perform servicing activities related to our own MSR portfolio (primary) and on behalf of other servicers (subservicing), 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).

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 GSE underwriting standards) 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, which 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 4,300 employees at June 30, 2024 of which approximately 2,900 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 six months ended June 30, 2024 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2024. 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, 2023.

Amounts may not add in certain tables due to rounding.

### Change in Presentation

Effective June 30, 2024, in our consolidated balance sheets we now present Contingent loan repurchase asset and Contingent loan repurchase liability as separate line items (previously reported in Other assets and Other liabilities, respectively). In connection with the Ginnie Mae early buyout program, our servicing agreements provide that we have the right, but not the obligation, to repurchase previously transferred mortgage loans under certain conditions, including the mortgage loans becoming unpaid for more than three consecutive months. Once these conditions are met, we have effectively regained control over the mortgage loans, and under GAAP, must re-recognize the loans on our consolidated balance sheets and establish a corresponding repurchase liability. The separate presentation of such assets and offsetting liabilities on the face of the balance sheet provides increased transparency as compared to a presentation within Other assets and Other liabilities. The consolidated balance sheet as of December 31, 2023 has been recast to conform to the current period presentation. This presentation change had no impact on total assets or total liabilities in our consolidated balance sheets, no impact on the consolidated statements of cash flows, nor any other financial statements.

**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**

**Leases (ASC 842) Common Control Arrangements (ASU 2023-01)**

Prior to the issuance of this ASU, ASC 842 required all lessees to amortize leasehold improvements over the shorter of their useful life or the remaining term of the lease. For leases between entities under common control, the amendment in this ASU requires amortization of leasehold improvements over the useful life of those assets to the common control group, regardless of the lease term. When the lessee no longer controls the use of the asset underlying the common control lease, the leasehold improvements are accounted for as a transfer between entities under common control whereby the lessee records a distribution to the common control lessor through an adjustment to equity.

Our adoption of this standard on January 1, 2024 did not have a material impact on our consolidated financial statements.

**Accounting Standards Issued but Not Yet Adopted**

**Business Combinations - Joint Venture Formations (ASC 805-60): Recognition and Initial Measurement (ASU 2023-05)**

The amendments in this ASU require a joint venture to apply a new basis of accounting upon formation for the initial contribution of nonmonetary and monetary assets, initially measured at fair value (with exceptions to fair value measurement consistent with business combinations guidance). This ASU does not amend the definition of a joint venture, the accounting by an equity method investor for its investment in a joint venture, or the accounting by a joint venture for contributions received after its formation.

The amendments in this ASU are effective prospectively for all joint venture formations with a formation date on or after January 1, 2025, with early adoption permitted. A joint venture formed prior to the adoption date may elect to apply the new guidance retrospectively back to the original formation date. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

**Segment Reporting (ASC 280) Improvements to Reportable Segment Disclosures (ASU 2023-07)**

The amendments in this ASU were issued to improve annual and interim reportable segment disclosure requirements, primarily through enhanced disclosures about expenses that are significant to the segment, regularly provided to or easily computed from information regularly provided to the chief operating decision maker (CODM), and included in the reported measure of segment profit or loss. This ASU also requires disclosure of the title and position of the individual or the name of the group identified as the CODM in the consolidated financial statements, as well as how the CODM uses each reported measure of segment profit or loss to assess performance and allocate resources to the segment. The ASU allows the disclosure of additional optional measures of a segment's profit or loss for each reportable segment if used by the CODM, subject to additional segment disclosures and the SEC's non-GAAP financial measures requirements.

The amended disclosures in this ASU are effective in the 2024 annual period and in 2025 for interim periods, and shall be applied retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption.

**Income Taxes (ASC 740) Improvements to Income Tax Disclosures (ASU 2023-09)**

The amendments in this ASU require disaggregated information about a reporting entity's effective tax rate reconciliation, including a tabular rate reconciliation for specified categories and additional information for reconciling items that meet a quantitative threshold. The ASU also requires additional disaggregated information on income taxes paid to an individual jurisdiction equal to or greater than 5% of total income taxes paid.

The amended disclosures are effective in the 2025 annual period and in 2026 for interim periods, and shall be applied on a prospective basis with the option to apply the standard retrospectively.

## 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.

### Securitizations of Residential Mortgage Loans

*Transfers of Forward Loans*

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Proceeds received from securitizations | $ 4,249.2 | $ 2,298.1 | $ 6,808.1 | $ 4,614.9 |
| Servicing fees collected (1) | 40.2 | 28.2 | 78.5 | 55.2 |
| Purchases of previously transferred assets, net of claims reimbursed | (3.7) | (4.0) | (6.2) | (7.1) |
| | $ 4,285.7 | $ 2,322.4 | $ 6,880.3 | $ 4,663.0 |

(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 $67.7 million and $102.4 million during the three and six months ended June 30, 2024, respectively, and $31.5 million and $62.6 million during the three and six months ended June 30, 2023, respectively.

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 the Loan Put-Back and Related Contingencies section of Note 21 – 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:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Carrying value of assets | | |
| MSRs, at fair value | $ 690.6 | $ 636.5 |
| Advances | 85.1 | 99.0 |
| UPB of loans transferred (1) | 47,658.7 | 46,810.1 |
| Maximum exposure to loss (2) | $ 48,434.3 | $ 47,545.6 |

(1) Includes $10.5 billion and $10.5 billion of loans delivered to Ginnie Mae as of June 30, 2024 and December 31, 2023, respectively, and includes loan modifications repurchased and delivered through the Ginnie Mae Early Buyout Program (EBO).

(2) The maximum exposure to loss in the table above is primarily based on the remaining UPB of loans serviced and assumes all loans were deemed worthless as of the reporting date. It does not take into consideration the proceeds from the underlying collateral liquidation, recoveries or any other recourse available to us, including from mortgage insurance, guarantees or correspondent sellers. We do not believe the maximum exposure to loss from our involvement with these previously transferred loans is representative of the actual loss we are likely to incur based on our contractual rights and historical loss experience and projections. Also, refer to the Loan Put-Back and Related Contingencies section in Note 21 – Contingencies.

At June 30, 2024 and December 31, 2023, 2.5% and 2.8%, 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 7.3% and 8.0%, 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. As the transfers of the HECM loans do not qualify for sale accounting, we account for these transfers as secured financings, with the HECM loans classified as Loans held for investment, at fair value, on our unaudited consolidated balance sheets.

**Financing of Loans Held for Sale, Receivables and Other Assets using SPEs**

We consolidate an SPE (trust) in connection with a warehouse mortgage loan financing facility structured as a gestation repurchase facility whereby Agency mortgage loans are transferred by PHH to the trust for collateralization purposes. As of June 30, 2024 and December 31, 2023, $200.1 million and $150.1 million, respectively, loans held for sale were pledged as collateral for $200.0 million and $150.0 million, respectively, debt certificates issued by the trust. See Note 13 – Borrowings.

We finance certain reverse mortgage buyouts that are insured by the FHA, including loans held for sale, receivables and REO properties, through private placement securitizations, referred to as OLIT transactions (Ocwen Loan Investment Trust). The securitization trusts issued senior and mezzanine class Notes to third party investors. We retain certain mezzanine class Notes and ownership interests and service the underlying assets. We determined we were the primary beneficiary, and thus consolidate the securitization trusts and related depositor. Recourse for the Notes is limited to the assets of the respective securitization trusts.

The table below presents the carrying value and classification of the assets and liabilities reported on our consolidated balance sheet that are associated with the securitized reverse mortgage loans buyouts and financing liabilities:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Mortgage loans (Loans held for sale) | $ 228.7 | $ 119.5 |
| Receivables, net | 33.1 | 19.9 |
| REO (Other assets) | 17.9 | 12.5 |
| Debt service and Interest reserve accounts (Restricted cash) | 10.2 | 6.8 |
| Total assets | $ 290.0 | $ 158.6 |
| | | |
| Outstanding borrowings (Mortgage loan financing facilities, net) | 314.0 | 164.4 |
| Unamortized discount and debt issuance costs (Mortgage loan financing facilities, net) | (33.9) | (21.0) |
| Accrued expenses and Accrued interest (Other liabilities) | 0.9 | 0.5 |
| Total liabilities | $ 281.0 | $ 143.8 |

**Financings of Advances using SPEs**

We pledged certain servicing advances as collateral to our advance financing facilities, referred to as advance match funded liabilities, with the use of SPEs that we consolidate and include in our consolidated financial statements.

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

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Match funded advances (Advances, net) | $ 467.9 | $ 573.0 |
| Debt service accounts (Restricted cash) | 10.6 | 15.7 |
| Advance match funded liabilities | 404.3 | 498.9 |

**MSR Financings using SPEs**

We consolidate two SPEs (PMC ESR Trusts) in connection with a third-party financing facility secured by certain of PHH's Fannie Mae and Freddie Mac MSRs (GSE MSRs) and one SPE (PMC PLS ESR Issuer LLC) in connection with our PLS MSR financing facility (Ocwen Excess Spread-Collateralized Notes, Series 2022-PLS1 Class A).

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

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| MSRs pledged (MSRs, at fair value) | $ 518.9 | $ 449.6 |
| Debt service account (Restricted cash) | 1.7 | 1.7 |
| Outstanding borrowings (MSR financing facilities, net) | 277.2 | 282.1 |
| Unamortized debt issuance costs (MSR financing facilities, net) | (0.2) | (0.4) |

## 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:

| | | June 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|---|
| | Level | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets | | | | | |
| Loans held for sale | | | | | |
| Loans held for sale, at fair value (a) (e) | 3, 2 | $ 1,103.9 | $ 1,103.9 | $ 674.2 | $ 674.2 |
| Loans held for sale, at lower of cost or fair value (b) | 3 | 3.1 | 3.1 | 3.1 | 3.1 |
| Total Loans held for sale | | $ 1,107.0 | $ 1,107.0 | $ 677.3 | $ 677.3 |
| Loans held for investment, at fair value | | | | | |
| Loans held for investment - Reverse mortgages (a) | 3 | $ 8,222.4 | $ 8,222.4 | $ 7,970.0 | $ 7,970.0 |
| Loans held for investment - Restricted for securitization investors (a) | 3 | 5.4 | 5.4 | 5.6 | 5.6 |
| Total Loans held for investment, at fair value | | $ 8,227.8 | $ 8,227.8 | $ 7,975.5 | $ 7,975.5 |
| Advances, net (c) | 3 | $ 550.6 | $ 550.6 | $ 678.8 | $ 678.8 |
| Receivables, net (c) | 3 | $ 153.4 | $ 153.4 | $ 154.8 | $ 154.8 |

| | Level | June 30, 2024 Carrying Value | June 30, 2024 Fair Value | December 31, 2023 Carrying Value | December 31, 2023 Fair Value |
|---|---|---|---|---|---|
| Financial liabilities | | | | | |
| Advance match funded liabilities (c) | 3 | $ 405.0 | $ 405.0 | $ 499.7 | $ 499.7 |
| Financing liabilities, at fair value: | | | | | |
| HMBS-related borrowings (a) | 3 | $ 8,035.4 | $ 8,035.4 | $ 7,797.3 | $ 7,797.3 |
| Other financing liabilities | 3 | 845.9 | 845.9 | 900.0 | 900.0 |
| Mortgage loan financing facilities (c) (d) | 3 | $ 1,190.5 | $ 1,196.5 | $ 710.6 | $ 717.6 |
| MSR financing facilities (c) (d) | 3 | $ 927.7 | $ 914.0 | $ 916.2 | $ 900.3 |
| Senior notes | | | | | |
| PMC Senior secured notes due 2026 (c) (d) | 2 | $ 309.9 | $ 305.3 | $ 356.1 | $ 326.0 |
| OFC Senior secured notes due 2027 (c) (d) | 3 | 245.3 | 256.3 | 239.7 | 230.5 |
| Total Senior notes | | $ 555.2 | $ 561.6 | $ 595.8 | $ 556.5 |
| Derivative financial instrument assets (liabilities), net | | | | | |
| Interest rate lock commitments (IRLCs) (a) | 3 | $ 4.1 | $ 4.1 | $ 5.6 | $ 5.6 |
| Other derivatives (a) | 1 | (1.4) | (1.4) | 9.1 | 9.1 |
| Other commitments (a) | 3 | — | — | (0.1) | (0.1) |
| MSRs (a) | 3 | $ 2,327.7 | $ 2,327.7 | $ 2,272.2 | $ 2,272.2 |

(a) Measured at fair value on a recurring basis in our financial statements.
(b) Measured at fair value on a non-recurring basis in our financial statements.
(c) Disclosed, but not measured at fair value in our financial statements.
(d) The carrying values are net of unamortized debt issuance costs and discount. See Note 13 – Borrowings for additional information.
(e) The newly originated portfolio of GSE and forward Ginnie Mae loans held for sale pending securitization with the Agencies is classified as Level 2; all other loans are classified as Level 3.

The following tables present a reconciliation of the changes in fair value of certain Level 3 assets and liabilities that we measure at fair value on a recurring basis (refer to the respective notes for other Level 3 assets and liabilities):

| Three months ended June 30, 2024 | Loans Held for Sale - Fair Value | ESS Financing Liability | IRLCs |
|---|---|---|---|
| **Beginning balance** | $ 284.0 | $ (253.4) | $ 5.0 |
| Purchases, issuances, sales and settlements | | | |
| Purchases and other | 80.5 | — | — |
| Issuances (1) | — | — | 4.0 |
| Sales | (38.7) | — | — |
| Settlements (2) | (25.1) | 7.0 | — |
| Transfers from (to) | | | |
| Loans held for investment, at fair value | 0.8 | — | — |
| Loans held for sale, at fair value (1) | — | — | 8.6 |
| REO (Other assets) | (4.3) | — | — |
| Receivables, net | (7.6) | — | — |
| Advances (capitalization upon Ginnie Mae modification) | 2.8 | — | — |
| Net addition (disposition/derecognition) | 8.3 | 7.0 | 12.6 |
| Included in earnings: | | | |
| Change in fair value (1) | 4.4 | (4.1) | (13.5) |
| **Ending balance** | $ 296.7 | $ (250.5) | $ 4.1 |

| Three months ended June 30, 2023 | Loans Held for Sale - Fair Value | ESS Financing Liability | IRLCs |
|---|---|---|---|
| **Beginning balance** | $ 23.3 | $ (263.1) | $ 4.8 |
| Purchases, issuances, sales and settlements | | | |
| Purchases and other | 240.4 | — | — |
| Issuances (1) | — | — | 4.4 |
| Sales | (38.5) | — | — |
| Settlements (2) | (25.8) | 8.1 | — |
| Transfers from (to) | | | |
| Loans held for investment, at fair value | 1.5 | — | — |
| Loans held for sale, at fair value (1) | — | — | (10.8) |
| REO (Other assets) | (7.1) | — | — |
| Receivables, net | (15.6) | — | — |
| Advances (capitalization upon Ginnie Mae modification) | 1.7 | — | — |
| Other | 2.8 | — | — |
| Net addition (disposition/derecognition) | 159.5 | 8.2 | (6.5) |
| Included in earnings: | | | |
| Change in fair value (1) | 14.6 | (3.6) | 3.0 |
| **Ending balance** | $ 197.4 | $ (258.5) | $ 1.4 |

| Six Months Ended June 30, 2024 | Loans Held for Sale - Fair Value | ESS Financing Liability | IRLCs |
|---|---|---|---|
| **Beginning balance** | $ 203.1 | $ (248.9) | $ 5.6 |
| Purchases, issuances, sales and settlements | | | |
| Purchases and other | 225.5 | — | — |
| Issuances (1) | — | — | 21.2 |
| Sales | (76.7) | — | — |
| Settlements (2) | (47.3) | 14.4 | — |
| Transfers from (to) | | | |
| Loans held for investment, at fair value | 1.9 | — | — |
| Loans held for sale, at fair value (1) | — | — | 2.8 |
| REO (Other assets) | (7.3) | — | — |
| Receivables, net | (18.2) | — | — |
| Advances - (capitalization upon Ginnie Mae modification) | 4.9 | — | — |
| Net addition (disposition/derecognition) | 82.8 | 14.4 | 24.0 |
| Included in earnings: | | | |
| Change in fair value (1) | 10.9 | (16.0) | (25.5) |
| **Ending balance** | $ 296.7 | $ (250.5) | $ 4.1 |

| Six Months Ended June 30, 2023 | Loans Held for Sale - Fair Value | ESS Financing Liability | IRLCs |
|---|---|---|---|
| **Beginning balance** | $ 32.1 | $ (199.0) | $ (0.7) |
| Purchases, issuances, sales and settlements | | | |
| Purchases and other | 252.8 | | — |
| Issuances (1) | — | (68.7) | 10.1 |
| Sales | (58.7) | — | — |
| Settlements (2) | (25.8) | 14.9 | — |
| Transfers from (to) | | | |
| Loans held for investment, at fair value | 1.5 | — | — |
| Loans held for sale, at fair value (1) | — | — | (31.2) |
| REO (Other assets) | (7.1) | — | — |
| Receivables, net | (16.1) | — | — |
| Advances - (capitalization upon Ginnie Mae modification) | 1.7 | — | — |
| Other | 2.8 | — | — |
| Net addition (disposition/derecognition) | 151.3 | (53.8) | (21.0) |
| Included in earnings: | | | |
| Change in fair value (1) | 14.0 | (5.6) | 23.1 |
| **Ending balance** | $ 197.4 | $ (258.5) | $ 1.4 |

(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 $(0.9) million and $(1.5) million for the three and six months ended June 30, 2024, respectively, and $(3.4) million and $2.1 million for the three and six months ended June 30, 2023, respectively. See Note 15 – Derivative Financial Instruments and Hedging Activities.
(2) ESS financing liability settlement is determined based on collections on reference pools of the related mortgage loans.

A reconciliation from the beginning balances to the ending balances of Loans held for investment and HMBS-related borrowings, MSRs and Pledged MSR 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 — Other Financing Liabilities, at Fair Value, respectively.

The significant unobservable assumptions that we make to estimate the fair value of certain assets and liabilities classified as Level 3 and measured at fair value on a recurring basis are provided below.

**Loans Held for Sale**

The fair value of residential forward and reverse mortgage loans we purchased from Ginnie Mae guaranteed securitizations or from third parties (including government insured reverse buyouts previously purchased from Ginnie Mae guaranteed securitizations) is estimated using both observable and unobservable inputs, including published Ginnie Mae prices or expected collateral values, as well as estimated default, prepayment, and discount rates. Significant unobservable inputs in estimating fair value include the estimated default rate and, for reverse loans the prepayment rate and liquidation timeline. Accordingly, these repurchased Ginnie Mae forward and reverse 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. We measure these loans at fair value based on the expected future cash flows discounted over the expected life of the loans at a rate commensurate with the risk of the estimated cash flows, including future draw commitments for HECM loans. We engage third-party valuation experts in the determination of fair value. 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 | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Life in years | | |
| Range | 0.7 to 7.9 | 0.8 to 7.9 |
| Weighted average | 5.1 | 5.2 |
| Conditional prepayment rate, including voluntary and involuntary prepayments | | |
| Range | 11.6% to 32.9% | 12.0% to 35.4% |
| Weighted average | 17.7 % | 17.2 % |
| Discount rate | 5.2 % | 4.9 % |

Significant changes in any of these assumptions in isolation could result in a significant change in fair value. 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.

We engage third-party valuation experts who generally utilize: (a) transactions involving instruments with similar collateral and risk profiles, adjusted as necessary based on specific characteristics of the asset or liability being valued; and/or (b) industry-standard modeling, such as a discounted cash flow model and prepayment model, in arriving at their estimate of fair value. The prices provided by the valuation experts reflect their observations and assumptions related to market activity, generally the bulk market, incorporating available industry survey results, client feedback and our actual trade activity, and including risk premiums and liquidity adjustments. While interest rates are a key value driver, MSR fair value may change for other market-driven factors, including but not limited to the supply and demand of the market or the required yield or perceived value by investors of such MSRs. While the models and related assumptions used by the valuation experts are proprietary to them, we understand the methodologies and assumptions used to develop the prices based on our ongoing due diligence, which includes regular discussions with the valuation experts. We believe that the procedures executed by the valuation experts, supported by our verification and analytical procedures, provide reasonable assurance that the prices used in our consolidated financial statements comply with the accounting guidance for fair value measurements and disclosures and reflect the assumptions that a market participant would use. We evaluate the reasonableness of our third-party experts' assumptions using historical experience adjusted for prevailing market conditions and benchmarks of assumptions and value estimates.

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. In addition, changes in market interest rates impact float income. The significant unobservable assumptions used in the valuation of these MSRs include prepayment speeds, delinquency rates, cost to service and discount rates.

| | June 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| Significant unobservable assumptions | Agency | Non-Agency | Agency | Non-Agency |
| Weighted average prepayment speed | 6.3 % | 7.8% | 7.7 % | 7.9 % |
| Weighted average lifetime delinquency rate | 1.2 % | 10.1% | 1.3 % | 10.0 % |
| Weighted average discount rate | 9.9 % | 10.9% | 9.2 % | 11.4 % |
| Weighted average cost to service (in dollars) | $ 71 | $ 192 | $ 71 | $ 192 |

Because the mortgages underlying these MSRs permit the borrowers to prepay the loans, the value of the MSRs generally tends to diminish in periods of declining interest rates, an improving housing market or expanded product availability (as prepayments increase) and increase in periods of rising interest rates, a deteriorating housing market or reduced product availability (as prepayments decrease). The following table summarizes the estimated change in the value of the MSRs as of June 30, 2024 given hypothetical increases in lifetime prepayments and yield assumptions:

| **Adverse change in fair value** | **10%** | **20%** |
|---|---|---|
| Change in weighted average prepayment speeds (in percentage points) | 0.7 | 1.5 |
| Change in fair value due to change in weighted average prepayment speeds | $ (56.3) | $ (111.3) |
| Change in weighted average discount rate (in percentage points) | 1.0 | 2.0 |
| Change in fair value due to change in weighted average discount rate | $ (79.7) | $ (152.9) |

**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. We determine fair value using a discounted cash flow approach, by discounting the projected recovery of principal and interest over the estimated life of the borrowing at a market rate commensurate with the risk of the estimated cash flows.

We engage third-party valuation experts to support our valuation and provide observations and assumptions related to market activities. The fair value is equal to the fair value mark provided by a third-party valuation expert. We evaluate the reasonableness of our fair value estimate and assumptions using historical experience, or cash flow backtesting, adjusted for prevailing market conditions and benchmarks of assumptions and value estimates.

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** | **June 30, 2024** | **December 31, 2023** |
|---|---|---|
| Life in years | | |
| Range | 0.7 to 7.9 | 0.8 to 7.9 |
| Weighted average | 5.1 | 5.2 |
| Conditional prepayment rate | | |
| Range | 11.6% to 32.9% | 12.0% to 35.4% |
| Weighted average | 17.7 % | 17.2 % |
| Discount rate | 5.2 % | 4.9 % |

Significant changes in any of these assumptions in isolation could result in a significant change in fair value. 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 following a similar approach as for the associated transferred MSRs. Fair value of the pledged MSR liability in connection with the MSR capital partner transactions (including MAV) is determined using the fair value mark provided by third-party valuation expert, consistent with the associated MSR, using the same methodology and assumptions, while considering cash flows contractually retained by PHH and expected life of subservicing agreement, when applicable. Fair value for the portion of the borrowing attributable to the MSRs underlying the Rights to MSRs in connection with Rithm transactions is determined using the fair value mark provided by the third-party valuation experts.

| Significant unobservable assumptions | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Weighted average prepayment speed | 5.3 % | 6.5 % |
| Weighted average delinquency rate | 3.0 % | 2.8 % |
| Weighted average subservicing life (in years) | 4.7 | 4.3 |
| Weighted average discount rate | 10.4 % | 9.6 % |
| Weighted average cost to service (in dollars) | $ 134 | $ 130 |

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 reference pools of 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 expected servicing spread cash flows, consistent with the valuation model and behavioral projections of the underlying MSR, as applicable. The fair value of the ESS financing liability is determined using a third-party valuation expert. The significant unobservable assumptions used in the valuation of the ESS financing liability include prepayment speeds, delinquency rates, and discount rates. The discount rate is initially determined based on the expected cash flows and the proceeds from each issuance, and is subsequently updated, at each issuance level, to incorporate discount rate assumption updates for the underlying MSR or other factors, as provided by third-party valuation expert. At June 30, 2024 and December 31, 2023, the weighted average discount rate of the ESS financing liability was 9.4% and 9.4%, respectively. Refer to MSRs above for a description of other significant unobservable assumptions. Also see Note 8 — Other Financing Liabilities, at Fair Value.

**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 - Fair Value**

The following table presents the estimated fair value of Loans held for sale for which we elected the fair value option:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Unpaid principal balance | $ 1,139.8 | $ 678.8 |
| Premium (discount) | (28.7) | (2.4) |
| Unrealized gain (loss) | (7.2) | (2.2) |
| Total fair value | $ 1,103.9 | $ 674.2 |

The following table presents the composition of Loans held for sale, at fair value by type:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| GSE loans | $ 558.0 | $ 219.3 |
| Government- Forward loans | 263.0 | 254.0 |
| Forward loans repurchased from Ginnie Mae guaranteed securitization (1) | 23.9 | 19.1 |
| Reverse loans (2) | 249.8 | 166.6 |
| Other residential mortgage loans | 9.2 | 15.2 |
| Total | $ 1,103.9 | $ 674.2 |

(1) Pursuant to Ginnie Mae servicing guidelines.

(2) Includes government-insured inactive reverse mortgage loans purchased from Ginnie Mae securitization pools that reached the 98% of maximum claim amount and are generally liquidated through foreclosure and subsequent sale of the REO properties. As of June 30, 2024 and December 31, 2023, the balance includes $228.7 million and $119.5 million, respectively, of loans pledged as collateral for the Asset-Backed Notes issued by OLIT. Also see Note 2 – Securitizations and Variable Interest Entities and Note 13 – Borrowings.

The following table presents the activity of Loans held for sale, at fair value:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| **Beginning balance** | $ 1,025.7 | $ 845.2 | $ 674.2 | $ 617.8 |
| Originations and purchases | 4,420.5 | 2,859.9 | 7,409.4 | 5,412.3 |
| Proceeds from sales | (4,256.4) | (2,279.6) | (6,837.4) | (4,575.8) |
| Principal collections | (27.5) | (31.6) | (50.6) | (47.0) |
| Transfers from (to): | | | | |
| Loans held for investment, at fair value | 0.8 | 1.5 | 1.9 | 3.1 |
| Receivables, net | (7.6) | (15.6) | (18.2) | (14.5) |
| REO (Other assets) | (4.3) | (7.1) | (7.3) | (11.2) |
| Advances (capitalization upon Ginnie Mae modifications) | 2.8 | 1.7 | 4.9 | 3.7 |
| Fair value gain (loss) on loans held for sale, at fair value (1) | (54.7) | (23.9) | (82.2) | (41.1) |
| Other | 4.5 | 2.3 | 9.2 | 5.5 |
| **Ending balance** | $ 1,103.9 | $ 1,352.9 | $ 1,103.9 | $ 1,352.9 |

(1) Excludes retained MSR upon securitization. See below table of gain (loss) on loans held for sale, net.

The following table presents the components of Gain (loss) of loans held for sale at fair value, net:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **Gain (Loss) on Loans Held for Sale, Net** | 2024 | 2023 | 2024 | 2023 |
| MSRs retained on transfers of forward mortgage loans | $ 67.7 | $ 31.5 | $ 102.4 | $ 62.6 |
| Gain (loss) on sale of mortgage loans (1) | (53.6) | (28.1) | (77.8) | (50.2) |
| Gain (loss) on sale of repurchased Ginnie Mae loans (1) | (0.2) | (0.1) | (1.0) | 0.1 |
| Change in fair value of loans held for sale | (0.9) | 4.3 | (3.4) | 9.1 |
| Gain on loans held for sale, at fair value | 13.0 | 7.6 | 20.2 | 21.5 |
| Gain (loss) on economic hedge derivative instruments | 5.0 | 21.2 | 9.7 | 4.8 |
| Change in fair value of IRLCs | (1.0) | (3.2) | (1.6) | 2.4 |
| Provision for representation and warranty obligations | (0.6) | (0.3) | (0.9) | (0.6) |
| | $ 16.5 | $ 25.3 | $ 27.4 | $ 28.1 |

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

**Note 5 - Reverse Mortgages**

The following table presents the estimated fair value of reverse mortgage loans held for investment for which we elected the fair value option:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Unpaid principal balance | $ 7,846.3 | $ 7,664.7 |
| Fair value adjustments | 376.1 | 305.3 |
| Total fair value | $ 8,222.4 | $ 7,970.0 |

The following table presents the composition of reverse mortgage loans held for investment, at fair value by type:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| HECM loans - securitized, pledged to HMBS-related borrowings (1) | $ 8,109.4 | $ 7,868.5 |
| New HECM loan originations and HECM loan tails (2) - unsecuritized | 113.0 | 101.5 |
| Total fair value | $ 8,222.4 | $ 7,970.0 |

(1) The Ginnie Mae securitization of conventional, HECM loans does not qualify for sale accounting treatment and is accounted for as a secured financing transaction, with the recognition of both loans and HMBS-related borrowing on the consolidated balance sheets.
(2) Tails represent the fair value of future scheduled and unscheduled draw commitments for HECM loans, mortgage insurance premium, servicing fee and other advances which we subsequently securitize.

The following table summarizes the activity in reverse mortgage loans held for investment and HMBS related borrowings that do not qualify for sale accounting and for which we elected the fair value option:

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2024 | | 2023 | |
| | Loans Held for Investment - Reverse Mortgages | HMBS - Related Borrowings | Loans Held for Investment - Reverse Mortgages | HMBS - Related Borrowings |
| **Beginning balance** | $ 8,125.0 | $ (7,945.0) | $ 7,662.9 | $ (7,470.6) |
| Originations | 269.9 | — | 272.2 | — |
| Securitization of HECM loans accounted for as a financing | — | (260.3) | — | (271.1) |
| Additional proceeds from securitization of HECM loans and tails | — | (3.0) | — | 0.1 |
| Repayments (principal payments received) | (322.0) | 316.0 | (291.8) | 289.8 |
| Transfers to: | | | | |
| Loans held for sale, at fair value | (0.8) | — | (1.5) | — |
| Receivables, net | (0.5) | — | (1.0) | — |
| REO (Other assets) | (0.1) | — | — | — |
| Fair value gains (losses) included in earnings (1) | 150.9 | (143.0) | 34.1 | (34.5) |
| **Ending balance** | $ 8,222.4 | $ (8,035.4) | $ 7,674.8 | $ (7,486.4) |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2024 | | 2023 | |
| | Loans Held for Investment - Reverse Mortgages | HMBS - Related Borrowings | Loans Held for Investment - Reverse Mortgages | HMBS - Related Borrowings |
| **Beginning balance** | $ 7,970.0 | $ (7,797.3) | $ 7,504.1 | $ (7,326.8) |
| Originations | 520.3 | — | 507.4 | — |
| Securitization of HECM loans accounted for as a financing (including realized fair value changes) | — | (507.7) | — | (502.3) |
| Additional proceeds from securitization of HECM loans and tails | — | (6.4) | — | (6.1) |
| Acquisition | — | — | — | — |
| Repayments (principal payments received) | (598.9) | 588.1 | (527.3) | 525.1 |
| Transfers to: | | | | |
| Loans held for sale, at fair value | (1.9) | — | (3.1) | — |
| Receivables, net | (1.4) | — | (2.0) | — |
| REO (Other assets) | (0.1) | — | (0.1) | — |
| Fair value gains (losses) included in earnings (1) | 334.4 | (312.0) | 195.7 | (176.2) |
| **Ending balance** | $ 8,222.4 | $ (8,035.4) | $ 7,674.8 | $ (7,486.4) |
| Securitized loans (pledged to HMBS-related borrowings) | $ 8,109.4 | $ (8,035.4) | $ 7,553.7 | $ (7,486.4) |
| Unsecuritized loans | 113.0 | | 121.0 | |
| Total | $ 8,222.4 | | $ 7,674.8 | |

(1) See further breakdown of the net gain (loss) in the table below.

| **Gain (Loss) on Reverse Loans Held for Investment and HMBS-related Borrowings, Net** | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| Gain on new originations (1) | $ 5.1 | $ 4.2 | $ 11.0 | $ 10.5 |
| Net interest income (servicing fee) (2) | 6.1 | 5.8 | 12.0 | 11.7 |
| Other change in fair value of securitized loans held for investment and HMBS-related borrowings, net (3) | (3.3) | (9.9) | (0.7) | (1.8) |
| Fair value gains (losses) included in earnings (3) (4) | 7.9 | 0.1 | 22.4 | 20.5 |
| Loan fees and other | 0.6 | 0.7 | 1.5 | 1.5 |
| | $ 8.5 | $ 0.7 | $ 23.9 | $ 21.9 |

(1) Includes the changes in fair value of newly originated loans held for investment in the period from interest rate lock commitment date through securitization date.
(2) Includes the interest income on loans held for investment less the interest expense on HMBS-related borrowings. The net interest income includes the servicing fee Onity is contractually entitled to on securitized loans.
(3) Includes the cash realized gains upon securitization of tails (previously reported separately in the table above).
(4) See breakdown between Loans held for investment and HMBS-related borrowings in the table above within Fair value gains (losses) included in earnings.

**Note 6 – Advances**

| | **June 30, 2024** | **December 31, 2023** |
|---|---|---|
| Principal and interest | $ 180.0 | $ 212.5 |
| Taxes and insurance | 253.6 | 343.3 |
| Foreclosures, bankruptcy, REO and other (1) | 125.9 | 130.3 |
| Total advances, before allowance for losses | 559.5 | 686.1 |
| Allowance for losses | (8.9) | (7.3) |
| **Advances, net** | $ 550.6 | $ 678.8 |

(1) Balance at June 30, 2024 includes servicing advances of $34.8 million (New York), $9.7 million (Florida), $8.8 million (California), $6.2 million (Pennsylvania) and $5.9 million (New Jersey) based on the underlying property location of the related mortgage loans.

The following table summarizes the activity in net advances:

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| **Beginning balance - before Allowance for Losses** | $ 610.5 | $ 663.1 | $ 686.1 | $ 725.1 |
| New advances | 204.2 | 146.5 | 403.6 | 335.3 |
| Transfer from (to) Receivables | 2.1 | 2.2 | 5.0 | 11.1 |
| Sales of advances | (8.3) | (0.6) | (9.3) | (4.9) |
| Collections of advances and other | (248.9) | (201.1) | (525.8) | (456.6) |
| **Ending balance - before Allowance for Losses** | 559.5 | 610.0 | 559.5 | 610.0 |
| **Beginning balance - Allowance for Losses** | (7.7) | $ (6.2) | (7.3) | (6.2) |
| Provision expense | (4.2) | (2.8) | (7.1) | (4.6) |
| Net charge-offs and other | 3.0 | 1.6 | 5.5 | 3.4 |
| **Ending balance - Allowance for Losses** | (8.9) | (7.4) | (8.9) | (7.4) |
| **Ending balance, net** | $ 550.6 | $ 602.7 | $ 550.6 | $ 602.7 |

**Note 7 – Mortgage Servicing**

The following table presents the composition of our MSR portfolio:

| MSR UPB and Fair Value | June 30, 2024 Fair Value | June 30, 2024 UPB ($ billions) | December 31, 2023 Fair Value | December 31, 2023 UPB ($ billions) |
|---|---|---|---|---|
| Owned MSRs | $ 1,720.1 | $ 122.0 | $ 1,604.6 | $ 122.7 |
| Rithm and others transferred MSRs (1) | 264.0 | 18.6 | 244.8 | 18.1 |
| MAV transferred MSRs (1) | 343.6 | 22.3 | 422.8 | 28.8 |
| Total transferred MSR, subject to Pledged MSR liability, at fair value (1) | 607.6 | 40.9 | 667.6 | 46.9 |
| Total MSRs | $ 2,327.7 | $ 162.9 | $ 2,272.2 | $ 169.7 |

(1) MSRs subject to sale agreements that do not meet sale accounting criteria. See Note 8 — Other Financing Liabilities, at Fair Value.

| Mortgage Servicing Rights – At Fair Value | Three Months Ended June 30, 2024 | Three Months Ended June 30, 2023 | Six Months Ended June 30, 2024 | Six Months Ended June 30, 2023 |
|---|---|---|---|---|
| **Beginning balance** | $ 2,374.7 | $ 2,580.6 | $ 2,272.2 | $ 2,665.2 |
| Sales | (100.9) | — | (100.9) | — |
| Additions: | | | | |
| Recognized on the sale of residential mortgage loans | 67.7 | 31.5 | 102.4 | 62.6 |
| Purchases of MSRs | 34.9 | 19.1 | 61.8 | 44.0 |
| Servicing transfers and adjustments (1) | (85.7) | (32.5) | (87.0) | (32.5) |
| Net additions (sales) | (84.1) | 18.1 | (23.7) | 74.1 |
| Changes in fair value recognized in earnings: | | | | |
| Changes in valuation inputs or assumptions | 92.6 | 136.8 | 194.4 | 53.2 |
| Realization of cash flows | (55.4) | (59.7) | (115.2) | (116.8) |
| Fair value gains (losses) recognized in earnings | 37.2 | 77.1 | 79.2 | (63.6) |
| **Ending balance** | $ 2,327.7 | $ 2,675.7 | $ 2,327.7 | $ 2,675.7 |

(1) Servicing transfers and adjustments for the three months ended June 30, 2024 and 2023 include a $85.8 million and a $32.5 million, respectively, derecognition of GSE MSRs previously sold to MAV in a transaction which did not qualify for sale accounting treatment. We derecognized the MSRs with a UPB of $5.5 billion and $2.3 billion, from our June 30, 2024 and June 30, 2023 balance sheets, respectively, together with the associated Pledged MSR liability upon the sale of the MSRs by MAV to a third party. See Note 8 — Other Financing Liabilities, at Fair Value for further information.

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

| Delinquent loans | June 30, 2024 GSE | June 30, 2024 GNMA | June 30, 2024 Non - Agency | June 30, 2024 Total | December 31, 2023 GSE | December 31, 2023 GNMA | December 31, 2023 Non - Agency | December 31, 2023 Total |
|---|---|---|---|---|---|---|---|---|
| Total MSR UPB *(in billions)* | $ 122.9 | $ 17.5 | $ 22.4 | $ 162.9 | $ 127.3 | $ 18.6 | $ 23.8 | $ 169.7 |
| 30 days | 1.3 % | 6.2 % | 9.4 % | 3.7 % | 1.2 % | 6.1 % | 9.4 % | 3.7 % |
| 60 days | 0.2 | 2.0 | 3.5 | 1.2 | 0.2 | 2.0 | 3.6 | 1.2 |
| 90 days or more | 0.5 | 4.2 | 7.3 | 2.5 | 0.5 | 3.7 | 8.2 | 2.6 |
| Total 30-60-90 days or more | 2.0 % | 12.5 % | 20.2 % | 7.3 % | 1.9 % | 11.8 % | 21.2 % | 7.5 % |

The following table summarizes the components of our servicing and subservicing fee revenue:

| Servicing Revenue | Three Months Ended June 30, 2024 | Three Months Ended June 30, 2023 | Six Months Ended June 30, 2024 | Six Months Ended June 30, 2023 |
|---|---|---|---|---|
| Loan servicing and subservicing fees | | | | |
| Servicing fee | $ 91.7 | $ 89.4 | $ 182.1 | $ 179.3 |
| Subservicing fee (4) | 26.8 | 18.4 | 54.3 | 38.0 |
| MAV Subservicing fee | 1.9 | 2.0 | 3.8 | 3.8 |
| MAV Servicing fee / Transferred MSR (1) | 17.8 | 15.5 | 35.8 | 31.9 |
| Rithm and Others Servicing fee / Transferred MSR (1) (3) | 19.1 | 59.2 | 37.8 | 118.8 |
| | 157.2 | 184.4 | 313.8 | 371.8 |
| Ancillary income | | | | |
| Custodial accounts (float earnings) | 31.9 | 26.2 | 59.1 | 46.4 |
| Late charges | 8.7 | 9.5 | 16.7 | 19.0 |
| Reverse subservicing ancillary fees | 6.2 | 9.8 | 12.9 | 18.0 |
| Loan collection fees | 1.8 | 2.3 | 3.6 | 4.9 |
| Recording fees | 1.4 | 1.3 | 2.6 | 2.5 |
| Boarding and deboarding fees | 1.0 | 0.9 | 1.7 | 1.8 |
| GSE forbearance fees | 0.1 | 0.3 | 0.2 | 0.5 |
| Other, net | 2.5 | 2.9 | 4.8 | 4.8 |
| | 53.6 | 53.2 | 101.5 | 97.9 |
| Total Servicing and subservicing fees | $ 210.8 | $ 237.6 | $ 415.3 | $ 469.7 |
| | | | | |
| Owned MSR and Subservicing | 169.7 | 157.6 | 334.0 | 308.6 |
| Transferred MSR (1) (2) | 41.1 | 80.0 | 81.3 | 161.1 |

(1) Includes servicing fees collected on behalf of respective parties related to transferred MSRs that do not achieve sale accounting. See Note 8 — Other Financing Liabilities, at Fair Value.

(2) Includes $4.2 million and $7.8 million for the three and six months ended June 30, 2024, respectively, and $5.3 million and $10.4 million for the three and six months ended June 30, 2023, respectively, of ancillary income associated with transferred MSRs that do not achieve sale accounting.

(3) Includes $45.2 million and $90.9 million of servicing fees in the three and six months ended June 30, 2023, respectively, related to MSRs previously sold to Rithm for which the sale accounting criteria were met effective December 31, 2023. See Note 8 — Other Financing Liabilities, at Fair Value.

(4) Includes $11.5 million and $23.4 million of subservicing fees in the three and six months ended June 30, 2024, respectively, related to MSRs previously sold to Rithm for which the sale accounting criteria were met effective December 31, 2023. See Note 8 — Other Financing Liabilities, at Fair Value.

Float balances, on which we earn interest referred to as float earnings (balances in custodial accounts, which represent collections of principal and interest that we receive from borrowers on behalf of investors and tax and insurance payments) are held in escrow by unaffiliated banks and are excluded from our unaudited consolidated balance sheets. Float balances amounted to $2.06 billion and $1.56 billion at June 30, 2024 and December 31, 2023, respectively.

**Note 8 — Other Financing Liabilities, at Fair Value**

The following table presents financing liabilities carried at fair value which include pledged MSR liabilities recorded in connection with MSR transfers, subservicing retained, 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 (see Note 13 – Borrowings for ESS financing liability carried at amortized cost).

| Borrowing Type | Collateral | Maturity | Outstanding Balance June 30, 2024 | Outstanding Balance December 31, 2023 |
|---|---|---|---|---|
| MSR transfers not qualifying for sale accounting (1): | | | | |
| Pledged MSR liability, at fair value - MAV | MSRs | (1) | $ 333.1 | $ 409.2 |
| Rights to MSRs Agreements, at fair value - Rithm | MSRs | (1) | 121.6 | 121.0 |
| Pledged MSR liability, at fair value - Others | MSRs | (1) | 135.3 | 115.3 |
| Total Pledged MSR liability, at fair value | | | 590.0 | 645.5 |
| Financing liability - Owed to securitization investors, at fair value: Residential Asset Securitization Trust 2003-A11 (RAST 2003-A11) (2) | Loans held for investment | October 2033 | 5.4 | 5.6 |
| ESS financing liability, at fair value (3) | MSRs (3) | (3) | 250.5 | 248.9 |
| **Total Other financing liabilities, at fair value** | | | $ 845.9 | $ 900.0 |

(1) MSRs transferred, subservicing retained, 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 the related financing liability (referred as Pledged MSR liability) on our 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 consolidated statements of operations. Fair value gains and losses of the Pledged MSR liability are recognized in MSR valuation adjustments, net in the consolidated statements of operations - See Note 7 – Mortgage Servicing and Note 9 – MSR Valuation Adjustments, Net.
(2) Consists of securitization debt certificates due to third parties that represent beneficial interests in trusts that are consolidated.
(3) Consists of the obligation to remit to a third party a specified percentage of future servicing fee collections (servicing spread) on reference pools of MSRs, which we are entitled to as owner of the related MSRs. The servicing spread remittance is reported in Pledged MSR liability expense and fair value gains and losses of the ESS financing liability are reported in MSR valuation adjustment, net.

$33.4 billion UPB of MSR and Pledged MSR liability associated with Rithm servicing agreements were derecognized on December 31, 2023 as MSR sale accounting criteria were met. Effective January 1, 2024, as PHH continues to subservice the portfolio, the statement of operations reflects subservicing fee revenue as opposed to the gross presentation of servicing fee revenue and separate offsetting presentation of servicing fee remittances within Pledged MSR liability expense prior to January 1, 2024.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **Pledged MSR Liability** | **2024** | **2023** | **2024** | **2023** |
| **Beginning balance** | $ 647.9 | $ 883.3 | $ 645.5 | $ 931.7 |
| MSR transfers | | | | |
| MSR transfers to MAV | — | 0.1 | — | 0.2 |
| MSR transfers to others | 5.8 | 93.3 | 12.7 | 97.6 |
| Total MSR transfers | 5.8 | 93.4 | 12.7 | 97.8 |
| Derecognition of financing liability | | | | |
| Derecognition of financing liability - MAV (2) | (85.7) | (32.5) | (85.7) | (32.5) |
| Total derecognition of financing liability | (85.7) | (32.5) | (85.7) | (32.5) |
| Fair value (gain) loss | | | | |
| Changes in fair value due to inputs and assumptions | 32.5 | 81.0 | 40.3 | 42.7 |
| Realization of expected cash flows | (10.4) | (15.6) | (22.9) | (30.1) |
| Total fair value (gain) loss | 22.1 | 65.4 | 17.4 | 12.6 |
| **Ending balance (1)** | $ 590.0 | $ 1,009.5 | $ 590.0 | $ 1,009.5 |

(1) 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 contractually retained by PHH (shared between PHH and MAV) and other contractual cash flows.
(2) During the three months ended June 30, 2024 and June 30, 2023, we derecognized a portion of the MAV Pledged MSR liability upon sale of the related MSRs by MAV to third parties with a UPB of $5.5 billion and $2.3 billion, respectively.

The following tables present the Pledged MSR liability expense recorded in connection with the MSR sale agreements with MAV and other unrelated parties (including Rithm) that do not qualify for sale accounting and the ESS financing liabilities.

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2024 | | | 2023 | | |
| | Rithm and Others | MAV | Total | Rithm and Others (1) | MAV | Total |
| Servicing fees collected on behalf of MAV, Rithm and others | $ 19.1 | $ 17.8 | $ 36.9 | $ 59.2 | $ 15.5 | $ 74.7 |
| Less: Subservicing fee retained by Onity | (4.4) | (2.3) | (6.8) | (16.9) | (2.1) | (19.1) |
| Ancillary fee/income and other settlement (including expense reimbursement) | 3.1 | (0.2) | 3.0 | 3.6 | (0.2) | 3.5 |
| Transferred MSR net servicing fee remittance | $ 17.8 | $ 15.3 | 33.1 | $ 45.9 | $ 13.2 | 59.1 |
| ESS servicing spread remittance | | | 13.0 | | | 13.9 |
| Pledged MSR liability expense | | | $ 46.1 | | | $ 73.0 |

(1) Includes $45.2 million of servicing fees collected on behalf of Rithm, $12.8 million of subservicing fee retained and $32.4 million of net servicing fee remittance in the three months ended June 30, 2023 related to MSRs previously sold to Rithm for which the sale accounting criteria were met effective December 31, 2023.

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2024 | | | 2023 | | |
| | Rithm and Others | MAV | Total | Rithm and Others (1) | MAV | Total |
| Servicing fees collected on behalf of Rithm, MAV and others | $ 37.8 | $ 35.8 | $ 73.6 | $ 118.8 | $ 31.9 | $ 150.7 |
| Less: Subservicing fee retained by Onity | (9.0) | (4.9) | (13.9) | (34.2) | (4.4) | (38.6) |
| Ancillary fee/income and other settlement (including expense reimbursement) | 5.5 | (0.3) | 5.3 | 6.9 | (0.2) | 6.7 |
| Transferred MSR net servicing fee remittance | $ 34.3 | $ 30.7 | 65.0 | $ 91.5 | $ 27.3 | 118.8 |
| ESS servicing spread remittance | | | 26.1 | | | 24.5 |
| Pledged MSR liability expense | | | $ 91.0 | | | $ 143.3 |

(1) Includes $90.9 million of servicing fees collected on behalf of Rithm, $25.9 million of subservicing fee retained and $65.0 million of net servicing fee remittance in the six months ended June 30, 2023 related to MSRs previously sold to Rithm for which the sale accounting criteria were met effective December 31, 2023.

***MAV (Related Party) Transactions***

PHH entered into agreements to sell MSR portfolios to its related party MAV, on a bulk and flow basis, for which PHH has been retained as subservicer. While MSR legal title has transferred to MAV, the transactions do not qualify for sale accounting treatment primarily due to the termination restrictions of the subservicing agreement. See Note 11 - Investment in Equity Method Investee and Related Party Transactions. Accordingly, we continue to report the MSR and an associated Pledged MSR liability on our consolidated balance sheet.

***Rithm Transactions***

Starting in 2012, Onity and PHH entered into agreements to sell MSRs and the related servicing advances to Rithm, and in all cases have been retained by Rithm as subservicer. As of June 30, 2024, all transactions met sale accounting treatment except for the agreement to sell a $9.5 billion MSR portfolio to Rithm, referred to as Rights to MSRs (or RMSR). While most of the economics and risks of the MSR and related advances have contractually transferred to Rithm, the MSR legal title was retained by Onity and the third-party consents required for title transfer were not obtained, causing the transactions to be accounted for as secured financings. Accordingly, we continue to report the MSR and an associated Pledged MSR liability on our consolidated balance sheet.

Prior to December 31, 2023, while MSR legal title had transferred to Rithm, other MSR sale transactions with a UPB of $33.4 billion did not qualify for sale accounting treatment, primarily due to the length of the non-cancellable term of the subservicing agreements. On December 31, 2023, we derecognized $421.7 million non-Agency MSRs and Pledged MSR liability associated with Rithm servicing agreements with a UPB of $33.4 billion for which MSR sale accounting criteria was met. Specifically, with the amendments described below, starting on December 31, 2023, the parties have the right to cancel or decline to renew the servicing agreements within a reasonable period of time.

On May 2, 2022, Onity entered into amendments to its servicing agreements with Rithm to extend their terms to December 31, 2023 and provide for subsequent, automatic one-year renewals, unless Onity provides six months' advance notice of termination (by July 1), or Rithm provides three months' advance notice of termination (by October 1), among other changes. Onity and Rithm did not provide notice of termination by July 1, 2024 and October 1, 2023, respectively. Accordingly, all servicing agreements with Rithm, including the $9.5 billion of RMSR and $33.6 billion of subservicing, are extended through December 31, 2024, with subsequent, automatic one-year renewals.

Rithm has the right to terminate the $9.5 billion RMSRs for convenience, in whole but not in part, subject to three months' advance notice of termination. If Rithm exercises this termination right, Rithm has the option of seeking (i) the transfer of the MSRs through a sale to a third party of its Rights to MSRs (together with a transfer of Onity's title to those MSRs) or (ii) a substitute RMSR arrangement that substantially replicates the Rights to MSRs structure under which we would transfer title to the MSRs to a successor servicer and Rithm would continue to own the economic rights and obligations related to the MSRs. In the case of option (i), we have a purchase option, as specified in the RMSR Agreements. If Rithm is not able to sell the Rights to MSRs or establish a substitute RMSR arrangement with another servicer, Rithm has the right to revoke its termination notice and re-instate the applicable servicing addendum or to establish a subservicing arrangement whereby the MSRs remaining subject to the RMSR Agreements would be transferred to up to three subservicers who would subservice under Onity's oversight. If such a subservicing arrangement were established, Onity 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.

***Other MSR Capital Partner Transactions***

PHH entered into agreements to sell MSR portfolios to different unrelated third parties, referred to as MSR capital partners, on a bulk and flow basis, for which PHH has been retained as subservicer. While MSR legal title has transferred to the MSR capital partners, the transactions do not qualify for sale accounting treatment primarily due to the termination restrictions of the subservicing agreements. Accordingly, we continue to report the MSR and an associated Pledged MSR liability on our consolidated balance sheet.

**Note 9 – MSR Valuation Adjustments, Net**

The table below presents the components of MSR valuation adjustments, net, that include four MSR related instruments which we account for at fair value with changes in fair value recorded in earnings:

(i) the fair value changes of the total MSR portfolio (Total MSRs) recorded on our consolidated balance sheets ($2.3 billion fair value asset at June 30, 2024). Total MSRs include owned MSRs and MSRs that have been sold or transferred to third parties in transactions that do not achieve sale accounting criteria. Owned MSRs include MSRs subject to ESS financing transactions;

(ii) the fair value changes of the Pledged MSR liabilities recorded as liabilities on our consolidated balance sheets when MSR sale accounting criteria are not achieved ($590.0 million fair value liability at June 30, 2024);

(iii) the fair value changes of the ESS financing liabilities for which we elected the fair value option ($250.5 million fair value liability at June 30, 2024); and

(iv) the fair value changes of the derivative instruments economically hedging the MSR exposure.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Total MSRs (1) | $ 37.2 | $ 77.2 | $ 79.2 | $ (63.3) |
| Pledged MSR liabilities (2) (3) | (22.1) | (65.4) | (17.5) | (12.7) |
| ESS financing liabilities (2) | 2.9 | 4.6 | (1.7) | 9.3 |
| Derivative fair value gain (loss) (MSR economic hedges) (4) | (50.6) | (65.2) | (104.3) | (51.1) |
| **MSR valuation adjustments, net** | $ (32.7) | $ (48.9) | $ (44.3) | $ (117.9) |

(1) Also refer to Note 7 – Mortgage Servicing.
(2) Also refer to Note 8 — Other Financing Liabilities, at Fair Value for additional information related to the ESS financing liability and Pledged MSR liability, including a tabular presentation of activity of the Pledged MSR liability for the reported years.
(3) MSR transfers that do not achieve sale accounting.
(4) Also refer to Note 15 – Derivative Financial Instruments and Hedging Activities.

MSR valuation adjustments, net exclude fair value changes of reverse mortgage loans net of HMBS related-borrowings which are included in our economic MSR interest rate risk hedge strategy (refer to Note 15 – Derivative Financial Instruments and Hedging Activities), and are separately presented as Gain on reverse loans held for investment and HMBS-related borrowings, net within our consolidated statement of operations (refer to Note 5 - Reverse Mortgages).

**Note 10 – Receivables**

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Servicing-related receivables: | | |
| Government-insured loan claims - Forward | $ 37.2 | $ 43.6 |
| Government-insured loan claims - Reverse | 60.8 | 64.5 |
| Due from custodial accounts | 14.8 | 13.8 |
| Subservicing fees and reimbursable expenses | 14.9 | 14.3 |
| Receivable from sale of MSRs (holdback) | 6.3 | 5.1 |
| Subservicing fees, reimbursable expenses and other - Due from MAV | 0.8 | 3.4 |
| Other | 6.4 | 4.5 |
| | 141.3 | 149.2 |
| Income taxes receivable (1) | 27.8 | 27.1 |
| Other receivables | 4.7 | 3.6 |
| | 173.8 | 179.9 |
| Allowance for losses | (20.4) | (25.1) |
| | $ 153.4 | $ 154.8 |

(1) Includes $26.0 million and $25.2 million at June 30, 2024 and December 31, 2023, respectively, from the USVI Bureau of Internal Revenue (BIR) for a refund of income taxes paid in prior years. In December 2022, we executed an agreement with the BIR for payment of the income tax refunds related to tax years 2013 through 2015, plus accrued interest, over a two-year period ending December 31, 2024. The BIR did not make the payment that was due on December 31, 2023 nor any subsequent payments pursuant to the agreement. On February 8, 2024, we filed a lawsuit against the USVI for the refund of income taxes paid in prior years and for the USVI's breach of the above-referenced agreement.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **Allowance for Losses** | 2024 | 2023 | 2024 | 2023 |
| **Beginning balance** | $ 22.7 | $ 29.5 | $ 25.1 | $ 34.3 |
| Provision | 3.1 | 4.0 | 7.1 | 7.9 |
| Charge-offs and other, net | (5.4) | (6.1) | (11.8) | (14.9) |
| **Ending balance** | $ 20.4 | $ 27.4 | $ 20.4 | $ 27.4 |

At June 30, 2024 and December 31, 2023, the allowance for losses related to FHA-, VA- or USDA insured loans repurchased from Ginnie Mae guaranteed securitizations (government-insured claims) was $20.0 million and $24.6 million, respectively.

**Note 11 - Investment in Equity Method Investee and Related Party Transactions**

We account for our 15% investment in MAV Canopy under the equity method. Under the Amended & Restated Limited Liability Company Agreement with MAV Canopy, Onity 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, Onity 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 the 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 June 30, 2024, Onity has not recognized any such Promote Distribution income.

PHH entered into a Subservicing Agreement with MAV for exclusive rights to service the mortgage loans underlying MSRs owned by MAV. The Subservicing Agreement will continue until terminated by mutual agreement of the parties or for cause, as defined. MAV is permitted to sell the underlying MSR, in whole or in part, without Onity's consent after May 3, 2024. As of June 30, 2024, PHH subserviced a total of $52.9 billion UPB on behalf of MAV under the Subservicing Agreement, of which $22.3 billion of MSRs were previously sold by PHH to MAV and do not qualify for sale accounting and thus remain reported on the consolidated balance sheet of PHH, with a fair value of $343.6 million MSR and $333.1 million Pledged MSR liability - see Note 8 — Other Financing Liabilities, at Fair Value. The fair value of the Pledged MSR liability is determined using the fair value mark provided by third-party valuation experts, consistent with the associated MSR, using the same methodology and assumptions, while considering cash flows contractually retained by PHH during the expected life of the Subservicing Agreement. We are exposed to a risk of loss of this net $10.6 million asset value if, and to the extent that MAV sells the $22.3 billion MSR portfolio, in whole or in part at a faster pace than anticipated or if prepayments exceeds expectations, among other factors. If MAV sells its whole portfolio, we would be entitled to a Promote Distribution, if any, depending on the then return distribution thresholds, as discussed above.

During the six months ended June 30, 2024 and 2023, PHH transferred UPB of $30.1 million and $17.9 million under a flow MSR sale agreement (Recapture Agreement), respectively. During the six months ended June 30, 2024 and 2023, PHH transferred no MSRs to MAV under the various MSR purchase and sale agreements. These MSR sale transactions between PHH and MAV do not qualify for sale accounting primarily due to the termination restrictions of the subservicing agreement, and are accounted for as secured financings. See Note 8 — Other Financing Liabilities, at Fair Value.

MAV Canopy, MAV and Oaktree are deemed related parties to Onity. In addition to the transactions described above and our 15% equity investment in MAV Canopy, Onity issued common stock, warrants and senior secured notes to Oaktree in 2021. See also Note 13 – Borrowings and Note 16 – Interest Expense. In the ordinary course, we regularly share information with Oaktree and discuss various aspects of our relationship. At times, we discuss alternatives to the outcomes contemplated under our agreements when they were originally executed as facts and circumstances change over time. We also discuss modifications to our relationship that we believe could be to our mutual benefit as our respective businesses evolve over time, including alternatives to partially repay our senior secured notes issued to Oaktree.

**Note 12 – Other Assets**

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Prepaid expenses (including prepaid lender fees) | $ 24.9 | $ 34.3 |
| REO | 20.9 | 18.3 |
| Derivatives, at fair value | 12.6 | 21.6 |
| Derivative margin deposit | 8.6 | 12.8 |
| Prepaid representation, warranty and indemnification claims - Agency MSR sale | 5.0 | 5.0 |
| Intangible assets, net (net of accumulated amortization of $11.8 million and $10.1 million) | 4.6 | 6.2 |
| Deferred tax asset, net | 3.4 | 3.1 |
| Other | 4.3 | 5.0 |
| | $ 84.3 | $ 106.2 |

**Note 13 – Borrowings**

**Advance Match Funded Liabilities**

| Borrowing Type | Expected Repayment Date (1) | Available Borrowing Capacity | | Outstanding Balance | |
|---|---|---|---|---|---|
| | | Uncommitted | Committed | June 30, 2024 | December 31, 2023 |
| $500 million Ocwen Master Advance Receivables Trust (OMART) - Advance Receivables Backed Notes - Series 2015-Variable Funding (VF) 5 (2) | August 2025 | $ 50.0 | $ 96.7 | $ 353.3 | $ 409.8 |
| $200 million Ocwen GSE Advance Funding (OGAF) - Advance Receivables Backed Notes, Series 2015-VF1 (2) | August 2025 | — | 149.0 | 51.0 | 89.1 |
| $14.4 million EBO Advance facility (3) | May 2026 | 13.7 | — | 0.7 | 0.9 |
| **Total Advance match funded liabilities** | | $ 63.7 | $ 245.7 | $ 405.0 | $ 499.7 |
| Weighted average interest rate (4) | | | | 7.88 % | 8.07 % |

(1) The Expected Repayment Date of our facilities, as defined, is the date on which the revolving period ends under each advance facility note and repayment of the outstanding balance is required if the note is not renewed or extended. In certain of our advance facilities, there are multiple notes outstanding.

(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 June 30, 2024, 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) At June 30, 2024, none of the available borrowing capacity of the facility could be used based on the amount of eligible collateral.

(4) The weighted average interest rate excludes the effect of the amortization of prepaid lender fees. At June 30, 2024 and December 31, 2023, the balance of unamortized prepaid lender fees was $3.8 million and $5.5 million, respectively, and are included in Other assets in our consolidated balance sheets. At June 30, 2024 and December 31, 2023, 1-Month (1M) Term Secured Overnight Financing Rate (SOFR) was 5.34% and5.35%, respectively.

**Mortgage Loan Financing Facilities**

| Borrowing Type | Collateral | Maturity | Available Borrowing Capacity | | Outstanding Balance | |
|---|---|---|---|---|---|---|
| | | | Uncommitted | Committed (1) | June 30, 2024 | December 31, 2023 |
| $200 million Master repurchase agreement (2) | LHFS, Receivables and REO | April 2024 | $ — | $ — | $ — | $ — |
| $50 million Loan and security agreement (3) | LHFS and Receivables | June 2024 | — | — | — | — |
| $40 million Mortgage warehouse agreement (4) | LHFI | September 2024 | — | 40.0 | — | — |
| Master repurchase agreement | LHFS | September 2024 | — | 1.0 | — | — |
| $400 million Participation agreement | LHFS | September 2024 | 139.1 | — | 260.9 | 83.9 |
| $200 million Master repurchase agreement | LHFS, LHFI and Receivables | September 2024 | — | 161.6 | 38.4 | 64.2 |
| $30 million Loan and security agreement | LHFI | September 2024 | — | 18.4 | 11.6 | — |
| $175 million Master repurchase agreement | Loans held for sale (LHFS), Receivables and REO | October 2024 | 125.0 | 45.3 | 4.7 | 15.7 |
| $500 million Master repurchase agreement (5) | LHFS and LHFI | January 2025 | 204.5 | — | 295.5 | 168.4 |
| $205 million Mortgage warehouse agreement (6) | LHFS and LHFI | May 2025 | 117.0 | — | 88.0 | 71.1 |

| **Mortgage Loan Financing Facilities** | | | **Available Borrowing Capacity** | | **Outstanding Balance** | |
|---|---|---|---|---|---|---|
| **Borrowing Type** | **Collateral** | **Maturity** | **Uncommitted** | **Committed (1)** | **June 30, 2024** | **December 31, 2023** |
| OLIT Asset-Backed Notes, Series 2023-HB1 (7) | Reverse LHFS, Receivables and REO | June 2036 | — | — | 127.0 | 164.4 |
| OLIT Asset-Backed Notes, Series 2024-HB1 (7) | Reverse LHFS, Receivables and REO | February 2037 | — | — | 187.1 | — |
| $350 million Mortgage warehouse agreement (8) | LHFS | N/A | 350.0 | — | — | — |
| $230 million Mortgage warehouse agreement (9) | LHFS and Receivables | (9) | 219.4 | — | 10.6 | 12.2 |
| Master repurchase agreement (10) | LHFS | (10) | — | — | 200.7 | 151.7 |
| **Total Mortgage loan financing facilities** | | | $ 1,155.1 | $ 266.3 | $ 1,224.3 | $ 731.6 |
| Unamortized discount and debt issuance costs - OLIT Notes | | | | | (33.9) | (21.0) |
| **Total Mortgage loan financing facilities, net** | | | | | $ 1,190.5 | $ 710.6 |
| Weighted average interest rate (11) | | | | | 5.90 % | 6.15 % |

(1) Of the borrowing capacity on mortgage loan financing facilities extended on a committed basis, none of the available borrowing capacity could be used at June 30, 2024 based on the amount of eligible collateral that could be pledged on a committed basis.
(2) On April 1, 2024, we voluntarily allowed the facility to mature.
(3) This revolving facility agreement provides committed borrowing capacity secured by eligible HECM loans that are active buyouts, as defined in the agreement. On June 28,2024, we voluntarily allowed the facility to mature.
(4) In June 2024, the maturity date was extended to September 30, 2024.
(5) In January 2024, the maturity date was extended to January 3, 2025.
(6) In May 2024, the maturity date was extended to May 31, 2025 and the total maximum borrowing under this agreement was increased to $205.0 million.
(7) In June 2023 and February 2024, OLIT issued different classes of Asset-Backed Notes with an initial principal amount of $264.9 million and $268.6 million, at a discount and a mandatory call date of June 2026 and February 2027, respectively, both with a stated interest rate of 3.0%. Payments of interest and principal are made from available funds from a pool of reverse mortgage buyout loans and REOs in accordance with the indenture priority of payments. Also see Note 2 – Securitizations and Variable Interest Entities.
(8) This agreement has no stated maturity date.
(9) The agreement has no stated maturity date, however each transaction has a maximum duration of four years.
(10) This repurchase agreement provides borrowing at our discretion up to a certain maximum amount of capacity on a rolling 90-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. Each certificate is renewed monthly. In April 2024, we voluntarily increased the trust certificates by $50.0 million to $200.0 million. See Note 2 – Securitizations and Variable Interest Entities for additional information.
(11) The weighted average interest rate excludes the effect of the amortization of discount, debt issuance costs and prepaid lender fees. At June 30, 2024 and December 31, 2023, unamortized prepaid lender fees were $0.6 million and $1.0 million, respectively, and are included in Other assets in our consolidated balance sheets.

**MSR Financing Facilities**

| Borrowing Type | Collateral | Maturity | Available Borrowing Capacity | | Outstanding Balance | |
|---|---|---|---|---|---|---|
| | | | Uncommitted | Committed (1) | June 30, 2024 | December 31, 2023 |
| $365 million GSE MSR financing facility (2) | MSRs | August 2024 | $ — | $ 119.9 | $ 245.1 | $ 242.9 |
| $300 million Ginnie Mae MSR financing facility (3) | MSRs, Advances | February 2025 | 93.0 | — | 207.0 | 212.5 |
| Ocwen Excess Spread-Collateralized Notes, Series 2022-PLS1 (4) | MSRs | February 2025 | — | — | 32.1 | 39.2 |
| 2022-PLS1 Notes Issuer Membership Interest Master repurchase agreement (5) | MSRs | February 2025 | — | — | 34.0 | — |
| $400 million GSE MSR financing facility (6) | MSRs | December 2025 | — | 15.5 | 384.5 | 393.9 |
| Secured Notes, Ocwen Asset Servicing Income Series Notes, Series 2014-1 | MSRs | February 2028 | — | — | 25.5 | 28.1 |
| **Total MSR financing facilities** | | | $ 93.0 | $ 135.4 | $ 928.2 | $ 916.6 |
| Unamortized debt issuance costs - PLS facilities (7) | | | | | (0.5) | (0.4) |
| **Total MSR financing facilities, net** | | | | | $ 927.7 | $ 916.2 |
| Weighted average interest rate (8) | | | | | 8.26% | 8.18% |

(1) Of the borrowing capacity on MSR financing facilities extended on a committed basis, $28.2 million of the available borrowing capacity could be used at June 30, 2024 based on the amount of eligible collateral that could be pledged on a committed basis.

(2) PHH's obligations under this facility are secured by a lien on certain related MSRs. Onity guarantees the obligations of PHH under this facility. See Note 2 – Securitizations and Variable Interest Entities for additional information. We are subject to daily margining requirements under the terms of the facility. In June 2024, the maturity date was extended to August 28, 2024.

(3) PHH's obligations under this facility are secured by a lien on the related Ginnie Mae MSRs and servicing advances. Onity guarantees the obligations of PHH under the facility. We are subject to daily margining requirements under the terms of the facility. In March 2024, the maturity date was extended to February 25, 2025 and the uncommitted borrowing capacity was increased to $300.0 million.

(4) The single class PLS Notes are an amortizing debt instrument with an original principal amount of $75.0 million and a fixed interest rate of 5.114%. The PLS Notes are issued by a trust (PLS Issuer) that is included in our consolidated financial statements, and PLS Issuer's obligations under the facility are secured by a lien on the related PLS MSRs. Onity guarantees the obligations of PLS Issuer under the facility. 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) On March 4, 2024, PHH entered into a $34.0 million repurchase agreement pursuant to which PHH sold the membership interest certificate representing 100% of the limited liability company interests in PLS Issuer and has agreed to repurchase such membership interest certificate at a specified future date at the price set forth in the repurchase agreement. Onity guarantees the obligations of PHH under the facility subject to the terms and conditions set forth in the guaranty. We are subject to daily margining requirements under the terms of the facility. Refer to Note 2 – Securitizations and Variable Interest Entities for additional information regarding PLS Issuer and the PLS Notes.

(6) This facility is secured by a lien on certain of PHH's Agency MSRs and is subject to daily margining requirements. Any outstanding borrowings on the revolving loan will convert into a term loan in November 2024.

(7) At June 30, 2024 and December 31, 2023, unamortized prepaid lender fees related to revolving-type MSR financing facilities were $2.4 million and $3.6 million, respectively, and are included in Other assets in our consolidated balance sheets.

(8) Weighted average interest rate excludes the effect of the amortization of debt issuance costs and prepaid lender fees.

| Senior Notes | Interest Rate (1) | Maturity | Outstanding Balance June 30, 2024 | Outstanding Balance December 31, 2023 |
|---|---|---|---|---|
| PMC Senior Secured Notes (2) | 7.875% | March 2026 | $ 312.6 | $ 360.0 |
| OFC Senior Secured Notes (due to related parties) (3) | 12% paid in cash or 13.25% paid-in-kind (see below) | March 2027 | 285.0 | 285.0 |
| Principal balance | | | 597.6 | 645.0 |
| Unamortized discount | | | (0.6) | (0.9) |
| Unamortized debt issuance costs | | | (2.1) | (3.0) |
| PMC Senior Secured Notes | | | (2.7) | (3.9) |
| Unamortized discount | | | (34.3) | (39.1) |
| Unamortized debt issuance costs | | | (5.4) | (6.2) |
| OFC Senior Secured Notes | | | (39.7) | (45.3) |
| | | | $ 555.2 | $ 595.8 |

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

(2) Redeemable at 101.969% before March 15, 2025, at par thereafter. The Indenture contains customary covenants for debt securities of this type that limit the ability of PHH Corporation and its restricted subsidiaries (including PHH) to, among other things, (i) incur or guarantee additional indebtedness, (ii) incur liens, (iii) pay dividends on or make distributions in respect of PHH Corporation'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 Onity's affiliates.

(3) Redeemable at par plus a make-whole premium prior to March 4, 2026, at par thereafter. The make-whole premium represents the present value of all scheduled interest payments due through March 4, 2026. The Notes are solely the obligation of Onity and are secured by a pledge of substantially all of the assets of Onity, including a pledge of the equity of Onity's directly held subsidiaries.

During March 2024, we repurchased a total of $47.4 million of the PMC Senior Secured Notes in the open market for a price of $45.5 million and recognized a $1.4 million gain on debt extinguishment, net of the respective write-off of unamortized discount and debt issuance costs.

**Credit Ratings**

Credit ratings are intended to be an indicator of the creditworthiness of a company's debt obligations. On January 25, 2024, S&P affirmed the issuer credit rating for Onity of "B-" and the "B" rating of the PMC Senior Secured Notes. On April 12, 2024, Moody's upgraded PHH's long-term corporate family ratings to "B3" from "Caa1" and revised their outlook to Stable from Positive. Moody's also affirmed its "B2" rating of the PMC Senior Secured Notes.

**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 Onity 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 Onity and its subsidiaries or of PHH Corporation or PHH 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 Onity'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 June 30, 2024, excluding additional Agency minimum requirements, is a minimum of $275.0 million and $300.0 million, tangible net worth for Onity and PHH, respectively. The most restrictive liquidity requirement under our debt agreements with borrowings outstanding at June 30, 2024, excluding additional Agency minimum requirements, is for a minimum of $75.0 million for both Onity and PHH consolidated liquidity. The minimum tangible net worth and liquidity requirements at PHH contained in some debt agreements are also subject to the minimum requirements set forth by the Agencies. See Note 19 – Regulatory Requirements.

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 June 30, 2024:

| | Assets | Pledged Assets | Collateralized Borrowings | Unencumbered Assets (1) |
|---|---|---|---|---|
| Cash | $ 203.1 | $ — | $ — | $ 203.1 |
| Restricted cash | 46.3 | 46.3 | 9.4 | — |
| Loans held for sale | 1,107.0 | 1,063.7 | 1,063.6 | 43.3 |
| Loans held for investment - securitized (2) | 8,109.4 | 8,109.4 | 8,035.4 | — |
| Loans held for investment - unsecuritized | 113.0 | 81.9 | 71.8 | 31.2 |
| MSRs (3) | 1,720.1 | 1,729.1 | 1,147.7 | — |
| Advances, net | 550.6 | 469.2 | 435.8 | 81.5 |
| Receivables, net | 153.4 | 56.4 | 60.3 | 97.0 |
| REO | 20.9 | 17.9 | 19.3 | 3.0 |
| Total (4) | $ 12,023.8 | $ 11,573.9 | $ 10,843.1 | $ 458.9 |

(1) Certain assets are pledged as collateral to the PMC Senior Secured Notes and 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 PHH'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 PHH in connection with certain claims relating to the performance and obligations of PHH as both issuer of HMBS and servicer of HECMs underlying HMBS.
(3) Excludes MSRs transferred to MAV, Rithm and others, and associated Pledged MSR liability recorded as sale accounting criteria are not met. Pledged assets exceed the MSR asset balance primarily 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 Onity. 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 security interests, as defined under the OFC Senior Secured Note Agreement and summarized in the table below, and have a priority lien on the following assets: investments by OFC in subsidiaries not guaranteeing the PMC Senior Secured Notes, including PHH Corporation and MAV; cash and investment accounts at OFC; and certain other assets, including receivables.

| | June 30, 2024 |
|---|---|
| Specified net servicing advances | $ 153.0 |
| Specified deferred servicing fee | 5.4 |
| Specified MSR value less borrowings | 674.5 |
| Specified unrestricted cash balances | 127.3 |
| Specified advance facility reserves | 10.6 |
| Specified loan value | 78.0 |
| Specified residual value | — |
| Total | $ 1,048.7 |

**Note 14 – Other Liabilities**

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Due to Rithm - Advance collections and servicing fees | $ 54.2 | $ 50.3 |
| Checks held for escheat | 53.3 | 52.0 |
| Other accrued expenses | 48.5 | 67.5 |
| Servicing-related obligations | 47.4 | 48.4 |
| Liability for indemnification obligations | 36.1 | 35.5 |
| Accrued interest payable | 15.3 | 14.3 |
| Accrued legal fees and settlements | 15.1 | 8.3 |
| Liability for uncertain tax positions | 12.8 | 12.2 |
| Derivative related payables | 12.1 | 10.7 |
| Lease liability | 10.2 | 10.2 |
| Derivatives, at fair value | 9.9 | 7.0 |
| Liability for unfunded pension obligation and India gratuity plan | 7.8 | 9.2 |
| Mortgage insurance premium payable | 5.1 | 5.0 |
| MSR purchase price holdback | 3.6 | 3.8 |
| Income taxes payable | 2.1 | 8.2 |
| Excess servicing fee spread payable | 1.8 | 3.6 |
| Other | 2.7 | 3.2 |
| | $ 337.9 | $ 349.3 |

**Note 15 – 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 six months ended June 30, 2024 and 2023.

| | June 30, 2024 | | | December 31, 2023 | | |
|---|---|---|---|---|---|---|
| | Maturities | Notional | Fair value | Maturities | Notional | Fair value |
| **Derivative Assets (Other assets)** | | | | | | |
| Forward sales of Reverse loans | July 2024 | $ 20.0 | $ — | N/A | $ — | $ — |
| Forward loans IRLCs | July - October 2024 | 1,532.4 | 3.5 | January - May 2024 | 592.5 | 5.1 |
| Reverse loans IRLCs | September 2024 | 22.2 | 0.6 | February 2024 | 22.1 | 0.6 |
| TBA forward MBS trades | July - September 2024 | 2,269.7 | 7.5 | January - March 2024 | 1,818.6 | 10.1 |
| Forward sales of Forward loans | N/A | — | — | January 2024 | 5.5 | — |
| Interest rate swap futures | September 2024 | 250.0 | 0.5 | March 2024 | 790.0 | 3.9 |
| Interest rate option contracts | July 2024 | 250.0 | 0.2 | January 2024 | 750.0 | 1.9 |
| Treasury futures contracts | September 2024 | 75.0 | 0.1 | N/A | — | — |
| Total | | $ 4,419.2 | $ 12.6 | | $ 3,978.7 | $ 21.6 |
| **Derivative Liabilities (Other liabilities)** | | | | | | |
| Forward sales of Reverse loans | July 2024 | 20.0 | — | January 2024 | 50.0 | (0.1) |
| TBA forward MBS trades | July - August 2024 | 2,110.5 | (8.2) | January - March 2024 | 854.9 | (6.8) |
| Interest rate swap futures | September 2024 | 350.0 | (1.5) | N/A | — | — |
| Interest rate option contracts | July 2024 | 250.0 | (0.2) | N/A | — | — |
| Other | N/A | — | — | N/A | 15.3 | (0.1) |
| Total | | $ 2,730.5 | $ (9.9) | | $ 920.2 | $ (7.0) |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|
| **Gain (Loss)** | **2024** | **2023** | **2024** | **2023** | **Financial Statement Line** |
| **Derivative Instruments** | | | | | |
| Forward loans IRLCs | $ (1.0) | $ (3.2) | $ (1.6) | $ 2.4 | Gain on loans held for sale, net |
| Reverse loans IRLCs | 0.1 | (0.2) | 0.1 | (0.3) | Gain on reverse loans held for investment and HMBS-related borrowings, net |
| Forward trades (economically hedging forward pipeline trades and EBO pipeline) | 0.3 | — | — | — | Gain on loans held for sale, net (Economic hedge) |
| TBA trades (economically hedging forward pipeline trades and EBO pipeline) | 4.8 | 21.2 | 9.7 | 4.8 | Gain on loans held for sale, net (Economic hedge) |
| Interest rate futures, TBA trades and interest rate option contracts (economically hedging MSR) | (50.6) | (65.2) | (104.3) | (51.1) | MSR valuation adjustments, net |
| Forward sales of Reverse loans | (0.2) | — | 0.1 | — | Gain on reverse loans held for investment and HMBS-related borrowings, net |
| Other | — | — | — | 0.3 | Other, net |
| Total | $ (46.7) | $ (47.4) | $ (96.0) | $ (44.0) | |

**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.

The objective of our MSR interest rate risk management and hedging policy is to protect shareholders' equity and earnings against the fair value volatility of interest-rate sensitive MSR portfolio exposure, considering market, liquidity, cost and other 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 MAV, Rithm and others, also referred to as Pledged MSR liabilities (See Note 8 — Other Financing Liabilities, at Fair Value),
- less the asset value for securitized HECM loans, net of the corresponding HMBS-related borrowings,
- other interest-rate sensitive exposures, including our ESS financing liabilities, as deemed appropriate by the Market Risk Committee.

The hedge coverage ratio, defined as the ratio of hedge and asset rate sensitivity (referred to as DV01) is subject to lower and upper target thresholds under our policy. We regularly 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, liquidity impacts under shock scenarios and other factors. As the market dictates, management may choose to maintain the hedge coverage ratio at different thresholds, with approval of the Market Risk Committee, in order to preserve liquidity and/or optimize asset returns.

Effective September 2022, a minimum 25% and 30% hedge coverage ratios were required for interest rate declines less than, and more than 50 basis points, respectively. During the second quarter of 2023, management raised its minimum hedge coverage ratio to 60%. Effective December 2023, we established a targeted hedge coverage ratio range between 95% and 105%. In April 2024, we changed the risk measure to a dollar DV01 that resulted in an equivalent range of approximately 90% to 110%.

With a partial hedge coverage ratio, 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. 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 many factors. These factors include non-parallel changes in the interest rate curve, the convexity of the MSR, the basis risk inherent in the MSR profile and hedging instruments, model risk observed between actual vs. expected fair value changes, and hedge costs. We continuously evaluate the use of hedging instruments with the objective of enhancing 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 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 minimize the use of third-party derivatives. The fair value gains and losses of such inter-segment derivatives effectively reclassify certain derivative gains and losses between MSR valuation adjustments, net within the Servicing segment and Gain on loans held for sale, net within the Originations segment to reflect the performance of these economic hedging strategies in the appropriate segments (see Note 18 – Business Segment Reporting for the amount of such reclassification). 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. Onity 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 75 days, with the majority of our commitments to borrowers for 40 to 60 days and our commitments to correspondent sellers for 5 to 30 days. Loans held for sale are generally funded and sold within 5 to 30 days. This 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 preserving 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 or Gain on reverse loans held for investment and HMBS-related borrowings, net in our consolidated statements of operations.

**Note 16 – Interest Expense**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| Mortgage loan financing facilities | $ 24.8 | $ 19.8 | $ 43.5 | $ 33.4 |
| MSR financing facilities | 19.6 | 17.8 | 37.5 | 35.3 |
| OFC Senior Secured Notes (1) | 11.4 | 10.9 | 22.6 | 21.7 |
| Advance match funded liabilities | 9.3 | 10.4 | 19.8 | 21.1 |
| PMC Senior Secured Notes | 6.5 | 7.8 | 13.9 | 15.5 |
| Escrow | 1.4 | 1.6 | 3.2 | 3.5 |
| | $ 73.1 | $ 68.3 | $ 140.5 | $ 130.5 |

(1) Notes issued to Oaktree affiliates, inclusive of amortization of debt issuance costs and discount of $2.8 million and $5.6 million for the three and six months ended June 30, 2024, respectively, and $2.4 million and $4.7 million for the three and six months ended June 30, 2023, respectively.

**Note 17 – Basic and Diluted Earnings (Loss) per Share**

Basic earnings or loss per share excludes common stock equivalents and is calculated by dividing net income or loss attributable to Onity 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 Onity 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. For the six months ended June 30, 2023, we have excluded the effect of all stock options, common stock awards, and warrants from the computation of diluted loss per share because of the anti-dilutive effect of our reported net loss.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| **Basic earnings (loss) per share** | | | | |
| Net income (loss) | $ 10.5 | $ 15.5 | $ 40.6 | $ (24.7) |
| Weighted average shares of common stock outstanding | 7,821,128 | 7,652,563 | 7,766,331 | 7,593,391 |
| Basic earnings (loss) per share | $ 1.34 | $ 2.02 | $ 5.23 | $ (3.25) |
| **Diluted earnings (loss) per share** | | | | |
| Net income (loss) | $ 10.5 | $ 15.5 | $ 40.6 | $ (24.7) |
| Weighted average shares of common stock outstanding | 7,821,128 | 7,652,563 | 7,766,331 | 7,593,391 |
| Effect of dilutive elements | | | | |
| Common stock warrants | 3,713 | 115,977 | 36,148 | — |
| Common stock awards | 93,831 | 151,047 | 179,950 | — |
| Dilutive weighted average shares of common stock | 7,918,672 | 7,919,587 | 7,982,429 | 7,593,391 |
| Diluted earnings (loss) per share | $ 1.33 | $ 1.95 | $ 5.09 | $ (3.25) |
| **Stock options and common stock awards excluded from the computation of diluted earnings (loss) per share** | | | | |
| Anti-dilutive (1) | 264,110 | 84,748 | 148,027 | 59,703 |
| Market-based (2) | 64,085 | 61,354 | 64,085 | 61,354 |

(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 Onity's stock price.

**Note 18 – Business Segment Reporting**

Our business segments reflect the internal reporting that our Chief Executive Officer uses to evaluate our operating and financial performance and to assess the allocation of our resources. Our current reportable business segments consist of Servicing, Originations, and Corporate Items and Other. During the three months ended June 30, 2024, 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, 2023. Effective in the fourth quarter of 2023, the Servicing segment includes CR Limited (CRL), our wholly-owned captive reinsurance subsidiary previously included in the Corporate Items and Other segment. Segment results for the three and six months ended June 30, 2023 have been recast to conform to the current segment presentation.

Financial information for our segments is as follows:

| Results of Operations | Three Months Ended June 30, 2024 Servicing | Originations | Corporate Items and Other | Business Segments Consolidated |
|---|---|---|---|---|
| Servicing and subservicing fees | $ 210.1 | $ 0.7 | $ — | $ 210.8 |
| Gain on reverse loans held for investment and HMBS-related borrowings, net | 2.8 | 5.7 | — | 8.5 |
| Gain on loans held for sale, net | (0.2) | 16.7 | — | 16.5 |
| Other revenue, net | 4.4 | 6.2 | — | 10.6 |
| Revenue | 217.2 | 29.2 | — | 246.4 |
| MSR valuation adjustments, net | (35.8) | 3.1 | — | (32.7) |
| Operating expenses | | | | |
| Compensation and benefits | 24.5 | 11.3 | 19.2 | 55.0 |
| Servicing and origination | 11.2 | 2.3 | 0.5 | 13.9 |
| Technology and communications | 6.2 | 1.7 | 5.0 | 13.0 |
| Professional services | 2.8 | 0.5 | 7.4 | 10.7 |
| Occupancy, equipment and mailing | 6.6 | 0.5 | 0.4 | 7.5 |
| Corporate overhead allocations | 10.8 | 4.3 | (15.0) | — |
| Other expenses | 0.9 | 1.4 | 1.5 | 3.9 |
| Operating expenses | 63.1 | 22.0 | 18.9 | 104.0 |
| Other income (expense): | | | | |
| Interest income | 7.2 | 14.2 | 1.1 | 22.5 |
| Interest expense | (47.0) | (14.9) | (11.2) | (73.1) |
| Pledged MSR liability expense | (46.1) | — | — | (46.1) |
| Earnings of equity method investee | 3.1 | — | — | 3.1 |
| Gain on extinguishment of debt | — | — | — | — |
| Other, net | (2.9) | (0.2) | 0.4 | (2.7) |
| Other income (expense), net | (85.7) | (0.9) | (9.6) | (96.2) |
| Income (loss) before income taxes | $ 32.6 | $ 9.4 | $ (28.5) | $ 13.5 |

| Results of Operations | Three Months Ended June 30, 2023 | | | |
|---|---|---|---|---|
| | Servicing | Originations | Corporate Items and Other | Business Segments Consolidated |
| Servicing and subservicing fees | $ 237.2 | $ 0.4 | $ — | 237.6 |
| Gain on reverse loans held for investment and HMBS-related borrowings, net | (4.1) | 4.8 | — | 0.7 |
| Gain (loss) on loans held for sale, net | 15.1 | 10.2 | — | 25.3 |
| Other revenue, net | 4.5 | 4.0 | — | 8.5 |
| Revenue | 252.7 | 19.3 | — | 272.0 |
| | | | | |
| MSR valuation adjustments, net | (50.5) | 1.6 | — | (48.9) |
| | | | | |
| Operating expenses | | | | |
| Compensation and benefits | 26.7 | 10.9 | 20.1 | 57.7 |
| Servicing and origination | 16.4 | 1.0 | 0.2 | 17.6 |
| Technology and communications | 6.1 | 1.8 | 5.1 | 13.0 |
| Professional services | 11.3 | 0.4 | (28.6) | (16.9) |
| Occupancy, equipment and mailing | 7.2 | 0.5 | — | 7.7 |
| Corporate overhead allocations | 11.1 | 5.0 | (16.2) | — |
| Other expenses | 2.2 | 1.5 | 1.4 | 5.1 |
| Operating expenses | 81.1 | 21.1 | (17.8) | 84.3 |
| | | | | |
| Other income (expense): | | | | |
| Interest income | 5.9 | 13.1 | 1.2 | 20.3 |
| Interest expense | (43.3) | (14.1) | (10.9) | (68.3) |
| Pledged MSR liability expense | (73.1) | — | — | (73.0) |
| Earnings of equity method investee | 2.9 | — | — | 2.9 |
| Gain on extinguishment of debt | — | — | — | — |
| Other, net | (4.5) | (0.2) | 0.4 | (4.4) |
| Other income (expense), net | (112.1) | (1.2) | (9.2) | (122.5) |
| | | | | |
| Income (loss) before income taxes | $ 9.0 | $ (1.3) | $ 8.7 | $ 16.3 |

| Results of Operations | Six Months Ended June 30, 2024 | | | |
|---|---|---|---|---|
| | Servicing | Originations | Corporate Items and Other | Business Segments Consolidated |
| Servicing and subservicing fees | $ 414.3 | $ 1.0 | $ — | $ 415.3 |
| Gain on reverse loans held for investment and HMBS-related borrowings, net | 11.4 | 12.5 | — | 23.9 |
| Gain on loans held for sale, net (1) | 1.7 | 25.7 | — | 27.4 |
| Other revenue, net | 8.8 | 10.0 | — | 18.8 |
| Revenue | 436.2 | 49.3 | — | 485.5 |
| MSR valuation adjustments, net (1) | (48.3) | 4.0 | — | (44.3) |
| Operating expenses | | | | |
| Compensation and benefits | 49.8 | 21.5 | 37.3 | 108.6 |
| Servicing and origination | 24.4 | 3.7 | 0.8 | 29.0 |
| Technology and communications | 12.3 | 3.4 | 9.9 | 25.7 |
| Professional services | 9.9 | 0.8 | 12.0 | 22.8 |
| Occupancy, equipment and mailing | 13.5 | 1.0 | 0.8 | 15.2 |
| Corporate overhead allocations | 21.7 | 8.2 | (29.9) | — |
| Other expenses | 2.0 | 2.4 | 2.8 | 7.2 |
| Operating expenses | 133.6 | 41.0 | 33.7 | 208.4 |
| Other income (expense): | | | | |
| Interest income | 13.9 | 23.8 | 2.3 | 40.0 |
| Interest expense | (92.8) | (25.3) | (22.4) | (140.5) |
| Pledged MSR liability expense | (91.1) | — | 0.1 | (91.0) |
| Earnings of equity method investee | 5.8 | — | — | 5.8 |
| Gain on extinguishment of debt | — | — | 1.4 | 1.4 |
| Other | (3.4) | (0.3) | 0.4 | (3.4) |
| Other income (expense), net | (167.6) | (1.7) | (18.2) | (187.5) |
| Income (loss) before income taxes | $ 86.7 | $ 10.5 | $ (51.9) | $ 45.3 |

| Results of Operations | Six months ended June 30, 2023 Servicing | Originations | Corporate Items and Other | Business Segments Consolidated |
|---|---|---|---|---|
| Servicing and subservicing fees | $ 469.0 | $ 0.8 | $ — | $ 469.7 |
| Gain (loss) on reverse loans held for investment and HMBS-related borrowings, net | 9.9 | 12.0 | — | 21.9 |
| Gain (loss) on loans held for sale, net (1) | 13.8 | 14.3 | — | 28.1 |
| Other revenue, net | 7.0 | 7.1 | — | 14.1 |
| Revenue | 499.8 | 34.1 | — | 533.9 |
| | | | | |
| MSR valuation adjustments, net (1) | (121.4) | 3.5 | — | (117.9) |
| | | | | |
| Operating expenses | | | | |
| Compensation and benefits | 56.1 | 20.5 | 39.2 | 115.7 |
| Servicing and origination | 31.6 | 1.1 | 0.5 | 33.3 |
| Technology and communications | 12.5 | 3.5 | 10.5 | 26.4 |
| Professional services | 19.3 | 0.8 | (23.7) | (3.6) |
| Occupancy, equipment and mailing | 14.9 | 1.0 | 0.6 | 16.5 |
| Corporate overhead allocations | 22.6 | 9.9 | (32.4) | — |
| Other expenses | 4.5 | 3.0 | 2.7 | 10.1 |
| Operating expenses | 161.4 | 39.8 | (2.7) | 198.4 |
| | | | | |
| Other income (expense): | | | | |
| Interest income | 10.1 | 22.1 | 2.2 | 34.4 |
| Interest expense | (84.8) | (24.0) | (21.7) | (130.5) |
| Pledged MSR liability expense | (143.4) | — | 0.1 | (143.3) |
| Earnings of equity method investee | 3.1 | — | — | 3.1 |
| Gain on extinguishment of debt | — | — | — | — |
| Other | (4.9) | — | 1.8 | (3.2) |
| Other income (expense), net | (220.0) | (1.9) | (17.6) | (239.5) |
| | | | | |
| Income (loss) before income taxes | $ (3.0) | $ (4.0) | $ (15.0) | $ (22.0) |

| Total Assets | Servicing | Originations | Corporate Items and Other | Business Segments Consolidated |
|---|---|---|---|---|
| June 30, 2024 | $ 11,904.4 | $ 913.5 | $ 266.8 | $ 13,084.7 |
| December 31, 2023 | 11,687.6 | 551.9 | 274.3 | 12,513.7 |

**Note 19 – 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), the Department of Housing and Urban Development (HUD), the SEC and various state agencies that license our servicing and lending activities. Accordingly, we are regularly subject to examinations, inquiries and requests, including civil investigative demands and subpoenas. 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 Home Mortgage Disclosure Act (HMDA), 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. 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, which could increase the possibility of adverse regulatory action against us.

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, liquidity requirements, 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. PHH’s minimum financial eligibility requirements for GSE seller/servicers and Ginnie Mae issuers were updated by the GSEs and Ginnie Mae effective September 30, 2023.

We believe our licensed entities were in compliance with all of their minimum net worth and liquidity requirements at June 30, 2024. 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 and liquidity requirements for licensing and seller/servicer obligations referenced above are mostly based on the UPB of assets serviced by PHH. Under the applicable formula, the required minimum net worth was $445.5 million at June 30, 2024. PHH’s adjusted net worth was $558.1 million at June 30, 2024. The most restrictive of the various liquidity requirements for licensing and seller/servicer obligations referenced above pertains to PHH and the required minimum liquidity was $119.5 million at June 30, 2024. PHH’s eligible liquidity, as defined, for licensing and seller/servicer obligations was $248.4 million at June 30, 2024.

Ginnie Mae announced a new risk-based capital ratio effective on December 31, 2024 for Ginnie Mae issuers. PHH would not be in compliance with the upcoming risk-based capital requirements if they were in effect as of June 30, 2024. We are currently implementing certain actions intended to achieve compliance with the requirements. We intend to operate our Ginnie Mae issuer activities through a wholly owned subsidiary subject to, and in compliance with, the risk-based capital rules. We are in the process of applying for regulatory and Agency approvals necessary to separately operate GSE and Ginnie Mae businesses. If we are unable to execute this solution in a manner satisfactory to Ginnie Mae and other regulators, we may be required to sell Ginnie Mae or other related forward mortgage assets under uncertain conditions before December 31, 2024 and incur transition costs, or our status as an approved issuer may be suspended or terminated; as a result, our financial results, liquidity, financing activities and reputation could be negatively impacted. As of June 30, 2024, our forward owned servicing portfolio included government-insured loans with a UPB of $17.2 billion, 11% of our total forward owned MSR servicing portfolio or 6% of our total UPB serviced and subserviced.

*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 Corporation. The conditional approval restricts our ability to acquire MSRs with respect to New York loans, so that Onity may not increase its aggregate portfolio of New York loans serviced or subserviced by Onity by more than 2% per year. This restriction will remain in place until the NY DFS determines that all loans serviced on the Onity legacy REALServicing system have been successfully migrated to Black Knight MSP and that Onity has developed a satisfactory infrastructure to board sizable portfolios of MSRs. We transferred all loans onto Black Knight MSP in 2019 and have not serviced any loans on the REALServicing system since then. 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 Corporation acquisition conditional approval. We believe we have complied with all terms of the PHH Corporation acquisition conditional approval and the NY Consent Order to date.

## Note 20 — Commitments

### Unfunded Lending Commitments

We have originated floating-rate reverse mortgage loans under which the borrowers have additional borrowing capacity of $1.8 billion at June 30, 2024. This additional borrowing capacity is available on a scheduled or unscheduled payment basis. During the six months ended June 30, 2024, we funded $119.5 million out of the $1.8 billion borrowing capacity as of December 31, 2023. We also had short-term commitments to lend $1.5 billion and $22.2 million in connection with our forward and reverse mortgage loan IRLCs, respectively, outstanding at June 30, 2024. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, also referred to as warehouse lines.

### HMBS Issuer Obligations

As an HMBS issuer, we assume certain obligations related to each security issued. The most significant obligation is the requirement to purchase loans out of the Ginnie Mae securitization pools once the outstanding principal balance of a reverse mortgage loan is equal to or greater than 98% of the maximum claim amount (MCA repurchases). The table below provides the breakdown of the portfolio UPB with respect to the percentage of the MCA at June 30, 2024.

| | | |
|---|---|---|
| Securitized HECM loans at less than 92% MCA | $ | 7,204.0 |
| Securitized HECM loans at equal to or greater than 92% and less than 95% MCA | | 256.2 |
| Securitized HECM loans at equal to or greater than 95% MCA and less than 98% MCA | | 241.6 |
| **Total Securitized HECM loans UPB** | $ | 7,701.9 |

For the six months ended June 30, 2024 and 2023, we repurchased HECM loans from Ginnie Mae securitizations in the amount of $81.2 million and $181.3 million, respectively. Activity with regard to HMBS repurchases for the six months ended June 30, 2024 is as follows:

| | Active | Inactive | Total |
|---|---|---|---|
| **Beginning balance** | $ 55.4 | $ 130.6 | $ 186.0 |
| Additions | 50.7 | 30.5 | 81.2 |
| Recoveries, net (1) | (58.1) | (32.0) | (90.0) |
| Transfers | 0.1 | (0.1) | — |
| Changes in value | 0.1 | (2.0) | (1.9) |
| **Ending balance** | $ 48.2 | $ 127.1 | $ 175.3 |

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

Our subservicing clients bear the financial obligation and risks associated with purchasing loans out of securitization pools within the portfolio of loans we subservice.

### Client Concentration

Our Servicing segment has exposure to concentration risk and client retention risk.

For the six months ended June 30, 2024, servicing and subservicing fees from Rithm amounted to $49.5 million, or 16% of total servicing and subservicing fees (excluding ancillary income). As of June 30, 2024, Rithm represented 14% and 25%, respectively, of UPB and loan count of our total servicing and subservicing portfolio, and approximately 64% of all delinquent loans that Onity services. Our Subservicing Agreements and Servicing Addendum with Rithm provide for automatic one-year renewals, unless Onity or Rithm provide advance notice of termination. Onity and Rithm did not provide their respective notice of termination by July 1, 2024 and October 1, 2023. Accordingly, the servicing agreements with Rithm are extended through December 31, 2024, with subsequent, automatic one-year renewals. If Rithm exercises its right to terminate all or some of the agreements (for convenience by October 2024 or for cause at any time), we might need to right-size certain aspects of our servicing business as well as the related corporate support functions, and we may need to adjust our daily liquidity management due to the reduction of servicing float balances associated with the Rithm servicing agreements. The impacts to our consolidated statements of operations in connection with our Rithm agreements are disclosed in Note 8 — Other Financing

Liabilities, at Fair Value. Other liabilities recorded on our consolidated balance sheets are disclosed in Note 14 – Other Liabilities.

In addition, for the six months ended June 30, 2024, servicing and subservicing fees from MAV amounted to $39.6 million or 13% of total servicing and subservicing fees (excluding ancillary income). As of June 30, 2024, our servicing and subservicing portfolio with MAV represented $52.9 billion UPB, or 17% of the UPB and 14% of the loan count in our total servicing and subservicing portfolio. While our servicing agreement with MAV is non-cancellable and provides us with exclusivity, MAV is permitted to sell the underlying MSR without Onity's consent after May 3, 2024. See Note 11 - Investment in Equity Method Investee and Related Party Transactions and Note 8 — Other Financing Liabilities, at Fair Value.

**Note 21 – Contingencies**

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

**Litigation**

In the ordinary course of business, we are a defendant in, or a party or potential party to, many threatened and pending legal proceedings, including proceedings brought by borrowers, regulatory agencies (discussed further under "Regulatory" below), current or former employees, those brought on behalf of various classes of claimants, and those brought derivatively on behalf of Onity 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 involving 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, applicable taxing authorities, and parties who provide or provided consulting, subservicing, or other services to Onity.

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, claims related to untimely recording of mortgage satisfactions, and claims related to tax deficiencies owed by and tax refunds due to us. 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, (4) certain legacy mortgage reinsurance arrangements violated RESPA, (5) we failed to subservice loans appropriately pursuant to subservicing and other agreements, and (6) we did not comply with specific state and federal wage and hour laws for certain non-exempt employees. 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 $15.1 million at June 30, 2024. We cannot currently estimate the amount, if any, of reasonably possible losses above amounts that have been recorded at June 30, 2024.

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 a class action lawsuit challenging, under state and federal law, our practice of charging borrowers a fee to use certain optional payment methods, in *Jones v. PHH Mortg. Corp., et al.* (D. NJ), which we have filed a motion to dismiss. In addition, between November 2022 and June 2023, we settled the previously disclosed cases of *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).

In addition, we continue to be involved in legacy matters arising prior to Onity's October 2018 acquisition of PHH Corporation, 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 Corporation'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 Corporation's captive reinsurance subsidiary, Atrium, were actually provided in order for the safe harbor provision of RESPA to apply. In January 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 in February 2023 that court reversed and remanded for further proceedings. Onity will continue to vigorously defend itself. Our current accrual with respect to this matter is included in the $15.1 million legal and regulatory accrual referenced above. At this time, Onity 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.

Onity is a defendant in a certified class action in the U.S. District Court in the Eastern District of California where the plaintiffs claim Onity 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. In October 2023, the parties reached a tentative settlement to resolve the lawsuit prior to trial. A hearing on the parties' motion for preliminary approval was scheduled for February 29, 2024, but the court postponed that hearing pending the submission of certain additional briefing, which the parties filed on March 8, 2024. On March 29, 2024, the district court entered an order granting preliminary approval of the parties' settlement agreement, and directing notice to the settlement class. The notice process began on April 29, 2024, and continues until September 29, 2025. The Court also set a Final Fairness Hearing for September 19, 2024. If the proposed settlement is not ultimately approved, Onity will vigorously defend itself. Onity is unable to predict the outcome of this lawsuit, the possible loss or range of loss, if any, associated with the resolution of such lawsuit or the potential impact on us or our operations. If our efforts to settle or defend this lawsuit are not successful, our business, financial condition liquidity and results of operations could be materially and adversely affected. Onity 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 have settled in principle a dispute with a former subservicing client, HSBC Bank USA, N.A. (HSBC). See *HSBC Bank USA, N.A. v. PHH Mortgage Corp.* (Supreme Court of the State of New York). HSBC's claims related 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 answered the complaint and asserted counterclaims against HSBC for breach of contract. PHH filed a motion for summary judgment on December 19, 2022. In June 2024, PHH and HSBC agreed to settle HSBC's claims for $3.0 million, which amount was previously accrued.

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. Onity has received several letters from trustees and master servicers purporting to put Onity on notice that the trustees and master servicers may ultimately seek indemnification from Onity in connection with the litigations. Onity 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.

Onity 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. Onity is vigorously defending itself in those cases against allegations by the mortgage loan seller-defendant that Onity 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. In September 2023, the Court granted in part Onity's motion for summary judgment, dismissing Nomura's "failure to notify" claim in its entirety; the Court, however, denied Onity's motion with respect to Nomura's second claim alleging failure to service loans in accordance with accepted standards. In May 2024, Onity filed its opening brief in its appeal of the Court's partial denial of Onity's summary judgment motion. The scope of any resulting trial is uncertain, and thus Onity 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 Onity has not been sued by an RMBS trustee in response to an event of default notice, there is a risk that Onity 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 Onity, 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 Onity were to be terminated as servicer, or other related legal actions were pursued against Onity, it could have an adverse effect on Onity's business, reputation, financial condition, liquidity, and results of operations.

**Regulatory**

We are subject to a number of ongoing federal and state regulatory examinations, 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. 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.

We regularly 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 licensed servicing and lending businesses, as well as from state attorneys general, the CFPB and other federal agencies, including the Department of Justice, HUD and various inspectors general. For example, we have received requests regarding the charging of certain fees to borrowers (including our practice of charging borrowers a fee to use certain optional payment methods, or "convenience fees"); 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, and engage with us on various matters. For example, we are currently engaged with several regulators on guidance and applicable law related to borrower convenience fees. 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. Our current accrual with respect to these matters is included in the $15.1 million legal and regulatory accrual referenced above.

**Loan Put-Back and Related Contingencies**

We have exposure to representation, warranty and indemnification obligations relating to our lending, loan sales and securitization activities, and servicing practices. We received origination representations and warranties from our network of approved originators in connection with loans we purchased through our correspondent lending channel. To the extent that we have recourse against a third-party originator, we may recover part or all of any loss we may incur. We do not provide or assume any origination representations and warranties in connection with our MSR purchases.

At June 30, 2024 and June 30, 2023, we had outstanding representation and warranty repurchase demands of $24.5 million UPB (69 loans) and $39.1 million UPB (142 loans), respectively. We review each demand and monitor through resolution, primarily through rescission, loan repurchase or make-whole payment.

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

| | Six Months Ended June 30, | |
|---|---|---|
| | **2024** | **2023** |
| **Beginning balance (1)** | $ 32.9 | $ 41.6 |
| Provision for (reversal of) representation and warranty obligations | (1.0) | 2.1 |
| Provision for representation and warranty obligations - New production liability | 0.9 | 0.6 |
| Charge-offs and other (2) | 0.2 | (6.2) |
| **Ending balance (1)** | $ 33.0 | $ 38.1 |

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

We believe that it is reasonably possible that losses beyond amounts currently recorded for potential representation and warranty obligations and other claims described above could occur, and such losses could have an adverse impact on our results of operations, financial condition or cash flows. However, based on currently available information, we are unable to estimate a range of reasonably possible losses above amounts that have been recorded at June 30, 2024.

**Other**

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 22 – Subsequent Events**

On July 26, 2024, Onity entered into a letter of intent with Waterfall Asset Management, LLC on behalf of managed investment funds (collectively "Waterfall") to acquire certain reverse mortgage assets of Mortgage Assets Management, LLC ("MAM"), among other related transactions, including certain financing arrangements to be provided by Waterfall. MAM's equity interest is held by an investment fund managed by Waterfall. The assets expected to be acquired are currently subserviced by PHH and include HECM reverse mortgage loans together with HMBS related borrowings with a projected unpaid principal balance of approximately $3 billion, and certain related reverse mortgage assets, with a target aggregate net asset value of $55 million.

In consideration of the asset acquisition, Onity will issue Waterfall shares of a newly designated series of preferred stock with a liquidation preference and par amount of $51.7 million, subject to certain adjustments, and a 7.875% dividend rate for five years, increasing 2.5% each year thereafter up to a 15% cap. The preferred stock is non-convertible, cumulative, and callable at our option after four years.

The acquisition of MAM's assets is expected to close during the second half of 2024, subject to the satisfaction of customary due diligence activities, the receipt of necessary consents and approvals, and other customary closing conditions.

## 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. Amounts may not add in certain tables due to rounding.)*

### OVERVIEW

#### General

On June 10, 2024, Ocwen Financial Corporation changed its name to Onity Group Inc. We are a leading non-bank mortgage servicer and originator providing solutions through our primary brands, PHH Mortgage and Liberty Reverse Mortgage. PHH is one of the largest non-bank servicers in the country based on UPB, focused on delivering a variety of servicing and lending programs. PHH is one of the largest correspondent lenders in the U.S. based on origination UPB. Liberty is one of the nation's largest reverse mortgage lenders and servicer based on origination and securitization UPB, dedicated to education and providing loans that help customers meet their personal and financial needs. We serviced or subserviced 1.4 million loans with a total UPB of $304.5 billion on behalf of more than 4,000 investors and 120 subservicing clients as of June 30, 2024. 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 and co-issue programs, bulk MSR purchase transactions, and subservicing agreements.

The table below summarizes the volume of Originations by channel in the second quarter of 2024 compared with the volume of the preceding quarter, and the six months ended June 30, 2024 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 the second quarter of 2024, we added $18.8 billion of new volume, mainly $11.6 billion of new subservicing and $7.0 billion of non-bulk new servicing, as further detailed in the below table.

| *$ In billions* | UPB | | | |
|---|---|---|---|---|
| | **Three Months Ended** | | **Six Months Ended** | |
| | **June 30, 2024** | **March 31, 2024** | **June 30, 2024** | **June 30, 2023** |
| Mortgage servicing originations | | | | |
| Retail - Consumer Direct MSR (1) | $ 0.2 | $ 0.1 | 0.3 | $ 0.2 |
| Correspondent MSR (1) | 4.1 | 2.7 | 6.8 | 5.1 |
| Flow and Agency Cash Window MSR purchases | 2.5 | 1.6 | 4.1 | 3.6 |
| Reverse mortgage servicing (2) | 0.2 | 0.2 | 0.3 | 0.3 |
| Total servicing | 7.0 | 4.6 | 11.5 | 9.2 |
| Bulk purchases | 0.3 | 0.8 | 1.1 | 0.3 |
| Total servicing additions | 7.3 | 5.4 | 12.6 | 9.5 |
| Interim forward subservicing | 2.0 | 1.7 | 3.7 | 2.9 |
| Other new forward subservicing | 9.6 | 16.1 | 25.6 | 12.4 |
| Reverse subservicing | — | — | 0.1 | 0.1 |
| Total Subservicing additions (3) | 11.6 | 17.8 | 29.4 | 15.4 |
| Total servicing and subservicing UPB additions | $ 18.8 | $ 23.2 | 42.0 | $ 24.9 |

(1) Represents the UPB of loans that have been originated or purchased (funded) during the respective periods and for which we recognize a new MSR on our consolidated balance sheets upon sale or securitization.
(2) Represents the UPB of reverse mortgage loans that have been securitized on a servicing retained basis. The loans are recognized on our consolidated balance sheets under GAAP without any separate recognition of MSRs.
(3) 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.

The following table summarizes the average volume of our Servicing segment during the second quarter of 2024 compared with the preceding quarter, and the six months ended June 30, 2024 compared with the corresponding period of the prior year. The average servicing volume 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. Our average total servicing and subservicing UPB increased $13 billion or 5% during the second quarter of 2024 as compared to prior quarter, as subservicing UPB increased $15 billion or 30%, as further detailed in the below table.

| *$ In billions* | Average UPB | | | | $ Change | |
|---|---|---|---|---|---|---|
| | Three Months Ended | | Six Months Ended | | | |
| | June 30, 2024 | March 31, 2024 | June 30, 2024 | June 30, 2023 | Q2 2024 vs Q1 2024 | YTD 2024 vs YTD 2023 |
| Owned MSR | $ 122.6 | $ 123.2 | $ 122.7 | $ 126.3 | $ (0.6) | $ (3.6) |
| Subservicing (including reverse subservicing) | 67.1 | 51.6 | 58.9 | 58.9 | 15.5 | (0.1) |
| MAV | 53.3 | 54.6 | 54.1 | 49.5 | (1.3) | 4.6 |
| Rithm | 43.6 | 44.6 | 44.1 | 48.1 | (1.0) | (4.0) |
| Other MSR capital partners | 9.0 | 8.5 | 8.7 | 1.5 | 0.5 | 7.3 |
| Reverse mortgage loans (owned) | 8.2 | 8.1 | 8.2 | 7.7 | 0.1 | 0.5 |
| Other servicing (including whole loans) | 0.9 | 0.7 | 0.8 | 0.9 | 0.2 | — |
| Total servicing and subservicing UPB (average) | $ 304.8 | $ 291.4 | $ 297.5 | $ 292.9 | $ 13.4 | $ 4.6 |

As of June 30, 2024 and March 31, 2024, the total servicing and subservicing UPB amounted to $304.5 billion and $302.3 billion, respectively, a net increase of $2.2 billion or 1%.

The following table presents key market interest rates. As further discussed, the 30-year fixed rate mortgage is a key driver of Originations volume, the 10-year Treasury rate is a key benchmark for MSR valuation and hedging activities, and the 1-month SOFR is a key benchmark for the profitability of our Servicing segment (including float earnings and asset-backed financing cost). Quarter over quarter, the average 30-year fixed rate mortgage rate increased 24 basis points, the 10-year Treasury rate increased by 16 basis points, and the average 1-month SOFR remained constant. When comparing the six months ended June 30, 2024 to the six months ended June 30, 2023, the average 30-year fixed rate mortgage rate increased 42 basis points, the 10-year Treasury rate increased by 55 basis points, and the average 1-month SOFR increased by 51 basis points.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | June 30, 2024 | June 30, 2023 |
| **30-year fixed rate mortgage** (1) | | | | |
| Average | 6.98% | 6.74% | 6.86% | 6.44% |
| End of period | 6.86% | 6.79% | 6.86% | 6.71% |
| | | | | |
| **10-year Treasury rate** (end of period) | 4.36% | 4.20% | 4.36% | 3.81% |
| | | | | |
| **1-month Term SOFR** (average) | 5.33% | 5.33% | 5.33% | 4.82% |

(1) Source: Freddie Mac PMMS - Primary Mortgage Market Survey

**Financial Highlights**

*Results of operations for the second quarter of 2024*

- Net income of $10.5 million, or $1.34 per share basic and $1.33 per share diluted
- Servicing and subservicing fee revenue of $210.8 million
- Originations gain on sale of $16.7 million
- $5.4 million MSR valuation gain attributable to rate and assumption changes, net of hedging

*Financial condition at June 30, 2024*

- Stockholders' equity of $446.2 million, or $56.88 book value per common share
- MSR investment of $2.3 billion, and $304.5 billion total servicing and subservicing UPB
- Cash position of $203.1 million
- Total assets of $13.1 billion

**Business Initiatives**

We established the following key operating objectives to return to sustainable profitability and create long-term value for shareholders. As our near-term priority remains to return to sustainable profitability, we continue to execute our strategy around these objectives:

- Leveraging the core strengths of our balanced and diversified business through a continued focus on servicing and maintaining agility to address market-cycle opportunities;
- Driving prudent growth adapted for the environment, including emphasis on subservicing to drive capital-light servicing portfolio UPB growth and expansion of higher margin originations products and clients to drive accretive MSR investments;
- Reducing cost structure across the organization to achieve industry cost leadership by maintaining continuous cost improvement discipline and optimizing technology, global operations, and scale;
- Delivering industry top-tier servicing operational performance and driving increased borrower and client satisfaction;
- Optimizing liquidity, diversifying capital sources, including our multi-investor partnership model to fund new MSR originations which enables capital-light servicing portfolio growth and interest rate risk mitigation, and allocating capital to deliver value for shareholders, including deleveraging through opportunistic repurchases of our senior secured notes.

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 filed on Form 10-K for the fiscal year ended December 31, 2023.

| Condensed Statements of Operations | Three Months Ended June 30, 2024 | Three Months Ended March 31, 2024 | % Change | Six Months Ended June 30, 2024 | Six Months Ended June 30, 2023 | % Change |
|---|---|---|---|---|---|---|
| Revenue | $ 246.4 | $ 239.1 | 3% | 485.5 | $ 533.9 | (9)% |
| MSR valuation adjustments, net | (32.7) | (11.6) | 183 | (44.3) | (117.9) | (62) |
| Operating expenses | 104.0 | 104.4 | — | 208.4 | 198.4 | 5 |
| Other income (expense), net | (96.2) | (91.3) | 5 | (187.5) | (239.5) | (22) |
| Income (loss) before income taxes | 13.5 | 31.8 | (58) | 45.3 | (22.0) | (306) |
| Income tax expense | 3.0 | 1.7 | 80 | 4.7 | 2.7 | 69 |
| **Net income (loss)** | $ 10.5 | $ 30.1 | (65)% | $ 40.6 | $ (24.7) | (264)% |
| **Segment income (loss) before income taxes** | | | | | | |
| Servicing | $ 32.6 | $ 54.2 | (40)% | $ 86.7 | $ (3.0) | n/m |
| Originations | 9.4 | 1.1 | 780 | 10.5 | (4.0) | (362) |
| Corporate Items and Other | (28.5) | (23.4) | 22 | (51.9) | (15.0) | 247 |
| | $ 13.5 | $ 31.8 | (58)% | $ 45.3 | $ (22.0) | (306)% |

Onity reported $10.5 million net income in the second quarter of 2024, a decrease of $19.6 million as compared to $30.1 million net income in the first quarter of 2024, mostly driven by the following:

- A $7.3 million increase in revenue, largely driven by higher volumes in Originations.
- A $21.1 million higher loss on MSR valuation adjustments, net primarily due to unfavorable interest rate hedge performance and cost.
- A $5.0 million increase in Other expense, net, primarily due to an increase in financing and transaction costs, and flat Operating expenses.

On December 31, 2023, we derecognized from our balance sheet $421.7 million non-Agency MSRs and Pledged MSR liability associated with Rithm servicing agreements with a UPB of $33.4 billion for which MSR sale accounting criteria was met. As PHH continues to subservice the portfolio, our statement of operations in 2024 reflects subservicing fee revenue as opposed to the gross presentation of servicing fee revenue and offsetting servicing fee remittances within Pledged MSR liability expense, a component of Other income (expense), net, prior to December 31, 2023. These required presentation changes do not affect the amount of net fee retained by Onity in connection with the Rithm servicing agreements. For comparison purposes, the statement of operations for the six months ended June 30, 2023 reflects $65.0 million servicing fee collected on behalf of and remitted to Rithm and reported both as Revenue (Servicing and subservicing fees) and as Other income (expense), net (Pledged MSR liability expense) associated with the MSR that achieved sale accounting treatment on December 31, 2023, with no impact on Net income (loss).

***Total Revenue***

The below table presents total revenue by segment:

| Revenue | Three Months Ended June 30, 2024 | Three Months Ended March 31, 2024 | % Change | Six Months Ended June 30, 2024 | Six Months Ended June 30, 2023 | % Change |
|---|---|---|---|---|---|---|
| Servicing | $ 217.2 | $ 219.1 | (1)% | $ 436.2 | $ 499.8 | (13)% |
| Originations | 29.2 | 20.0 | 46 | 49.3 | 34.1 | 44 |
| Corporate | — | — | n/m | — | — | n/m |
| Total segment revenue | $ 246.4 | $ 239.1 | 3 % | $ 485.5 | $ 533.9 | (9)% |

n/m: not meaningful

Total segment revenue for the three months ended June 30, 2024 increased $7.3 million, or 3% as compared to the three months ended March 31, 2024 due to a $9.2 million increase in Originations revenue offset in part by a $1.9 million decrease in Servicing revenue:

- The decrease in Servicing revenue is mostly driven by a $5.8 million decrease in Gain on reverse loans held for investment and HMBS-related borrowings, net due to more favorable market conditions (tighter yield spread) in the first quarter of 2024, and a $2.0 million reduction in Gain on loans held for sale, net mostly driven by reverse mortgage loan buyouts. These decreases were partially offset by a $6.0 million increase in servicing and subservicing fees largely driven by float earnings with seasonally higher average float balances.

- The increase in Originations revenue is driven by our forward channels which reported a $7.6 million increase in gains on sale mostly attributed to our Correspondent channel due to an increase in both volume and margin. The increase in volume is primarily due to our MSR replenishment and growth strategy after our recent MSR bulk sales. The increase in margin is the result of our continued focus on pricing management and execution.

As compared to the six months ended June 30, 2023, total segment revenue for the six months ended June 30, 2024 was $48.4 million or 9% lower, due to a $63.6 million decline in Servicing revenue offset by a $15.2 million increase in Originations revenue.

- The decline in Servicing revenue is mostly due to a $54.7 million decrease in servicing and subservicing fees largely due to the effects of our derecognition of MSRs previously sold to Rithm for which the sale accounting criteria were met effective December 31, 2023, as discussed above ($65.0 million fees collected and remitted to Rithm recognized in the six months ended June 30, 2023). In addition, Gain on loans held for sale, net declined $12.2 million primarily due to the revaluation gain of reverse mortgage buyouts opportunistically acquired at a discount and securitized, recognized in the six months ended June 30, 2023.
- The increase in Originations revenue is primarily driven by an $11.4 million increase in gain on sale of forward loans due to an increase in volume for both our Correspondent and Consumer Direct channels, with similar factors discussed above.

***MSR Valuation Adjustments, Net***

The table below presents the key components of MSR valuation adjustments, net which include MSRs, MSR pledged liabilities and ESS financing liabilities at fair value, together with MSR hedging derivatives:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2024** | **March 31, 2024** | **June 30, 2024** | **June 30, 2023** |
| Realization of expected cash flows (runoff) | $ (38.0) | $ (39.9) | $ (77.9) | $ (71.5) |
| Fair value gains (losses) due to rate and assumption changes | 56.0 | 82.0 | 138.0 | 4.8 |
| MSR hedging derivative fair value gain (loss) | (50.6) | (53.7) | (104.3) | (51.1) |
| Sub-total fair value gains (losses) due to rates and assumptions, net of hedging (1) | 5.4 | 28.3 | 33.7 | (46.3) |
| **MSR valuation adjustments, net** | $ (32.7) | $ (11.6) | $ (44.3) | $ (117.9) |

(1) Excludes fair value changes of reverse mortgage loans held-for-investment and HMBS related borrowing due to rates and assumptions that are part of the MSR hedging strategy. Refer to the MSR Hedging Strategy section of Item 3. Quantitative and Qualitative Disclosures about Market Risks for further detail.

The $32.7 million loss on MSR valuation adjustments, net for the three months ended June 30, 2024 is comprised of $38.0 million runoff, $56.0 million fair value gain attributed to rate and assumption changes and $50.6 million loss on MSR hedging derivatives. As we maintained a high hedge coverage ratio in both quarters, the $21.1 million higher loss in MSR valuation adjustments, net in the three months ended June 30, 2024 as compared to the three months ended March 31, 2024 is largely driven by unfavorable hedge performance and costs in the second quarter of 2024 and certain favorable assumption updates reported in the first quarter of 2024 to reflect actual market trades.

- MSRs are subject to runoff, a fair value decline due to 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 favorable $1.8 million lower runoff quarter-over-quarter is mostly due to portfolio reduction from Agency MSR sales in the second quarter of 2024.
- The $56.0 million fair value gain due to rate and assumption changes is attributed to a rise of interest rates in the quarter and favorable assumption updates to reflect market participant perspectives on MSRs with actual trade pricing levels. The 10-year Treasury rate increased 16 basis points in the three months ended June 30, 2024. The change from an $82.0 million fair value gain in the three months ended March 31, 2024 to a $56.0 million fair value gain in the three months ended June 30, 2024 is mostly driven by changes in market interest rates as the 10-year Treasury rate increased 32 basis points in the three months ended March 31, 2024.
- MSR hedging derivative fair value gains or losses are designed to partially offset the expected fair value losses or gains, respectively, of the net MSR, MSR pledged liabilities and ESS exposure, commensurate with our target hedge

coverage ratio. The $50.6 million derivative loss recognized in the three months ended June 30, 2024 is primarily driven by the rate increase discussed above. The $3.1 million lower loss from the $53.7 million derivative loss in the three months ended March 31, 2024 is mainly due to a lower increase in interest rates. Also refer to Item 3. Quantitative and Qualitative Disclosures about Market Risk for further detail on our hedging strategy and its effectiveness.

For the six months ended June 30, 2024, the $44.3 million loss on MSR valuation adjustments, net is comprised of $77.9 million runoff, $138.0 million fair value gain attributed to rate and assumption changes and $104.3 million loss on MSR hedging derivatives. The $73.6 million lower loss in MSR valuation adjustments, net for the six months ended June 30, 2024 as compared to the same period of 2023 is largely driven by favorable changes in market interest rates and assumptions, net of hedging, as further discussed below.

- The $133.2 million increase in fair value gains is mostly driven by changes in market interest rates, as the 10-year Treasury rate increased 48 basis points during the six months ended June 30, 2024 as compared to a decrease of 7 basis points during the same period of 2023. In addition, we recognized certain favorable assumption updates in the six months ended June 30, 2024 compared to unfavorable updates during the same period of 2023 to reflect market participant perspectives and actual trade levels.
- The $53.2 million higher loss from derivatives is mainly due to the increase in market interest rates noted above, hedge performance and hedge costs. During the first half of 2023, we gradually increased our hedge coverage ratio from a minimum of 30% to 60% while we maintained a near 100% hedge coverage ratio during the first half of 2024.

***Operating Expenses***

The table below presents the key components of operating expenses:

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2024 | June 30, 2023 | % Change |
| Compensation and benefits | $ 55.0 | $ 53.6 | 3 % | $ 108.6 | $ 115.7 | (6)% |
| Servicing and origination | 13.9 | 15.0 | (7) | 29.0 | 33.3 | (13) |
| Technology and communications | 13.0 | 12.7 | 2 | 25.7 | 26.4 | (3) |
| Professional services | 10.7 | 12.0 | (11) | 22.8 | (3.6) | (725) |
| Occupancy, equipment and mailing | 7.5 | 7.7 | (3) | 15.2 | 16.5 | (8) |
| Other expenses | 3.9 | 3.4 | 14 | 7.2 | 10.1 | (29) |
| **Total operating expenses** | $ 104.0 | $ 104.4 | — % | $ 208.4 | $ 198.4 | 5 % |
| | | | | | | |
| Average headcount | 4,374 | 4,486 | (2)% | 4,429 | 4,732 | (6)% |

Compensation and benefits expense for the three months ended June 30, 2024 increased $1.4 million, or 3% as compared to the three months ended March 31, 2024, mostly due to a $2.2 million increase in incentive compensation expense attributed to an increase in cash-settled share-based awards expense and increase in equity classified share-based awards expense mostly due to new awards and lower forfeitures. These increases were offset in part by a $1.1 million decrease in salaries and benefits due to the reduction of headcount.

As compared to the six months ended June 30, 2023, Compensation and benefits expense for the six months ended June 30, 2024 decreased $7.1 million, or 6% largely due to a decrease in salaries and benefits and a decline in incentive compensation. Our total average headcount declined 6%, mostly driven by a 12% decrease in our average U.S. based headcount, reflecting our ongoing goal to improve efficiencies and create an industry leading cost structure. The decline in incentive compensation is attributed to a decrease in the fair value of cash-settled share-based awards following the decline of our common stock price, offset by the impact of new share-based awards.

Servicing and origination expense for the three months ended June 30, 2024 decreased $1.1 million as compared to the three months ended March 31, 2024, mostly driven by reverse servicing expenses recognized in the first quarter of 2024.

As compared to the six months ended June 30, 2023, Servicing and origination expenses for the six months ended June 30, 2024 decreased $4.3 million mostly due to a $7.2 million decrease in Servicing, partially offset by $2.6 million incremental expenses in Originations. The decline in Servicing expense is primarily attributed to a release of indemnification obligations driven by recoveries and favorable resolutions, lower claim losses driven by lower severity, and lower expenses on our reverse subservicing portfolio due to a decline in volume. The increase in Originations expense is mostly driven by higher production volume and a provision release for representation and warranty indemnification recorded in the first half of 2023 due to favorable resolution of demands.

Professional services expense for the three months ended June 30, 2024 decreased $1.3 million as compared to the three months ended March 31, 2024 primarily due to reimbursements received in the second quarter of 2024 from mortgage loan investors related to prior year legal expenses and payments following resolution of legacy litigation matters, partially offset by higher litigation-related expenses and higher other professional fees incurred in connection with MSR sales in the second quarter of 2024.

As compared to the six months ended June 30, 2023, Professional services expense for the six months ended June 30, 2024 increased $26.4 million primarily due to the reversal of our accrual related to the CFPB matter resolved in our favor in the second quarter of 2023, partially offset by the reimbursements received in the second quarter of 2024 related to legacy litigation matters discussed above.

The other operating expenses in the table above (excluding Compensation and benefits, Servicing and originations expense, and Professional services) for the three months ended June 30, 2024 were mostly flat as compared to the three months ended March 31, 2024. As compared to the six months ended June 30, 2023, other operating expenses decreased $4.9 million mostly due to declines in mailing expenses and amortization expense related to reverse servicing intangible assets and discount on servicing advances acquired in the fourth quarter of 2023.

***Other Income (Expense)***

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2024 | June 30, 2023 | % Change |
| Net interest expense | $ (50.5) | $ (49.9) | 1 % | $ (100.4) | $ (96.2) | 4 % |
| Pledged MSR liability expense | (46.1) | (44.9) | 3 | (91.0) | (143.3) | (36) |
| Earnings of equity method investee | 3.1 | 2.7 | 13 | 5.8 | 3.1 | 87 |
| Gain on extinguishment of debt | — | 1.4 | (100) | 1.4 | — | n/m |
| Other, net | (2.7) | (0.6) | 363 | (3.4) | (3.2) | 5 |
| **Other income (expense), net** | $ (96.2) | $ (91.3) | 5 % | $ (187.5) | $ (239.5) | (22)% |

Net interest expense for the three months ended June 30, 2024 remained mostly flat (increased $0.6 million) as compared to the three months ended March 31, 2024, with certain offsetting increases and decreases. As compared to the six months ended June 30, 2023, Net interest expense for the six months ended June 30, 2024 increased $4.3 million, mostly driven by the additional financing cost incurred in connection with our acquisition and private label securitization of reverse mortgage buyouts. The increase in short-term market interest rates in the first six months of 2024, as compared to the first six months of 2023 was mostly offset by the decline in our average debt balances for servicing advances due to our collection efforts and lower Corporate debt interest expense.

During the three months ended March 31, 2024, we repurchased a total of $47.4 million of the PMC Senior Secured Notes in the open market for a price of $45.5 million and recognized a $1.4 million gain on debt extinguishment, net of the respective write-off of unamortized discount and debt issuance costs.

Refer to Servicing segment for discussion of Pledged MSR liability expense (primarily impacted by the accounting presentation change of the derecognized Rithm MSR on December 31, 2023) and Earnings of equity method investee (predominantly impacted by the fair value changes of MAV's MSR portfolio).

***Income Tax Expense (Benefit)***

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2024 | June 30, 2023 | % Change |
| **Income tax expense** | $ 3.0 | $ 1.7 | 80 % | $ 4.7 | $ 2.7 | 69 % |
| Income (loss) before income taxes | $ 13.5 | $ 31.8 | (58) | $ 45.3 | $ (22.0) | (306) |
| Effective tax rate | 22.2 % | 5.2 % | 324 % | 10.3 % | (12.5)% | (182)% |

Our effective tax rate is generally lower than the 21% 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, we give more significant weight to objective evidence, such as our actual financial condition and historical results of operations, as compared to subjective evidence, such as projections of future taxable income or losses. The U.S. jurisdiction is in a cumulative loss position for the three-year period ended June 30, 2024. We recognize that cumulative losses in recent years is an objective form of negative evidence in assessing the need for a valuation allowance and that such negative evidence is difficult to overcome. Other factors considered in these evaluations are estimates of future taxable income, future reversals of taxable temporary differences, taxable income in prior carryback years, and the impact of tax planning strategies that may be implemented, if warranted. We evaluated all positive and negative evidence and determined that a full valuation allowance at June 30, 2024 remains appropriate. The income tax expense (benefit) is primarily comprised of income taxes in foreign jurisdictions. Also refer to Note 20 - Income Taxes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2023 for further details on deferred tax assets.

Income tax expense for the three months ended June 30, 2024 increased by $1.3 million as compared to the three months ended March 31, 2024. As compared to the six months ended June 30, 2023, Income tax expense for the six months ended June 30, 2024 increased $1.9 million. Our income tax expense is primarily driven by the jurisdictional mix of our earnings. The increase in the effective tax rate for the three months ended June 30, 2024 as compared to the three months ended March 31, 2024 was primarily driven by the increase in year-to-date earnings as of June 30, 2024 relative to full-year projected pre-tax earnings. The increase in the effective tax rate for the six months ended June 30, 2024 as compared to the same period of 2023 is primarily due to recognizing income tax expense in the U.S. driven by the increase in pre-tax earnings.

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** | **June 30, 2024** | **December 31, 2023** | **$ Change** | **% Change** |
|---|---|---|---|---|
| Cash and cash equivalents | $ 203.1 | $ 201.6 | $ 1.4 | 1 % |
| Restricted cash | 46.3 | 53.5 | (7.2) | (13) |
| MSRs, at fair value | 2,327.7 | 2,272.2 | 55.4 | 2 |
| Advances, net | 550.6 | 678.8 | (128.2) | (19) |
| Loans held for sale | 1,107.0 | 677.3 | 429.7 | 63 |
| Loans held for investment, at fair value | 8,227.8 | 7,975.5 | 252.3 | 3 |
| Receivables, net | 153.4 | 154.8 | (1.4) | (1) |
| Investment in equity method investee | 31.3 | 37.8 | (6.5) | (17) |
| Premises and equipment, net | 12.3 | 13.1 | (0.8) | (6) |
| Other assets | 84.3 | 106.2 | (21.9) | (21) |
| Contingent loan repurchase asset | 341.0 | 343.0 | (2.0) | (1) |
| Total assets | $ 13,084.7 | $ 12,513.7 | $ 570.9 | 5 % |
| | | | | |
| Total Assets by Segment | | | | |
| Servicing | $ 11,904.4 | $ 11,687.6 | $ 216.8 | 2 % |
| Originations | 913.5 | 551.9 | 361.6 | 66 |
| Corporate Items and Other | 266.8 | 274.3 | (7.4) | (3) |
| | $ 13,084.7 | $ 12,513.7 | $ 570.9 | 5 % |
| | | | | |
| HMBS-related borrowings, at fair value | $ 8,035.4 | $ 7,797.3 | $ 238.0 | 3 % |
| Other financing liabilities, at fair value | 845.9 | 900.0 | (54.1) | (6) |
| Advance match funded liabilities | 405.0 | 499.7 | (94.7) | (19) |
| Mortgage loan financing facilities, net | 1,190.5 | 710.6 | 479.8 | 68 |
| MSR financing facilities, net | 927.7 | 916.2 | 11.5 | 1 |
| Senior notes, net | 555.2 | 595.8 | (40.7) | (7) |
| Other liabilities | 337.9 | 349.3 | (11.4) | (3) |
| Contingent loan repurchase liability | 341.0 | 343.0 | (2.0) | (1) |
| Total liabilities | $ 12,638.4 | $ 12,111.9 | $ 526.5 | 4 % |
| | | | | |
| Total stockholders’ equity | 446.2 | 401.8 | 44.4 | 11 |
| | | | | |
| Total liabilities and equity | $ 13,084.7 | $ 12,513.7 | $ 570.9 | 5 % |
| Total Liabilities by Segment | | | | |
| Servicing | $ 11,451.6 | $ 11,276.5 | $ 175.1 | 2 % |
| Originations | 881.8 | 517.5 | 364.3 | 70 |
| Corporate Items and Other | 305.0 | 318.0 | (13.0) | (4) |
| | $ 12,638.4 | $ 12,111.9 | $ 526.5 | 4 % |
| | | | | |
| Book value per share | $ 56.88 | $ 52.29 | $ 4.60 | 9 % |

Total assets increased $570.9 million, or 5%, between December 31, 2023 and June 30, 2024 due to a $429.7 million increase in our Loans held for sale portfolio as originations and purchases exceeded sales, including our acquisition of reverse mortgage buyouts, a $252.3 million fair value increase in reverse Loans held for investment mostly driven by capitalization of interest, and a $55.4 million increase in our MSR portfolio due to fair value gains attributed to rates and assumptions, partially offset by MSR sales and derecognition of MSRs previously sold to MAV. These increases were offset in part by a $128.2 million decline in servicing advances that was driven by seasonal reduction of balances.

Total liabilities increased by $526.5 million, or 4%, as compared to December 31, 2023, with similar effects as described above. Our borrowings under Mortgage loan financing facilities increased $479.8 million due to the higher loans held for sale balance at June 30, 2024, including the issuance of OLIT Notes in February 2024 in connection with the securitization of reverse mortgage loan buyouts. Our HMBS-related borrowings increased by $238.0 million mostly due to fair value changes attributable to interest. Partially offsetting these increases, Advance match funded liabilities decreased $94.7 million consistent with the decline in servicing advances discussed above and Senior notes, net decreased $40.7 million mostly due to our repurchases of PMC Senior Secured Notes during the first quarter of 2024. Other financing liabilities declined by $54.1 million primarily due to the derecognition of MSRs previously sold to MAV.

Total equity increased $44.4 million during the six months ended June 30, 2024 mainly due to $40.6 million net income for the period and $2.4 million compensation related to equity-classified awards.

**Key Trends**

The following discussion provides information regarding certain key drivers of our financial performance and includes certain forward-looking statements that are based on the current beliefs and expectations of Onity's management and are subject to significant risks and uncertainties. Refer to Forward-Looking Statements beginning on page 2 of this Form 10-Q and Part I, Item 1.A. of our Annual Report on Form 10-K for the year ended December 31, 2023, for discussion of certain of those risks and uncertainties and other factors that could cause Onity's actual results to differ materially because of those risks and uncertainties. There is no assurance that actual results will be in line with the outlook information set forth below, and Onity does not undertake to update any forward-looking statements. 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 grow our servicing and subservicing portfolio through our multi-channel Originations platform and through MSR capital partners, with an emphasis on subservicing.

*Gain on sale of loans held for sale* - Our gain on sale is driven by both volume and margin and is channel-sensitive. The updated industry forecasts suggest an increase in loan origination in 2024 as compared to historical low origination volumes in 2023. We anticipate growth in our Consumer Direct channel considering the updated industry forecast and our increased recapture capabilities. We expect to continue to prudently grow our Correspondent volume at margins that are accretive to the business as part of our MSR replenishment and growth strategy after the opportunistic MSR bulk sales in the second quarter of 2024. We expect continued competitive pressure on margins across all channels.

*Gain on reverse loans held for investment and HMBS-related borrowings, 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 portfolio albeit with some channel mix changes. We expect 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, with fair value gains or losses generally associated with declining or increasing interest rates and spread, respectively, 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 expected cash flows to follow the growth or size of our MSR portfolio net of ESS financing liabilities and pledged MSR liabilities with our MSR capital partners. Second, MSR fair value changes are driven by changes in interest rates and assumptions, such as forecasted prepayments. Third, the MSR fair value changes due to changes in interest rates are partially offset by derivative fair value changes that economically hedge the MSR portfolio to the extent of our hedge coverage ratio. 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 stable workforce with productivity gains. We expect to continue to prudently manage our Originations headcount and operating expenses to align with funded volume. Our operating expenses are expected to correlate with volumes, with some productivity and efficiencies expected through our technology and continuous improvement initiatives. Elevated 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, we expect our businesses to generate net income and increase our equity in 2024, absent any significant adverse change in interest rates, hedge performance or other factors.

## 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 MSRs 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 subservicing arrangements with banks and other institutions, that are typically on a per-loan basis and vary based on loan delinquency status.

As of June 30, 2024, we serviced 1.4 million mortgage loans with an aggregate UPB of $304.5 billion, an increase of 3% and 6%, respectively, from December 31, 2023. The average UPB during the second quarter of 2024 increased $13 billion or 5%, compared to the first quarter of 2024, and average UPB during the six months ended June 30, 2024 increased $5 billion or 2%, compared to the six months ended June 30, 2023.

Effective in the fourth quarter of 2023, the Servicing segment includes CR Limited (CRL), our wholly-owned captive reinsurance subsidiary previously included in the Corporate Items and Other segment. Segment results for the six months ended June 30, 2023 have been recast to conform to the current segment presentation. CRL provides re-insurance related to coverage on foreclosed real estate properties owned or serviced by us. CRL assumes a 90% (60% through January 2024) quota share of REO insurance coverage written by a third-party insurer under a blanket policy issued to PHH. The underlying REO policy provides coverage for direct physical loss on commercial and residential properties, subject to certain limitations.

***Concentration***

Rithm is one of our largest subservicing clients accounting for 14% and 25%, respectively, of UPB and loan count of our total servicing and subservicing portfolio as of June 30, 2024, and approximately 64% of all delinquent loans that Onity serviced. The servicing agreements automatically renew annually unless notice of termination is provided. Refer to Note 8 — Other Financing Liabilities, at Fair Value.

MAV represented 17% and 14%, respectively, of UPB and loan count of our total servicing and subservicing portfolio as of June 30, 2024. In May 2021, PHH entered into a subservicing agreement with MAV for exclusive rights to service the mortgage loans underlying MSRs owned by MAV. MAV provides us with a source of additional subservicing volume, either with the MSRs that MAV purchases outright from third parties or with the MSRs that MAV purchases from PHH. Although the servicing agreement is not cancellable without mutual agreement, MAV is permitted to sell its MSR portfolio, in whole or in part, without Onity’s consent after May 3, 2024. Refer to Note 11 - Investment in Equity Method Investee and Related Party Transactions.

***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.

***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 and MAV, provide for prompt reimbursement of any advances from the owner of the servicing rights.

***MSR Valuation Adjustments, Net***

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 MSRs is typically correlated to changes in market interest rates; as interest rates decrease, the value of the MSR portfolio typically decreases as a result of higher anticipated prepayment speeds. Conversely, as interest rates increase, the value of the servicing portfolio typically increases as a result of lower anticipated prepayment speeds. Prepayments do not vary linearly with interest rates resulting in the convexity of the MSR, i.e., the interest rate sensitivity of the MSR changes when interest rates change. Specifically, as interest rates further increase, the lower the fair value of the MSR increases. 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 18 years, exhibiting little response to movements in market interest rates.

Our MSR hedging policy is designed to reduce the expected volatility of the MSR portfolio fair value due to market interest rates commensurate with the target hedge coverage ratio determined by our Market Risk Committee. Refer to Item 3. Quantitative and Qualitative Disclosures about Market Risk for further detail on our hedging strategy.

MSR valuation adjustments, net includes the loss on the MSR portfolio associated with the realization of its expected cash flows, or runoff, due to the passage of time, and any fair value gains or losses due to inputs, market interest rates or assumptions, net of hedging gains and losses. Included in MSR valuation adjustments, net are fair value gains and losses of the MSR pledged liability associated with the MSR transfers that do not meet sale accounting and the ESS financing liabilities for which we elected the fair value option and that is collateralized by MSRs.

To determine fair value, we engage third-party valuation experts who generally utilize: (a) transactions involving instruments with similar collateral and risk profiles, adjusted as necessary based on specific characteristics of the asset or liability being valued; and/or (b) industry-standard modeling, such as a discounted cash flow model and prepayment model, in arriving at their estimate of fair value. The prices provided by the valuation experts reflect their observations and assumptions related to market activity, generally the bulk market, incorporating available industry survey results and client feedback, and including risk premiums and liquidity adjustments. While interest rates are a key value driver, MSR fair value may change for other market-driven factors, including but not limited to the supply and demand of the market or the required yield or perceived value by investors of such MSRs.

***Significant Variables***

The following factors could significantly impact the results of our Servicing segment from period to period.

*Aggregate UPB and Loan Count*. Servicing fees are generally earned as a percentage of UPB and subservicing fees are earned on a per-loan basis or as a percentage of UPB. As a result, the change in aggregate UPB and loan count for which we have servicing rights or subservice will directly impact our revenue contributed by our Servicing segment. Aggregate UPB and loan count decline over time as a result of portfolio run-off or sales and increase to the extent we retain MSRs from new originations or engage in MSR acquisitions.

*Cost to Service and Operating Efficiency*. Our operating results for our Servicing segment are heavily dependent on our ability to scale our operations to cost-effectively and efficiently perform servicing activities in accordance with our servicing agreements.

*Delinquencies*. Delinquencies impact our financial results and operating cash flows for our Servicing segment. Non-performing loans are more expensive to service because the loss mitigation activities that we must undertake to keep borrowers in their homes or to foreclose, if necessary, are costlier than the activities required to service a performing loan. These loss mitigation activities include increased contact with the borrower for collection and the development of forbearance plans or loan modifications by highly skilled associates who command higher compensation as well as the higher compliance costs associated with these, and similar activities.

In addition, when borrowers are delinquent, the amount of funds that we are required to advance to the investors increases. We utilize servicing advance financing facilities, which are asset-backed (i.e., match funded liabilities) securitization facilities, to finance a portion of our advances. As a result, increased delinquencies result in increased interest expense.

*Prepayment Speed*. The rate at which portfolio UPB declines can have a significant impact on our Servicing segment. Items reducing UPB include scheduled and unscheduled principal payments (runoff), refinancing, loan modifications involving forgiveness of principal, voluntary property sales and involuntary property sales such as foreclosures. Prepayment speed impacts future servicing fees, runoff and valuation of MSRs, float earnings on float balances and interest expense on advances. Increases in anticipated lifetime prepayment speeds generally cause MSR valuation to decrease because MSRs are valued based on total expected servicing income over the life of a portfolio. The converse is true when expectations for prepayment speeds decrease. Prepayments do not vary linearly with interest rates resulting in the convexity of the MSR, i.e., the interest rate sensitivity of the MSR changes when interest rates change. Specifically, as interest rates further increase, the lower the fair value of the MSR increases.

*Interest rates*. In addition to the impact of interest rate changes on prepayment speeds, the fair value of the MSR and associated hedging activities, float earnings on float balances, and the funding cost of servicing advances and MSR financing facilities are directly impacted by interest rate changes.

***Reverse Mortgages***

Our reverse business activities include both the subservicing of reverse mortgage loans on behalf of investors and the servicing of our owned portfolio.

The activities and financial performance related to our owned portfolio of reverse mortgage loans that are securitized and classified as held for investment, at fair value, together with the HMBS-related borrowings, at fair value are reflected in the Servicing segment. For reference, the activities and financial performance related to our owned portfolio of reverse mortgage loans prior to securitization are reflected in the Originations segment. Once a reverse mortgage loan is securitized, our activities are generally consistent with other loan servicing as described above, with the following variations.

Under the terms of ARM-based HECM loan agreements, the borrowers have additional borrowing capacity of $1.8 billion at June 30, 2024. These draws or tails are funded by the servicer and are subsequently securitized. We do not incur any substantive underwriting, marketing or compensation costs in connection with any future draws, although we must maintain sufficient capital resources and available borrowing capacity to ensure that we are able to fund these future draws prior to securitization with Ginnie Mae (generally less than 30 days).

As an HMBS issuer, we assume certain obligations related to each security issued. In addition to our obligation to fund tails, the most significant obligation is the requirement to purchase loans out of the Ginnie Mae securitization pools once they reach 98% of the maximum claim amount (MCA buyouts). Active buyouts are assigned to HUD and payment is received from HUD through a claims process, generally within 90 days. HUD reimburses us for the outstanding principal balance on the loan up to the maximum claim amount; we bear the risk of exposure if the outstanding balance on a loan exceeds the maximum claim amount. Inactive buyouts (loans that are in default for one of the following reasons - title conveyances or the borrower is deceased, no longer occupies the property or is delinquent on tax and insurance payments) are generally liquidated through foreclosure and subsequent sale of REO. State specific foreclosure and REO liquidation timelines have a significant impact on the timing and amount of our recovery. If we are unable to sell the property securing the inactive reverse loan for an acceptable price within the timeframe established by HUD (six months), we are required to make an appraisal-based claim to HUD. In such cases, HUD reimburses us for the loan balance, eligible expenses and interest, less the appraised value of the underlying property. Thereafter, all the risks and costs associated with maintaining and liquidating the property remains with us; we may incur additional losses on REO properties as they progress through the liquidation processes related to delayed timelines due to market conditions, sales commissions, property preservation costs or property tax and insurance advances. The significance of future losses associated with appraisal-based claims is dependent upon the volume of inactive loans, condition of foreclosed properties and the general real estate market.

The Gain on reverse loans held for investment and HMBS-related borrowings, net reported within the Servicing segment includes the net fair value changes of securitized reverse mortgage loans held for investment and HMBS-related borrowings, for which we elected the fair value accounting option. The net fair value changes of the reverse mortgage loans and related borrowings reported within the Servicing segment include the following:

- contractual interest income earned on securitized reverse mortgage loans, or HECM loans, net of interest expense on HMBS-related borrowings, that is, on a net basis, the servicing fee we are contractually entitled to and collect on a monthly basis under the Ginnie Mae MBS Guide regarding servicing HMBS; and
- other fair value changes of the net balance of securitized loans held for investment and HMBS-related borrowings, that effectively represents servicing and tails. Tails are participations in previously securitized HECMs and are created by

additions to principal for borrower draws on lines-of-credit (scheduled and unscheduled), interest, servicing fees, and mortgage insurance premiums;

The fair value of our Ginnie Mae securitized HECM loan portfolio generally decreases as market interest rates rise and increases as market rates fall (see Item 3 - Quantitative and qualitative disclosures about market risk, Loans Held for Investment and HMBS-related Borrowings and the associated interest rate sensitivity disclosure).

Gain (loss) on reverse loans held for investment and HMBS-related borrowings, net strictly reflects the financial performance of owned loans/servicing and excludes any subservicing activity. The financial performance associated with the subservicing of reverse mortgage loans on behalf of investors is primarily reflected within Servicing and subservicing fees, net.

***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 Investors Service, Inc. (Moody's), S&P Global Ratings, Inc. (S&P) and Fitch Ratings, Inc.(Fitch). Favorable ratings from these agencies are important to the conduct of our loan servicing and lending businesses.

The following table summarizes our latest key servicer ratings:

| | PHH | | |
|---|---|---|---|
| | **Moody's** | **S&P** | **Fitch** |
| **Forward** | | | |
| Residential Prime Servicer | SQ3+ | Above Average | RPS3+ |
| Residential Subprime Servicer | SQ3+ | Above Average | RPS3+ |
| Residential Special Servicer | SQ3+ | Above Average | RSS3 |
| Residential Second/Subordinate Lien Servicer | SQ3+ | Above Average | RPS3 |
| Residential Home Equity Servicer | — | — | RPS3 |
| Residential Alt-A Servicer | — | — | RPS3 |
| Master Servicer | SQ3+ | Above Average | RMS3 |
| Ratings Outlook | N/A | Stable | Stable |
| Date of last action | August 10, 2023 | March 22, 2023 | February 15, 2024 |
| **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 February 13, 2024, Fitch affirmed PHH's residential servicer ratings and revised its outlook from Positive to Stable for Prime and Subprime products. The rating outlook remains Stable for the other products. The rating actions reflect PHH's comprehensive enterprise-wide internal control environment, extensive industry experience and highly-developed global loan servicing platform, competitive loan servicing performance metrics, and effective technology platform. The ratings also consider the financial condition of PHH's parent, Onity Group Inc. The affirmed ratings and Stable outlook on PHH's residential servicer ratings are reflective of the company's continued business growth, diversified sourcing strategies and overall loan servicing performance.

On February 15, 2024, Fitch affirmed PHH's Master Servicer rating and Stable outlook, reflecting the company's effective enterprise-wide risk environment and compliance management framework, satisfactory loan servicing performance metrics and efficient servicing technology. The ratings also consider the financial condition of PHH's parent, Onity Group Inc.

***Operating Metrics***

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

| **Selected Operating Statistics** | **June 30, 2024** | **March 31, 2024** | **% Change** | **June 30, 2023** | **% Change** |
|---|---|---|---|---|---|
| **Assets Serviced** | | | | | |
| *Unpaid principal balance (UPB) in billions:* | | | | | |
| Performing loans (1) | $ 292.3 | $ 290.8 | 1 % | $ 276.2 | 6 % |
| Non-performing loans | 11.7 | 11.0 | 6 | 11.8 | (1) |
| Non-performing real estate | 0.5 | 0.5 | (2) | 0.5 | (9) |
| Total | $ 304.5 | $ 302.3 | 1 % | $ 288.5 | 6 % |
| | | | | | |
| Non-performing to total % | 4.0 % | 3.8 % | 5 % | 4.3 % | (6)% |
| | | | | | |
| Conventional loans (2) | $ 203.7 | $ 200.6 | 2 % | $ 187.4 | 9 % |
| Government-insured loans | 35.4 | 34.5 | 2 | 33.7 | 5 |
| Non-Agency loans | 65.4 | 67.1 | (3) | 67.4 | (3) |
| Total | $ 304.5 | $ 302.3 | 1 % | $ 288.5 | 6 % |
| | | | | | |
| Conventional loans to total % | 66.9 % | 66.4 % | 1 % | 65.0 % | 3 % |
| | | | | | |
| Servicing portfolio (3) | $ 131.1 | $ 133.5 | (2)% | $ 130.1 | 1 % |
| Subservicing portfolio | | | | | |
| Subservicing - forward | 50.0 | 43.3 | 15 % | 34.0 | 47 % |
| Subservicing - commercial | 4.0 | 3.7 | 6 % | 3.1 | 26 % |
| Subservicing - reverse | 14.2 | 15.5 | (9) | 19.4 | (27) |
| Total subservicing | 68.1 | 62.5 | 9 | 56.6 | 20 |
| MAV (4) (5) | 52.9 | 53.4 | (1) | 46.6 | 14 |
| Rithm (5) (6) | 43.1 | 44.1 | (2) | 47.0 | (8) |
| Other MSR capital partners (5) | 9.1 | 8.8 | 4 | 8.2 | 11 |
| Total | $ 304.5 | $ 302.3 | 1 % | $ 288.5 | 6 % |

| | **Three Months Ended** | | | **Six Months Ended** | | |
|---|---|---|---|---|---|---|
| | **June 30, 2024** | **March 31, 2024** | **% Change** | **June 30, 2024** | **June 30, 2023** | **% Change** |
| *Prepayment speed (CPR) (7):* | | | | | | |
| % Voluntary CPR | 4.8 % | 3.7 % | 31 % | 4.3 % | 4.1 % | 3 % |
| % Involuntary CPR | 0.3 | 0.3 | — | 0.3 | 0.3 | 3 |
| % Total CPR | 8.4 % | 7.3 % | 15 % | 7.8 % | 7.7 % | 1 % |
| | | | | | | |
| Number of completed modifications *(in thousands)* | 4.7 | 3.9 | 19 % | 8.6 | 6.9 | 25 % |

(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 39,108 and 38,343 prime loans with a UPB of $10.5 billion and $10.1 billion at June 30, 2024 and March 31, 2024, respectively, that we service or subservice. This compares to 65,796 prime loans with a UPB of $13.3 billion at June 30, 2023. Prime loans are generally good credit quality loans that meet GSE underwriting standards.

(3) Includes 35,488 reverse mortgage loans with a UPB of $8.3 billion that are recognized in our consolidated balance sheet at June 30, 2024.

(4) Includes $30.6 billion UPB subserviced and $22.3 billion UPB of MSRs sold to MAV that did not achieve sale accounting treatment at June 30, 2024.

(5) Loans serviced pursuant to our sale or transfer agreements with MAV, Rithm or others for which sale accounting is not achieved, and loans subserviced.
(6) Includes $33.6 billion UPB of subserviced loans on behalf of Rithm at June 30, 2024.
(7) Total 3-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) | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| **Portfolio at January 1** | $ 288.4 | $ 289.7 | 1,344.5 | 1,378.9 |
| Additions (1) | 23.1 | 17.5 | 74.0 | 59.5 |
| MSR sales | — | — | (0.1) | (0.1) |
| Servicing transfers (1) | (2.6) | (2.2) | (9.7) | (7.7) |
| Runoff | (6.6) | (6.5) | (25.8) | (26.9) |
| **Portfolio at March 31** | 302.3 | 298.5 | 1,382.9 | 1,403.7 |
| Additions (1) (2) | 18.8 | 7.4 | 61.6 | 23.1 |
| MSR sales | (6.2) | — | (25.8) | (0.1) |
| Servicing transfers (1) | (3.0) | (9.3) | (11.9) | (34.7) |
| Runoff | (7.4) | (8.0) | (28.4) | (32.9) |
| **Portfolio at June 30** | 304.5 | 288.5 | 1,378.5 | 1,359.1 |

(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 may be boarded and deboarded within the same quarter.
(2) Additions include purchased MSRs on portfolios consisting of 80 and 190 loans with a UPB of $28.5 million and $73.2 million that have not yet transferred to the PHH servicing system as of June 30, 2024 and June 30, 2023, respectively, but for which we have legal title. The seller continues to subservice the loans on an interim basis until servicing transfer.

The following table provides a breakdown of our servicer advances, net of allowance for losses:

| | **June 30, 2024** | | | | **December 31, 2023** | | | |
|---|---|---|---|---|---|---|---|---|
| **Advances by investor type** | **Principal and Interest** | **Taxes and Insurance** | **Foreclosures, Bankruptcy, REO and Other** | **Total** | **Principal and Interest** | **Taxes and Insurance** | **Foreclosures, Bankruptcy, REO and Other** | **Total** |
| Conventional | $ 1.2 | $ 45.9 | $ 6.3 | $ 53.4 | $ 3.5 | $ 91.2 | $ 6.2 | $ 100.8 |
| Government-insured | 2.9 | 28.7 | 20.4 | 52.0 | 3.3 | 37.7 | 19.3 | 60.2 |
| Non-Agency | 175.6 | 179.0 | 90.6 | 445.2 | 205.5 | 214.3 | 97.9 | 517.7 |
| Total, net | $ 179.7 | $ 253.6 | $ 117.3 | $ 550.6 | $ 212.2 | $ 343.2 | $ 123.3 | $ 678.8 |

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

| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2023 | % Change |
|---|---|---|---|---|---|
| **Reverse Mortgage Loans** | | | | | |
| *Unpaid principal balance (UPB) in millions:* | | | | | |
| Loans held for investment (1) | $ 7,782.2 | $ 7,700.9 | 1 % | $ 7,368.7 | 6 % |
| Active Buyouts (2) | 96.2 | 98.7 | (3) | 89.4 | 8 |
| Inactive Buyouts (2) | 286.9 | 288.2 | — | 194.9 | 47 |
| Total | $ 8,165.3 | $ 8,087.8 | 1 % | $ 7,653.0 | 7 % |
| *Inactive buyouts % to total* | 3.5 % | 3.6 % | (0.1)% | 2.5 % | 1.0 % |
| *Future draw commitments (UPB) in millions:* | 1,799.3 | 1,793.4 | — % | 1,757.2 | 2 % |
| *Fair value in millions:* | | | | | |
| Loans held for investment (1) | $ 8,109.4 | $ 8,018.2 | 1 % | $ 7,553.7 | 7 % |
| HMBS related borrowings | 8,035.4 | 7,945.0 | 1 | 7,486.4 | 7 |
| Net asset value (HECM or reverse MSR) | $ 74.0 | $ 73.2 | 1 % | $ 67.4 | 10 % |
| Net asset value to UPB | 0.95 % | 0.95 % | | 0.91 % | |

(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.

***Financial Performance***

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 | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | **June 30, 2024** | **March 31, 2024** | **% Change** | **June 30, 2024** | **June 30, 2023** | **% Change** |
| **Revenue** | | | | | | |
| Servicing and subservicing fees | $ 210.1 | $ 204.2 | 3 % | 414.3 | $ 469.0 | (12)% |
| Gain (loss) on loans held for sale, net | (0.2) | 1.8 | (110) | 1.7 | 13.8 | (88) |
| Gain (loss) on reverse loans held for investment and HMBS-related borrowings, net | 2.8 | 8.6 | (67) | 11.4 | 9.9 | 14 |
| Other revenue, net | 4.4 | 4.5 | (1) | 8.8 | 7.0 | 26 |
| Total revenue | 217.2 | 219.1 | (1)% | 436.2 | 499.8 | (13)% |
| | | | | | | |
| **MSR valuation adjustments, net** | (35.8) | (12.5) | 187 % | (48.3) | (121.4) | (60)% |
| | | | | | | |
| **Operating expenses** | | | | | | |
| Compensation and benefits | 24.5 | 25.3 | (3)% | 49.8 | 56.1 | (11)% |
| Servicing expense | 11.2 | 13.3 | (16) | 24.4 | 31.6 | (23) |
| Occupancy, equipment and mailing | 6.6 | 6.8 | (3) | 13.5 | 14.9 | (9) |
| Technology and communications | 6.2 | 6.1 | 1 | 12.3 | 12.5 | (1) |
| Professional services | 2.8 | 7.1 | (60) | 9.9 | 19.3 | (49) |
| Corporate overhead allocations | 10.8 | 10.9 | (2) | 21.7 | 22.6 | (4) |
| Other expenses | 0.9 | 1.1 | (18) | 2.0 | 4.5 | (56) |
| Total operating expenses | 63.1 | 70.6 | (11)% | 133.6 | 161.4 | (17)% |
| | | | | | | |
| **Other income (expense)** | | | | | | |
| Interest income | 7.2 | 6.7 | 8 % | 13.9 | 10.1 | 38 % |
| Interest expense | (47.0) | (45.8) | 3 | (92.8) | (84.8) | 9 |
| Pledged MSR liability expense | (46.1) | (44.9) | 3 | (91.1) | (143.4) | (36) |
| Earnings of equity method investee | 3.1 | 2.7 | 13 | 5.8 | 3.1 | 87 |
| Other, net | (2.9) | (0.5) | 437 | (3.4) | (4.9) | (31) |
| Other income (expense), net | (85.7) | (81.8) | 5 % | (167.6) | (220.0) | (24)% |
| | | | | | | |
| **Income (loss) before income taxes** | $ 32.6 | $ 54.2 | (40)% | $ 86.7 | $ (3.0) | n/m |

**Servicing and Subservicing Fees**

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2024 | June 30, 2023 | % Change |
| **Loan servicing and subservicing fees:** | | | | | | |
| Servicing and subservicing fees | 157.2 | 156.6 | — % | 313.8 | 371.8 | (16)% |
| Ancillary income | 52.9 | 47.6 | 11 | 100.5 | 97.1 | 3 |
| Total | $ 210.1 | $ 204.2 | 3 % | $ 414.3 | $ 469.0 | (12)% |

The following table and discussion present the drivers of servicing and subservicing fees.

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2024 | June 30, 2023 | % Change |
| **Servicing fees** | | | | | | |
| Average servicing UPB (1) (6) | $ 168.9 | $ 170.9 | (1)% | $ 169.6 | $ 202.1 | (16)% |
| Average servicing fee (2) | 0.30 | 0.30 | 2 | 0.30 | 0.33 | (8) |
| Servicing fees (3) | 128.6 | $ 127.1 | 1 | $ 255.6 | 330.0 | (23) |
| **Subservicing fees** | | | | | | |
| Average number of subserviced loans (4) (7) | 596.1 | 547.0 | 9 | 570.9 | 301.9 | 89 |
| Average monthly fee per loan (5) | 16 | 18 | (11) | 17 | 23 | (26) |
| Subservicing fees (3) | 28.6 | 29.5 | (3) | 58.2 | 57.6 41.8 | 39 |
| **Servicing and subservicing fees (excluding Ancillary income)** | $ 157.2 | $ 156.6 | — % | $ 313.8 | $ 371.8 | (16)% |

(1) In $ billions, (2) In % of UPB, annualized, (3) In $ millions, (4) In thousands, (5) In dollars.

(6) Includes $35.7 billion average UPB of MSRs in the six months ended June 30, 2023, previously sold to Rithm for which the sale accounting criteria were met effective December 31, 2023.

(7) Includes an average 260 thousand, 264 thousand and 262 thousand loans subserviced under Rithm agreements in the three months ended June 30, 2024, three months ended March 31, 2024 and six months ended June 30, 2024, respectively, of MSRs previously sold to Rithm for which the sale accounting criteria were met effective December 31, 2023.

Servicing and subservicing fees (excluding Ancillary income) for the three months ended June 30, 2024 remained flat (increased $0.7 million) as compared to the three months ended March 31, 2024, with a $1.5 million, or 1% increase in servicing fees partially offset by a $0.9 million, or 3% decline in subservicing fees. As the average servicing UPB remained flat, the increase in servicing fees is mostly driven by additional borrower collections on liquidated loans. The decline in subservicing fees is primarily driven by the runoff of the reverse subservicing portfolio, partially offset by the increase in forward subservicing.

As compared to the six months ended June 30, 2023, our servicing and subservicing fees (excluding Ancillary income) for the six months ended June 30, 2024 decreased $58.0 million, or 16% with a $74.4 million decrease in servicing fees partially offset by an $16.3 million increase in subservicing fees. These variances are largely due to the effects of our derecognition of MSRs previously sold to Rithm for which the sale accounting criteria were met effective December 31, 2023 ($65.0 million servicing fees remitted to Rithm recognized in the six months ended June 30, 2023). Effective January 1, 2024, as PHH continues to subservice the portfolio, the statement of operations reflects subservicing fee revenue as opposed to the previous gross presentation of servicing fee revenue (collections) and separate offsetting presentation of servicing fee remittances within Pledged MSR liability expense (see further discussion below). These required presentation changes do not affect the amount of net fee retained by Onity in connection with the Rithm servicing agreements (Loan servicing and subservicing fees less Pledged MSR liability expense).

The $74.4 million decrease in servicing fees as compared to the six months ended June 30, 2023 is primarily attributed to $90.9 million servicing fees collected on behalf of Rithm recorded in the first six months of 2023 related to the previously sold MSRs derecognized on December 31, 2023, offset in part by higher fees in the first six months of 2024 attributed to other MSR capital partners and MAV, and $5.4 million increased collection of previously deferred non-Agency servicing fees. The $16.3 million increase in subservicing fees is mostly due to the effects of our derecognition of MSRs previously sold to Rithm as discussed above, with $25.4 million higher forward subservicing fees, partially offset by a $9.0 million reduction in reverse mortgage subservicing fees due to portfolio runoff.

The following table presents the detail of our ancillary income:

| **Ancillary Income** | **Three Months Ended** | | | **Six Months Ended** | | |
|---|---|---|---|---|---|---|
| | **June 30, 2024** | **March 31, 2024** | **% Change** | **June 30, 2024** | **June 30, 2023** | **% Change** |
| Custodial accounts (float earnings) | $ 31.9 | $ 27.2 | 17 % | 59.1 | $ 46.4 | 27 % |
| Late charges | 8.7 | 8.0 | 8 | $ 16.7 | 19.0 | (12) |
| Reverse subservicing ancillary fees | 6.2 | 6.7 | (9) | 12.9 | 18.0 | (28) |
| Loan collection fees | 1.8 | 1.8 | — | 3.6 | 4.9 | (27) |
| Recording fees | 1.4 | 1.1 | 27 | 2.6 | 2.5 | 2 |
| Boarding and deboarding fees | 0.5 | 0.4 | 26 | 0.8 | 1.2 | (28) |
| GSE forbearance fees | 0.1 | 0.1 | 46 | 0.2 | 0.5 | (66) |
| Other | 2.4 | 2.2 | 8 | 4.7 | 4.7 | — |
| Ancillary income | $ 52.9 | $ 47.6 | 11 % | $ 100.5 | $ 97.1 | 3 % |

Ancillary income for the three months ended June 30, 2024 increased by $5.3 million, or 11% as compared to the three months ended March 31, 2024 primarily due to a $4.7 million increase in float earnings mostly attributable to seasonally higher average float balances.

As compared to the six months ended June 30, 2023, ancillary income for the six months ended June 30, 2024 increased by $3.4 million, or 3% largely driven by a $12.7 million increase in float earnings mostly due to higher short-term market interest rates, partially offset by a $5.1 million decline in reverse subservicing ancillary fees driven by portfolio runoff, a $2.3 million reduction in late charges and a $1.3 million decline in loan collection fees driven by the Rithm portfolio derecognition.

***Gain (Loss) on Loans Held for Sale, Net***

We recognized a $0.2 million loss on loans held for sale, net for the three months ended June 30, 2024, as compared to a $1.8 million gain recognized in the three months ended March 31, 2024, mostly due to reverse mortgage buyouts.

For the six months ended June 30, 2024 and 2023, we recognized gains of $1.7 million and $13.8 million, respectively, mostly due to gains on reverse mortgage buyouts associated with our acquisitions and securitization strategy. The gain reported in the six months ended June 30, 2023 is mostly attributable to the revaluation of reverse mortgage buyouts opportunistically acquired at a discount and securitized in the second quarter.

***Gain (Loss) on Reverse Loans Held for Investment and HMBS-Related Borrowings, Net***

Gain (loss) on reverse loans held for investment and HMBS-related borrowings, net reported in the Servicing segment is the net change in fair value of securitized loans held for investment and HMBS-related borrowings. It 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 key component of our compensation for servicing the portfolio, which is generally a percentage of the outstanding UPB.

- Other fair value changes are primarily driven by changes in market-based inputs or assumptions. Market interest rates and yield spreads directly impact projected asset life and the tail value of the HECM reverse mortgage 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, shortening the life of the servicing net asset and resulting in a lower fair value. Conversely, lower interest rates generally result in favorable net fair value impacts on our HECM reverse mortgage loans and the related HMBS financing liability. Fair value changes are also impacted by market conditions including spreads.
- 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 and its effectiveness in Item 3. Quantitative and Qualitative Disclosures about Market Risk.

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2024 | June 30, 2023 | % Change |
| Net interest income (servicing fee) | $ 6.1 | $ 6.0 | 2 % | $ 12.0 | $ 11.7 | 3 % |
| Other fair value gains (losses) | (3.3) | 2.6 | (226) | (0.7) | (1.8) | (62) |
| Gain (loss) on reverse loans held for investment and HMBS-related borrowings, net (Servicing) | $ 2.8 | $ 8.6 | (67)% | $ 11.4 | $ 9.9 | 14 % |

Gain on reverse loans held for investment and HMBS-related borrowings, net decreased $5.8 million for the three months ended June 30, 2024 as compared to the three months ended March 31, 2024. While not the only benchmark for the reverse mortgage exposure, the 10-year Treasury rate increased 16 basis points during the three months ended June 30, 2024 and 32 basis points during the three months ended March 31, 2024 resulting in other fair value losses due to rates in both periods. The unfavorable interest rate impact was more than offset in the first quarter of 2024 by the favorable impact of tighter yield spread. Net interest income remained mostly flat (+2%), consistent with the portfolio growth.

As compared to the six months ended June 30, 2023, Gain on reverse loans held for investment and HMBS-related borrowings, net for the six months ended June 30, 2024 increased $1.4 million mainly due to favorable assumption updates, including yield spread tightening in the current period, with offsetting fair value losses due to rates. The 10-year Treasury rate increased 48 basis points during the six months ended June 30, 2024 as compared to a decrease of 7 basis points during the six months ended June 30, 2023. Net interest income remained mostly flat (+3%), consistent with the portfolio growth.

***MSR Valuation Adjustments, Net***

Refer to the discussion above within Overview-Results of Operations and Financial Condition-MSR Valuation Adjustments, Net.

***Compensation and Benefits***

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2024 | June 30, 2023 | % Change |
| Compensation and benefits | $ 24.5 | $ 25.3 | (3)% | $ 49.8 | $ 56.1 | (11)% |
| Average Employment - Servicing | 3,148 | 3,276 | (4)% | 3,210 | 3,471 | (8)% |

Compensation and benefits expense for the three months ended June 30, 2024 remained mostly flat (decreased $0.7 million or 3%) as compared to the three months ended March 31, 2024 primarily as a result of lower headcount.

As compared to the six months ended June 30, 2023, Compensation and benefits expense for the six months ended June 30, 2024 decreased $6.3 million or 11%, mostly driven by a $3.8 million decrease in salaries and benefits expense and a $1.6 million decrease in severance expense. Average Servicing headcount decreased 8% overall, with a higher reduction in the U.S., reflecting our ongoing goal to improve efficiencies and create an industry leading cost structure, also driven by the further integration of reverse servicing and runoff of our reverse subservicing portfolio.

***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 declined $2.1 million in the three months ended June 30, 2024 as compared to the three months ended March 31, 2024, primarily as a result of additional reverse servicing expenses recognized in the first quarter of 2024.

As compared to the six months ended June 30, 2023, Servicing expense for the six months ended June 30, 2024 declined $7.2 million, primarily attributed to a release of indemnification obligations driven by recoveries and favorable resolutions in the six months ended June 30, 2024, lower claim losses driven by lower severity, and lower expenses on our reverse subservicing portfolio due to a decline in volume.

***Other Operating Expenses***

Other operating expenses (total operating expenses less Compensation and benefits and Servicing expense) for the three months ended June 30, 2024 decreased $4.8 million as compared to the three months ended March 31, 2024 mostly due to a $4.3 million decline in Professional services, primarily legal expenses. The decline in legal expenses is due to reimbursements received in the second quarter of 2024 from mortgage loan investors related to prior year legal expenses and payments following resolution of legacy litigation matters, partially offset by higher litigation-related expenses.

As compared to the six months ended June 30, 2023, other operating expenses for the six months ended June 30, 2024 decreased by $14.3 million primarily driven by lower headcount and cost saving initiatives, with a $9.4 million decline in Professional services mostly due to a decrease in legal expenses attributed to the reimbursements in the second quarter of 2024 related to legacy litigation matters discussed above as well as cost reduction initiatives in our reverse subservicing business, a $1.4 million reduction in Occupancy, equipment and mailing expense due to lower mailing expense, and a $2.5 million reduction in other expenses. The reduction in other expenses is mostly driven by lower amortization expense related to intangible assets and discount on servicing advances.

***Other Income (Expense)***

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

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2024 | June 30, 2023 | % Change |
| **Interest Expense** | | | | | | |
| Advance match funded liabilities | $ 9.3 | $ 10.4 | (11)% | $ 19.8 | $ 21.1 | (6)% |
| Mortgage loan financing facilities | 10.1 | 8.4 | 20 | 18.5 | 9.6 | 93 |
| MSR financing facilities | 19.6 | 17.9 | 10 | 37.5 | 35.3 | 6 |
| Corporate debt interest expense allocation | 6.6 | 7.3 | (10) | 13.8 | 15.3 | (10) |
| Escrow | 1.4 | 1.8 | (20) | 3.2 | 3.5 | (8) |
| **Total interest expense** | $ 47.0 | $ 45.8 | 3 % | $ 92.8 | $ 84.8 | 9 % |
| **Average balances** | | | | | | |
| Advance match funded liabilities | 391.2 | 442.2 | (12)% | 416.7 | 445.5 | (6)% |
| Mortgage loan financing facilities | 347.8 | 282.2 | 23 | 315.0 | 260.2 | 21 |
| MSR financing facilities | 915.4 | 861.4 | 6 | 888.4 | 908.0 | (2) |
| Total asset-backed financing | 1,654.5 | 1,585.9 | 4 % | 1,620.2 | 1,613.7 | — % |
| **Effective average interest rate** | | | | | | |
| Advance match funded liabilities | 9.53% | 9.45% | 1 % | 9.49% | 9.49% | — % |
| Mortgage loan financing facilities | 11.61 | 11.92 | (3) | 11.75 | 7.39 | 59 |
| MSR financing facilities | 8.58 | 8.29 | 4 | 8.44 | 7.78 | 9 |
| | | | | | | |
| Average 1-month term SOFR | 5.33% | 5.33% | — % | 5.33% | 4.82% | 11 % |

Interest expense for the three months ended June 30, 2024 increased $1.3 million or 3%, as compared to the three months ended March 31, 2024, with some offsetting factors. The $1.7 million increase in interest expense on mortgage loan financing facilities was mostly driven by our reverse buyout acquisition and securitization in the latter part of first quarter of 2024. The $1.8 million increase in interest expense on MSR financing facilities was mostly driven by higher borrowings, including the PLS second lien repurchase agreement. Interest expense on advance match funded liabilities decreased by $1.1 million, as compared to the three months ended March 31, 2024, due to lower borrowings, primarily driven by seasonally lower advances.

As compared to the six months ended June 30, 2023, interest expense for the six months ended June 30, 2024 increased $8.0 million, or 9%, mostly driven by an $8.9 million increase in interest expense on mortgage loan financing facilities relating to our acquisitions and securitization of reverse buyouts and higher effective rate. The increase in short-term market interest rates by 51 basis points in the first six months of 2024 as compared to the first six months of 2023 was mostly offset by the decline in our average debt balances for servicing advances due to our advance collection efforts and lower corporate debt interest allocation, due to our repurchase of $47.4 million of the PMC Senior Secured Notes during the three months ended March 31, 2024.

Interest income for the three months ended June 30, 2024 was mostly flat (increased $0.5 million) as compared to the three months ended March 31, 2024. As compared to the six months ended June 30, 2023, interest income increased $3.8 million for the six months ended June 30, 2024, primarily due to the reverse mortgage buyouts acquired in the first quarter of 2024 and second quarter of 2023.

Pledged MSR liability expense includes the servicing fee remittance related to the MSR sales or transfers that do not meet sale accounting criteria and are presented on a gross basis in our consolidated financial statements, together with the servicing spread remittance associated with our ESS financing liability at fair value. See Note 8 — Other Financing Liabilities, at Fair Value to the Unaudited Consolidated Financial Statements.

The following table provides the components of Pledged MSR liability expense:

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2024 | June 30, 2023 | % Change |
| Servicing fees collected on behalf of third parties | $ 36.9 | $ 36.6 | 1 % | $ 73.6 | $ 150.7 | (51)% |
| Less: Subservicing fee retained | (6.8) | (7.1) | (5) | (13.9) | (38.6) | (64) |
| Ancillary fee/income and other settlement (including expense reimbursement) | 3.0 | 2.3 | 28 | 5.3 | 6.8 | (22) |
| Net servicing fee remittance (1) | 33.1 | 31.8 | 4 | 65.0 | 118.9 | (45) |
| ESS servicing spread remittance | 13.0 | 13.1 | (1) | 26.1 | 24.5 | 6 |
| Pledged MSR liability expense | $ 46.1 | $ 44.9 | 3 % | $ 91.1 | $ 143.4 | (36)% |

(1) For MSR transfers that do not meet sale accounting criteria. See Note 8 — Other Financing Liabilities, at Fair Value.

Pledged MSR liability expense for the three months ended June 30, 2024 increased $1.2 million, or 3%, as compared to the three months ended March 31, 2024, mostly driven by the portfolios of MSR capital partners. As compared to the six months ended June 30, 2023, Pledged MSR liability expense for the six months ended June 30, 2024 decreased $52.3 million largely due to the derecognition of MSRs previously sold to Rithm for which sale accounting criteria were met effective December 31, 2023 ($33.4 billion UPB), partially offset by the increase in the portfolio of MSRs sold to MSR capital partners. Effective January 1, 2024, as PHH continues to subservice the portfolio, the statement of operations reflects subservicing fee revenue as opposed to the previous gross presentation of servicing fee revenue (collections) and separate offsetting presentation of servicing fee remittances within Pledged MSR liability expense.

Servicing fee and Pledged MSR liability expense continues to be presented on a gross basis after January 1, 2024 for those MSRs sold to Rithm for which title has not transferred, also referred to as Right to MSR ($9.5 billion UPB at June 30, 2024). The following table presents a subset of the above table related to Rithm, specifically the subservicing fees retained by Onity together with the associated serviced UPB on behalf of Rithm:

| **Rithm Servicing and Subservicing Fees** | **Three Months Ended** | | | **Six Months Ended** | | |
|---|---|---|---|---|---|---|
| | **June 30, 2024** | **March 31, 2024** | **% Change** | **June 30, 2024** | **June 30, 2023** | **% Change** |
| Servicing fees collected on behalf of Rithm | $ 13.1 | $ 13.0 | 1 % | $ 26.0 | $ 118.6 | (78)% |
| Less: Subservicing fee retained | (3.7) | (3.9) | (4) | (7.6) | (34.2) | (78) |
| Pledged MSR liability expense (Net servicing fees remitted to Rithm) (1) (2) | 9.4 | 9.1 | 3 % | 18.4 | 84.4 | (78)% |
| Average Rithm UPB ($ in billions) | $ 9.6 | $ 9.8 | (2)% | $ 9.7 | $ 48.1 | (80)% |
| Average annualized retained subservicing fees as a % of Rithm UPB | 0.16% | 0.16% | (2)% | 0.16% | 0.14% | 10 % |

(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.

Earnings of equity method investee represents our 15% share of MAV Canopy. Earnings for the three months ended June 30, 2024 remained flat (increased $0.4 million) as compared to the three months ended March 31, 2024. As compared to the six months ended June 30, 2023, earnings increased $2.7 million for the six months ended June 30, 2024. The changes are largely attributed to the impact of changes in market interest rates on the underlying MSR portfolio held by MAV and actual trade prices.

Other, net for the three months ended June 30, 2024 increased $2.3 million, as compared to the three months ended March 31, 2024, mostly due to expenses recognized in connection with 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, which are mostly insured by the FHA and we are an approved issuer of HMBS that are guaranteed by Ginnie Mae. We originate non-Agency loans to applicable investor guidelines that we sell on a whole loan basis to investors.

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. In addition to rate and term 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 June 30, 2024, we have relationships with 708 approved correspondent sellers.

We originate and purchase reverse mortgage loans through our retail, wholesale and 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 generally sell the loans in the secondary mortgage market, through GSE and Ginnie Mae securitizations on a servicing retained basis, or to investors on a whole loan basis, i.e., servicing released. Origination revenue mostly includes gain on sale, 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, originations revenue mostly include the fair value changes of the loan from lock date to securitization date that are reported in Gain on reverse loans held for investment and HMBS-related borrowings, net and fee income that is reported in Other revenue, net.

We provide customary origination representations and warranties to investors in connection with our loan sales and securitization activities. We receive customary origination representations and warranties from our network of approved correspondent lenders. We recognize the fair value of the liability for our representations and warranties at the time of 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 sellers.

We purchase MSRs through flow purchase agreements, the Agency Cash Window co-issue 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 servicing released to the respective agency and sell the MSR to the winning bidder. In addition, we partner with other originators to replenish our MSRs through flow purchase agreements. We do not provide or assume any origination representations and warranties in connection with our MSR purchases. As of June 30, 2024, we have relationships with 463 approved sellers through the Agency Cash Window co-issue programs.

We initially recognize our MSR originations and purchases 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.

We source additional servicing volume through our subservicing and interim servicing agreements, with 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.

***Significant Variables***

The following factors could significantly impact the results of our Originations segment from period to period.

*Mortgage Rates.* Changes in mortgage rates, primarily the 30-year fixed rate mortgage, directly impact the demand for both purchase and refinance forward mortgages and therefore impact the production volumes and financial results of our Originations segment. Small changes in mortgage rates directly impact housing affordability for both first-time and move-up home buyers and affect their ability to purchase a home. For refinance loans, current market mortgage rates must be considered relative to the rates on the current mortgage debt outstanding.

*Market Size and Composition.* The volume of new or refinanced loans is impacted by changes to existing, or development of new, GSE or other government sponsored programs. Changes in GSE or HUD guidelines and costs and the availability of alternative financing sources, such as non-Agency proprietary loans and traditional home equity loans, impact borrower demand for forward and reverse mortgages and therefore can impact the volume of mortgage originations.

*Margins.* Changes in pricing margin for mortgages are closely correlated with changes in market size for mortgage loans. As loan demand and market capacity move out of alignment, pricing adjusts. In a growing market, margins expand and in a contracting market, margins tighten as lenders seek to keep their production at or close to full capacity. Managing capacity and cost is critical as volumes change. Among our channels, our margins per loan are highest in the retail channel and lowest in the correspondent channel. We work directly with the borrower to process, underwrite and close loans in our retail and reverse wholesale channels. In our retail channel, we also identify the customer and take loan applications. As a result, our retail channel is the most people- and cost-intensive and experiences the greatest volume volatility.

*Investor Demand.* The liquidity of the secondary market for mortgage loans impacts the size of the mortgage loan market by defining loan attributes and credit guidelines for loans that investors are willing to buy and at what price. In recent years, the GSEs have been the dominant providers of secondary market liquidity for forward mortgages, keeping the product and credit spectrum relatively homogeneous and risk averse (higher credit standards).

*Economic Conditions.* General economic conditions can impact the growth and revenue of our Originations segment by impacting the capacity for consumer credit and the supply of capital. More specifically, employment levels and home prices are variables that can each have a material impact on mortgage volume. Employment levels, the level of wages and the stability of employment are underlying factors that impact credit qualification. The effect of home prices on lending volumes is significant and complex. As home prices go up, home equity increases and this improves the position of existing homeowners either to refinance or to sell their home, which often leads to a new home purchase and a new forward mortgage loan, or in the case of a reverse mortgage, increase the size of the mortgage loan available and the number of potential borrowers. However, if home prices increase rapidly, the effect on affordability for first-time and move-up buyers can dampen the demand for mortgage loans. The more restrictive standards for loan to value (LTV) ratios, debt to income (DTI) ratios and employment that characterize the current market amplify the significance and sensitivity of the housing market and related mortgage lending volumes to employment levels and home prices. If home prices decline due to increased mortgage interest rates or for other reasons, home sales may decline and it may be more difficult for homeowners to refinance existing mortgages, thereby negatively impacting mortgage volume.

***Operating Metrics***

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

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2024 | June 30, 2023 | % Change |
| **Funded Loan UPB by Channel** *(in billions)* | | | | | | |
| Forward loans | | | | | | |
| Correspondent | $ 4.13 | $ 2.69 | 54 % | $ 6.82 | $ 5.08 | 34 % |
| Consumer Direct | 0.16 | 0.11 | 41 | 0.27 | 0.16 | 72 |
| | $ 4.29 | $ 2.80 | 53 % | $ 7.09 | $ 5.24 | 35 % |
| % Purchase production | 83 % | 81 % | 2 | 83 % | 85 % | (3) |
| % Refinance production | 17 | 19 | (11) | 17 | 15 | 20 |
| Reverse loans (1) | | | | | | |
| Correspondent | $ 0.12 | $ 0.12 | 1 % | $ 0.24 | $ 0.19 | 27 % |
| Wholesale | 0.04 | 0.02 | 55 | 0.06 | 0.09 | (35) |
| Retail | 0.03 | 0.02 | 12 | 0.05 | 0.04 | 8 |
| | $ 0.18 | $ 0.17 | 10 % | $ 0.35 | $ 0.33 | 7 % |
| **UPB of MSR Purchases by Channel** *(in billions)* | | | | | | |
| Agency Cash Window / Flow MSR | $ 2.48 | $ 1.63 | 52% | 4.11 | $ 3.61 | 14% |
| Bulk purchases | 0.31 | 0.62 | (49) | 0.93 | 0.24 | 293 |
| Bulk reverse purchases | — | 0.14 | (100) | 0.14 | 0.08 | 83 |
| | $ 2.79 | $ 2.39 | 17 | $ 5.18 | $ 3.92 | 32 |
| Total | $ 7.26 | $ 5.36 | 36% | $ 12.62 | $ 9.49 | 33% |
| **Short-term loan commitment** *(at period end; in millions)* | | | | | | |
| Forward loans | $ 1,532 | $ 1,177 | 30 % | $ 1,532 | $ 1,137 | 35 % |
| Reverse loans | 22 | 26 | (13)% | 22 | 16 | 35 % |
| **Average Headcount - Originations** | 480 | 462 | 4 % | 472 | 501 | (6)% |

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

***Financial Performance***

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 | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2024 | June 30, 2023 | % Change |
| **Revenue** | | | | | | |
| Gain on loans held for sale, net | $ 16.7 | $ 9.1 | 83 % | $ 25.7 | $ 14.3 | 80 % |
| Gain on reverse loans held for investment and HMBS-related borrowings, net | 5.7 | 6.8 | (16) | 12.5 | 12.0 | 4 |
| Other revenue, net (1) | 6.9 | 4.1 | 68 | 11.0 | 7.8 | 41 |
| Total revenue | 29.2 | 20.0 | 46 % | 49.3 | 34.1 | 44 % |
| **MSR valuation adjustments, net** | 3.1 | 0.9 | 240 | 4.0 | 3.5 | 13 |
| **Operating expenses** | | | | | | |
| Compensation and benefits | 11.3 | 10.2 | 10 % | 21.5 | 20.5 | 5 % |
| Origination expense | 2.3 | 1.4 | 62 | 3.7 | 1.1 | 227 |
| Technology and communications | 1.7 | 1.7 | 3 | 3.4 | 3.5 | (2) |
| Occupancy, equipment and mailing | 0.5 | 0.5 | — | 1.0 | 1.0 | — |
| Professional services | 0.5 | 0.3 | 39 | 0.8 | 0.8 | 10 |
| Corporate overhead allocations | 4.3 | 3.9 | 9 | 8.2 | 9.9 | (17) |
| Other expenses | 1.4 | 1.0 | 43 | 2.4 | 3.0 | (19) |
| Total operating expenses | 22.0 | 19.0 | 16 % | 41.0 | 39.8 | 3 % |
| **Other income (expense)** | | | | | | |
| Interest income | 14.2 | 9.7 | 47 % | 23.8 | 22.1 | 8 % |
| Interest expense | (14.9) | (10.4) | 43 | (25.3) | (24.0) | 5 |
| Other, net | (0.2) | (0.1) | 117 | (0.3) | — | n/m |
| Other income (expense), net | (0.9) | (0.8) | 5 % | (1.7) | (1.9) | (10)% |
| **Income (loss) before income taxes** | $ 9.4 | $ 1.1 | 780 % | $ 10.5 | $ (4.0) | (362)% |

n/m: not meaningful

(1) Includes ancillary fee income related to MSR acquisitions reported as Servicing and subservicing fees at the consolidated level of $0.7 million and $1.0 million for the three and six months ended June 30, 2024, respectively, $0.4 million for the three months ended March 31, 2024 and $0.8 million for the six months ended June 30, 2023.

***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 volumes and margins (excluding fees that are presented in Other revenue, net):

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | **June 30, 2024** | **March 31, 2024** | **% Change** | **June 30, 2024** | **June 30, 2023** | **% Change** |
| **Origination UPB (1)** *(in billions)* | | | | | | |
| Correspondent | $ 4.13 | $ 2.69 | 54 % | $ 6.82 | $ 5.08 | 34 % |
| Consumer Direct | 0.16 | 0.11 | 41 | 0.27 | 0.16 | 72 |
| | $ 4.29 | $ 2.80 | 53 % | $ 7.09 | $ 5.24 | 35 % |
| | | | | | | |
| **% Gain on Sale Margin (2)** | | | | | | |
| Correspondent | 0.27 % | 0.18 % | 49 % | 0.24 % | 0.17 % | 36 % |
| Consumer Direct | 3.45 | 3.75 | (8) | 3.57 | 3.48 | 3 |
| | 0.39 % | 0.32 % | 19 % | 0.36 % | 0.27 % | 33 % |
| | | | | | | |
| **Gain on Loans Held for Sale** | | | | | | |
| Correspondent | $ 11.2 | $ 4.9 | 129 % | $ 16.1 | $ 8.8 | 82 % |
| Consumer Direct | 5.5 | 4.2 | 30 | 9.7 | 5.5 | 77 |
| | $ 16.7 | $ 9.1 | 83 % | $ 25.7 | $ 14.3 | 80 % |

(1) Defined as the UPB of loans funded in the period.
(2) Ratio of gain on Loans held for sale to funded UPB. Note that the ratio differs from the day-one gain on sale margin upon lock.

Gain on loans held for sale, net for the three months ended June 30, 2024 increased by $7.6 million, or 83%, as compared to the three months ended March 31, 2024, driven by a 53% increase in volume and a 19% increase in margin. The $6.3 million increase in our Correspondent channel is due to an increase in volume driven by our Owned MSR replenishment strategy after our recent MSR bulk sales and seasonality to a lesser extent. The Correspondent margin increase is driven by our continued focus on pricing management and execution including an increased mix of higher margin products. The $1.3 million increase in our Consumer Direct channel is primarily driven by a 41% increase in loan production volume, attributed to our increased recapture operational capability and seasonality to a lesser extent.

As compared to the six months ended June 30, 2023, Gain on loans held for sale, net for the six months ended June 30, 2024 increased $11.4 million, driven by a 35% increase in volume and 33% increase in margin, with similar factors as discussed above. The $4.2 million increase in Consumer Direct gain is driven by an 72% increase in loan production volume, attributed to our increased recapture operational capability. In addition, 2023 was the historically lowest production year for refinance over the past twenty years. In our Correspondent channel, the $7.2 million increase is both due to the increased margin and increased loan production volume, attributed to the same factors as discussed above.

***Gain on Reverse Loans Held for Investment and HMBS-Related Borrowings, Net***

The following table provides information regarding Gain on reverse loans held for investment and HMBS-related borrowings, 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 (including loan fees):

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | **June 30, 2024** | **March 31, 2024** | **% Change** | **June 30, 2024** | **June 30, 2023** | **% Change** |
| Origination UPB (1) *(in billions)* | $ 0.18 | $ 0.17 | 10 % | $ 0.35 | $ 0.33 | 7 % |
| Origination margin (2) | 3.09 % | 4.06 % | (24) | 3.58 % | 3.68 % | (3) |
| Gain on reverse loans held for investment and HMBS-related borrowings, net (Originations) | $ 5.7 | $ 6.8 | (16)% | $ 12.5 | $ 12.0 | 4 % |

(1) Defined as the UPB of loans funded in the period.
(2) Ratio of origination gain to funded UPB. Note that the ratio includes loan fees.

Gain on reverse loans held for investment and HMBS-related borrowings, net for the three months ended June 30, 2024 decreased $1.1 million as compared to the three months ended March 31, 2024, driven by lower margins in our Correspondent channel, partially offset by higher origination volume in our Wholesale and Retail channels. The lower margins were driven by HECM spreads widening in the second quarter of 2024.

As compared to the six months ended June 30, 2023, Gain on reverse loans held for investment and HMBS-related borrowings, net for the six months ended June 30, 2024 was mostly flat (increased $0.5 million), with the offsetting impact of lower margins and higher volume attributed to our Correspondent channel.

***Other Revenue, net***

Other revenue, net consists primarily of correspondent and broker fees, and also includes setup fees earned for loans boarded on our servicing platform. Changes in Other revenue, net for the periods presented are primarily attributed to production volume changes.

***MSR Valuation Adjustments, Net***

MSR valuation adjustments, net includes 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. Changes in MSR valuation adjustments, net period over period are mostly due to volume changes.

***Operating Expenses***

Operating expenses for the three months ended June 30, 2024 increased $2.9 million, or 16%, as compared to the three months ended March 31, 2024, primarily driven by higher loan production volume (up approximately 50%). Compensation and benefits increased $1.1 million, or 10%, driven by commissions with higher loan production volume and a 4% increase in average headcount quarter-over-quarter. Other operating expenses (excluding Compensation and benefits expense) increased $1.9 million mostly driven by the increase in volume.

As compared to the six months ended June 30, 2023, Operating expenses for the six months ended June 30, 2024 increased $1.3 million, or 3%, with some offsets. Originations expense increased $2.6 million mostly driven by higher production volume and a provision release for representation and warranty indemnification recorded in the first half of 2023 due to favorable resolution of demands. Compensation and benefits increased $0.9 million driven by a $1.5 million increase in commissions with higher production volume and a $1.2 million increase in severance expense, partially offset by a $1.2 million decline in salaries and benefits expense. The increase in severance and decline in salaries and benefits is mostly due to a 13% decrease in average U.S. based headcount as part of our cost-reduction efforts. Overhead allocations declined $1.7 million due to lower total corporate overhead expenses and a lower allocation percentage to Originations as a result of lower average headcount.

***Other Income (Expense)***

Interest income consists primarily of interest earned on newly-originated and purchased loans during the pipeline period prior to securitization or sale to investors. Interest expense is incurred to finance the mortgage loans during the same pipeline period, which is generally less than 30 days. We finance mortgage loans with repurchase and participation agreements, commonly referred to as warehouse lines. Our net interest margin is driven by the difference between the average mortgage note rate and the average warehouse line cost of funds, and by the average number of days loans remain in the pipeline. There were no significant changes in our net interest margin, period-over-period.

Interest income for the three months ended June 30, 2024 increased $4.5 million as compared to the three months ended March 31, 2024 primarily due to higher average loans held for sale balances. Similarly, interest expense increased $4.5 million primarily due to the increase in average mortgage loan financing debt balances.

As compared to the six months ended June 30, 2023, interest income for the six months ended June 30, 2024 increased $1.7 million primarily due to an increase in the average note rates (the 30 year fixed rate mortgage increased 42 basis points), partially offset by lower average loans held for sale balances. Similarly, interest expense for the six months ended June 30, 2024 increased $1.2 million primarily due to higher cost of borrowing, driven by a 51 basis point increase in average short-term market interest rates, partially offset by a decrease in average mortgage loan financing debt balances.

## CORPORATE ITEMS AND OTHER

Corporate Items and Other includes revenues and expenses of corporate support services, 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, with the exception of the OFC Senior Secured Notes. Accordingly, the financing cost of the Servicing and Originations segments reflects and is consistent with the financing structure of the licensed entity PHH that carries out these businesses and does not depend on the financing structure strategy of its parent, as a holding company.

Corporate support services include finance, facilities, human resources, internal audit, legal, risk and compliance, capital markets, corporate development 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.

Effective in the fourth quarter of 2023, CRL, our wholly-owned captive reinsurance subsidiary, is reported in the Servicing segment. Segment results for the six months ended June 30, 2023 have been recast to conform to the current segment presentation.

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 | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | March 31, 2024 | % Change | June 30, 2024 | June 30, 2023 | % Change |
| **Revenue** | $ — | $ — | — | — | $ — | — |
| **Operating expenses** | | | | | | |
| Compensation and benefits | 19.2 | 18.1 | 6 % | 37.3 | 39.2 | (5)% |
| Professional services | 7.4 | 4.6 | 62 | 12.0 | (23.7) | (151) |
| Technology and communications | 5.0 | 4.9 | 2 | 9.9 | 10.5 | (5) |
| Servicing and origination | 0.5 | 0.3 | 57 | 0.8 | 0.5 | 50 |
| Occupancy, equipment and mailing | 0.4 | 0.4 | (10) | 0.8 | 0.6 | 26 |
| Other expenses | 1.5 | 1.3 | 19 | 2.8 | 2.7 | 4 |
| Total operating expenses before corporate overhead allocations | 34.0 | 29.6 | 15 % | 63.6 | 29.8 | 114 % |
| Corporate overhead allocations | | | | | | |
| Servicing segment | (10.8) | (10.9) | (2)% | (21.7) | (22.6) | (4)% |
| Originations segment | (4.3) | (3.9) | 9 | (8.2) | (9.9) | (17) |
| Total operating expenses | 18.9 | 14.8 | 28 % | 33.7 | (2.7) | n/m |
| **Other income (expense), net** | | | | | | |
| Interest income | 1.1 | 1.1 | 1 % | 2.3 | 2.2 | 4 % |
| Interest expense | (11.2) | (11.2) | — | (22.4) | (21.7) | 3 |
| Gain on extinguishment of debt | — | 1.4 | (100) | 1.4 | — | n/m |
| Other, net | 0.4 | — | n/m | 0.4 | 1.8 | (76) |
| Other income (expense), net | (9.6) | (8.6) | 11 % | (18.2) | (17.6) | 3 % |
| **Income (loss) before income taxes** | $ (28.5) | $ (23.4) | 22 % | $ (51.9) | $ (15.0) | 247 % |

***Operating Expenses***

Operating expenses before corporate overhead allocations increased by $4.4 million, or 15%, for the three months ended June 30, 2024 as compared to the three months ended March 31, 2024, primarily driven by Professional services and Compensation and benefits. Professional services increased $2.8 million mainly driven by litigation related expenses in the three months ended June 30, 2024. Compensation and benefits increased $1.0 million, or 6%, primarily due to new share-based awards and lower forfeitures.

Operating expenses before corporate overhead allocations increased by $33.8 million for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023, primarily driven by Professional services, partially offset by Compensation and benefits. The $35.7 million increase in Professional services is primarily driven by the reversal of our accrual related to the CFPB matter resolved in our favor in the second quarter of 2023, certain recoveries of prior years' legal expenses from private mortgage insurers in the second quarter of 2023, and other litigation related expenses recognized in the three months ended June 30, 2024 discussed above. Compensation and benefits expense decreased $1.8 million, or 5%, mostly due to a $1.4 million decrease in the fair value of cash-settled share-based awards in the six months ended June 30, 2024 following the more pronounced decrease of our common stock price, as compared to the six months ended June 30, 2023.

## LIQUIDITY AND CAPITAL RESOURCES

**Overview**

In the normal course of business, we are actively engaged with existing and potential lenders and as a result add, terminate, replace or extend our debt agreements to the extent necessary to finance our operations and optimize our financing costs.

In addition, we completed the following transactions during the six months ended June 30, 2024:

- Repurchased $47.4 million of our PMC Senior Secured Notes in the open market for a price of $45.5 million, and recognized a $1.4 million net gain on debt extinguishment;
- Completed a private placement securitization of HECM loans that are insured by the FHA, and related receivables and REO properties, also referred to as reverse mortgage buyouts. Different classes of asset-backed notes with an initial principal amount of $268.6 million were issued at a discount, with a stated interest rate of 3% and a mandatory call date of February 2027;
- Entered into a $34.0 million second-lien repurchase financing arrangement for the membership interest in our PLS MSR, pursuant to which PHH sold the membership interest certificate representing 100% of the limited liability company interests in PMC PLS ESR Issuer LLC (PLS Issuer) and agreed to repurchase such membership interest certificate at a specified future date at the price set forth in the repurchase agreement. The termination date of the facility is February 25, 2025.

A summary of borrowing capacity under our advance facilities, mortgage warehouse facilities and MSR financing facilities is as follows (see Note 13 – Borrowings to the Unaudited Consolidated Financial Statements for additional information):

| | June 30, 2024 | | | December 31, 2023 | | |
|---|---|---|---|---|---|---|
| | 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 | $ 714 | $ 246 | $ 64 | $ 714 | $ 151 | $ 64 |
| Mortgage loan financing facilities | 2,332 | 266 | 1,155 | 2,696 | 373 | 1,592 |
| MSR financing facilities | 1,065 | 135 | 93 | 1,082 | 128 | 38 |
| Total | $ 4,111 | $ 647 | $ 1,312 | $ 4,493 | $ 652 | $ 1,693 |

(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.

At June 30, 2024, 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 June 30, 2024 under our Ginnie Mae MSR financing facility based on the amount of eligible collateral. We may utilize committed borrowing capacity under our mortgage loan financing 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 June 30, 2024, we had no committed borrowing capacity under our mortgage loan financing facilities and $28.2 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 June 30, 2024, our $231.3 million total liquidity included $203.1 million unrestricted cash position and $28.2 million total available borrowing capacity discussed above. With total liquidity of $241.6 million at December 31, 2023, the decrease is driven by our $47.4 million corporate debt repurchases (PMC Senior Secured Notes) in the first quarter, partially offset by our second lien PLS financing and OLIT securitization.

Effective September 30, 2023, we implemented the revised minimum tangible net worth and liquidity requirements for GSE and Ginnie Mae seller/servicers. We believe that we are in compliance with these requirements as of June 30, 2024.

Ginnie Mae announced a new risk-based capital ratio effective on December 31, 2024 for Ginnie Mae issuers. PHH would not be in compliance with the upcoming risk-based capital requirements if they were in effect as of June 30, 2024. We are currently implementing certain actions intended to achieve compliance with the requirements. We intend to operate our Ginnie Mae issuer activities through a wholly owned subsidiary subject to, and in compliance with, the risk-based capital rules. We are in the process of applying for regulatory and Agency approvals necessary to separately operate GSE and Ginnie Mae businesses. If we are unable to execute this solution in a manner satisfactory to Ginnie Mae and other regulators, we may be required to sell Ginnie Mae or other related forward mortgage assets under uncertain conditions before December 31, 2024 and incur transition costs, or our status as an approved issuer may be suspended or terminated; as a result, our financial results, liquidity, financing activities and reputation could be negatively impacted. Also refer to Note 19 – Regulatory Requirements.

We 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 to anticipate and mitigate liquidity risk. We maintain liquidity buffers to be responsive to the level of risks, including stressed market interest rate conditions and operational risk.

**Use of Funds**

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

- Payment of operating costs and corporate expenses;
- Payments for servicing advances in excess of collections;
- Investment in MSRs (purchased and originated), other asset acquisitions and MAV Canopy equity contributions;
- Originated, purchased and repurchased loans, including reverse mortgage buyouts;
- Payment of margin calls under our MSR financing facilities and derivative instruments;
- Debt service and 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 short-term commitments to lend $1.6 billion in connection with our forward and reverse mortgage loan IRLCs outstanding at June 30, 2024. In addition, we have originated floating-rate reverse mortgage loans under which the borrowers have additional borrowing capacity of $1.8 billion at June 30, 2024. During the six months ended June 30, 2024, we funded $119.5 million out of the $1.8 billion borrowing capacity available as of December 31, 2023. As an HMBS issuer, we are required to repurchase loans out of the Ginnie Mae securitization pools once the outstanding principal balance of the loan is equal to or greater than 98% of the maximum claim amount (MCA repurchases). We carry these repurchases until reimbursement by HUD and/or property liquidation if inactive. Our reverse subservicing clients bear the financial obligation and risks associated with purchasing loans out of securitization pools within the portfolio we subservice.

Regarding the current maturities of our borrowings, as of June 30, 2024, we have approximately $1.4 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 $910.3 million of borrowings under forward and reverse mortgage loan financing facilities, $452.1 million outstanding under GSE and Ginnie Mae MSR financing facilities maturing in the next 12 months, $32.1 million of scheduled principal amortization on the PLS Notes secured by PLS MSRs and $34.0 million outstanding under a PHH repurchase agreement.

With respect to liquidity management, we consider our servicing advance requirements during each investor remittance period and the uncertainties of daily margin calls on our collateralized debt facilities and derivative instruments due to interest rate fluctuations.

As servicer, we are required to advance to investors the loan P&I installments not collected from borrowers for those delinquent loans, including those on forbearance plans. Loan payoffs and prepayments are a source of additional liquidity and are dependent on the interest rate environment. We also advance T&I and Corporate advances primarily on properties that are in default or have been foreclosed. Our obligations to make these advances are governed by servicing agreements or guides, depending on investors or guarantor. As subservicer, we are also required to make P&I, T&I and Corporate advances on behalf of servicers following the servicing agreements or guides. However, servicers are generally required to reimburse us within 30 days of our advancing under the terms of the subservicing agreements, and we are generally reimbursed by Rithm the same day we fund P&I advances, or within no more than three days for certain servicing advances.

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. While the objective of our hedging strategy is to reduce volatility due to interest rates, it is also designed to address cash and liquidity considerations. Refer to the sensitivity analysis in Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

- Payment of interest and principal repayment of our PLS Notes that mature in 2025, our PMC Senior Secured Notes that mature in 2026 and our OFC Senior Secured notes owed to Oaktree that mature in 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.

In addition, we evaluate investment and capital allocation opportunities for any excess liquidity, including opportunistic debt repurchases to continue to de-risk and deleverage our balance sheet. We also intend to extend debt maturities and are evaluating various refinancing alternatives, which include debt, junior securities or other structures, in anticipation of the maturity of PMC and OFC senior secured notes. Subject to changes in financial market conditions and other factors, we presently anticipate a refinance of the PMC senior secured notes prior to them becoming current.

Our capital structure and leverage ratios may be summarized as follows:

| Capital Structure Summary | June 30, 2024 | December 31, 2023 | $ Change | % Change |
|---|---|---|---|---|
| MSR financing facilities | $ 928 | $ 916 | $ 12 | 1 % |
| ESS financing liability, at fair value | 251 | 249 | 2 | 1 |
| $313 million PMC Senior Secured Notes due 2026 | 310 | 356 | (46) | (13) |
| $285 million OFC Senior Secured Notes due 2027 | 245 | 240 | 6 | 2 |
| Total corporate debt and MSR related debt (1) | $ 1,733 | $ 1,761 | $ (27) | (2)% |
| | | | | |
| Stockholders’ common equity | $ 446 | $ 402 | $ 44 | 11 % |
| | | | | |
| Corporate debt to stockholders’ common equity | 1.24x | 1.48x | | |
| Corporate and MSR debt to stockholders’ common equity | 3.88x | 4.38x | | |

(1) Corporate debt includes PMC and OFC senior secured notes. MSR related debt includes MSR financing facilities and ESS financing liability, and excludes MSR pledged liabilities - See Note 8 — Other Financing Liabilities, at Fair Value. All amounts presented above are net of discount and debt issuance costs.

**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, MSR financing facilities, MSR transfers and ESS financing;
- Proceeds from sales and securitizations of originated loans and purchased 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. 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 or purchased 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. These facilities contain eligibility criteria that include aging and concentration limits by loan type among other provisions. Currently, our financing 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. In June 2023, we issued a private placement securitization of reverse mortgage buyouts with an initial principal amount of $264.9 million and a three-year mandatory call date, expanding our access to capital markets and reducing our reliance on warehouse financing facilities. As disclosed above, in February 2024, we successfully issued a second private placement securitization of reverse mortgage buyouts with an initial principal amount of $268.6 million and a three-year mandatory call date.

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 strive to diversify our sources of funds and reduce our reliance on existing asset-backed financing facilities. We continuously evaluate the allocation of our capital to MSR and other investments, the related returns, funding and liquidity requirements. The relationships with MAV and other MSR capital partners may continue to provide PHH with additional means to grow servicing volume and finance MSRs while maintaining capital and 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 Onity 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 Onity 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, excluding additional Agency minimum liquidity requirements, is for a minimum of $75.0 million in consolidated liquidity, as defined, under certain of our mortgage loan financing and MSR financing facilities agreements. At June 30, 2024, we held unrestricted cash in excess of this minimum amount. The minimum liquidity requirements for PHH contained in some debt agreements are also subject to the minimum requirement set forth by the Agencies. Refer to Note 19 – Regulatory Requirements.

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 June 30, 2024.

**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 | Rated Entity | Long-term Corporate Rating | Review Status / Outlook | Date of last action |
|---|---|---|---|---|
| Moody’s | PHH | B3 | Stable | April 12, 2024 |
| S&P | Onity | B- | Stable | January 25, 2024 |

On January 25, 2024, S&P affirmed the long-term corporate rating of Onity at “B-” and affirmed the “B” rating of the PMC Senior Secured Notes. In affirming the ratings, S&P noted Onity's leverage has improved due to improving operating margins and continued subservicing growth. However, S&P also noted a reliance on warehouse facilities that continues to weigh on the rating.

On April 12, 2024 Moody’s upgraded PHH’s long-term corporate family ratings from “Caa1” to “B3" and revised their outlook to Stable from Positive. Moody’s also affirmed its “B2” rating of the PMC Senior Secured Notes. In its ratings rationale, Moody’s noted the upgrade of the corporate family rating reflects PHH's progress towards achieving sustainable profitability. Moody’s further noted the upgrade also reflects the company's sound liquidity and funding profile. PHH's Stable outlook reflects Moody's expectation that Onity will report improved earnings and capitalization over the next 12-18 months. Moody’s noted the affirmation of the “B2” Senior Secured Notes rating reflects the volume and priority of the PHH notes within Onity's debt capital structure.

**Cash Flows**

Our operating cash flow is primarily impacted by operating results, changes in our servicing advance balances, the level of mortgage loan production, the timing of sales and securitizations of mortgage loans, and the margin calls required under our MSR financing facilities or derivative instruments. As one of the main differences between proceeds from sale and origination or purchase of loans held for sale, newly originated MSRs are effectively classified as operating cash flows. Purchases of MSRs through flow purchase agreements, Agency Cash Window and bulk acquisitions are classified as investing activity. MSR investments, whether originated or purchased, represent a key indicator of our ability to generate future income in our Servicing business.

We classify changes in HECM loans held for investment as investing activity and changes in the related HMBS borrowings as financing activity. Our MSR transfer agreements with MAV, Rithm and others have a significant impact on our consolidated statements of cash flows. Because the payments we received in connection with the HECM loan securitizations and MSR transfer agreements are recorded as secured financings, additions to, and reductions in, the balance of those secured financings are presented as financing activity in our consolidated statements of cash flows, excluding the changes in fair value attributable to inputs and assumptions.

Our cash flows are summarized as follows:

| ***$ in millions*** | Six Months Ended June 30, 2024 | Six Months Ended June 30, 2023 |
|---|---|---|
| Net cash used in operating activities | $ (375) | $ (649) |
| Net cash provided by (used in) investing activities | 128 | (23) |
| Net cash provided by financing activities | 241 | 730 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | $ (6) | $ 58 |
| Cash, cash equivalents and restricted cash at end of period | $ 249 | $ 333 |

***Cash flows for the six months ended June 30, 2024***

Our operating activities used $375.0 million of cash primarily due to net cash paid on loans held for sale of $521.3 million as loan production volume exceeded sales, including $95.0 million for the purchase of reverse mortgage buyouts (government-insured loans and claim receivables), and $102.4 million originated MSRs. Offsetting operating cash inflows include net collections of servicing advances of $112.8 million driven by seasonal activity and our increased collection efforts on legacy advances and earnings distributions of $5.8 million received from our equity method investee MAV Canopy.

Our investing activities provided $128.4 million of cash. Cash inflows primarily include $96.0 million proceeds from sales of MSRs, $78.8 million net cash received in connection with our HECM reverse mortgages and $12.3 million proceeds from sales of real estate as part of our asset recovery strategy, $9.3 million received from the sale of advances in connection with sales of MSRs, and $6.5 million of capital distributions received, net of contributions, from our equity method investee MAV

Canopy. Offsetting cash outflows include $62.1 million to purchase MSRs and $12.1 million to purchase real estate primarily in connection with our reverse mortgage buyout transaction.

Our financing activities provided $240.8 million of cash. Financing cash inflows are primarily comprised of $471.9 million net from borrowings under our mortgage loan financing facilities due to the increase in loans held for sale, including $247.8 million with the issuance of the OLIT securitization of reverse mortgage buyouts, $17.7 million of proceeds from the sale of MSRs accounted for as a financing in connection with sales of MSRs, and $12.7 million of net proceeds from MSR financing facilities. Offsetting cash outflows include $94.7 million of net repayments on advance match funded liabilities due to the decline in servicing advances, and $37.3 million of net payments on the financing liabilities related to MSRs transferred and ESS financings due to runoff. We also paid $45.5 million to repurchase $47.4 million of our 7.875% PMC Senior Secured Notes. Cash inflows of $507.7 million received in connection with our reverse mortgage securitizations, which are accounted for as secured financings, were more than offset by repayments on the related financing liability of $588.1 million.

***Cash flows for the six months ended June 30, 2023***

Our operating activities used $648.7 million of cash primarily due to net cash paid on loans held for sale of $788.0 million as loan production volume exceeded sales. Offsetting operating cash inflows include net collections of servicing advances of $114.0 million.

Our investing activities used $22.5 million of cash. The primary use of cash in our investing activities was $52.3 million to purchase MSRs. Offsetting cash inflows include $20.6 million net cash inflows in connection with our HECM reverse mortgages, $7.6 million of capital distributions, net of contributions, from our equity method investee MAV Canopy and $5.1 million proceeds from the sale of advances.

Our financing activities provided $729.5 million of cash. Financing cash inflows are primarily comprised of $816.0 million net from borrowings under our mortgage loan financing facilities, including the OLIT securitization, due to the increase in loans held for sale, $88.3 million of proceeds from the sale of MSRs accounted for as a financing in connection with sales of MSRs, and $68.7 million of proceeds from ESS financing. Offsetting cash outflows include $83.2 million of net repayments on advance match funded liabilities due to the decline in servicing advances, $88.4 million of net repayments on MSR financing facilities, and $45.0 million of net payments on the financing liabilities related to MSRs transferred and ESS financings due to runoff. Cash inflows of $502.3 million received in connection with our reverse mortgage securitizations, which are accounted for as secured financings, were more than offset by repayments on the related financing liability of $525.1 million.

## 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, and loss 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 MSRs, Other financing liabilities, Loans held for sale, Loans held for investment-Reverse mortgages, and HMBS-related borrowings. As of June 30, 2024, 89% 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, 2023 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.”

## 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 MSRs, 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 duration and interest rate sensitivity measures, limits, targeted hedge coverage ratios, the hedge instruments that we are permitted to use in our hedging activities, and the counterparties with whom we are permitted to enter into hedging transactions and our liquidity risk profile. See Note 15 – Derivative Financial Instruments and Hedging Activities to the Unaudited Consolidated Financial Statements for additional information regarding our use of derivatives.

**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 MSR interest rate risk management and hedging policy is to protect shareholders' equity and earnings against the fair value volatility of interest-rate sensitive MSR portfolio exposure, considering market, liquidity, cost and other 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 MAV, Rithm and others, also referred to as Pledged MSR liabilities (See Note 8 — Other Financing Liabilities, at Fair Value),
- less the asset value for securitized HECM loans, net of the corresponding HMBS-related borrowings,
- other interest-rate sensitive exposures, including our ESS financing liabilities, as deemed appropriate by the Market Risk Committee.

The hedge coverage ratio, defined as the ratio of hedge and asset rate sensitivity (referred to as DV01) is subject to lower and upper target thresholds under our policy. We regularly 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, liquidity impacts under shock scenarios, and other factors. As the market dictates, management may choose to maintain the hedge coverage ratio at different thresholds, with approval of the Market Risk Committee, in order to preserve liquidity and/or optimize asset returns.

Effective September 2022, a minimum 25% and 30% hedge coverage ratios were required for interest rate declines less than, and more than 50 basis points, respectively. During the second quarter of 2023, management raised its minimum hedge coverage ratio to 60%. Effective December 2023, we established a targeted hedge coverage ratio range between 95% and 105%. In April 2024, we changed the risk measure to a dollar DV01 that resulted in an equivalent range of approximately 90% to 110%.

With a partial hedge coverage ratio, 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. 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 many factors. These factors include non-parallel changes in the interest rate curve, the convexity of the MSR, the basis risk inherent in the MSR profile and hedging instruments, model risk observed between actual vs. expected fair value changes, and hedge costs. We continuously evaluate the use of hedging instruments with the objective of enhancing 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.

The derivative instruments are subject to margin requirements, posted as either initial or variation margin. Onity 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 securitized 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, while lower interest rates extend the timeline to reach maximum claim amount liquidation. Additionally, portfolio value is heavily influenced by market spreads for fixed and discount margin for ARMs.

The fair value of our securitized HECM loan portfolio net of the fair value of the HMBS-related borrowings represent a reverse mortgage economic MSR (HMSR) for risk management purposes. The fair value of our HMSR 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. HECM loans have a longer duration than HMBS-related borrowings as a result of the future draw commitments, and our obligations as issuer of HMBS to purchase loans out of the Ginnie Mae securitization pools once the outstanding principal balance of the related HECM loan is equal to 98% of the maximum claim amount. This HMSR exposure is used as a partial 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 or securitization of the resulting loan into the secondary mortgage market. Loan commitments for forward loans generally range from 5 to 75 days, with the majority of our commitments to borrowers for 40 to 60 days and our commitments to correspondent sellers for 5 to 30 days. Loans held for sale are generally funded and sold within 5 to 30 days. This 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 preserving the initial gain on sale margin at lock date. The net daily market risk position of net pull-though adjusted locks and loans held for sale, less the offsetting hedges of the pipeline, is monitored daily and its daily limit is +/-5%. 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 or Gain on reverse loans held for investment and HMBS-related borrowings, net in our consolidated statements of operations.

***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.

**Sensitivity Analysis**

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

We assess and manage our interest rate risk on a daily basis primarily using sensitivity analyses. We develop sensitivity analyses to determine the impact on our earnings and financial condition across various interest rate scenarios that could be expected over different time horizons. Our interest rate exposure spans from overnight rates to 30-year rates, with increased sensitivity related to the 5-, 10-, and 30-year rates. Sensitivity analyses are based on hypothetical change in values of different interest-rate sensitive assets and liabilities together with our hedges and are presented under a set instantaneous +/- 25 basis point parallel move in rates. Changes in fair value cannot be extrapolated because the relationship to the change in fair value may not be linear and other factors may apply, such as change in yield, spreads or other assumptions.

The following table summarizes the estimated change in the fair value of our MSRs, HECM loans held for investment and loans held for sale that we have elected to carry at fair value as well as any related derivatives at June 30, 2024, given hypothetical instantaneous parallel shifts in the yield curve. 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, among other factors.

| | Change in Fair Value | | | |
|---|---|---|---|---|
| | Down 25 bps | | Up 25 bps | |
| Asset value of securitized HECM loans, net of HMBS-related borrowing | $ | 4 | $ | (4) |
| Loans held for investment - Unsecuritized HECM loans and tails | | — | | — |
| Loans held for sale | | 16 | | (19) |
| Derivative instruments | | 6 | | (5) |
| Total MSRs - Agency and non-Agency (1) | | (27) | | 24 |
| IRLCs | | (1) | | 1 |
| Total, net | $ | (2) | $ | (4) |

(1) Primarily reflects the impact of market interest rate changes on projected prepayments on the Agency MSR portfolio, Rithm and MAV pledged MSR financing liabilities and ESS financing liabilities.

*Borrowings*

The majority of the collateralized debt used to finance our operations is based on variable rates, but remains exposed to interest rate fluctuations between repricing dates. Our corporate debt is based on fixed interest rates. As servicer, we are also exposed to the impact of interest rate fluctuations on the float income we earn on balances held in trust from the date a loan payment is received from borrowers to the date funds are forwarded to investors.

Based on June 30, 2024 balances, if interest rates were to increase by 100 bps on our variable-rate debt and cash and float balances, we estimate a net positive impact of approximately $1.2 million resulting from an increase of $22.7 million in annual interest income and other credits on deposits, and an increase of $21.4 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 did not enter into any foreign currency hedging derivative instruments during the six months ended June 30, 2024.

**Home Prices**

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

## ITEM 4. CONTROLS AND PROCEDURES

Our management, under the supervision of and with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), as of June 30, 2024.

Based on such evaluation, management concluded that our disclosure controls and procedures as of June 30, 2024 were (1) designed and functioning effectively to ensure that material information relating to Onity, 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 Onity 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 June 30, 2024 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 21 – Contingencies to the Unaudited Consolidated Financial Statements for a description of our material legal proceedings. 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, 2023. There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended December 31, 2023. Understanding these risks is important to understanding any statement in such reports and in our subsequent SEC filings (including this Form 10-Q) and to evaluating an investment in our common stock. You should carefully read and consider the risks and uncertainties described therein together with all the other information included or incorporated by reference in such Annual Report and in our subsequent SEC filings before you make any decision regarding an investment in our common stock. You should also consider the information set forth under "Forward-Looking Statements." If any of the risks actually occur, our business, financial condition, liquidity and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could significantly decline, and you could lose some or all of your investment.

### ITEM 6. EXHIBITS

| | |
|---|---|
| 3.1 | Amended and Restated Articles of Incorporation, as amended (filed herewith) |
| 3.2 | Amended and Restated Bylaws of Registrant (1) |
| 4.1 | The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to the issuance of long-term debt of the Company and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of the Company and its subsidiaries. |
| 10.1* | Registrant 2021 Equity Incentive Plan, as amended (2) |
| 31.1 | Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 31.2 | Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.1 | Certification of the principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 32.2 | Certification of the principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 101 | The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2024 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 June 30, 2024, formatted in Inline XBRL (Included as Exhibit 101). |

* Management contract or compensatory plan or agreement.

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

(2) Incorporated by reference to the similarly described exhibit to the Registrant's Form 8-K filed on May 28, 2024.

## 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.

Onity Group Inc.

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: August 1, 2024

Exhibit 3.1

# AMENDED AND RESTATED
# ARTICLES OF INCORPORATION
# OF
# OCWEN FINANCIAL CORPORATION

## ARTICLE I

## CORPORATE NAME

The name of this corporation is:

Ocwen Financial Corporation

## ARTICLE II

## PRINCIPAL OFFICE

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

1675 Palm Beach Lakes Boulevard
West Palm Beach, Florida 33401

## ARTICLE III

## CAPITAL STOCK

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

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

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

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

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

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

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

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

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

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

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

ARTICLE IV

AFFILIATE TRANSACTIONS; CONTROL-SHARE ACQUISITIONS

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

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

ARTICLE V

INDEMNIFICATION

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

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

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

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

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

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

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

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

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

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

**"ARTICLE III**
**CAPITAL STOCK**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**B.** **Enter new principal office address, if applicable:**
***(Principal office address MUST BE A STREET ADDRESS)***

2002 Summit Boulevard, Suite 600
Atlanta, GA 30319

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

______________________________________________

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

*Name of New Registered Agent*: ______________________________

*New Registered Office Address*: ______________________________
*(Florida street address)*

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

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

*Signature of New Registered Agent, if changing*

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

| **Title** | **Name** | **Address** | **Type of Action** |
|---|---|---|---|
| | | | oAdd<br>oRemove |
| | | | oAdd<br>oRemove |
| | | | oAdd<br>oRemove |

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

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

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

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

**Adoption of Amendment(s)** **(<u>CHECK ONE</u>)**

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

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

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

by ________________________________________."

*(voting group)*

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

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

Dated: December 28, 2010

Signature: /s/ Ronald M. Faris

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

Ronald M. Faris

(Typed or printed name of person signing)

President and Chief Operating Officer

(Title of person signing)

**ARTICLES OF CORRECTION**
for
Ocwen Financial Corporation

Document Number (if known): S75556

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

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

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

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

/s/ Kristen Wagner

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

Kristen Wagner

(Typed or printed name of person signing)

Assistant Secretary

(Title of person signing)

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

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

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

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

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

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

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

3. Dividends.

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

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

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

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

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

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

5. Conversion Rights.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. Change of Control; Liquidation Event.

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

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

7. Redemptions.

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

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

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

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

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

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

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

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

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

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

8. Voting Rights.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Board Observer; Information Rights.

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

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

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

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

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

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

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

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

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

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

13. Severability of Provisions. If any voting powers, preferences and relative, participating, optional and other special rights of the Series A Preferred Stock and qualifications, limitations and restrictions thereof set forth in this resolution (as such resolution may be amended from time to time) is invalid, unlawful or incapable of being enforced by reason of any rule of law or public policy, all other voting powers, preferences and relative, participating, optional and other special rights of Series A Preferred Stock and qualifications, limitations and restrictions thereof set forth in this resolution (as so amended) which can be given effect without the invalid, unlawful or unenforceable voting powers, preferences and relative, participating, optional or other special rights of Series A Preferred Stock and qualifications, limitations and restrictions thereof shall, nevertheless, remain in full force and effect and no voting powers, preferences and relative, participating, optional or other special rights of Series A Preferred Stock and qualifications, limitations and restrictions thereof herein set forth shall be deemed dependent upon any other such voting powers, preferences and relative, participating, optional or other special rights of Series A Preferred Stock and qualifications, limitations and restrictions thereof unless so expressed herein.

14. Re-issuance of Series A Preferred Stock. Shares of Series A Preferred Stock that have been issued and reacquired in any manner, including shares purchased or redeemed or exchanged or converted, shall (upon compliance with any applicable provisions of the laws of Florida) have the status of authorized but unissued shares of preferred stock of the Company undesignated as to series and may be designated or re-designated and issued or reissued, as the case may be, as part of any series of preferred stock of the Company, provided that any issuance of such shares as Series A Preferred Stock must be in compliance with the terms hereof.

15. Mutilated or Missing Series A Preferred Stock Certificates. If physical certificates are issued for the Series A Preferred Stock and if any of such Series A Preferred Stock certificates shall be mutilated, lost, stolen or destroyed, the Company shall issue, at the holder's expense, in exchange and in substitution for and upon cancellation of the mutilated Series A Preferred Stock certificate, or in lieu of and substitution for the Series A Preferred Stock certificate lost, stolen or destroyed, a new Series A Preferred Stock certificate of like tenor and

representing an equivalent amount of shares of Series A Preferred Stock, but only upon receipt of evidence of such loss, theft or destruction of such Series A Preferred Stock certificate and indemnity, if requested, satisfactory to the Company and the Transfer Agent (if other than the Company).

16. Transfer Agent, Conversion Agent, Registrar and Paying Agent. The Transfer Agent, conversion agent, registrar and paying agent shall initially be the Company. The Company may appoint a successor to any one or more of such roles (and may remove any such successor in accordance with any agreement with such successor and appoint a new successor). Upon any such removal or appointment, the Company shall notify the holders of the Series A Preferred Stock thereof.

17. Withholding Taxes. All payments and distributions (or deemed distributions) on the shares of Series A Preferred Stock (and any shares of Common Stock issued upon conversion thereof) shall be subject to withholding and backup withholding of tax to the extent required by law, and such amounts withheld, if any, shall be treated as received by the holders of Series A Preferred Stock.

18. Waiver. Except to the extent expressly provided herein, any provision contained herein and any right of the holders of Series A Preferred Stock granted hereunder may be waived as to all shares of Series A Preferred Stock (and the holders thereof) upon the written consent of the Board (or an authorized committee thereof) and the Majority Holders.

19. Certain Definitions. As used in these Articles of Designation, the following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa), unless the context otherwise requires:

"Affiliate" means, with respect to any specified Person, any Person that, directly or indirectly, controls, is controlled by, or is under common control with, such specified Person, through one or more intermediaries or otherwise. For purposes hereof, "control" (including, with correlative meaning, the terms "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Beneficially Owned" means with respect to any securities having "beneficial ownership" of such securities (as determined pursuant to Rule 13d-3 under the Exchange Act).

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or required by Law to close.

"Change in Control" means the occurrence of any of the following events: (a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person shall be deemed to have "beneficial ownership" of all securities that such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50% of the total voting capital stock of the Company after the date hereof; (b) the Company consolidates with, or merges with or into, or enters into any other business combination with, another Person or sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any Person, or any Person consolidates with, or merges with or into, the Company, in any such event in a transaction in which the outstanding voting capital stock of the Company is converted into or exchanged for cash, securities or other property, provided that following such transaction the holders of voting stock of the Company immediately prior to such transaction do not own more than 50% of the voting stock of the company surviving such transaction or to which such assets are transferred (unless the Majority Holders elect not to treat such transaction as a Change in Control), or (c) any merger, consolidation or other business combination of the Company with or into another Person that results in the cancellation of any shares of Series A Preferred Stock or that results in the conversion or exchange of any shares of Series A Preferred Stock into or for (1) shares of any other class or series of capital stock of the Company, (2) capital stock of the Company or any other Person (or the right to receive any such capital stock), (3) any property (including, without limitation, cash and the right to receive cash or property) or (4) any combination of the foregoing (unless the Majority Holders elect not to treat such transaction as a Change in Control).

"Common Stock" means the Common Stock, par value $.01 per share, of the Company as presently constituted.

"Common Stock Equivalent" means any security or obligation which is by its terms, directly or indirectly, convertible into or exchangeable or exercisable for shares of Common Stock, including, without limitation, any option, warrant or other subscription or purchase right with respect to Common Stock or any Common Stock Equivalent.

"Conversion Price" shall initially equal 110% of the lower of (a) $28.90 and (b) the Thirty Day VWAP prior to the Series A Preferred Stock Issue Date, and thereafter shall be subject to adjustment from time to time pursuant to the terms of Section 5 hereof.

"Current Market Price" per share of Common Stock on any day shall be deemed to be the average of the closing prices of the Common Stock for the twenty (20) consecutive Trading Days ending the day before the day in question, except with respect to issuances of Common Stock or Common Stock Equivalent to employees, directors and consultants, in which case Current Market Price shall be the fair market value of such Common Stock or Common Stock Equivalent on the date of issuance as calculated in accordance with standard Company practices.

"Daily VWAP" means the volume-weighted average price per share of Common Stock as displayed under the heading "Bloomberg VWAP" on the Bloomberg page for the "<equity> AQR" page corresponding to the "ticker" for such Common Stock (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading until the scheduled close of trading of the primary trading session on such Trading Day (or if such volume-weighted average price is unavailable, the market value of one share of such Common Stock on such Trading Day. The "volume weighted average price" shall be determined without regard to after-hours trading or any other trading outside of the regular trading session trading hours.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"FBCA" means the Florida Business Corporation Act, as amended.

"Initial Holders" means the recipients of the Series A Preferred Stock on the Series A Preferred Stock Issue Date.

"Liquidation Preference" means $1,000 per share of Series A Preferred Stock.

"Majority Holders" means the holders who at any point in time hold at least 50.1% of the then outstanding shares of the Series A Preferred Stock.

"Person" means any individual, firm, corporation, partnership, limited liability company, incorporated or unincorporated association, joint venture, joint stock company, Governmental Authority or other entity of any kind.

"Permitted Transfer" means a transfer by the holder of Series A Preferred Stock in accordance with all applicable laws and regulations.

"Permitted Transferee" means the recipient of a Permitted Transfer.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended.

"Series A Preferred Stock Issue Date" means the date on which the Series A Preferred Stock was originally issued by the Company to the Initial Holders under these Articles of Designation.

"Thirty Day VWAP" means, with respect to a security, the average of the Daily VWAP of such security for each day during a thirty (30) consecutive Trading Day period ending immediately prior to the date of determination.

"Trading Day" means any day on which the New York Stock Exchange or other applicable stock exchange or market is open for business.

"Transfer" means, as a noun, any voluntary or involuntary transfer, sale, pledge, hypothecation, gift, or other disposition and, as a verb, voluntarily or involuntarily to transfer, sell, pledge, hypothecate, give, or otherwise dispose of. A Transfer of shares of Series A Preferred Stock held by a stockholder shall also include any Transfer of such stockholder or any direct or indirect interest in a stockholder that constitutes a direct or indirect change of control of the stockholder.

"Transfer Agent" shall be the Company unless and until a successor is selected by the Company as provided herein.

IN WITNESS WHEREOF, the Company has caused these Articles of Amendment to be executed by its duly authorized officer.

Dated: December 13, 2012

OCWEN FINANCIAL CORPORATION

By: /s/ John V. Britti

Name: John V. Britti

Title: Chief Financial Officer

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

Ocwen Financial Corporation, a Florida corporation (the "Corporation"), acting pursuant to the provisions of Sections 607.1006 and 607.10025 of the Florida Business Corporation Act, does hereby adopt the following Articles of Amendment to its Amended and Restated Articles of Incorporation:

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

SECOND: These Articles of Amendment have been adopted and approved in connection with a share division pursuant to Section 607.10025 of the Florida Business Corporation Act. The resolutions approving the division of shares were adopted and approved by the Board of Directors of the Corporation on July 27, 2020, without shareholder action. Shareholder action was not required pursuant to Section 607.10025(2) of the Florida Business Corporation Act.

THIRD: The amendment to the Amended and Restated Articles of Incorporation set forth below does not adversely affect the rights or preferences of the holders of outstanding shares of the Corporation's common stock, and the percentage of authorized shares of the Corporation's common stock remaining unissued after the division will not exceed the percentage of authorized shares of the Corporation's common stock that were unissued before the division.

FOURTH: Paragraph one (1) of Article III of the Amended and Restated Articles of Incorporation shall be deleted in its entirety and replaced with the following:

"The total number of shares of stock of all classes and series the Company shall have authority to issue is 33,333,333 shares consisting of (i) 13,333,333 shares of common stock, par value of $0.01 per share, and (ii) 20,000,000 shares of preferred stock, par value $0.01 per share, with such rights, preferences and limitations as may be set from time to time by resolution of the board of directors and the filing of Articles of Amendment as required by the Florida Business Corporation Act. Upon the filing and effectiveness (the "Effective Time") pursuant to the Florida Business Corporation Act of these Articles of Amendment, each fifteen (15) shares of Common Stock either issued and outstanding immediately prior to the Effective Time shall, automatically and without any action on the part of the respective holders thereof, be combined and converted into one (1) share of Common Stock (the "Reverse Stock Split"). No fractional shares shall be issued in connection with the Reverse Stock Split. Shareholders who otherwise would be entitled to receive fractional shares of Common Stock shall be entitled to receive shares rounded up to the nearest whole share. Each certificate that immediately prior to the Effective Time represented shares of Common Stock ("Old Certificates"), shall from and after the Effective Time, automatically and without the necessity of presenting the same for exchange, represent that number of shares of Common Stock into which the shares of Common Stock represented by the Old Certificate shall have been combined, subject to the elimination of fractional share interests as described above."

FIFTH: That these Articles of Amendment shall become effective at 5:00 P.M. eastern time on August 13, 2020, in accordance with the applicable provisions of the Florida Statutes.

IN WITNESS WHEREOF, the undersigned duly authorized officer of the Corporation has executed these Articles of Amendment as of this 4th day of August, 2020.

OCWEN FINANCIAL CORPORATION

By: /s/ Joseph J. Samarias
Name: Joseph J. Samarias
Title: Secretary

**Articles of Amendment**
**to**
**Articles of Incorporation**
**of**

Ocwen Financial Corporation

(**Name of Corporation as currently filed with the Florida Dept. of State**)

S75556

(Document Number of Corporation (if known)

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

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

Onity Group Inc.

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

**B. Enter new principal office address, if applicable:**
***(Principal office address MUST BE A STREET ADDRESS)***

N/A

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

N/A

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

FILED
2024 MAY 28 AM 10:21
SECRETARY OF STATE
TALLAHASSEE, FL

*Name of New Registered Agent* C T Corporation System

1200 South Pine Island Road
*(Florida street address)*

*New Registered Office Address*: Plantation, Florida 33324
*(City)* *(Zip Code)*

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

Stephen Rullis, VP & Asst. Secy.
*Signature of New Registered Agent, if changing*

**Check if applicable**
☐ The amendment(s) is/are being filed pursuant to s. 607.0120 (11) (e), F.S.

**The date of each amendment(s) adoption:** May 28, 2024, if other than the date this document was signed.

**Effective date <u>if applicable</u>:** effective at 12:01 a.m. ET, June 10, 2024

*(no more than 90 days after amendment file date)*

**Note:** If the date inserted in this block does not meet the applicable statutory filing requirements, this date will not be listed as the document's effective date on the Department of State's records.

**Adoption of Amendment(s)** **<u>(CHECK ONE)</u>**

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

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

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

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

by ______________________________."

*(voting group)*

Dated May 28, 2024

Signature [signature]

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

Joseph J. Samarias

(Typed or printed name of person signing)

Secretary

(Title of person signing)

**EXHIBIT 31.1**

**CERTIFICATIONS**

I, Glen A. Messina, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Onity Group Inc.;

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

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

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

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

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

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

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

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

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

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

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Date: August 1, 2024

/s/ Glen A. Messina

Glen A. Messina, President
and Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATIONS**

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

(1) I have reviewed this quarterly report on Form 10-Q of Onity Group Inc.;

(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.

August 1, 2024

/s/ Sean B. O'Neil

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

**EXHIBIT 32.1**

**CERTIFICATIONS**

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

(1) I am the principal executive officer of Onity Group Inc. (the Registrant).

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

- the Quarterly Report on Form 10-Q of the Registrant for the quarter ended June 30, 2024 (the periodic report) containing financial statements fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

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

| | |
|---|---|
| Name: | /s/ Glen A. Messina |
| Title: | President and Chief Executive Officer |
| Date: | August 1, 2024 |

**EXHIBIT 32.2**

**CERTIFICATIONS**

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

(1) I am the principal financial officer of Onity Group Inc. (the Registrant).

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

- the Quarterly Report on Form 10-Q of the Registrant for the quarter ended June 30, 2024 (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: | August 1, 2024 |