

**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, 2021

OR

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

For the transition period from: _____ to _____

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of incorporation or organization)

1661 Worthington Road, Suite 100

West Palm Beach, Florida

(Address of principal executive office)

65-0039856

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

33409

(Zip Code)

(561) 682-8000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No 0

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No 0

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 0

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

Number of shares of common stock outstanding as of July 30, 2021: 9,189,030 shares

OCWEN FINANCIAL CORPORATION
FORM 10-Q
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FORWARD-LOOKING STATEMENTS

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

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

- uncertainty relating to the continuing impacts of the Coronavirus 2019 (COVID-19) pandemic, including with respect to the response of the U.S. government, state governments, the Federal National Mortgage Association (Fannie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac) (together, the GSEs), the Government National Mortgage Association (Ginnie Mae) and regulators;
- the potential for ongoing COVID-19 related disruption in the financial markets and in commercial activity generally, increased unemployment, and other financial difficulties facing our borrowers;
- the proportion of borrowers who enter into forbearance plans, the financial ability of borrowers to resume repayment and their timing for doing so;
- the extent to which our mortgage servicing right (MSR) joint venture with Oaktree Capital Management L.P. and its affiliates (Oaktree), other recent transactions and our enterprise sales initiatives will generate additional subservicing volume and result in increased profitability;
- our ability to deploy the proceeds of the senior secured notes in suitable investments at appropriate returns;
- our ability to close announced bulk acquisitions of MSRs and other transactions, including the ability to obtain regulatory approvals, enter into definitive financing arrangements, and satisfy closing conditions, and the timing for doing so;
- the timeline for closing our agreement with Reverse Mortgage Solutions, Inc. (RMS) and our ability to efficiently integrate the operations, assets and employees of its reverse mortgage servicing platform;
- the adequacy of our financial resources, including our sources of liquidity and ability to sell, fund and recover servicing advances, forward and reverse whole loans, and Home Equity Conversion Mortgage (HECM) and forward loan buyouts and put-backs, as well as repay, renew and extend borrowings, borrow additional amounts as and when required, meet our MSR or other asset investment objectives and comply with our debt agreements, including the financial and other covenants contained in them;
- increased servicing costs based on rising borrower delinquency levels or other factors;
- reduced collection of servicing fees and ancillary income and delayed collection of servicing revenue as a result of forbearance plans and moratoria on evictions and foreclosure proceedings;
- our ability to continue to improve our financial performance through cost re-engineering initiatives and other actions;
- our ability to continue to grow our lending business and increase our lending volumes in a competitive market and uncertain interest rate environment;
- uncertainty related to our long-term relationship and remaining agreements with New Residential Investment Corp. (NRZ), our largest servicing client, including whether our subservicing agreements will renew or terminate in July 2022;
- uncertainty related to claims, litigation, cease and desist orders and investigations brought by government agencies and private parties regarding our servicing, foreclosure, modification, origination and other practices, including uncertainty related to past, present or future investigations, litigation, cease and desist orders and settlements with state regulators, the Consumer Financial Protection Bureau (CFPB), State Attorneys General, the Securities and Exchange Commission (SEC), the Department of Justice or the Department of Housing and Urban Development (HUD);
- adverse effects on our business as a result of regulatory investigations, litigation, cease and desist orders or settlements and the reactions of key counterparties, including lenders, the GSEs and Ginnie Mae;
- our ability to comply with the terms of our settlements with regulatory agencies and the costs of doing so;
- any adverse developments in existing legal proceedings or the initiation of new legal proceedings;
- our ability to effectively manage our regulatory and contractual compliance obligations;
- 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 a recent judicial interpretation of the Fair Debt Collection Practices Act may require us to modify our business practices and expose us to increased expense and litigation risk;
- our ability to interpret correctly and comply with liquidity, net worth and other financial and other requirements of regulators, the GSEs and Ginnie Mae, as well as those set forth in our debt and other agreements;
- our ability to comply with our servicing agreements, including our ability to comply with our agreements with, and the requirements of, the GSEs and Ginnie Mae and maintain our seller/servicer and other statuses with them;
- our servicer and credit ratings as well as other actions from various rating agencies, including the impact of prior or future downgrades of our servicer and credit ratings;
- failure of our information technology or other security systems or breach of our privacy protections, including any failure to protect customers' data;
- our reliance on our technology vendors to adequately maintain and support our systems, including our servicing systems, loan originations and financial reporting systems, and uncertainty relating to our ability to transition to alternative vendors, if necessary, without incurring significant cost or disruption to our operations;
- the loss of the services of our senior managers and key employees;
- uncertainty related to the actions of loan owners and guarantors, including mortgage-backed securities investors, 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 or Department of Veterans Affairs (VA) ceasing to provide insurance;
- uncertainty related to our ability to continue to collect certain expedited payment or convenience fees and potential liability for charging such fees;
- uncertainty related to our reserves, valuations, provisions and anticipated realization of assets;
- uncertainty related to the ability of third-party obligors and financing sources to fund servicing advances on a timely basis on loans serviced by us;
- the characteristics of our servicing portfolio, including prepayment speeds along with delinquency and advance rates;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;
- uncertainty related to the processes for judicial and non-judicial foreclosure proceedings, including potential additional costs or delays or moratoria in the future or claims pertaining to past practices;
- our ability to adequately manage and maintain real estate owned (REO) properties and vacant properties collateralizing loans that we service;
- our ability to realize anticipated future gains from future draws on existing loans in our reverse mortgage portfolio;
- our ability to effectively manage our exposure to interest rate changes and foreign exchange fluctuations;
- our ability to effectively transform our operations in response to changing business needs, including our ability to do so without unanticipated adverse tax consequences;
- uncertainty related to the political or economic stability of the United States and of the foreign countries in which we have operations; and
- our ability to maintain positive relationships with our large shareholders and obtain their support for management proposals requiring shareholder approval.

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the SEC including our Annual Report on Form 10-K for the year ended December 31, 2020 and our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K since such date. Forward-looking statements speak only as of the date they were made and we disclaim any obligation to update or revise forward-looking statements whether because of new information, future events or otherwise.

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

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

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Assets		
Cash and cash equivalents	\$ 243,582	\$ 284,802
Restricted cash (amounts related to variable interest entities (VIEs) of \$12,404 and \$16,791)	67,918	72,463
Mortgage servicing rights (MSRs), at fair value	2,072,518	1,294,817
Advances, net (amounts related to VIEs of \$610,964 and \$651,576)	761,973	828,239
Loans held for sale (\$680,866 and \$366,364 carried at fair value) (amounts related to VIEs of \$154,687 and \$0)	696,020	387,836
Loans held for investment, at fair value (amounts related to VIEs of \$8,680 and \$9,770)	7,120,953	7,006,897
Receivables, net	165,185	187,665
Premises and equipment, net	15,748	16,925
Investment in equity method investee	11,878	—
Other assets (\$26,403 and \$25,476 carried at fair value) (amounts related to VIEs of \$2,426 and \$4,544)	611,935	571,483
Total assets	<u>\$ 11,767,710</u>	<u>\$ 10,651,127</u>
Liabilities and Equity		
Liabilities		
Home Equity Conversion Mortgage-Backed Securities (HMBS) related borrowings, at fair value	\$ 6,823,911	\$ 6,772,711
Other financing liabilities, at fair value (amounts related to VIEs of \$8,680 and \$9,770)	544,251	576,722
Advance match funded liabilities (related to VIEs)	530,182	581,288
Mortgage loan warehouse facilities	773,352	451,713
MSR financing facilities, net	1,012,478	437,672
Senior secured term loan, net	—	179,776
Senior notes, net	610,600	311,898
Other liabilities (\$4,039 and \$4,638 carried at fair value)	1,025,836	923,975
Total liabilities	<u>11,320,610</u>	<u>10,235,755</u>
Commitments and Contingencies (Notes 21 and 22)		
Stockholders' Equity		
Common stock, \$.01 par value; 13,333,333 shares authorized; 9,189,030 and 8,687,750 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively.	92	87
Additional paid-in capital	590,252	556,062
Accumulated deficit	(133,461)	(131,682)
Accumulated other comprehensive loss, net of income taxes	(9,783)	(9,095)
Total stockholders' equity	<u>447,100</u>	<u>415,372</u>
Total liabilities and stockholders' equity	<u>\$ 11,767,710</u>	<u>\$ 10,651,127</u>

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue				
Servicing and subservicing fees	\$ 184,441	\$ 175,240	\$ 356,179	\$ 386,723
Reverse mortgage revenue, net	29,301	13,759	51,127	36,556
Gain on loans held for sale, net	42,713	33,547	48,434	46,878
Other revenue, net	8,990	4,478	17,299	10,709
Total revenue	<u>265,445</u>	<u>227,024</u>	<u>473,039</u>	<u>480,866</u>
MSR valuation adjustments, net	(72,450)	(23,434)	(51,242)	(197,554)
Operating expenses				
Compensation and benefits	72,172	65,017	140,453	125,745
Servicing and origination	26,642	17,361	54,112	37,617
Professional services	25,544	23,818	42,866	49,455
Technology and communications	13,170	16,111	26,313	31,304
Occupancy and equipment	7,885	16,136	16,737	28,105
Other expenses	4,395	6,366	8,956	9,797
Total operating expenses	<u>149,808</u>	<u>144,809</u>	<u>289,437</u>	<u>282,023</u>
Other income (expense)				
Interest income	4,188	3,566	8,124	8,961
Interest expense	(33,516)	(26,760)	(61,968)	(56,742)
Pledged MSR liability expense	(39,810)	(41,686)	(77,660)	(48,280)
Loss on extinguishment of debt	—	—	(15,458)	—
Earnings of equity method investee	350	—	350	—
Other, net	3,364	(57)	3,654	1,271
Total other expense, net	<u>(65,424)</u>	<u>(64,937)</u>	<u>(142,958)</u>	<u>(94,790)</u>
Loss before income taxes	(22,237)	(6,156)	(10,598)	(93,501)
Income tax benefit	(11,915)	(8,110)	(8,819)	(69,966)
Net income (loss)	<u>\$ (10,322)</u>	<u>\$ 1,954</u>	<u>\$ (1,779)</u>	<u>\$ (23,535)</u>
Earnings (loss) per share				
Basic	\$ (1.15)	\$ 0.23	\$ (0.20)	\$ (2.67)
Diluted	\$ (1.15)	\$ 0.23	\$ (0.20)	\$ (2.67)
Weighted average common shares outstanding				
Basic	8,999,544	8,651,273	8,844,637	8,820,931
Diluted	8,999,544	8,661,490	8,844,637	8,820,931

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

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

	<u>For the Three Months Ended June 30,</u>		<u>For the Six Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net income (loss)	\$ (10,322)	\$ 1,954	\$ (1,779)	\$ (23,535)
Other comprehensive income, net of income taxes:				
Change in unfunded pension plan obligation liability	(367)	46	(733)	92
Other	22	40	45	76
Comprehensive income (loss)	<u>\$ (10,667)</u>	<u>\$ 2,040</u>	<u>\$ (2,467)</u>	<u>\$ (23,367)</u>

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020
(Dollars in thousands)

	Common Stock		Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Income Taxes	Total
	Shares	Amount				
Three Months Ended June 30, 2021 and 2020						
Balance at March 31, 2021	8,701,530	\$ 87	\$ 572,500	\$ (123,139)	\$ (9,438)	\$ 440,010
Net loss	—	—	—	(10,322)	—	(10,322)
Issuance of common stock	426,705	4	12,165	—	—	12,169
Issuance of common stock warrants, net of issuance costs	—	—	4,203	—	—	4,203
Equity-based compensation and other	60,795	1	1,384	—	—	1,385
Other comprehensive loss, net of income taxes	—	—	—	—	(345)	(345)
Balance at June 30, 2021	<u>9,189,030</u>	<u>\$ 92</u>	<u>\$ 590,252</u>	<u>\$ (133,461)</u>	<u>\$ (9,783)</u>	<u>\$ 447,100</u>
Balance at March 31, 2020	8,638,818	\$ 86	\$ 554,276	\$ (116,993)	\$ (7,512)	\$ 429,857
Net income	—	—	—	1,954	—	1,954
Equity-based compensation and other	28,442	1	871	—	—	872
Other comprehensive income, net of income taxes	—	—	—	—	86	86
Balance at June 30, 2020	<u>8,667,260</u>	<u>\$ 87</u>	<u>\$ 555,147</u>	<u>\$ (115,039)</u>	<u>\$ (7,426)</u>	<u>\$ 432,769</u>

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020
(Dollars in thousands)

	Common Stock		Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss, Net of Income Taxes	Total
	Shares	Amount				
Six Months Ended June 30, 2021 and 2020						
Balance at December 31, 2020	8,687,750	\$ 87	\$ 556,062	\$ (131,682)	\$ (9,095)	\$ 415,372
Net loss	—	—	—	(1,779)	—	(1,779)
Issuance of common stock	426,705	4	12,165	—	—	12,169
Issuance of common stock warrants, net of issuance costs	—	—	19,956	—	—	19,956
Equity-based compensation and other	74,575	1	2,069	—	—	2,070
Other comprehensive income, net of income taxes	—	—	—	—	(688)	(688)
Balance at June 30, 2021	<u>9,189,030</u>	<u>\$ 92</u>	<u>\$ 590,252</u>	<u>\$ (133,461)</u>	<u>\$ (9,783)</u>	<u>\$ 447,100</u>
Balance at December 31, 2019	8,990,816	\$ 90	\$ 558,057	\$ (138,542)	\$ (7,594)	\$ 412,011
Net loss	—	—	—	(23,535)	—	(23,535)
Cumulative effect of adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13	—	—	—	47,038	—	47,038
Repurchase of common stock	(377,484)	(4)	(4,601)	—	—	(4,605)
Equity-based compensation and other	53,928	1	1,691	—	—	1,692
Other comprehensive income, net of income taxes	—	—	—	—	168	168
Balance at June 30, 2020	<u>8,667,260</u>	<u>\$ 87</u>	<u>\$ 555,147</u>	<u>\$ (115,039)</u>	<u>\$ (7,426)</u>	<u>\$ 432,769</u>

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

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

	For the Six Months Ended June 30,	
	2021	2020
Cash flows from operating activities		
Net loss	\$ (1,779)	\$ (23,535)
Adjustments to reconcile loss to net cash (used in) provided by operating activities:		
MSR valuation adjustments, net	51,242	197,554
Loss (gain) on sale of MSRs, net	41	(161)
Provision for bad debts	11,522	11,939
Depreciation	5,066	11,093
Amortization of debt issuance costs and discount	3,232	4,181
Equity-based compensation expense	2,260	1,523
Loss on extinguishment of debt	15,458	—
Loss (gain) on valuation of Pledged MSR financing liability	9,944	(31,716)
Net gain on valuation of loans held for investment and HMBS-related borrowings	(18,505)	(15,351)
Gain on loans held for sale, net	(48,434)	(46,878)
Origination and purchase of loans held for sale	(6,620,727)	(1,949,022)
Proceeds from sale and collections of loans held for sale	6,287,238	1,936,204
Changes in assets and liabilities:		
Decrease in advances, net	56,461	144,020
Decrease in receivables and other assets, net	44,368	39,998
Decrease in other liabilities	(9,034)	(45,533)
Other, net	(4,590)	(9,497)
Net cash (used in) provided by operating activities	<u>(216,237)</u>	<u>224,819</u>
Cash flows from investing activities		
Origination of loans held for investment	(720,442)	(568,074)
Principal payments received on loans held for investment	722,099	370,114
Purchase of MSRs	(712,578)	(48,014)
Investment in equity method investee	(11,528)	—
Other, net	(47)	2,589
Net cash used in investing activities	<u>(722,496)</u>	<u>(243,385)</u>
Cash flows from financing activities		
Repayment of advance match funded liabilities, net	(51,106)	(66,459)
Repayment of other financing liabilities	(39,616)	(68,534)
Proceeds from (repayment of) mortgage loan warehouse facilities, net	321,639	(6,881)
Proceeds from MSR financing facilities	630,003	129,452
Repayment of MSR financing facilities	(53,509)	(166,055)
Repayment of Senior notes	(319,156)	—
Proceeds from issuance of Senior notes and warrants	647,944	—
Repayment of senior secured term loan (SSTL) borrowings	(188,700)	(131,066)
Payment of debt issuance costs	(16,032)	(7,451)
Proceeds from sale of Home Equity Conversion Mortgages (HECM, or reverse mortgages) accounted for as a financing (HMBS-related borrowings)	667,480	590,640
Repayment of HMBS-related borrowings	(715,332)	(365,233)
Issuance of common stock	9,878	—
Repurchase of common stock	—	(4,605)
Other, net	(525)	(33)
Net cash provided by (used in) financing activities	<u>892,968</u>	<u>(96,225)</u>
Net decrease in cash, cash equivalents and restricted cash	(45,765)	(114,791)
Cash, cash equivalents and restricted cash at beginning of year	357,265	492,340
Cash, cash equivalents and restricted cash at end of period	<u>\$ 311,500</u>	<u>\$ 377,549</u>
Supplemental non-cash investing and financing activities:		
Recognition of gross right-of-use asset and lease liability:		
Right-of-use asset	\$ 3,204	\$ 2,608
Lease liability	3,204	2,597
Transfers of loans held for sale to real estate owned (REO)	\$ 3,545	\$ 841
Transfer from loans held for investment to loans held for sale	1,678	1,119
Derecognition of MSRs and financing liabilities:		
MSRs	\$ —	\$ (263,344)
Financing liability - MSRs pledged (Rights to MSRs)	—	(263,344)
Deconsolidation of mortgage-backed securitization trusts (VIEs)		
Loans held for investment	\$ —	\$ (10,715)
Other financing liabilities	—	(9,519)
Recognition of future draw commitments for HECM loans at fair value upon adoption of FASB ASU No. 2016-13	\$ —	\$ 47,038
Supplemental information - Sale and deconsolidation of subsidiary		
Cash proceeds received	\$ 4,409	\$ —
Equity / cash balance held by subsidiary upon sale	(5,250)	—

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

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Cash and cash equivalents	\$ 243,582	\$ 313,736
Restricted cash and equivalents:		
Debt service accounts	15,643	18,757
Other restricted cash	52,275	45,056
Total cash, cash equivalents and restricted cash reported in the statements of cash flows	<u>\$ 311,500</u>	<u>\$ 377,549</u>

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021
(Dollars in thousands, except per share data and unless otherwise indicated)

Note 1 - Organization and Basis of Presentation

Organization

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

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

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

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

We had a total of approximately 5,200 employees at June 30, 2021 of which approximately 3,100 were located in India and approximately 500 were based in the Philippines. Our operations in India and the Philippines primarily provide internal support services, principally to our loan servicing business and our corporate functions. Of our foreign-based employees, approximately 69% were engaged in supporting our loan servicing operations as of June 30, 2021.

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, 2021 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2021. 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, 2020.

In August 2020, Ocwen implemented a reverse stock split of its shares of common stock in a ratio of one-for-15. The number of shares, loss per share amounts, repurchase price per share amounts, and Common stock and Additional paid-in capital balances have been retroactively adjusted for all periods presented in this Quarterly Report on Form 10-Q to give effect to the reverse stock split as if it occurred at the beginning of the first period presented. See Note 14 – Equity for additional information.

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

Income Taxes (ASC Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12)

The FASB issued this ASU to Accounting Standards Codification (ASC) Topic 740, Income Taxes, as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. Amendments include the removal of certain exceptions to the general principles of ASC Topic 740 in such areas as intraperiod tax allocation, year to date losses in interim periods and deferred tax liabilities related to outside basis differences. Amendments also include simplification in other areas such as interim recognition of enactment of tax laws or rate changes and accounting for a franchise tax (or similar tax) that is partially based on income.

Our adoption of this standard on January 1, 2021 did not have a material impact on our consolidated financial statements.

Debt—Debt with Conversion and Other Options and Derivatives and Hedging—Contracts in Entity's Own Equity—Accounting for Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06)

The amendments in this ASU simplify the accounting for certain financial instruments with characteristics of liabilities and equity by reducing the number of accounting models for convertible debt and convertible preferred stock instruments. In addition, this ASU amended the derivative guidance for the “own stock” scope exception and certain aspects when calculating earnings per share. The amendments in this ASU affect entities that issue convertible instruments and/or contracts in an entity’s own equity.

The amendments in this ASU are effective on January 1, 2022, with early adoption permitted on January 1, 2021. Our early adoption of this standard on January 1, 2021 did not have a material impact on our consolidated financial statements.

Investments—Equity Securities (ASC Topic 321), Investments—Equity Method and Joint Ventures (ASC Topic 323), and Derivatives and Hedging (ASC Topic 815) (ASU 2020-01)

The amendments in this ASU affect all entities that apply the guidance in ASC Topics 321, 323, and 815 and (1) elect to apply the measurement alternative or (2) enter into a forward contract or purchase an option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting. The amendments clarify that forward or option contracts to purchase investments that will be accounted for using the equity method that do not meet the definition of a derivative under ASC Topic 815 are in the scope of ASC Topic 321. Therefore, when the purchase contract is considered a forward or option contract in the scope of this guidance, the investor would account for changes in the contract’s fair value prior to closing through earnings, unless the contract qualifies for the measurement alternative and it is elected. If the measurement alternative is elected, the change in the fair value of the contract would be reflected in earnings upon closing. In addition, if there are observable transactions or impairments before closing, the guidance would require remeasurement of the contract to fair value.

The guidance in this ASU also specifies that when applying the measurement alternative in ASC Topic 321, observable transactions include those transactions by the investor that result in the application or discontinuation of the equity method of accounting.

The amendments under this ASU are effective prospectively. Our adoption of this standard on January 1, 2021 did not have a material impact on our consolidated financial statements.

Note 2 – Securitizations and Variable Interest Entities

We securitize, sell and service forward and reverse residential mortgage loans and regularly transfer financial assets in connection with asset-backed financing arrangements. We have aggregated these transfers of financial assets and asset-backed financing arrangements using special purpose entities (SPEs) or variable interest entities (VIEs) into the following groups: (1) securitizations of residential mortgage loans, (2) financings of loans held for sale, (3) financings of advances and (4) MSR financings. Financing transactions that do not use SPEs or VIEs are disclosed in Note 12 – 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,	
	2021	2020	2021	2020
Proceeds received from securitizations	\$ 3,147,912	\$ 1,071,252	\$ 6,396,831	\$ 1,891,253
Servicing fees collected (1)	14,350	10,391	27,528	22,643
Purchases of previously transferred assets, net of claims reimbursed	(6,780)	(1,669)	(10,019)	(4,277)
	<u>\$ 3,155,482</u>	<u>\$ 1,079,974</u>	<u>\$ 6,414,340</u>	<u>\$ 1,909,619</u>

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

In connection with these transfers, we retained MSRs of \$35.8 million and \$70.1 million during the three and six months ended June 30, 2021, respectively, and \$9.1 million and \$15.7 million during the three and six months ended June 30, 2020, respectively. We securitize forward residential mortgage loans involving the GSEs and loans insured by the FHA or VA through Ginnie Mae.

Certain obligations arise from the agreements associated with our transfers of loans. Under these agreements, we may be obligated to repurchase the loans, or otherwise indemnify or reimburse the investor or insurer for losses incurred due to material breach of contractual representations and warranties.

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

	June 30, 2021	December 31, 2020
Carrying value of assets		
MSRs, at fair value	\$ 219,489	\$ 137,029
Advances	141,041	143,361
UPB of loans transferred (1)	22,484,487	18,062,856
Maximum exposure to loss	<u>\$ 22,845,017</u>	<u>\$ 18,343,246</u>

(1) Includes \$5.0 billion and \$4.1 billion of loans delivered to Ginnie Mae as of June 30, 2021 and December 31, 2020, respectively, and includes loan modifications delivered through the Ginnie Mae Early Buyout Program (EBO).

At June 30, 2021 and December 31, 2020, 5.4% and 6.8%, 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 15.1% and 17.1%, 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 or we sell the loans to third parties with servicing rights released. We have determined that loan transfers in the HMBS program do not meet the definition of a participating interest and the servicing requirements require the issuer/servicer to absorb some level of interest

rate risk, cash flow timing risk and incidental credit risk. As a result, the transfers of the HECM loans do not qualify for sale accounting, and therefore, we account for these transfers as financings. Under this accounting treatment, the HECM loans are classified as Loans held for investment, at fair value, on our unaudited consolidated balance sheets. Holders of participating interests in the HMBS have no recourse against the assets of Ocwen, except with respect to standard representations and warranties and our contractual obligation to service the HECM loans and the HMBS.

Financing of Loans Held for Sale using SPEs

We entered into a warehouse mortgage loan financing facility with a third-party lender involving an SPE (trust). This facility is structured as a gestation repurchase facility whereby Agency mortgage loans are transferred by PMC to the trust for collateralization purposes. We have designed the trust to facilitate the third party financing facility and have determined that the trust is a VIE for which we are the primary beneficiary. Therefore, we have included the trust in our consolidated financial statements.

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

	June 30, 2021
Mortgage loans (Loans held for sale, at fair value)	\$ 154,687
Outstanding borrowings (Mortgage loan warehouse facilities)	154,296

Financings of Advances using SPEs

Match funded advances, i.e., advances that are pledged as collateral to our advance facilities, result from our transfers of residential loan servicing advances to SPEs in exchange for cash. We consolidate these SPEs because we have determined that Ocwen is the primary beneficiary of the SPEs. These SPEs issue debt supported by collections on the transferred advances, and we refer to this debt as Advance match funded liabilities. Holders of the debt issued by the SPEs have recourse only to the assets of the SPE for satisfaction of the debt.

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

	June 30, 2021	December 31, 2020
Match funded advances (Advances, net)	\$ 610,964	\$ 651,576
Debt service accounts (Restricted cash)	10,165	14,195
Unamortized deferred lender fees (Other assets)	2,147	4,253
Prepaid interest (Other assets)	279	291
Advance match funded liabilities	530,182	581,288

MSR Financings using SPEs

In 2019, we entered into a financing facility with a third-party secured by certain Fannie Mae and Freddie Mac MSRs (Agency MSRs). Two SPEs (trusts) were established in connection with this facility.

We determined that the trusts are VIEs for which we are the primary beneficiary. Therefore, we have included the trusts in our consolidated financial statements. We have the power to direct the activities of the VIEs that most significantly impact the VIE's economic performance given that we are the servicer of the Agency MSRs that result in cash flows to the trusts. In addition, we have designed the trusts at inception to facilitate the third-party funding facility under which we have the obligation to absorb the losses of the VIEs that could be potentially significant to the VIEs.

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

	June 30, 2021	December 31, 2020
MSRs pledged (MSRs, at fair value)	\$ 719,455	\$ 476,371
Unamortized deferred lender fees (Other assets)	2,963	1,183
Debt service account (Restricted cash)	104	211
Outstanding borrowings (MSR financing facilities, net)	382,667	210,755

In 2019, we issued Ocwen Excess Spread-Collateralized Notes, Series 2019-PLS1 Class A (PLS Notes) secured by certain of PMC's private label MSR's (PLS MSR's). An SPE, PMC PLS ESR Issuer LLC (PLS Issuer), was established in this connection as a wholly owned subsidiary of PMC. Ocwen guarantees the obligations of PLS Issuer under the facility.

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

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

	June 30, 2021	December 31, 2020
MSR's pledged (MSR's, at fair value)	\$ 113,547	\$ 129,204
Debt service account (Restricted cash)	2,135	2,385
Outstanding borrowings (MSR financing facilities, net)	55,116	68,313
Unamortized debt issuance costs (Other secured borrowings, net)	635	894

Note 3 – Fair Value

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

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

	Level	June 30, 2021		December 31, 2020	
		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	\$ 680,866	\$ 680,866	\$ 366,364	\$ 366,364
Loans held for sale, at lower of cost or fair value (b)	3	15,154	15,154	21,472	21,472
Total Loans held for sale		\$ 696,020	\$ 696,020	\$ 387,836	\$ 387,836
Loans held for investment					
Loans held for investment - Reverse mortgages (a)	3	\$ 7,112,273	\$ 7,112,273	\$ 6,997,127	\$ 6,997,127
Loans held for investment - Restricted for securitization investors (a)	3	8,680	8,680	9,770	9,770
Total loans held for investment		\$ 7,120,953	\$ 7,120,953	\$ 7,006,897	\$ 7,006,897

	Level	June 30, 2021		December 31, 2020	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Advances, net (c)	3	\$ 761,973	\$ 761,973	\$ 828,239	\$ 828,239
Receivables, net (c)	3	165,185	165,185	187,665	187,665
Mortgage-backed securities (a)	3	1,607	1,607	2,019	2,019
Corporate bonds (a)	2	211	211	211	211
Investment in equity method investee (c)	3	11,878	11,878	—	—
Financial liabilities:					
Advance match funded liabilities (c)	3	\$ 530,182	\$ 530,765	\$ 581,288	\$ 581,997
Financing liabilities:					
HMBS-related borrowings (a)	3	\$ 6,823,911	\$ 6,823,911	\$ 6,772,711	\$ 6,772,711
Financing liability - MSR pledged (Rights to MSRs) (a)	3	535,571	535,571	566,952	566,952
Financing liability - Owed to securitization investors (a)	3	8,680	8,680	9,770	9,770
Total Financing liabilities		\$ 7,368,162	\$ 7,368,162	\$ 7,349,433	\$ 7,349,433
Senior secured term loan (c) (d)	2	\$ —	\$ —	\$ 179,776	\$ 184,639
Mortgage loan warehouse facilities (c)	3	773,352	773,352	451,713	451,713
MSR financing facilities(c) (d)	3	1,012,478	982,795	437,672	406,860
Senior notes:					
Senior notes (c) (d) (f)	2	391,750	406,144	311,898	320,879
OFC Senior notes due 2027 (c) (d) (f)	3	218,850	259,874	—	—
Total Senior notes		\$ 610,600	\$ 666,018	\$ 311,898	\$ 320,879
Derivative financial instrument assets (liabilities)					
Interest rate lock commitments (a)	3	\$ 17,437	\$ 17,437	\$ 22,706	\$ 22,706
Forward trades - Loans held for sale (a)	2	147	147	(50)	(50)
TBA / Forward mortgage-backed securities (MBS) trades (a)	1	2,250	2,250	(4,554)	(4,554)
Interest rate swap futures (a)	1	2,297	2,297	504	504
TBA forward Pipeline trades (a)	1	(1,580)	(1,580)	—	—
Other	3	(5)	(5)	—	—
MSRs (a)	3	\$ 2,072,518	\$ 2,072,518	\$ 1,294,817	\$ 1,294,817

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

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

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

(d) The carrying values are net of unamortized debt issuance costs and discount. See Note 12 – Borrowings for additional information.

(e) Loans repurchased from Ginnie Mae securitizations with a fair value of \$139.0 million and \$51.1 million at June 30, 2021 and December 31, 2020, respectively, are classified as Level 3. The remaining balance of loans held for sale at fair value is classified as Level 2.

(f) On March 4, 2021, PMC completed the issuance and sale of \$400.0 million aggregate principal amount of senior secured notes. Fair value is based on valuation data obtained from a pricing service. Therefore, these notes are classified as Level 2. Additionally on March 4, 2021 and May 3, 2021, Ocwen completed the private placement of \$199.5 million and \$85.5 million, respectively, aggregate principal amount of senior secured second lien notes. These notes are classified as Level 3. See Note 12 – Borrowings for additional information.

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

	Loans Held for Investment - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Loans Held for Sale - Fair Value	Mortgage- Backed Securities	IRLCs
Three months ended June 30, 2021					
Beginning balance	\$ 8,820	\$ (8,820)	\$ 71,367	\$ 1,613	\$ 14,589
Purchases, issuances, sales and settlements					
Purchases	—	—	107,206	—	—
Issuances	—	—	—	—	127,386
Sales	—	—	(38,167)	—	—
Settlements	(140)	140	—	—	—
Transfers (to) from:					
Loans held for sale, at fair value	—	—	—	—	(113,822)
Other assets	—	—	(281)	—	—
Receivables, net	—	—	(555)	—	—
	(140)	140	68,203	—	13,564
Change in fair value included in earnings	—	—	(728)	(6)	(10,716)
Ending balance	\$ 8,680	\$ (8,680)	\$ 138,842	\$ 1,607	\$ 17,437

	Loans Held for Investment - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Loans Held for Sale - Fair Value	Mortgage- Backed Securities	IRLCs
Three months ended June 30, 2020					
Beginning balance	\$ 22,561	\$ (21,365)	\$ 25,582	\$ 1,670	\$ 10,478
Purchases, issuances, sales and settlements					
Purchases	—	—	58,510	—	—
Issuances	—	—	—	—	69,504
Deconsolidation of mortgage-backed securitization trusts	(10,715)	9,519	—	—	—
Sales	—	—	(58,550)	—	—
Settlements	(182)	326	(426)	—	(62,323)
Transfers (to) from:					
Other assets	—	—	(270)	—	—
	(10,897)	9,845	(736)	—	7,181
Change in fair value included in earnings	—	(144)	1,104	56	159
Ending balance	\$ 11,664	\$ (11,664)	\$ 25,950	\$ 1,726	\$ 17,818

	Loans Held for Investment - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Loans Held for Sale - Fair Value	Mortgage- backed Securities	IRLCs
Six Months Ended June 30, 2021					
Beginning balance	\$ 9,770	\$ (9,770)	\$ 51,072	\$ 2,019	\$ 22,706
Purchases, issuances, sales and settlements					
Purchases	—	—	166,121	—	—
Issuances	—	—	—	—	261,756
Sales	—	—	(71,056)	—	—
Settlements	(1,090)	1,090	—	—	—
Transfers (to) from:					
Loans held for sale, at fair value	—	—	—	—	(242,386)
Other assets	—	—	(377)	—	—
Receivables, net	—	—	(555)	—	—
	(1,090)	1,090	94,133	—	19,370
Change in fair value included in earnings	—	—	(6,363)	(412)	(24,639)
Ending balance	\$ 8,680	\$ (8,680)	\$ 138,842	\$ 1,607	\$ 17,437

	Loans Held for Investment - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Loans Held for Sale - Fair Value	Mortgage-backed Securities	IRLCs
Six Months Ended June 30, 2020					
Beginning balance	\$ 23,342	\$ (22,002)	\$ —	\$ 2,075	\$ —
Purchases, issuances, sales and settlements					
Purchases	—	—	58,510	—	—
Issuances	—	—	—	—	69,504
Deconsolidation of mortgage-backed securitization trusts	(10,715)	9,519	—	—	—
Sales	—	—	(58,550)	—	—
Settlements	(963)	963	(426)	—	(62,323)
Transfers (to) from:					
Receivables, net	—	—	(270)	—	—
	(11,678)	10,482	(736)	—	7,181
Change in fair value included in earnings	—	(144)	1,104	(349)	159
Transfers in and / or out of Level 3	—	—	25,582	—	10,478
Ending balance	\$ 11,664	\$ (11,664)	\$ 25,950	\$ 1,726	\$ 17,818

A rollforward of the beginning and ending balances of Loans Held for Investment and HMBS-related borrowings, MSRs and Financing liability - MSRs pledged that we measure at fair value on a recurring and non-recurring basis is provided in Note 5 – Reverse Mortgages, Note 7 – Mortgage Servicing and Note 8 – Rights to MSRs, respectively.

During the six months ended June 30, 2021, there have been no changes to the methodologies that we use in estimating fair values or classifications under the valuation hierarchy as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020. The significant unobservable assumptions that we make to estimate the fair value of significant assets and liabilities classified as Level 3 and measured at fair value on a recurring or non-recurring basis are provided below.

Loans Held for Sale

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

Loans Held for Investment - Reverse Mortgages

Reverse mortgage loans held for investment are carried at fair value and classified as Level 3 within the valuation hierarchy. Significant unobservable assumptions include voluntary prepayment speeds, defaults and discount rate. The conditional prepayment speed 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, 2021	December 31, 2020
	Life in years	
Range	1.2 to 8.4	0.9 to 8.0
Weighted average	5.7	5.9
Conditional prepayment rate, including voluntary and involuntary prepayments		
Range	10.8% to 32.9%	10.6% to 28.8%
Weighted average	16.0 %	15.4 %
Discount rate	2.2 %	1.9 %

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

MSRs

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

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

Significant unobservable assumptions	June 30, 2021		December 31, 2020	
	Agency	Non-Agency	Agency	Non-Agency
Weighted average prepayment speed	9.1 %	12.1 %	11.8 %	11.5 %
Weighted average lifetime delinquency rate	2.1 %	28.0 %	3.0 %	28.0 %
Weighted average discount rate	8.6 %	11.0 %	9.2 %	11.4 %
Weighted average cost to service (in dollars)	\$ 78	\$ 272	\$ 79	\$ 270

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, 2021 given hypothetical increases in lifetime prepayments and yield assumptions:

Adverse change in fair value	10%	20%
Weighted average prepayment speeds	\$ (68,082)	\$ (131,504)
Weighted average discount rate	(55,639)	(107,581)

Investment in Equity Method Investee

Our investment in equity method investee is accounted for using the equity method and classified as Level 3 within the valuation hierarchy. The assets and liabilities of the investee are carried at fair value or a value that approximates fair value. Accordingly, the investee's net asset value approximates its fair value, and its earnings or losses reflect the change in its net asset value, resulting in our recorded investment approximating fair value. See Note 10 - Investment in Equity Method Investee for further details.

Financing Liabilities

HMBS-Related Borrowings

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

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

Significant unobservable assumptions	June 30, 2021	December 31, 2020
Life in years		
Range	1.2 to 8.4	0.9 to 8.0
Weighted average	5.7	5.9
Conditional prepayment rate		
Range	10.8% to 32.9%	10.6% to 28.8%
Weighted average	16.0 %	15.4 %
Discount rate	2.0 %	1.7 %

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

MSRs Pledged (Rights to MSRs)

These MSR pledged liabilities carried at fair value and classified as Level 3 within the valuation hierarchy. We determine the fair value of the pledged MSR liability consistent with the mid-point of the range of prices provided by third-party valuation experts for the related MSR.

Significant unobservable assumptions	June 30, 2021	December 31, 2020
Weighted average prepayment speed	11.7 %	11.5 %
Weighted average delinquency rate	29.4 %	29.8 %
Weighted average discount rate	11.0 %	11.4 %
Weighted average cost to service (in dollars)	\$ 285	\$ 287

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

Derivative Financial Instruments

Interest rate lock commitments (IRLCs) are classified as Level 3 assets as fallout rates were determined to be significant unobservable assumptions.

Note 4 – Loans Held for Sale

Loans Held for Sale - Fair Value	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Beginning balance	\$ 500,814	\$ 203,592	\$ 366,364	\$ 208,752
Originations and purchases	3,286,826	1,117,548	6,620,727	1,949,022
Proceeds from sales	(3,094,639)	(1,067,574)	(6,263,654)	(1,872,776)
Principal collections	(11,285)	(8,925)	(16,703)	(15,758)
Transfers from (to):				
Loans held for investment, at fair value	777	541	1,678	1,119
Receivables, net	(8,893)	(16,924)	(17,526)	(48,226)
REO (Other assets)	(1,493)	(73)	(3,545)	(841)
Gain (loss) on sale of loans	(1,067)	21,835	(14,799)	28,253
Increase (decrease) in fair value of loans	4,567	(653)	(689)	(2,295)
Other	5,259	3,670	9,013	5,787
Ending balance (1)	<u>\$ 680,866</u>	<u>\$ 253,037</u>	<u>\$ 680,866</u>	<u>\$ 253,037</u>

(1) At June 30, 2021 and 2020, the balances include \$(7.4) million and \$(7.5) million, respectively, of fair value adjustments.

Loans Held for Sale - Lower of Cost or Fair Value	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Beginning balance - before Valuation Allowance	\$ 22,471	\$ 49,204	\$ 27,652	\$ 73,160
Proceeds from sales	(1,827)	(16,373)	(6,667)	(46,865)
Principal collections	—	(154)	(214)	(805)
Transfers from (to):				
Receivables, net	(492)	(205)	(492)	61
Gain (loss) on sale of loans	125	(227)	514	1,615
Other	1	(365)	(515)	4,714
Ending balance - before Valuation Allowance	<u>20,278</u>	<u>31,880</u>	<u>20,278</u>	<u>31,880</u>
Beginning balance - Valuation Allowance	\$ (5,462)	\$ (6,781)	\$ (6,180)	\$ (6,643)
(Provision for) reversal of valuation allowance	277	(559)	980	(1,129)
Transfer to (from) Liability for indemnification obligations (Other liabilities)	61	(50)	76	(75)
Sales of loans	—	990	—	1,447
Ending balance - Valuation Allowance	<u>(5,124)</u>	<u>(6,400)</u>	<u>(5,124)</u>	<u>(6,400)</u>
Ending balance, net	<u>\$ 15,154</u>	<u>\$ 25,480</u>	<u>\$ 15,154</u>	<u>\$ 25,480</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Gain on Loans Held for Sale, Net				
Gain on sales of loans, net				
MSRs retained on transfers of forward mortgage loans	\$ 35,802	\$ 9,128	\$ 70,062	\$ 15,689
Gain (loss) on sale of forward mortgage loans	(4,272)	16,886	(22,839)	23,304
Gain on sale of repurchased Ginnie Mae loans	3,416	4,531	8,316	6,373
	34,946	30,545	55,539	45,366
Change in fair value of IRLCs	3,528	6,334	(5,090)	12,048
Change in fair value of loans held for sale	5,149	147	168	306
Loss on economic hedge instruments (1)	(188)	(3,128)	(188)	(10,320)
Other	(722)	(351)	(1,995)	(522)
	\$ 42,713	\$ 33,547	\$ 48,434	\$ 46,878

(1) Excludes \$11.3 million loss and \$24.1 million gain on inter-segment economic hedge derivative presented within MSR valuation adjustments, net for the three and six months ended June 30, 2021, respectively. Third-party derivatives are hedging the net exposure of MSR and pipeline, and the change in fair value of derivatives are reported within MSR valuation adjustments, net. Inter-segment derivatives are established to transfer risk and allocate hedging gains/losses to the pipeline separately from the MSR portfolio. Refer to Note 19 – Business Segment Reporting.

Note 5 – Reverse Mortgages

	Three Months Ended June 30,			
	2021		2020	
	Loans Held for Investment - Reverse Mortgages	HMBS - Related Borrowings	Loans Held for Investment - Reverse Mortgages	HMBS - Related Borrowings
Beginning balance	7,044,374	(6,778,195)	\$ 6,568,821	\$ (6,323,091)
Originations	393,707	—	273,142	—
Securitization of HECM loans accounted for as a financing	—	(379,650)	—	(278,391)
Additional proceeds from securitization of HECM loans and tails	—	(14,608)	—	(7,467)
Repayments (principal payments received)	(406,856)	403,770	(195,019)	192,804
Transfers to:				
Loans held for sale, at fair value	(777)	—	(541)	—
Receivables, net	31	—	(157)	—
Other assets	(84)	—	(100)	—
Change in fair value included in earnings	81,878	(55,228)	72,846	(61,471)
Ending Balance	\$ 7,112,273	\$ (6,823,911)	\$ 6,718,992	\$ (6,477,616)
Securitized loans (pledged to HMBS-Related Borrowings)	\$ 6,928,459	\$ (6,823,911)	\$ 6,587,943	\$ (6,477,616)
Unsecuritized loans	183,814	—	131,049	—
Total	\$ 7,112,273	—	\$ 6,718,992	—

	Six Months Ended June 30,			
	2021		2020	
	Loans Held for Investment - Reverse Mortgages	HMBS - Related Borrowings	Loans Held for Investment - Reverse Mortgages	HMBS - Related Borrowings
Beginning balance	\$ 6,997,127	\$ (6,772,711)	\$ 6,269,596	\$ (6,063,434)
Cumulative effect of fair value election (1)	—	—	47,038	—
Originations	720,442	—	568,074	—
Securitization of HECM loans accounted for as a financing (incl. realized fair value changes)	—	(667,480)	—	(590,640)
Additional proceeds from securitization of HECM loans and tails	—	(27,173)	—	(16,165)
Repayments (principal payments received)	(721,009)	715,332	(370,114)	365,233
Transfers to:				
Loans held for sale, at fair value	(1,678)	—	(1,119)	—
Receivables, net	(85)	—	(286)	—
REO (Other assets)	(195)	—	(365)	—
Change in fair value	117,671	(71,879)	206,168	(172,610)
Ending Balance	\$ 7,112,273	\$ (6,823,911)	\$ 6,718,992	\$ (6,477,616)
Securitized	\$ 6,928,459	\$ (6,823,911)	\$ 6,587,943	\$ (6,477,616)
Unsecuritized	183,814	—	131,049	—
	<u>\$ 7,112,273</u>	<u>\$ (6,823,911)</u>	<u>\$ 6,718,992</u>	<u>\$ (6,477,616)</u>

(1) In conjunction with the adoption of ASU 2016-13, we elected the fair value option for future draw commitments (tails) on HECM reverse mortgage loans purchased or originated before December 31, 2018, which resulted in the recognition of the fair value of such tails through stockholders' equity on January 1, 2020.

Reverse Mortgage Revenue, net	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	Gain on new originations (1)	\$ 16,163	\$ 14,096	\$ 33,270
Change in fair value of securitized loans held for investment and HMBS-related borrowings, net	10,487	(2,721)	12,522	13,947
Change in fair value included in earnings, net	26,650	11,375	45,792	33,558
Loan fees and other	2,651	2,384	5,335	2,998
	<u>\$ 29,301</u>	<u>\$ 13,759</u>	<u>\$ 51,127</u>	<u>\$ 36,556</u>

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

Note 6 – Advances

	June 30, 2021	December 31, 2020
Principal and interest	\$ 248,810	\$ 277,132
Taxes and insurance	338,886	364,593
Foreclosures, bankruptcy, REO and other	181,168	192,787
	768,864	834,512
Allowance for losses	(6,891)	(6,273)
Advances, net	<u>\$ 761,973</u>	<u>\$ 828,239</u>

The following table summarizes the activity in net advances:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Beginning balance - before Allowance for Losses	\$ 792,837	\$ 1,032,180	\$ 834,512	\$ 1,066,448
Acquisition of advances in connection with the purchase of MSRs	4,495	—	4,495	—
New advances	180,317	225,483	383,717	469,028
Sales of advances	(115)	(226)	(248)	(454)
Collections of advances and other	(208,670)	(348,608)	(453,612)	(626,193)
Ending balance - before Allowance for Losses	768,864	908,829	768,864	908,829
Beginning balance - Allowance for Losses	\$ (6,159)	\$ (7,373)	\$ (6,273)	\$ (9,925)
Provision	(2,394)	(4,532)	(3,896)	(3,771)
Net charge-offs and other	1,662	4,085	3,278	5,876
Ending balance - Allowance for Losses	(6,891)	(7,820)	(6,891)	(7,820)
Ending balance, net	\$ 761,973	\$ 901,009	\$ 761,973	\$ 901,009

Note 7 – Mortgage Servicing

MSRs – At Fair Value	Three Months Ended June 30,					
	2021			2020		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	\$ 708,663	\$ 691,554	\$ 1,400,217	\$ 294,227	\$ 756,001	\$ 1,050,228
Sales and other transfers	—	—	—	—	(51)	(51)
Additions:						
Recognized on the sale of residential mortgage loans	35,802	—	35,802	9,128	—	9,128
Purchase of MSRs	733,538	—	733,538	15,255	—	15,255
Servicing transfers and adjustments	27	(1,633)	(1,606)	11	1,296	1,307
Changes in fair value:						
Changes in valuation inputs or assumptions (2)	(42,337)	3,941	(38,396)	5,321	4,471	9,792
Realization of expected cash flows (2)	(27,273)	(29,764)	(57,037)	(18,857)	(21,889)	(40,746)
Ending balance	<u>\$ 1,408,420</u>	<u>\$ 664,098</u>	<u>\$ 2,072,518</u>	<u>\$ 305,085</u>	<u>\$ 739,828</u>	<u>\$ 1,044,913</u>

MSRs – At Fair Value	Six Months Ended June 30,					
	2021			2020		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	\$ 578,957	\$ 715,860	\$ 1,294,817	\$ 714,006	\$ 772,389	\$ 1,486,395
Sales and other transfers	—	—	—	—	(107)	(107)
Additions:						
Recognized on the sale of residential mortgage loans	70,062	—	70,062	15,689	—	15,689
Purchase of MSRs	770,316	—	770,316	46,745	—	46,745
Servicing transfers and adjustments (1)	56	(2,190)	(2,134)	(263,846)	403	(263,443)
Changes in fair value:						
Changes in valuation inputs or assumptions (2)	40,149	5,470	45,619	(161,815)	10,342	(151,473)
Realization of expected cash flows (2)	(51,120)	(55,042)	(106,162)	(45,694)	(43,199)	(88,893)
Ending balance	<u>\$ 1,408,420</u>	<u>\$ 664,098</u>	<u>\$ 2,072,518</u>	<u>\$ 305,085</u>	<u>\$ 739,828</u>	<u>\$ 1,044,913</u>

- (1) Servicing transfers and adjustments include a \$263.7 million derecognition of MSRs effective with the February 20, 2020 notice of termination of the subservicing agreement between NRZ and PMC. See Note 8 — Rights to MSRs for further information.
- (2) Effective January 1, 2021, changes in fair value due to actual vs. model variances are presented as Changes in valuation inputs or assumptions. Activity for the three and six months ended June 30, 2020 in the table above has been recast to conform to current year disclosure, resulting in a \$9.5 million and \$5.0 million gain, respectively, reclassified from Realization of expected cash flows to Changes in valuation inputs or assumptions.

MSR UPB

	June 30, 2021	March 31, 2021	December 31, 2020	June 30, 2020
Owned MSRs	148,882,743	\$ 91,284,985	\$ 90,174,495	\$ 70,243,789
NRZ pledged MSRs (1)	59,038,668	61,841,181	64,061,198	68,490,109
Total MSR UPB	<u>\$ 207,921,411</u>	<u>\$ 153,126,166</u>	<u>\$ 154,235,693</u>	<u>\$ 138,733,898</u>

- (1) MSRs subject to sale agreements with NRZ that do not meet sale accounting criteria. See Note 8 — Rights to MSRs.

We purchased MSRs with a UPB of \$67.3 billion and \$5.7 billion during the six months ended June 30, 2021 and 2020, respectively. Purchases during the six months ended June 30, 2021 include a bulk MSR acquisition of performing GSE loans from an unrelated third party effective June 1, 2021, with a UPB and fair value of \$46.8 billion and \$575.3 million, respectively. We sold MSRs with a UPB of \$13.1 million and \$41.7 million during the six months ended June 30, 2021 and 2020, respectively, mostly to Freddie Mac under the Voluntary Partial Cancellation (VPC) program for delinquent loans.

At June 30, 2021, the S&P Global Ratings, Inc.'s (S&P's) servicer ratings outlook for PMC is stable. On June 29, 2021, S&P affirmed PMC's servicer rating as Average, raising management and organization ranking to Above Average. In addition, S&P raised PMC's master servicer rating from Average to Above Average reflecting the industry experience of PMC's management, multiple levels of internal controls to monitor operations, and resolution of regulatory actions, amongst other factors mentioned by S&P. On March 24, 2020, Fitch Ratings, Inc. (Fitch) placed all U.S Residential Mortgage Backed Securities (RMBS) servicer ratings on Outlook Negative, resulting from a rapidly evolving economic and operating environment due to the sudden impact of the COVID-19 virus. On April 28, 2021, Fitch affirmed PMC's servicer ratings and revised its outlook from Negative to Stable as PMC's performance in this evolving environment has not raised any elevated concerns. According to Fitch, the affirmation and stable outlook reflected PMC's diligent response to the coronavirus pandemic and its impact on servicing operations, effective enterprise-wide risk environment and compliance management framework, satisfactory loan servicing performance metrics, special servicing expertise, and efficient servicing technology. The ratings also consider the financial condition of PMC's parent, OFC.

Servicing Revenue	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Loan servicing and subservicing fees				
Servicing	\$ 79,377	\$ 52,336	\$ 143,269	\$ 107,745
Subservicing	2,617	10,630	6,104	15,820
NRZ	77,716	88,405	158,101	208,073
	<u>159,710</u>	<u>151,371</u>	<u>307,474</u>	<u>331,638</u>
Ancillary income				
Late charges	11,447	12,672	20,679	27,311
Recording fees	3,202	3,369	6,854	5,927
Loan collection fees	2,761	2,744	5,711	7,000
Boarding and deboarding fees	2,184	1,077	5,203	1,356
Custodial accounts (float earnings)	1,306	1,590	2,313	7,731
Other, net	3,831	2,417	7,945	5,760
	<u>24,731</u>	<u>23,869</u>	<u>48,705</u>	<u>55,085</u>
	<u>\$ 184,441</u>	<u>\$ 175,240</u>	<u>\$ 356,179</u>	<u>\$ 386,723</u>

Float balances (balances in custodial accounts, which represent collections of principal and interest that we receive from borrowers) are held in escrow by unaffiliated banks and are excluded from our unaudited consolidated balance sheets. Float balances amounted to \$2.1 billion, \$1.7 billion and \$1.9 billion at June 30, 2021, December 31, 2020 and June 30, 2020, respectively.

Note 8 — Rights to MSRs

Ocwen and PMC entered into agreements to sell MSRs or Rights to MSRs and the related servicing advances to NRZ, and in all cases have been retained by NRZ as subservicer. In the case of Ocwen Rights to MSRs transactions, while the majority of the risks and rewards of ownership were transferred in 2012 and 2013, legal title was retained by Ocwen, causing the Rights to MSRs transactions to be accounted for as secured financings. In the case of the PMC transactions, and for those Ocwen MSRs where consents were subsequently received and legal title was transferred to NRZ, due to the length of the non-cancellable term of the subservicing agreements, the transactions did not initially qualify for sale accounting treatment which resulted in such transactions being accounted for as secured financings. Until such time as the transaction qualifies as a sale for accounting purposes, we continue to recognize the MSRs and related financing liability on our consolidated balance sheets, as well as the full amount of servicing revenue and changes in the fair value of the MSRs and related financing liability in our unaudited consolidated statements of operations. Changes in fair value of the Rights to MSRs are recognized in MSR valuation adjustments, net in the unaudited consolidated statements of operations. Changes in fair value of the MSR related financing liability are reported in Pledged MSR liability expense.

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

Balance Sheets	June 30, 2021		December 31, 2020	
MSRs, at fair value	\$	535,571	\$	566,952
Due from NRZ (Receivables) - Subservicing fees and reimbursable expenses		2,616		4,611
Due to NRZ (Other liabilities) - Advance collections, servicing fees and other	\$	84,288	\$	94,691
Financing liability - MSRs pledged, at fair value: Original Rights to MSRs Agreements		535,571		566,952

Statements of Operations	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Servicing fees collected on behalf of NRZ	\$ 77,716	\$ 88,405	\$ 158,101	\$ 208,073
Less: Subservicing fee retained by Ocwen	22,521	25,523	46,512	54,855
Net servicing fees remitted to NRZ	55,195	62,882	111,589	153,218
Less: Reduction (increase) in financing liability				
Changes in fair value:				
Original Rights to MSRs Agreements (1)	(8,393)	(6,810)	(9,944)	(13,879)
2017 Agreements and New RMSR Agreements	—	—	—	(903)
PMC MSR Agreements	—	—	—	40,720
	(8,393)	(6,810)	(9,944)	25,938
Runoff and settlement:				
Original Rights to MSRs Agreements (1)	20,910	15,957	38,526	31,699
2017 Agreements and New RMSR Agreements	—	9,979	—	35,121
PMC MSR Agreements	—	—	—	7,492
	20,910	25,936	38,526	74,312
Other	2,868	2,070	5,347	4,688
Pledged MSR liability expense	\$ 39,810	\$ 41,686	\$ 77,660	\$ 48,280

(1) Effective January 1, 2021, changes in fair value due to actual vs. model variances are presented as Changes in valuation inputs or assumptions. Activity for the three and six months ended June 30, 2020 in the table above has been recast to conform to current year disclosure, resulting in losses of \$7.8 million and \$5.8 million, respectively, reclassified from Runoff and settlement to Changes in fair value.

Financing Liability - MSRs Pledged	Three Months Ended			
	June 30, 2021		June 30, 2020	
	Original Rights to MSRs Agreements	Original Rights to MSRs Agreements	2017 Agreements and New RMSR Agreements	Total
Beginning Balance	\$ 550,364	\$ 591,705	\$ 9,979	\$ 601,684
Changes in fair value:				
Original Rights to MSRs Agreements (2)	8,393	6,810	—	6,810
Runoff and settlement:				
Original Rights to MSRs Agreements (2)	(20,910)	(15,957)	—	(15,957)
2017 Agreements and New RMSR Agreements	—	—	(9,979)	(9,979)
Calls (1):				
Original Rights to MSRs Agreements	(2,276)	—	—	—
Ending Balance	<u>\$ 535,571</u>	<u>\$ 582,558</u>	<u>\$ —</u>	<u>\$ 582,558</u>

Financing Liability - MSRs Pledged	Six Months Ended				
	June 30, 2021		June 30, 2020		
	Original Rights to MSRs Agreements	Original Rights to MSRs Agreements	2017 Agreements and New RMSR Agreements	PMC MSR Agreements	Total
Beginning Balance	\$ 566,952	\$ 603,046	\$ 35,445	\$ 312,102	\$ 950,593
Additions	—	—	—	—	—
Sales	—	—	—	(226)	(226)
Changes in fair value:					
Original Rights to MSRs Agreements (2)	9,944	13,879	—	—	13,879
2017 Agreements and New RMSR Agreements	—	—	903	—	903
PMC MSR Agreements	—	—	—	(40,720)	(40,720)
Runoff and settlement:					
Original Rights to MSRs Agreements (2)	(38,526)	(31,699)	—	—	(31,699)
2017 Agreements and New RMSR Agreements	—	—	(35,121)	—	(35,121)
PMC MSR Agreements	—	—	—	(7,492)	(7,492)
Derecognition of Pledged MSR financing liability due to termination of PMC MSR Agreements	—	—	—	(263,664)	(263,664)
Calls (1):					
Original Rights to MSRs Agreements	(2,799)	(2,668)	—	—	(2,668)
2017 Agreements and New RMSR Agreements	—	—	(1,227)	—	(1,227)
Ending Balance	<u>\$ 535,571</u>	<u>\$ 582,558</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 582,558</u>

- (1) Represents the carrying value of MSRs in connection with call rights exercised by NRZ, for MSRs transferred to NRZ under the 2017 Agreements and New RMSR Agreements (each as defined below), or by Ocwen at NRZ's direction, for MSRs underlying the Original Rights to MSRs Agreements (as defined below). Ocwen derecognizes the MSRs and the related financing liability upon collapse of the securitization.
- (2) Effective January 1, 2021, changes in fair value due to actual vs. model variances are presented as Changes in valuation inputs or assumptions. Activity for the three and six months ended June 30, 2020 in the table above has been recast to conform to current year

disclosure, resulting in losses of \$7.8 million and \$5.8 million, respectively, reclassified from Runoff and settlement to Changes in fair value.

The UPB of loans serviced on behalf of NRZ comprised the following:

	June 30, 2021	December 31, 2020
Ocwen servicer of record (MSR title retained by Ocwen) - Ocwen MSR (1) (2)	\$ 13,145,240	\$ 14,114,602
NRZ servicer of record (MSR title transferred to NRZ) - Ocwen MSR (1)	45,879,500	49,866,082
Ocwen subservicer	2,366,544	3,130,704
Total NRZ UPB	<u>\$ 61,391,284</u>	<u>\$ 67,111,388</u>

- (1) The MSR sale transactions did not achieve sale accounting treatment.
(2) NRZ's associated outstanding servicing advances were approximately \$486.6 million as of June 30, 2021.

Ocwen Transactions

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

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

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

Ocwen received lump-sum cash payments of \$54.6 million and \$279.6 million in September 2017 and January 2018 in accordance with the terms of the 2017 Agreements and New RMSR Agreements, respectively. These upfront payments generally represented the net present value of the difference between the future revenue stream Ocwen would have received under the Original Rights to MSRs Agreements and the future revenue stream Ocwen expected to receive under the 2017 Agreements and the New RMSR Agreements. We recognized the cash received as a financing liability that we accounted for at fair value through the term of the original agreements (April 2020). Changes in fair value were recognized in Pledged MSR liability expense in the unaudited consolidated statements of operations.

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

At any time during the Initial Term, NRZ may terminate the Subservicing Agreements and Servicing Addendum for convenience, subject to Ocwen's right to receive a termination fee and 180 days' notice. The termination fee is calculated as specified in the Subservicing Agreements and Servicing Addendum, and is a discounted percentage of the expected revenues that would be owed to Ocwen over the remaining contract term based on certain portfolio run-off assumptions.

Following the Initial Term, NRZ may extend the term of the Subservicing Agreements and Servicing Addendum for additional three-month periods by providing proper notice. In addition, the Subservicing Agreements and Servicing Addendum may be terminated by Ocwen without cause on an annual basis (in effect a non-renewal) by providing at least 225 days' notice

in advance of the last day of the Initial Term or the last day of each one-year extension of the applicable terms after the Initial Term. NRZ and Ocwen have the ability to terminate the Subservicing Agreements and Servicing Addendum for cause if certain specified conditions occur. The terminations must be terminations in whole (i.e., cover all the loans under the relevant Subservicing Agreement or Servicing Addendum) and not in part, except for limited circumstances specified in the agreements. In addition, if NRZ terminates any of the NRM or Shellpoint Subservicing Agreements or the Servicing Addendum for cause, the other agreements will also terminate automatically.

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

As of June 30, 2021, the UPB of MSRs subject to the Servicing Agreements and the New RMSR Agreements is \$61.4 billion, including \$13.1 billion for which title has not transferred to NRZ. As the third-party consents required for title to the MSRs to transfer were not obtained by May 31, 2019, the New RMSR Agreements set forth a process under which NRZ's \$13.1 billion Rights to MSRs may (i) be acquired by Ocwen at a price determined in accordance with the terms of the New RMSR Agreements, at the option of Ocwen, or (ii) be sold, together with Ocwen's title to those MSRs, to a third party in accordance with the terms of the New RMSR Agreements, subject to an additional Ocwen option to acquire at a price based on the winning third-party bid rather than selling to the third party. If the Rights to MSRs are not transferred pursuant to these alternatives, then the Rights to MSRs will remain subject to the New RMSR Agreements.

In addition, as noted above, during the Initial Term, NRZ has the right to terminate the \$13.1 billion New RMSR Agreements for convenience, in whole but not in part, subject to payment of a termination fee and 180 days' notice. If NRZ exercises this termination right, NRZ has the option of seeking (i) the transfer of the MSRs through a sale to a third party of its Rights to MSRs (together with a transfer of Ocwen's title to those MSRs) or (ii) a substitute RMSR arrangement that substantially replicates the Rights to MSRs structure (a Substitute RMSR Arrangement) under which we would transfer title to the MSRs to a successor servicer and NRZ would continue to own the economic rights and obligations related to the MSRs. In the case of option (i), we have a purchase option as specified in the New RMSR Agreements. If NRZ is not able to sell the Rights to MSRs or establish a Substitute RMSR Arrangement with another servicer, NRZ has the right to revoke its termination notice and re-instate the Servicing Addendum or to establish a subservicing arrangement whereby the MSRs remaining subject to the New RMSR Agreements would be transferred to up to three subservicers who would subservice under Ocwen's oversight. If such a subservicing arrangement were established, Ocwen would receive an oversight fee and reimbursement of expenses. We may also agree on alternative arrangements that are not contemplated under our existing agreements or that are variations of those contemplated under our existing agreements.

PMC Transactions

On December 28, 2016, PMC entered into an agreement to sell substantially all of its MSRs, and the related servicing advances, to NRM (the 2016 PMC Sale Agreement). In connection with this agreement, on December 28, 2016, PMC also entered into a subservicing agreement with NRZ which was subsequently amended and restated as of March 29, 2019 (together with the 2016 PMC Sale Agreement, the PMC MSR Agreements). The PMC subservicing agreement had an initial term of three years from the initial transaction date of June 16, 2017, subject to certain transfer and termination provisions. The MSR sale transaction did not originally achieve sale accounting treatment.

On February 20, 2020, we received a notice of termination from NRZ with respect to the PMC servicing agreement. This termination was for convenience and not for cause, and provided for loan deboarding fees to be paid by NRZ. As the sale accounting criteria were met upon the notice of termination, the MSRs and the Rights to MSRs were derecognized from our balance sheet on February 20, 2020 without any gain or loss on derecognition. We serviced these loans until deboarding in October 2020 representing \$34.2 billion of UPB, and accounted for them as a subservicing relationship. Accordingly, we recognized subservicing fees associated with the subservicing agreement subsequent to February 20, 2020 and have not reported any servicing fees collected on behalf of, and remitted to NRZ, any change in fair value, runoff and settlement in financing liability thereafter. On September 1, 2020, 133,718 loans representing \$18.2 billion of UPB were deboarded and the remaining 136,500 loans representing \$16.0 billion of UPB were deboarded on October 1, 2020.

Note 9 – Receivables

	June 30, 2021	December 31, 2020
Servicing-related receivables:		
Government-insured loan claims - Forward	\$ 97,739	\$ 103,058
Government-insured loan claims - Reverse	27,216	32,887
Due from custodial accounts	11,949	19,393
Servicing fee due from interim servicer	9,734	43
Reimbursable expenses	6,446	4,927
Subservicing fees and reimbursable expenses - Due from NRZ	2,616	4,611
Other	2,169	1,087
	<u>157,869</u>	<u>166,006</u>
Income taxes receivable	45,929	57,503
Other receivables	3,235	3,200
	<u>207,033</u>	<u>226,709</u>
Allowance for losses	<u>(41,848)</u>	<u>(39,044)</u>
	<u>\$ 165,185</u>	<u>\$ 187,665</u>

At June 30, 2021 and December 31, 2020, the allowance for losses primarily related to receivables of our Servicing business. The allowance for losses related to FHA- or VA-insured loans repurchased from Ginnie Mae guaranteed securitizations (government-insured claims) was \$41.2 million and \$38.3 million at June 30, 2021 and December 31, 2020, respectively. The government-insured claims that do not exceed HUD, VA or FHA insurance limits are guaranteed by the U.S. government.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Allowance for Losses - Government-Insured Loan Claims				
Beginning balance	\$ 40,437	\$ 58,103	\$ 38,339	\$ 56,868
Provision	2,579	2,122	7,537	7,194
Charge-offs and other, net	(1,800)	(6,915)	(4,660)	(10,752)
Ending balance	<u>\$ 41,216</u>	<u>\$ 53,310</u>	<u>\$ 41,216</u>	<u>\$ 53,310</u>

Investment in Equity Method Investee

On December 21, 2020, Ocwen entered into a transaction agreement (the Transaction Agreement) with Oaktree Capital Management L.P. and certain affiliates (collectively Oaktree) to form a strategic relationship to invest in MSR's subserviced by PMC. The parties have agreed to invest up to \$250.0 million in an intermediate holding company called MAV Canopy Holdco I, LLC (MAV Canopy) held 15% by Ocwen and 85% by Oaktree.

On May 3, 2021, pursuant to the Transaction Agreement, Ocwen contributed MAV, which had total member's equity and cash balances of approximately \$5.0 million, to MAV Canopy, and received 15% of MAV Canopy and cash consideration. MAV is a licensed mortgage servicing company approved to purchase GSE MSR's. PMC and MAV entered into a number of definitive agreements which govern the terms of their business relationship:

Subservicing Agreement. Effective May 3, 2021, PMC entered into a subservicing agreement with MAV for exclusive rights to service the mortgage loans underlying MSR's owned by MAV in exchange for a per-loan subservicing fee and certain other ancillary fees. The subservicing agreement will continue until terminated by mutual agreement of the parties or for cause, as defined. If either party terminates the agreement for cause, the other party is required to pay certain fees and costs.

Joint Marketing Agreement and Recapture Agreement. Effective May 3, 2021, in conjunction with the subservicing agreement, PMC and MAV entered into a joint marketing agreement and a flow MSR sale agreement (MSR recapture), whereby PMC is entitled to the exclusive right to solicit and refinance borrowers with loans underlying the MSR owned by MAV, and is obligated to transfer to MAV the MSR associated with the loans so originated. The joint marketing agreement and flow MSR sale agreement will continue until terminated by mutual agreement of the parties or for cause, as defined, or at the option of either party if the subservicing agreement is terminated.

Following the execution of the Transaction Agreement and until the parties have contributed their respective aggregate \$250.0 million capital contributions, Ocwen has an obligation to provide MAV with a “first look” at MSR investment opportunities presented to Ocwen to acquire Fannie Mae and Freddie Mac MSRs that meet certain criteria, referred to as right of first offer. See Note 21 — Commitments for additional information.

On June 1, 2021, MAV acquired Freddie Mac MSRs from a third party with UPB of approximately \$8.7 billion. The loans are expected to be subserviced by PMC beginning in the third quarter of 2021.

On June 1, 2021, PMC agreed to sell and MAV agreed to purchase a Fannie Mae MSR portfolio of approximately \$4.3 billion (at June 30, 2021), with certain pricing adjustments, subject to MAV obtaining the necessary regulatory approval. MAV has subsequently obtained approval from Fannie Mae and the transaction is expected to close in the third quarter of 2021. Upon closing, although the MSR title has passed, the transaction would not achieve sale accounting and would be accounted for as secured borrowing due to the termination restrictions of the subservicing agreement.

We account for our investments in unconsolidated entities using the equity method. These investments include our investment in MAV Canopy in which we hold a significant, but less than controlling, ownership interest. Under the equity method of accounting, investments are initially recorded at cost and thereafter adjusted for additional investments, distributions and the proportionate share of earnings or losses of the investee. We evaluate our equity method investments for impairment when events or changes in circumstances indicate that any other than-temporary decline in value may have occurred.

Under ASC 323, Investments - Equity Method and Joint Ventures, an investment of less than 20 percent of the voting stock of an investee shall lead to a presumption that an investor does not have the ability to exercise significant influence unless such ability can be demonstrated. Ocwen determined it has significant influence over MAV Canopy based on its representation on the MAV Canopy Board of Directors and certain services it provides, amongst other factors. Accordingly, Ocwen deemed it appropriate to account for its investment in MAV Canopy under the equity method.

Our investment in MAV Canopy is comprised of following at June 30, 2021:

Capital contribution	\$	11,528
Earnings of equity method investee		350
Investment in equity method investee	\$	<u>11,878</u>

MAV Canopy, MAV and Oaktree are deemed related parties to Ocwen. In addition to its investment in MAV Canopy, the subservicing agreement by PMC and the other agreements described above, Ocwen issued common stock, warrants and senior secured notes to Oaktree as described in Note 12 – Borrowings and Note 14 – Equity. Furthermore, pursuant to the Transaction Agreement, Ocwen entered into an agreement to provide certain administrative services to MAV, including accounting, treasury, human resources, management information, MSR transaction management support, and certain licensing, regulatory and risk management support. Ocwen is entitled to a fee for such services, subject to an annual cap of \$0.5 million.

Note 11 – Other Assets

	June 30, 2021	December 31, 2020
Contingent loan repurchase asset	\$ 523,012	\$ 480,221
Derivatives, at fair value	24,585	23,246
Prepaid expenses	20,116	21,176
Prepaid representation, warranty and indemnification claims - Agency MSR sale	15,173	15,173
Prepaid lender fees, net	10,176	9,556
REO	8,366	7,771
Deferred tax asset, net	3,657	3,543
Security deposits	2,167	2,222
Mortgage backed securities, at fair value	1,607	2,019
Other	3,076	6,556
	<u>\$ 611,935</u>	<u>\$ 571,483</u>

Note 12 – Borrowings

Financing Liabilities	Borrowing Type	Collateral	Interest Rate	Maturity	Outstanding Balance	
					June 30, 2021	December 31, 2020
HMBS-related borrowings, at fair value (1)		Loans held for investment	1ML + 244 bps (1)	(1)	\$ 6,823,911	\$ 6,772,711
Other financing liabilities, at fair value						
MSRs pledged (Rights to MSRs), at fair value:						
Original Rights to MSRs Agreements		MSRs	(2)	(2)	535,571	566,952
Financing liability - Owed to securitization investors, at fair value:						
Residential Asset Securitization Trust 2003-A11 (RAST 2003-A11) (3)		Loans held for investment	(3)	Oct. 2033	8,680	9,770
Total Other financing liabilities, at fair value					544,251	576,722
					<u>\$ 7,368,162</u>	<u>\$ 7,349,433</u>

- (1) Represents amounts due to the holders of beneficial interests in Ginnie Mae guaranteed HMBS that did not qualify for sale accounting treatment of HECM loans. Under this accounting treatment, the HECM loans securitized with Ginnie Mae remain on our consolidated balance sheets and the proceeds from the sale are recognized as a financing liability, which is recorded at fair value consistent with the related HECM loans. The beneficial interests in Ginnie Mae guaranteed HMBS have no maturity dates, and the borrowings mature as the related loans are repaid. Interest rate is a weighted average based on the pass-through rate of the loans. See Note 2 – Securitizations and Variable Interest Entities.
- (2) This pledged MSR liability is recognized due to the accounting treatment of MSR sale transactions with NRZ that did not qualify as sales for accounting purposes. Under this accounting treatment, the MSRs transferred to NRZ remain on the consolidated balance sheet and the proceeds from the sale are recognized as a financing liability, which is recorded at fair value consistent with the related MSRs. This financing liability has no contractual maturity or repayment schedule. See Note 8 — Rights to MSRs for additional information.
- (3) Consists of securitization debt certificates due to third parties that represent beneficial interests in trusts that we include in our unaudited consolidated financial statements. Holders of the debt issued by the consolidated securitization trust entities have recourse only to the assets of the SPE for satisfaction of the debt and have no recourse against the assets of Ocwen. Similarly, the general creditors of Ocwen have no claim on the assets of the trusts. Trust pay interest based on fixed rates ranging between 4.25% and 5.75% and a variable rate based on 1ML plus 0.45%, includes certificates that are Principal Only certificates and are not entitled to receive distributions of interest.

Advance Match Funded Liabilities

Borrowing Type	Maturity (1)	Amort. Date (1)	Borrowing Capacity		June 30, 2021		December 31, 2020	
			Total	Available (2)	Weighted Average Interest Rate (6)	Balance	Weighted Average Interest Rate (6)	Balance
Advance Receivables Backed Notes - Series 2015-VF5 (3)	Jun. 2052	Jun. 2022	\$ 80,000	\$ 39,777	2.18 %	\$ 40,223	4.26 %	\$ 89,396
Advance Receivables Backed Notes, Series 2020-T1 (4)	Aug. 2052	Aug. 2022	475,000	—	1.49 %	475,000	1.49 %	475,000
Total Ocwen Master Advance Receivables Trust (OMART)			555,000	39,777	1.54 %	515,223	1.93 %	564,396
Ocwen Freddie Advance Funding (OFAF) - Advance Receivables Backed Notes, Series 2015-VF1 (5)	Aug. 2051	Aug. 2021	70,000	55,041	3.18 %	14,959	3.26 %	16,892
			\$ 625,000	\$ 94,818	1.59 %	\$ 530,182	1.96 %	\$ 581,288

- (1) The amortization date of our facilities is the date on which the revolving period ends under each advance facility note and repayment of the outstanding balance must begin if the note is not renewed or extended. The maturity date is the date on which all outstanding balances must be repaid. In all of our advance facilities, there are multiple notes outstanding. After the amortization date for each note, all collections that represent the repayment of advances pledged to the facility must be applied ratably to each outstanding amortizing note to reduce the balance and, as such, the collection of advances allocated to the amortizing note may not be used to fund new advances.
- (2) Borrowing capacity under the OMART and OFAF facilities is available to us provided that we have sufficient eligible collateral to pledge. At June 30, 2021, none of the available borrowing capacity of the OMART and OFAF advance financing notes could be used based on the amount of eligible collateral.
- (3) Interest is computed based on the lender's cost of funds plus a margin of 200 bps. On June 30, 2021, the amortization date was extended by one year to June 30, 2022, the interest rate margin was reduced from 400 bps to 200 bps, and the borrowing capacity was reduced to \$80.0 million.
- (4) The weighted average rate of the notes at June 30, 2021 is 1.49%, with rates on the individual classes of notes ranging from 1.28% to 5.42%.
- (5) Interest is computed based on the lender's cost of funds plus a margin of 300 bps. On June 30, 2021, the amortization date was extended to August 27, 2021.
- (6) The weighted average interest rate, excluding the effect of the amortization of prepaid lender fees, is computed using the outstanding balance of each respective note and its interest rate at the financial statement date. At June 30, 2021 and December 31, 2020, the balance of unamortized prepaid lender fees was \$2.1 million and \$4.3 million, respectively, and are included in Other assets in our consolidated balance sheets.

Mortgage Loan Warehouse Facilities

Borrowing Type	Collateral	Interest Rate (1)	Maturity	Available Borrowing Capacity		Outstanding Balance	
				Uncommitted	Committed (2)	June 30, 2021	December 31, 2020
Master repurchase agreement (3)	Loans held for sale (LHFS)	1ML + 220 - 375 bps	June 2022	\$ 99,250	\$ —	\$ 175,750	\$ 195,773
Master repurchase agreement (4)	LHFS (forward and reverse)	1ML + 325 bps forward; 1ML + 350 bps reverse	Nov. 2021	50,000	69,021	130,979	80,081
Master repurchase agreement (5)	N/A	SOFR + 190 bps; SOFR floor 25 bps	N/A	50,000	—	—	—
Participation agreement (6)	LHFS	(6)	June 2022	71,740	—	78,260	—
Master repurchase agreement (6)	LHFS	(6)	June 2022	—	100,000	—	63,281
Master repurchase agreement (7)	LHFS	(7)	June 2022	—	1,000	—	—
Mortgage warehouse agreement (8)	LHFS	1ML + 350 bps; Floor 5.25%	Jan. 2022	—	50,000	—	11,715
Mortgage warehouse agreement (9)	LHFS (reverse)	1ML + 250 bps; 3.25% floor	Oct. 2021	28,508	—	121,492	73,134
Mortgage warehouse agreement (10)	LHFS	(10)	N/A	37,425	—	112,575	27,729
Master repurchase agreement (11)	LHFS	1ML + 150 - 200 bps; Floor 250 bps	N/A	—	—	154,296	—
Loan and security agreement (12)	HECM (ABO)	Prime Rate + 50 bps	Apr. 2022	—	30,000	—	—
Total mortgage loan warehouse facilities		2.98% (13)		<u>\$ 336,923</u>	<u>\$ 250,021</u>	<u>\$ 773,352</u>	<u>\$ 451,713</u>

(1) 1ML was 0.10% and 0.14% at June 30, 2021 and December 31, 2020, respectively.

(2) Of the borrowing capacity on mortgage loan warehouse facilities extended on a committed basis, \$13.3 million of the available borrowing capacity could be used at June 30, 2021 based on the amount of eligible collateral that could be pledged.

(3) The maximum borrowing under this agreement is \$275.0 million, of which \$160.0 million is available on a committed basis and the remainder is available at the discretion of the lender. On March 31, 2021, we renewed the facility and the maturity date was extended to June 30, 2022.

(4) The maximum borrowing under this agreement is \$250.0 million, of which \$200.0 million is available on a committed basis and the remainder is available on an uncommitted basis. The agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans.

(5) The lender provides financing for up to \$50.0 million at the discretion of the lender. The agreement has no stated maturity date. Interest on this facility is based on the Secured Overnight Financing Rate (SOFR).

(6) On June 23, 2021, the facility was renewed for one year to June 23, 2022, the uncommitted borrowing capacity under the participation agreement was increased to \$150.0 million and the committed borrowing capacity under the repurchase agreement increased to \$100.0 million. The interest rate on repurchase agreement was revised to the stated interest rate of the mortgage loans, less 35 bps with a floor of 3.00% for new originations and less 10 bps with a floor of 3.25% for Ginnie Mae modifications, Ginnie Mae buyouts and RMBS bond clean up loans. The interest rate on the participation agreement was revised to the stated interest rate of the mortgage loans, less 35 bps with a floor of 3.00% for new originations. The agreements allow the lender to acquire a 100% beneficial interest in the underlying mortgage loans. On July 23, 2021, we temporarily increased the borrowing capacity under the participation agreement to \$300.0 million until September 15, 2021.

(7) On June 20, 2021, the facility was renewed for one year to June 23, 2022.

(8) Under this agreement, the lender provides financing for up to \$50.0 million on a committed basis. On January 15, 2021, the maturity date of this facility was extended to January 15, 2022.

- (9) Under this agreement, the lender provides financing for up to \$150.0 million on an uncommitted basis. On February 1, 2021, the borrowing capacity was temporarily increased from \$100.0 million to \$150.0 million until February 28, 2021 when it was reduced to \$100.0 million. On March 30, 2021, the borrowing capacity was temporarily increased to \$150.0 million effective April 1, 2021 until April 29, 2021 when the increase was made permanent.
- (10) On May 17, 2021, the total borrowing capacity of this facility, all of which is uncommitted, was increased from \$100.0 million to \$150.0 million through the addition of a \$50.0 million participation interest. The agreement has no stated maturity date, however each transaction has a maximum duration of four years. The cost of this line is set at each transaction date and is based on the interest rate on the collateral.
- (11) On March 29, 2021, we entered into a repurchase agreement which provides borrowing at our discretion up to a certain maximum amount of capacity on a rolling 30-day committed basis. This facility is structured as a gestation repurchase facility whereby dry Agency mortgage loans are transferred to a trust which trust issues a trust certificate that is pledged as the collateral for the borrowings. See Note 2 – Securitizations and Variable Interest Entities for additional information. On March 31, 2021, the trust issued the first certificate of \$50.0 million which was increased to \$75.0 million on May 28, 2021 and further increased to \$225.0 million on July 29, 2021. The second trust certificate of \$50.0 million was issued on April 12, 2021 and increased to \$100.0 million on July 13, 2021. Additional trust certificates of \$25.0 million and \$100.0 million were issued for borrowing on June 25, 2021 and July 23, 2021, respectively, under this agreement.
- (12) On April 29, 2021, we entered into a revolving facility agreement which provides up to \$30.0 million of committed borrowing capacity secured by eligible HECM loans that are active buyouts (ABO), as defined in the agreement.
- (13) Weighted average interest rate at June 30, 2021, excluding the effect of the amortization of prepaid lender fees. At June 30, 2021 and December 31, 2020, unamortized prepaid lender fees were \$1.5 million and \$2.0 million, respectively, and are included in Other assets in our consolidated balance sheets.

MSR financing facilities, net

Borrowing Type	Collateral	Interest Rate (1)	Maturity	Available Borrowing Capacity		Outstanding Balance	
				Uncommitted	Committed (2)	June 30, 2021	December 31, 2020
Agency MSR financing facility (3)	MSRs, Advances	1ML + 325 bps	June 2022	\$ —	\$ 42,333	\$ 382,667	\$ 210,755
Ginnie Mae MSR financing facility (4)	MSRs, Advances	1ML + 450 bps; 1ML floor 0.50%	Dec. 2021	4,345	—	120,655	112,022
Ocwen Excess Spread-Collateralized Notes, Series 2019-PLS1 (5)	MSRs	5.07%	Nov. 2024	—	—	55,116	68,313
Secured Notes, Ocwen Asset Servicing Income Series, Series 2014-1 (6)	MSRs	(6)	Feb. 2028	—	—	43,350	47,476
Agency MSR financing facility - revolving loan (7)	MSRs	1yr Swap + 2.50%	June 2026	—	7,929	277,071	—
Agency MSR financing facility - term loan (7)	MSRs	1yr Swap + 2.50%	June 2023	—	—	135,000	—
Total MSR financing facilities		3.37% (8)		4,345	50,262	1,013,859	438,566
Unamortized debt issuance costs - PLS Notes and Agency MSR financing - term loan (9)						(1,381)	(894)
Total MSR financing facilities, net						\$ 1,012,478	\$ 437,672

- (1) 1ML was 0.10% and 0.14% at June 30, 2021 and December 31, 2020, respectively. 1-year swap rate was 0.18% and 0.19% at June 30, 2021 and December 31, 2020, respectively.
- (2) Of the borrowing capacity on MSR financing facilities extended on a committed basis, none of the available borrowing capacity could be used at June 30, 2021 based on the amount of eligible collateral that could be pledged.
- (3) PMC's obligations under this facility are secured by a lien on the related MSRs. Ocwen guarantees the obligations of PMC under this facility. The maximum amount which we may borrow pursuant to the repurchase agreements is \$425.0 million on a committed basis. We also pledged the membership interest of the depositor for our OMART advance financing facility as additional collateral to this facility. See Note 2 – Securitizations and Variable Interest Entities for additional information. We are subject to daily margining requirements under the terms of our MSR financing facilities. Declines in fair value of our MSRs due to declines in market interest rates, assumption updates or other factors require that we provide additional collateral to our lenders under these facilities. On March 31, 2021, the facility was upsized to \$350.0 million, the interest rate reduced to 1ML plus 325bps, and the maturity was renewed to June 30, 2022. These changes became effective on April 15, 2021. On June 2, 2021, the facility was temporarily upsized to \$425.0 million for a period of 90 calendar days ending no later than September 1, 2021.

- (4) PMC's obligations under this facility are secured by a lien on the related Ginnie Mae MSRs. Ocwen guarantees the obligations of PMC under the facility. The borrowing capacity is \$125.0 million on an uncommitted basis. See (3) above regarding daily margining requirements.
- (5) PLS Issuer's obligations under the facility are secured by a lien on the related PLS MSRs. Ocwen guarantees the obligations of PLS Issuer under the facility. The Class A PLS Notes issued pursuant to the credit agreement had an initial principal amount of \$100.0 million and amortize in accordance with a pre-determined schedule subject to modification under certain events. See Note 2 – Securitizations and Variable Interest Entities for additional information. See (3) above regarding daily margining requirements.
- (6) OASIS noteholders are entitled to receive a monthly payment equal to the sum of: (a) 21 basis points of the UPB of the reference pool of Freddie Mac mortgages; (b) any termination payment amounts; (c) any excess refinance amounts; and (d) the note redemption amounts, each as defined in the indenture supplement for the notes. Monthly amortization of the liability is estimated using the proportion of monthly projected service fees on the underlying MSRs as a percentage of lifetime projected fees, adjusted for the term of the notes.
- (7) On June 28, 2021, we entered into a facility which includes a \$135.0 million term loan and a \$285.0 million revolving loan secured by a lien on PMC's Agency MSRs. See (3) above regarding daily margining requirements.
- (8) Weighted average interest rate at June 30, 2021, excluding the effect of the amortization of debt issuance costs and prepaid lender fees.
- (9) At June 30, 2021, unamortized debt issuance costs included \$0.6 million and \$0.7 million on the PLS Notes and the Agency MSR financing facility - term loan, respectively. At June 30, 2021 and December 31, 2020, unamortized prepaid lender fees related to revolving type MSR financing facilities were \$6.5 million and \$3.3 million, respectively, and are included in Other assets in our consolidated balance sheets.

Senior Secured Term Loan, net

Borrowing Type	Collateral	Interest Rate	Maturity	Outstanding Balance	
				June 30, 2021	December 31, 2020
SSTL (1)	(1)	1-Month Euro-dollar rate + 600 bps with a Eurodollar floor of 100 bps (1)	May 2022 (1)	\$ —	\$ 185,000
Unamortized debt issuance costs				—	(4,867)
Discount				—	(357)
				<u>\$ —</u>	<u>\$ 179,776</u>

- (1) On March 4, 2021, we repaid in full the \$185.0 million outstanding principal balance. The prepayment resulted in our recognition of an \$8.4 million loss on debt extinguishment, including a prepayment premium of 2% of the outstanding principal balance, or \$3.7 million.

Senior Notes	Interest Rate (1)	Maturity	Outstanding Balance	
			June 30, 2021	December 31, 2020
PMC Senior Secured Notes	7.875%	March 2026	\$ 400,000	\$ —
OFC Senior Secured Notes	12% paid in cash or 13.25% paid-in-kind (see below)	March 2027	285,000	—
PHH Corporation (PHH) Senior Notes	6.375%	August 2021	—	21,543
PMC Senior Secured Notes	8.375%	November 2022	—	291,509
Principal balance			685,000	313,052
Discount (2)				
PMC Senior Secured Notes			(1,948)	—
OFC Senior Secured Notes (3)			(57,033)	—
			(58,981)	—
Unamortized debt issuance costs (2)				
PMC Senior Secured Notes			(6,302)	(968)
OFC Senior Secured Notes			(9,117)	—
			(15,419)	(968)
Fair value adjustments			—	(186)
			\$ 610,600	\$ 311,898

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

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

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

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

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

Issuance of 7.875% Senior Secured Notes due 2026

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

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

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

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

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

defined in the indenture governing the PMC Senior Secured Notes (Indenture)) as of such redemption date plus 50 basis points; over (2) the then outstanding principal amount of such notes, plus accrued and unpaid interest, if any, on the notes redeemed to, but excluding, the redemption date.

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

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

Issuance of OFC Senior Secured Notes

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

On May 3, 2021, Ocwen issued to Oaktree the second tranche of the OFC Senior Secured Notes in an aggregate principal amount of \$85.5 million with an OID of \$10.5 million. Concurrent with the issuance of the second tranche of OFC Senior Secured Notes, Ocwen issued to the Oaktree Investors shares and warrants to purchase shares of its common stock. The \$68.0 million proceeds were allocated to the OFC Senior Secured Notes on a relative fair value basis resulting in an initial discount. See Note 14 – Equity for additional information regarding the issuance of common stock and warrants.

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

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

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

The OFC Senior Secured Notes have two financial maintenance covenants: (1) a minimum book value of stockholders' equity of not less than \$275.0 million and (2) a minimum amount of unrestricted cash of not less than \$50.0 million at any time. The OFC Senior Secured Notes also have affirmative and negative covenants and events of default that are customary for debt securities of this type.

Credit Ratings

Credit ratings are intended to be an indicator of the creditworthiness of a company's debt obligation. At June 30, 2021, the S&P issuer credit rating for Ocwen was "B-". On February 24, 2021, concurrent with the launch of the PMC bond offering, S&P reaffirmed the ratings at B- and changed the outlook from Negative to Stable. Moody's reaffirmed their ratings of Caa1 and revised their outlook to Stable from Negative on February 24, 2021. It is possible that additional actions by credit rating

agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Covenants

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

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

As of June 30, 2021, the most restrictive consolidated net worth requirement contained in our debt agreements is a minimum of \$275.0 million tangible net worth at Ocwen, as defined, under certain of our mortgage warehouse and MSR financing facilities agreements. The most restrictive liquidity requirement under our debt agreements is for a minimum of \$125.0 million in consolidated liquidity, as defined, under certain of our advance match funded debt and MSR financing facilities agreements.

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

Note 13 – Other Liabilities

	June 30, 2021	December 31, 2020
Contingent loan repurchase liability	\$ 523,012	\$ 480,221
Due to NRZ - Advance collections, servicing fees and other	84,288	94,691
MSR purchase price holdback	77,548	20,923
Other accrued expenses	76,215	87,898
Accrued legal fees and settlements	46,926	38,932
Servicing-related obligations	45,422	35,237
Liability for indemnification obligations	43,370	41,920
Checks held for escheat	39,835	35,654
Lease liability	22,593	27,393
Liability for uncertain tax positions	15,961	16,188
Accrued interest payable	14,485	4,915
Liability for unfunded pension obligation	12,512	12,662
Liability for unfunded India gratuity plan	5,864	6,051
Derivatives, at fair value	4,039	4,638
Other	13,766	16,652
	<u>\$ 1,025,836</u>	<u>\$ 923,975</u>

Note 14 – Equity

On February 3, 2020, Ocwen's Board of Directors authorized a share repurchase program for an aggregate amount of up to \$5.0 million of Ocwen's issued and outstanding shares of common stock. During the three months ended March 31, 2020, we

completed the repurchase of 377,484 shares of common stock in the open market under this program at prevailing market prices for a total purchase price of \$4.5 million for an average price paid per share of \$11.90. In addition, Ocwen paid \$0.1 million in commissions. The repurchased shares were formally retired as of March 31, 2020. No additional shares were repurchased prior to the program's expiration on February 3, 2021.

Effective August 13, 2020, Ocwen implemented a one-for-15 reverse stock split of all outstanding shares of its common stock and reduced the number of authorized shares of common stock by the same proportion. Shareholders entitled to receive fractional shares of common stock received shares rounded up to the nearest whole share in lieu of such fractional shares, with an aggregate 4,692 additional shares issued. The number of outstanding shares was reduced from 130,013,696 to 8,672,272 and the authorized shares from 200,000,000 to 13,333,333 effective August 13, 2020, with giving effect to the rounding up of fractional shares. The \$0.01 par value per share of common stock remained unchanged.

As disclosed in Note 12 – Borrowings, concurrent with the issuance of the OFC Senior Secured Notes on March 4, 2021, Ocwen issued to Oaktree warrants to purchase 1,184,768 shares of its common stock (which amount, upon exercise of the warrants, would be equal to 12% of Ocwen's outstanding common stock as of the date of issuance of such warrants) at an exercise price of \$26.82 per share, subject to antidilution adjustments. The warrants may be exercised at any time from the date of issuance through March 4, 2027. While the warrants will not be registered, we entered into a registration rights agreement with Oaktree pursuant to which we will register for resale the shares of common stock issuable upon exercise of the warrants within 18 months after March 4, 2021. On March 4, 2021, the \$16.5 million allocated fair value of the warrants was reported as Additional Paid-in Capital in our consolidated balance sheet, net of allocated debt issuance costs of \$0.8 million.

On May 3, 2021, concurrent with the issuance of the second tranche of OFC Senior Secured Notes described above, and in connection with the closing of the Transaction Agreement dated December 21, 2020 and disclosed in Note 10 - Investment in Equity Method Investee, we issued to Oaktree 426,705 shares of our common stock, representing 4.9% of our outstanding common stock, at a price per share of \$23.15 for an aggregate purchase price of \$9.9 million, and warrants to purchase 261,248 shares of our common stock (which amount was equal to 3% of Ocwen's outstanding common stock as of the date of issuance of such warrants) at a price per share of \$24.31 in consideration of the transaction. The warrants may be exercised at any time from the date of issuance through May 3, 2025. The issuance of the shares of common stock, warrants, and the shares of common stock issuable upon exercise of the warrants will not be registered under the Securities Act. These securities were or will be (as applicable) issued in a private placement exempt from the registration requirements of the Securities Act. On May 3, 2021, the \$12.6 million allocated fair value of the common stock and \$4.3 million allocated fair value of the warrants was reported as Common Stock, for face value of common stock issued and Additional Paid-in Capital in our consolidated balance sheet, net of allocated debt issuance costs of \$0.5 million.

Note 15 – Derivative Financial Instruments and Hedging Activities

The table below summarizes the fair value, notional and maturity of 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, 2021 and 2020.

	June 30, 2021			December 31, 2020		
	Maturities	Notional	Fair value	Maturities	Notional	Fair value
Derivative Assets (Other assets)						
Forward sales of Reverse loans	Jul. 2021	\$ 80,000	\$ 238	Jan. 2021	\$ 30,000	\$ 34
Forward loans IRLCs	Aug. - Oct. 2021	995,020	17,141	Apr. 2021	619,713	22,224
Reverse loans IRLCs	Jul. 2021	68,383	296	Jan. 2021	11,692	482
TBA forward Pipeline trades	Jul. - Aug. 2021	1,263,000	160	N/A	—	—
TBA forward MBS trades	Aug. 2021	660,000	2,250	N/A	—	—
Interest rate swap futures	Sep. 2021	450,000	4,500	Mar. 2021	593,500	504
Other	N/A	—	—	N/A	—	2
Total		\$ 3,516,403	\$ 24,585		\$ 1,254,905	\$ 23,246

Derivative Liabilities (Other liabilities)						
Forward sales of Reverse loans	Aug. 2021	\$ 20,000	\$ (91)	Jan. 2021	\$ 20,000	\$ (84)
TBA forward Pipeline trades	Jul. - Aug. 2021	1,260,000	(1,740)	N/A	—	—
TBA forward MBS trades	N/A	—	—	Jan. 2021	400,000	(4,554)
Interest rate swap futures	Sep. 2021	600,000	(2,203)	N/A	—	—
Other	N/A	—	(5)	N/A	—	—
Total		\$ 1,880,000	\$ (4,039)		\$ 420,000	\$ (4,638)

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

Derivative	Six Months Ended June 30, 2021		Six Months Ended June 30, 2020	
	Gain / (Loss)		Gain / (Loss)	
	Amount	Financial Statement Line	Amount	Financial Statement Line
Forward loans IRLCs	\$ (5,074)	Gain on loans held for sale, net	\$ 12,088	Gain on loans held for sale, net
Reverse loans IRLCs	(186)	Reverse mortgage revenue, net	892	Reverse mortgage revenue, net
Forward LHFS trades	—	Gain on loans held for sale, net	—	Gain on loans held for sale, net
TBA forward pipeline trades	(188)	Gain on loans held for sale, net (Economic hedge)	—	Gain on loans held for sale, net (Economic hedge)
Interest rate swap futures and TBA forward MBS trades	—	Gain on loans held for sale, net (Economic hedge)	(9,563)	Gain on loans held for sale, net (Economic hedge)
Interest rate swap futures and TBA forward MBS trades	9,297	MSR valuation adjustments, net	42,811	MSR valuation adjustments, net
Forward sales of Reverse loans	197	Reverse mortgage revenue, net	(168)	Reverse mortgage revenue, net
Other	(16)	Gain on loans held for sale, net	(796)	Gain on loans held for sale, net
Total	\$ 4,030		\$ 45,263	

Interest Rate Risk

MSR Hedging

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

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

- our more interest rate-sensitive Agency MSR portfolio,
- less the Agency MSRs subject to our agreements with NRZ (See Note 8 — Rights to MSRs),
- less the unsecuritized reverse mortgage loans and tails classified as held for investment,
- less the asset value for securitized HECM loans, net of the corresponding HMBS-related borrowings, and
- less the net value of our held for sale loan portfolio and lock commitments (pipeline).

In the first and second quarters of 2021, we also included in our MSR portfolio the exposure related to expected future MSR bulk acquisitions subject to letters of intent.

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

- Agency MSR portfolio,
- expected Agency MSR bulk transactions subject to letters of intent,
- less the Agency MSRs subject to our agreements with NRZ (See Note 8 — Rights to MSRs),
- less the asset value for securitized HECM loans, net of the corresponding HMBS-related borrowings.

We determine and monitor daily the hedge coverage based on the duration and interest rate sensitivity measures of our MSR portfolio exposure, considering market and liquidity conditions. Our MSR hedging strategy is intended to provide partial coverage of our MSR portfolio exposure. Accordingly, the changes in fair value of our hedging instruments may not fully offset the changes in fair value of our net MSR portfolio exposure attributable to interest rate changes.

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. We report changes in fair value of these derivative instruments in MSR valuation adjustments, net in our consolidated statements of operations.

The derivative instruments are subject to margin requirements, posted as either initial margin or variation margin. Ocwen may be required to post or may be entitled to receive cash collateral with its counterparties through margin calls, based on daily value changes of the instruments. Changes in market factors, including interest rates, and our credit rating could 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 commitment cancellation or expiration date or (ii) through the date of sale of the resulting loan into the secondary mortgage market. Loan commitments for forward loans generally range from 5 to 90 days, with the majority of our commitments to borrowers for 60 days and our commitments to correspondent sellers for 7 days. Loans held for sale are generally funded and sold within 5 to 20 days. This interest rate exposure was not individually hedged until May 2021, but rather used as an offset to our MSR exposure and managed as part of our MSR macro-hedging strategy described above. Effective May 2021, we implemented a new pipeline hedging strategy, whereby the interest rate exposure of loans held for sale and interest rate lock commitments is economically hedged with derivative instruments, including forward sales of Agency “to be announced” securities (TBAs). We report changes in fair value of these derivative instruments as gain or loss on economic hedge instruments within gain on loans held-for-sale in our consolidated statements of operations.

Advance Match Funded Liabilities

We monitor the effect of increases in interest rates on the interest paid on our variable-rate advance financing debt. Earnings on cash and float balances are a partial offset to our exposure to changes in interest expense. We purchase interest rate

caps as economic hedges (not designated as a hedge for accounting purposes) when required by our advance financing arrangements.

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 any forward exchange contracts to hedge against the effect of changes in the value of the India Rupee or Philippine Peso. We currently do not hedge our foreign currency exposure with derivative instruments. Foreign currency remeasurement exchange gains (losses) were \$(0.1) million and \$0.1 million for the three and six months ended June 30, 2021, respectively, and \$(0.1) million and \$(0.9) million during the three and six months ended June 30, 2020, respectively, and are reported in Other, net in the consolidated statements of operations.

Note 16 – Interest Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Senior notes	\$ 16,954	\$ 6,658	\$ 26,450	\$ 13,319
Mortgage loan warehouse facilities	6,404	3,138	11,688	6,599
MSR financing facilities	4,754	3,699	9,326	8,736
Advance match funded liabilities	4,265	7,311	8,761	12,976
SSTL	—	4,796	2,957	11,590
Other	1,139	1,158	2,786	3,522
	<u>\$ 33,516</u>	<u>\$ 26,760</u>	<u>\$ 61,968</u>	<u>\$ 56,742</u>

Note 17 – Income Taxes

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act includes several significant business tax provisions that, among other things, temporarily repealed the taxable income limitation for certain net operating losses (NOL) and allows businesses to carry back NOLs arising in 2018, 2019, and 2020 tax years to the five prior tax years, accelerated refunds of previously generated corporate Alternative Minimum Tax (AMT) credits, and adjusted the business interest expense limitation under section 163(j) from 30% to 50% of Adjusted Taxable Income (ATI) for 2019 and 2020 tax years.

Based on information available at the time, we estimated that modifications to the tax rules for the carryback of NOLs and business interest expense limitations would result in U.S. and USVI federal net tax refunds of approximately \$63.1 million and \$1.9 million, respectively, and as such we recognized an income tax benefit of \$65.0 million in our unaudited consolidated financial statements for the six months ended June 30, 2020.

The income tax benefit recognized represents the release of valuation allowances against certain NOL and Section 163(j) deferred tax assets that were realized as a result of certain provisions of the CARES Act as well as permanent income tax benefit related to the carryback of NOLs created in a tax year that was subject to U.S. federal tax at 21% to a tax year subject to tax at 35%.

We recognized income tax benefit, exclusive of the impact of the CARES Act recognized in 2020, of \$11.9 million and \$7.9 million for the three months ended June 30, 2021 and 2020, respectively, and \$8.8 million and \$5.0 million for the six months ended June 30, 2021 and 2020, respectively, primarily due to the favorable resolution of various uncertain tax positions in both the second quarters of 2021 and 2020. Additional income tax benefit was recognized related to pre-tax losses incurred during these periods.

Note 18 – Basic and Diluted Earnings (Loss) per Share

Basic earnings or loss per share excludes common stock equivalents and is calculated by dividing net income or loss attributable to Ocwen common stockholders by the weighted average number of common shares outstanding during the period. We calculate diluted earnings or loss per share by dividing net income or loss attributable to Ocwen by the weighted average number of common shares outstanding including the potential dilutive common shares related to outstanding restricted stock awards, stock options and warrants as determined using the treasury stock method. For the three and six months ended June 30, 2021, and the six months ended June 30, 2020, 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,	
	2021	2020	2021	2020
Basic earnings (loss) per share				
Net income (loss)	\$ (10,322)	\$ 1,954	\$ (1,779)	\$ (23,535)
Weighted average shares of common stock	8,999,544	8,651,273	8,844,637	8,820,931
Basic earnings (loss) per share	\$ (1.15)	\$ 0.23	\$ (0.20)	\$ (2.67)
Diluted earnings (loss) per share				
Net income (loss)	\$ (10,322)	\$ 1,954	\$ (1,779)	\$ (23,535)
Weighted average shares of common stock	8,999,544	8,651,273	8,844,637	8,820,931
Effect of dilutive elements				
Common stock awards	—	10,217	—	—
Dilutive weighted average shares of common stock	8,999,544	8,661,490	8,844,637	8,820,931
Diluted earnings (loss) per share	\$ (1.15)	\$ 0.23	\$ (0.20)	\$ (2.67)
Stock options and common stock awards excluded from the computation of diluted earnings (loss) per share				
Anti-dilutive (1)	119,262	211,729	149,744	245,410
Market-based (2)	41,528	125,397	41,528	125,397

(1) Includes stock options that are anti-dilutive because their exercise price was greater than the average market price of Ocwen's stock, and stock awards that are anti-dilutive based on the application of the treasury stock method.

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

As disclosed in Note 14 – Equity, Ocwen implemented a reverse stock split in a ratio of one-for-15 effective on August 13, 2020. The above computations of earnings (loss) per share reflect the number of common stock shares after consideration for the reverse stock split. All common share and loss per share amounts have been adjusted retrospectively to give effect to the reverse stock split as if it occurred at the beginning of the first period presented.

Note 19 – Business Segment Reporting

Our business segments reflect the internal reporting that we use to evaluate operating performance of services and to assess the allocation of our resources. Our reportable business segments consist of Servicing, Originations, and Corporate Items and Other. During the six months ended June 30, 2021, 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, 2020.

Effective with the fourth quarter of 2020, we have reported the results of Reverse Servicing within the Servicing segment. Previously, the Reverse Servicing business was included in the reported results of the Originations segment. This alignment of our business segments is consistent with a change in the management of the business and a change in the internal management reporting to the chief operating decision maker. Segment results for 2020 have been recast to conform to the current segment presentation. Reverse Servicing generated Revenue and Income (loss) before income taxes of \$(3.4) million and \$(7.4) million, respectively, for the three months ended June 30, 2020, and \$12.6 million and \$4.7 million for the six months ended June 30, 2020. Reverse Servicing assets consist primarily of securitized Loans held for investment - Reverse Mortgages.

Revenues and expenses directly associated with each respective business segments are included in determining its results of operations. We allocate certain expenses incurred by corporate support services that are not directly attributable to a segment to each business segment. We allocate overhead costs incurred by corporate support services to the Servicing and Originations segments which incorporates the utilization of various measurements primarily based on time studies, personnel volumes and service consumption levels. Support services costs not allocated to the Servicing and Originations segments are retained in the Corporate Items and Other segment along with certain other costs including certain litigation and settlement related expenses or recoveries, costs related to our re-engineering initiatives, and other costs related to operating as a public company. We allocate a portion of interest income to each business segment, including interest earned on cash balances.

Interest expense on direct asset-backed financings are recorded in the respective Servicing and Originations segments. Beginning in the third quarter of 2020, we began allocating interest expense on corporate debt, including the SSSL and Senior Notes, used to fund servicing advances and other servicing assets from Corporate Items and Other to the Servicing segment (excluding Reverse Servicing). Amortization of debt issuance costs and discount are excluded from the interest expense allocation. The interest expense related to the corporate debt has been allocated to the Servicing segment for periods prior to the third quarter of 2020 to conform to the current period presentation. The interest expense allocation for the six months ended June 30, 2020 is \$19.9 million, and \$9.5 million for the three months ended June 30, 2020.

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

Financial information for our segments is as follows:

Results of Operations	Three Months Ended June 30, 2021					Business Segments Consolidated
	Servicing	Originations	Corporate Items and Other	Corporate Eliminations (1)		
Servicing and subservicing fees	\$ 182,141	\$ 2,300	\$ —	\$ —	\$ 184,441	
Reverse mortgage revenue, net	10,487	18,814	—	—	29,301	
Gain on loans held for sale, net (1)	4,130	27,273	—	11,310	42,713	
Other revenue, net	497	6,986	1,507	—	8,990	
Revenue	197,255	55,373	1,507	11,310	265,445	
MSR valuation adjustments, net (1)	(69,948)	8,808	—	(11,310)	(72,450)	
Operating expenses	83,626	39,687	26,495	—	149,808	
Other (expense) income:						
Interest income	1,232	2,862	94	—	4,188	
Interest expense	(23,311)	(4,701)	(5,504)	—	(33,516)	
Pledged MSR liability expense	(39,845)	—	35	—	(39,810)	
Earnings of equity method investee	—	—	350	—	350	
Other	2,892	(168)	640	—	3,364	
Other expense, net	(59,032)	(2,007)	(4,385)	—	(65,424)	
Income (loss) before income taxes	\$ (15,351)	\$ 22,487	\$ (29,373)	\$ —	\$ (22,237)	

Three Months Ended June 30, 2020

Results of Operations	Servicing	Originations	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
Servicing and subservicing fees	\$ 175,188	\$ 7	\$ 45	\$ —	\$ 175,240
Reverse mortgage revenue, net	(2,721)	16,480	—	—	13,759
Gain on loans held for sale, net	3,781	29,766	—	—	33,547
Other revenue, net	817	2,663	998	—	4,478
Revenue	<u>177,065</u>	<u>48,916</u>	<u>1,043</u>	<u>—</u>	<u>227,024</u>
MSR valuation adjustments, net	(37,074)	13,640	—	—	(23,434)
Operating expenses	86,415	25,075	33,319	—	144,809
Other (expense) income:					
Interest income	2,155	1,157	254	—	3,566
Interest expense	(22,997)	(1,751)	(2,012)	—	(26,760)
Pledged MSR liability expense	(41,714)	—	28	—	(41,686)
Other	2,466	(8)	(2,515)	—	(57)
Other expense, net	<u>(60,090)</u>	<u>(602)</u>	<u>(4,245)</u>	<u>—</u>	<u>(64,937)</u>
Income (loss) before income taxes	<u>\$ (6,514)</u>	<u>\$ 36,879</u>	<u>\$ (36,521)</u>	<u>\$ —</u>	<u>\$ (6,156)</u>

Six Months Ended June 30, 2021

Results of Operations	Servicing	Originations	Corporate Items and Other	Corporate Eliminations (1)	Business Segments Consolidated
Servicing and subservicing fees	\$ 351,496	\$ 4,683	\$ —	\$ —	\$ 356,179
Reverse mortgage revenue, net	12,521	38,606	—	—	51,127
Gain on loans held for sale, net (1)	7,651	64,866	—	(24,083)	48,434
Other revenue, net	999	13,503	2,797	—	17,299
Revenue	<u>372,667</u>	<u>121,658</u>	<u>2,797</u>	<u>(24,083)</u>	<u>473,039</u>
MSR valuation adjustments, net (1)	(92,638)	17,313	—	24,083	(51,242)
Operating expenses	166,379	77,016	46,042	—	289,437
Other (expense) income:					
Interest income	2,489	5,428	207	—	8,124
Interest expense	(43,619)	(8,252)	(10,097)	—	(61,968)
Loss on extinguishment of debt	—	—	(15,458)	—	(15,458)
Pledged MSR liability expense	(77,727)	—	67	—	(77,660)
Earnings of equity method investee	—	—	350	—	350
Other	3,345	(119)	428	—	3,654
Other expense, net	<u>(115,512)</u>	<u>(2,943)</u>	<u>(24,503)</u>	<u>—</u>	<u>(142,958)</u>
Income (loss) before income taxes	<u>\$ (1,862)</u>	<u>\$ 59,012</u>	<u>\$ (67,748)</u>	<u>\$ —</u>	<u>\$ (10,598)</u>

Six Months Ended June 30, 2020

Results of Operations	Servicing	Originations	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
Servicing and subservicing fees	\$ 386,657	\$ 8	\$ 58	\$ —	\$ 386,723
Reverse mortgage revenue, net	13,953	22,603	—	—	36,556
Gain on loans held for sale, net	4,010	42,868	—	—	46,878
Other revenue, net	1,975	5,109	3,625	—	10,709
Revenue	406,595	70,588	3,683	—	480,866
MSR valuation adjustments, net	(211,522)	13,968	—	—	(197,554)
Operating expenses	170,894	48,027	63,102	—	282,023
Other (expense) income:					
Interest income	4,684	2,780	1,497	—	8,961
Interest expense	(47,576)	(4,185)	(4,981)	—	(56,742)
Pledged MSR liability expense	(48,337)	—	57	—	(48,280)
Other	6,121	(30)	(4,820)	—	1,271
Other expense, net	(85,108)	(1,435)	(8,247)	—	(94,790)
Income (loss) before income taxes	\$ (60,929)	\$ 35,094	\$ (67,666)	\$ —	\$ (93,501)

(1) Corporate Eliminations for the three and six months ended June 30, 2021 includes an inter-segment derivatives elimination of \$11.3 million and \$24.1 million, respectively, with a corresponding offset in MSR valuation adjustments, net; nil for the three and six months ended June 30, 2020.

tal Assets	Servicing	Originations	Corporate Items and Other	Business Segments Consolidated
June 30, 2021	\$ 10,747,791	641,931	377,988	11,767,710
December 31, 2020	\$ 9,847,608	379,238	424,298	10,651,127
June 30, 2020	\$ 9,510,088	291,085	509,269	10,310,438

Depreciation and Amortization Expense	Servicing	Originations	Corporate Items and Other	Business Segments Consolidated
Three months ended June 30, 2021				
Depreciation expense	\$ 168	\$ 26	\$ 2,015	\$ 2,209
Amortization of debt issuance costs and discount	129	—	1,480	1,609
Three months ended June 30, 2020				
Depreciation expense	\$ 218	\$ 34	\$ 6,844	\$ 7,096
Amortization of debt issuance costs and discount	116	—	1,403	1,519
Six Months Ended June 30, 2021				
Depreciation expense	\$ 376	\$ 49	\$ 4,641	\$ 5,066
Amortization of debt issuance costs and discount	258	—	2,974	3,232
Six months ended June 30, 2020				
Depreciation expense	\$ 433	\$ 71	\$ 10,589	\$ 11,093
Amortization of debt issuance costs and discount	228	—	3,953	4,181

Note 20 – Regulatory Requirements

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

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

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

Our licensed entities are required to renew their licenses, typically on an annual basis, and to do so they must satisfy the license renewal requirements of each jurisdiction, which generally include financial requirements such as providing audited financial statements and satisfying minimum net worth requirements and non-financial requirements such as satisfactory completion of examinations relating to the licensee's compliance with applicable laws and regulations. We are also subject to seller/servicer obligations under agreements with the GSEs, HUD, FHA, VA and Ginnie Mae, including capital requirements

related to tangible net worth, as defined by the applicable agency, an obligation to provide audited financial statements within 90 days of the applicable entity's fiscal year end as well as extensive requirements regarding servicing, selling and other matters. We believe our licensed entities were in compliance with all of their minimum net worth requirements at June 30, 2021. Our non-Agency servicing agreements also contain requirements regarding servicing practices and other matters, and a failure to comply with these requirements could have a material adverse impact on our business. The most restrictive of the various net worth requirements for licensing and seller/servicer obligations referenced above is based on the UPB of assets serviced by PMC. Under the applicable formula, the required minimum net worth was \$417.1 million at June 30, 2021. PMC's net worth was \$536.5 million at June 30, 2021. The most restrictive of the various liquidity requirements for licensing and seller/servicer obligations referenced above pertains to PMC and was \$47.4 million at June 30, 2021. PMC's liquid assets were \$224.0 million at June 30, 2021.

We have faced and expect to continue to face heightened regulatory and public scrutiny as an organization and have entered into a number of significant settlements with federal and state regulators and state attorneys general that have imposed additional requirements on our business. Our failure to comply with our settlement obligations to our regulators or with applicable federal, state, local and foreign laws, regulations, licensing requirements and agency guidelines could lead to (i) administrative fines, penalties, sanctions or 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) additional costs to address these matters and comply with the terms of any resulting resolutions, (vii) suspension or termination of our approved agency seller/servicer status, (viii) inability to raise capital or otherwise fund our operations and (ix) inability to execute on our business strategy, which could have a material adverse impact on our business, reputation, results of operations, liquidity and financial condition.

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

California Department of Financial Protection and Innovation (CA DFPI). In January 2015 and February 2017, Ocwen Loan Servicing, LLC (OLS) entered into consent orders with the CA DFPI (formerly known as the California Department of Business Oversight) relating to our alleged failure to produce certain information and documents during a routine licensing examination and relating to alleged servicing practices. We have completed all of our obligations under each of these consent orders. In October 2020, we entered into a consent order with the CA DFPI in order to resolve a legacy PHH examination finding and, in conjunction therewith, agreed to pay \$62,000 (sixty-two thousand dollars) in penalties. We continue to work with the CA DFPI to address matters they raise with us as well as to fulfill our commitments under the consent order.

Note 21 — Commitments

Unfunded Lending Commitments

We have originated floating-rate reverse mortgage loans under which the borrowers have additional borrowing capacity of \$2.0 billion at June 30, 2021. This additional borrowing capacity is available on a scheduled or unscheduled payment basis. During the six months ended June 30, 2021, we funded \$91.8 million out of the \$2.0 billion borrowing capacity as of December 31, 2020. We also had short-term commitments to lend \$995.0 million and \$68.4 million in connection with our forward and reverse mortgage loan IRLCs, respectively, outstanding at June 30, 2021. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, referred to as warehouse lines.

HMBS Issuer Obligations

As an HMBS issuer, we are required to purchase loans out of the Ginnie Mae securitization pools once the outstanding principal balance of a reverse mortgage loan is equal to or greater than 98% of the maximum claim amount (MCA repurchases), or when they become inactive (the borrower is deceased, no longer occupies the property or is delinquent on tax and insurance payments).

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

	Six Months Ended June 30, 2021							
	Active		Inactive		Total			
	Number	Amount	Number	Amount	Number	Amount		
Beginning balance	141	\$ 29,852	317	\$ 56,449	458	\$ 86,301		
Additions	129	36,681	126	25,141	255	61,822		
Recoveries, net (1)	(161)	(38,404)	(76)	(10,055)	(237)	(48,459)		
Transfers	(11)	(4,713)	11	4,713	—	—		
Changes in value	—	9	—	(1,484)	—	(1,475)		
Ending balance	<u>98</u>	<u>\$ 23,425</u>	<u>378</u>	<u>\$ 74,764</u>	<u>476</u>	<u>\$ 98,189</u>		

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

NRZ Relationship

Our Servicing segment has exposure to concentration risk and client retention risk. As of June 30, 2021, our servicing portfolio included significant client relationships with NRZ which represented 26% and 36% of our servicing portfolio UPB and loan count, respectively, and approximately 63% of all delinquent loans that Ocwen services. The current terms of our agreements with NRZ extend through July 2022. Currently, subject to proper notice (generally 180 days' notice), the payment of termination fees and certain other provisions, NRZ has rights to terminate the legacy Ocwen agreements for convenience.

MAV Right of First Offer

Until Ocwen and Oaktree have funded their pro-rata shares of the \$250 million total investment in MAV, Ocwen and its affiliates may not acquire, without Oaktree's prior written approval, GSE MSR opportunities that meet certain underwriting and other criteria (such criteria are referred to as the "buy-box") unless Ocwen notifies MAV of the opportunity and MAV does not pursue it by submitting a competitive bid to the MSR seller.

In addition, until the earlier of (i) the time that MAV has been fully funded and (ii) May 3, 2024 (subject to two annual extensions by mutual agreement), if Ocwen seeks to sell any GSE MSRs that meet the buy-box, Ocwen must first offer such MSRs to MAV before initiating a sale process with a third party. If MAV does not accept Ocwen's offer, Ocwen may sell the MSRs to a third party on terms no more favorable to the purchaser than those offered to MAV. The price at which Ocwen and its affiliates will offer MSRs to MAV will be based on the valuation of an independent third-party. This first offer provision does not apply to MSRs acquired by PMC prior to May 3, 2021.

Ocwen and Oaktree have agreed to reasonably consider additional sources of MSR purchases that Ocwen or PMC may pursue to support each such party's balance sheet and acquisition opportunities, including reallocating MSR opportunities and MSR origination channels to MAV or PMC, as applicable.

Acquisition

On June 17, 2021, PMC entered into an asset purchase agreement with Reverse Mortgage Solutions, Inc. (RMS) and its parent, Mortgage Assets Management, LLC (MAM), to acquire certain assets of RMS related to reverse mortgage subservicing, including subservicing contracts and foreclosed properties. PMC has extended employment offers to approximately 270 RMS employees and will assume certain liabilities, including those in connection with the continuing employees. As of June 30, 2021, RMS serviced approximately 37,000 reverse mortgages, or approximately \$8.4 billion in UPB. As part of the transaction, PMC expects to become the subservicer under a five-year subservicing agreement for reverse mortgages owned by RMS and MAM.

The aggregate purchase price is estimated to be approximately \$12.4 million and will be subject to certain post-closing adjustments. The transaction is expected to close in the second half of 2021, subject to appropriate regulatory approvals and other customary closing conditions.

Note 22 – Contingencies

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

Litigation

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

The majority of these proceedings are based on alleged violations of federal, state and local laws and regulations governing our mortgage servicing and lending activities, including, among others, the Dodd-Frank Act, the Gramm-Leach-Bliley Act, the FDCPA, the RESPA, the TILA, the Fair Credit Reporting Act, the Servicemembers Civil Relief Act, the Homeowners Protection Act, the Federal Trade Commission Act, the TCPA, the Equal Credit Opportunity Act, as well as individual state licensing and foreclosure laws and federal and local bankruptcy rules. 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 call recordings, claims regarding certifications of our legal compliance related to our participation in certain government programs, claims related to improper occupancy inspections, and claims related to untimely recording of mortgage satisfactions. In some of these proceedings, claims for substantial monetary damages are asserted against us. For example, we are currently a defendant in various matters alleging that (1) certain fees imposed on borrowers relating to payment processing, payment facilitation or payment convenience violate the FDCPA and similar state laws, (2) certain fees we assess on borrowers are improperly assessed and/or marked up improperly in violation of applicable state and federal law, (3) we breached fiduciary duties we purportedly owe to benefit plans due to the discretion we exercise in servicing certain securitized mortgage loans, and (4) certain legacy mortgage reinsurance arrangements violated RESPA. In the future, we are likely to become subject to other private legal proceedings alleging failures to comply with applicable laws and regulations, including putative class actions, in the ordinary course of our business.

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

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

legal fees, was \$46.9 million at June 30, 2021. We cannot currently estimate the amount, if any, of reasonably possible losses above amounts that have been recorded at June 30, 2021.

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 state laws similar to the FDCPA. Ocwen has recently agreed to a settlement in principle of a putative class action, *Morris v. PHH Mortgage Corp.*, filed in March 2020 in the United States District Court for the Southern District of Florida, alleging that PMC's and legacy Ocwen's practices of charging a fee to borrowers who voluntarily choose to use certain optional expedited payment options violates the FDCPA and its state law analogs. Several similar putative class actions have been filed against PMC and Ocwen since July 2019. Following mediation, PMC agreed to the terms of a settlement agreement to resolve all claims in the *Morris* matter. A motion requesting preliminary approval of the settlement was filed on August 25, 2020. Several third parties, including a group of State Attorneys General, have filed papers opposing preliminary approval, and these third parties could ultimately file objections to the proposed settlement. Following the preliminary approval hearing, PMC and plaintiffs renegotiated portions of the settlement agreement to address several questions raised by the Court, and subsequently filed a renewed motion for preliminary approval. Ocwen expects final approval of the *Morris* settlement will resolve the claims of the majority of the putative class members described in the other similar cases that Ocwen is defending. Ocwen cannot guarantee that the proposed settlement will receive final approval and in the absence of such approval, Ocwen cannot predict the eventual outcome of the *Morris* proceeding and similar putative class actions.

In addition, we continue to be involved in legacy matters arising prior to Ocwen's October 2018 acquisition of PHH, including a putative class action filed in 2008 in the United States District Court for the Eastern District of California against PHH and related entities in alleging that PHH's legacy mortgage reinsurance arrangements between its captive reinsurer, Atrium Insurance Corporation, and certain mortgage insurance providers violated RESPA. See *Munoz v. PHH Mortgage Corp. et al.*, No. 1:08-cv-00759-DAD-BAM (E.D. Ca.). 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 2, 2007 and December 31, 2009. PHH has asserted numerous defenses to the merits of the case. On August 12, 2020, the Court granted, in part, Plaintiffs' Motion for Partial Summary Judgment. The only issue remaining for trial is whether the reinsurance services provided by PHH's captive reinsurance subsidiary, Atrium, were actually provided in order for the safe harbor provision of RESPA to apply. Pre-trial conferences were held on February 1, 2021 and May 24, 2021. Following the pre-trial conferences, the Court scheduled trial to begin on February 15, 2022. PHH accrued \$2.5 million when the case was filed in 2008 and that amount is included in the \$46.9 million legal and regulatory accrual referenced above. At this time, Ocwen is unable to predict the outcome of this lawsuit or any additional lawsuits that may be filed, the possible loss or range of loss, if any, associated with the resolution of such lawsuits or the potential impact such lawsuits may have on us or our operations. Ocwen intends to vigorously defend against this lawsuit. If our efforts to defend this lawsuit are not successful, our business, reputation, financial condition liquidity and results of operations could be materially and adversely affected.

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

Ocwen is a defendant in a certified class action in the U.S. District Court in the Eastern District of California where the plaintiffs claim Ocwen marked up fees for property valuations and title searches in violation of California state law. See *Weiner v. Ocwen Financial Corp., et al.*; 2:14-cv-02597-MCE-DB. Ocwen's motion for summary judgment, filed in June 2019, was denied in May 2020; however, the court did rule 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. A jury trial was recently rescheduled to commence March 7, 2022. At this time, Ocwen is unable to predict the outcome of this lawsuit or any additional lawsuits that may be filed, the possible loss or range of loss, if any, associated with the resolution of such lawsuits or the potential impact such lawsuits may have on us or our operations. Ocwen intends to vigorously defend against this lawsuit. If our efforts to defend this lawsuit are not successful, our business, financial condition liquidity and results of operations could be materially and adversely affected. Ocwen may have affirmative indemnification rights and/or other claims against third parties related to the allegations in the lawsuit. Although we may pursue these claims, we cannot currently estimate the amount, if any, of recoveries from these third parties.

From time to time we are also subject to indemnification claims from contractual parties (i) on whose behalf we service or subservice loans, or did so in the past and (ii) to whom we sold loans or MSRs.

We are currently involved in a dispute with a former subservicing client, HSBC Bank USA, N.A. (HSBC), which filed a complaint in the Supreme Court of the State of New York against PHH. See *HSBC Bank USA, N.A. v. PHH Mortgage Corp.*, (Supreme Court of the State of N.Y.; Index No. 655868/2020). HSBC's claims relate to alleged breaches of agreements entered into under a prior subservicing arrangement. We believe we have strong factual and legal defenses to all of HSBC's claims and are vigorously defending the action. Ocwen is currently unable to predict the outcome of this dispute or estimate the size of any loss which could result from a potential resolution reached through litigation or otherwise. We are also currently involved in three lawsuits pending in the Supreme Court of the State of New York with a purchaser of MSRs, Mr. Cooper (formerly Nationstar Mortgage Holdings Inc.), who alleges breaches of representations and warranties made by PHH in the MSR sale agreements. The initial complaint filed in the first case was dismissed in its entirety, but Mr. Cooper has since appealed that ruling, filed an amended complaint in that case, and commenced the second and third litigation. We believe we have strong factual and legal defenses to Mr. Cooper's claims and are vigorously defending ourselves. We have also received demands for indemnification for alleged breaches of representations and warranties from parties to whom we sold loans and we are currently a defendant in an adversary proceeding brought by a bankruptcy plan administrator seeking to enforce its right to contractual indemnification for the sale of allegedly defective mortgage loans.

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

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

In addition, several RMBS trustees have received notices of events of default alleging material failures by servicers to comply with applicable servicing agreements. Although Ocwen has not been sued by an RMBS trustee in response to an event of default notice, there is a risk that Ocwen could be replaced as servicer as a result of said notices, that the trustees could take legal action on behalf of the trust certificate holders, or, under certain circumstances, that the RMBS investors who issue notices of event of default could seek to press their allegations against Ocwen, independent of the trustees. We are unable at this time to predict what, if any, actions any trustee will take in response to an event of default notice, nor can we predict at this time the potential loss or range of loss, if any, associated with the resolution of any event of default notice or the potential impact on our operations. If Ocwen were to be terminated as servicer, or other related legal actions were pursued against Ocwen, it could have an adverse effect on Ocwen's business, reputation, financial condition, liquidity and results of operations.

Regulatory

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

To the extent that an examination, audit or other regulatory engagement results in an alleged failure by us to comply with applicable laws, regulations or licensing requirements, or if allegations are made that we have failed to comply with applicable laws, regulations or licensing requirements or the commitments we have made in connection with our regulatory settlements (whether such allegations are made through administrative actions such as cease and desist orders, through legal proceedings or

otherwise) or if other regulatory actions of a similar or different nature are taken in the future against us, this could lead to (i) administrative fines and penalties and litigation, (ii) loss of our licenses and approvals to engage in our servicing and lending businesses, (iii) governmental investigations and enforcement actions, (iv) civil and criminal liability, including class action lawsuits and actions to recover incentive and other payments made by governmental entities, (v) breaches of covenants and representations under our servicing, debt or other agreements, (vi) damage to our reputation, (vii) inability to raise capital or otherwise fund our operations and (viii) inability to execute on our business strategy. Any of these occurrences could increase our operating expenses and reduce our revenues, hamper our ability to grow or otherwise materially and adversely affect our business, reputation, financial condition, liquidity and results of operations.

CFPB

In April 2017, the CFPB filed a lawsuit in the federal district court for the Southern District of Florida against Ocwen, Ocwen Mortgage Servicing, Inc. (OMS) and OLS alleging violations of federal consumer financial laws relating to our servicing business dating back to 2014. The CFPB's claims include allegations regarding (1) the adequacy of Ocwen's servicing system and integrity of Ocwen's mortgage servicing data, (2) Ocwen's foreclosure practices and (3) various purported servicer errors with respect to borrower escrow accounts, hazard insurance policies, timely cancellation of private mortgage insurance, handling of customer complaints, and marketing of optional products. The CFPB alleges violations of laws prohibiting unfair, deceptive or abusive acts or practices, as well as violations of other laws or regulations. The CFPB does not claim specific monetary damages, although it does seek consumer relief, disgorgement of allegedly improper gains, and civil money penalties. The parties participated in a mediation session on October 23, 2020, and held additional settlement discussions following the conclusion of the mediation session, however, the parties were unable to reach a resolution of the litigation.

On March 4, 2021, the court issued an order granting in part and reserving ruling in part on Ocwen's motion for summary judgment. In that order, the court granted Ocwen summary judgment on 9 of 10 counts in the CFPB's amended complaint, finding that the CFPB's allegations were barred under the principles of claim preclusion or *res judicata* to the extent those claims are premised on servicing activity occurring prior to February 26, 2017 and are covered by a 2014 Consent Judgment entered by the United States District Court for the District of Columbia. The CFPB subsequently filed its Second Amended Complaint to remove count 10 as well as allegations in counts 1-9 concerning servicing activity that occurred after February 26, 2017. On April 21, 2021, the court entered final judgment in our favor, denied all pending motions as moot, and closed the case. The CFPB thereafter filed a notice of appeal. The Eleventh Circuit held an appellate mediation on June 23, 2021, but the parties did not resolve the case. The initial round of appellate briefing is scheduled to conclude August 12, 2021.

Our current accrual with respect to this matter is included in the \$46.9 million legal and regulatory accrual referenced above. The outcome of the matters raised by the CFPB, whether through negotiated settlements, court rulings or otherwise, could potentially involve monetary fines or penalties or additional restrictions on our business and could have a material adverse impact on our business, reputation, financial condition, liquidity and results of operations.

State Licensing, State Attorneys General and Other Matters

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

In April 2017 and shortly thereafter, mortgage and banking regulatory agencies from 29 states and the District of Columbia took administrative actions against OLS and certain other Ocwen companies that alleged deficiencies in our compliance with laws and regulations relating to our servicing and lending activities. An additional state regulator brought legal action together with that state's attorney general, as described below. These administrative actions were applicable to OLS, but additional

Ocwen entities were named in some actions, including Ocwen Financial Corporation, OMS, Homeward, Liberty, OFSPL and Ocwen Business Solutions, Inc. (OBS).

As discussed further below, we have now resolved all of the state regulatory matters arising in April 2017. In resolving these matters, we entered into agreements containing certain restrictions and commitments with respect to the operation of our business and our regulatory compliance activities, including restrictions and conditions relating to acquisitions of MSRs, a transition to an alternate loan servicing system from the REALServicing system, engagement of third-party auditors, escrow and data testing, error remediation, and financial condition reporting. In some instances, we also provided borrower financial remediation and made payments to state regulators.

We have taken substantial steps toward fulfilling our commitments under the agreements described above, including completing the transfer of loans to Black Knight MSP, completing pre-transfer and post-transfer data integrity audits, developing and implementing certain enhancements to our consumer complaint process, completing a third-party escrow review and ongoing reporting and information sharing. We continue to be subject to obligations under these agreements, including completing the final phase of a data integrity audit under our agreement with the State of Massachusetts.

We have also incurred, and will continue to incur costs to comply with the terms of the settlements we have entered into, including the costs of conducting an escrow review, Maryland organizational assessments and Massachusetts data integrity audits, and costs relating to the transition to Black Knight MSP. With respect to the escrow review, the third-party auditor has issued its final report and we have completed all required remediation measures required as part of that review. In addition, it is possible that legal or other actions could be taken against us with respect to such errors, which could result in additional costs or other adverse impacts. If we fail to comply with the terms of our settlements, additional legal or other actions could be taken against us. Such actions could have a materially adverse impact on our business, reputation, financial condition, liquidity and results of operations.

Certain of the state regulators' cease and desist orders referenced a confidential supervisory memorandum of understanding (MOU) that we entered into with the Multistate Mortgage Committee (MMC) and six states relating to a servicing examination from 2013 to 2015. Among other things, the MOU prohibited us from repurchasing stock during the development of a going forward plan and, thereafter, except as permitted by the plan. We submitted a plan in 2016 that contained no stock repurchase restrictions and, therefore, we do not believe we are currently restricted from repurchasing stock. We requested confirmation from the signatories of the MOU that they agree with this interpretation, and received affirmative responses from the MMC and five states, and a response declining to take a legal position from the remaining state.

On occasion, we engage with agencies of the federal government on various matters. For example, OLS received a letter from the Department of Justice, Civil Rights Division, notifying OLS that the Department of Justice had initiated a general investigation into OLS's policies and procedures to determine whether violations of the Servicemembers Civil Relief Act by OLS might exist. The Department of Justice has informed us that it has decided not to take enforcement action related to this matter at this time and has, consequently, closed its investigation. In addition, Ocwen was named as a defendant in a HUD administrative complaint filed by a non-profit organization alleging discrimination in the manner in which Ocwen maintains REO properties in minority communities. In February 2018, this matter was administratively closed, and similar claims were filed in federal court. We believe these claims are without merit and intend to vigorously defend ourselves.

In May 2016, Ocwen received a subpoena from the Office of Inspector General of HUD requesting the production of documentation related to HECM loans originated by Liberty. We understand that other lenders in the industry have received similar subpoenas. In April 2017, Ocwen received a subpoena from the Office of Inspector General of HUD requesting the production of documentation related to lender-placed insurance arrangements with a mortgage insurer and the amounts paid for such insurance. We understand that other servicers in the industry have received similar subpoenas. In May 2017, Ocwen received a subpoena from the Office of the Special Inspector General for the Troubled Asset Relief Program requesting documents and information related to Ocwen's participation from 2009 to the present in the Treasury Department's Making Home Affordable Program and its HAMP. We have been providing documents and information in response to these subpoenas. In April 2019, PMC received a subpoena from the VA Office of the Inspector General requesting the production of documentation related to the origination and underwriting of loans guaranteed by the Veterans Benefits Administration. We understand that other servicers in the industry have received similar subpoenas.

Loan Put-Back and Related Contingencies

We have exposure to representation, warranty and indemnification obligations relating to our Originations business, including lending, sales and securitization activities, and relating to our servicing practices.

At June 30, 2021 and June 30, 2020, we had outstanding representation and warranty repurchase demands of \$50.7 million UPB (267 loans) and \$43.7 million UPB (262 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,	
	2021	2020
Beginning balance (1)	\$ 40,374	\$ 50,838
Provision (reversal) for representation and warranty obligations	458	1,725
New production liability	1,993	522
Charge-offs and other (2)	(1,247)	(8,673)
Ending balance (1)	\$ 41,578	\$ 44,412

- (1) The liability for representation and warranty obligations and compensatory fees for foreclosures is reported in Other liabilities (a component of Liability for indemnification obligations) on our unaudited consolidated balance sheets.
- (2) Includes principal and interest losses realized in connection with repurchased loans, make-whole, indemnification and fee payments and settlements net of recoveries, if any.

We believe that it is reasonably possible that losses beyond amounts currently recorded for potential representation and warranty obligations and other claims described above could occur, and such losses could have an adverse impact on our results of operations, financial condition or cash flows. However, based on currently available information, we are unable to estimate a range of reasonably possible losses above amounts that have been recorded at June 30, 2021.

Other

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

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

Note 23 – Subsequent Events

On July 26, 2021, we exercised call rights with respect to certain Non-Agency trusts, acquiring the underlying residential mortgage loans previously held in the trusts. We hold rights with respect to certain Non-Agency securitizations serviced by us whereby, when the collateral balance falls below a pre-determined threshold, we have the ability to collapse the related trusts and acquire the underlying residential mortgage loans. Upon execution of the July 2021 transaction, we classified the acquired loans as held for sale. The loans are expected to be sold in the third quarter of 2021.

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)

Effective February 10, 2021, the SEC issued Release No. 33-10890 adopting amendments to Regulation S-K to modernize, simplify and enhance certain financial disclosure requirements. This release amends, among other items, Item 303 of Regulation S-K (Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A). While adoption is not required until fiscal years ending on or after August 9, 2021, we elected to adopt the amended Item 303 of Regulation S-K commencing with our Quarterly Report on Form 10-Q for the quarter ended March 31, 2021. As a result, we compare our quarterly results to the immediately preceding quarter instead of the corresponding quarter of the preceding year. We believe it is helpful to compare our quarterly results to the immediately preceding quarter, because the mortgage industry and our business can be affected by a rapidly changing environment. In addition, we continuously transform our operations and internally measure our performance relative to the most recent period. Accordingly, we believe a comparison of our results of operations to the immediately preceding quarter provides a more relevant and meaningful analysis for investors to assess our

performance than a comparison to the corresponding quarter of the preceding year. As required, we continue to compare our year-to-date results to the corresponding year-to-date results of the preceding year.

OVERVIEW

General

We are a financial services company that services and originates mortgage loans. We are a leading mortgage special servicer, servicing approximately 1.3 million loans with a total UPB of \$237.3 billion on behalf of more than 4,000 investors and 110 subservicing clients. We service all mortgage loan classes, including conventional, government-insured and non-Agency loans. Our originations business is part of our balanced business model to generate gains on loan sales and profitable returns, and to support the replenishment and the growth of our servicing portfolio. Through our recapture, retail, correspondent and wholesale channels, we originate and purchase conventional and government-insured forward and reverse mortgage loans that we sell or securitize on a servicing retained basis. In addition, we grow our mortgage servicing volume through MSR flow purchase agreements, Agency Cash Window programs, bulk MSR purchase transactions, and subservicing agreements.

The table below summarizes the volume of Originations by channel, in the second quarter of 2021, compared with the preceding quarter and the year-to-date volume compared with the year-to-date volume 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 2021, we closed two large bulk MSR acquisitions that aggregated to \$55.1 billion, mostly GSE newly originated loans, resulting in our GSE MSR portfolio doubling its size in the quarter. Our non-bulk Originations volume remained mostly consistent with the prior quarter (\$9.6 billion vs \$9.4 billion or 2% increase) despite increased competition, including within the Correspondent channel and Agency Cash Window programs.

\$ in billions

	UPB			
	Three Months Ended		Six Months Ended	
	June 30, 2021	March 31, 2021	June 30, 2021	June 30, 2020
Mortgage servicing originations				
Recapture MSR (1)	\$ 0.61	\$ 0.56	\$ 1.17	\$ 0.51
Correspondent MSR (1)	2.49	2.63	5.12	1.17
Flow and Agency Cash Window MSR purchases (2)	6.17	5.99	12.15	4.18
Reverse mortgage servicing (3)	0.34	0.26	0.60	0.44
Total servicing originations	9.61	9.44	19.05	6.30
Bulk MSR purchases (2)	55.13	—	55.13	1.54
Total servicing additions	64.74	9.44	74.18	7.84
Subservicing additions (4)	3.93	4.09	8.02	7.73
Total servicing and subservicing UPB additions	\$ 68.67	\$ 13.53	\$ 82.20	\$ 15.57

(1) Represents the UPB of loans that have been originated or purchased during the respective periods and for which we recognize a new MSR on our consolidated balance sheets upon sale or securitization.

(2) Represents the UPB of loans for which the MSR is purchased.

(3) Represents the UPB of reverse mortgage loans that have been securitized on a servicing retained basis. The loans are recognized on our consolidated balance sheets under GAAP without any separate recognition of MSRs.

(4) Interim subservicing, excluding the volume UPB associated with short-term interim subservicing for some clients as a support to their originate-to-sell business, where loans are boarded and deboarded within the same quarter.

In addition, we launched our joint venture MSR investment with Oaktree. In June 2021, Oaktree and Ocwen invested in their respective equity share (85% and 15%) to fund MAV's purchase of an \$8.7 billion GSE MSR that PMC will subservice starting in the third quarter of 2021.

On June 17, 2021, PMC entered into an asset purchase agreement with Reverse Mortgage Solutions, Inc. (RMS) and its parent, Mortgage Assets Management, LLC (MAM), to acquire certain assets of RMS related to reverse mortgage subservicing. The transaction is expected to close in the second half of 2021, subject to customary closing conditions including regulatory approval. PMC will become the servicer under a five-year subservicing agreement for reverse mortgages owned by RMS and MAM. RMS serviced approximately 37,000 loans with UPB of \$8.4 billion as of June 30, 2021. The transaction would effectively double the size of our reverse servicing business in a capital efficient manner and allow for further economies of scale as we develop our in-house reverse servicing platform.

The following table summarizes the average volume of our Servicing segment during the current quarter, compared with the preceding quarter and the same quarter of the prior year. The average volume of Servicing is a key driver of the profitability of our Servicing segment. The relative weight of performing and delinquent loans drives the gross revenue and expenses, and their timing. In the second quarter of 2021, we have increased our total average servicing portfolio by \$10.5 billion, with GSE MSR bulk acquisitions growing our owned MSR portfolio and offsetting the significant runoff on our servicing and subservicing portfolios due to historical refinancing activities by borrowers. In addition to runoff, the NRZ portfolio declined as a result of the termination by NRZ of the PMC servicing agreement resulting in the deboarding of loans with \$34.2 billion of UPB in September and October 2020. This quarter established the foundation of a transformed servicing portfolio, with the significant addition of a high credit quality GSE MSR portfolio and the continued reduction of our non-Agency servicing, also reducing our concentration with NRZ servicing agreements.

\$ in billions

	Average UPB			
	Three Months Ended		Six Months Ended	
	June 30, 2021	March 31, 2021	June 30, 2021	June 30, 2020
Owned MSR	\$ 108.3	\$ 90.4	\$ 100.5	\$ 68.1
NRZ	62.9	65.8	64.3	114.9
Subservicing	17.9	22.7	20.9	17.7
Reverse mortgage loans	6.7	6.7	6.7	6.4
Commercial and other servicing	1.0	0.7	0.8	1.0
Total serviced UPB (average)	\$ 196.8	\$ 186.3	\$ 193.2	\$ 208.1

As of June 30, 2021, the total serviced UPB amounted to \$237.3 billion. Refer to Note 7 – Mortgage Servicing for further detail of the MSR UPB.

Financial Highlights

Results of operations for the second quarter of 2021

- Net loss of \$10 million, or \$(1.15) per share basic and diluted
- Servicing fee revenue of \$184 million
- Originations gain on sale of \$27 million
- \$21 million MSR valuation loss on our owned MSRs attributable to rate and assumption changes, net of hedging

Financial condition at the end of the second quarter of 2021

- Stockholders' equity of \$447 million, or \$48.66 book value per common share
- MSR investment of \$2.1 billion, with \$0.7 billion net additions in the quarter
- Liquidity position of \$244 million
- Total assets of \$11.8 billion

Business Initiatives

In 2021, we have established five key operating objectives to drive improved value for shareholders, as our near-term priority remains to return to sustainable profitability. Our objectives are focused on:

- Accelerating growth, by expanding our client base and our product offerings, and by leveraging our MSR asset vehicle with Oaktree;
- Strengthening recapture performance, by expanding our operating capacity;
- Improving our cost leadership position, by driving productivity and efficiencies, with our technology and continuous improvement initiatives;

- Maintaining high quality operational execution, through our technology and continuous improvement initiatives, and our commitment to employee engagement and customer satisfaction; and
- Expanding servicing and other revenue opportunities.

MAV and Oaktree Relationship

On May 3, 2021, we formally launched our MSR Asset Vehicle (MAV) and entered into a number of definitive agreements with Oaktree. Oaktree and Ocwen committed 85% and 15%, respectively, to fund GSE MSR investments on a pro rata basis up to a total aggregate commitment of \$250 million. This joint venture is structured to provide Oaktree with MSR investment opportunities and returns, while providing PMC scale and income through subservicing and recapture services. Additionally, PMC earns direct MSR investment income through its 15% ownership stake and potential carried interest on investment returns exceeding certain thresholds. Under the arrangement, MAV has a non-compete to purchase certain GSE MSRs through specific channels in cooperation with PMC. In addition, Ocwen must offer MAV the first opportunity to purchase GSE MSRs sold by Ocwen or its affiliates that meet certain criteria. Both the non-compete and the right of first offer are subject to various restrictions and in effect until MAV has been fully funded, or, if earlier, in the case of the right of first offer, until December 21, 2023 (subject to mutual consent). In exchange, PMC receives exclusive subservicing and recapture rights, subject generally to ongoing performance and financial standards.

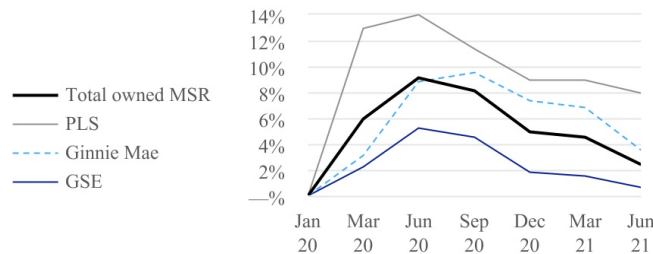
The agreements did not result in any financial impact to the financial statements as of June 30, 2021, nor for the second quarter of 2021. Subservicing and recapture activities are expected to start in the third quarter of 2021.

COVID-19 Pandemic Update

Our financial performance in 2020 was affected by the Coronavirus Disease 2019 (COVID-19) pandemic, mostly due to large losses on MSRs and lower revenue in our Servicing business, partially offset by the growth and profitability of our Originations business. Furthermore, the CARES Act allowed us to recognize income tax benefits in 2020 mostly due to the carryback of a portion of our prior net operating losses.

During the first and second quarters of 2021, our businesses continued to be impacted by the COVID-19 pandemic, with the Servicing business negatively affected by the loans placed under forbearance and the moratorium on foreclosures, and by elevated prepayments of our servicing portfolio. The collection and recognition of servicing fees and ancillary income related to forbearance loans are delayed or reduced. In addition, the foreclosure moratorium continues to delay our collection and recognition of deferred service fees. Conversely, our Originations business has continued to benefit from high refinance activities during the first quarter of 2021 due to a relatively low rate environment, despite higher competition and lower margins.

As of June 30, 2021, we managed 67,300 loans under forbearance, 17,200 of which related to our owned MSRs (excluding NRZ), or 5.3% of our total portfolio and 2.4% of our owned MSR servicing portfolio (excluding NRZ), respectively. As of June 30, 2021, the number of loans under forbearance continued to trend down, as illustrated by the below chart of forbearance plans by investor for our owned MSR portfolio (excluding NRZ). We expect an increase in loan modifications in the near term as borrowers reach their available extensions of forbearance plans.



We continue to operate through a secure remote workforce model for substantially all of our global workforce and continue to adhere to COVID-19 health and safety-related requirements and best practices across all of our locations. We monitor the impact of the pandemic on our workforce and have established business resiliency plans for all our locations. At June 30, 2021, we had approximately 5,200 employees, of which approximately 3,100 were located in India and approximately 500 were based in the Philippines. Due to the rising incidence of COVID-19 illness in these areas, we could face a reduction in employee availability which could impact our operations generally and loan servicing operations especially. While we have contingency and continuity plans in place, we cannot guarantee that our operations will not be negatively impacted. To date, our operations have not been significantly affected.

Uncertainties related to the duration and severity of the pandemic and related economic downturn remain and make it difficult for us to determine the continued ongoing impact the pandemic may have on us and our business, financial condition, liquidity or results of operations.

Results of Operations and Financial Condition

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our unaudited consolidated financial statements and the related notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Results of Operations Summary	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Revenue						
Servicing and subservicing fees	\$ 184.4	\$ 171.7	7 %	\$ 356.2	\$ 386.7	(8)%
Reverse mortgage revenue, net	29.3	21.8	34	51.1	36.6	40
Gain on loans held for sale, net	42.7	5.7	647	48.4	46.9	3
Other revenue, net	9.0	8.3	8	17.3	10.7	62
Total revenue	<u>265.4</u>	<u>207.6</u>	28	<u>473.0</u>	<u>480.9</u>	(2)
MSR valuation adjustments, net	(72.5)	21.2	(442)	(51.2)	(197.6)	(74)
Operating expenses						
Compensation and benefits	72.2	68.3	6	140.5	125.7	12
Servicing and origination	26.6	27.5	(3)	54.1	37.6	44
Professional services	25.5	17.3	47	42.9	49.5	(13)
Technology and communications	13.2	13.1	—	26.3	31.3	(16)
Occupancy and equipment	7.9	8.9	(11)	16.7	28.1	(41)
Other expenses	4.4	4.6	(4)	9.0	9.8	(8)
Total operating expenses	<u>149.8</u>	<u>139.6</u>	7	<u>289.4</u>	<u>282.0</u>	3
Other income (expense)						
Interest income	4.2	3.9	6	8.1	9.0	(9)
Interest expense	(33.5)	(28.5)	18	(62.0)	(56.7)	9
Pledged MSR liability expense, net	(39.8)	(37.9)	5	(77.7)	(48.3)	61
Loss on extinguishment of debt	—	(15.5)	(100)	(15.5)	—	n/m
Earnings of equity method investee	0.4	—	n/m	0.4	—	n/m
Other, net	3.4	0.3	n/m	3.7	1.3	187
Total other expense, net	<u>(65.4)</u>	<u>(77.5)</u>	(16)	<u>(143.0)</u>	<u>(94.8)</u>	51
Income (loss) before income taxes	(22.2)	11.6	(291)	(10.6)	(93.5)	(89)
Income tax (benefit) expense	(11.9)	3.1	(485)	(8.8)	(70.0)	(87)
Net income (loss)	<u>\$ (10.3)</u>	<u>\$ 8.5</u>	(221)	<u>\$ (1.8)</u>	<u>\$ (23.5)</u>	(92)
Segment income (loss) before income taxes						
Servicing	\$ (15.4)	\$ 13.5	(214)%	\$ (1.9)	\$ (60.9)	(97)%
Originations	22.5	36.5	(38)	59.0	35.1	68
Corporate Items and Other	(29.4)	(38.4)	(23)	(67.7)	(67.7)	—
	<u>\$ (22.2)</u>	<u>\$ 11.6</u>	(291)%	<u>\$ (10.6)</u>	<u>\$ (93.5)</u>	(89)%

n/m: not meaningful

Total Revenue

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

Revenue	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Servicing	\$ 197.3	\$ 175.4	12 %	\$ 372.7	\$ 406.6	(8)%
Originations	55.4	66.3	(16)	121.7	70.6	72
Corporate	1.5	1.3	17	2.8	3.7	(24)
Total segment revenue	254.1	243.0	5	497.1	480.9	3
Inter-segment elimination (1)	11.3	(35.4)	(132)	(24.1)	—	n/m
Total revenue	\$ 265.4	\$ 207.6	28	\$ 473.0	\$ 480.9	(2)

(1) The fair value change of inter-segment economic hedge derivatives reported within Total revenue (gain on loans held for sale) is eliminated at the consolidated level with an offset in MSR valuation adjustments, net.

Total segment revenue was \$254.1 million for the second quarter of 2021, \$11.1 million or 5% higher than the first quarter of 2021, driven by a \$21.8 million revenue increase from Servicing partially offset by a \$10.9 million revenue decrease from Originations. The Servicing revenue increase is mostly due to the net growth of our owned MSR portfolio, including the large MSR bulk acquisitions in June 2021. The decrease in Originations revenue is mostly due to a decline in gains on loans held for sale due to lower forward loan production volume in both the correspondent and recapture channels and a decline in margin in our recapture channel.

As compared to the six months ended June 30, 2020, total segment revenue for the six months ended June 30, 2021 was \$16.3 million or 3% higher, due to a \$51.1 million increase in Originations revenue partially offset by a \$33.9 million decline in Servicing revenue. Originations revenue increased primarily due to an increase in production volume, mostly forward recapture and reverse loans. The decline in Servicing revenue is due to a reduction in fees collected on behalf of NRZ after the termination of the PMC servicing agreement by NRZ, and a reduction in ancillary income, mostly due to lower average servicing volume, the COVID-19 environment and lower interest rates, partially offset by the growth in our owned MSR portfolio. We collected \$50.0 million lower servicing fees on behalf of NRZ during the six months ended June 30, 2021, as a result of portfolio run-off and the termination of the PMC agreement by NRZ in 2020. The decline in servicing fees collected on behalf of NRZ is partially offset by a \$41.6 million decline in servicing fees remitted to NRZ that are separately reported as Pledged MSR liability expense (Other expense), with a \$8.3 million net decline in the NRZ servicing fee retained.

Total revenue (after elimination of inter-segment derivative fair value changes) was \$265.4 million for the second quarter of 2021, \$57.9 million or 28% higher than the first quarter of 2021, in part due to the presentation of macro-hedging derivative gains and losses reported within MSR valuation adjustments, net at the consolidated level, as disclosed in Note 4 – Loans Held for Sale, Note 15 – Derivative Financial Instruments and Hedging Activities and Note 19 – Business Segment Reporting. Effective May 2021, we replaced our macro-hedging strategies with two distinct strategies to separately hedge the pipeline and our MSR exposure with third party derivatives. However, we have and may continue to use inter-segment derivatives between the two strategies. Refer to Item 3 - Quantitative and qualitative disclosures about market risk for further detail.

See the respective Segment Results of Operations for additional information.

MSR Valuation Adjustments, Net

We reported a \$72.5 million loss in MSR valuation adjustments, net in the second quarter of 2021, that comprised a \$69.9 million loss in Servicing, an \$8.8 million revaluation gain on MSR purchases in Originations and an \$11.3 million inter-segment derivative loss reported in Gain on loans held for sale. The \$69.9 million net loss in Servicing is due to the \$57.0 million MSR portfolio runoff, and the effect of the decline in interest rates, decreasing the fair value of the MSR portfolio by \$47.2 million, partially offset by \$34.3 million MSR hedging gains. MSR portfolio runoff represents the realization of expected cash flows and yield based on projected borrower behavior, including scheduled amortization of the loan UPB together with prepayments.

The MSR portfolio runoff increased by \$7.9 million between the first and second quarters of 2021 mostly due to a higher MSR UPB. We recorded an \$84.0 million gain and a \$38.4 million loss attributable to rate and assumption updates in the first and second quarter of 2021, respectively. These fair value changes are mostly explained by interest rate changes, with 86 basis point increase and 34 basis point decrease in the 10 year swap rate during the first and second quarter of 2021, respectively. The MSR fair value changes attributable to interest rate changes were partially offset by hedging derivative gains and losses. Similar factors apply for comparative year-to-date results, albeit with different rate changes.

For the six months ended June 30, 2021, we reported a \$51.2 million loss in MSR valuation adjustments, net, that included a \$92.6 million loss in the Servicing segment, offset by a \$17.3 million revaluation gain on MSR purchases in Originations and \$24.1 million inter-segment derivative gain. The \$92.6 million Servicing loss is due to \$106.2 million portfolio runoff, a \$28.3 million fair value gain on the MSR portfolio due to an increase in interest rates, and a \$14.8 million unfavorable fair value loss from our MSR hedging strategy. The loss on the NRZ pledged MSRs was offset by a \$28.6 million gain recorded as MSR pledged liability expense.

See Segment Results of Operations - Servicing and Originations for additional information.

Compensation and Benefits

Compensation and benefits expense for the second quarter of 2021 increased \$3.9 million, or 6%, as compared to the first quarter of 2021. Incentive compensation increased \$1.6 million, mostly due to annual long-term incentive awards granted in March 2021 and an increase in the fair value of cash-settled share-based awards. Originations segment compensation and benefits increased by \$2.4 million, mostly due to additional headcount to support higher loan production levels. While our total average headcount increased by 2% from the first quarter of 2021 to the second quarter of 2021, the 14% growth in the Originations segment was largely offset by the 1% headcount reduction achieved in Servicing. Overall, our offshore-to-total average headcount ratio remained constant at 69% for both the second quarter of 2021 and first quarter of 2021.

As compared to the six months ended June 30, 2020, compensation and benefits expense for the six months ended June 30, 2021 increased \$14.7 million, or 12%. Originations segment compensation and benefits expense increased by \$20.0 million, mostly due to additional commissions and salaries driven by additional headcount to support higher loan production levels. Servicing segment compensation and benefits expense decreased by \$5.0 million, mostly driven by a decrease in average headcount, that was largely due to the scaling down of our workforce to our volumes and our cost re-engineering initiatives. Our total average headcount declined by 8%, and overall, our offshore-to-total average headcount ratio decreased from 72% in the six months ended June 30, 2020 to 69% in the six months ended June 30, 2021.

Servicing and Origination Expense

Servicing and origination expense for the second quarter of 2021 decreased \$0.8 million, as compared to the first quarter of 2021. Servicing expenses decreased \$1.4 million largely due to \$2.4 million reduction in government-insured claim loss provisions as the foreclosure moratorium decreased claim volumes, mainly offset by \$1.4 million additional interim subservicing expenses on MSR bulk acquisitions.

Servicing and origination expense for the six months ended June 30, 2021 increased \$16.5 million, or 44%, as compared to the six months ended June 30, 2020, primarily due to an increase in volume. Servicing expenses increased by \$13.5 million largely as a result of a \$9.2 million increase in servicer expenses related to our increased owned MSR portfolio, a \$5.1 million increase in provisions for indemnification due to the favorable release of indemnification reserves during the six months ended June 30, 2020, and a \$2.0 million increase in satisfaction and interest payoff expenses attributable to higher payoff volumes. These increases were offset in part by a \$1.6 million decrease in government-insured claim loss provisions due to decreased claim volumes associated with the foreclosure moratorium.

See Segment Results of Operations - Servicing for additional information.

Other Operating Expenses

Professional services expense for the second quarter of 2021 increased \$8.2 million, or 47%, as compared to the first quarter of 2021, primarily due to a \$5.5 million increase in legal expenses and \$2.6 million increase in other professional services. The increase in legal expenses is primarily due to a \$5.8 million higher provision for litigation settlements. Other professional services for the second quarter of 2021 includes \$3.2 million of advisory fees related to our MSR investment joint venture with Oaktree, MAV Canopy, which closed on May 3, 2021.

Professional services expense for the six months ended June 30, 2021 decreased \$6.6 million, or 13%, as compared to the six months ended June 30, 2020, primarily due to a \$5.3 million decline in other professional services. Cost reduction initiatives in 2020 resulted in lower other professional fees for the six months ended June 30, 2021, partially offset by the \$3.2 million of advisory fees expense in second quarter of 2021 related to our MSR investment joint venture with Oaktree, MAV Canopy.

Occupancy and equipment expense for the second quarter of 2021 decreased \$1.0 million, or 11%, as compared to the first quarter of 2021 primarily due to a \$0.5 million decline in depreciation expense.

Occupancy and equipment expense for the six months ended June 30, 2021 decreased \$11.4 million, or 40%, as compared to the six months ended June 30, 2020. Depreciation expense, facility maintenance and utility expenses, and interest on lease liabilities decreased \$4.7 million, \$2.4 million and \$1.4 million, respectively, compared to the six months ended June 30, 2020, largely due to our cost reduction efforts in 2020 which included closing and consolidating certain facilities. Postage and mailing

expenses decreased \$2.4 million compared to the six months ended June 30, 2020, largely due to a decline in letter volume attributed to COVID-19 and a decline in the average number of loans serviced.

Technology and communication expense for the six months ended June 30, 2021 decreased \$5.0 million, or 16%, as compared to the six months ended June 30, 2020. Telephone expense declined \$2.7 million as compared to the six months ended June 30, 2020, largely driven by our transition to a more cost-effective alternative telephone system. Maintenance expense decreased \$1.4 million compared to the six months ended June 30, 2020, largely driven by the effects of implementing cost-saving enhancements in the second quarter of 2020. Depreciation expense decreased \$1.3 million compared to the six months ended June 30, 2020.

Other Income (Loss)

Interest expense for the second quarter of 2021 increased \$5.1 million, or 18%, as compared to the first quarter of 2021, largely due to an increased average debt to finance a higher MSR portfolio and additional warehouse loans. The interest expense increase in the second quarter of 2021 is also due to a higher average cost of funds, with the offsetting impact of lower collateralized debt cost and higher corporate debt cost. Our corporate debt refinancing on March 4, 2021 resulted in the issuance of higher rate senior secured notes.

Interest expense for the six months ended June 30, 2021 increased \$5.2 million, or 9%, as compared to the six months ended June 30, 2020, due to the issuance of higher rate senior secured notes as part of our corporate debt refinancing and the increase in the average warehouse borrowings due to increased loan production volumes, offset in part by our prepayment of the SSTL and a decline in borrowings under advance match funded facilities on lower average servicing advances.

Pledged MSR liability expense for the second quarter of 2021 increased \$2.0 million, as compared to the first quarter of 2021, largely due to a \$3.6 million unfavorable fair value adjustment offset by a \$1.2 million decline in servicing fee remittance due to runoff of the portfolio.

Pledged MSR liability expense for the six months ended June 30, 2021 increased \$29.4 million as compared to the six months ended June 30, 2020, primarily due to a \$37.4 million unfavorable fair value change. Also, the lump-sum cash payments received from NRZ in 2017 and 2018 were fully amortized as of the end of the second quarter of 2020 (\$34.2 million in the six months ended June 30, 2020). These increases were partially offset by a \$41.6 million decline in servicing fee remittance. The decline in net servicing fee remittance to NRZ was driven by the runoff of the portfolio and the termination of the PMC agreement by NRZ in February 2020.

See Segment Results of Operations - Servicing for additional information.

Loss on debt extinguishment of \$15.5 million recognized in the first quarter of 2021 resulted from our early repayment of the SSTL due May 2022, PHH 6.375% senior unsecured notes due August 2021, and PMC 8.375% senior secured notes due November 2022. The loss includes the write-off of unamortized debt issuance costs and discount, as well as contractual prepayment premiums totaling \$9.8 million on the SSTL and PMC 8.375% senior secured notes.

Earnings of equity method investee represent our 15% share of MAV Canopy from May 3, 2021. See Note 10 - Investment in Equity Method Investee for further detail.

Income Tax Benefit (Expense)

The \$15.0 million decrease in income tax expense for the second quarter of 2021, compared with the first quarter of 2021, was primarily due to the favorable resolution of various uncertain tax positions during the second quarter of 2021 as well as the income tax benefit recognized on the pre-tax loss incurred in the second quarter of 2021.

Our overall effective tax rates for the second quarter of 2021 and first quarter of 2021 were 53.6% and 26.6%, respectively. During the second quarter of 2021, we recognized \$11.9 million of tax benefit on \$22.2 million of pre-tax loss resulting in an effective tax rate of 53.6%. During the first quarter of 2021, we recognized \$3.1 million of income tax expense on \$11.6 million of pre-tax income, resulting in a tax rate of 26.6%. Our U.S., as well as our foreign operations that are compensated on a cost-plus basis under our transfer pricing agreements for the services they provide, all recognized pre-tax income in the first quarter of 2021 while in the second quarter of 2021 our U.S. operations recognized losses and our foreign operations recognized income. All jurisdictions are projected to be subject to tax on a full-year basis.

The \$61.1 million reduction in income tax benefit for the six months ended June 30, 2021, compared with the six months ended June 30, 2020, is primarily due to \$65.0 million of estimated income tax benefit recognized under the CARES Act during the six months ended June 30, 2020 as a result of modification of the tax rules to allow the carryback of NOLs arising in 2018, 2019 and 2020 tax years to the five prior tax years and the increase to the business interest expense limitation under IRC Section 163(j). In 2020, we collected \$51.4 million, which represents the tax refund associated with the NOLs generated in 2018 carried back to prior tax years, and recognized a \$24.0 million receivable which represents the tax refund associated with

the NOLs generated in 2019. We collected this \$24.0 million tax refund receivable from the U.S. Internal Revenue Service in January 2021. See Note 17 – Income Taxes for additional information.

Our overall effective tax rates for the six months ended June 30, 2021 and 2020 were 83.2% and 74.8%, respectively. For the six months ended June 30, 2021, the income tax benefit was driven by \$8.6 million of income tax benefit recognized related to the favorable resolution of various uncertain tax positions during the period. For the six months ended June 30, 2020, the income tax benefit was driven by the \$65.0 million of estimated income tax benefit recognized under the CARES Act as noted above. The income tax benefits of \$8.6 million and \$65.0 million recognized during the six months ended June 30, 2021 and 2020, respectively, related solely to prior period uncertain tax positions and prior period losses, respectively, with no relationship to operating results of those periods. This in turn resulted in the high effective tax rates of 83.2% and 74.8% for the six months ended June 30, 2021 and 2020.

Financial Condition Summary	June 30, 2021	December 31, 2020	\$ Change	% Change
Cash	\$ 243.6	\$ 284.8	\$ (41.2)	(14)%
Restricted cash	67.9	72.5	(4.6)	(6)
MSRs, at fair value	2,072.5	1,294.8	777.7	60
Advances, net	762.0	828.2	(66.2)	(8)
Loans held for sale	696.0	387.8	308.2	79
Loans held for investment, at fair value	7,121.0	7,006.9	114.1	2
Receivables	165.2	187.7	(22.5)	(12)
Investment in equity method investee	11.9	—	11.9	n/m
Other assets	627.7	588.4	39.3	7
Total assets	\$ 11,767.7	\$ 10,651.1	\$ 1,116.6	10 %
Total Assets by Segment				
Servicing	\$ 10,747.8	\$ 9,847.6	\$ 900.2	9 %
Originations	641.9	379.2	262.7	69
Corporate Items and Other	378.0	424.3	(46.3)	(11)
	\$ 11,767.7	\$ 10,651.1	\$ 1,116.6	10 %
HMBS-related borrowings, at fair value	\$ 6,823.9	\$ 6,772.7	\$ 51.2	1 %
Other financing liabilities, at fair value	544.3	576.7	(32.4)	(6)
Advance match funded liabilities	530.2	581.3	(51.1)	(9)
Mortgage loan warehouse facilities	773.4	451.7	321.7	71
MSR financing facilities, net	1,012.5	437.7	574.8	131
Senior secured term loan	—	179.8	(179.8)	(100)
Senior notes, net	610.6	311.9	298.7	96
Other liabilities	1,025.8	924.0	101.8	11
Total liabilities	11,320.6	10,235.8	1,084.8	11 %
Total stockholders' equity	447.1	415.4	31.7	8
Total liabilities and equity	\$ 11,767.7	\$ 10,651.2	\$ 1,116.5	10 %
Total Liabilities by Segment				
Servicing	\$ 9,955.8	\$ 9,163.5	\$ 792.3	9 %
Originations	606.2	428.5	177.7	41
Corporate Items and Other	758.7	643.7	115.0	18
	\$ 11,320.6	\$ 10,235.8	\$ 1,084.8	11 %
Book value per share	\$ 48.66	\$ 47.81	\$ 0.85	2 %

Total assets increased \$1.1 billion between December 31, 2020 and June 30, 2021, mostly due to the \$308.2 million increase in our loans held for sale portfolio - driven by higher production volumes - and a \$777.7 million or 60% increase in our MSR portfolio - mostly driven by MSR bulk acquisitions and new capitalized MSRs. Loans held for investment increased by \$114.1 million mostly due to the continued growth of our reverse mortgage business. Servicing advances declined \$66.2 million mostly due to heightened payoff activity. The \$39.3 million increase in other assets is mostly attributable to the increase in the Ginnie Mae contingent repurchase rights of loans under forbearance.

Total liabilities increased by \$1.1 billion as compared to December 31, 2020, with similar effects as described above. Our borrowings under warehouse lines and MSR financing facilities increased \$321.7 million and \$574.8 million, respectively, due to higher loan production volumes and MSR bulk acquisitions, respectively. Our senior notes increased \$298.7 million due to the refinancing transactions completed on March 4, 2021 and May 3, 2021. We issued \$627.1 million of new senior notes, net

of discount, repaid in full \$313.1 million of existing senior notes and repaid the \$185.0 million SSTL. Advance match funded liabilities decreased \$51.1 million consistent with the decline in servicing advances. Further, the \$101.8 million increase in other liabilities is driven by the increase in the Ginnie Mae contingent repurchase rights of loans under forbearance and the increase in purchase price holdback on MSR bulk acquisitions.

Total equity increased \$31.7 million mostly due to the issuance of common stock and warrants to Oaktree. See Note 14 – Equity for additional information.

Outlook

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

Servicing fee revenue - Our servicing fee revenue is a function of the volume being serviced - UPB for servicing fees and loan count for subservicing fees. We expect we will continue to replenish and grow our servicing portfolio through our multi-channel Originations platform for the remainder of 2021, with a rebalancing of the relative mix between servicing and subservicing volume. The launch of the relationship with MAV is expected to facilitate this servicing-subservicing mix rebalancing as MAV acquires MSRs that PMC would subservice. The expected volume increase is also intended to exceed the portfolio serviced on behalf of NRZ that may end in July 2022. Servicing revenue and ancillary income have been adversely impacted by COVID-19 and the low rate environment, which may persist throughout 2021, until forbearance plan exits and the end of the foreclosure moratorium.

Gain on sale of loans held for sale - Our gain on sale is driven by both volume and margin and is channel-sensitive, with recapture generating relatively higher margins than correspondent. While we continue to increase our recapture rate by expanding our channel operating capacity, the volume mix is expected to shift to purchase as the volume of refinance activity by borrowers is expected to continue to decline, consistent with expected industry trends. Intense competition is expected to perdure in the correspondent channel and Agency Cash Window and co-issue programs for the remainder of 2021 imposing a trade-off between volumes and margins.

Reverse mortgage revenue, net - The reverse mortgage origination gain is driven by the same factors as gain on sale of loans held for sale, with smaller volumes in the reverse mortgage market and generally larger margins. With our experience and brand in the marketplace, we expect to continue to grow our volumes at similar margins in each channel, however the channel mix may vary. With the expected assignment of RMS subservicing agreement to PMC in the second half of 2021, reverse mortgage servicing revenue is expected to grow significantly, absent any significant change in interest rates.

MSR valuation adjustments, net - Our net MSR fair value changes include multiple components. First, the MSR realization of cash flows is effectively an amortization of our investment as the underlying loans amortize and payoff and is a function of the UPB of the MSR. We expect the MSR realization of cash flows to increase as we have recently grown our MSR portfolio. Second, MSR fair value changes are driven by changes in interest rates and assumptions, such as forecasted prepayments. Third, the MSR fair value changes are partially offset by derivative fair value changes that economically hedge the MSR portfolio. We are exposed to increased interest rate volatility due to our now larger MSR portfolio. Refer to the sensitivity analysis in Item 3 - Quantitative and qualitative disclosures about market risk for further detail.

Operating expenses - Compensation and benefits is a significant component of our cost-to-service and cost-per-loan and is directly correlated to headcount levels. As servicing volume is expected to increase (see above), we expect an increase in our workforce. We expect we will continue to moderately increase our Originations workforce for the remainder of 2021 to accompany the growth of the channels. Other operating expenses are expected to favorably correlate with volumes, as productivity and efficiencies are expected with our technology and continuous improvement initiatives.

Stockholders' equity - With the above considerations, we expect our businesses to generate net income and increase our equity for the remainder of 2021, absent any significant change in interest rates.

SEGMENT RESULTS OF OPERATIONS

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

SERVICING

We earn contractual monthly servicing fees pursuant to servicing agreements, which are typically payable as a percentage of UPB, as well as ancillary fees, including late fees, modification incentive fees, REO referral commissions, float earnings and

Speedpay/collection fees. In addition, we earn performance or incentive fees depending on operational and other metrics exceeding certain service level agreement targets. We also earn fees under both subservicing and special servicing arrangements with banks and other institutions that own the MSRs. Subservicing and special servicing fees are earned either as a percentage of UPB or on a per-loan basis. Per-loan fees typically vary based on type of investor and on delinquency status. As of June 30, 2021, we serviced approximately 1.3 million mortgage loans with an aggregate UPB of \$237.3 billion. The average UPB of loans serviced during the second quarter of 2021 increased by 6% or \$10.5 billion compared to the first quarter of 2021, mostly due to our replenishment and growth strategy that resulted in newly originated and purchased MSRs exceeding high levels of portfolio runoff. Compared to the six months ended June 30, 2020, the average UPB of loans serviced during the six months ended June 30, 2021 decreased by 7% or \$14.8 billion mostly due to the heightened portfolio runoff due to the low rate environment and the termination of the PMC servicing agreement by NRZ with the transfer of \$34.2 billion UPB of loans completed in October 2020.

NRZ is our largest subservicing client, accounting for 26% and 36%, respectively, of the UPB and loan count in our servicing portfolio as of June 30, 2021. NRZ servicing fees retained by Ocwen represented approximately 17% of the total servicing and subservicing fees earned by Ocwen, net of servicing fees remitted to NRZ and excluding ancillary income, for the second quarter of 2021, and 21% for the first quarter of 2021. NRZ's portfolio represents approximately 63% of all delinquent loans that Ocwen serviced, for which the cost to service and the associated risks are higher. However, consistent with a subservicing relationship, NRZ is responsible for funding the advances we service for NRZ.

Our MSR portfolio is carried at fair value, with changes in fair value recorded in MSR valuation adjustments, net. The value of our MSRs is typically correlated to changes in interest rates; as interest rates decrease, the value of the servicing portfolio typically decreases as a result of higher anticipated prepayment speeds. The sensitivity of MSR fair value to interest rates is typically higher for higher credit quality loans, such as our Agency loans. Our Non-Agency portfolio is significantly seasoned, with an average loan age of approximately 15 years, exhibiting little response to movements in market interest rates. Valuation is also impacted by loan delinquency rates whereby as delinquency rates rise, the value of the servicing portfolio declines. The MSR portfolio is an investment that decreases in value over time, through portfolio runoff, as we realize its cash flows and yield. MSR portfolio runoff is an expense to our Servicing segment as a fair value loss, and represents the realization of expected cash flows and yield based on projected borrower behavior, including scheduled amortization of the loan UPB together with prepayments.

For those MSR sale transactions with NRZ that do not achieve sale accounting treatment, we present on a gross basis the pledged MSR as an asset at fair value and the corresponding liability amount pledged MSR liability on our balance sheet. The changes in fair value of the pledged MSR are reflected as MSR valuation adjustments, net and the corresponding changes in fair value of the pledged MSR liability are reported within Pledged MSR liability expense, without any net earnings impact. In addition, the total servicing fees collected on behalf of NRZ are reported within Servicing and subservicing fees, and the servicing fees remitted to NRZ are presented within Pledged MSR liability expense.

Loan Resolutions

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

Our future financial performance will be less impacted by loan resolutions because, under our NRZ agreements, NRZ receives all deferred servicing fees. Deferred servicing fees related to delinquent borrower payments were \$158.1 million at June 30, 2021, of which \$124.4 million were attributable to NRZ agreements.

Advance Obligation

As a servicer, we are generally obligated to advance funds in the event borrowers are delinquent on their monthly mortgage related payments. We advance principal and interest (P&I Advances), taxes and insurance (T&I Advances) and legal fees, property valuation fees, property inspection fees, maintenance costs and preservation costs on properties that have been foreclosed (Corporate Advances). For certain loans in non-Agency securitization trusts, we have the ability to cease making P&I advances and immediately recover advances previously made from the general collections of the respective trust if we

determine that our P&I advances cannot be recovered from the projected future cash flows. With T&I and Corporate advances, we continue to advance if net future cash flows exceed projected future advances without regard to advances already made.

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

Third-Party Servicer Ratings

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

The following table summarizes our key servicer ratings:

	PHH Mortgage Corporation (PMC)		
	Moody’s	S&P	Fitch
Residential Prime Servicer	SQ3	Average	RPS3
Residential Subprime Servicer	SQ3	Average	RPS3
Residential Special Servicer	SQ3	Average	RSS3
Residential Second/Subordinate Lien Servicer	SQ3	Average	RPS3
Residential Home Equity Servicer	—	—	RPS3
Residential Alt-A Servicer	—	—	RPS3
Master Servicer	SQ3	Above Average	RMS3
Ratings Outlook	N/A	Stable	Stable
Date of last action	August 29, 2019	June 29, 2021	April 28, 2021

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 June 29, 2021, S&P affirmed PMC’s servicer rating as Average, raising management and organization ranking to Above Average. In addition, S&P raised PMC’s master servicer rating from Average to Above Average reflecting the industry experience of PMC’s management, multiple levels of internal controls to monitor operations, and resolution of regulatory actions, among other factors mentioned by S&P. On March 24, 2020, Fitch placed all U.S RMBS servicer ratings on Negative outlook resulting from a rapidly evolving economic and operating environment due to the sudden impact of the COVID-19 virus. On April 28, 2021, Fitch affirmed PMC’s servicer ratings and revised its outlook from Negative to Stable as PMC’s performance in this evolving environment has not raised any elevated concerns. According to Fitch, the affirmation and stable outlook reflected PMC’s diligent response to the coronavirus pandemic and its impact on servicing operations, effective enterprise-wide risk environment and compliance management framework, satisfactory loan servicing performance metrics, special servicing expertise, and efficient servicing technology. The ratings also consider the financial condition of PMC’s parent, OFC.

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, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Revenue						
Servicing and subservicing fees						
Residential	\$ 181.3	\$ 168.7	7	\$ 349.9	\$ 385.2	(9)
Commercial	0.9	0.7	25	1.6	1.4	11
	182.1	169.4	7	351.5	386.7	(9)
Gain on loans held for sale, net	4.1	3.5	17	7.7	4.0	91
Reverse mortgage revenue, net	10.5	2.0	415	12.5	14.0	(10)
Other revenue, net	0.5	0.5	(1)	1.0	2.0	(49)
Total revenue	197.3	175.4	12	372.7	406.6	(8)
MSR valuation adjustments, net	(69.9)	(22.7)	208	(92.6)	(211.5)	(56)
Operating expenses						
Compensation and benefits	26.1	25.1	4	51.2	56.3	(9)
Servicing and origination	23.0	24.5	(6)	47.5	34.0	40
Occupancy and equipment	5.5	6.5	(15)	12.1	17.5	(31)
Professional services	10.3	7.1	44	17.5	14.1	24
Technology and communications	5.4	5.7	(6)	11.2	14.0	(20)
Corporate overhead allocations	12.4	12.2	1	24.6	33.9	(27)
Other expenses	0.9	1.6	(45)	2.4	1.2	93
Total operating expenses	83.6	82.8	1	166.4	170.9	(3)
Other income (expense)						
Interest income	1.2	1.3	(2)	2.5	4.7	(47)
Interest expense (1)	(23.3)	(20.3)	15	(43.6)	(47.6)	(8)
Pledged MSR liability expense	(39.8)	(37.9)	5	(77.7)	(48.3)	61
Other, net	2.9	0.5	540	3.3	6.1	(45)
Total other expense, net	(59.0)	(56.5)	5	(115.5)	(85.1)	36
Income (loss) before income taxes	\$ (15.4)	\$ 13.5	(214)%	\$ (1.9)	\$ (60.9)	(97)%

n/m: not meaningful

(1) Beginning in the third quarter of 2020, we began allocating interest expense on the corporate debt used to fund servicing advances and other servicing assets from Corporate Items and Other to Servicing. The interest expense related to the corporate debt has been allocated from Corporate Items and Other to the Servicing segment for prior periods to conform to the current period presentation. See Note 19 – Business Segment Reporting.

The following tables provide selected operating statistics:

	June 30, 2021	March 31, 2021	% Change	June 30, 2020	% Change
Residential Assets Serviced					
<i>Unpaid principal balance (UPB) in billions:</i>					
Performing loans (1)	\$ 228.3	\$ 169.7	34 %	\$ 191.9	19 %
Non-performing loans	8.3	8.8	(5)	12.5	(34)
Non-performing real estate	0.7	0.9	(16)	1.6	(54)
Total	<u>237.3</u>	<u>179.4</u>	32	<u>206.0</u>	15 %
Conventional loans (2)	\$ 133.7	\$ 75.6	77 %	\$ 90.8	47 %
Government-insured loans	31.9	29.4	8	33.4	(5)
Non-Agency loans	71.7	74.3	(4)	81.8	(12)
Total	<u>\$ 237.3</u>	<u>\$ 179.4</u>	32 %	<u>\$ 206.0</u>	15 %
Servicing portfolio (5)	\$ 156.8	\$ 98.7	59 %	\$ 77.0	104 %
Subservicing portfolio	19.2	16.3	18	20.0	(4)
NRZ (3) (6)	61.4	64.3	(5)	109.0	(44)
Total	<u>\$ 237.3</u>	<u>\$ 179.4</u>	32 %	<u>\$ 206.0</u>	15
<i>Number (in 000's):</i>					
Performing loans (1)	1,220.7	1,011.1	21 %	1,293.8	(6)%
Non-performing loans	43.3	45.5	(5)	63.8	(32)
Non-performing real estate	5.9	6.7	(12)	9.8	(40)
Total	<u>1,269.9</u>	<u>1,063.2</u>	19 %	<u>1,367.4</u>	(7)%
Conventional loans (2)	561.3	344.3	63 %	576.4	(3)%
Government-insured loans	188.1	180.2	4	199.0	(5)
Non-Agency loans	520.4	538.6	(3)	592.0	(12)
Total	<u>1,269.9</u>	<u>1,063.2</u>	19 %	<u>1,367.4</u>	(7)%
Servicing portfolio	729.3	513.0	42 %	471.8	55 %
Subservicing portfolio	77.3	67.5	14	81.2	(5)
NRZ (6)	463.3	482.7	(4)	814.4	(43)
Total	<u>1,269.9</u>	<u>1,063.2</u>	19 %	<u>1,367.4</u>	(7)

	Three Months Ended			Six Months Ended June 30,		
	June 30, 2021	March 31, 2021	% Change	2021	2020	% Change
<i>Prepayment speed (CPR) (4):</i>						
% Voluntary CPR	15.6 %	21.70 %	(28)%	18.6 %	12.5 %	49 %
% Involuntary CPR	1.0	0.80	25	0.9	1.2	(25)
% Total CPR	19.6	25.20	(22)	22.4	17.1	31
Number of completed modifications (in 000's)	4.1	4.8	(14)%	8.9	15.6	(43)%
Revenue recognized in connection with loan modifications	\$ 7.2	\$ 8.0	(9)%	\$ 15.2	\$ 20.1	(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 81,193 and 85,479 prime loans with a UPB of \$14.6 billion and \$15.3 billion at June 30, 2021 and March 31, 2021, respectively, that we service or subservice. This compares to 103,611 prime loans with a UPB of \$18.9 billion at June 30, 2020. Prime loans are generally good credit quality loans that meet GSE underwriting standards.
- (3) Loans serviced or subserviced pursuant to our agreements with NRZ.
- (4) Average CPR includes voluntary and involuntary prepayments and scheduled principal amortization (not reflected in the above table).
- (5) Includes \$6.7 billion UPB of reverse mortgage loans that are recognized in our consolidated balance sheet at June 30, 2021.
- (6) Includes \$2.4 billion UPB of subserviced loans at June 30, 2021.

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

	June 30, 2021	March 31, 2021	% Change	June 30, 2020	% Change
Reverse Mortgage Loans					
<i>Unpaid principal balance (UPB) in millions:</i>					
Loans held for investment (1)	\$ 6,341.2	\$ 6,326.1	— %	\$ 6,002.2	6 %
Active Buyouts (2)	24.5	27.0	(9)	29.8	(18)%
Inactive Buyouts (2)	81.0	75.9	7	43.9	85 %
Total	<u>\$ 6,446.7</u>	<u>\$ 6,429.0</u>	—	<u>\$ 6,075.9</u>	6 %
<i>Inactive buyouts % to total</i>	1.26 %	1.18 %	6	0.72 %	74 %
<i>Future draw commitments (UPB) in millions:</i>	2,045.5	2,052.6	—	1,597.0	28 %
<i>Fair value in millions:</i>					
Loans held for investment (1)	\$ 6,928.5	\$ 6,874.9	1	\$ 6,587.9	5 %
HMBS related borrowings	6,823.9	6,778.2	1	6,477.6	5
Net asset value	<u>\$ 104.6</u>	<u>\$ 96.7</u>	8	<u>\$ 110.3</u>	(5)%

- (1) Securitized loans only; excludes unsecuritized loans as 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.

The following table provides a breakdown of our servicer advances:

Advances by investor type	June 30, 2021				December 31, 2020			
	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	\$ 2	\$ 28	\$ 6	\$ 35	\$ 4	\$ 30	\$ 5	\$ 38
Government-insured	1	49	24	74	1	55	28	84
Non-Agency	246	262	145	653	272	279	155	705
Total, net	<u>\$ 248</u>	<u>\$ 339</u>	<u>\$ 175</u>	<u>\$ 762</u>	<u>\$ 277</u>	<u>\$ 365</u>	<u>\$ 187</u>	<u>\$ 828</u>

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

	Amount of UPB (\$ in billions)		Count (000's)	
	2021	2020	2021	2020
Portfolio at January 1	\$ 188.8	\$ 212.4	1,107.6	1,419.9
Additions	13.5	6.9	49.4	28.8
Sales	—	(0.1)	(0.1)	(0.7)
Servicing transfers	(10.9)	(2.2)	(42.5)	(8.5)
Runoff	(12.1)	(8.2)	(51.2)	(43.2)
Portfolio at March 31	\$ 179.4	\$ 208.8	1,063.2	1,396.3
Additions (1)	68.7	8.5	256.8	28.9
Sales	—	(0.1)	—	(0.7)
Servicing transfers (2)	—	(0.9)	(0.2)	(3.9)
Runoff	(10.7)	(10.2)	(49.9)	(53.3)
Portfolio at June 30	\$ 237.3	\$ 206.1	1,269.9	1,367.3

- (1) Additions include purchased MSRs on portfolios consisting of 199,233 loans with a UPB of \$52.9 billion that have not yet transferred to the Black Knight MSP servicing system as of June 30, 2021. Because we have legal title to the MSRs, the UPB and count of the loans are included in our reported servicing portfolio. The seller continues to subservice the loans on an interim basis until the servicing transfer date.
- (2) Excludes the volume UPB associated with short-term interim subservicing for some clients as a support to their originate-to-sell business, where loans are boarded and deboarded within the same quarter.

Servicing and Subservicing Fees

	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Loan servicing and subservicing fees:						
Servicing	\$ 79.4	\$ 63.9	24 %	\$ 143.3	\$ 107.7	33 %
Subservicing	2.6	3.5	(25)	6.1	15.8	(61)
NRZ	77.7	80.4	(3)	158.1	208.1	(24)
Servicing and subservicing fees	159.7	147.8	8	307.5	331.6	(7)
Ancillary income	22.4	21.6	4	44.0	55.1	(20)
	\$ 182.1	\$ 169.4	7	\$ 351.5	\$ 386.7	(9)%

We reported \$182.1 million total servicing and subservicing fees in the second quarter of 2021, a \$12.8 million, or 7% increase as compared to the first quarter of 2021. Our fee income increase is primarily due to a \$15.5 million, or 24% increase in servicing fees on our owned MSRs driven by a 19% increase in our average UPB serviced. The increase in our UPB serviced is largely driven by our bulk acquisitions on June 1, 2021. Partially offsetting this increase, fees collected on behalf of NRZ declined by \$2.7 million due to a 4% decline in average UPB.

The \$35.2 million, or 9% decline in total servicing and subservicing fees in the six months ended June 30, 2021 as compared to the six months ended June 30, 2020 is primarily driven by the reduction in fees collected on behalf of NRZ due to portfolio runoff and the PMC servicing termination, the reduction in ancillary income due to the COVID-19 environment and lower interest rates, partially offset by the increase in our owned MSR servicing fee income. The \$35.6 million, or 33% increase in servicing fees on our owned MSR as compared to the six months ended June 30, 2020 is due to a 43% increase of our average volume serviced, driven by bulk acquisitions.

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

	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Servicing and subservicing fee						
Servicing fee	\$ 79.4	\$ 63.9	24 %	\$ 143.3	\$ 107.7	33 %
Average servicing fee (% of UPB)	0.27	0.26	5 %	0.27	0.29	(7) %
Subservicing fee						
Subservicing fee	\$ 2.6	\$ 3.5	(25)	\$ 6.1	\$ 15.8	(61) %
Average monthly fee per loan (in dollars)	\$ 12	\$ 13	(8)	\$ 12	\$ 9	35 %
Residential assets serviced						
<i>Average UPB (\$ in billions):</i>						
Servicing portfolio	\$ 116.0	\$ 97.8	19 %	\$ 108.0	\$ 75.5	43 %
Subservicing portfolio	17.9	22.7	(21)	20.9	17.7	18 %
NRZ	62.9	65.8	(4)	64.3	114.9	(44) %
Total	\$ 196.8	\$ 186.3	6 %	\$ 193.2	\$ 208.1	(7) %
<i>Average number (in 000's):</i>						
Servicing portfolio	576.0	510.8	13 %	547.7	462.4	18 %
Subservicing portfolio	73.0	90.3	(19)	83.7	291.8	(71) %
NRZ	473.1	491.5	(4)	482.2	636.1	(24) %
	1,122.1	1,092.6	3 %	1,113.6	1,390.3	(20) %

The following table presents both servicing fees collected and subservicing fees retained by Ocwen under the NRZ agreements, together with the previously recognized amortization gain of the lump-sum payments received in connection with the 2017 Agreements and New RMSR Agreements (through the second quarter of 2020 only):

NRZ servicing and subservicing fees	Three Months Ended		Six Months Ended	
	June 30, 2021	March 31, 2021	June 30, 2021	June 30, 2020
Servicing fees collected on behalf of NRZ	\$ 77.7	\$ 80.4	\$ 158.1	\$ 208.1
Servicing fees remitted to NRZ (1)	(55.2)	(56.4)	(111.6)	(153.2)
Retained subservicing fees on NRZ agreements (2)	\$ 22.5	\$ 24.0	\$ 46.5	\$ 54.9
Amortization gain of lump-sum cash payments received (including fair value change) (1)(3)	—	—	—	34.2
Total retained subservicing fees and amortization gain of lump-sum cash payments (including fair value change)	\$ 22.5	\$ 24.0	\$ 46.5	\$ 89.1
Average NRZ UPB (\$ in billions) (4)	\$ 62.9	\$ 65.8	\$ 64.3	\$ 75.9
Average annualized retained subservicing fees as a % of NRZ UPB (excluding amortization gain of lump-sum cash payments)	0.14 %	0.15 %	0.14 %	0.14 %

- (1) Reported within Pledged MSR liability expense. The NRZ servicing fee includes the total servicing fees collected on behalf of NRZ relating to the MSR sold but not derecognized from our balance sheet. Under GAAP, we separately present servicing fee collected and remitted on a gross basis, with the servicing fee remitted to NRZ reported as Pledged MSR liability expense.
- (2) Excludes the servicing fees of loans under the PMC servicing agreement after February 20, 2020 due to the notice of termination by NRZ, and subservicing fees earned under subservicing agreements.
- (3) In 2017 and early 2018, we renegotiated the Ocwen agreements with NRZ to more closely align with a typical subservicing arrangement whereby we receive a base servicing fee and certain ancillary fees, primarily late fees, loan modification fees and Speedpay fees. We may also receive certain incentive fees or pay penalties tied to various contractual performance metrics. We received upfront cash payments in 2018 and 2017 of \$279.6 million and \$54.6 million, respectively, from NRZ in connection with the resulting 2017 and New

RMSR Agreements. These upfront payments generally represented the net present value of the difference between the future revenue stream Ocwen would have received under the original agreements and the future revenue Ocwen received under the renegotiated agreements. These upfront payments received from NRZ were deferred and recorded within Other income (expense), Pledged MSR liability expense, as they amortized through the term of the original agreements (April 2020). See Note 8 — Rights to MSRs for further information.

(4) Excludes the UPB of loans subserviced under the PMC servicing agreement after February 20, 2020 due to the notice of termination by NRZ, and excludes the UPB of loans under subservicing agreements.

The net retained fee of our NRZ portfolio declined \$1.5 million, or 6%, in the second quarter of 2021 as compared to the first quarter of 2021 primarily due to the 4% decline in UPB serviced associated with portfolio runoff and prepayments, resulting in a decrease in the average annualized retained subservicing fee from 15 to 14 basis points.

The net retained fee of our NRZ portfolio decreased by \$8.3 million, or 15%, in the six months ended June 30, 2021 as compared to the six months ended June 30, 2020. The decline in the NRZ fee collection and remittance is primarily driven by the decline in the average UPB of 44%, explained by the NRZ portfolio runoff and the derecognition of the MSRs in connection with the termination of the PMC agreement by NRZ on February 20, 2020. As the NRZ relationship is effectively a subservicing agreement, the COVID-19 environment, loans under forbearance and the fee collection do not impact our financial results to the same extent as for serviced loans with our owned MSRs.

The following table presents the detail of our ancillary income:

Ancillary Income	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Late charges	\$ 11.4	\$ 9.2	24 %	\$ 20.7	\$ 27.3	(24)%
Custodial accounts (float earnings)	1.3	1.0	30	2.3	7.7	(70)
Loan collection fees	2.8	2.9	(6)	5.7	7.0	(18)
Recording fees	3.2	3.7	(13)	6.9	5.9	16
Boarding and deboarding fees	0.2	0.9	(82)	1.0	1.4	(24)
Other	3.6	3.8	(7)	7.4	5.8	29
Ancillary income	\$ 22.4	\$ 21.6	4 %	\$ 44.0	\$ 55.1	(20)%

Ancillary income increased by \$0.8 million, or 4% in the second quarter of 2021 as compared to the first quarter of 2021, mostly due to higher late charges as a result of a larger serviced volume.

As compared to the six months ended June 30, 2020, ancillary income for the six months ended June 30, 2021 declined by \$11.1 million due to the combined effect of lower average servicing volume, the COVID-19 environment restricting late fees or collection fees on loans under forbearance, and lower interest rates on float earnings.

Reverse Mortgage Revenue, Net

Reverse mortgage revenue, net is the net change in fair value of securitized loans held for investment and HMBS-related borrowings. 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 typically represents our compensation for servicing the portfolio. Other fair value changes are primarily driven by changes in market-based inputs or assumptions. Lower interest rates generally result in favorable net fair value impacts on our HECM reverse mortgage loans and the related HMBS financing liability and higher interest rates generally result in unfavorable net fair value impacts.

	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Net interest income	\$ 5.0	\$ 5.0	— %	\$ 9.9	\$ 9.6	4 %
Other fair value changes	5.5	(2.9)	(288)	2.6	4.4	(41)
Reverse mortgage revenue, net (Servicing)	\$ 10.5	\$ 2.0	415 %	\$ 12.5	\$ 14.0	(10)

The increase in Reverse mortgage revenue, net of \$8.5 million, or 415%, for the second quarter of 2021 as compared to the first quarter of 2021 is primarily attributable to decreasing interest rates observed in the market during the second quarter of 2021 and opposite rate movements in the first quarter of 2021, partially offset by less favorable yield spread movement in the second quarter of 2021.

As compared to the six months ended June 30, 2020, Reverse mortgage revenue for the six months ended June 30, 2021 decreased \$1.4 million, or 10%, primarily due to the impact of increasing interest rates, partially offset by favorable impacts of yield spread tightening and other assumption adjustments as compared to the 2020 period.

MSR Valuation Adjustments, Net

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

	Three Months Ended June 30, 2021			Three Months Ended March 31, 2021		
	Total (1)	Owned MSR (1)	Pledged MSR (NRZ) (2)	Total (1)	Owned MSR (1)	Pledged MSR (NRZ) (2)
Runoff	\$ (57.0)	\$ (36.1)	\$ (20.9)	\$ (49.1)	\$ (31.5)	\$ (17.6)
Rate and assumption change (1)	(47.2)	(55.6)	8.4	75.5	73.9	1.6
Hedging gain (loss)	34.3	34.3	—	(49.1)	(49.1)	—
Total	\$ (69.9)	\$ (57.4)	\$ (12.5)	\$ (22.7)	\$ (6.7)	\$ (16.0)

	Six Months Ended June 30, 2021			Six Months Ended June 30, 2020		
	Total (1)	Owned MSR (1)	Pledged MSR (NRZ) (2)	Total (1)	Owned MSR (1)	Pledged MSR (NRZ) (2)
Runoff	\$ (106.2)	\$ (67.6)	\$ (38.5)	\$ (83.9)	\$ (44.7)	\$ (39.2)
Rate and assumption change (1)	28.3	18.4	9.9	(170.5)	(143.6)	(26.8)
Hedging gain (loss)	(14.8)	(14.8)	—	42.8	42.8	—
Total	\$ (92.6)	\$ (64.0)	\$ (28.6)	\$ (211.5)	\$ (145.5)	\$ (66.0)

- (1) Excludes gains of \$8.8 million, \$8.5 million, \$17.3 million and \$14.0 million in the second quarter of 2021, first quarter of 2021, six months ended June 30, 2021 and six months ended June 30, 2020, respectively, on the revaluation of MSR purchased at a discount, that is reported in the Originations segment as MSR valuation adjustments, net.
- (2) For those MSR sale transactions with NRZ that do not achieve sale accounting treatment, we present gross the pledged MSR as an asset and the corresponding liability amount pledged MSR liability on our balance sheet. Because we record both our pledged MSRs with NRZ and the associated MSR liability at fair value, the changes in fair value of the pledged MSR liability are offset by the changes in fair value of the associated pledged MSR asset, presented in MSR valuation adjustments, net. Although fair value changes are separately

presented in our statement of operations, we are not exposed to any fair value changes of the MSR pledged to NRZ. See Note 8 — Rights to MSRs for further information.

We reported a \$69.9 million loss in MSR valuation adjustments, net for the second quarter of 2021, comprised of a \$57.4 million loss on our owned MSRs and a \$12.5 million loss on the MSRs transferred and pledged to NRZ. The \$57.4 million loss on our owned MSRs for the second quarter of 2021 is comprised of \$36.1 million portfolio runoff and a \$55.6 million loss due to decline of market interest rates (the 10 year swap rate declined by 34 basis points in the second quarter of 2021), partially offset by a \$34.3 million hedging gain. MSR portfolio runoff represents the realization of expected cash flows and yield based on projected borrower behavior, including scheduled amortization of the loan UPB together with actual prepayments.

During the six months ended June 30, 2021, we reported a \$92.6 million loss in MSR valuation adjustments, net, comprised of a \$64.0 million loss on our owned MSRs and a \$28.6 million loss on the MSRs transferred and pledged to NRZ. The \$64.0 million loss on our owned MSRs is comprised of \$67.6 million portfolio runoff, 18.4 million gain on rate and assumption change, partially offset by a \$14.8 million hedging loss. The gain on rate and assumption change is primarily due to an increase in market interest rates (the 10 year swap rate increased by 52 basis points in the six months ended June 30, 2021), partially offset by a loss on assumption updates driven by prepayment model calibration.

The following table provides information regarding the changes in the fair value and the UPB of our portfolio of owned MSRs during the second quarter of 2021, with the breakdown by investor type.

	Fair Value				UPB (\$ in billions)			
	GSEs	Ginnie Mae	Non-Agency	Total	GSEs	Ginnie Mae	Non-Agency	Total
Beginning balance	\$ 617.8	\$ 95.7	\$ 136.3	\$ 849.8	\$ 58.3	\$ 12.3	\$ 20.9	\$ 91.5
Additions								
New cap.	30.0	5.8	0.7	36.5	2.5	0.5	—	3.0
Purchases	723.3	10.3	—	733.6	60.4	0.9	—	61.3
Change in fair value:								
Inputs and assumptions (1)	(34.8)	(7.6)	(4.4)	(46.8)	—	—	—	—
Realization of cash flows	(24.6)	(2.8)	(8.7)	(36.1)	(4.7)	(1.0)	(1.2)	(6.9)
Ending balance	\$ 1,311.7	\$ 101.4	\$ 123.9	\$ 1,537.0	\$ 116.5	\$ 12.7	\$ 19.7	\$ 148.9
Fair value (% of UPB)	1.13 %	0.80 %	0.63 %	1.03 %				
Fair value multiple (2)	4.40 x	2.31 x	1.92 x	3.78 x				

(1) Mostly changes in interest rates, except for gains of \$8.8 million on the revaluation of purchased MSRs, that are reported in the Originations segment.

(2) Multiple of average servicing fee and UPB.

We significantly increased our GSE MSR portfolio in the second quarter of 2021 (effectively doubled), primarily with two bulk acquisitions in June 2021.

The \$12.5 million and \$28.6 million loss on the pledged MSRs (transferred to NRZ) for the second quarter of 2021 and the six months ended June 30, 2021, respectively, does not affect our net income as it is offset by a corresponding gain on the pledged MSR liability, reported as Pledged MSR liability expense. The factors underlying the fair value loss of the NRZ Pledged MSR are similar to our owned MSR, discussed above, including runoff, noting that the NRZ MSR portfolio is significantly smaller, with a \$34.2 billion lower UPB due to the termination of the PMC servicing agreement by NRZ in February 2020.

Compensation and Benefits

	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Compensation and benefits	\$ 26.1	\$ 25.1	4 %	\$ 51.2	\$ 56.3	(9)%
Average Employment						
India and other	2,410	2,410	— %	2,421	3,019	(20)
U.S.	643	681	(6)	661	751	(12)
Total	3,053	3,091	(1)	3,082	3,770	(18)

Compensation and benefits expense for the second quarter of 2021 increased \$1.0 million, or 4%, as compared to the first quarter of 2021. Despite the decline in average headcount, salaries and benefit expenses increased \$1.2 million primarily due to a reduction in the accrual for compensated absences in the first quarter of 2021 and annual merit increases effective in the second quarter of 2021. In addition, servicing headcount in the second quarter of 2021 includes additional resources hired in anticipation of the boarding of loans to be serviced associated with the large bulk acquisition in June 2021.

Compensation and benefits expense for the six months ended June 30, 2021 declined \$5.1 million, or 9%, as compared to the six months ended June 30, 2020, primarily salaries and benefit expenses, as a result of the decline in our average servicing headcount. The effects of the decline in headcount were partially offset by a \$1.1 million increase in incentive compensation. The 18% decline in servicing headcount reflects the scaling down of our platform to the loans being serviced. During the six months ended June 30, 2021, we serviced 20% fewer loans, on average, as compared to the six months ended June 30, 2020.

Servicing Expense

Servicing expense primarily includes claim losses and interest curtailments on government-insured loans and provision expense for advances and servicing representation and warranties. Servicing expense declined in the second quarter of 2021 by \$1.4 million, or 6%, as compared to the first quarter of 2021, primarily due to a \$2.4 million reduction in government-insured loan loss provisions due to decreased claim volumes associated with the foreclosure moratoria and a \$1.0 million decrease in other loan expenses, offset by a \$1.7 million increase in servicer expenses primarily due to interim subservicing expenses on MSR bulk acquisitions.

Servicing expense for the six months ended June 30, 2021 increased \$13.5 million, or 40%, as compared to the six months ended June 30, 2020, primarily due to a \$9.2 million increase in servicer expenses driven by an increase in our owned MSR portfolio, including a \$3.0 million increase in interim subservicing expense associated with the portfolio growth, a \$5.1 million increase in provisions for indemnification and other servicing-related reserves primarily due to the favorable release of indemnification reserves during the six months ended June 30, 2020, and a \$2.0 million increase in satisfaction and interest payoff expenses attributable to higher payoff volume. These increases were partially offset by a \$1.6 million decrease in government-insured loss provisions due to decreased claim volumes associated with the foreclosure moratorium.

Other Operating Expenses

Other operating expenses (total operating expenses less compensation and benefit expense and servicer expense) remained mostly constant during the second quarter of 2021 as compared to the first quarter of 2021, with the exception of a \$3.2 million increase in Professional services expense. The increase in Professional services expense is mostly driven by a \$2.6 million increase in legal expenses in the second quarter of 2021 that was primarily due to a higher provision for litigation settlements, partially offset by claim reimbursements and other credits.

Other operating expenses decreased by \$12.9 million in the six months ended June 30, 2021 as compared to the six months ended June 30, 2020, in large part due to the effect of cost saving initiatives with a \$9.3 million reduction of Corporate overhead allocations attributable to the decline in operating expenses of the Corporate segment, including technology savings, and the lower relative weight of Servicing headcount to the consolidated organization. Occupancy and equipment expense decreased \$5.4 million, primarily due to a \$3.0 million decrease in allocations from the Corporate segment and a \$2.2 million decrease in postage and mailing expenses mostly as a result of the decline in the average number of loans serviced and a decline in letter volume attributed to COVID-19. Technology and communications expense declined \$2.8 million primarily due to cost savings associated with the implementation of a bulk data extraction module as well as consolidation of telecommunication vendors in the second quarter of 2020. These declines in expenses were partially offset by a \$3.4 million increase in Professional services, primarily due to \$5.7 million higher legal expenses, partially offset by \$2.2 million lower other professional services fee mostly as a result of lower COVID-19 related outsourcing expenses. The increase in legal expenses is due to a higher provision for litigation settlements in the six months ended June 30, 2021 and a provision reversal during the six months ended June 30, 2020.

Other Income (Expense)

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

	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Interest Expense						
Advance match funded liabilities	\$ 4.3	\$ 4.5	(5)%	\$ 8.8	\$ 13.0	(32)%
Mortgage loan warehouse facilities	1.7	1.7	(2)%	3.4	2.4	42 %
MSR financing facilities	4.8	4.6	4 %	9.3	8.7	7 %
Corporate debt interest expense allocation	11.4	7.9	46	19.3	19.9	(3)
Escrow and other	1.1	1.6	(31)	2.8	3.5	(21)
Total interest expense	\$ 23.3	\$ 20.3	15 %	\$ 43.6	\$ 47.6	(8)%
Average balances						
Average balance of advances	\$ 757.3	\$ 772.7	(2)%	\$ 766.0	\$ 987.7	(22)%
Advance match funded liabilities	502.3	537.5	(7)	519.8	649.9	(20)
Mortgage loan warehouse facilities	203.4	157.0	30	180.3	109.7	64
MSR financing facilities	476.6	408.0	17	442.5	328.9	35
Effective average interest rate						
Advance match funded liabilities	3.40 %	3.35 %	1 %	3.37 %	3.99 %	(16)%
Mortgage loan warehouse facilities	3.35	4.41	(24)%	3.81	4.40	(13)%
MSR financing facilities	3.99	4.48	(11)%	4.22	5.30	(21)%
Facility costs included in interest expense	\$ 3.0	\$ 2.7	9 %	\$ 5.7	\$ 5.8	(2)%
Average 1ML	0.10 %	0.12 %	(16)%	0.11 %	0.90 %	(88)%

Interest expense for the second quarter of 2021 increased by \$3.0 million, or 15%, as compared to the first quarter of 2021, primarily due to a \$3.6 million increase in the corporate debt interest expense allocation. The increase is mostly due to an increase in the corporate debt allocation to fund a higher MSR portfolio.

As compared to the six months ended June 30, 2020, interest expense for the six months ended June 30, 2021 declined \$4.0 million, or 8%, primarily due to a \$4.2 million decline in interest expense on advance match funded facilities as the average balances of advances and borrowings and funding cost were lower.

Pledged MSR liability expense relates to the MSR sale agreements with NRZ that do not achieve sale accounting and are presented on a gross basis in our financial statements. See Note 8 — Rights to MSRs to the Unaudited Consolidated Financial Statements. Pledged MSR liability expense includes the servicing fee remittance to NRZ and the fair value changes of the pledged MSR liability.

	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	\$ Change	June 30, 2021	June 30, 2020	\$ Change
Net servicing fee remittance to NRZ (1)	\$ 55.2	\$ 56.4	\$ (1.2)	\$ 111.6	\$ 153.2	\$ (41.6)
Pledged MSR liability fair value (gain) loss (2)	(12.5)	(16.1)	3.6	(28.6)	(66.0)	37.4
2017/2018 lump sum amortization gain	—	—	—	—	(34.2)	34.2
Other	(2.9)	(2.5)	(0.4)	(5.3)	(4.6)	(0.7)
Pledged MSR liability expense	\$ 39.8	\$ 37.8	\$ 2.0	\$ 77.7	\$ 48.4	\$ 29.3

(1) Offset by corresponding amount recorded in Servicing and subservicing fee. See table below.

(2) Offset by corresponding amount recorded in MSR valuation adjustments, net. See table below.

Pledged MSR liability expense for the second quarter of 2021 increased \$2.0 million, as compared to the first quarter of 2021, largely due to unfavorable fair value adjustment of the liability. Refer to the above discussions of MSR valuation adjustments, net (Pledged MSR to NRZ) and Servicing and subservicing fees (NRZ).

Pledged MSR liability expense for the six months ended June 30, 2021 increased \$29.4 million, as compared to the six months ended June 30, 2020, primarily due to a \$37.4 million unfavorable fair value change on the Pledged MSR liability. In addition, the lump-sum cash payments received from NRZ in 2017 and 2018 were fully amortized as of the end of the second quarter of 2020 (\$34.2 million amortization gain recorded in the six months ended June 30, 2020, nil in 2021). These increases in the expense were partially offset by a \$41.6 million decline in servicing fee remittance, driven by the runoff of the portfolio and the termination of the PMC agreement by NRZ in February 2020. Refer to the above discussions of MSR valuation adjustments, net (Pledged MSR to NRZ) and Servicing and subservicing fees (NRZ).

The table below reflects the condensed consolidated statement of operations together with the amounts related to the NRZ pledged MSRs that offset each other (nil impact on net income/loss). The table provides information related to the impact of the accounting for the NRZ relationship that did not achieve sale accounting treatment, and is not intended to reflect the profitability of the NRZ relationship. Net servicing fee remittance and pledged MSR fair value changes are presented on a gross basis and are offset by corresponding amounts presented in other statement of operations line items. In addition, because we record both our pledged MSRs and the associated pledged MSR liability at fair value, the changes in fair value of the pledged MSR liability were offset by the changes in fair value of the MSRs pledged, presented in MSR valuation adjustments, net. Accordingly, only the lump sum amortization gain and the amount reported in "Other" in the table above affect our net earnings.

	Three Months Ended				Six Months Ended			
	June 30, 2021		March 31, 2021		June 30, 2021		June 30, 2020	
	Statement of Operations	NRZ Pledged MSR-related Amounts	Statement of Operations	NRZ Pledged MSR-related Amounts	Statement of Operations	NRZ Pledged MSR-related Amounts	Statement of Operations	NRZ Pledged MSR-related Amounts
Total revenue	\$ 265.4	\$ 55.2	\$ 207.6	\$ 56.4	\$ 473.0	\$ 111.6	\$ 480.9	\$ 153.2
MSR valuation adjustments, net	(72.5)	(12.5)	21.2	(16.1)	(51.2)	(28.6)	(197.6)	(66.0)
Total operating expenses	149.8	—	139.6	—	289.4	—	282.0	—
Total other expense, net	(65.4)	(42.7)	(77.5)	(40.3)	(143.0)	(83.0)	(94.8)	(87.2)
Income (loss) before income taxes	\$ (22.2)	\$ —	\$ 11.6	\$ —	\$ (10.6)	\$ —	\$ (93.5)	\$ —

ORIGINATIONS

We originate and purchase loans and MSRs through multiple channels, including recapture, 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 or VA) forward mortgage loans. The GSEs and Ginnie Mae guarantee these mortgage securitizations. We originate HECM loans, or reverse mortgages, that are mostly insured by the FHA and we are an approved issuer of HMBS that are guaranteed by Ginnie Mae.

Our recapture channel focuses on targeting existing Ocwen customers by offering them competitive mortgage refinance opportunities (i.e., portfolio recapture), where permitted by the governing servicing and pooling agreement. In doing so, we generate revenues for our forward lending business and protect the servicing portfolio by retaining these customers. A portion of our servicing portfolio is susceptible to refinance activity during periods of declining interest rates. Our recapture lending

activity partially mitigates this risk. Origination volume and related gains are a natural economic hedge, to a certain degree, to the impact of declining MSR values as interest rates decline.

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. As of June 30, 2021, we have relationships with 383 approved correspondent sellers, or 252 new sellers since December 31, 2020. On June 1, 2021, we expanded our network through the assignment by Texas Capital Bank, and the assumption by us, of all its correspondent loan purchase agreements with its correspondent sellers (approximately 220 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 HUD. Loans originated under this program are generally insured by the FHA, which provides investors with protection against risk of borrower default.

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

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

We purchase MSRs through flow purchase agreements, the Agency Cash Window programs and bulk MSR purchases. The Agency Cash Window programs we participate in, and purchase MSR from, allow mortgage companies and financial institutions to sell whole loans to the respective agency and sell the MSR to the winning bidder servicing released. In addition, we partner with other originators to replenish our MSR through flow purchase agreements. We do not provide any origination representations and warranties in connection with our MSR purchases through MSR flow purchase agreements or Agency Cash Window programs.

We initially recognize our MSR origination with the associated economics in our Originations business, and subsequently transfer the MSR to our Servicing segment at fair value. Our Servicing segment reflects all subsequent performance associated with the MSR, including funding cost, run-off and other fair value changes.

We source additional servicing volume through our subservicing and interim servicing agreements, through our existing relationships and our enterprise sales' initiatives. We expect additional subservicing through our relationship and subservicing agreement with MAV, and as MAV continues to acquire MSRs. We do not report any revenue or gain associated with subservicing, as it is reported within the Servicing segment. However, sales efforts and certain costs - marginal compensation and benefits - are managed and reported within the Originations segment.

For the second quarter of 2021, our Originations business originated or purchased forward and reverse mortgage loans with a UPB of \$3.1 billion and \$340.1 million, respectively. In addition, we purchased \$5.0 billion UPB MSR through the Agency Cash Window during the second quarter of 2021.

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, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Revenue						
Gain on loans held for sale, net	\$ 27.3	\$ 37.6	(27)%	\$ 64.9	\$ 42.9	51 %
Reverse mortgage revenue, net	18.8	19.8	(5)	38.6	22.6	71
Other revenue, net (1)	9.3	8.9	4	18.2	5.1	255
Total revenue	55.4	66.3	(16)	121.7	70.6	72
MSR valuation adjustments, net	8.8	8.5	4	17.3	14.0	24
Operating expenses						
Compensation and benefits	23.9	21.5	11	45.5	25.4	79
Servicing and origination	3.2	2.8	17	6.0	2.8	118
Occupancy and equipment	1.6	1.5	11	3.1	2.8	10
Technology and communications	2.0	1.6	22	3.6	2.1	76
Professional services	1.9	3.1	(41)	5.0	2.8	79
Corporate overhead allocations	4.6	5.0	(8)	9.7	9.1	6
Other expenses	2.4	1.8	36	4.1	3.1	36
Total operating expenses	39.7	37.3	6	77.0	48.0	60
Other income (expense)						
Interest income	2.9	2.6	12	5.4	2.8	95
Interest expense	(4.7)	(3.6)	32	(8.3)	(4.2)	97
Other, net	(0.2)	0.1	(436)	(0.1)	—	297
Total other expense, net	(2.0)	(0.9)	114	(2.9)	(1.4)	105
Income (loss) before income taxes	<u>\$ 22.5</u>	<u>\$ 36.5</u>	<u>(38)%</u>	<u>\$ 59.0</u>	<u>\$ 35.1</u>	<u>68 %</u>

(1) Includes \$2.3 million, \$2.4 million, \$4.7 million and \$— million ancillary fee income related to MSR acquisitions reported as Servicing and subservicing fees at the consolidated level for the three months ended June 30, 2021 and March 31, 2021, and the six months ended June 30, 2021 and June 30, 2020, respectively.

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

	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Originations by Channel						
Forward loans						
Correspondent	\$ 2,489.5	\$ 2,626.8	(5)%	\$ 5,116.3	\$ 1,174.1	336%
Recapture	608.6	563.4	8 %	1,172.1	514.5	128
	<u>\$ 3,098.1</u>	<u>\$ 3,190.2</u>	<u>(3)%</u>	<u>\$ 6,288.3</u>	<u>\$ 1,688.6</u>	<u>272%</u>
% Purchase production	28 %	15 %	92	21 %	21 %	2
% Refinance production	72	85	(16)	79	79	(1)
Reverse loans (1)						
Correspondent	\$ 188.4	\$ 150.0	26 %	\$ 338.4	\$ 216.6	56 %
Wholesale	57.3	53.6	7	110.9	160.7	(31)
Retail	94.4	59.5	59	153.8	62.6	146
	<u>\$ 340.1</u>	<u>\$ 263.1</u>	<u>29 %</u>	<u>\$ 603.2</u>	<u>\$ 439.9</u>	<u>37 %</u>
MSR Purchases by Channel (Forward only)						
Agency Cash Window / Flow MSR	6,168.3	5,985.2	3%	12,153.5	4,184.2	190%
Bulk MSR purchases	55,133.5	—	n/m	55,133.5	1,541.3	n/m
	<u>\$ 61,301.8</u>	<u>\$ 5,985.2</u>	<u>924</u>	<u>\$ 67,287.0</u>	<u>\$ 5,725.5</u>	<u>n/m</u>
Total	<u>\$ 64,740.0</u>	<u>\$ 9,438.5</u>	<u>586</u>	<u>\$ 74,178.5</u>	<u>\$ 7,854.0</u>	<u>844</u>
Short term loan commitment (at period end)						
Forward loans	\$ 995.0	\$ 916.9	9 %	\$ 995.0	\$ 477.5	108 %
Reverse loans	68.4	50.2	36	68.4	30.2	127
Average Employment						
U.S.	635	577	10	606	433	40
India and other	345	280	23	312	118	164
Total	<u>980</u>	<u>857</u>	<u>14</u>	<u>918</u>	<u>551</u>	<u>67</u>

(1) Loan production excludes reverse mortgage loan draws by borrowers disbursed subsequent to origination.

Gain on Loans Held for Sale

The following table provides information regarding Gain on loans held for sale by channel and the related forward loan origination volume and margins:

	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Gain on Loans Held for Sale (1)						
Correspondent	\$ 4.7	\$ 3.5	34 %	\$ 8.2	\$ 6.7	23 %
Recapture	22.5	34.1	(34)	56.6	36.1	57
	<u>\$ 27.3</u>	<u>\$ 37.6</u>	(27)%	<u>\$ 64.9</u>	<u>\$ 42.9</u>	51 %
% Gain on Sale Margin (2)						
Correspondent	0.18 %	0.12 %	42	0.15 %	0.53 %	(72)
Recapture	4.42	5.12	(14)	4.82 %	5.15	(7)
	<u>0.86 %</u>	<u>1.08 %</u>	(20)	<u>0.97 %</u>	<u>2.19 %</u>	(55)%
Origination UPB (3)						
Correspondent	\$ 2,664.9	\$ 2,822.3	(6)	\$ 5,487.2	\$ 1,259.7	336%
Recapture	510.0	665.6	(23)	1,175.7	701.5	68
	<u>\$ 3,175.0</u>	<u>\$ 3,487.9</u>	(9)%	<u>\$ 6,662.8</u>	<u>\$ 1,961.2</u>	240 %

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

(2) Ratio of gain on Loans held for sale to volume UPB. See (3) below. Note that the ratio differs from the day-one gain on sale margin upon lock.

(3) Defined as the UPB of loans funded in the period plus the change in the period in the pull-through adjusted UPB of IRLCs.

We recognized a \$27.3 million gain on loans held for sale, net for the second quarter of 2021, a \$10.3 million, or 27% decrease as compared to the first quarter of 2021. The decrease is primarily due to lower loan production volume for both channels and a decline in margin in our recapture channel, partially offset by higher margin on our correspondent channel. Recapture margin was lower due to increased competition in the marketplace, while correspondent margin increased through enhanced execution.

Gain on loans held for sale, net for the six months ended June 30, 2021 increased \$22.0 million, or 51%, as compared to the six months ended June 30, 2020, mostly in our recapture channel, with an increase in our loan production volume, partially offset by a lower margin. The \$4.7 billion, or 240% new production volume increase in both our correspondent and recapture channels is due to favorable market conditions for borrower refinancing and the demonstrated capability of our Originations platform. We have expanded our correspondent seller network from 95 to 383, a 303% increase in twelve months. In addition, the increase in the new production volume of our recapture channel is the result of investments in staffing we made to develop the capabilities of our platform.

Reverse Mortgage Revenue, Net

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

	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Origination UPB (1)	\$ 347.2	\$ 296.8	17 %	\$ 644.0	\$ 430.6	50 %
Origination margin (2)	5.42 %	6.67 %	(19)	6.00 %	5.25 %	14
Reverse mortgage revenue, net (Originations) (3)	<u>\$ 18.8</u>	<u>\$ 19.8</u>	(5)%	<u>\$ 38.6</u>	<u>\$ 22.6</u>	71 %

(1) Defined as the UPB of loans funded in the period plus the change in the period in the pull-through adjusted UPB of IRLCs.

(2) Ratio of origination gain and fees - see (3) below - to origination UPB - see (1) above.

(3) Includes gain on new origination, and loan fees and other.

We reported \$18.8 million Originations Reverse mortgage revenue, net for the second quarter of 2021, a \$1.0 million, or 5% decrease as compared to the first quarter of 2021. As detailed in the above table, the decrease is driven by a lower average margin that was mostly offset by a volume increase. All reverse channels generated higher volumes, but at a lower margin for the correspondent and retail channels. This decrease in margin is attributable to less favorable yield spread tightening observed in the market during the second quarter which explains the revenue decrease during the quarter.

Reverse mortgage revenue, net for the six months ended June 30, 2021 increased \$16.0 million, or 71% as compared to the six months ended June 30, 2020, primarily driven by a higher margin across all channels and increased volume. The higher margin is mostly due to more favorable yield spread tightening observed in the market during the six months ended June 30, 2021.

Other Revenue

Other revenue for the six months ended June 30, 2021 increased \$13.1 million as compared to the six months ended June 30, 2020, primarily driven by increased loan production volumes in both recapture and correspondent channels.

MSR Valuation Adjustments, Net

MSR valuation adjustments, net includes a gain of \$8.8 million for the second quarter of 2021 due to the 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. We transfer the MSR from the Originations segment to the Servicing segment at fair value upon closing.

MSR valuation adjustments, net for the second quarter of 2021 increased \$0.3 million as compared to the first quarter of 2021. Opportunities for fair value discount or margins were larger in the early period of the pandemic and have reduced as markets normalize. For the six months ended June 30, 2021, MSR valuation adjustments, net increased \$3.3 million as compared to the same period of 2020 since we did not record any such gain prior to the pandemic in the first quarter of 2020.

Operating Expenses

Operating expenses for the second quarter of 2021 increased \$2.4 million, or 6%, as compared to the first quarter of 2021, primarily due to a \$2.4 million, or 11% increase in Compensation and benefits. Originations average headcount increased 14% as compared to the first quarter of 2021, reflecting increases in staffing levels as part of our initiative to expand our origination platform and increase volumes. The net \$0.1 million decrease in other operating expenses is primarily driven by a \$1.3 million decrease in Professional services due to a reduction in the utilization of temporary resources and consulting services, offset by a \$0.5 million increase in origination expenses and a \$0.6 million increase in Other expenses to support the surge in our Originations business.

Operating expenses for the six months ended June 30, 2021 increased \$29.0 million, or 60%, as compared to the six months ended June 30, 2020, primarily due to a \$20.0 million, or 79% increase in Compensation and benefits (including a \$4.8 million increase in commissions). Originations average headcount increased 67% as compared to the six months ended June 30, 2020, reflecting an increase in staffing levels as part of our initiative to expand our origination platform and increase volumes. The offshore-to-total average headcount ratio for Originations increased from 21% for the six months ended June 30, 2020 to 34% for the six months ended June 30, 2021. Other operating expenses increased primarily due to a \$2.2 million increase in Professional Services and a \$3.3 million increase in origination expenses due to increased volumes, and a \$1.6 million increase in Technology and communications due to additional software licensing costs related to lending, capital markets and hedging systems. Certain other operating expenses are variable, and as a result, as origination volume increased so did the related expenses. Examples include credit reports included in origination expenses or certain outsourced services recorded in Professional services.

Other Income (Expense)

Interest income consists primarily of interest earned on newly-originated and purchased loans prior to sale to investors. Interest expense is incurred to finance the mortgage loans. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, commonly referred to as warehouse lines. The increase in interest income and interest expense during the second quarter of 2021 as compared to the first quarter of 2021, and the six months ended June 30, 2021 as compared to the six months ended June 30, 2020, is primarily the result of the increase in the average held for sale loan and warehouse debt balances due to increased loan production volumes.

CORPORATE ITEMS AND OTHER

Corporate Items and Other includes revenues and expenses of corporate support services, our reinsurance business CRL, our share of earnings in our equity method investee MAV Canopy (effective the second quarter of 2021), and inactive entities, and our other business activities that are currently individually insignificant, revenues and expenses that are not directly related to other reportable segments, interest income on short-term investments of cash, gain or loss on repurchases of debt, interest expense on unallocated corporate debt and foreign currency exchange gains or losses.

Interest expense on direct asset-backed financings are recorded in the respective Servicing and Originations segments. Interest expense on the SSTL and the Senior Notes is allocated to the Servicing segment (excluding Reverse Servicing) based on funding needs. Prior to the third quarter of 2020, we did not allocate the corporate debt and the associated interest expense to the Servicing segment. The interest expense related to the corporate debt for periods prior to the third quarter of 2020 has been allocated to the Servicing segment to conform to the current period presentation. Our cash balances are included in Corporate Items and Other.

Corporate support services include finance, facilities, human resources, internal audit, legal, risk and compliance and technology functions. Corporate Items and Other also includes severance, retention, facility-related and other expenses incurred in 2020 related to our re-engineering initiatives and have not been allocated to other segments.

CRL, our wholly-owned captive reinsurance subsidiary, provides re-insurance related to coverage on REO properties owned or serviced by us. CRL assumes a quota share of REO insurance coverage written by a third-party insurer under a blanket policy issued to PMC. The underlying REO policy provides coverage for direct physical loss on commercial and residential properties, subject to certain limitations. Under the terms of the reinsurance agreement, CRL assumes a 50% quote share of premiums and all related losses incurred by the third-party insurer, effective June 2020, and 40% through May 2020. The reinsurance agreement expires December 31, 2023, but may be terminated by either party at any time with six months advance written notice. The agreement will automatically renew for additional one-year terms unless either party provides 60 days advance written notice prior to renewal.

Certain expenses incurred by corporate support services that are not directly attributable to a segment are allocated to the Servicing and Originations segments. We allocate overhead costs incurred by corporate support services to the Servicing and Originations segments which now incorporates the utilization of various measurements primarily based on time studies, personnel volumes and service consumption levels. 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, costs related to our 2020 re-engineering initiatives, and other costs related to operating as a public company.

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

	Three Months Ended			Six Months Ended		
	June 30, 2021	March 31, 2021	% Change	June 30, 2021	June 30, 2020	% Change
Revenue						
Premiums (CRL)	\$ 1.4	\$ 1.2	17 %	\$ 2.7	\$ 3.5	(23)%
Other revenue	0.1	0.1	17	0.1	0.2	(42)
Total revenue	1.5	1.3	17	2.8	3.7	(24)
Operating expenses						
Compensation and benefits	22.1	21.7	2	43.8	44.0	—
Professional services	13.4	7.0	90	20.4	32.6	(37)
Technology and communications	5.8	5.8	—	11.5	15.3	(25)
Occupancy and equipment	0.7	0.9	(15)	1.6	7.9	(80)
Servicing and origination	0.4	0.2	53	0.6	0.9	(32)
Other expenses	1.2	1.3	(8)	2.4	5.5	(56)
Total operating expenses before corporate overhead allocations	43.5	36.8	18	80.3	106.1	(24)
Corporate overhead allocations						
Servicing segment	(12.4)	(12.2)	1	(24.6)	(33.9)	(27)
Originations segment	(4.6)	(5.0)	(8)	(9.7)	(9.1)	6
Total operating expenses	26.5	19.5	36	46.0	63.1	(27)
Other income (expense), net						
Interest income	0.1	0.1	(17)	0.2	1.5	(86)
Interest expense	(5.5)	(4.6)	20	(10.1)	(5.0)	103
Loss on extinguishment of debt	—	(15.5)	(100)	(15.5)	—	n/m
Earnings of equity method investee	0.4	—	n/m	0.4	—	n/m
Other, net	0.7	(0.2)	(477)	0.5	(4.8)	(110)
Total other expense, net	(4.4)	(20.1)	(78)	(24.5)	(8.2)	197
Loss before income taxes	\$ (29.4)	\$ (38.4)	(23)%	\$ (67.7)	\$ (67.7)	— %

n/m: not meaningful

Compensation and Benefits

Compensation and benefits expense for the second quarter of 2021 increased \$0.5 million, or 2%, as compared to the first quarter of 2021. The average corporate headcount and the mix between onshore and offshore was mostly unchanged.

As compared to the six months ended June 30, 2020, compensation and benefits expense for the six months ended June 30, 2021 decreased \$0.2 million. Incentive compensation increased \$3.6 million due to additional annual long-term incentive awards granted in March 2021 and an increase in the fair value of cash-settled share-based awards. Largely offsetting this increase, salaries and benefit expenses decreased by \$2.8 million due to the effects of a 10% decline in average corporate headcount, including a 22% decrease in average onshore headcount from 336 to 261, and a \$0.8 million decline in severance expense.

Professional Services

Professional services expense for the second quarter of 2021 increased \$6.3 million, or 90%, as compared to the first quarter of 2021, primarily due to a \$2.9 million increase in legal expenses and a \$3.2 million increase in other professional fees. The net increase in legal expenses is largely due to a \$3.1 million additional provision for litigation settlements. Other professional fees increased primarily due to \$3.2 million of advisory fees related to our MSR investment joint venture with Oaktree, MAV Canopy, which closed on May 3, 2021.

As compared to the six months ended June 30, 2020, professional services expense for the six months ended June 30, 2021 declined \$12.2 million, or 37%, primarily due to a \$6.6 million decrease in legal expenses and a \$5.4 million decline in other professional services. The net decline in legal expenses is largely due to expenses recorded in the first six months of 2020 related to the CFPB, Florida and other matters, partially offset by a \$3.1 million additional provision for litigation settlements in the second quarter of 2021. In addition, cost reduction initiatives in 2020 resulted in lower other professional fees for the six months ended June 30, 2021, partially offset by the \$3.2 million of advisory fees related to our MSR investment joint venture with Oaktree, MAV Canopy.

Other Operating Expenses

Technology and communications, Occupancy and equipment, and Other expenses remained mostly constant in the second quarter of 2021 as compared to the first quarter of 2021. Technology and communications expense for the six months ended June 30, 2021 declined \$3.8 million as compared to the six months ended June 30, 2020, primarily due to a \$2.1 million decrease in telephone expense, and a \$2.5 million decrease in hardware and software depreciation and related expenses. Cost re-engineering initiatives in 2020 resulted in lower Technology and communications expenses in 2021 with the transition to a more cost-effective alternative telephone system.

Occupancy and equipment expense for the six months ended June 30, 2021 decreased \$6.3 million as compared to the six months ended June 30, 2020, primarily due to the recognition of facility-related costs in the second quarter of 2020, mainly accelerated depreciation and exit costs of leased properties we partially abandoned.

Other expenses for the six months ended June 30, 2021 decreased \$3.1 million as compared to the six months ended June 30, 2020, primarily due to a \$2.1 million decline in franchise taxes (non-income related).

Corporate overhead allocations remained mostly constant in the second quarter of 2021 as compared to the first quarter of 2021, and decreased \$8.7 million for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020, mostly due to the reduction of the relative size of the Servicing segment and the cost savings achieved through our cost re-engineering initiatives in 2020.

Total expenses after corporate overhead allocations increased \$6.9 million, or 36%, in the second quarter of 2021 as compared to the first quarter of 2021, and decreased by \$17.1 million, or 27%, for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020, primarily due to Professional services expenses, as discussed above, which were not allocated.

Other Income (Expenses)

Interest income for the six months ended June 30, 2021 decreased \$1.3 million or 86%, as compared to the six months ended June 30, 2020, mostly due to a decline in interest rates and average interest-earning cash balances in 2021.

Interest expense of the Corporate segment relates to the remaining corporate debt unallocated to other segments. Interest expense for the second quarter of 2021 increased \$0.9 million, or 20%, as compared to the first quarter of 2021, and increased \$5.1 million, or 103%, for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020. The increase is primarily driven by a higher cost of corporate debt that is mostly due to the senior secured notes issued at a discount on March 4, 2021 and May 3, 2021 together with warrants, resulting in an incremental discount that amortizes over the six-year life of the notes.

On March 4, 2021, we recognized a loss on debt extinguishment of \$15.5 million resulting from our early repayment of the SSTL due May 2022, 6.375% PHH senior unsecured notes due August 2021, and 8.375% PMC senior secured notes due November 2022. The loss on debt extinguishment includes the write-off of unamortized debt issuance costs and discount, as well as contractual prepayment premiums.

Earnings of equity method investee represents our 15% share of MAV Canopy earnings from May 3, 2021. See Note 10 - Investment in Equity Method Investee for further detail.

Other expense, net decreased \$5.3 million in the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, primarily driven by a \$1.7 million loss on sale of a vacant office facility in the first quarter of 2020, a \$1.5 million decrease in CRL loss adjustment expense due to a decline in the number of covered REO properties due to the COVID-19 foreclosure moratorium and a \$0.9 million decrease in foreign currency remeasurement losses related to our operations in India.

LIQUIDITY AND CAPITAL RESOURCES

Overview

On March 4, 2021, we successfully completed a comprehensive refinancing of our corporate debt and a capital contribution to our licensed entity PMC, through the following transactions:

- We redeemed all of PHH's outstanding 6.375% Senior Notes due August 2021 at a price of 100% of the \$21.5 million principal amount, plus accrued and unpaid interest, and all of PMC's 8.375% Senior Secured Notes due November 2022 at a price of 102.094% of the \$291.5 million principal amount, plus accrued and unpaid interest.
- We repaid in full the \$185.0 million outstanding principal balance of the SSTL due May 2022, with a 2% prepayment premium of the outstanding principal balance, or \$3.7 million.
- PMC completed the issuance and sale of \$400.0 million aggregate principal amount of 7.875% senior secured notes due March 15, 2026 (the PMC Senior Secured Notes).
- Ocwen Financial Corporation, completed the private placement of \$199.5 million aggregate principal amount of senior secured notes due March 4, 2027 (the OFC Senior Secured Notes) together with the issuance of warrants to certain entities owned by funds and accounts managed by Oaktree Capital Management, L.P. (the Oaktree Investors).
- Ocwen Financial Corporation contributed the \$175.0 million net proceeds from the issuance of the OFC Senior Secured Notes to its wholly owned subsidiary, PHH, and PHH contributed \$153.4 million to its wholly owned subsidiary PMC, as permanent equity, after redeeming PHH's 6.375% Senior Notes disclosed above.

With the completion of the corporate debt refinancing, we have reduced corporate indebtedness at the PHH and PMC level by approximately \$100 million and extended overall corporate debt maturities by over three years resulting in a better alignment of the debt profile with our investments. We now have greater financial flexibility than with the prior capital structure, and we believe, an opportunity to negotiate better terms for our future financing needs.

On May 3, 2021, concurrent with the closing of the MAV transaction, we issued to Oaktree the second tranche of the OFC Senior Secured Notes due March 4, 2027 in an aggregate principal amount of \$85.5 million, together with the issuance of common shares and additional warrants.

In addition, in the normal course of business, we are actively engaged with our lenders and as a result, have successfully completed at market terms the following with respect to our current and anticipated financing needs:

- On March 29, 2021, we entered into a gestation repurchase agreement which provides borrowing at our discretion up to a certain maximum amount of capacity on a rolling 30-day committed basis. Under this facility, dry Agency mortgage loans are sold to a trust which issues a trust certificate that is pledged as the collateral for any borrowings. On March 31, 2021, the trust issued the first certificate of \$50.0 million which was increased to \$75.0 million on May 28, 2021 and further increased to \$225.0 million on July 29, 2021. The second trust certificate of \$50.0 million was issued on April 12, 2021 and increased to \$100.0 million on July 13, 2021. Additional trust certificates of \$25.0 million and \$100.0 million were issued for borrowing on June 25, 2021 and July 23, 2021, respectively, under this agreement.
- On March 30, 2021, the borrowing capacity on a reverse mortgage loan facility was temporarily increased from \$100.0 million to \$150.0 million effective April 1, 2021 until the increase was made permanent on April 29, 2021.
- On March 31, 2021, we extended the maturity date on a \$275.0 million repurchase facility to June 30, 2022.
- On April 29, 2021, we entered into a revolving facility which provides up to \$30.0 million of committed borrowing capacity secured by eligible HECM loans.
- On May 17, 2021, we increased the total borrowing capacity of a \$100.0 million uncommitted facility to \$150.0 million through the addition of a \$50.0 million participation interest. We use this facility to finance the purchase of EBO loans from Ginnie Mae.
- On June 23, 2021, we renewed a \$210.0 million mortgage loan warehouse agreement for one year to June 23, 2022 and increased the total borrowing capacity to \$250.0 million (\$150.0 million uncommitted and \$100.0 million committed).
- On June 28, 2021, we entered into an Agency MSR financing facility which includes a \$135.0 million term loan and a \$285.0 million revolving loan. The original maturity of the revolving loan is June 28, 2026, and the term loan is scheduled to mature on June 28, 2023.
- On June 30, 2021, we extended the amortization date of the OMART variable funding facility by one year to June 30, 2022. The interest rate margin on the lender's cost of funds was reduced from 400 bps to 200 bps, and the total borrowing capacity was reduced from \$250.0 million to \$80.0 million.
- On June 30, 2021, we extended the amortization date of the OFAF variable funding facility for 60 days to August 27, 2021.
- On July 23, 2021, we temporarily increased the total borrowing capacity of a \$150.0 million uncommitted warehouse facility to \$300.0 million, until September 15, 2021.
- On July 23, 2021, we entered into a repurchase agreement warehouse facility with borrowing capacity of \$210.0 million to fund called loans for up to three months.

See Note 12 – Borrowings to the Unaudited Consolidated Financial Statements for additional information.

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

	June 30, 2021			December 31, 2020		
	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	\$ 625.0	\$ 94.8	\$ —	\$ 795.0	\$ 213.7	\$ —
Mortgage loan warehouse facilities	1,360.3	250.0	336.9	1,037.0	186.9	398.4
MSR financing facilities	835.0	50.3	4.3	375.0	39.2	13.0
Total	\$ 2,820.3	\$ 395.1	\$ 341.3	\$ 2,207.0	\$ 439.8	\$ 411.4

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

Our total borrowing capacity increased by approximately \$600 million (or 27%) in six months, driven by \$460 million capacity under our MSR financing facilities to fund our MSR bulk acquisitions and portfolio growth. In addition, we increased our mortgage loan warehouse capacity by more than \$300 million (29%) in six months to fund the growth in our Originations business. The available borrowing capacity under our advance financing facilities decreased by \$118.9 million as compared to December 31, 2020 due to the \$170 million reduction in total borrowing capacity of the OMART variable funding notes, offset in part by a \$51.1 million decrease in outstanding borrowings, consistent with a decrease in our servicer advances. At June 30, 2021, 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, 2021 under our Ginnie Mae MSR financing facility based on the amount of eligible collateral as disclosed below.

We may utilize committed borrowing capacity under our mortgage warehouse facilities and MSR financing facilities to the extent we have sufficient eligible collateral to borrow against and otherwise satisfy the applicable conditions to funding. At June 30, 2021, we had \$13.3 million committed borrowing capacity under our mortgage loan warehouse 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, 2021, our unrestricted cash position was \$243.6 million compared to \$284.8 million at December 31, 2020. We typically invest cash in excess of our immediate operating needs in deposit accounts and other liquid assets.

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

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

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

Use of Funds

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

- Payment of operating costs and corporate expenses;
- Payments for advances in excess of collections;

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

We have originated floating-rate reverse mortgage loans under which the borrowers have additional borrowing capacity of \$2.0 billion at June 30, 2021. This additional borrowing capacity is available on a scheduled or unscheduled payment basis. During the six months ended June 30, 2021, we funded \$91.8 million out of the \$2.0 billion borrowing capacity available as of December 31, 2020. We also had short-term commitments to lend \$995.0 million and \$68.4 million in connection with our forward and reverse mortgage loan IRLCs, respectively, outstanding at June 30, 2021. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, referred to as warehouse lines.

Regarding the current maturities of our borrowings, as of June 30, 2021, we have approximately \$1.37 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 \$773.4 million of borrowings under forward and reverse mortgage warehouse facilities, \$40.2 million of variable funding notes under advance financing facilities that will enter their respective amortization periods, \$503.3 million outstanding under our Agency and Ginnie Mae MSR financing facilities and \$55.1 million of scheduled principal amortization on the PLS Notes secured by PLS MSRs.

In our liquidity management, we consider two factors more specifically as a result of the COVID-19 environment and the volatile interest rate environment: our increased advancing requirements as servicer during each investor remittance period, and the uncertainties of daily margin calls on our collateralized debt facilities and derivative instruments due to interest rate fluctuations.

First, as servicer, we are required to advance to investors the loan P&I installments not collected from borrowers for those delinquent loans, including those on forbearance plans. 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. Refer to Note 25 — Commitments to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2020 for further description of our servicer advance obligations. 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 NRZ the same day we fund P&I advances, or within no more than three days for servicing advances and certain P&I advances under the Ocwen agreements.

Second, 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. Our exposure to changes in fair value of our MSRs and the associated liquidity risk have increased in the past quarter as a result of the GSE MSR bulk acquisitions in June 2021. 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 corporate debt that matures in 2026 and 2027;
- Any payments associated with the confirmation of loss contingencies; and
- Any other payments required under contractual obligations discussed above that extend beyond one year, e.g., lease payments.

Under the terms of the \$210.0 million warehouse facility entered into on July 23, 2021, PMC is required to maintain a minimum of \$100.0 million in consolidated liquidity on a daily basis. We believe we are in compliance with this liquidity covenant and have cash management strategies in place to ensure we remain compliant during the entire period of the facility.

We are focused on ensuring that we have sufficient liquidity sources to continue to operate through the pandemic as well as after. We continuously evaluate alternative financings to diversify our sources of funds, optimize maturities and reduce our funding cost. See “Sources of Funds” below.

Sources of Funds

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

- Collections of servicing fees and ancillary revenues;
- Collections of advances in excess of new advances;

- Proceeds from match funded advance financing facilities;
- Proceeds from other borrowings, including warehouse facilities and MSR financing facilities;
- Proceeds from sales and securitizations of originated loans and repurchased loans; and
- Net positive working capital from changes in other assets and liabilities.

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

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

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

We regularly evaluate financing structure options that we believe will most effectively provide the necessary capacity to support our investment plans, address upcoming debt maturities and accommodate our business needs. As noted above, we completed a significant refinancing on March 4, 2021. Our subsidiary PMC issued \$400.0 million of senior secured notes maturing in 2026, and Ocwen issued \$199.5 million of senior secured notes maturing in 2027 and warrants to Oaktree. We used the proceeds received from these note issuances to prepay the \$185.0 million outstanding balance of our SSSL and \$313.1 million outstanding balance of senior notes maturing in 2021 and 2022, as well as the related prepayment premiums. The remainder of the proceeds were used for general corporate purposes. On May 3, 2021, Ocwen issued an additional \$85.5 million of senior secured notes maturing in 2027 and warrants to Oaktree. The proceeds were used to fund our investment in MAV, investments in MSRs and for general corporate purposes. Our financing structure actions are targeted at optimizing access to capital and debt financing, improving our cost of funds, enhancing financial flexibility, bolstering liquidity and reducing funding risk while maintaining leverage within our risk tolerances.

We continuously evaluate the allocation of our capital to MSR investments, the related returns, funding and liquidity requirements. With the launch of MAV and our relationships with other subservicing clients, additional opportunities to rebalance our servicing and subservicing portfolio mix are available to us and may result in the sale of MSRs while we would perform subservicing for the sold portfolio.

Oaktree Investment and Strategic Relationship

In December 2020, we agreed to create a strategic alliance with Oaktree to launch MAV pursuant to which Oaktree agreed to fund \$212.5 million into MAV and we agreed to invest up to \$37.5 million into MAV. In addition, on February 9, 2021, Oaktree agreed to invest into Ocwen up to \$250.0 million. A portion of the investment by Oaktree facilitated the refinancing of our corporate debt on March 4, 2021 and the remainder of the investment is expected to accelerate the growth of our Originations and Servicing businesses.

The \$250.0 million investment by Oaktree is structured as senior secured notes issued by Ocwen Financial Corporation, in two tranches, for an aggregate of \$285.0 million principal, with \$35.0 million of original issue discount (OID). The \$175.0 million first tranche of the investment was completed on March 4, 2021 and resulted in the issuance of \$199.5 million OFC Senior Secured Notes, with a \$24.5 million OID, and warrants. The \$75.0 million second investment (85,500 principal and \$10.5 million OID) was completed following the launch of MAV on May 3, 2021.

As part of the first tranche investment on March 4, 2021, we issued 1,184,768 warrants to the Oaktree Investors to purchase shares of our common stock equal to 12.0% of our then outstanding common stock at an exercise price of \$26.82 per share, subject to anti-dilution adjustments. In addition, Oaktree purchased 4.9%, or 426,705 shares of our fully diluted outstanding common stock at the closing of the MAV transaction on May 3, 2021 at a purchase price of \$23.15 per share, and Oaktree was

issued 261,248 warrants to purchase additional common stock equal to 3% of our then outstanding common stock at a purchase price of \$24.31 per share, subject to anti-dilution adjustments.

Collateral

The following table lists selected assets on our consolidated balance sheet held as collateral for secured borrowings and other unencumbered assets which may be subject to a lien under various collateralized borrowings at June 30, 2021:

<i>\$ in millions</i>	Total Assets (Consolidated)	Pledged Assets	Collateralized Borrowings	Net (1)	Unencumbered Assets (1)	Total (1)
Cash	\$ 243.6	—	—	—	243.6	\$ 243.6
Restricted cash	67.9	67.9	—	67.9	—	67.9
Loans held for sale	696.0	660.0	628.0	32.0	36.0	68.0
Loans held for investment - unsecuritized	183.8	139.5	121.0	18.5	44.3	62.8
MSR (2)	1,536.9	1,536.9	928.7	608.2	—	608.2
Advances	762.0	638.3	615.3	23.0	123.7	146.6
Receivables, net	165.2	30.9	20.9	9.9	134.3	144.2
REO	8.4	6.1	3.4	2.7	2.3	5.0
Total - Consolidated (3)	\$ 3,663.8	3,079.6	2,317.4	762.2	584.2	\$ 1,346.4

- (1) Certain assets are pledged as collateral to the \$400.0 million PMC Senior Secured Notes and \$285.0 million OFC Senior Secured (second lien) Notes.
- (2) Excludes MSR pledged to NRZ and associated pledged MSR liability recorded as sale accounting criteria are not met.
- (3) The total of selected assets disclosed in the above table does not represent the total consolidated assets of Ocwen. For example, the total excludes reverse mortgage loans, premises and equipment and certain other assets.

In addition, as part of our reverse mortgage securitization activities, \$6.9 billion in UPB of reverse mortgage loans and real estate owned was pledged as collateral to the HMBS beneficial interest holders, and are not available to satisfy the claims of our creditors. Ginnie Mae, as guarantor of the HMBS, is obligated to the holders of the HMBS in an instance of PMC's default on its servicing obligations, or if the proceeds realized on HECMs are insufficient to repay all outstanding HMBS related obligations. Ginnie Mae has recourse to PMC in connection with certain claims relating to the performance and obligations of PMC as both issuer of HMBS and servicer of HECMs underlying HMBS.

The OFC Senior Secured Notes due 2027 have a second lien priority on specified assets carried on PMC's balance sheet, as defined under the OFC Senior Secured Note Agreement and listed in the table below, and have a priority lien on the following assets: investments by our holding company in subsidiaries not guaranteeing the \$400.0 million PMC Senior Secured Notes, including PHH and MAV; cash and investment accounts at the holding company; and certain other assets, including receivables.

<i>\$ in millions</i>	As of June 30, 2021
Specified net servicing advances	\$ 150.6
Specified deferred servicing fee	—
Specified MSR value less borrowings	644.0
Specified unrestricted cash balances (1)	—
Specified advance facility reserves	10.2
Specified loan value	128.3
Specified residual value	70.4
Specified fair value of marketable securities	—
Total Value - PMC (1)	\$ 1,003.5

- (1) Unrestricted cash was not subject to a priority lien as of June 30, 2021 under the PMC Senior Secured Note agreement.

Covenants

Our debt agreements contain various qualitative and quantitative covenants including financial covenants, covenants to operate in material compliance with applicable laws and regulations, monitoring and reporting obligations and restrictions on our ability to engage in various activities, including but not limited to incurring or guarantying additional debt, paying dividends or

making distributions on or purchasing equity interests of Ocwen and its subsidiaries, repurchasing or redeeming capital stock or junior capital, repurchasing or redeeming subordinated debt prior to maturity, issuing preferred stock, selling or transferring assets or making loans or investments or other restricted payments, entering into mergers or consolidations or sales of all or substantially all of the assets of Ocwen and its subsidiaries, creating liens on assets to secure debt, and entering into transactions with affiliates. These covenants may limit the manner in which we conduct our business and may limit our ability to engage in favorable business activities or raise additional capital to finance future operations or satisfy future liquidity needs. In addition, breaches or events that may result in a default under our debt agreements include, among other things, nonpayment of principal or interest, noncompliance with our covenants, breach of representations, the occurrence of a material adverse change, insolvency, bankruptcy, certain material judgments and litigation and changes of control. See Note 12 – Borrowings for additional information regarding our covenants. The most restrictive liquidity requirement under our debt agreements is for a minimum of \$125.0 million in consolidated liquidity, as defined, under certain of our advance match funded debt and MSR financing facilities agreements. At June 30, 2021, we held unrestricted cash in excess of this minimum amount.

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

Credit Ratings

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

Rating Agency	Long-term Corporate Rating	Review Status / Outlook	Date of last action
Moody's	Caa1	Stable	February 24, 2021
S&P	B-	Stable	February 24, 2021

On February 24, 2021, concurrent with the launch of the \$400.0 million PMC Senior Secured Notes offering, both Moody's and S&P reaffirmed the corporate ratings at Caa1 and B-, respectively. In addition, both agencies revised the outlook of the corporate ratings to Stable from Negative. This change in outlook was driven by the elimination of the short debt maturity runway and refinancing risk, which was listed as an area of concern by both Moody's and S&P. It is possible that additional actions by credit rating agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Cash Flows

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

Our NRZ agreements have a significant impact on our liquidity and consolidated statements of cash flows. Because the lump-sum payments we received in connection with our 2017 Agreements and New RMSR Agreements were recorded as secured financings, additions to, and reductions in, the balance of those secured financings were recognized as financing activity in our consolidated statements of cash flows through April 2020. Excluding the impact of changes to the secured financings attributed to changes in fair value, changes in the balance of these secured financings are reflected in cash flows from operating activities despite having no impact on our consolidated cash balance. Net cash provided by operating activities for the three and six months ended June 30, 2020 includes \$10.0 million and \$35.1 million, respectively, of such cash flows and they were offset by corresponding amounts in net cash used in financing activities in the same periods.

Our cash flows may be summarized as follows:

<i>\$ in millions</i>	For the Six Months Ended June 30,	
	2021	2020
Net cash (used in) provided by operating activities	(216)	225
Net cash used in investing activities	(722)	(243)
Net cash provided by (used in) financing activities	893	(96)
Net decrease in cash, cash equivalents and restricted cash	(46)	(115)
Cash, cash equivalents and restricted cash at end of period	<u>\$ 312</u>	<u>\$ 378</u>

Cash flows for the six months ended June 30, 2021

Our operating activities used \$216.2 million of cash largely due to the growth of our new Originations production with net cash paid on loans held for sale of \$333.5 million for the six months ended June 30, 2021, partially offset by \$56.5 million of net collections of servicing advances, mostly P&I advances.

Our investing activities used \$722.5 million of cash. The primary uses of cash in our investing activities include \$712.6 million to purchase MSR's, mostly through bulk acquisitions, and \$11.5 million of contributions to our equity method investee MAV Canopy. These cash outflows were partly offset by net cash inflows in connection with our HECM reverse mortgages of \$1.7 million.

Our financing activities provided \$893.0 million of cash. Cash inflows include \$647.9 million from the issuance of the PMC Senior Secured Notes and the OFC Senior Secured Notes, warrants and common stock to Oaktree and \$667.5 million received in connection with our reverse mortgage securitizations, which are accounted for as secured financings, partially offset by repayments on the related financing liability of \$715.3 million, and an \$897.6 million net increase in borrowings under our mortgage warehouse and MSR financing facilities. Cash outflows include \$319.2 million to repay our 6.375% senior unsecured notes and 8.375% senior secured notes, \$188.7 million repayment of the SSTL, \$51.1 million of net repayments on advance match funded liabilities and \$38.5 million of net payments on the financing liabilities related to MSR's pledged. In addition, we paid debt issuance costs of \$16.0 million in connection with the issuance of the PMC Senior Secured Notes and OFC Senior Secured Notes.

Cash flows for the six months ended June 30, 2020

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

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

Our financing activities used \$96.2 million of cash. Cash outflows include the partial prepayment of \$131.1 million on the SSTL, \$66.5 million of net repayments on advance match funded liabilities, a \$43.8 million decrease in borrowings under our mortgage warehouse and MSR financing facilities, and \$68.5 million of net payments on the financing liabilities related to MSR's pledged. In addition, we also paid \$7.3 million of debt issuance costs related to our SSTL facility amendment and repurchased 5.7 million shares of our common stock for \$4.6 million. Cash inflows include \$590.6 million received in connection with our reverse mortgage securitizations less repayments on the related financing liability of \$365.2 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. The following is a summary of certain accounting policies and estimates involving significant judgments. Our significant accounting policies and critical accounting estimates are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020 in Note 1 to the Consolidated Financial Statements and in Management's Discussion and Analysis of Financial Condition and Results of Operations under "Critical Accounting Policies and Estimates." There have not been any material changes to our critical accounting policies and estimates as disclosed in the Annual Report on Form 10-K.

Fair Value Measurements

We use fair value measurements to record fair value adjustments to certain instruments in our statement of operations and to determine fair value disclosures. As of June 30, 2021, 84% of our assets and 65% 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. The determination of the fair value of these Level 3 financial assets and liabilities and MSR's requires significant management judgment and estimation. See Part I., Item 3. Quantitative and Qualitative Disclosures about Market Risk below for a sensitivity analysis reflecting the estimated change in the fair value of our MSR's, HECM loans held for investment and loans held for sale carried at fair value as well as any related derivatives at June 30, 2021, given hypothetical instantaneous parallel shifts in the yield curve.

Valuation of Reverse Mortgage Loans Held for Investment

During the six months ended June 30, 2021, we recorded a net \$12.5 million fair value gain in reverse mortgage revenue in our Servicing segment. The fair value of both reverse mortgage loans held for investment and corresponding HMBS-related borrowings is based primarily on discounted cash flow methodologies. Inputs to the discounted cash flows of these assets include future draws and tail spread gains, voluntary prepayments, defaults and discount rate. The determination of fair value requires management judgment due to the significant unobservable assumptions, including voluntary prepayment speeds, defaults and discount rate.

We engage third-party valuation experts to support our valuation and provide observations and assumptions related to market activities. 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 with third-party expert valuations. We believe that our back-testing and benchmarking procedures provide reasonable assurance that the fair value 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.

Valuation of MSR's

During the six months ended June 30, 2021, we recorded a \$60.5 million fair value loss on the revaluation of our MSR's. We determine the fair value of MSR's primarily using discounted cash flow methodologies. The significant estimated future cash inflows for MSR's include servicing fees, late fees, float earnings and other ancillary fees, and cash outflows include the cost of servicing, the cost of financing servicing advances and compensating interest payments. The determination of the fair value of MSR's requires management judgment relating to the significant unobservable assumptions that underlie the valuation, including prepayment speed, delinquency rates, cost to service and discount rate. Our judgement is informed by the transactions we observe in the market, by our actual portfolio performance and by the advice and information we obtain from our valuation experts, amongst other factors.

To assist in the determination of 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 a prepayment model, in arriving at their estimate of fair value. The prices provided by the valuation experts reflect their observations and assumptions related to market activity, incorporating available industry survey results, and including risk premiums and liquidity adjustments. While the models and related assumptions used by the valuation experts are proprietary to them, we understand the methodologies and assumptions used to develop the prices based on our ongoing due diligence, which includes regular discussions with the valuation experts, and we perform additional verification and analytical procedures. We evaluate the reasonableness of our third-party experts' assumptions using historical experience adjusted for prevailing market conditions and benchmarks with third-party expert valuation and market participant surveys. We believe that our procedures provide

reasonable assurance that the fair value 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.

Allowance for Losses on Servicing Advances and Receivables

During the six months ended June 30, 2021, we recorded a \$3.9 million provision expense for losses on servicing advances. At June 30, 2021, the allowance was \$6.9 million, which represented 0.9% of total servicing advances. We record an allowance for losses on servicing advances to the extent we believe that a portion of advances are uncollectible under the provisions of each servicing contract taking into consideration, among other factors, our historical collection rates, probability of default, cure or modification, length of delinquency and the amount of the advance. We continually assess collectability using proprietary cash flow projection models that incorporate a number of different factors, depending on the characteristics of the mortgage loan or pool, including, for example, the probable loan liquidation path, estimated time to a foreclosure sale, estimated costs of foreclosure action, estimated future property tax payments and the estimated value of the underlying property net of estimated carrying costs, commissions and closing costs.

During the six months ended June 30, 2021, we recorded a \$7.5 million provision expense on receivables related to government-insured claims. At June 30, 2021, the allowance for losses on receivables related to government-insured claims was \$41.2 million, which represents 33% of total government-insured claims receivables. The allowance for losses relates to defaulted FHA or VA insured loans repurchased from Ginnie Mae guaranteed securitizations. This allowance is based upon continuing assessments of collectability, historical loss experience, current conditions and reasonable and supportable forecasts.

Determining an allowance for losses involves management judgment and assumptions that, given similar information at any given point, may result in a different but reasonable estimate.

Indemnification Obligations

During the six months ended June 30, 2021, we recorded a \$0.5 million provision expense for indemnification. As of June 30, 2021, we have recorded a liability for representation and warranty obligations, and similar indemnification obligations of \$41.6 million. We have exposure to representation, warranty and indemnification obligations because of our lending, sales and securitization activities, our acquisitions to the extent we assume one or more of these obligations, and in connection with our servicing practices. We initially recognize these obligations at fair value. Thereafter, the estimation of the liability considers probable future obligations based on industry data of loans of similar type segregated by year of origination, to the extent applicable, and estimated loss severity based on current loss rates for similar loans, our historical rescission rates and the current pipeline of unresolved demands. Our historical loss severity considers the historical loss experience that we incur upon sale or liquidation of a repurchased loan as well as current market conditions. We monitor the adequacy of the overall liability and make adjustments, as necessary, after consideration of other qualitative factors including ongoing dialogue and experience with our counterparties. See Note 22 – Contingencies to the Unaudited Consolidated Financial Statements for additional information.

Litigation

During the six months ended June 30, 2021, we recorded an \$8.0 million provision expense for loss contingencies. Our total accrual for probable and estimable legal and regulatory matters, including accrued legal fees, was \$46.9 million as of June 30, 2021. It is possible that we will incur losses relating to threatened and pending litigation that materially exceed the amount accrued. We cannot currently estimate the amount, if any, of reasonably possible losses above amounts that have been recorded as of June 30, 2021. In the ordinary course of business, we are a defendant in, or a party or potential party to, many threatened and pending litigation matters. We monitor our litigation matters, including advice from external legal counsel, and regularly perform assessments of these matters for potential loss accrual and disclosure. We establish liabilities for settlements, judgments on appeal and filed and/or threatened claims for which we believe it is probable that a loss has been or will be incurred and the amount can be reasonably estimated 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. Management's assessment involves the use of estimates, assumptions, and judgments, including progress of the matter, prior experience, available defenses, and the advice of legal counsel and other experts. Accruals are adjusted as more information becomes available or when an event occurs requiring a change.

Income Taxes

We record a tax provision for the anticipated tax consequences of the reported results of operations. We compute the provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. We measure deferred tax assets and liabilities using the currently enacted tax rates in each jurisdiction that applies to taxable income in effect for the years in which those tax assets are

expected to be realized or settled. We record a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

We conduct periodic evaluations of positive and negative evidence to determine whether it is more likely than not that the deferred tax asset can be realized in future periods. In these evaluations, we gave more significant weight to objective evidence, such as our actual financial condition and historical results of operations, as compared to subjective evidence, such as projections of future taxable income or losses.

For the three-year periods ended December 31, 2020 and 2019, the US and USVI filing jurisdictions were in material cumulative loss positions. We recognize that cumulative losses in recent years is an objective form of negative evidence in assessing the need for a valuation allowance and that such negative evidence is difficult to overcome. Other factors considered in these evaluations are estimates of future taxable income, future reversals of temporary differences, tax character and the impact of tax planning strategies that may be implemented, if warranted.

As a result of these evaluations, we recognized a full valuation allowance of \$182.7 million and \$199.5 million on our U.S. deferred tax assets at December 31, 2020 and 2019, respectively, and a full valuation allowance of \$0.4 million on our USVI deferred tax assets at both December 31, 2020 and 2019. The U.S. and USVI jurisdictional deferred tax assets are not considered to be more likely than not realizable based on all available positive and negative evidence. We intend to continue maintaining a full valuation allowance on our deferred tax assets in both the U.S. and USVI until there is sufficient evidence to support the reversal of all or some portion of these allowances. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period in which the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change based on the profitability that we achieve.

We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

NOL carryforwards may be subject to annual limitations under Internal Revenue Code Section 382 (Section 382) (or comparable provisions of foreign or state law) in the event that certain changes in ownership were to occur. In addition, tax credit carryforwards may be subject to annual limitations under Internal Revenue Code Section 383 (Section 383). We periodically evaluate our NOL and tax credit carryforwards and whether certain changes in ownership have occurred as measured under Section 382 that would limit our ability to utilize a portion of our NOL and tax credit carryforwards. If it is determined that an ownership change(s) has occurred, there may be annual limitations on the use of these NOL and tax credit carryforwards under Sections 382 and 383 (or comparable provisions of foreign or state law).

Ocwen and PHH have both experienced historical ownership changes that have caused the use of certain tax attributes to be limited and have resulted in the write-off of certain of these attributes based on our inability to use them in the carryforward periods defined under the tax laws. Ocwen continues to monitor the ownership in its stock to evaluate whether any additional ownership changes have occurred that would further limit its ability to utilize certain tax attributes. As such, our analysis regarding the amount of tax attributes that may be available to offset taxable income in the future without restrictions imposed by Section 382 may continue to evolve.

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 and IRLCs. In addition, changes in interest rates could materially and adversely affect our volume of mortgage loan originations or result in MSR fair value changes. We also have exposure to the effects of changes in interest rates on our floating-rate borrowings, including advance financing facilities.

Our management-level Market Risk Committee establishes and maintains policies that govern our hedging program, including such factors as market volatility, duration and interest rate sensitivity measures, targeted hedge ratios, the hedge instruments that we are permitted to use in our hedging activities and the counterparties with whom we are permitted to enter

into hedging transactions and our liquidity risk profile. See Note 15 – Derivative Financial Instruments and Hedging Activities to the Unaudited Consolidated Financial Statements for additional information regarding our use of derivatives.

Our market risk exposure may also be affected by the replacement of LIBOR, which is expected to be phased out and completely replaced by June 30, 2023. The LIBOR administrator has advised that no new contracts using U.S. dollar LIBOR should be entered into after December 31, 2021. Many of our debt facilities incorporate LIBOR. These facilities either mature prior to the end of 2021 or have terms in place that provide for an alternative to LIBOR upon its phase-out. As we renew or replace these debt facilities, we are working with our counterparties to incorporate alternative benchmarks.

MSR Hedging Strategy

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

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

- our more interest rate-sensitive Agency MSR portfolio,
- less the Agency MSRs subject to our agreements with NRZ (See Note 8 — Rights to MSRs),
- less the unsecuritized reverse mortgage loans and tails classified as held for investment,
- less the asset value for securitized HECM loans, net of the corresponding HMBS-related liability, and
- less the net value of our held for sale loan portfolio and lock commitments (pipeline).

In the first and second quarters of 2021, we also included in our MSR portfolio the exposure related to expected future MSR bulk acquisitions subject to letters of intent.

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

- Agency MSR portfolio,
- expected Agency MSR bulk transactions subject to letters of intent,
- less the Agency MSRs subject to our agreements with NRZ (See Note 8 — Rights to MSRs),
- less the asset value for securitized HECM loans, net of the corresponding HMBS-related borrowings.

We determine and monitor daily the hedge coverage based on the duration and other interest rate sensitivity measures of the MSR portfolio exposure, considering market and liquidity conditions. The MSR hedging strategy's objective is to provide partial coverage of our MSR portfolio exposure between 40% and 60%. Accordingly, the changes in fair value of our hedging instruments may not fully offset the changes in fair value of our net MSR portfolio exposure attributable to interest rate changes.

The following table illustrates the interest rate sensitivity of the MSR portfolio exposure and associated hedges at June 30, 2021. Hypothetical change in values of the MSR and hedges are presented under a set instantaneous +/- 25 basis point parallel move in rates. Refer to the description below under Sensitivity Analysis for more details. Changes in fair value cannot be extrapolated because the relationship to the change in fair value may not be linear. The amounts based on market risk sensitive measures are hypothetical and presented for illustrative purposes only.

	Fair value at June 30, 2021	Hypothetical change in fair value due to 25 bps rate decrease	Hypothetical change in fair value due to 25 bps rate increase
Agency MSR - interest rate sensitive (excl. NRZ)	\$ 1,408.4	\$ (71.8)	\$ 71.8
Asset value of securitized HECM loans, net of HMBS-related borrowing	104.5	3.6	(3.7)
MSR hedging derivative instruments	\$ 4.5	31.1	(31.2)
Total hedge position		\$ 34.8	\$ (35.0)
Hypothetical hedge coverage ratio (1)		48 %	49 %
Hypothetical residual exposure to changes in interest rates		(37.0)	36.8

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

Our derivative instruments include forward trades of MBS or Agency TBAs with different banking counterparties, exchange-traded interest rate swap futures 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. We report changes in fair value of these derivative instruments in MSR valuation adjustments, net in our consolidated statements of operations, within the Servicing segment. We may, from time to time, establish inter-segment derivative instruments between the MSR and pipeline hedging strategies to optimize the use of third party derivatives. Such inter-segment derivatives are eliminated in our consolidated financial statements,

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

Loans Held for Investment and HMBS-related Borrowings

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

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

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 commitment cancellation or expiration date or (ii) through the date of sale of the resulting loan into the secondary mortgage market. Loan commitments for forward loans generally range from 5 to 90 days, with the majority of our commitments to borrowers for 60 days and our commitments to correspondent sellers for 7 days. Loans held for sale are generally funded and sold within 5 to 20 days. This interest rate exposure was not individually hedged until May 2021, but rather used as an offset to our MSR exposure and managed as part of our MSR macro-hedging strategy described above. Effective May 2021, we implemented a new pipeline hedging strategy, whereby the interest rate exposure of loans held for sale and IRLCs is economically hedged with derivative instruments, including forward sales of Agency TBAs. The pipeline hedging strategy's objective is to provide hedge coverage of locks and loans within certain tolerance levels. The net daily market risk position of net pull-through adjusted locks and loans held for sale, less the offsetting hedges of the forward and reverse pipelines, is monitored daily and its daily limit is the greater of +/- 15% or +/- \$15 million. We report changes in fair value of these derivative instruments in gain on loans held for sale in our consolidated statements of operations, within the Originations segment. We may, from time to time, establish inter-segment derivative instruments between the MSR and pipeline hedging strategies to optimize the use of third party derivatives. Such inter-segment derivatives are eliminated in our consolidated financial statements.

Advance Match Funded Liabilities

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

Interest Rate-Sensitive Financial Instruments

The tables below present the notional amounts of our financial instruments that are sensitive to changes in interest rates and the related fair value of these instruments at the dates indicated. We use certain assumptions to estimate the fair value of these instruments. See Note 3 – Fair Value to the Unaudited Consolidated Financial Statements for additional information regarding fair value of financial instruments.

	June 30, 2021		December 31, 2020	
	Balance	Fair Value (1)	Balance	Fair Value (1)
Rate-Sensitive Assets:				
Interest-earning cash	\$ 207.1	\$ 207.1	\$ 261.5	\$ 261.5
Loans held for sale, at fair value	680.9	680.9	366.4	366.4
Loans held for sale, at lower of cost or fair value (2)	15.2	15.2	21.5	21.5
Loans held for investment, at fair value	7,112.3	7,112.3	6,997.1	6,997.1
Debt service accounts and time deposits	16.2	16.2	20.7	20.7
Total rate-sensitive assets	<u>\$ 8,031.7</u>	<u>\$ 8,031.7</u>	<u>\$ 7,667.2</u>	<u>\$ 7,667.2</u>
Rate-Sensitive Liabilities (3):				
Advance match funded liabilities	\$ 530.2	\$ 530.8	\$ 581.3	\$ 582.0
HMBS-related borrowings, at fair value	6,823.9	6,823.9	6,772.7	6,772.7
Mortgage loan warehouse facilities	773.4	773.4	451.7	451.7
MSR financing facilities, net (4)	1,013.9	982.8	438.6	406.9
Senior secured term loan, net (4)	—	—	185.0	184.6
Senior notes (4)	685.0	666.0	313.1	320.9
Total rate-sensitive liabilities	<u>\$ 9,826.3</u>	<u>\$ 9,776.8</u>	<u>\$ 8,742.3</u>	<u>\$ 8,718.8</u>
	June 30, 2021		December 31, 2020	
	Notional Balance	Fair Value	Notional Balance	Fair Value
Rate-Sensitive Derivative Financial Instruments:				
Derivative assets (liabilities):				
IRLCs	\$ 1,063.4	\$ 17.4	\$ 631.4	\$ 22.7
Forward trades	100.0	0.1	50.0	(0.1)
Interest rate swap futures	1,050.0	2.3	593.5	0.5
TBA / Forward MBS trades	3,183.0	0.7	400.0	(4.6)
Derivatives, net		<u>\$ 20.6</u>		<u>\$ 18.6</u>

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

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

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

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

Sensitivity Analysis

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

The following table summarizes the estimated change in the fair value of our MSRs, HECM loans held for investment and loans held for sale that we have elected to carry at fair value as well as any related derivatives at June 30, 2021, given hypothetical instantaneous parallel shifts in the yield curve. We used June 30, 2021 market rates to perform the sensitivity analysis. The estimates are based on the interest rate risk sensitive portfolios described in the preceding paragraphs and assume

instantaneous, parallel shifts in interest rate yield curves. These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship to the change in fair value may not be linear.

	Change in Fair Value	
	Down 25 bps	Up 25 bps
Asset value of securitized HECM loans, net of HMBS-related borrowing	\$ 3.6	\$ (3.7)
Loans held for investment - Unsecuritized HECM loans and tails	—	—
Loans held for sale	14.1	(16.9)
Derivative instruments	17.0	(15.3)
Total MSRs - Agency and non-Agency (1)	(71.6)	71.8
Interest rate lock commitments (2)	(1.3)	1.0
Total, net	\$ (38.2)	\$ 36.9

- (1) Primarily reflects the impact of market interest rate changes on projected prepayments on the Agency MSR portfolio and on advance funding costs on the non-Agency MSR portfolio carried at fair value. Fair value adjustments to our MSRs are offset, in part, by fair value adjustments related to the NRZ financing liabilities, which are recorded in Pledged MSR liability expense.
- (2) Forward mortgage loans only.

The increase in our net sensitivity as of June 30, 2021 as compared to December 31, 2020 (from approximately \$15 million to \$37-38 million for a 25 basis point parallel shift in the yield curve) is primarily due to the growth of our Servicing and Originations businesses, with the significant increase in the size of our Agency MSR portfolio through bulk acquisitions and the increase in our pipeline, as our hedging strategy objectives and coverage ratio remained broadly similar.

Borrowings

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

Based on June 30, 2021 balances, if interest rates were to increase by 1% on our variable-rate debt and interest earning cash and float balances, we estimate a net positive impact of approximately \$13.0 million resulting from an increase of \$26.1 million in annual interest income and an increase of \$13.1 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.

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, 2021.

Based on such evaluation, management concluded that our disclosure controls and procedures as of June 30, 2021 were (1) designed and functioning effectively to ensure that material information relating to Ocwen, including its consolidated subsidiaries, is made known to our principal executive officer and principal financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) operating effectively in that they provided reasonable assurance that information required to be disclosed by Ocwen in the reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including our principal executive officer or principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There have not been any changes in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 19 – Regulatory Requirements and Note 21 – Contingencies to the Unaudited Consolidated Financial Statements. That information is incorporated into this item by reference.

ITEM 1A. RISK FACTORS

An investment in our common stock involves significant risk. We describe the most significant risks that management believes affect or could affect us under Part I of our Annual Report on Form 10-K for the year ended December 31, 2020 and in Item 1A. Risk Factors under Part II of our Quarterly Report on Form 10-Q for the period ended June 30, 2021. Understanding these risks is important to understanding any statement in such reports and in our subsequent SEC filings (including this Form 10-Q) and to evaluating an investment in our common stock. You should carefully read and consider the risks and uncertainties described therein together with all the other information included or incorporated by reference in such Annual Report and in our subsequent SEC filings before you make any decision regarding an investment in our common stock. You should also consider the information set forth under “Forward-Looking Statements.” If any of the risks actually occur, our business, financial condition, liquidity and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could significantly decline, and you could lose some or all of your investment.

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

All unregistered sales of equity securities during the period have been previously disclosed.

ITEM 6. EXHIBITS

3.1	Amended and Restated Articles of Incorporation, as amended (1)
3.2	Amended and Restated Bylaws of Ocwen Financial Corporation (2)
4.1	The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to the issuance of long-term debt of the Company and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of the Company and its subsidiaries.
10.1*	Ocwen Financial Corporation 2021 Equity Incentive Plan (3)
10.2†	Binding Term Sheet among Ocwen Financial Corporation, Ocwen USVI Services, LLC and Altisource S.à r.l. dated as of May 5, 2021 (filed herewith)
10.3†	Bulk Servicing Rights Purchase and Sale Agreement between PHH Mortgage Corporation and AmeriHome Mortgage Company, LLC dated as of May 21, 2021 (filed herewith)
31.1	Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of the principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of the principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	The following financial statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2021 were formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Changes in Equity, (v) Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Consolidated Financial Statements, tagged as blocks of text and including detailed tags.
104	The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, formatted in Inline XBRL (Included as Exhibit 101).

* Management contract or compensatory plan or agreement.

† Certain information has been omitted in accordance with Item 601(b)(10) of Regulation S-K because it is both not material and is the type of information that the registrant treats as private or confidential. An unredacted copy will be furnished supplementally to the SEC upon request.

- (1) Incorporated by reference to the similarly described exhibit to the Registrant's Form 10-Q for the period ended September 30, 2020.
- (2) Incorporated by reference to the similarly described exhibit to the Registrant's Form 8-K filed on February 25, 2019.
- (3) Incorporated by reference to the similarly described exhibit to the Registrant's Form 8-K filed on May 25, 2021.

Signatures

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

Ocwen Financial Corporation

By: /s/ June C. Campbell

Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and as its principal financial officer)

Date: August 5, 2021

Certain information has been omitted in accordance with Item 601(b)(10) of Regulation S-K because it is both not material and is the type of information that the registrant treats as private or confidential. An unredacted copy will be furnished supplementally to the SEC upon request.

Binding Term Sheet

The items set forth in this term sheet and the attached exhibit (collectively, this “Term Sheet”) are binding and hereby agreed to by Ocwen Financial Corporation and Ocwen USVI Services, LLC (individually and together, with affiliates, “Ocwen”) and Altisource S.à r.l. (“Altisource”). The parties may also execute detailed agreements to further memorialize some or all of the below. This Term Sheet shall be read in conjunction with the February 22, 2019 Binding Term Sheet among the parties (as subsequently modified, supplemented and/or amended, including by this Term Sheet, the “2019 Term Sheet”) and existing agreements between the parties, and does not supersede the same except as may be expressly set forth herein. The effective date of this Term Sheet is May 5, 2021.

- 1) **Term of Existing Agreement.** Extend the term of the Services Agreement (between Altisource and Ocwen Financial Corporation) dated August 10, 2009 (as amended), the Services Agreement (between Altisource and Ocwen Mortgage Servicing, Inc., as succeeded in interest by Ocwen USVI Services, LLC) dated October 1, 2012 (as amended), all Services Letters (and amendments thereto) made pursuant to the foregoing Services Agreements and the 2019 Term Sheet (collectively, the “Agreement”), all pursuant to which Altisource currently provides services, along with the additional services set forth below, to August 31, 2030 (the applicable terms, as so extended being the “Extended Term”).

Notwithstanding anything in the Agreement to the contrary, in the event that an Altisource Change of Control (as defined below) to a Competitor (as defined below) is to occur on or after September 1, 2028, Altisource shall notify Ocwen of such potential Change of Control following public disclosure thereof (or earlier, if Altisource elects). Following such notice, if Ocwen reasonably believes that such a Change of Control may negatively impact Ocwen, the parties will promptly meet to discuss remedial actions to prevent such negative impacts. If the parties are not able to agree on appropriate remedial actions to prevent such negative impacts to Ocwen’s reasonable satisfaction prior to the consummation of the Change in Control (“Closing”), Ocwen may terminate the Agreement upon no less than sixty (60) days’ prior written notice delivered to Altisource:

- (a) prior to the Closing, in which case the termination will be effective only in the event of the Closing; or
- (b) within sixty (60) days immediately following the Closing.

As used herein, “Change of Control” means a change in ownership of (a) greater than fifty percent (50%) of the voting securities of Altisource in a single transaction or related series of transactions (unless securities representing more than fifty percent (50%) of the total voting power are beneficially owned, directly or indirectly, by the persons who beneficially owned the outstanding voting securities immediately prior to such transaction) or (b) all or substantially all of the consolidated assets of Altisource. As used herein, “Competitor” means an entity (or an affiliate with greater than fifty percent (50%) of the voting securities owned by or under common control with such entity) whose business includes the servicing of residential mortgages with

scale substantially similar to or greater than the scale of Ocwen (as of the time of the Change of Control).

Notwithstanding anything in the Agreement to the contrary, on and after September 1, 2028, Section D.1 of the 2019 Term Sheet shall not apply in connection with Altisource's sale or assignment of all or a portion of Altisource's business or any line of business to a Competitor which does not constitute a Change of Control (such transaction, an "Altisource Business Sale"), and Ocwen shall not be required to consent to an assignment of all or a portion of the Agreement, any statement of work ("SOW") or any Services (the "Applicable Services") pursuant to such an Altisource Business Sale, provided, Altisource shall notify Ocwen of such potential Altisource Business Sale following public disclosure thereof (or earlier, if Altisource elects). Following such notice, if Ocwen reasonably believes that such Altisource Business Sale may negatively impact Ocwen, the parties will promptly meet to discuss remedial actions to prevent such negative impacts such that Ocwen would consent to and reasonably cooperate with such Altisource Business Sale. If the parties are not able to agree on appropriate remedial actions to prevent such negative impacts to Ocwen's reasonable satisfaction, Ocwen may terminate the Applicable Services upon no less than sixty (60) days' prior written notice delivered to Altisource:

- (a) prior to the consummation of the Altisource Business Sale, in which case the termination will be effective only in the event of the consummation of the Altisource Business Sale; or
- (b) within sixty (60) days immediately following the consummation of the Altisource Business Sale.

In the event of a termination of the Agreement (or the applicable portion thereof) related to a Change of Control, or termination of Applicable Services related to an Altisource Business Sale, Altisource will cause the assignee to agree to permit Ocwen to purchase post-termination services for a period of up to 270 days from the date on which the Agreement (or the applicable portion thereof) terminates on the current terms thereunder. Notwithstanding anything to the contrary in the Agreement, Ocwen shall not be obligated to reimburse Altisource for any expenses or costs attributable to a termination related to a Change in Control or an Altisource Business Sale.

2) Services.

- a. With respect to each service identified in Exhibit A (an "Additional Service"), the parties shall commence (or, if already commenced, shall continue) the negotiation of a statement of work or other agreement, to the extent applicable for such Additional Service (each such statement of work or other agreement, including those existing per Exhibit A, an "Applicable Additional Service Agreement") by the applicable Agreement Negotiation Commencement Date specified in Exhibit A. With respect to such negotiations for each Additional Service:
 - i. Such negotiations shall be conducted in good faith, with each party using commercially reasonable best efforts to finalize such negotiations in an expedient manner, which efforts shall include each party responding to reasonable requests for information and proposed revisions to the Applicable Additional Service Agreement reasonably promptly and fully, dedicating personnel and if applicable executive resources to such negotiation, and conducting periodic virtual meetings reasonably designed to facilitate a prompt finalization and execution of the Applicable Additional Service Agreement;

- ii. Such negotiations shall continue with respect to each such Additional Service until the earlier of the parties executing the Applicable Additional Service Agreement or the parties agreeing to cease such negotiations with respect to such Additional Service; and
 - iii. In accordance with Section 4(b) of the 2019 Term Sheet, Ocwen shall conduct a benchmarking study of pricing and performance standards prior to Altisource providing any Additional Services to the NY PHH Portfolio as required by the Conditional Approval dated September 27, 2018 issued by the New York Department of Financial Services to Ocwen, with Ocwen using commercially reasonable efforts to complete such study in a timely manner.
- b. For each Additional Service, the two-stage process defined below shall be followed by the parties to implement such Additional Service.
- c. Stage 1 shall commence for each Additional Service upon the parties executing an Applicable Additional Service Agreement (which statement of work or agreement shall contain applicable performance standards (“Applicable SLAs”)) for such service.
 - i. Ocwen shall commence providing orders to Altisource for each such Additional Service promptly following execution of such Applicable Additional Service Agreement. Ocwen shall provide Additional Service orders in a reasonable volume and reasonable consistency to permit Altisource to demonstrate an ability to satisfy the Applicable SLAs. Notwithstanding the foregoing, the Applicable SLAs shall not be deemed a Performance Standard (as defined in the Services Agreement between the parties dated August 10, 2009 (as amended, the “Services Agreement”), shall not otherwise constitute an obligation of Altisource nor shall Altisource’s performance with respect to the Applicable SLAs prior to Order Volume Compliance (defined below) be used to terminate the Applicable Additional Service Agreement (except as specified in subsection iv below).
 - ii. The parties shall reasonably cooperate to implement processes, communicate and provide feedback (as applicable) regarding each Additional Service, and otherwise act as reasonably necessary to facilitate Altisource providing such Additional Service according to the Applicable SLAs.
 - iii. Ocwen shall promptly communicate to Altisource in writing any specific, reasonable concerns Ocwen may have with Altisource’s cooperation or Altisource’s ability to meet the Applicable SLAs, and shall reasonably cooperate with Altisource in resolving such concerns (collectively, “Feedback”).
 - iv. Ocwen shall evaluate Altisource fairly and in good faith. If, following such fair and good faith evaluation, and after Ocwen consults with Altisource and gives Altisource a reasonable opportunity to address any Feedback provided, Ocwen reasonably believes that Altisource will not reasonably be able to meet the Applicable SLAs or other reasonable requirements Ocwen imposes on its other vendors, then Ocwen shall be permitted to terminate the Applicable Additional Service Agreement by providing written notice.
- d. Stage 2 shall commence for an Additional Service upon Altisource satisfying the applicable SLA metrics for [REDACTED] months for such Additional Service. Stage 2 shall not commence for a given Additional Service if Stage 1 of such Additional Services is terminated by Ocwen pursuant to Section 2.c.iv. of this Term Sheet.

- i. The parties shall mutually cooperate to designate a reasonable period of time at the beginning of Stage 2 over which Ocwen shall increase the orders to Altisource for such Additional Service such that Ocwen will comply with the referral volume requirements set forth in the 2019 Term Sheet.
- ii. Upon Ocwen complying with such volume requirements with respect to such Additional Service (“Order Volume Compliance”):
 - 1. such Additional Service shall be a Standard Service (as defined in the 2019 Term Sheet) and subject to the obligations for Standard Services in the 2019 Term Sheet; and
 - 2. the Applicable SLAs shall be in full force and effect.
- e. This Term Sheet hereby amends the Statement of Work dated December 1, 2020 (“FHA SOW”) to delete and render void any and all termination clauses and exclusivity or volume related clauses in such FHA SOW in conflict with any clause herein (including without limitation Section XV therein); provided, however, that the second paragraph of Section XVI of the FHA SOW shall remain unchanged by this Term Sheet (except for the first sentence thereof, which shall not have any effect upon execution of this Term Sheet).
- f. Reserved.
- g. Solely with respect to the Additional Services identified in the Applicable Additional Service Agreement as requiring integration services (collectively, the “Integration Services”), to the extent that Ocwen currently utilizes an integration or other interface with a third party system to order or permit fulfillment of such Integration Service (collectively, an “Interface”), Ocwen shall (as mutually agreed upon by the parties and subject to any confidentiality restrictions in place with third parties, with Ocwen using reasonable efforts to disclose applicable information to Altisource as needed) provide Altisource with written material specifications of such Interface (including, without limitation, all APIs and software dependences) as reasonably necessary for Altisource to develop a materially similar Interface (the “Replacement”). To the extent such confidentiality restrictions prevent Ocwen from providing necessary specifications of such Interface to enable Altisource to develop such Replacement using commercially reasonable efforts, Altisource shall in accordance with the Applicable Additional Service Agreement be permitted to develop an alternative Replacement to serve similar functionality. Ocwen shall reasonably cooperate with Altisource in developing and testing the Replacement. Testing of a Replacement shall be completed for determining whether the Replacement provides materially the same or better functionality as the Interface. Upon successful completion of the applicable testing, Ocwen shall in accordance with the Applicable Additional Service Agreement engage Altisource to provide the applicable Integration Service.
- h. Deleted.
- i. Ocwen shall, no later than the date hereof, apply to become a member of the Lenders One® mortgage cooperative and shall take all actions reasonably necessary to become and remain a member in good standing of the cooperative throughout the Extended Term. The parties have discussed and will promptly finalize the terms of the Lenders One member agreement. Unless otherwise agreed upon by the parties, the fees paid by Ocwen for being a member of Lenders One shall not increase during the Extended Term.

- j. Ocwen hereby represents and warrants that [REDACTED].
 - k. The Services Agreement, Services Letter, 2019 Term Sheet and any applicable statements of work, memoranda of understanding or other agreements thereunder shall be deemed amended to clarify and/or specify the below (with all the foregoing agreements continuing in effect except as specifically modified by the below):
 - i. The Performance Standard for REO Management Services shall be reviewed by the parties in good faith, as applicable, to determine if the parties need to implement process, system and any other changes reasonably necessary to facilitate the replacement of Altisource as the provider of certain field services.
1. Promptly following execution of this Term Sheet, the parties shall review in good faith any issues raised by the parties pertaining to the Services.
- 3) **Fees.** Fees charged for Services shall be at prevailing market rates. Either party may reasonably request renegotiation of such fees from time to time.
- 4) **Reserved.**
- 5) **Reserved.**
- 6) **Reserved.**
- 7) **Transfers of Services.**
- a. To the extent that, at any time during the Extended Term, Ocwen transfers away from Altisource, causes to be transferred away from Altisource, or otherwise takes any action resulting in a party other than Altisource receiving, orders to perform one or more Services (the “Transferred Service(s)”) on one or more Portfolios (as defined in the 2019 Term Sheet), or portions thereof (a “Transfer”), then, except for Section 6(e) of the Services Agreement and in addition to the other rights and remedies that the parties may have under the applicable agreements, Altisource shall not be required to incur any costs or perform any services or other work to assist Ocwen in such Transfer (“Transfer Services”) and Ocwen shall not be required to pay any costs and services, except as agreed to in writing by the parties (a “Transfer Services Agreement”). Upon request by Ocwen, Altisource shall provide Ocwen with a reasonable estimate of fees and costs for providing the Transfer Services. Any such Transfer Services Agreement shall include a mutually acceptable project plan with reasonable and sufficient detail as to the Transfer Services needed and reasonable deadlines for the performance of such Transfer Services.
 - b. To the extent that Altisource continues to provide any Service on such Portfolios, it shall notify Ocwen if Altisource used materials created in connection with the Transferred Services in connection with the remaining Services. Upon such notice, Ocwen shall use commercially reasonable efforts to obtain on a royalty-free basis the right for Altisource and its affiliates to use solely in furtherance of providing any Service to Ocwen or its affiliates, or on behalf of Ocwen, to a client that the parties have in common or such client’s affiliates or the relevant investor or servicers, the equivalent work product, deliverables or other materials created by or on behalf of, or otherwise at the direction of, Ocwen or the party performing such Transferred Service(s).

- c. All Performance Standards impacted or otherwise affected by a Transfer shall be reviewed by the parties in good faith. During such period, Altisource and Ocwen shall reasonably cooperate to mitigate adverse impacts to applicable Performance Standards.
- 8) **COVID-19 Event.** In the event scorecards are adversely impacted as a result of a Force Majeure Event (as defined in the Services Agreement), the parties agree that the Total Weighted Score for the scorecards for all impacted Performance Standards (as defined in the Services Agreement and the 2019 Term Sheet) shall be deemed to be at the Meet Expectations level from March 2020 through March 2021.
- 9) **Sales Taxes.** With respect to the total sales tax that Altisource has confirmed as paid on behalf of Ocwen and/or its clients that is outstanding and unpaid as of the date of this Term Sheet [REDACTED] (the "Total Outstanding Sales Tax").
- a. Ocwen shall provide to Altisource within a reasonable period of time following the date hereof, a reasonable written plan to collect that portion of the Outstanding Sales Tax that Ocwen believes is collectible (the "First Sales Tax Portion"), and consider in good faith any feedback that Altisource provides on such plan. Promptly thereafter, Ocwen shall commence (or shall continue) using its commercially reasonable best efforts to collect such First Sales Tax Portion as promptly as reasonably possible, provided that Altisource shall use its commercially reasonable best efforts to provide timely support to Ocwen with respect to such collection efforts. Ocwen shall provide reasonable updates on its collection efforts and collections progress to Altisource until no further amounts from the First Sales Tax Portion are reasonably likely to be collected by Ocwen.
- 10) **Outstanding Accounts Receivable.** The parties shall continue to discuss in good faith and resolve in the ordinary course any of Altisource's outstanding and billed accounts receivable.
- 11) **Reserved.**
- 12) **Release.** Following the parties' execution of this Term Sheet and in consideration of the covenants, recitals and agreements set forth herein:
- a. Altisource, on behalf of itself and its officers, directors, agents, employees, representatives, attorneys, insurers, affiliates, parents, subsidiaries, successors, assigns, and related persons and entities (the "Altisource Parties"), shall release and forever discharge Ocwen and its officers, directors, agents, employees, representatives, attorneys, insurers, affiliates, parents, subsidiaries, successors, assigns, and related persons and entities (the "Ocwen Parties") from and against any and all claims, demands, causes of action, lawsuits, remedies, costs, damages, attorneys' fees, and liabilities of any kind, nature or amount, whether in law or equity, known or unknown, anticipated or unanticipated, that the Altisource Parties now have or may hereafter acquire, based on actions or inactions occurring on or prior to the date hereof arising from or relating in any manner to any and all transactions described in the Reservation of Rights letter dated February 22, 2019, with respect to any and all claims arising from or related in any way to Ocwen's transfer of service referrals and services to providers other than Altisource.

- b. Ocwen, on behalf of itself and the Ocwen Parties, shall release and forever discharge the Altisource Parties from and against any and all claims, demands, causes of action, lawsuits, remedies, costs, damages, attorneys' fees, and liabilities of any kind, nature or amount, whether in law or equity, known or unknown, anticipated or unanticipated, that the Ocwen Parties now have or may hereafter acquire, based on actions or inactions occurring on or prior to the date hereof arising from or relating in any manner to any and all transactions described in the Reservation of Rights letter dated February 22, 2019, with respect to any and all claims arising from or related in any way to Ocwen's transfer of service referrals and services to providers other than Altisource.
- c. Notwithstanding the foregoing, the Ocwen Parties and the Altisource Parties are not released from any obligations they have under this Term Sheet.

Accepted and agreed by:

Altisource S.à r.l.

By: /s/ William B. Shepro
Name: William B. Shepro
Title: Manager
Date: May 5, 2020 / 05:32 EDT

Ocwen Financial Corporation

By: /s/ Joseph B. Samarias
Name: Joseph B. Samarias
Title: EVP and General Counsel
Date: May 5, 2021

Ocwen USVI Services, LLC

By: /s/ Leah E. Hutton
Name: Leah E. Hutton
Title: Assistant Secretary
Date: May 5, 2021

Exhibit A – Additional Services

Service Category	Service¹	Agreement Negotiation Commencement Date²
FHA/VA Loans	Field services	N/A – Already Executed
	CWCOT first and second chance auction services	N/A – Already Executed
	Title insurance services	N/A – Already Executed
	[REDACTED]	N/A – Already Executed
	[REDACTED]	N/A – Already Executed
	[REDACTED]	As mutually agreed upon by the parties
Foreclosure auction	[REDACTED]	[REDACTED]
Reverse Mortgage Services	[REDACTED]	As mutually agreed upon by the parties
Trustee services	[REDACTED]	Not applicable as parties would use the existing agreements between them pertaining to trustee services
Other	[REDACTED]	As mutually agreed upon by the parties

¹ The services are applicable solely to the extent Ocwen engages a third party to provide such services. Accordingly, Ocwen retains the right at all times to perform such services, in whole or in part, internally, including through its affiliates; [REDACTED].

² Ocwen will not be required to breach any of its non-terminable contractual requirements, existing as of the effective date of the Applicable Additional Service Agreement, to provide a certain volume of referrals for the applicable services to third parties.

Certain information has been omitted in accordance with Item 601(b)(10) of Regulation S-K because it is both not material and is the type of information that the registrant treats as private or confidential. An unredacted copy will be furnished supplementally to the SEC upon request.

BULK SERVICING RIGHTS PURCHASE AND SALE AGREEMENT

BY AND BETWEEN

PHH MORTGAGE CORPORATION

as

PURCHASER

and

AMERIHOM MORTGAGE COMPANY, LLC

as

SELLER

Dated as of

May 21, 2021

Fannie Mae and Freddie Mac Mortgage Loans

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- Exhibit C Servicing Transfer Instructions
- Exhibit D Interim Servicing Requirements
- Exhibit E Form of Seller's Officer's Certificate
- Exhibit F Content of Mortgage Loan Schedule
- Exhibit G Servicing File
- Exhibit H-1 Estimated Purchase Price Computation Worksheet
- Exhibit H-2 Purchase Price Computation Worksheet
- Exhibit I Form of Limited Power of Attorney

BULK SERVICING RIGHTS PURCHASE AND SALE AGREEMENT

This BULK SERVICING RIGHTS PURCHASE AND SALE AGREEMENT, dated as of May 21, 2021 (the "Effective Date"), by and between PHH MORTGAGE CORPORATION ("Purchaser") and AMERIHOME MORTGAGE COMPANY, LLC ("Seller").

W I T N E S S E T H:

WHEREAS, Seller is the owner of Servicing Rights related to certain mortgage loans sold to or securitized with the Investors; and

WHEREAS, on the terms and subject to the conditions set forth herein, Seller desires to sell, transfer and assign, and Purchaser desires to purchase and assume, all right, title and interest in and to certain of such Servicing Rights.

NOW, THEREFORE, in consideration of the mutual promises, covenants and conditions and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and upon the terms and subject to the conditions set forth herein, the parties hereto agree as follows:

Article I

INCORPORATION OF RECITALS; DEFINITIONS

Section I.1 **Incorporation of Recitals.** The recitals set forth above are incorporated herein by reference.

Section I.2 **Definitions.** As used in this Agreement, the following terms shall have the meanings specified below.

Advances: With respect to the servicing of a Mortgage Loan, P & I Advances, Corporate Advances and T & I Advances made with respect to such Mortgage Loan in accordance with the Applicable Requirements.

Affiliate: With respect to any Person shall mean any other Person directly or indirectly controlling, controlled by or under common control with such Person.

Agency or Agencies: Fannie Mae and Freddie Mac, as applicable.

Agreement: This Bulk Servicing Rights Purchase and Sale Agreement, including all amendments hereof and supplements hereto, and all Exhibits and Schedules attached hereto or delivered pursuant hereto.

Ancillary Fees: Shall mean all income derived from the Mortgage Loans not required by the related Servicing Agreement to be passed through to the Agency or the Mortgagors, other

than the Servicing Fees, including but not limited to, the Float Benefit, prepayment charges, late charges, fees received with respect to checks or bank drafts returned by the related bank for non-sufficient funds, assumption fees, optional insurance administrative fees and all other incidental fees and charges.

Applicable Requirements: As of the time of reference and as applicable, (i) all contractual obligations of Seller, Originators or Prior Servicers with respect to the Servicing Rights contained in the applicable Servicing Agreements or in any agreement with any Agency or applicable Insurer or in the Mortgage Loan Documents for which Seller or any Originator is responsible or at any time was responsible; (ii) all federal, state and local laws, statutes, rules, regulations and ordinances applicable to Seller or any Originator, or to the Servicing Rights or the origination, purchase, sale, enforcement and insuring or guaranty of, or filing of claims in connection with, the Mortgage Loans, including the applicable requirements and guidelines of the Investors or any Agency or Insurer, or any other governmental agency, board, commission, instrumentality or other governmental or quasi-governmental body or office; (iii) all other judicial and administrative judgments, orders, stipulations, awards, writs and injunctions applicable to Seller or Originator applicable to the Servicing Rights or the Mortgage Loans; (iv) the Guides and all other Investor guides, manuals, handbooks, bulletins, circulars, announcements, issuances, releases, letters, correspondence and other instructions applicable to the Servicing Rights; and (v) to the extent not in conflict with the preceding clauses (i) through (iv), those mortgage origination, sale and servicing practices (including collection practices) of prudent mortgage banking institutions which originate, sell and service mortgage loans of the same types as such Mortgage Loans in the jurisdiction where the related Mortgaged Properties are located.

Appraised Value: With respect to any Mortgaged Property, the lesser of (i) the value thereof as determined by a Qualified Appraiser, and (ii) the purchase price paid for the related Mortgaged Property by the Mortgagor with the proceeds of the Mortgage Loan, provided, however, in the case of a Refinanced Mortgage Loan, such value of the Mortgaged Property is based solely upon the value determined by an appraisal made for the Originator of such Refinanced Mortgage Loan at the time of origination of such Refinanced Mortgage Loan; provided further, that any such appraisal used to determine the Appraised Value may be in the form of any alternative valuation methodology if permitted by the Investors.

Approved Flood Zone Determination Company: CoreLogic, Servicelink or another flood zone determination vendor approved by Purchaser that will track FEMA flood zone map determination changes for the life of a Mortgage Loan with respect to the Mortgaged Property.

Approved Tax Services Company: CoreLogic, or another tax services vendor approved by Purchaser.

Assignment of Mortgage: A written instrument that, when recorded in the appropriate office of the local jurisdiction in which the related Mortgaged Property is located, will reflect the transfer of the Mortgage identified therein from the transferor to the transferee named therein.

Bankruptcy Loan: A Mortgage Loan as to which any related mortgagor is in bankruptcy as of the Sale Date.

Bill of Sale: A Bill of Sale for the sale of Servicing Rights on the Sale Date, in the form of Exhibit B.

Business Day: Any day other than a Saturday, Sunday, legal holiday or other day on which national banks are required by law or executive order to be closed.

CARES Act Forbearance Loan: A Mortgage Loan for which the related forbearance relief has been requested or provided pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Claim: Any claim, demand or litigation related to the Mortgage Loans, the Servicing Rights or this Agreement.

Code: The Internal Revenue Code of 1986, as the same may be amended from time to time (or any successor statute thereto).

Collateral Files: For the purposes of this Agreement, the following documents, and any other documents required to be maintained with the Document Custodian pursuant to Applicable Requirements: (a) original or a copy of the recorded Mortgage; (b) original or copies of recorded intervening Assignments of Mortgage, if any; (c) original or a copy of the recorded Assignment of Mortgage to MERS (unless MERS designated as original Mortgagee) or for Mortgage Loans that are not MERS Mortgage Loans, to Purchaser (or its designee); (d) original Mortgage Note; (e) original or a copy of the mortgagee title insurance policy; (f) original or copies of recorded (to the extent recordation is required by Applicable Requirements) modifications or consolidation and extension agreements, if any; and (g) original or a copy of the applicable power of attorney, if an attorney-in-fact signed the Mortgage Note on a Mortgagor's behalf or a name affidavit, if the Mortgagor signed under an "also known as" name or used a signature that significantly differs from the typed name. To the extent that any Collateral File document submitted for recordation to the appropriate public recording office has not yet been returned to Seller by the applicable recording office, the Collateral File shall contain a photocopy of such document certified by Seller, its servicer, the originator, title company, escrow agent or closing attorney, as applicable, to be a true and complete copy of such document that has been dispatched to the appropriate public recording office for recordation with the original or a copy of the recorded Collateral File document to be delivered upon recordation.

Compensatory Fees: Fees or penalties imposed by an Investor on the Servicer with respect to the Mortgage Loans as compensation for damages that may be incurred as the result of the Servicer's failure to comply with a specific policy or procedure or to emphasize the importance an Investor places on a particular aspect of the Servicer's performance pursuant to the Servicing Agreement, including but not limited to an unjustifiable failure to complete a Foreclosure within an Investor's required state foreclosure timelines.

Confidential Information: As defined in Section 7.17 hereof.

Corporate Advances: With respect to the servicing of a Mortgage Loan, advances related to a delinquent Mortgage Loan made in accordance with the related Servicing Agreement applicable to such Mortgage Loan and reimbursable in accordance with such Servicing Agreement, including but not limited to attorney fees and costs, property preservation, property inspection, and valuation fees, as well as other default related expenses (other than P & I Advances and T & I Advances).

Custodial Accounts: The accounts in which Custodial Funds are deposited and held by Servicer pending remittance or distribution thereof, all in accordance with Applicable Requirements.

Custodial Funds: All funds held by or in the control of Seller with respect to the Mortgage Loans, including, but not limited to, all principal and interest funds and any other funds due an Investor, buydown funds, funds for the payment of taxes, assessments, insurance premiums, ground rents and similar charges, funds from hazard insurance loss drafts and other mortgage escrow and impound amounts (including interest accrued thereon for the benefit of the Mortgagors under the Mortgage Loans, if required by Applicable Requirements) maintained by Seller relating to the Mortgage Loans.

Cut-off Date: 11:59 p.m. on June 30, 2021, or such other date(s) mutually agreed upon by the Parties.

Discloser: A Party disclosing Confidential Information.

Document Custodian: A document custodian approved by an Investor and designated by Purchaser.

Effective Date: The date set forth in the introductory phrase of this Agreement.

Electronic Data File: The test tape(s), sale tape(s) and/or transfer tape(s), or otherwise delivered electronic files or media, containing Mortgage Loan and/or Servicing Rights information delivered or to be delivered to Purchaser, which shall be in a mutually agreeable format.

Exception Determination Date: As defined in Section 3.3(c) hereof.

Exception Report: As defined in Section 3.3(c) hereof.

Fannie Mae: The Federal National Mortgage Association, or any successor thereto.

Fannie Mae Guide: The Fannie Mae Selling Guide and Servicing Guide, and all other applicable rules, regulations, procedures, manuals and guidelines of Fannie Mae, and any amendments or additions thereto.

Federal Funds Rate: The “high” interest rate for reserves traded among commercial banks for overnight use in amounts of one million dollars (\$1 million) or more, as reported by The Wall Street Journal under “Federal Funds” rates as of the first Business Day of each month.

FHA: The Federal Housing Administration of HUD or any successor thereto.

Float Benefit: Shall mean all benefit, not due to an Agency or the Mortgagors under the related Servicing Agreement, related to the Custodial Accounts, as applicable, with respect to the Mortgage Loans

Foreclosure: The procedure pursuant to which a lienholder acquires title to a Mortgaged Property in a foreclosure sale, or a sale under power of sale, or other acquisition of title to the Mortgaged Property based upon a default by the Mortgagor under the Mortgage Loan Documents, under the law of the state wherein the Mortgaged Property is located.

Foreclosure Loan: A Mortgage Loan that, as of the Sale Date, the first action necessary to be taken to commence proceedings in Foreclosure has been taken.

Freddie Mac: The Federal Home Loan Mortgage Corporation, or any successor thereto.

Freddie Mac Guide: The Freddie Mac Single Family Servicing Guide, and all other applicable rules, regulations, procedures, manuals and guidelines of Freddie Mac and any amendments or additions thereto.

Guides: The Fannie Mae Guide and the Freddie Mac Guide, as applicable.

High Pool: The Mortgage Loans included in the “High Pool” as identified in the funding schedule set forth in the electronic file entitled “Project_Ranger_High_Final.xlsm” to be made available electronically simultaneously with the distribution of the Bill of Sale.

Holdback Amount: As defined in [Section 3.3\(c\)](#) hereof.

Holdback Exceptions: As defined in [Section 3.3\(c\)](#) hereof.

Holdback Payment Date: As defined in [Section 3.3\(c\)](#) hereof.

HUD: The United States Department of Housing and Urban Development or any successor thereto.

Indemnified Party: As defined in [Section 10.4\(a\)](#) hereof.

Indemnifying Party: As defined in [Section 10.4\(a\)](#) hereof.

Insurer: Any issuer of a PMI Policy and any insurer or guarantor under any hazard insurance policy, any federal flood insurance policy, any title insurance policy, any earthquake insurance policy, or any other insurance policy applicable to a Mortgage Loan, Mortgaged Property or Pool, and any successor thereto.

Interim Servicing Requirements: Those requirements, obligations and terms set forth in [Exhibit D](#).

Investor or Investors: With respect to any Mortgage Loan, Fannie Mae or Freddie Mac, as applicable.

Investor Consents: The consent of each Investor and the Federal Housing Finance Agency to the transfer of the applicable Servicing Rights from Seller to Purchaser, without adverse modification to the rights or obligations of the Servicer with respect thereto.

Litigation Loan: A Mortgage Loan that, as of the Sale Date, is involved in any action, suit or proceeding before a court, government agency or arbitrator.

Loan-to-Value Ratio or **LTV:** With respect to any Mortgage Loan, the ratio of the original outstanding principal amount of the Mortgage Loan to (i) the Appraised Value of the related Mortgaged Property at origination with respect to a Refinanced Mortgage Loan, and (ii) the lesser of the Appraised Value of the related Mortgaged Property at origination or the purchase price of the related Mortgaged Property with respect to all other Mortgage Loans.

Losses: Any and all costs or expenses, losses, damages, deficiencies, claims, including costs of investigation, attorneys' fees and disbursements, and any Agency curtailments or other shortfalls in amounts reimbursed by the applicable Agency.

Low Pool: The Mortgage Loans included in the "Low Pool" as identified in the funding schedule set forth in the electronic file entitled "Project_Ranger_Low_Final.xlsx" to be made available electronically simultaneously with the distribution of the Bill of Sale.

MERS: The Mortgage Electronic Registration System.

MERS Mortgage Loan: A Mortgage Loan registered with MERS that either designates MERS as original mortgagee or is assigned to MERS.

Monthly Payment: The scheduled monthly payment on a Mortgage Loan due on any due date pursuant to the terms of the related Mortgage Note.

Mortgage: The mortgage, deed of trust or other instrument securing a Mortgage Note which creates a first lien on an unsubordinated estate in fee simple in real property securing the Mortgage Note, except that with respect to real property located in jurisdictions in which the use of leasehold estates for residential properties is a widely-accepted practice, the mortgage, deed of trust or other instrument securing the Mortgage Note may secure and create a first lien upon a leasehold estate of the Mortgagor.

Mortgage Escrow Payments: The portion, if any, of the Monthly Payment in connection with a Mortgage Loan that relates to funds for the payment of taxes, assessments, insurance premiums, ground rents and similar charges, and other mortgage escrow amounts.

Mortgage File: With respect to each Mortgage Loan, the Collateral File and the Servicing File, including the Mortgage Loan Documents.

Mortgage Interest Rate: The annual rate at which interest accrues on any Mortgage Loan in accordance with the provisions of the related Mortgage Note.

Mortgage Loan Documents: The Mortgages and Mortgage Notes.

Mortgage Loans: The eligible, one-to-four family residential mortgage loans sold to or securitized by an Investor as to which Seller is the owner of the Servicing Rights, as listed on the Mortgage Loan Schedule.

Mortgage Loan Schedule: As applicable, the preliminary schedule delivered by Seller to Purchaser contemporaneously with the execution of this Agreement in the electronic file entitled "Tape_PHH_0430.xlsx" to be provided by email simultaneously with the distribution of an executed copy of this Agreement, which will identify all Mortgage Loans for which Servicing Rights are intended for sale hereunder as of the Sale Date, or the final schedule of Mortgage Loans referenced in the Bill of Sale, or otherwise agreed to by the Parties, such schedule setting forth the information with respect to each Mortgage Loan and the related Servicing Rights, including but not limited to the information set forth on Exhibit F hereto, as the same may be corrected or updated by the Parties after the Sale Date by their written agreement.

Mortgage Note: The promissory note executed by a Mortgagor and secured by a Mortgage evidencing the indebtedness of the Mortgagor under a Mortgage Loan.

Mortgaged Property: The one- to four-family residential real property that is encumbered by a Mortgage, including all buildings and fixtures thereon.

Mortgagor: Any obligor under a Mortgage Note and Mortgage.

Offering Information: The written information and loan level data, tapes, and/or written statements provided to Purchaser by or on behalf of Seller in the preparation of Purchaser's bid with respect to the Servicing Rights.

Originator: With respect to any Mortgage Loan, the Person(s) that performed one or more of the following functions: (i) took the loan application, (ii) processed the loan application, (iii) underwrote the loan application, and/or (iv) closed or funded the Mortgage Loan.

P & I Advances: With respect to the servicing of a Mortgage Loan, any principal and interest amounts required to be advanced in accordance with the terms of the related Servicing Agreement in connection with delinquent Monthly Payments (net of prepaid principal and interest, as applicable), and reimbursable in accordance with such Servicing Agreement (other than Corporate Advances and T & I Advances).

Parties: Seller and Purchaser.

Person: An individual, a corporation, a partnership, a limited liability company, a joint venture, a trust, an unincorporated association or organization, a government body, agency or instrumentality or any other entity.

PMI Policy: With respect to a Mortgage Loan, the policy of primary mortgage insurance satisfying Applicable Requirements.

Pool: One or more Mortgage Loans that have been aggregated pursuant to the requirements of an Investor.

Prior Servicer: Any Person that was a Servicer or subservicer of any Mortgage Loan before Seller became the Servicer of the Mortgage Loan, and any subservicer who has performed subservicing of the Mortgage Loans for Seller.

Purchase Price: The total amount to be paid by Purchaser pursuant to Section 3.1 to acquire the Servicing Rights.

Purchase Price Percentage: The applicable percentage by which the unpaid principal balance of the Mortgage Loans, or an applicable subset thereof, is multiplied in determining the Purchase Price for the related Servicing Rights, as provided in Exhibit A.

Purchaser: As defined in the introductory phrase of this Agreement.

Qualified Appraiser: An appraiser who meets an Investor's eligibility requirements.

Qualified Insurer: An Insurer duly qualified as such under the laws of the states in which the Mortgaged Properties are located, duly authorized and licensed in such states to transact the applicable insurance business and to write the insurance provided, acceptable as an insurer by the related Investor.

Recipient: A Party receiving Confidential Information.

Recourse Obligation: With respect to any Mortgage Loan, any obligation or liability (actual or contingent) of the Servicer (a) for losses incurred in connection with the Foreclosure or other disposition of such Mortgage Loan (including losses relating to loss mitigation or obtaining deeds in lieu of Foreclosure); (b) to repurchase such Mortgage Loan in the event that the Mortgagor of such Mortgage Loan, or such Mortgage Loan, is in bankruptcy, in Foreclosure or in litigation; or (c) to repurchase such Mortgage Loan in the event of a delinquency or other payment default thereunder by the Mortgagor. Notwithstanding the foregoing, a Mortgage Loan shall not be considered subject to a Recourse Obligation merely because the Servicer retains a contingent liability to repurchase a Mortgage Loan that is determined to have been ineligible for sale to an Investor due to a breach of one or more representations and warranties.

Refinanced Mortgage Loan: A Mortgage Loan which was made to a Mortgagor who owned the Mortgaged Property prior to the origination of such Mortgage Loan.

REO Property: With respect to a Mortgage Loan the real property to which Servicer or an Investor, or another Person acting on Servicer's or Investor's behalf, has taken ownership as a result of Foreclosure or acceptance of a deed in lieu of Foreclosure with respect to a Mortgaged Property.

Repurchase Price: With respect to the Servicing Rights related to any Mortgage Loan or REO Property, the sum of (a) the product of the applicable Repurchase Price Percentage and the then-outstanding unpaid principal balance of such Mortgage Loan, or with respect to REO Property, the unpaid principal balance of the related Mortgage Loan at the time of conversion to REO Property, and (b) any unreimbursed Advances and reasonable and documented out-of-pocket costs and expenses incurred by Purchaser in connection with such Mortgage Loan and the transfer of the Servicing Rights to Seller, and if applicable, repurchase and transfer of the related Mortgage Loan from an Investor and to Seller, including reasonable out-of-pocket attorneys' fees and costs.

Repurchase Price Percentage: The related Purchase Price Percentage, *times* the Stepdown Percentage.

Sale Date: June 30, 2021 or such other date(s) as may be mutually agreed upon by the Parties and which shall be indicated in the related Bill of Sale and subject, in each case, to the completion of due diligence review satisfactory in Purchaser's sole discretion, and to the conditions precedent set forth in this Agreement, on which Purchaser shall acquire all economic and legal right, title and interest in and to the Servicing Rights sold by Seller pursuant to this Agreement on such date.

Seller: As defined in the introductory phrase of this Agreement.

Servicer: The Person contractually obligated, at any time, to administer the Servicing Rights under the Servicing Agreements.

Servicing Agreements: The contracts (including any pooling agreement, servicing agreement, custodial agreement or other agreement or arrangement), the applicable Guides, and all other applicable rules, regulations, procedures, manuals and guidelines of an Investor, defining the rights and obligations of an Investor and Servicer, with respect to the Mortgage Loans.

Servicing Fee: The amount payable to Servicer under the applicable Servicing Agreement related to a Mortgage Loan as consideration for servicing the Mortgage Loan, net of the guaranty fee payable to an Investor, any lender paid mortgage insurance premium and any securitized excess servicing interest-only cash flows.

Servicing File: With respect to each Mortgage Loan, all documents set forth in Exhibit G attached hereto or required to be held by the Servicer under Applicable Requirements, whether in hard copy, computer record, microfiche or any other format, evidencing and pertaining to a particular Mortgage Loan and relating to the processing, origination, servicing, collection, payment and Foreclosure of such Mortgage Loan.

Servicing Rights: The rights and obligations of Servicer to administer, collect the payments for the reduction of principal and application of interest, collect payments on account of taxes and insurance, pay taxes and insurance, remit collected payments, provide foreclosure services, provide full escrow administration and any other obligations required by an Investor or

Insurer in, of, for or in connection with the Mortgage Loans pursuant to the Servicing Agreements, together with the right to receive the Servicing Fee and any Ancillary Fees arising from or connected to the Mortgage Loans, and all rights, powers and privileges incident to any of the foregoing.

Servicing Transfer Instructions: The instructions, attached hereto as Exhibit C, detailing the procedures pursuant to which Seller shall effect the transfer of the Servicing Rights, the Advances, the Custodial Funds, and the Mortgage Files to Purchaser.

Stepdown Percentage: With respect to any Mortgage Loan and the determination of the related Repurchase Price Percentage, such percentage as when multiplied by the related Purchase Price Percentage shall reduce the Repurchase Price Percentage monthly, on a straightline basis, until the Repurchase Price Percentage is reduced to zero percent (0%) at the end of sixty (60) months after the Sale Date.

Termination Date: August 2, 2021 or such other date as mutually agreed upon by the Parties provided that the Termination Date is before the Sale Date.

T & I Advances: With respect to the servicing of a Mortgage Loan, amounts required to be advanced in accordance with the terms of the related Servicing Agreement in connection with the payment of taxes, insurance, ground rents, assessments and similar amounts due related to the Mortgage Loans, in accordance such Servicing Agreement and reimbursable in accordance with such Servicing Agreement (other than P & I Advances and Corporate Advances).

Transaction: The sale by Seller to Purchaser, and the purchase by Purchaser from Seller, of Servicing Rights on the Sale Date, the transfer of such Servicing Rights on the Transfer Date, and the performance of the Parties' respective obligations in connection therewith as provided in this Agreement.

Transfer Date: With respect to any Mortgage Loan, the date on which the transfer of the related Servicing Rights from Seller to Purchaser is effective on the records of the applicable Investor, which date shall be September 1, 2021, or such date(s) as mutually agreed upon by the Parties, subject to receipt of Investor Consents and approval of the Federal Housing Finance Agency. The actual Transfer Date(s) to be used for this Transaction shall be indicated in the Investor Consents and/or in the approval received from the Federal Housing Finance Agency.

USDA: The United States Department of Agriculture and any successor thereto.

VA: The United States Department of Veterans Affairs and any successor thereto.

Section I.3 General Interpretive Principles. For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(a) Terms used in this Agreement have the meanings assigned to them in this Agreement, and include the plural as well as the singular, and the use of any gender herein shall be deemed to include the other gender.

- (b) Accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles.
- (c) References herein to a “section” shall be to the specified section(s) of this Agreement and shall include all subsections of such section(s).
- (d) The words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular provisions.
- (e) The term “include” or “including” shall mean without limitation by reason of enumeration.
- (f) Section headings and other similar headings are not to be considered part of this Agreement, are solely for convenience of reference, and shall not affect the meaning or interpretation of this Agreement or any of its provisions.
- (g) Each reference to any federal, state or local statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder.

Article II

SALE OF SERVICING RIGHTS AND RELATED ITEMS

Section II.1 Items to be Sold, Transferred and Assigned. Upon the terms and subject to the conditions of this Agreement, and subject to Applicable Requirements, Seller shall, on and as of the Sale Date, sell, transfer and assign to Purchaser, and Purchaser shall purchase and assume from Seller, all of Seller’s legal and beneficial right, title and interest in and to the applicable (a) Servicing Rights, (b) Advances, (c) Custodial Funds and (d) Mortgage Files. Purchaser shall have the right to decline to purchase the Servicing Rights that do not conform to the terms, conditions, representations, warranties and covenants in this Agreement. It is expressly understood and agreed that the economics of the ownership of the Servicing Rights shall accrue to the benefit of Purchaser as of the Sale Date and Purchaser shall be entitled to receive all of the Servicing Fees payable under the Servicing Agreements after the Cut-off Date, including without limitation any accrued and unpaid Servicing Fees as of the Cut-off Date, subject to Seller’s rights to compensation as interim servicer pursuant to the Interim Servicing Requirements. On and after the Transfer Date, Purchaser shall have the exclusive right to receive all, and to enter into arrangements that generate, Ancillary Fees with respect to the Mortgage Loans.

Section II.2 Assumption of Liabilities. In connection with the sale and transfer of Servicing Rights contemplated herein, Purchaser will assume only those duties, obligations and liabilities of Seller with respect to the Servicing Rights under the applicable Servicing Agreements that (a) accrue after the Sale Date or, with respect to the servicing of the Mortgage Loans, accrue after the Transfer Date; and (b) directly arise in connection with Purchaser’s acquisition, ownership and use of the applicable Servicing Rights. Subject to the related Servicing Agreement, Purchaser will not assume or otherwise be responsible for in any way whatsoever any

other duties, obligations or liabilities of, or claims against, Seller or Seller's equity holders (or any of their respective agents, officers, directors, trustees, or affiliates) with respect to the Servicing Rights or otherwise, that accrue or otherwise relate to the period prior to the Sale Date or, with respect to the servicing of the Mortgage Loans, prior to the Transfer Date.

Section II.3 Evidence of Sale. On the Sale Date, Seller shall deliver to Purchaser a Bill of Sale to transfer and convey the Servicing Rights to Purchaser. Prior to the Transfer Date, Purchaser and Seller shall execute and deliver the documents required by an Investor in connection with the transfer of the Servicing Rights hereunder, in form and substance reasonably satisfactory to Purchaser and Seller, and shall execute and deliver such other instruments or documents as Purchaser and Seller shall reasonably determine are necessary or appropriate to evidence the Transaction.

Section II.4 Servicing Transfer; Servicing Transfer Instructions. In connection with the transfer of the Servicing Rights from Seller to Purchaser pursuant to this Agreement, Seller shall comply with the Servicing Transfer Instructions and take all steps necessary or appropriate to effectuate and evidence the transfer of the servicing of the related Mortgage Loans to Purchaser. The Servicing Transfer Instructions may be modified from time to time by mutual agreement between Purchaser and Seller and the Parties agree to negotiate in good faith any changes that may be required due to operational requirements, data requirements or otherwise. In any instance in which the Servicing Transfer Instructions conflict with the terms of this Agreement, this Agreement shall control.

Section II.5 Transfer in Accordance with Applicable Requirements. In connection with the transfer of the Servicing Rights from Seller to Purchaser pursuant to this Agreement, Seller shall comply with all Applicable Requirements, including the requirements and guidelines of an Investor, any Agency, the Consumer Financial Protection Bureau and any other federal, state or local regulatory agency, body or authority with authority over Seller, Purchaser or the Transaction.

Section II.6 Access to Information. During the period prior to the Sale Date, Seller shall provide to Purchaser reasonable access, for the purpose of conducting due diligence reviews of the books, files and records relating to the Mortgage Loans and the related Servicing Rights to confirm, among other things, that (i) the Mortgage Loan Schedule, the Electronic Data Files and all other information provided by or on behalf of Seller is true and correct and without material errors or omissions and consistent in all material respects with the transaction information received from Seller and the requirements of this Agreement and (ii) the Mortgage Loans are in compliance with Applicable Requirements relating to the underwriting, origination and servicing thereof and that the related loan documents in the Collateral Files and the Mortgage Files are not missing or defective in any material respect.

Article III

PURCHASE PRICE AND RELATED MATTERS

Section III.1 Purchase Price. In consideration for the transfer and sale contemplated herein of the Servicing Rights, Purchaser shall pay to Seller in the manner, and subject to the adjustments, provided for in this Article III, an amount equal to the applicable Purchase Price Percentage multiplied by the aggregate actual outstanding principal balance of the Mortgage Loans as of the Cut-off Date.

Section III.2 Verification of Purchase Price.

(a) **Pre-Sale Date.** No later than five (5) Business Days prior to the Sale Date, Seller shall provide Purchaser with (i) a preliminary Mortgage Loan Schedule containing loan level information relating to the Servicing Rights as of an agreed upon date, including the aggregate actual outstanding principal balance of the Mortgage Loans as of such date and (ii) a completed Estimated Purchase Price Computation Worksheet in the form set forth on Exhibit H1.

(b) **Post-Sale Date.** Five (5) Business Days after the Sale Date, Seller shall provide Purchaser with (i) a final Mortgage Loan Schedule containing loan level information relating to the Servicing Rights as of the Cut-off Date, including the actual aggregate actual outstanding principal balance of the Mortgage Loans as of the Cut-off Date and (ii) a completed Purchase Price Computation Worksheet in the form set forth on Exhibit H-2. The Parties agree that the final Mortgage Loan Schedule shall be appended to the Bill of Sale.

Section III.3 Payment of Purchase Price by Purchaser. The Purchase Price shall be paid by Purchaser to Seller as follows, subject in each case to Seller's performance of its obligations to be performed on or before the applicable date and satisfaction or waiver of the conditions set forth in Article VIII:

(a) **Sale Date Payment.** On the Sale Date, Seller shall be paid an amount equal to ninety percent (90%) of the applicable estimated Purchase Price, based upon the information delivered in accordance with Section 3.2(a). Within fifteen (15) Business Days after the Sale Date, Seller and Purchaser shall reconcile the Purchase Price based on a reconciliation of the estimated unpaid principal balance of the Mortgage Loans provided by Seller pursuant to Section 3.2(a) and the actual unpaid principal balance of the Mortgage Loans provided pursuant to Section 3.2(b). No later than ten (10) Business Days following such reconciliation, Seller shall pay to Purchaser, or Purchaser shall pay to Seller, as applicable, the portion of the Purchase Price based on such reconciliation due to either Seller or Purchaser to reflect ninety percent (90%) of the actual Purchase Price based on the actual unpaid principal balance of the Mortgage Loans as of the Cutoff Date.

(b) **Transfer Date Related Payment.** Within five (5) Business Days after the Transfer Date, Purchaser shall pay to Seller an amount equal to five percent (5%) of the

Purchase Price, provided that Seller is in material compliance with its obligations under this Agreement and the Servicing Transfer Instructions. In the event that a determination has been made as to a material noncompliance with the above requirements, payment will be made once the noncompliance has been cured or resolved.

(c) Holdback. Within thirty (30) days following the Transfer Date, and monthly thereafter, Purchaser shall provide Seller an exception report ("Exception Report") of all outstanding, incomplete, missing or defective documents from the Mortgage Files or Mortgage Files not yet reviewed ("Holdback Exceptions"). The date on which each Exception Report is received by Seller will be an "Exception Determination Date." On the tenth (10th) Business Day of the month following the third month in which an Exception Determination Date occurs ("Holdback Payment Date"), Purchaser shall pay to Seller an amount equal to the remaining five percent (5%) of the Purchase Price ("Holdback Amount"); provided, however, that no Holdback Amount shall be paid until Seller has delivered to Purchaser or its designee all related Mortgage Files in conformity with this Agreement, the Servicing Transfer Instructions and Applicable Requirements. If Purchaser determines in good faith that such conditions have not yet been satisfied, the Holdback Amount shall be paid to Seller in installments on subsequent Holdback Payment Dates. Each such installment payment shall be equal to (i) the Holdback Amount, multiplied by (ii) the percentage of Mortgage Loans that do not have any Holdback Exceptions or that have been paid off, liquidated or repurchased from the prior period to the current period to the extent that Seller has provided all documents required to satisfy and release the related Mortgage as required under Applicable Requirements. Notwithstanding the foregoing, once the Holdback Amount is equal to ten percent (10%) of the initial Holdback Amount, no further payments shall be made to Seller under this Section 3.3(c) unless and until no Holdback Exceptions are remaining; provided, however, that at the end of the 12-month period following the Transfer Date, if any Holdback Exceptions remain outstanding, Purchaser may (in its reasonable discretion) take steps to correct such Holdback Exceptions and deduct Purchaser's reasonable and documented out-of-pocket costs relating to such corrections from the remaining Holdback Amount, and shall thereafter, release the remainder of the Holdback Amount to Seller.

(d) Reimbursement of Advances. Subject to this Agreement, Purchaser shall reimburse Seller for the outstanding Advances (other than Advances funded from the amounts in the Custodial Account) as of the Transfer Date with respect to the Mortgage Loans, by wire transfer of immediately available funds, within five (5) Business Days after Purchaser's verification of (i) loan level Advance balances as of the Transfer Date, (ii) information reflecting the date or period such Advances were made, (iii) loan level information related to the type (i.e., delinquency, tax, insurance, attorney fees, property inspection, etc.) and disbursement history of each Advance (which may be in electronic format), (iv) reasonable, customary and required documentation and support sufficient to reasonably enable Purchaser or Purchaser's designee to make an assessment of the eligibility of the Advances for reimbursement by an Investor or Insurers pursuant to Applicable Requirements, (v) with respect to P & I Advances, information necessary to confirm and reconcile the test of expected principal and interest and (vi) the documents in the related Mortgage File necessary to support such Advances. Notwithstanding the foregoing, Seller may net T & I Advances from Custodial Funds representing escrow funds pursuant to Section 3.4. Purchaser shall use reasonable efforts to complete such verification

within thirty (30) days of receipt of such documentation from Seller. To the extent Seller subsequently recovers any Advances, Seller shall remit such recoveries to Purchaser within five (5) Business Days of receipt thereof. For the avoidance of doubt, Purchaser shall not have any obligation to reimburse Seller for any Advance or portion of any Advance except to the extent such Advance or portion of such Advance is reimbursable by or recoverable from the applicable Agency pursuant to Applicable Requirements. Notwithstanding any provisions in this Agreement to the contrary, Purchaser shall not reimburse Seller for any Corporate Advances for Mortgage Loans that are less than thirty (30) days delinquent as of the Transfer Date; provided, however, the foregoing shall not apply to Advances that are pending reimbursement from the related Investor as of the Transfer Date.

(e) No Investor Consent. Notwithstanding anything contained herein to the contrary, Purchaser shall have no obligation to make any payment under any subsection of this Section 3.3 with respect to any portion of the Servicing Rights for which an Investor has denied or not consented to Seller's request to transfer the related Servicing Rights to Purchaser.

(f) Set-off. Seller hereby grants Purchaser a right of set-off against the Holdback Amount (or any portion thereof) against Seller's obligations to Purchaser under this Agreement, including obligations in respect of early payoff protection, repurchase of Servicing Rights or Mortgage Loans and indemnification; provided, that Purchaser has provided Seller written notice of Seller's failure to pay any such amounts when due (including any applicable grace or cure periods pursuant to the terms of this Agreement) and Seller has not cured such failure within five (5) Business Days of Seller's receipt of such notice. Seller further agrees that should Purchaser reimburse itself in such manner, such reimbursement shall not act as a limitation of any other right or remedy Purchaser may have under the law or this Agreement.

(g) Prepayments. In the event that a Mortgage Loan prepays in full within ninety (90) days following the Sale Date to the extent such Mortgage Loan is in the High Pool and sixty (60) days following the Sale Date to the extent such Mortgage Loan is in the Low Pool (in either case, other than by a refinancing by Purchaser or any of its subsidiaries or affiliates), Seller shall refund to Purchaser, within thirty (30) days of receipt of demand thereof by Purchaser, the portion of the Purchase Price paid by Purchaser allocable to the Servicing Rights relating to such Mortgage Loan.

Section III.4 Custodial Funds and Advances; Reconciliation.

(a) Within five (5) Business Days (or such earlier date required by the applicable Investor) after the Transfer Date, all related Custodial Funds and all other funds and collections in connection with the Mortgage Loans held by or on behalf of Seller or, to the extent permitted under Applicable Requirements, previously used by or on behalf of Seller (or any Prior Servicer) to make Advances with respect to the Mortgage Loans and not previously reimbursed shall be remitted and delivered by Seller to Purchaser in compliance with all Applicable Requirements, provided, however, that Seller may net T & I Advances from Custodial Funds representing escrow funds. Notwithstanding the foregoing, Seller shall retain Custodial Funds relating to principal and interest on the Mortgage Loans in Seller's possession as of the Transfer Date that are due in Seller's final remittances to the Investors. If there is a deficiency in the

Custodial Funds required to satisfy the requirements to satisfy the required remittance amounts to the Investors, Purchaser shall wire an amount equal to such deficiency to Seller no later than one (1) Business Day prior to the date of Seller's final remittances to the Investors. For the avoidance of doubt, prior to transferring the Custodial Funds to Purchaser, Seller shall fully fund the Custodial Account to take into account all prepaid principal, including prepayments in full and curtailments, and interest received with respect to the Mortgage Loans. Within five (5) Business Days following the Transfer Date, Seller shall provide to Purchaser a reconciliation, as of the Transfer Date, of the Custodial Funds held and Advances outstanding as of such date.

(b) If at any time Seller or Purchaser reasonably determines that any Advances acquired by Purchaser, including Advances previously funded by or on behalf of Seller or a Prior Servicer from amounts in the Custodial Account, are not reimbursable by the applicable Agency, or the reimbursements then due thereunder are less than the amount of such non-reimbursable Advances, the Party making such determination will notify the other Party in writing and such amounts shall be paid by Seller to Purchaser in immediately available funds within five (5) Business Days.

Section III.5 Certain Adjustments and Refunds. For a period of one (1) year following the payment of any portion of the Purchase Price or reimbursement for Advances, transfer of the Custodial Funds, or payment or transfer of any other amounts due under this Agreement to either Party, the Purchase Price, Advances, Custodial Funds or such other amounts are found to be in error, then within ten (10) Business Days after the receipt of information sufficient to provide notice that payment is due, the Party benefiting from the error shall (i) pay an amount sufficient to correct and reconcile the Purchase Price, Advances, Custodial Funds, or such other amounts, and (ii) provide a reconciliation statement and such other documentation reasonably sufficient to satisfy the other Party (in such other Party's exercise of its reasonable discretion) concerning the accuracy of such reconciliation. Notwithstanding the foregoing, the one (1) year time restriction shall not apply to indemnification claims under Article X.

Section III.6 Form of Payment to be Made. Unless otherwise agreed to by the Parties, all payments to be made by a Party to another Party, or such other Party's designee, shall be made by wiring immediately available funds to the accounts designated by the Party receiving the payment.

Section III.7 No Waiver. No payment or acceptance of payment under this Article III (including retention of Holdback Amounts) shall constitute a waiver by Purchaser of, or otherwise limit or reduce, any of Purchaser's other rights and remedies under this Agreement, at law, or equity, including Purchaser's rights to indemnification or repurchase of Mortgage Loans and/or Servicing Rights, as provided in Article X.

Article IV

REPRESENTATIONS AND WARRANTIES OF SELLER

As an inducement to Purchaser to enter into this Agreement and to consummate the Transaction, Seller represents and warrants as follows (it being understood that, unless otherwise expressly provided in this Article IV, each such representation and warranty is made by Seller as of the Effective Date, the Sale Date and, other than with respect to Sections 4.7, 4.9, 4.11, and 4.12, the Transfer Date, and all of the representations and warranties of Seller contained herein shall survive the Sale Date and the Transfer Date, as applicable):

Section IV.1 Due Organization and Good Standing. Seller is a limited liability company, duly organized, validly existing, and in good standing under the laws of the State of Delaware. Seller and its employees, agents and other personnel have, and at all relevant times have had, in full force and effect (without notice of possible suspension, revocation or impairment) all required qualifications, permits, approvals, licenses, and registrations to conduct all activities in all states in which their activities with respect to the Mortgage Loans or the related Servicing Rights require them to have such qualifications, permits, approvals, licenses, and registrations, except where the failure of Seller to possess such qualifications, permits, approvals, licenses, and registrations would not have a material adverse effect on Purchaser or Seller's ability to perform any of its obligations hereunder.

Section IV.2 Authority and Capacity. Seller has all requisite limited liability company or other applicable power, authority and capacity to carry on its business as it is now being conducted, to execute and deliver this Agreement and to perform all of its obligations hereunder.

Section IV.3 Effective Agreement. The execution, delivery and performance of this Agreement by Seller and consummation of the Transaction has been duly and validly authorized by all necessary corporate or other action; this Agreement has been duly and validly executed and delivered by Seller, and this Agreement is a valid and legally binding agreement of Seller enforceable against Seller in accordance with its terms, subject to bankruptcy, insolvency and similar laws affecting generally the enforcement of creditors' rights and the discretion of a court to grant specific performance.

Section IV.4 No Conflict. Neither the execution and delivery of this Agreement nor the consummation of the Transaction, nor compliance with its terms and conditions, shall (a) violate, conflict with, result in the breach of, constitute a default under, be prohibited by, or require any additional approval (except as shall have been obtained or made as of the Transfer Date) under any of the terms, conditions or provisions of (i) the certificate of formation, the limited liability company agreement and other organizational documents of Seller, (ii) any mortgage, indenture, deed of trust, loan or credit agreement or other agreement or instrument to which Seller is now a party or by which Seller is bound, or (iii) any law, ordinance, rule or regulation of any governmental authority applicable to Seller, or any order, judgment or decree of any court or governmental authority applicable to Seller, except as would not have a material

adverse effect on the Mortgage Loans, taken as a whole, or the value of the Servicing Rights, taken as a whole; or (b) result in the creation or imposition of any lien, charge or encumbrance of any nature upon, the Servicing Rights or any of the Mortgage Loans except as created hereby.

Section IV.5 Consents, Approvals and Compliance. Except for Investor Consents, there is no requirement applicable to Seller to make any filing with, or to obtain any permit, authorization, consent or approval of, any Person as a condition to the lawful performance by Seller of its obligations hereunder. Seller is approved and in good standing as a seller and servicer with the Investors, and is in good standing with each Insurer relating to a PMI Policy. Seller is in compliance with, and is not in default under, any law, ordinance, requirement, regulation, rule, or order applicable to its business or properties, the violation of which would reasonably be expected to materially and adversely affect the Servicing Rights, the operations or financial condition of Seller or its ability to perform its obligations hereunder.

Section IV.6 Litigation. There is no litigation, claim, demand, proceeding or governmental investigation existing, pending or, to Seller's knowledge, threatened, or any order, injunction or decree outstanding, against or relating to Seller that would reasonably be expected to materially and adversely affect the Servicing Rights, the Mortgage Loans or the performance by Seller of its obligations under the Servicing Agreements or the performance by Seller of its obligations under this Agreement.

Section IV.7 Bulk Sales. The transfer, assignment and conveyance of the Servicing Rights by Seller pursuant to this Agreement is not subject to the Hart-Scott-Rodino Antitrust Improvements Act, or the bulk transfer or any similar statutory provisions in effect in any jurisdiction, the laws of which apply to such transfer, assignment and conveyance.

Section IV.8 Insurance. Errors and omissions and fidelity insurance coverage, in amounts as required by Applicable Requirements, are in effect with respect to Seller and will be maintained until the Transfer Date contemplated by this Agreement has been consummated in accordance with terms hereof.

Section IV.9 Financial Statements. All financial statements provided by Seller to Purchaser fairly present the pertinent results of operations and changes in financial position at the end of each such period of Seller and its subsidiaries and have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as set forth in the notes thereto. There has been no change in the business, operations, financial condition, properties or assets of Seller since the date of Seller's financial statements that would have a material adverse effect on its ability to perform its obligations under this Agreement.

Section IV.10 Ability to Perform. The financial condition of Seller is adequate to support the performance by Seller on a timely basis of Seller's potential indemnification, repurchase and other obligations under this Agreement. Seller does not believe, nor does it have any reason or cause to believe, that it cannot perform each and every covenant contained in this Agreement. Seller is solvent and the sale of the Servicing Rights will not cause Seller to become

insolvent. The sale of the Servicing Rights is not undertaken to hinder, delay or defraud any of Seller's creditors.

Section IV.11 Sale Treatment. Seller intends that the disposition of the Servicing Rights pursuant to this Agreement will be afforded sale treatment for accounting and tax purposes.

Section IV.12 Fair Consideration. The consideration received by Seller upon the sale of the Servicing Rights under this Agreement constitutes fair consideration and reasonably equivalent value for the Servicing Rights.

Section IV.13 No Accrued Liabilities. There are no accrued liabilities of Seller with respect to the Mortgage Loans, the Servicing Rights or the Servicing or circumstances under which such accrued liabilities will arise against Purchaser as successor to the Servicing Rights or the Servicing, with respect to defaults of Seller's obligations prior to the Sale Date.

Section IV.14 Audits. Since the date that is three (3) years prior to the Effective Date, Seller has not been the subject of an audit by an Investor, any Agency, or any Insurer, which audit found a material failure to comply with Applicable Requirements and which such failure would have a material and adverse effect on the Servicing Rights or Mortgage Loans.

Section IV.15 No Regulatory Restrictions. As of the Sale Date, there are no contracts, settlement agreements, stipulations, awards, or consent orders entered into with or issued by any governmental authority or other party affecting the Servicing Rights or the servicing of the Mortgage Loans to which Purchaser is or will be bound by or to nor shall Seller enter into any such contracts, settlement agreements, stipulations, awards, or consent orders to which Purchaser will be bound by or to following the Sale Date without the consent of Purchaser.

Section IV.16 Facts and Omissions. No representation, warranty or written statement made by Seller in this Agreement, in any Exhibit or Schedule to this Agreement, in the Electronic Data Files and Mortgage Loan Schedules provided by Seller to Purchaser hereunder, contains or will contain any material misstatement of fact or will omit to state a material fact necessary in order to make the statements in light of the circumstances in which they are made not misleading.

Article V

REPRESENTATIONS AND WARRANTIES OF SELLER REGARDING THE MORTGAGE LOANS AND SERVICING RIGHTS

As an inducement to Purchaser to enter into this Agreement and to consummate the Transaction, Seller represents and warrants as follows as of the Sale Date, or such other date as expressly provided in this Article V and, in the case of the representations and warranties in Sections 5.1(b), (cc), (dd) and (oo), Section 5.2, Section 5.3 and Section 5.4 only, as of the Transfer Date, and all of the representations and warranties of Seller contained herein shall survive the Sale Date and the Transfer Date:

Section V.1 Mortgage Loans and Servicing Rights.

(a) General Compliance. Each Mortgage Loan and the related Servicing Rights conform in all material respects to Applicable Requirements, and each Mortgage Loan was eligible for sale to, insurance by, or pooling to back securities issued or guaranteed by, an Investor and applicable Agency, and/or Insurer upon such sale, issuance of insurance or pooling. Each Mortgage Loan has been originated, underwritten, closed, funded, sold, pooled and serviced in compliance with all Applicable Requirements. Seller is not otherwise in default with respect to Seller's obligations under the applicable Servicing Agreement or Applicable Requirements. Each Servicing Agreement provides for non-recourse servicing and no Servicing Agreement contains any provisions that would reasonably be expected to impose upon the Servicer any obligations or restrictions, e.g., foreclosure or loan modification restrictions, in addition to those typically imposed upon servicers of standard Investor servicing rights that would apply to Purchaser as the transferee of the Servicing Rights.

(b) Mortgage Loans as Described. The information set forth in the Mortgage Loan Schedule and Offering Information, contained in each Mortgage File, or contained in any Electronic Data File, and all other information provided by or on behalf of Seller with respect to the Servicing Rights and the related Mortgage Loans, including all information regarding Advances, is true, correct and complete in all material respects, as of the date provided or indicated therein. The Servicing Rights and the related Mortgage Loans satisfy and are in conformance with the specifications, restrictions and assumptions contained in this Agreement. Except as identified on the Mortgage Loan Schedule, no Mortgage Loan is a Bankruptcy Loan, Foreclosure Loan, Litigation Loan or CARES Act Forbearance Loan.

(c) Payments Current. Except as set forth on the Mortgage Loan Schedule, all payments required to be made on or prior to the Sale Date for the Mortgage Loan under the terms of the Mortgage Note have been made and credited, and all monies received with respect to each Mortgage Loan have been properly accounted for, and if required under Applicable Requirements, applied.

(d) Outstanding Charges. All taxes, governmental assessments, insurance premiums, water, sewer and municipal charges, leasehold payments or ground rents which previously became due and owing have been paid or an escrow of funds has been established in an amount sufficient to pay for every such item which remains unpaid and which has been assessed but is not yet due and payable. Seller has not advanced funds, or induced, solicited or knowingly received any advance of funds by a party other than the Mortgagor, directly or indirectly, for the payment of any amount required under the Mortgage Loan, except for interest accruing from the date of the Mortgage Note or date of disbursement of the Mortgage Loan proceeds, whichever is earlier, to the day which precedes by one month the due date of the first installment of principal and interest.

(e) Original Terms Unmodified. The terms of the Mortgage Note and Mortgage have not been impaired, waived, altered or modified in any respect, except by a written instrument which has been recorded, if required by Applicable Requirements, and which is contained in the Collateral Files. The substance of any such waiver, alteration or modification

has been approved, if required under Applicable Requirements, by an Investor and the applicable Insurer, and its terms are reflected on the Mortgage Loan Schedule. No Mortgagor has been released, in whole or in part, except in connection with an assumption agreement approved by the applicable Insurer, and which assumption agreement is part of the Collateral File delivered to the Document Custodian and the terms of which are reflected in the Mortgage Loan Schedule.

(f) No Defenses. The Mortgage Loan is not subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury, nor will the operation of any of the terms of the Mortgage Note or the Mortgage, or the exercise of any right thereunder, render either the Mortgage Note or the Mortgage unenforceable, in whole or in part, and no such right of rescission, set-off, counterclaim or defense has been asserted with respect thereto, and no Mortgagor was a debtor in any state or federal bankruptcy or insolvency proceeding at the time the Mortgage Loan was originated.

(g) Hazard Insurance. Pursuant to the terms of the Mortgage, all buildings or other improvements upon the Mortgaged Property are insured by a Qualified Insurer against loss by fire, hazards of extended coverage and such other hazards as are customary in the area where the Mortgaged Property is located pursuant to insurance policies conforming to the requirements of the Investors. If the Mortgaged Property is in an area identified in the Federal Register by the Federal Emergency Management Agency as having special flood hazards (and such flood insurance has been made available), a flood insurance policy meeting the requirements of the current guidelines of the federal Flood Insurance Administration is in effect, which policy conforms to all Applicable Requirements. All individual insurance policies contain a standard mortgagee clause naming Originator and its successors and assigns as mortgagee, and all premiums thereon have been paid. Each Mortgage obligates the Mortgagor thereunder to maintain the hazard insurance policy at the Mortgagor's cost and expense, and on the Mortgagor's failure to do so, authorizes the holder of the Mortgage to obtain and maintain such insurance at such Mortgagor's cost and expense, and to seek reimbursement of such cost and expense from the Mortgagor. Where required by state law or regulation, each Mortgagor has been given an opportunity to choose the carrier of the required hazard insurance, provided the policy is not a "master" or "blanket" hazard insurance policy covering the common facilities of a planned unit development. Each hazard insurance policy is the valid and binding obligation of the related Insurer, is in full force and effect, and will be in full force and effect and inure to the benefit of Purchaser upon the consummation of the Transaction. Seller has not engaged in, and has no knowledge of any Mortgagor's having engaged in, any act or omission that would impair the coverage of any such policy, the benefits of the endorsement provided for herein, or the validity and binding effect of either, including no unlawful fee, commission, kickback or other unlawful compensation or value of any kind has been or will be received, retained or realized by any attorney, firm or other person or entity, and no such unlawful items have been received, retained or realized by Seller.

(h) Compliance with Applicable Requirements. Seller and each Originator and Prior Servicer have complied with Applicable Requirements pertaining to the Mortgage Loans and related Servicing Rights, including the federal Fair Housing Act, federal Equal Credit Opportunity Act and Regulation B, federal Fair Credit Reporting Act, federal Truth in Lending

Act and Regulation Z, National Flood Insurance Act of 1968, federal Flood Disaster Protection Act of 1973, federal Real Estate Settlement Procedures Act and Regulation X, federal Fair Debt Collection Practices Act, federal Home Mortgage Disclosure Act, and state consumer credit and usury codes and laws. In addition, all Mortgage Loans have been originated with (and, in particular, the Mortgage Loan Documents contain) late fee provisions that fully comply with all applicable federal, state and local laws, regulations and Applicable Requirements and that are fully enforceable by Purchaser against each Mortgagor. Each Originator and Prior Servicer was (during the period in which they held and transferred such interest) qualified to do business, and had all requisite licenses, permits and approvals, in the jurisdictions in which the applicable Mortgaged Properties are located, except where the failure to possess such qualifications, licenses, permits and approvals would not materially and adversely affect the enforceability of the Mortgage Loan Documents by Purchaser or the liability of the Purchaser.

(i) No Satisfaction of Mortgage. Each Mortgage has not been satisfied, cancelled, subordinated or rescinded, in whole or in part, and the related Mortgaged Property has not been released from the lien of the Mortgage, in whole or, except as permitted under Applicable Requirements, in part, nor has any instrument been executed that would cause or result in any such release, cancellation, subordination or rescission. Seller has not waived the performance by the Mortgagor of any actions if the Mortgagor's failure to perform such action would cause the Mortgage to be in default, nor has Seller waived any default resulting from any action or inaction of the Mortgagor.

(j) Location and Type of Mortgaged Property. The Mortgaged Property is a fee simple property located in the state identified in the Mortgage Loan Schedule and consists of a parcel of real property with a detached single family residence erected thereon, or a two- to four-family dwelling, or an individual condominium unit in a low-rise condominium project, or an individual unit in a planned unit development, provided, however, that any condominium project or planned unit development shall conform with an Investor requirements regarding such dwellings, and no residence or dwelling is a mobile home or a manufactured dwelling not affixed to a permanent structure or not titled as real property or otherwise not eligible under Applicable Requirements. No portion of the Mortgaged Property is used for commercial purposes. With respect to Mortgage Loans that are secured by a leasehold estate, (i) the lease is valid, in full force and effect, and conforms to all of Investor's requirements for leasehold estates; (ii) all rents and other payments due under the lease have been paid; (iii) the lessee is not in default under any provision of the lease; (iv) the term of the lease exceeds the maturity date of the related Mortgage Loan by at least five years; and (v) the terms of the lease provide a mortgagee with an opportunity to cure any defaults.

(k) Valid First Lien. The Mortgage is a valid, subsisting, enforceable and perfected first lien on the Mortgaged Property, including all buildings on the Mortgaged Property and all installations and mechanical, electrical, plumbing, heating and air conditioning systems located in or annexed to such buildings, and all additions, alterations and replacements made at any time with respect to the foregoing. The lien of the Mortgage is subject only to:

(i) the lien of current real property taxes and assessments not yet due and payable;

(ii) covenants, conditions and restrictions, rights of way, easements and other matters of the public record as of the date of recording acceptable to mortgage lending institutions generally and specifically referred to in the lender's title insurance policy delivered to the Originator of the Mortgage Loan and (A) referred to or otherwise considered in the appraisal made for the Originator of the Mortgage Loan or (B) which do not adversely affect the Appraised Value of the Mortgaged Property set forth in such appraisal; and

(iii) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by the mortgage or the use, enjoyment, value or marketability of the related Mortgaged Property.

Any security agreement, chattel mortgage or equivalent document related to and delivered in connection with the Mortgage Loan establishes and creates a valid, subsisting and enforceable first lien and first priority security interest on the property described therein and Seller has full right to sell and assign the same to Purchaser.

(l) Validity of Mortgage Documents. The Mortgage Note and the Mortgage are genuine, and each is the legal, valid and binding obligation of the maker thereof enforceable in accordance with its terms. All parties to the Mortgage Note and the Mortgage and any other related agreement had legal capacity to enter into the Mortgage Loan and to execute and deliver the Mortgage Note and the Mortgage and any other related agreement, and the Mortgage Note and the Mortgage have been duly and properly executed by such parties.

(m) Full Disbursement of Proceeds. The Mortgage Loan has been closed and the proceeds of the Mortgage Loan, including any escrow for repairs or improvements, have been fully disbursed and there is no requirement for future advances thereunder, and any and all requirements as to completion of any on-site or off-site improvement and as to disbursements of any escrow funds therefore have been complied with in accordance with Applicable Requirements. All costs, fees and expenses incurred in making or closing the Mortgage Loan and the recording of the Mortgage were paid, and the Mortgagor is not entitled to any refund of any amounts paid or due under the Mortgage Note or Mortgage.

(n) PMI Policy. Each Mortgage Loan, if required by an Investor or Applicable Requirements, is insured as to payment defaults by a PMI Policy in the amount required, and by a Qualified Insurer, and all provisions of such PMI Policy have been and are being complied with, such PMI Policy is in full force and effect and all premiums due thereunder have been paid. There has been no event or condition which may result in the revocation, cancellation or expiration of such coverage. There are no defenses, counterclaims, or rights of set-off against Seller or Prior Servicer affecting the validity or enforceability of any PMI Policy with respect to a Mortgage Loan. Any Mortgage Loan subject to a PMI policy obligates the Mortgagor thereunder to maintain the PMI policy and to pay all premiums and charges in

connection therewith. No Mortgage Loan is subject to a lender paid mortgage insurance policy for which any premiums are payable as of or after the Sale Date.

(o) Title Insurance. Each Mortgage Loan is covered by either (i) an attorney's opinion of title and abstract of title the form and substance of which is acceptable to an Investor, or (ii) an American Land Title Association mortgagee title insurance policy or other generally acceptable form of policy of insurance acceptable to an Investor issued by a title insurer acceptable to an Investor, and qualified to do business in the jurisdiction where the related Mortgaged Property is located, insuring, subject only to the exceptions listed in Subsection (k) above, as to the first priority lien of the Mortgage in the original principal amount of the Mortgage Loan. If the Mortgaged Property is a condominium unit located in a state in which a title insurer will generally issue an endorsement, then the related title insurance policy contains an endorsement insuring the validity of the creation of the condominium form of ownership with respect to the project in which such unit is located. Where required by state law or regulation, the Mortgagor has been given the opportunity to choose the carrier of the required mortgage title insurance. Additionally, such mortgagee title insurance policy affirmatively insures ingress and egress, and against encroachments by or upon the Mortgaged Property or any interest therein. The Originator and its successors and assigns is the named insured and the sole insured of such mortgagee title insurance policy, the assignment to Purchaser of Seller's interest in such mortgagee title insurance policy does not require the consent of or notification to the insurer (or if such consent or notification is required, such consent has been received, or such notification has been given), and such mortgagee title insurance policy is in full force and effect and will be in force and effect and will inure to the benefit of Purchaser upon the consummation of the Transaction. No claims have been made under such mortgagee title insurance policy, and no prior holder of the Mortgage, including Seller, has done, by act or omission, anything that would impair the coverage of such lender's title insurance policy, including no unlawful fee, commission, kickback or other unlawful compensation or value of any kind has been or will be received, retained or realized by any attorney, firm or other person or entity, and no such unlawful items have been received, retained or realized by Seller.

(p) No Defaults. Except as disclosed on the Mortgage Loan Schedule, there is no default, breach, violation or event of acceleration existing under the Mortgage or the Mortgage Note and, to Seller's knowledge, no event which, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a default, breach, violation or event of acceleration, and neither Seller nor its predecessors have waived any default, breach, violation or event of acceleration.

(q) No Mechanics' Liens. To Seller's knowledge, there are no mechanics' or similar liens or claims which have been filed for work, labor or material (and no rights are outstanding that under the law could give rise to such liens) affecting the related Mortgaged Property which are or may be liens prior to, or equal or coordinate with, the lien of the related Mortgage.

(r) Location of Improvements; No Encroachments. All improvements located on or being part of each Mortgaged Property lie wholly within the boundaries and building

restriction lines of such Mortgaged Property (and, if such Mortgaged Property is a condominium unit, such improvements lie wholly within the project) and no improvements on adjoining properties encroach upon such property. No improvement located on or being part of the Mortgaged Property is in violation of any applicable zoning law or regulation.

(s) Payment Terms. The Mortgage Loans have an original term to maturity of not more than thirty (30) years, with interest payable in arrears on the first (1st) day of each month. No Mortgage Loan contains terms or provisions which would result in negative amortization. No Mortgage Loan is evidenced by a Mortgage Note providing for bi-weekly payments.

(t) Customary Provisions. The Mortgage contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the Mortgaged Property of the benefits of the security provided thereby, including, (i) in the case of a Mortgage designated as a deed of trust, by trustee's sale, and (ii) otherwise by judicial Foreclosure. Upon default by a Mortgagor on a Mortgage Loan and Foreclosure on, or trustee's sale of, the Mortgaged Property pursuant to the proper procedures, the holder of the Mortgage Loan will be able to deliver good and merchantable title to the Mortgaged Property. There is no homestead or other exemption available to a Mortgagor which would interfere with the right to sell the Mortgaged Property at a trustee's sale or the right to foreclose the Mortgage.

(u) Occupancy of the Mortgaged Property. As of the Sale Date, the Mortgaged Property is lawfully occupied under applicable law and all inspections, licenses and certificates required to be made or issued with respect to all occupied portions of the Mortgaged Property and, with respect to the use and occupancy of the same, including certificates of occupancy and fire underwriting certificates, have been made or obtained from the appropriate authorities. To the extent required by Applicable Requirements, the Mortgagor represented at the time of origination of the Mortgage Loan that the Mortgagor would occupy the Mortgaged Property as the Mortgagor's primary residence.

(v) No Additional Collateral. The Mortgage Note is not and has not been secured by any collateral except the lien of the corresponding Mortgage and the security interest of any applicable security agreement or chattel mortgage referred to in Subsection (k) above.

(w) Deeds of Trust. In the event the Mortgage constitutes a deed of trust, a trustee, duly qualified under applicable law to serve as such, has been properly designated and currently so serves and is named in the Mortgage, and no fees or expenses are or will become payable by Purchaser to the trustee under the deed of trust, except in connection with a trustee's sale after default by the Mortgagor.

(x) Condominiums/Planned Unit Developments. If the Mortgaged Property is a condominium unit or a planned unit development (other than a *de minimis* planned unit development) such condominium or planned unit development project meets an Investor eligibility requirements for sale to an Investor or is located in a condominium or planned unit development project that has received an Investor project approval, and the representations and

warranties required by an Investor with respect to such condominium or planned unit development have been made and remain true and correct in all respects.

(y) Due on Sale. Each Mortgage contains an enforceable provision (to the extent not prohibited by law) for the acceleration of the payment of the unpaid principal balance of the related Mortgage Loan in the event that the related Mortgaged Property is sold or transferred without the prior written consent of the Mortgagee thereunder.

(z) No Buydown Provisions; No Graduated Payments or Contingent Interests. The Mortgage Loan does not contain provisions pursuant to which Monthly Payments are, or will in the future, be paid or partially paid with funds deposited in any separate account established by Seller, the Mortgagor or anyone on behalf of the Mortgagor, or paid by any source other than the Mortgagor nor does it contain any other similar provisions currently in effect which may constitute a "buydown" provision; no Mortgage Loan is a graduated payment loan, qualifying assumption loan or a reverse mortgage loan; no Mortgage Loan has a shared appreciation or other contingent interest feature.

(aa) Consolidation of Future Advances. Any advances of loan proceeds made have been consolidated with the outstanding principal amount secured by the Mortgage, and the secured principal amount, as consolidated, bears a single interest rate and single repayment term. The lien of the Mortgage securing the consolidated principal amount is expressly insured as having first lien priority by a title insurance policy, an endorsement to the policy insuring the mortgagee's consolidated interest or by other title evidence acceptable to an Investor. The consolidated principal amount does not exceed the original principal amount of the Mortgage Loan.

(ab) Mortgaged Property Undamaged. There is no proceeding pending or, to Seller's knowledge, threatened, for the total or partial condemnation of the Mortgaged Property. Except as disclosed on the Mortgage Loan Schedule, the Mortgaged Property is undamaged by waste, fire, earthquake or earth movement, windstorm, flood, tornado or other casualty so as to affect adversely the value of the Mortgaged Property as security for the Mortgage Loan or the use for which the premises were intended or for which the Servicer would have liability. With respect to any Mortgage Loan for which the related Mortgaged Property is located in a disaster area declared by any federal or state government in the twelve (12) months prior to the Sale Date, Seller has obtained a property inspection of the Mortgaged Property conducted following the disaster event and has been in contact with the Mortgagor regarding any material damage to such property and/or hardship to the Mortgagor resulting from such disaster to the extent required by the applicable Agency and has complied with all other disaster relief requirements of the applicable Agency.

(ac) Collection and Servicing Practices. The servicing and collection practices used with respect to each Mortgage Loan have been in accordance with Applicable Requirements in all material respects.

(ad) Escrow Deposits. All Mortgage Escrow Payments are in the possession of, or under the control of, Seller and there exist no deficiencies in connection therewith for

which customary arrangements for repayment thereof have not been made. All Mortgage Escrow Payments have been calculated, collected and maintained in compliance with Applicable Requirements. No escrow deposits or Mortgage Escrow Payments or other charges or payments have been capitalized under the Mortgage or the Mortgage Note except those that were done in accordance with Applicable Requirements. Seller or Prior Servicer has within the last twelve (12) months (unless such Mortgage was originated within such twelve (12) month period) analyzed the required Mortgage Escrow Payments for each Mortgage and adjusted the amount of such payments so that, assuming all required payments are timely made, any deficiency will be eliminated on or before the first anniversary of such analysis, or any overage will be refunded to the Mortgagor, in accordance with Applicable Requirements.

(ae) Servicemembers Civil Relief Act. Except as disclosed on the Mortgage Loan Schedule, the Mortgagor has not notified Seller of, and Seller has no knowledge of any relief requested or allowed to the Mortgagor under the Servicemembers Civil Relief Act.

(af) Appraisals. With respect to each Mortgage Loan, there is either (i) an automated property valuation report or (ii) an appraisal on an Investorapproved form (or a narrative residential appraisal) of the related Mortgaged Property that conforms to Applicable Requirements and that was signed prior to the approval of such Mortgage Loan application by a Qualified Appraiser, appointed by Seller or the Originator of such Mortgage Loan, as appropriate, who has no interest, direct or indirect, in the Mortgaged Property or in any loan made on the security thereof, and whose compensation is not affected by the approval or disapproval of such Mortgage Loan.

(ag) Environmental Matters. To Seller's knowledge, the Mortgaged Property is free from any and all toxic or hazardous substances and there exists no violation of any local, state or federal environmental law, rule or regulation. There is no pending action or proceeding directly involving any Mortgaged Property of which Seller is aware in which compliance with any environmental law, rule or regulation is an issue; and to Seller's knowledge, nothing further remains to be done to satisfy in full all requirements of each such law, rule or regulation consisting a prerequisite to use and enjoyment of said property.

(ah) No Construction Loans. No Mortgage Loan was made in connection with (i) the construction or rehabilitation of a Mortgaged Property or (ii) facilitating the trade-in or exchange of a Mortgaged Property.

(ai) [Reserved].

(aj) Regarding the Mortgagor. The Mortgagor is one or more natural persons or is an eligible living trust acceptable under Applicable Requirements.

(ak) [Reserved].

(al) [Reserved].

(am) Predatory Lending Regulations; High Cost Loans. None of the Mortgage Loans are classified as (a) “high cost” loans under the Home Ownership and Equity Protection Act of 1994 or (b) “high cost,” “threshold,” “covered” or “predatory” loans under any other applicable state, federal or local law. None of the Mortgage Loans violate an Investor’s or Agency’s predatory lending restrictions.

(an) Single Premium Credit Life Insurance. None of the proceeds of the Mortgage Loan have been used to finance single premium credit life insurance policies.

(ao) Filing of Reports. Seller has filed in a timely manner all reports required by the Investors and Insurers with respect to the Mortgage Loans and the Servicing Rights.

(ap) Representations and Warranties to the Investors and Insurers. All representations and warranties made by Seller to the Investors and Insurers in connection with the Mortgage Loans and Servicing Rights in any Servicing Agreement or otherwise were true and correct as of the date made and are incorporated herein by reference and inure to the benefit of Purchaser.

(aq) No Bond Program Loans. None of the Mortgage Loans were originated pursuant to, or in accordance with, any state, county or other housing finance agency bond program.

(ar) No Fraud. No misrepresentation, error or fraudulent action or omission has occurred on the part of Seller or any other Person (including without limitation any borrower, appraiser, builder or developer, credit reporting agency, settlement agent, realtor, broker or correspondent) in connection with the origination and/or servicing of any Mortgage Loan, any Servicing Agreement or the application of any insurance proceeds with respect to a Mortgage Loan or the Mortgaged Property.

(as) OFAC. Seller has complied with all anti-money laundering laws and regulations applicable to it as originator, seller and Servicer, and has established an anti-money laundering compliance program as required by such anti-money laundering laws and regulations.

(at) No Refinance Arrangement. There is no application submitted by a Mortgagor to Seller or any of its Affiliates to refinance any Mortgage Loan provided that this Subsection 5.01(tt) shall not apply to any applications that have been terminated by the related Mortgagor or that have been declined by Seller or its Affiliates.

(au) Repurchased or Indemnification Loans. None of the Mortgage Loans are subject to any demand or request for repurchase by an Investor or any other Person for which the relevant Investor cure period has expired. None of the Mortgage Loans are subject to any indemnification or “make whole” agreement, reimbursement arrangement or similar agreement are arrangement pursuant to which Purchaser may be required to indemnify, make whole or reimburse an Investor, Insurer or any other Person for any Loss or other amounts related to such Mortgage Loans.

(av) Government Insurance. No Mortgage Loan is insured by the FHA or guaranteed by the VA or USDA or is a HUD repossessed loan.

(aw) [Reserved].

(ax) Servicing Fee/Initial Servicing Rights. The Servicing Fee reflected on the Electronic Data File and Mortgage Loan Schedule is net of guaranty fees and lender paid mortgage insurance premiums. The Servicing Rights being sold in this transaction are the Servicing Rights initially created with respect to the Mortgage Loan and have not been and are not currently subject to any agreement purporting to sell “excess yield” or “excess servicing fees” and there has been no previous modification or amendment relating to the Servicing Rights or Servicing Fees, or any sale, transfer, conveyance or assignment of less than 100% of the Servicing Rights initially created with respect to the Mortgage Loans.

Section V.2 Custodial Accounts. All Custodial Accounts required to be maintained by Seller have been established and continuously maintained in accordance with Applicable Requirements. Custodial Funds received by Seller have been credited to the appropriate Custodial Account, and have been retained in and disbursed from the Custodial Accounts in accordance with Applicable Requirements. In accordance with Applicable Requirements, Seller has analyzed the payments required to be deposited into the Custodial Accounts and adjusted the payment thereto in order to eliminate any deficiency. For the avoidance of doubt, prior to transferring the Custodial Funds, Seller shall fully fund the Custodial Account to take into account all prepaid principal, including prepayments in full and curtailments, and interest received with respect to the Mortgage Loans. With regard to Mortgage Loans that provide for Mortgage Escrow Payments, Seller and each Originator and Prior Servicer has (a) computed the amount of such payments in accordance with Applicable Requirements, (b) paid on a timely basis all charges and other items to be paid out of the Mortgage Escrow Payments, and when required by the applicable Servicing Agreements has advanced its own funds to pay such charges and items, and (c) delivered to the related Mortgagors the statements and notices required by Applicable Requirements in connection with Custodial Accounts, including statements of taxes and other items paid out of the Mortgage Escrow Payments and notices of adjustments to the amount of the Mortgage Escrow Payments.

Section V.3 Advances. The Advances to be reimbursed by Purchaser hereunder are valid and subsisting accounts owing to Seller, made pursuant to and in accordance with Applicable Requirements, are eligible for reimbursement from an Investor or Insurers, are carried on the books of Seller at values determined in accordance with generally accepted accounting principles and are not subject to any set-off or claim that could be asserted against Seller or a Servicer. Each Advance has supporting backup documentation in original, electronic or imaged form, Seller has not received any notice from an Investor, any Insurer or other Person in which an Investor, Insurer or Person disputes or denies a claim by Seller for reimbursement in connection with an Advance.

Section V.4 Investor Remittances and Reporting. Seller and, to the extent applicable, each Originator and Prior Servicer, have remitted or otherwise made available to an Investor (i) all principal and interest payments received to which an Investor is entitled under the

applicable Servicing Agreements, including any guaranty fees, and (ii) all Advances of principal and interest payments required by such Servicing Agreements. In accordance with Applicable Requirements, Seller has prepared and submitted to an Investor all reports in connection with such payments required by Applicable Requirements.

Section V.5 Mortgage File; Pools. Each Mortgage File contains each of the documents and instruments specified by this Agreement and the Servicing Transfer Instructions to be included therein and required to be maintained under Applicable Requirements. All books, records and accounts of Seller and Seller's document custodian with respect to the Servicing Rights and the Mortgage Loans are materially complete, properly maintained, and accurately reflect the subject matter thereof in all material respects. All Pools are eligible for initial certification, final certification and/or recertification, as applicable, in accordance with Applicable Requirements. Seller shall cooperate with Purchaser to obtain by the appropriate deadline any required certification or recertification of Pools in connection with the transfer of Servicing Rights to Purchaser hereunder. The Collateral Files delivered to the Document Custodian will include all documents necessary in order for the Document Custodian to recertify the Pools in accordance with Applicable Requirements. Each Mortgage Loan included in a Pool meets all eligibility requirements for inclusion in such Pool, and Seller caused each Pool to be properly formed. Each Pool is properly balanced and fully funded.

Section V.6 Good Title. Subject to Applicable Requirements, Seller is the sole owner and holder of all right, title and interest in and to the Servicing Rights. The sale, transfer and assignment by Seller to Purchaser of the Servicing Rights, and the instruments required to be executed by Seller and delivered to Purchaser pursuant to Applicable Requirements, are, and will be on the Sale Date and the Transfer Date, valid and enforceable in accordance with their terms and will effectively vest in Purchaser good and marketable title to the Servicing Rights, free and clear of any and all liens, claims, or encumbrances, except for those encumbrances required by Applicable Requirements or liens that shall be released on or prior to the Sale Date. Seller has full right and authority, subject to no interest (other than an Investor's interest), or agreement with, any other party to sell and assign the Servicing Rights to Purchaser pursuant to this Agreement.

Section V.7 Internal Audits. The Mortgage Loans have been subject to Seller's origination, servicing, quality control reviews and internal audits to no less a degree than other residential mortgage loans originated or serviced by Seller and such quality control review and internal audits have not revealed a material failure to comply with Applicable Requirements in connection with the Mortgage Loans.

Section V.8 No Recourse Obligation. None of the Servicing Agreements nor any other agreement or understanding applicable to any of the Mortgage Loans provides for a Recourse Obligation.

Section V.9 No Adverse Selection. No adverse selection was used by Seller in selecting the Servicing Rights to be sold by Seller to Purchaser hereunder.

Article VI

REPRESENTATIONS AND WARRANTIES OF PURCHASER

As an inducement to Seller to enter into this Agreement and to consummate the Transaction, Purchaser represents and warrants as follows (it being understood that, unless otherwise expressly provided in this Article VI, each such representation and warranty is made to Seller as of the Effective Date and the Sale Date and all of the representations and warranties of Purchaser contained herein shall survive the Sale Date):

Section VI.1 Due Organization and Good Standing. Purchaser is a corporation, duly organized, validly existing, and in good standing under the laws of New Jersey. Purchaser and its employees, agents and other personnel have in full force and effect (without notice of possible suspension, revocation or impairment) all required qualifications, permits, approvals, licenses, and registrations to conduct all activities in all states in which their activities with respect to the Mortgage Loans or the Servicing Rights require them to have such qualifications, permits, approvals, licenses, and registrations, except where the failure of Purchaser to possess such qualifications, licenses, permits, approvals and registrations would not have a material adverse effect on Seller.

Section VI.2 Authority and Capacity. Purchaser has all requisite organizational power, authority and capacity, to execute and deliver this Agreement and to perform all of its obligations hereunder.

Section VI.3 Effective Agreement. The execution, delivery and performance of this Agreement by Purchaser and consummation of the Transaction has been duly and validly authorized by all necessary corporate or other action by Purchaser; and this Agreement has been duly and validly executed and delivered by Purchaser, and this Agreement is a valid and legally binding agreements of Purchaser and enforceable against Purchaser in accordance with its terms, subject to bankruptcy, insolvency and similar laws affecting generally the enforcement of creditor's rights and the discretion of a court to grant specific performance.

Section VI.4 No Conflict. Neither the execution and delivery of this Agreement nor the consummation of the Transaction, nor compliance with its terms and conditions, shall violate, conflict with, result in the breach of, or constitute a default under, be prohibited by, or require any additional approval under any of the terms, conditions or provisions of Purchaser's articles of incorporation or bylaws, or of any material mortgage, indenture, deed of trust, loan or credit agreement or instrument to which Purchaser is now a party or by which it is bound, or of any order, judgment or decree of any court or governmental authority applicable to Purchaser.

Section VI.5 Consents, Approvals and Compliance. Except for Investor Consents, there is no requirement applicable to Purchaser to make any filing with, or to obtain any permit, authorization, consent or approval of, any Person as a condition to the lawful performance by Purchaser of its obligations hereunder. Purchaser is approved by and in good standing as a servicer with the Investors, and is approved and in good standing with each applicable Insurer, as

necessary, in order to purchase and assume responsibility for the Servicing Rights. Purchaser has complied with, and is not in default under, any law, ordinance, requirement, regulation, rule, or order applicable to its business or properties, the violation of which would reasonably be expected to materially and adversely affect the Servicing Rights, the operations or financial condition of Purchaser or its ability to perform its obligations hereunder.

Section VI.6 Litigation. There is no litigation, claim, demand, proceeding or governmental investigation existing or pending, or to Purchaser's knowledge, threatened in writing, or any order, injunction or decree outstanding, against or relating to Purchaser that would reasonably be expected to materially and adversely affect or delay the performance by Purchaser of its obligations under this Agreement.

Section VI.7 Ability to Perform. The financial condition of Purchaser is adequate to support the performance by Purchaser on a timely basis of Purchaser's purchase, potential indemnification and other obligations under this Agreement. Purchaser does not believe, nor does it have any reason or cause to believe, that it cannot perform each and every covenant contained in this Agreement.

Section VI.8 Sale Treatment. Purchaser intends that its purchase of the Servicing Rights pursuant to this Agreement will be afforded sale treatment for accounting and tax purposes.

Section VI.9 Fair Consideration. The consideration paid by Purchaser upon its purchase of the Servicing Rights under this Agreement constitutes fair consideration and reasonably equivalent value for the Servicing Rights.

Article VII

COVENANTS

Section VII.1 Investor Consent. The purchase and sale of the Servicing Rights are subject to approval by the Investors. Seller shall use its commercial best efforts to obtain Investor Consents promptly prior to the Sale Date, and Purchaser shall cooperate with Seller in obtaining Investor Consents. Upon receipt of any Investor Consent, Seller shall deliver to Purchaser by electronic mail. Seller shall pay any and all costs of securing Investor Consents for the Transaction, including fees to an Investor for the transfer of the Servicing Rights in accordance with Applicable Requirements.

Section VII.2 Transfer Date. Seller shall notify Purchaser in writing, within three (3) Business Days of an Investor notice if (a) an Investor advises Seller that the Transfer Date, for all or any portion of the Servicing Rights, will be a date other than a scheduled Transfer Date, or (b) an Investor advises Seller that all or any portion of the Servicing Rights may not be transferred to Purchaser. Any scheduled Transfer Date may be delayed upon the written agreement of the Parties.

To the extent that the Mortgage Loans are being subserviced on behalf of Seller, Seller's delivery obligations under this Agreement shall be read to include an obligation of Seller to cause its servicer to perform such obligations, as applicable. Seller agrees to cause any such servicer to perform Seller's obligations in effecting the transfer of the Servicing Rights in accordance with Applicable Requirements, and conform with all of the requirements of this Agreement applicable to Seller, as if performed by Seller directly, and shall remain liable for all of its obligations under this Agreement and the Interim Servicing Requirements regardless of whether performed by Seller directly or by its servicer.

Section VII.3 Data Files, Mortgage Files and Related Materials.

(a) Conversion Data Files. In accordance with the dates and format specified in the Servicing Transfer Instructions, Seller shall provide Purchaser with an Electronic Data File or Electronic Data Files containing the information necessary to service the Mortgage Loans in accordance with Applicable Requirements so as to permit Purchaser to test the conversion of Seller's records to Purchaser's data processing system. In addition, Seller shall provide master Electronic Data File(s) to Purchaser on such date and in such format as specified in the Servicing Transfer Instructions to support Purchaser's conversion pre-planning activities. On the Transfer Date, Seller shall cause its books and records including its servicer's servicing system to accurately reflect the transfer of the Servicing Rights to Purchaser. In the event that any such Electronic Data File or the information required to be contained on such Electronic Data File is not in the format required by the Servicing Transfer Instructions, Seller shall take all steps necessary to correct such deficiency or, in the event that any such deficiency cannot be cured to the reasonable satisfaction of Purchaser, Seller shall pay Purchaser the amount incurred by Purchaser to cure such deficiencies and to reimburse Purchaser for any Losses resulting therefrom.

(b) Packaging and Shipment of Mortgage Files.

(i) At Seller's sole expense, Seller shall (or shall cause its document custodian to) package and ship to Purchaser, or Purchaser's designee, all Mortgage Files pertaining to the Mortgage Loans as follows, and as may be further described in the Servicing Transfer Instructions:

(A) Within fifteen (15) days following the Transfer Date, or such other time period acceptable under Investor requirements or as approved by the applicable Investor, all Collateral Files to Purchaser's Document Custodian, which, if Seller uses Purchaser's Document Custodian, may be by internal delivery and segregation at such Document Custodian, evidencing Purchaser's ownership thereof; and

(B) Within thirty (30) days prior to the Transfer Date, all Servicing Files and the related servicing records to Purchaser or its designee in the manner set forth in Section 7.3(b)(iii) below, with any remaining Servicing Files for the period through the Transfer Date to be delivered within five (5) Business Days following the Transfer Date.

(ii) Seller shall provide Purchaser with prior written notice of the carrier, shipping arrangements and insurance arrangements with respect to the delivery of the Mortgage Files. In the event that any document required to be delivered to Purchaser hereunder is missing, defective, not in accordance with Applicable Requirements or otherwise not delivered, Seller shall obtain and/or cure all such documents at Seller's sole cost and expense. Each Mortgage File shall clearly indicate Seller's loan numbers. All documents included in the Mortgage Files, and all other documents required to be delivered to Purchaser by Seller pursuant to this Agreement which are or at any times come into the actual or constructive possession or control of Seller and have not been delivered to Purchaser, if any, are and shall be held by Seller in trust for the benefit of Purchaser, and in a custodial capacity only. No such documents shall be destroyed unless electronically imaged, and then only to the extent such imaging would comply with Applicable Requirements, and upon the written request of Purchaser, Seller shall promptly deliver copies of such documents to Purchaser or Purchaser's Document Custodian.

(iii) Notwithstanding anything to the contrary contained in this Agreement, with respect to each Mortgage Loan, and except as otherwise provided in the Servicing Transfer Instructions, Seller shall provide the Servicing File, and the related servicing records in Seller's possession, required to be delivered to Purchaser by means of stored electronic data, properly indexed, in a mutually agreeable format, containing the relevant information in the form of stored electronic images of all documents relating to the Mortgage Loan.

(c) Assignments and Related Matters. Seller shall, at its expense and in accordance with all Applicable Requirements, (i) for each Mortgage Loan registered with MERS, follow the requirements of the Investors and MERS to reflect in the records of MERS the transfer of the servicing from Seller to Purchaser and (ii) for each Mortgage Loan not registered with MERS, (A) prepare and record, or cause to be prepared and recorded, in each case as required by the Investors, all Assignments of Mortgages from Seller to Purchaser and all prior intervening assignments; and (C) endorse or cause to be endorsed the Mortgage Notes in blank without recourse or as otherwise required by the Investors. Seller shall deliver to Purchaser or the Document Custodian all original or copies of recorded Assignments of Mortgages promptly upon receipt of same from the applicable recording offices or otherwise.

(d) Recertification. Seller shall take such steps as are necessary to enable Purchaser or its designee, after the Transfer Date, to obtain by the deadline required by Applicable Requirements any required certification or recertification of Pools or Mortgage Loans in connection with the transfer of Servicing Rights to Purchaser hereunder and/or the transfer of the Collateral Files to a new Document Custodian, including delivery of Collateral Files in accordance with the provisions of this Agreement and Servicing Transfer Instructions. If Purchaser or its designee or the Document Custodian returns a document contained in the Collateral File to Seller for correction or because of missing information, Seller, at its own cost and expense, shall promptly correct the document or insert the appropriate information, record such document if required, and return the document to Purchaser, its designee or the Document

Custodian, as applicable. If Purchaser cannot obtain the certification or recertification by an Investor of any Mortgage Loan as a result of a failure by Seller to deliver a document required to be included in the Collateral File, then, upon the request of Purchaser, Seller shall (i) reimburse Purchaser for any reasonable and documented out-of-pocket expense or cost incurred by Purchaser in attempting to obtain or correct, as applicable, a missing, inaccurate or incomplete document or the certification or recertification by the required deadline and (ii) reimburse and indemnify Purchaser for any Losses in accordance with the provisions of this Agreement.

(e) Document Custodian. [OMITTED]

Section VII.4 Remittances. Seller shall make the first payment of principal and interest due following the Transfer Date to the Investors or other appropriate parties, and shall pay all related guaranty fees, lender paid primary mortgage insurance premiums or compensating interest for the applicable month. As set forth in Section 3.4, in the event the payments so received by Seller are insufficient to pay these amounts, Purchaser shall provide to Seller the additional funds necessary to pay these amounts by wiring immediately available funds to Seller no later than one (1) Business Day prior to Investor-required remittance date and time.

Section VII.5 Interim Servicing. Seller shall interim service the Mortgage Loans for the benefit of Purchaser and the Investors during the period between the Sale Date and through the Transfer Date (the "Interim Servicing Period") in accordance with the Interim Servicing Requirements. For the avoidance of doubt, Seller shall be responsible for any Investor guaranty fees, lender paid primary mortgage insurance premiums or compensating interest relating to the Mortgage Loans incurred with respect to the period on or prior to the Sale Date, which amounts may be payable after the Sale Date.

Section VII.6 Forwarding of Payments and Other Items. With respect to Mortgage Loans that have escrow impound accounts, all bills (including tax and insurance bills) pertaining to the Mortgage Loans which are due and payable on or before the Transfer Date, with respect to which the earlier of the payment deadline to take advantage of a discount or the payment deadline to avoid a penalty is before, on or within thirty (30) days after the Transfer Date, shall be paid by Seller provided that the bills have been released prior to the Transfer Date, and Seller shall pay such bills in accordance with Applicable Requirements. All Mortgage Loan Payments and other funds or payments, all other bills, and all transmittal lists or any other information used to pay bills pertaining to the Mortgage Loans, and all documents, notices, correspondence and other documentation related to the Mortgage Loans, that are received by Seller after the Transfer Date shall be forwarded by Seller, at Seller's expense, in accordance with the Servicing Transfer Instructions. All penalties and interest due on any Mortgage Loan resulting from Seller's failure to pay a bill or to forward bills or other items to Purchaser as provided above shall be borne by Seller. Seller shall cooperate with Purchaser to obtain tax bills with respect to which the earlier of the payment deadline to take advantage of a discount or the payment deadline to avoid a penalty is between the thirty-first (31st) and sixtieth (60th) day after the Transfer Date. All documents, notices, correspondence and other documentation related to the Mortgage Loans that are received by Seller after the Transfer Date shall clearly indicate Seller's loan numbers.

Section VII.7 Assignment of Flood and Tax Service Contracts. Seller shall assign to Purchaser, effective as of the Transfer Date, fully paid, transferable, life of the loan flood zone determination contracts issued by an Approved Flood Zone Determination Company, and fully paid, transferable, life of the loan tax service contracts issued by an Approved Tax Service Company, related to all Mortgage Loans. Prior to the Transfer Date, Seller shall obtain the required consents, if any, to assign such contracts to Purchaser. Seller shall undertake all obligations under this Section at its sole cost and expense. In the event Seller does not assign a life of loan flood zone determination contract issued by an Approved Flood Zone Determination Company or a life of loan tax service contract issued by an Approved Tax Service Company with respect to any Mortgage Loan as described above, Purchaser shall obtain such contract and Seller shall reimburse Purchaser the lesser of (i) the actual cost of such contract and (ii) (a) \$6.50 per Mortgage Loan in the case of flood zone determination contracts and (b) \$70.00 per Mortgage Loan in the case of tax service contracts.

Section VII.8 Escrow Interest and Analysis. Seller shall pay interest on escrows through the day prior to the Transfer Date (and apply such interest to the related Custodial Account on and as of the day prior to the Transfer Date) to the extent interest with respect thereto is required to be paid under Applicable Requirements for the benefit of Mortgagors under the Mortgage Loans. Seller shall deliver to Purchaser appropriate information regarding the proper application of such interest in accordance with the Servicing Transfer Instructions. On or before the Transfer Date, Seller shall provide Purchaser with a listing of each Mortgage Loan for which an escrow analysis was performed within sixty (60) days prior to the Transfer Date and for which changes in the Mortgagor's escrow account payment amount therefore are pending.

Section VII.9 IRS Reporting. Without limiting Seller's obligations after the Transfer Date, Seller shall, at its sole cost and expense, prepare and file with the Internal Revenue Service all reports, forms, notices and filings required by the Code and rules, regulations and interpretations thereunder in connection with the Servicing Rights and Mortgage Loans, including the reporting of all interest paid by Seller for the account of Mortgagors under the Mortgage Loans for activity that occurs before the Transfer Date.

Section VII.10 Notification of Mortgagors, Insurance Companies, etc. If notices to Mortgagors are required pursuant to Applicable Requirements in connection with the transfer of Servicing Rights, by no later than thirty (30) days prior to the Transfer Date, each Party shall deliver to the other Party for approval (which approval shall not be unreasonably withheld or delayed) a form of Mortgagor notification letter in connection with the transfer of the Servicing Rights. Fifteen (15) days prior to the Transfer Date and otherwise in accordance with Applicable Requirements, Seller, at its expense, shall mail the approved form of notification to the Mortgagors of the transfer of the Servicing Rights and instruct the Mortgagors to deliver all Mortgage Loan Payments and all tax and insurance notices to Purchaser after the Transfer Date. Seller also shall, at its expense, notify any applicable taxing authority and credit bureaus, the custodian of the Collateral Files, Seller's electronic data processing servicing bureau, if applicable, and Insurers that the Servicing Rights are being transferred to Purchaser as of the Transfer Date. Purchaser, at its expense, shall prepare and mail notification to the Mortgagors of

the transfer of the Servicing Rights after the Transfer Date in accordance with Applicable Requirements.

Section VII.11 Non-Solicitation. As part of the sale and transfer contemplated hereunder, Seller shall sell, transfer, assign and convey to Purchaser all intangible rights related to the Servicing Rights, including the exclusive right to receive all, and to enter into arrangements that generate, Ancillary Fees with respect to the Mortgage Loans. From and after March 18, 2021, Seller has not and shall not, and shall cause its Affiliates, officers, directors, shareholders, managers, and employees, not to, directly or indirectly, during the remaining term of any of the Mortgage Loans, by telephone, by mail, by facsimile, by personal solicitation or otherwise, (a) take or assist in any action to solicit any Mortgagor for any purpose, including refinance, prepayment in full, home equity or insurance, (b) take or assist in any action to facilitate or encourage any Person to solicit the Mortgagors for any purpose, including for refinance prepayment in full, home equity or insurance, or (c) disseminate to any third party, for compensation or otherwise, any complete or partial list of the Mortgagors (collectively, "Solicitation Actions"). Seller further agrees to use its best efforts, including the exercise of any available contractual remedies, to cause any Affiliate, shareholder, originator, broker, Prior Servicer, agents and independent contractors working on Seller's behalf, to refrain from taking any Solicitation Action. Nothing in this Section 7.11 shall prohibit Seller or its Affiliates from (i) advertising campaigns directed to the general public at large or a portion thereof, including mass mailings based on commercially acquired mailing lists or databases, newspaper, radio, internet and television advertisements; (ii) responding to unsolicited inquiries from individual Mortgagors or (iii) engaging in such activities required by Applicable Requirements or Seller's regulators in connection with any loss mitigation prior to the Transfer Date. In the event that the terms of this Section 7.11 have been breached and any affected Mortgage Loan is refinanced or prepaid in full as a result of such breach, Seller shall pay to Purchaser (and Purchaser shall have the right to offset any such amounts against future payments required hereunder to be made by Purchaser to Seller) an amount equal to the applicable Purchase Price Percentage multiplied by the unpaid principal balance of such Mortgage Loan as of the date of refinance or prepayment in full.

Section VII.12 Payment of Costs. Except as otherwise provided herein (a) Seller shall be responsible for all fees, costs and expenses with respect to (i) obtaining Investor Consents, (ii) the transfer of the Servicing Rights to Purchaser under this Agreement, (iii) the delivery and/or change in designations of ownership of the Mortgage Files and related documents, (iv) the transfer of the Custodial Funds, (v) preparing and recording all Assignments of Mortgage required hereunder and following the requirements of MERS to reflect the transfer of servicing to Purchaser on the records of MERS, (vi) Seller's advisors, consultants, accountants, and attorneys, and (vii) Seller's performance of its obligations under this Agreement, and (b) Purchaser shall be responsible for the fees, costs, expenses and other amounts payable to or with respect to its advisors, consultants, accountants and attorneys, and Purchaser's performance of its obligations under this Agreement.

Section VII.13 Access to and Release of Information. Prior to the Transfer Date, Seller shall allow Purchaser and its counsel, accountants and other representatives reasonable access, during normal business hours and upon reasonable advance written notice, to review and conduct

reasonable due diligence investigations of all of Seller's (or Seller's agents') personnel, facilities, most recent Investor and Insurer audits (subject to any applicable nondisclosure requirements), books and records directly relating to the Servicing Rights, the Mortgage Loans, Custodial Funds, Custodial Accounts and Advances, and to review the Mortgage Files. Each Party and its representatives and affiliates shall treat all information so obtained, not otherwise in the public domain, as confidential and in the manner set forth in Section 7.17 herein and shall not use any such information for its own benefit. The Parties acknowledge and agree that any information obtained by Purchaser at or prior to the Transfer Date shall not limit or otherwise effect any of Purchaser's rights or remedies hereunder, at law or equity, including the right to seek and obtain indemnification or repurchase from Seller hereunder.

Section VII.14 Power of Attorney. On or prior to the Transfer Date, Seller shall provide Purchaser with a reasonable number of executed Limited Powers of Attorney in the form attached hereto as Exhibit I to be used by Purchaser as necessary for Purchaser to (i) service the Mortgage Loan in accordance with Applicable Requirements, (ii) assign or transfer any Mortgage Loan Documents pursuant to the terms of this Agreement or (iii) endorse any Mortgagor payments received following the Transfer Date as necessary. Seller shall provide additional Limited Powers of Attorney to the extent reasonably requested by Purchaser.

Section VII.15 Cooperation. To the extent reasonably possible, the Parties shall cooperate with and assist each other, as requested, in carrying out the purposes of this Agreement. Seller shall cooperate with Purchaser after the Transfer Date to resolve all customer disputes and inquiries related to activities that occurred prior to the Transfer Date. Such activities may include, but shall not be limited to, providing check copies, prior servicing histories, prior correspondence and escrow analyses. Seller will provide such information to Purchaser within a time period sufficient for Purchaser to satisfy its obligations under the Real Estate Settlement Procedures Act and all other Applicable Requirements.

Section VII.16 Notices. Seller shall give prompt written notice to Purchaser of, in a writing containing the details thereof:

(a) any action, suit, proceeding or investigation related to the Mortgage Loans, their origination, funding, sale or servicing instituted, or to Seller's knowledge, threatened, in any federal or state court or by or before any commission or other regulatory body (federal, state or local, domestic or foreign), against Seller or any of its Affiliates, that would reasonably be expected to materially and adversely affect the Servicing Rights, the Mortgage Loans or the performance by Seller of its obligations under the Servicing Agreements or the performance by Seller of its obligations under this Agreement; and

(b) to the extent permitted without breaching any requirement of confidentiality, a summary of any reports, findings or notices arising out of any audits, examinations, reviews or investigations by any commission or other regulatory body (federal, state or local, domestic or foreign) or an Investor or any Insurer containing materially adverse or critical findings or determinations, regarding the origination, funding, sale or servicing of the Mortgage Loans, or the method of origination or servicing of residential mortgage loans used in origination or servicing the Mortgage Loans and such findings or determinations would

reasonably be expected to materially and adversely affect the Servicing Rights, the Mortgage Loans or the performance by Seller of its obligations under the Servicing Agreements or the performance by Seller of its obligations under this Agreement.

Section VII.17 Confidentiality. Neither Party may disclose any Confidential Information to anyone else except:

- (a) to its officers, directors, employees, consultants, advisors, attorneys and accountants to the extent required to enable them to perform their duties to that Party; or
- (b) as otherwise required by Applicable Requirements; or
- (c) to the extent such Confidential Information becomes known to the general public through no fault of the Recipient or its officers, directors, employees, consultants, advisors, attorneys and accountants; or
- (d) in any legal, regulatory, equitable or arbitration proceeding involving this Agreement.

Each Party will cause its officers, directors, employees, consultants, advisors, attorneys and accountants to abide by the requirements of the foregoing provisions.

Before making any disclosure under item (d) above, unless prohibited by law or legal process or related to a dispute between Seller and Purchaser, Recipient will notify Discloser of the intended disclosure and of the reason for the disclosure and disclose only that portion of the Confidential Information that is legally required to be furnished pursuant to the advice of legal counsel of Recipient.

Because of the unique and highly confidential nature of the Confidential Information, Recipient acknowledges and agrees that Discloser may suffer irreparable harm if Recipient breaches any of its obligations under this Section, and that monetary damages may be inadequate to compensate for such breach. Accordingly, in addition to any other rights and remedies that may be available to Discloser at law and in equity, Discloser shall be entitled to enforce the provisions of this Agreement by seeking injunctive relief, and Recipient shall not assert as defenses that an adequate remedy at law exists and/or that Discloser will not be irreparably harmed.

“Confidential Information” of a Party shall mean: (i) the terms of this Agreement, (ii) information disclosed by Discloser relating to product development strategy and activity, marketing strategy, corporate assessments and strategic plans, pricing, financial and statistical information, accounting information, identity of suppliers, software, systems, processes, formulae, inventions, discoveries, policies, guidelines, procedures, practices, disputes or litigation, (iii) confidential, proprietary or trade secret information orally disclosed by Discloser and identified as such on the date of its first disclosure, with a written summary thereof provided to Recipient within thirty (30) days of disclosure, (iv) confidential, proprietary or trade secret information disclosed by Discloser that is clearly and conspicuously identified in writing as such

at the time of its first disclosure, (v) confidential, proprietary or trade secret information disclosed by Discloser, which a reasonable person would recognize as such, (vi) information disclosed by Discloser relating to employees or contractors or customers which, if released, would cause an unlawful invasion of privacy, including, but not limited to (A) “**Non Public Personal Information**” as defined by Title V of the Gramm-Leach-Bliley Act (Public Law No. 106-102) and the regulations promulgated pursuant thereto which are applicable to a Discloser with regard to the customers and consumers of a Discloser and (B) “**Consumer Information**,” as defined by the Fair and Accurate Credit Transactions Act of 2003 (Public Law No. 108-159) and the regulations promulgated pursuant thereto, together with any other nonpublic personal information and identifying information of or about consumers, applicants, clients or customers protected under applicable state and local law, and (vi) any compilation or summary of information or data that contains or is based on Confidential Information. For purposes of this Agreement, and without limiting the generality of the foregoing, the Parties acknowledge and agree that (A) all Confidential Information disclosed by a Party shall be deemed to be the Confidential Information of such Party, including, but not limited to, third-party confidential, proprietary or trade secret information that such Party is obligated to protect, and (B) information shall be deemed to be disclosed by a Party if such information is disclosed by any of its partners, Affiliates, officers, employees, directors, contractors, agents or representatives or is otherwise disclosed on behalf of such Party. For the avoidance of doubt, neither Party will provide Confidential Information that is prohibited from public disclosure except in accordance with 12 C.F.R. 510.5; **provided, however**, that “Confidential Information” of a Party shall not include information that: (i) is or becomes generally available to the public or widely known in the mortgage industry through no fault of Recipient (or anyone acting on its behalf); (ii) was, prior to disclosure by Discloser hereunder, known to Recipient free of any obligation to keep it confidential; (iii) is subsequently disclosed to Recipient by a third party who may rightfully transfer and disclose such information without restriction and free of any obligation to keep it confidential; or (iv) is independently developed by Recipient without reference to Discloser’s Confidential Information.

Article VIII

CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER

The obligations of Purchaser under this Agreement on the Sale Date and the Transfer Date are subject to the satisfaction of each of the following conditions, any or all of which may be waived in writing by Purchaser:

Section VIII.1 Correctness of Representations and Warranties. The representations and warranties made by Seller in Article IV of this Agreement shall be true and correct in all material respects as of the Sale Date and the Transfer Date, as applicable.

Section VIII.2 Compliance with Covenants. All terms and covenants contained in this Agreement required to be complied with and performed by Seller shall have been duly complied

with and performed by Seller in all material respects as of the Sale Date and the Transfer Date, as applicable.

Section VIII.3 Officer's Certificate. Prior to the Sale Date, Purchaser shall have received from Seller a duly executed Officer's Certificate in the form attached as Exhibit E hereto, including the required attachments.

Section VIII.4 Investor Approval. At or prior to the Sale Date, all Investor Consents shall have been received from the Investors and the Federal Housing Finance Agency and delivered to Purchaser and shall not contain any term or condition that could adversely affect the value of the Servicing Rights to Purchaser or impose any cost or obligation on Purchaser not normally imposed in the ordinary course of a transfer of servicing rights.

Section VIII.5 Litigation. As of the Sale Date or the Transfer Date, as applicable, no court order shall have been entered in any action or proceeding instituted by any Person which enjoins, restrains or prohibits or seeks to enjoin, restrain or prohibit this Agreement or consummation of the Transaction.

Section VIII.6 Financial Condition of Seller. On or before the Sale Date, Seller shall have provided to Purchaser copies of Seller's most recent financial statements to evidence that the financial condition of Seller is adequate to support the performance by Seller on a timely basis of Seller's potential indemnification and other obligations hereunder.

Section VIII.7 Conformance with Data. The characteristics of the Mortgage Loans, Servicing Rights and Advances (including delinquency rates, escrow balances, average weighted servicing spread, interest rates, outstanding principal balances and loan modifications) shall be in conformance in all material respects with all data and other written information, including the Offering Information, provided to Purchaser by or on behalf of Seller (taking into account payoffs and liquidations of such Mortgage Loans provided that they do not materially alter the general aggregate characteristics of the portfolio).

Section VIII.8 Material Adverse Change. There shall have been no material adverse change in the condition (financial or otherwise), business, net worth, assets (including the Servicing Rights), properties or operations of Seller that affects Seller's ability to perform its obligations under this Agreement.

Section VIII.9 Due Diligence Findings. As of the Sale Date, Purchaser's due diligence review with respect to Seller, the Mortgage Loans and the Servicing Rights has been completed and the results are satisfactory in Purchaser's sole discretion.

Section VIII.10 Release of Liens on Servicing Rights. On or before the Sale Date, to the extent that there is a lien on the Servicing Rights prior to such Sale Date, Purchaser shall have received an instrument, in a form reasonably satisfactory to Purchaser, evidencing the release of any lien to which the Servicing Rights transferred to Purchaser on the Sale Date may have been subject.

Section VIII.11 Financing Contingency. On or prior to the Sale Date, Western Alliance Bank has entered into a loan or financing agreement with Purchaser to provide for the financing of the Servicing Rights and Advances being acquired by Purchaser pursuant to this Agreement and all conditions precedent for the closing of the transactions contemplated under such loan or financing agreement have been satisfied or waived, including without limitation receipt of fully executed acknowledgment agreements with each of the Investors.

Article IX

CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER

The obligations of Seller under this Agreement on the Sale Date and the Transfer Date are subject to the satisfaction of each of the following conditions, any or all of which may be waived in writing by Seller:

Section IX.1 Correctness of Representations and Warranties. The representations and warranties made by Purchaser in this Agreement are true and correct in all material respects as of the Sale Date and the Transfer Date.

Section IX.2 Compliance with Covenants. All terms and covenants in the Agreement required to be complied with and performed by Purchaser shall have been duly complied with and performed by Purchaser in all material respects as of the Sale Date and the Transfer Date, as applicable.

Section IX.3 Investor Approval. At or prior to the Sale Date, Investor Consents shall have been received from the Investors.

Section IX.4 Litigation. On the Sale Date and the Transfer Date, no court order shall have been entered in any action or proceeding instituted by any Person which enjoins, restrains or prohibits or seeks to enjoin, restrain or prohibit this Agreement or consummation of the Transaction.

Article X

INDEMNIFICATION

Section X.1 Indemnification of Purchaser. Seller shall indemnify and hold Purchaser harmless from, and will reimburse Purchaser for, any and all Losses incurred by Purchaser to the extent that such Losses arise out of, relate to, or result from:

- (a) the inaccuracy of any representation or warranty made by Seller in this Agreement;

(b) the failure by Seller to perform or observe any term or provision of this Agreement, including without limitation the Interim Servicing Requirements;

(c) any inadequate, inaccurate or improper acts or omissions related to the origination or servicing of the Mortgage Loans, and any failure to comply with all Applicable Requirements prior to the Transfer Date, except if (i) Seller was acting in accordance with the express written instruction of Purchaser following the Sale Date or (ii) such act or omission is that of Purchaser or its designee (other than the Seller) following the Transfer Date;

(d) any Claim pending as of the Transfer Date, or arising out of events occurring in whole or in part before the Transfer Date, in connection with the Servicing Rights transferred to Purchaser or the related Mortgage Loans;

(e) any unreimbursed amounts of any Advances made prior to the Transfer Date, including any deductions, disallowances, curtailments or denials by an Agency or an Insurer with respect to such Advances;

(f) any Compensatory Fees or other similar penalties or charges to be paid to or deducted by an Investor or Agency with respect to the Servicing Rights or the Advances arising out of or related to any act or omission of Seller prior to the Transfer Date, including without limitation failure to meet any "first legal" or other timeline requirements of the applicable Agency prior to the Transfer Date;

(g) any missing, incomplete or defective documents that are required to be delivered to Purchaser (or its Document Custodian or other designee) hereunder; or

(h) any act or omission of Purchaser or its servicer on or after the Transfer Date arising out of the continuation of Seller's (i) escrow practices in connection with the Servicing Rights, before the earlier of the first anniversary of the Transfer Date and Purchaser's completion of its first escrow analysis of the Servicing Rights following the Transfer Date as required under Applicable Requirements or (ii) Mortgage Interest Rate adjustment practices in connection with the Servicing Rights, before the date of the next scheduled interest rate adjustment.

For purposes of establishing whether any matter gives rise to an obligation for Seller to provide indemnification pursuant to this Section 10.1, the accuracy of the representations and warranties of Seller contained herein shall be determined without giving effect to the qualifications to such representations and warranties concerning knowledge or materiality (including any reference to "material adverse effect," "Seller's knowledge," or any other terms similar thereto), or any exceptions to such representations and warranties in a disclosure schedule hereto or otherwise stated as an exception to Seller's representations and warranties. The Foreclosure of a Mortgage Loan shall not be deemed to cut off Losses in respect of the related REO Property.

The indemnification provided by Seller herein shall be with respect to Losses involving third parties or Losses involving Purchaser, and shall be without duplication of amounts paid pursuant to Sections 10.2 or 10.5.

Section X.2 Repurchase of Mortgage Loans, REO Property and Servicing Rights. If there exists a basis to demand indemnification under Section 10.1 that materially and adversely affects the value or marketability of the related Servicing Rights or the ownership interest of Purchaser in such Servicing Rights, regardless of whether Losses have actually occurred, or if an Investor requests that Purchaser or Seller repurchase a Mortgage Loan or REO Property or remove a Mortgage Loan from a Pool (as permitted pursuant to the applicable Servicing Agreement(s)) subject to any limitations of an Investor, Purchaser may require Seller to repurchase from Purchaser the applicable Servicing Rights, and in the case of an Investor request (as permitted pursuant to the applicable Servicing Agreement(s)), repurchase the related Mortgage Loan or REO Property from Purchaser, or if permitted under Applicable Requirements repurchase the Mortgage Loan or REO Property directly from an Investor. Seller shall repurchase the Servicing Rights at the Repurchase Price, and shall repurchase the Mortgage Loan or REO Property, if applicable, at a price equal to the amount necessary to repurchase such Mortgage Loan or REO Property from an Investor or remove it from the applicable Pool, including all amounts necessary to satisfy the applicable Investor's indemnification, "make whole" or other request for payment, as may be the case, and including interest thereon calculated at the Mortgage Interest Rate.

Subject to Applicable Requirements, when Seller is required to repurchase a Mortgage Loan, REO Property or Servicing Rights from Purchaser, such repurchase shall be accomplished by Seller within thirty (30) days following receipt of written demand from Purchaser pursuant hereto, or such shorter period as required by the Investors. Purchaser may, in its discretion, sub-service such repurchased Mortgage Loan or REO Property for such period of time that will enable the Parties to provide proper transfer notices to be given to the Mortgagor in accordance with Applicable Requirements, but in no event for longer than thirty (30) days, and Purchaser shall be entitled to all Servicing Fees and Ancillary Fees for such period as consideration for sub-servicing the Mortgage Loan or REO Property. Upon completion of such repurchase by Seller, Purchaser shall forward to Seller all Mortgage Files relating to such Mortgage Loans, REO Property and/or Servicing Rights, as applicable, in accordance with Applicable Requirements. Any failure to satisfy the timing deadlines imposed by this Section 10.2 (other than those imposed by the Investors) shall not result in forfeiture of any rights hereunder, but shall result only in a diminution in the amount of recovery otherwise permitted by this Section based upon any actual prejudice caused directly by such delay.

If an Investor chooses not to exercise its repurchase rights as set forth in this Section 10.2 and instead proposes a risk fee or repurchase alternative agreement (each a "Repurchase Alternative Agreement") which Purchaser and Seller deem acceptable, Seller shall reimburse Purchaser for any costs, fees, or expenses incurred by Purchaser arising under such Repurchase Alternative Agreement and Seller shall indemnify, defend and hold Purchaser harmless for any and all Losses incurred by Purchaser that arise out of, relate to, or otherwise result from a Repurchase Alternative Agreement. To the extent that an Investor ultimately requires Purchaser

to repurchase any Mortgage Loan subject to a Repurchase Alternative Agreement, Seller will repurchase such Mortgage Loan from Purchaser in accordance with this Section 10.2. Notwithstanding anything else to the contrary herein, Purchaser shall be under no obligation to offer a risk free agreement or other repurchase alternative offered by an Investor, but shall not in each case unreasonably withhold such an offer.

Nothing herein is intended to limit or otherwise impair the right of Seller to dispute with an Investor any responsibility or liability for any demands from such Investor. Purchaser shall use commercially reasonable efforts to notify Seller within ten (10) Business Days of any Investor demands and permit Seller to reasonably contest and/or appeal such demands. Any amount paid by Seller pursuant to this Section 10.2 shall be without duplication of amounts paid pursuant to Sections 10.1 or 10.5.

Section X.3 Indemnification of Seller. Purchaser shall indemnify and hold Seller harmless from, and will reimburse Seller for, any and all Losses incurred by Seller after the Transfer Date to the extent that such Losses result from:

- (a) the inaccuracy of any representation or warranty made by Purchaser in this Agreement;
- (b) the failure by Purchaser to perform or observe any term of provision of this Agreement; or

(c) any failure by Purchaser or its servicer to service the Mortgage Loans in accordance with Applicable Requirements on or after the Transfer Date (other than in connection with the continuation by Purchaser or any servicer of any past practices of Seller or any Prior Servicer (resulting from the information and electronic data provided by Seller/Prior Servicer to Purchaser) that fail to comply with Applicable Requirements; provided, however, that Purchaser shall remain responsible for any incremental losses arising after the period Purchaser or any such servicer discovered (or should have discovered in accordance with standard servicing practices) such past practice that fails to comply with Applicable Requirements during the servicing of the Mortgage Loans after the Transfer Date and is continued by Purchaser or the servicer following such discovery or after the time such past practice should have been discovered in accordance with standard servicing practices and there has been a reasonable opportunity to cure the past practice).

Section X.4 Notice and Settlement of Claims.

(a) Each Party to this Agreement shall notify the other Party in writing of the existence of any material fact known to it giving rise to any obligations of any Party under Article X and, in the case of any Claim brought by a third party, which may give rise to any such obligations, and each Party shall notify the other Party of the making of such Claim or the commencement of such action by a third party as and when same becomes known to it. The failure or delay in providing notice shall not relieve a Party obligated to provide indemnification ("Indemnifying Party") of any obligation to indemnify or reimburse the other Party ("Indemnified Party") hereunder unless such failure or delay materially prejudices the rights or

increases the liability of the Indemnifying Party with respect to the matter as to which such notice relates, and then such Indemnifying Party's obligation to indemnify or reimburse hereunder shall be reduced only by the amount that it actually has been damaged thereby. The Indemnifying Party may, at its own cost and expenses, assume and control defense of any Claim, including the right to designate counsel and to control, all negotiations, litigation, settlements, compromises and appeals of any such Claim or potential Claim; provided that such counsel shall be reasonably satisfactory to the Indemnified Party in the exercise of its reasonable discretion. Notwithstanding the foregoing, if Purchaser is the Indemnified Party and Purchaser reasonably believes that the assumption of the defense or prosecution of all or a portion of such Claim is necessary to assure that its right or ability to enforce a material portion of its other Mortgage Loans or Servicing Rights or to assure that its method of doing business or its authority and approvals to service are not materially impaired, then, upon notice to Seller from Purchaser, Seller shall permit such assumption by Purchaser. The Party not controlling the defense or prosecution of any such Claim may participate at its own costs and expense. The Indemnifying Party shall not settle, compromise or consent to the entry of any judgment with respect to any Claim without the prior written consent of the Indemnified Party (such consent not to be unreasonably withheld, conditioned or delayed); provided, that, the Indemnifying Party may settle any such Claim without the Indemnified Party's consent if such settlement (i) does not involve any finding or admission of any violation of applicable law or any violation of the rights of the Indemnified Party; (ii) does not involve any relief for monetary Losses that would be paid by the Indemnified Party; and (iii) releases the Indemnified Party in connection with such Claim. Following the discharge of the Indemnifying Party's obligations with respect to any Claim under this Article X, the Indemnified Party shall, subject to Applicable Requirements, assign to the Indemnifying Party any and all related Claims against third parties. Within thirty (30) days after receipt, the Indemnified Party shall refund to the Indemnifying Party the amounts of all recoveries received by the Indemnified Party with respect to any claim with respect to which it is reimbursed for Losses. The obligations of the Indemnifying Party under this Section 10.4(a) shall include Losses for Claims that are settled (with the Indemnifying Party's prior written consent) whether or not such settlement includes any acknowledgment or admission of fault, liability or breach by the Indemnifying Party.

(b) Following the receipt of written notice from the Indemnified Party of a demand for indemnification, the Indemnifying Party shall (i) seek to cure the problem giving rise to the demand, if possible, and (ii) within thirty (30) days or such lesser time as may be required by an Investor, Insurer or third party claimant, pay the amount for which it is liable or otherwise take the actions which it is required to take. As to any Claim for indemnity for which notice is given as hereinbefore provided, the corresponding obligation of indemnity shall continue to survive, subject to Section 12.4, until whichever of the following events first occurs: (A) the Indemnifying Party shall have discharged its obligation of indemnity to the Indemnified Party with respect to such Claim, as required hereunder; (B) a court of competent jurisdiction shall have finally determined that the Indemnifying Party is not liable to the Indemnified Party with respect to such Claim; or (C) the Indemnified Party shall have released in writing (or be held to have released) the Indemnifying Party from any liability with respect to such Claim.

(c) The indemnification provided by Seller and Purchaser hereunder shall be with respect to Losses involving third parties and Losses involving the indemnified party.

(d) Following the discharge of the Indemnifying Party's obligations with respect to any Claim under this Article X, the Indemnified Party shall, subject to Applicable Requirements, assign to the Indemnifying Party any related Claims against third parties. Within thirty (30) days after receipt, the Indemnified Party shall refund to the Indemnifying Party the amounts of all recoveries received by the Indemnified Party with respect to any Claim with respect to which it is reimbursed for Losses.

Section X.5 Compensatory Fees. Seller agrees to reimburse Purchaser for any Compensatory Fees with respect to Mortgage Loans that are imposed by an Investor with respect to the servicing of any Mortgage Loan prior to the Transfer Date. Purchaser shall notify Seller within ten (10) Business Days of any demand from an Investor for such amounts and permit Seller to reasonably contest and/or appeal such demands and, if requested by Seller, Purchaser shall pay such amounts from funds provided by Seller subject to a written reservation of Seller's rights to dispute such amounts. Purchaser agrees to cooperate with reasonable requests by Seller to compile information required to appeal the Compensatory Fee assessment. Seller shall provide Purchaser with all funds relating to the payment of Compensatory Fees or penalties that are the responsibility of Seller pursuant to this Section 10.5 in a timely manner so as to allow Purchaser to comply with Applicable Requirements regarding the payment of such amounts to an Investor. Any amount paid by Seller pursuant to this Section 10.5 shall be without duplication of amounts paid pursuant to Sections 10.1 or 10.2.

Article XI

TERMINATION

Section XI.1 Termination. This Agreement and the Parties obligations to engage in or complete the Transaction may be terminated as follows:

(a) by mutual written consent of the Parties;

(b) prior to the Sale Date (or in the case of case of clause (v) below, the Transfer Date), either Party may immediately terminate this Agreement with respect to the Servicing Rights to be sold on the Sale Date (or, in the case of clause (v) below, with respect to the Mortgage Loans to be transferred on the Transfer Date) if any of the following shall occur:

(i) by Purchaser or Seller, by written notice to the other, if the other Party fails to comply in any material respect with any term, covenant, condition or agreement applicable to it hereunder, and does not cure such failure within thirty (30) days' notice from Purchaser or Seller, as applicable;

(ii) by Purchaser or Seller, by written notice to the other, if the other Party breaches any of the representations or warranties made by it hereunder in any

material respects, and does not cure such breach within thirty (30) days' notice from Purchaser or Seller, as applicable;

(iii) by Purchaser or Seller, by written notice to the other Party, if any condition precedent to Purchaser or Seller's obligations, as applicable, under this Agreement is not met within the specified time period; provided, however, that neither of the Parties may terminate this Agreement pursuant to this Section 11.1(b)(iii) if such Party is in breach in any material respect of any of its representations, warranties, covenants, conditions or agreements set forth herein; or

(iv) by Purchaser, by written notice to Seller, if an Investor Consent is not obtained, or in the event that any such Investor Consent contains any term or condition that could adversely affect the value or marketability of the related Servicing Rights, the interest of Purchaser, or impose any material cost or obligation on Purchaser not normally imposed in the ordinary course of a transfer of servicing rights; or

(v) by Purchaser, by written notice to Seller, if an Investor has either (a) withdrawn the Investor Consent, (b) objected to the Transactions contemplated by this Agreement or (c) not provided the Investor Consent by the Transfer Date; or

(vi) by Purchaser or Seller, by written notice to the other Party, on or after the Termination Date.

Section XI.2 Effect of Termination. In the event of termination of this Agreement pursuant to Section 11.1, this Agreement shall forthwith become void and have no further force, except that the provisions of this Section 11.2, Sections 7.12, 7.17, 12.2, 12.7, 12.8, 12.9, 12.10, 12.11, and 12.14, and any other provision which, by its terms, relates to post-termination rights or obligations, shall survive such termination of this Agreement and remain in full force and effect. If this Agreement is terminated between the Sale Date and Transfer Date, within two (2) Business Days after such termination, Seller shall return to Purchaser any portions of the Purchase Price paid by Purchaser to Seller related to the applicable Servicing Rights. The termination of this Agreement shall not affect the rights of either Party with respect to any liabilities incurred or suffered by such Party as a result of the breach by the other Party of any of its representations, warranties, covenants or agreements in this Agreement. The right to terminate this Agreement shall be in addition to any other rights of the Parties under this Agreement, at law or equity.

Article XII

MISCELLANEOUS

Section XII.1 Supplementary Information. From time to time prior to and after the Transfer Date, each Party shall furnish to the other Party such information supplementary to the information contained in the documents and schedules delivered pursuant hereto which is reasonably available and may reasonably be requested or which may be necessary for compliance with Applicable Requirements.

Section XII.2 No Broker's Fees. Each Party hereto represents and warrants to the other Party that it has made no agreement to pay any agent, finder, or broker or any other representative, any fee or commission in the nature of a finder's or broker's fee arising out of or in connection with the subject matter of this Agreement.

Section XII.3 Further Assurances. Each Party shall, at any time and from time to time, promptly, upon the reasonable request of the other Party or its representatives, execute, acknowledge, deliver or perform all such further acts, deeds, assignments, transfers, conveyances, and assurances as may be required for the better vesting and confining to Purchaser and its successors and assigns of title to Servicing Rights or as shall be necessary to effect the Transaction. Purchaser and Seller shall cooperate in good faith to consummate the Transaction.

Section XII.4 Survival. Notwithstanding anything else to the contrary herein, all warranties, representations, covenants, indemnities and other agreements of the Parties set forth herein shall survive the Effective Date, the Sale Date and the Transfer Date, as applicable.

Section XII.5 Assignment. This Agreement shall bind and inure to the benefit of and be enforceable by Seller and Purchaser and the respective permitted successors and assigns of Seller and the successors and assigns of Purchaser. This Agreement shall not be assigned, pledged or hypothecated by Seller to a third party without the prior written consent of Purchaser, which consent may be withheld by Purchaser in its sole discretion. This Agreement may be assigned, pledged or hypothecated by Purchaser, in whole or in part, on or after the Sale Date, without the prior consent of Seller.

Section XII.6 Due Diligence. The Parties hereto agree that the provision of any information and documents by Seller, and the review thereof and determinations made by Purchaser in connection with its due diligence review of any information and documents shall have no bearing on, and shall not limit the effect of, Seller's representations, warranties, covenants, indemnities and other obligations under this Agreement, or any rights or remedies of Purchaser.

Section XII.7 Notices. Except as otherwise expressly permitted by this Agreement, all notices and statements to be given under this Agreement are to be in writing, delivered by (i) hand, (ii) national overnight mail service, or (iii) first class United States mail, postage prepaid and registered or certified, with return receipt requested, to the following addresses, as applicable (which addresses may be revised by notice):

(a) If to Purchaser, to:

PHH Mortgage Corporation
3000 Leadenhall Road, Mailstop PCLG
Mount Laurel, NJ 08054
Attn: Secretary

with a copy to:

Ocwen Financial Corporation
1661 Worthington Road, Suite 100
West Palm Beach, FL 33409
Attn: Secretary

(b) If to Seller, to:

AmeriHome Mortgage Company, LLC
1 Baxter Way, Suite 300
Thousand Oaks, California 91362
Attention: Kathleen Conte
Telephone:
Email:

with copies to:

AmeriHome Mortgage Company, LLC
1 Baxter Way, Suite 300
Thousand Oaks, California 91362
Attention: Josh Adler
Telephone:
Email:

and

AmeriHome Mortgage Company, LLC
1 Baxter Way, Suite 300
Thousand Oaks, California 91362
Attention: Legal Department
Email:

All notices and statements shall be deemed given, delivered, received and effective upon personal and actual delivery or receipt of hand delivery, telegram or overnight mail service, or by receipt of the return receipt used in sending notices via certified first class United States mail in the manner set forth above.

Section XII.8 Entire Agreement. This Agreement constitutes the entire agreement between the Parties with respect to the subject matter hereof. No amendments, modifications or supplements of this Agreement shall be binding unless executed in writing by the Parties hereto. The Exhibits and Schedules are part of this Agreement.

Section XII.9 Binding Effect; Third Parties. This Agreement shall inure to the benefit of and be binding upon the Parties hereto and their respective successors and permitted assigns. Nothing in this Agreement, express or implied, is intended to confer on any Person, other than the

Parties hereto and their successors and permitted assigns, any rights, obligations, remedies or liabilities.

Section XII.10 Applicable Laws.

(a) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS (OTHER THAN SECTIONS 51401 AND 51402 OF THE GENERAL OBLIGATIONS LAW), AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

(b) THE PARTIES HEREUNDER EACH KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY AND ALL RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OR ANY LITIGATION BASED ON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT, OR ANY OTHER DOCUMENTS AND INSTRUMENTS EXECUTED IN CONNECTION HEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF THE OTHER PARTY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR EACH PARTY TO ENTER INTO THIS AGREEMENT.

(c) With respect to any claim or action arising under this Agreement, the Parties (i) irrevocably submit to the exclusive jurisdiction of the courts of the State of New York within the County of New York and the United States District Court for the Southern District of New York, and appellate courts from any thereof, and (ii) irrevocably waive any objection which such Party may have at any time to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement brought in any such court, and irrevocably waive any claim that any such suit action or proceeding brought in any such court has been brought in an inconvenient forum.

(d) In connection with any claim or action arising under this Agreement, the prevailing Party shall be entitled to recover from the other Party all reasonable fees, costs and expenses incurred in connection with such claim or action (including without limitation, external attorneys' fees and expenses, court costs and other related costs and expenses).

Section XII.11 Counterparts. This Agreement may be executed in any number of counterparts, which together shall constitute full and proper execution hereof. The Parties agree that this Agreement and signature pages may be transmitted between them by facsimile or electronic images and that faxed or electronically imaged signatures shall constitute original signatures and is binding upon the applicable Party.

Section XII.12 No Remedy Exclusive. No remedy under this Agreement is intended to be exclusive of any other available remedy, but each remedy shall be cumulative and shall be in addition to any remedies given under this Agreement, under any other agreement, or existing at law or in equity.

Section XII.13 Waiver. No term or provision of this Agreement may be waived or modified unless such waiver or modification is in writing and signed by the Party against whom such waiver or modification is sought to be enforced. Any forbearance by a Party in exercising any right or remedy under this Agreement or otherwise afforded by applicable law shall not be a waiver or preclude the exercise of that or any other right or remedy. The waiver by either Party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other or subsequent breach.

Section XII.14 Announcements. Neither Party shall issue press releases or announcements regarding, or otherwise disclose to the general public or mortgage industry, the existence or terms of this Agreement without the prior written approval of the other Parties hereto, except to the extent required by any court, tribunal, regulatory authority or law.

Section XII.15 Exclusivity. From the Effective Date to the earlier of the scheduled Transfer Date or the termination of this Agreement in accordance with the terms hereof, Seller and its Affiliates, shareholders, employees, directors and agents shall not, and Seller shall cause its Affiliates, shareholders, employees, directors and agents to not, directly or indirectly, initiate, encourage, entertain or accept any bid, submission, proposal or offer to purchase directly or indirectly all or a portion of the Servicing Rights.

Section XII.16 Time of the Essence. The Parties agree that time is of the essence in the performance of their respective obligations under this Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, each of the undersigned Parties to this Agreement has caused this Agreement to be duly executed in its name by one of its duly authorized officers, all as of the date first above written

PHH MORTGAGE CORPORATION, as Purchaser

By: /s/ John Britti

Name: John Britti

Title: Chief Investment Officer – PHH Mortgage Corporation

AMERIHOME MORTGAGE COMPANY, LLC, as Seller

By: /s/ Jim Furash

Name: Jim Furash

Title: CEO

Exhibit A

PURCHASE PRICE PERCENTAGE

[Omitted]

Exhibit B

FORM OF BILL OF SALE

[Omitted]

Exhibit C

SERVICING TRANSFER INSTRUCTIONS

[Omitted]

Exhibit D

INTERIM SERVICING REQUIREMENTS

[Omitted]

Exhibit E

FORM OF SELLER'S OFFICER'S CERTIFICATE

[Omitted]

Exhibit F

CONTENTS OF MORTGAGE LOAN SCHEDULE

[Omitted]

Exhibit G

SERVICING FILE
[Omitted]

Exhibit H

PURCHASE PRICE COMPUTATION WORKSHEET
[Omitted]

Exhibit I

FORM OF LIMITED POWER OF ATTORNEY
[Omitted]

CERTIFICATIONS

I, Glen A. Messina, certify that:

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

Date: August 5, 2021

/s/ Glen A. Messina

Glen A. Messina, President
and Chief Executive Officer

CERTIFICATIONS

I, June C. Campbell, certify that:

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

Date: August 5, 2021

/s/ June C. Campbell

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

CERTIFICATIONS

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

- (1) I am the principal executive officer of Ocwen Financial Corporation (the Registrant).
- (2) I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - the Quarterly Report on Form 10-Q of the Registrant for the quarter ended June 30, 2021 (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 5, 2021

CERTIFICATIONS

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

- (1) I am the principal financial officer of Ocwen Financial Corporation (the Registrant).
- (2) I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - the Quarterly Report on Form 10-Q of the Registrant for the quarter ended June 30, 2021 (the periodic report) containing financial statements fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
 - the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ June C. Campbell
Title: Executive Vice President and Chief Financial Officer
Date: August 5, 2021