

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

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 1998

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. 0-21341

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

FLORIDA

65-0039856

(State or other jurisdiction of
incorporation or organization)

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

THE FORUM, SUITE 1000
1675 PALM BEACH LAKES BOULEVARD
WEST PALM BEACH, FLORIDA

33401

(Address of principal executive office)

(Zip Code)

(561) 682-8000

(Registrant's telephone number, including area code)

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

COMMON STOCK, \$.01 PAR VALUE
(Title of each class)

NEW YORK STOCK EXCHANGE (NYSE)
(Name of each exchange on
which registered)

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

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

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

Aggregate market value of the Common Stock, \$.01 par value, held by nonaffiliates of the registrant, computed by reference to the closing price as reported on the NYSE as of the close of business on March 9, 1999: \$262,679,977 million (for purposes of this calculation affiliates include only directors and executive officers of the registrant).

Number of shares of Common Stock, \$.01 par value, outstanding as of March 9, 1999: 60,800,357 shares

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Annual Report to Shareholders for fiscal year ended December 31, 1998 are incorporated by reference into Part II, Items 5-8.

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FORWARD-LOOKING STATEMENTS

IN THE NORMAL COURSE OF BUSINESS, THE COMPANY, IN AN EFFORT TO HELP KEEP ITS SHAREHOLDERS AND THE PUBLIC INFORMED ABOUT THE COMPANY'S OPERATIONS, MAY FROM TIME TO TIME ISSUE OR MAKE CERTAIN STATEMENTS, EITHER IN WRITING OR ORALLY, THAT ARE OR CONTAIN FORWARD-LOOKING STATEMENTS, AS THAT TERM IS DEFINED IN THE U.S. FEDERAL SECURITIES LAWS. GENERALLY, THESE STATEMENTS RELATE TO BUSINESS PLANS OR STRATEGIES, PROJECTED OR ANTICIPATED BENEFITS FROM ACQUISITIONS MADE BY OR TO BE MADE BY THE COMPANY, PROJECTIONS INVOLVING ANTICIPATED REVENUES, EARNINGS, PROFITABILITY OR OTHER ASPECTS OF OPERATING RESULTS OR OTHER FUTURE DEVELOPMENTS IN THE AFFAIRS OF THE COMPANY OR THE INDUSTRY IN WHICH IT CONDUCTS BUSINESS. THESE FORWARD-LOOKING STATEMENTS, WHICH ARE BASED ON VARIOUS ASSUMPTIONS (SOME OF WHICH ARE BEYOND THE COMPANY'S CONTROL), MAY BE IDENTIFIED BY REFERENCE TO A FUTURE PERIOD OR PERIODS OR BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "ANTICIPATE," "BELIEVE," "COMMITMENT," "CONSIDER," "CONTINUE," "COULD," "ENCOURAGE," "ESTIMATE," "EXPECT," "INTEND," "IN THE EVENT OF," "MAY," "PLAN," "PRESENT," "PROPOSE," "PROSPECT," "UPDATE," "WHETHER," "WILL," "WOULD," FUTURE OR CONDITIONAL VERB TENSES, SIMILAR TERMS, VARIATIONS ON SUCH TERMS OR NEGATIVES OF SUCH TERMS. ALTHOUGH THE COMPANY BELIEVES THE ANTICIPATED RESULTS OR OTHER EXPECTATIONS REFLECTED IN SUCH FORWARD-LOOKING STATEMENTS ARE BASED ON REASONABLE ASSUMPTIONS, IT CAN GIVE NO ASSURANCE THAT THOSE RESULTS OR EXPECTATIONS WILL BE ATTAINED. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE INDICATED IN SUCH STATEMENTS DUE TO RISKS, UNCERTAINTIES AND CHANGES WITH RESPECT TO A VARIETY OF FACTORS, INCLUDING, BUT NOT LIMITED TO, THOSE DISCUSSED BELOW. THE COMPANY DOES NOT UNDERTAKE, AND SPECIFICALLY DISCLAIMS ANY OBLIGATION, TO RELEASE PUBLICLY THE RESULTS OF ANY REVISIONS WHICH MAY BE MADE TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT THE OCCURRENCE OF ANTICIPATED OR UNANTICIPATED EVENTS OR CIRCUMSTANCES AFTER THE DATE OF SUCH STATEMENTS.

ITEM 1. BUSINESS

General

Ocwen Financial Corporation ("OCN" or the "Company") is a specialty financial services company which conducts business primarily through Ocwen Federal Bank FSB (the "Bank"), a federally-chartered savings bank and a wholly-owned subsidiary of the Company, and, to a lesser extent, through other non-bank subsidiaries.

The Company is a Florida corporation which was organized in February 1988 in connection with its acquisition of the Bank. During the early 1990s, the Company sought to take advantage of the general decline in asset quality of financial institutions in many areas of the country and the large number of failed savings institutions during this period by establishing its discounted loan acquisition and resolution program. This program commenced with the acquisition of discounted single-family residential loans for resolution in 1991 and was expanded to cover the acquisition and resolution of discounted multi-family residential and commercial real estate loans in 1994.

During the early 1990s, the Company also acquired assets and liabilities of three failed savings institutions and merged Berkeley Federal Savings Bank ("Old Berkeley"), a troubled financial institution, into the Bank. The Company subsequently sold substantially all of the assets and liabilities acquired in connection with these acquisitions. The Company is a registered savings and loan holding company subject to regulation by the Office of Thrift Supervision (the "OTS"). The Bank is subject to regulation by the OTS, as its chartering authority, and by the Federal Deposit Insurance Corporation ("FDIC"), as a result of its membership in the Savings Association Insurance Fund ("SAIF"), which insures the Bank's deposits up to the maximum extent permitted by law. The Bank is also subject to certain regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Board") and currently is a member of the Federal Home Loan Bank ("FHLB") of New York, one of the 12 regional banks which comprise the FHLB System.

The Company's strategy focuses on what it believes to be the current trend toward the growth in the sale or outsourcing of servicing of nonperforming and underperforming loans by financial institutions and government agencies, particularly in the event that credit quality for a product line (such as subprime mortgage loans) deteriorates. The Company's strategy also focuses on leveraging its technology infrastructure and core expertise to expand its activities into related business lines both for itself and on a fee basis for others.

On November 6, 1997, the Company acquired AMOS, Inc. ("AMOS"), a Connecticut-based company engaged primarily in the development of mortgage loan servicing software. AMOS' products are Microsoft(R) Windows(R)-based, have client/server architecture and feature real-time processing, are designed to be year 2000 compliant, feature a scalable database platform and have strong workflow capabilities. On January 20, 1998, the Company acquired DTS Communications, Inc. ("DTS"), a real estate technology company located in San Diego, California. DTS has developed technology tools to automate real estate transactions. DTS has been recognized by Microsoft Corporation for the Microsoft(R) component-based architecture to facilitate electronic data interchange. Both AMOS and DTS are wholly-owned subsidiaries of Ocwen Technology Xchange, Inc. ("OTX").

OTX's principal products are REALTrans(SM) and OTX(TM) Mortgage Software Suite. REALTrans(SM) is a web-based application that facilitates the electronics purchase of real estate products and services via the Internet. Products currently supported include title insurance, appraisals, escrow, field services, inspections, warranty, broker price opinions, and real property data. This application allows users remote access to send, receive, and track information from any location. The user is able to track the status of orders, and send and receive messages, as well as documents. In addition, the REALTrans(SM) application includes several forms that can be completed online, thereby facilitating the sending of actual data, not just images of documents, REALTrans(SM) provides data integrity because all data are backed up and stored at a secure off-site facility. The Company is making its advanced loan resolution technology, the OTX(TM) Mortgage Software Suite, available to third parties through the marketing of software licenses. OTX also provides consulting services related to its software and Internet products.

The Company entered the United Kingdom ("UK") subprime residential mortgage market in 1998 through the acquisition of 36.07% of the total outstanding common stock of Norland Capital Group plc, doing business as Kensington Mortgage Company ("Kensington"), on February 25, 1998. Kensington is a leading originator of subprime residential mortgages in the U.K. On April 24, 1998, the Company, through its wholly-owned subsidiary Ocwen UK plc ("Ocwen UK"), acquired substantially all of the assets, and certain liabilities, of the U.K. operations of Cityscape Financial Corp. ("Cityscape UK"). As consummated, the Company acquired Cityscape UK's mortgage loan portfolio and its residential subprime mortgage loan origination and servicing businesses.

The Company's domestic subprime residential lending activities are conducted primarily through Ocwen Financial Services, Inc. ("OFS"), a 97.8% owned subsidiary. OFS acquired both the subprime residential lending operations previously conducted by the Bank and substantially all of the assets of Admiral Home Loan ("Admiral"), the Company's primary correspondent mortgage banking firm for subprime single-family residential loans, in a transaction which closed on May 1, 1997.

On May 5, 1998, the Company, through its wholly-owned subsidiary, Investor's Mortgage Insurance Holding Company ("IMI"), acquired 1,473,733 partnership units of Ocwen Partnership L.P. ("OPLP"), the operating subsidiary partnerships of Ocwen Asset Investment Corp. ("OAC"). This purchase was in addition to the 160,000 units owned at December 31, 1997, and the 175,000 units acquired on February 17, 1998, for which the Company exchanged shares of OAC stock, increasing the total number of units owned by IMI to 1,808,733 or 8.71% of the total partnership units outstanding at December 31, 1998. OAC specializes in the acquisition and management of real estate and mortgage assets and is managed by Ocwen Capital Corporation ("OCC"), a wholly-owned subsidiary of OCN formed in 1997. At December 31, 1998, the Company owned 1,540,000 or 8.12% of the outstanding common stock of OAC.

SEGMENTS

The Company's primary business is the acquisition, servicing and resolution of subperforming and nonperforming mortgage loans and the related development of loan servicing technology and software for the mortgage and real estate industries. Within its business, The Company's primary activities consist of its single family residential and multi-family residential, small commercial and large commercial discount loan acquisition and resolution activities, servicing of residential and commercial mortgage loans for others, lending, investments in a wide variety of mortgage-related securities and investments in low-income housing tax credit interests.

DECEMBER 31, 1998	Net Interest Income -----	Net (Loss) Income -----	Total Assets -----
(Dollars in thousands)			
Discount loans:			
Single family residential loans.....	\$ 21,568	\$ 14,394	\$ 613,769
Large commercial real estate loans.....	35,220	28,103	591,612
Small commercial real estate loans.....	23,149	8,195	259,609
	-----	-----	-----
	79,937	50,692	1,464,990
	-----	-----	-----
Mortgage loan servicing:			
Domestic.....	6,604	8,066	56,302
Foreign (U.K.).....	147	4,771	11,974
	-----	-----	-----
	6,751	12,837	68,276
	-----	-----	-----
Investment in low-income housing tax credits.....	(8,246)	9,119	220,234
Commercial real estate lending.....	16,066	13,588	74,439
OTX	5	(9,623)	21,659
Subprime single family residential lending:			
Domestic.....	14,080	(20,524)	156,997
Foreign (U.K.).....	11,898	7,475	286,224
	-----	-----	-----
	25,978	(13,049)	443,221
	-----	-----	-----
Investment securities.....	(214)	(59,186)	382,201
Equity investment in OAC.....	--	(8,701)	39,088
Other.....	2,524	3,123	593,971
	-----	-----	-----
	\$ 122,801	\$ (1,200)	\$ 3,308,079
	=====	=====	=====

DECEMBER 31, 1997

	Net Interest Income	Net (Loss) Income	Total Assets
	-----	-----	-----
Discount loans:		(Dollars in thousands)	
Single family residential loans.....	\$ 24,870	\$ 23,349	\$ 844,146
Large commercial real estate loans.....	33,142	24,474	585,035
Small commercial real estate loans.....	19,257	5,349	308,543
	-----	-----	-----
	77,269	53,172	1,737,724
	-----	-----	-----
Mortgage loan servicing:			
Domestic.....	2,629	3,972	11,160
Foreign (U.K.).....	--	--	--
	-----	-----	-----
	2,629	3,972	11,160
	-----	-----	-----
Investment in low income housing tax credits.....	(5,080)	9,087	168,748
Commercial real estate lending.....	25,794	12,405	230,682
OTX	(33)	--	5,116
Subprime single family residential lending:			
Domestic.....	5,205	(2,166)	225,814
Foreign (U.K.).....	--	--	--
	-----	-----	-----
	5,205	(2,166)	225,814
	-----	-----	-----
Investment securities.....	2,698	3,587	344,231
Equity investment in OAC.....	--	--	--
Other.....	7,760	(1,125)	345,690
	-----	-----	-----
	\$ 116,242	\$ 78,932	\$ 3,069,165
	=====	=====	=====

DECEMBER 31, 1996	Net Interest Income	Net (Loss) Income	Total Assets
	-----	-----	-----
(Dollars in thousands)			
Discount loans:			
Single family residential loans.....	\$ 12,122	\$ 16,827	\$ 650,261
Large commercial real estate loans.....	17,565	15,480	516,622
Small commercial real estate loans.....	14,851	1,398	283,466
	-----	-----	-----
	44,538	33,705	1,450,349
	-----	-----	-----
Mortgage loan servicing:			
Domestic.....	1,685	(2,558)	5,020
Foreign (U.K.).....	--	--	--
	-----	-----	-----
	1,685	(2,558)	5,020
	-----	-----	-----
Investment in low-income housing tax credits.....	(4,962)	11,577	93,309
Commercial real estate lending.....	12,305	3,617	402,582
Subprime single family residential lending:			
Domestic.....	4,486	3,131	128,878
Foreign (U.K.).....	--	--	--
	-----	-----	-----
	4,486	3,131	128,878
	-----	-----	-----
Investment securities.....	8,632	987	342,801
Other.....	11,050	(317)	60,746
	-----	-----	-----
	\$ 77,734	\$ 50,142	\$ 2,483,685
	=====	=====	=====

DISCOUNT LOAN ACQUISITION AND RESOLUTION ACTIVITIES

The Company believes that, under appropriate circumstances, the acquisition of nonperforming and underperforming mortgage loans at discounts offers significant opportunities to the Company. Discount loans generally have collateral coverage which is sufficiently in excess of the purchase price of the loan, such that successful resolutions can produce total returns which are in excess of an equivalent investment in performing mortgage loans.

The Company began its discount loan operations in 1991 and initially focused on the acquisition of single family residential loans. In 1994 the Company expanded this business to include the acquisition and resolution of discount multi-family residential and commercial real estate loans (together, unless the context otherwise requires, "commercial real estate loans"). Prior to entering the discount loan business, management of the Company had substantial loan resolution experience through former subsidiaries of the Company which had been engaged in the business of providing private mortgage insurance for residential loans. This experience assisted the Company in developing the procedures, facilities and systems to evaluate and acquire discount loans and to resolve such loans in a timely and profitable manner. Management of the Company believes that the resources utilized by the Company in connection with the acquisition, servicing and resolution of discount real estate loans, which include proprietary technology and software, allow the Company to effectively manage an extremely data-intensive business and that, as discussed below, these resources have applications in other areas. See "Business-Computer Systems and Use of Technology."

COMPOSITION OF THE DISCOUNT LOAN PORTFOLIO. At December 31, 1998, the Company's net discount loan portfolio amounted to \$1.03 billion or 31% of the Company's total assets. Substantially all of the Company's discount loan portfolio is secured by first mortgage liens on real estate.

The following table sets forth the composition of the Company's discount loan portfolio by type of loan at the dates indicated:

	December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
Single family residential loans	\$ 597,100	\$ 900,817	\$ 504,049	\$ 376,501	\$ 382,165
Multi-family residential loans	244,172	191,302	341,796	176,259	300,220
Commercial real estate loans(1)	449,010	701,035	465,801	388,566	102,138
Other loans.....	10,144	1,865	2,753	2,203	911
Total discount loans.....	1,300,426	1,795,019	1,314,399	943,529	785,434
Unaccreted discount (2).....	(252,513)	(337,350)	(241,908)	(273,758)	(255,974)
Allowance for loan losses.....	(21,402)	(23,493)	(11,538)	--	--
Discount loans, net.....	\$ 1,026,511	\$ 1,434,176	\$ 1,060,953	\$ 669,771	\$ 529,460

(1) The balance at December 31, 1998 consisted of \$154.1 million of loans secured by office buildings, \$100.4 million of loans secured by hotels, \$21.2 million of loans secured by retail properties or shopping centers and \$173.3 million of loans secured by other properties. The balance at December 31, 1997 consisted of \$363.7 million of loans secured by office buildings, \$98.9 million of loans secured by hotels, \$106.8 million of loans secured by retail properties or shopping centers and \$131.6 million of loans secured by other properties. The balance at December 31, 1996 consisted of \$202.1 million of loans secured by office buildings, \$46.0 million of loans secured by hotels, \$138.6 million of loans secured by retail properties or shopping centers and \$79.1 million of loans secured by other properties.

(2) The balance at December 31, 1998 consisted of \$161.6 million on single family residential loans, \$20.8 million on multi family residential loans, \$69.8 million on commercial real estate loans and \$0.3 million on other loans respectively. The balance at December 31, 1997 consisted of \$170.7 million on single family residential loans, \$46.0 million on multi-family residential loans, \$120.5 million on commercial real estate loans and \$0.2 million on other loans, respectively. The balance at December 31, 1996 consisted of \$92.2 million on single family residential loans, \$71.8 million on multi-family residential loans, \$77.6 million on commercial real estate loans and \$0.3 million on other loans, respectively.

The properties which secure the Company's discount loans are located throughout the United States. At December 31, 1998, the five states with the greatest concentration of properties securing the Company's discount loans were California, New York, Illinois, Michigan and New Jersey, which had \$211.5 million, \$144.0 million, \$111.2 million, \$104.8 million and \$84.4 million principal amount of discount loans (before unaccreted discount), respectively. The Company believes that the relatively dispersed geographic distribution of its discount loan portfolio can reduce the risks associated with concentrating such loans in limited geographic areas, and that, due to its expertise, technology and software, and procedures, the geographic distribution of its discount loan portfolio does not place significantly greater burdens on the Company's ability to resolve such loans.

Discount loans may have net book values up to the Bank's loan-to-one-borrower limitation. See "Business Regulation-The Bank-Loan-to-One-Borrower."

ACQUISITION OF DISCOUNT LOANS. In early years, the Company acquired discount loans from the FDIC and the Resolution Trust Corporation ("RTC") primarily in auctions of pools of loans acquired by them from the large number of financial institutions which failed during the late 1980s and early 1990s. Although the RTC no longer is in existence and the banking and thrift industries have recovered from the problems experienced in the late 1980s and early 1990s, governmental agencies, particularly the Department of Housing and Urban Development ("HUD"), continue to be potential sources of discount loans. The Company obtains a substantial amount of discount loans from various private sector sellers, such as banks, savings institutions, mortgage companies, subprime lenders and insurance companies. At December 31, 1998, approximately 74% of the loans in the Company's discount loan portfolio had been acquired from the private sector, as compared to 58% at December 31, 1997, 77% at December 31, 1996, and 90% at December 31, 1995.

Overall, the percentage of discount loans in the Company's discount loan portfolio acquired from private sector sellers has decreased since 1995 as a result of the Company's acquisition of a substantial amount of discount loans from HUD. During the year ended December 31, 1997, the Company and a co-investor were the successful bidder to purchase from HUD 24,773 single family residential loans with an aggregate unpaid principal balance of \$1.55 billion and a purchase price of \$1.34 billion. The Company acquired \$771.6 million of these loans and the right to service all of such loans. In 1996, the Company and a co-investor were the successful bidder to purchase from HUD 4,591 single family residential loans with an aggregate unpaid principal balance of \$258.1 million and a purchase price of \$204.0 million. The Company acquired \$112.2 million of these loans and the right to service all of such loans. In 1996, the Company also acquired from HUD discount multi-family residential loans with an unpaid principal balance of

\$225.0 million. The foregoing acquisitions were in addition to the acquisition of \$741.2 million gross principal amount of single family residential loans from HUD by BCBF, LLC (the "LLC"), a limited liability company formed in March 1996 by the Bank and BlackRock Capital Finance L.P. ("BlackRock"). See "Investment in Unconsolidated Entities - Investment in Joint Ventures."

Since 1996, the Company has acquired over \$2.04 billion of single family residential loans and \$1.96 billion of distressed commercial and multi-family residential loans from the private sector and government agencies, making it the largest purchaser of such assets in the United States. In 1998, the Company acquired \$1.1 billion of unpaid principal balance of discount loans, of which \$0.6 billion were residential loans with the balance being commercial.

HUD loans are acquired by HUD pursuant to various assignment programs of the Federal Housing Administration ("FHA"). Under programs of the FHA, a lending institution may assign an FHA-insured loan to HUD because of an economic hardship on the part of the borrower which precludes the borrower from making the scheduled principal and interest payment on the loan. FHA-insured loans also are automatically assigned to HUD upon the 20th anniversary of the mortgage loan. In most cases, loans assigned to HUD after this 20-year period are performing under the original terms of the loan. Once a loan is assigned to HUD, the FHA insurance has been paid and the loan is no longer insured. As a result, none of the HUD loans are insured by the FHA.

A majority of the \$771.6 million of loans acquired by the Company from HUD during the year ended December 31, 1997 are subject to forbearance agreements after the servicing transfer date. During the forbearance period, borrowers are required to make a monthly payment which is based on their ability to pay and which may be less than the contractual monthly payment. Once the forbearance period is over, the borrower is required to make at least the contractual payment regardless of ability to pay. Virtually all of the foregoing loans acquired from HUD reached the end of the forbearance period by the end of 1998. Prior purchases of loans from HUD by the Company (and the LLC) primarily included loans that were beyond the forbearance period.

Discount real estate loans generally are acquired in pools, although discount commercial real estate loans may be acquired individually. These pools generally are acquired in auctions or competitive bid circumstances in which the Company faces substantial competition. Although many of the Company's competitors have access to greater capital and have other advantages, the Company believes that it has a competitive advantage relative to many of its competitors as a result of its experience in managing and resolving discount loans, its large investment in the computer systems, technology and other resources which are necessary to conduct its business, its national reputation and the strategic relationships and contacts which it has developed in connection with these activities.

The Company generally acquires discount loans solely for its own portfolio. From time to time, however, the Company and one or more co-investors may submit a joint bid to acquire a pool of discount loans in order to enhance the prospects of submitting a successful bid. If successful, the Company and the co-investors generally allocate ownership of the acquired loans in an agreed upon manner, although in certain instances the Company and the co-investor may continue to have a joint interest in the acquired loans. In addition, from time to time the Company and a co-investor may acquire discount loans through a joint venture. See "Investment in Unconsolidated Entities - Investment in Joint Ventures."

Prior to making an offer to purchase a portfolio of discount loans, the Company conducts an extensive investigation and evaluation of the loans in the portfolio. Evaluations of potential discount loans are conducted primarily by the Company's employees who specialize in the analysis of nonperforming loans, often with further specialization based on geographic or collateral-specific factors. The Company's employees regularly use third parties, such as brokers, who are familiar with a property's type and location, to assist them in conducting an evaluation of the value of a collateral property, and depending on the circumstances, particularly in the case of commercial real estate loans, may use subcontractors, such as local counsel and engineering and environmental experts, to assist in the evaluation and verification of information and the gathering of other information not previously made available by a potential seller.

The Company determines the amount to be offered to acquire potential discount loans by using a proprietary modeling system and loan information database which focuses on the anticipated recovery amount and the timing and cost of the resolution of the loans. The amount offered by the Company generally is at a discount from both the stated value of the loan and the value of the underlying collateral which the Company estimates is sufficient to generate an acceptable return on its investment.

RESOLUTION OF DISCOUNT LOANS. After a discount loan is acquired, the Company utilizes its information technology software systems to resolve the loan as expeditiously as possible in accordance with specified procedures. The various resolution alternatives generally include the following: (i) the borrower brings the loan current in accordance with original or modified terms, (ii) the borrower repays the loan or a negotiated amount of the loan, (iii) the borrower

agrees to deed the property to the Company in lieu of foreclosure, in which case it is classified as real estate owned and held for sale by the Company, or (iv) the Company forecloses on the loan and the property is acquired at the foreclosure sale either by a third party or by the Company, in which case it is classified as real estate owned and held for sale by the Company. In addition, in the case of single family residential loans, assistance is provided to borrowers in the form of forbearance agreements under which the borrower either makes a monthly payment less than or equal to the original monthly payment or makes a monthly payment more than the contractual monthly payment to make up for arrearages.

In appropriate cases, the Company works with borrowers to resolve the loan in advance of foreclosure. One method is through forbearance agreements, which generally allow the borrower to pay the contractual monthly payment plus a portion of the arrearage each month, and other means. Although this strategy may result in an initial reduction in the yield on a discounted loan, the Company believes that it is advantageous because it (i) generally results in a higher resolution value than foreclosure; (ii) reduces the amount of real estate owned acquired by foreclosure or by deed-in-lieu thereof and related risks, costs and expenses; (iii) enhances the ability of the Company to sell the loan in the secondary market, either on a whole loan basis or through securitizations (in which case the Company may continue to earn fee income from servicing such loans); and (iv) permits the borrower to retain ownership of the home and, thus, enhances relations between the Company and the borrower. As a result of the Company's current loan resolution strategy of emphasizing forbearance agreements and other resolutions in advance of foreclosure, the Company has been able to resolve 72% of its residential discount loans before foreclosure, as compared to a 23% industry average.

The general goal of the Company's asset resolution process is to maximize, in a timely manner, cash recovery on each loan in the discount loan portfolio. The Company generally anticipates a longer period (approximately 12 to 30 months) to resolve discount commercial real estate loans than discount single family residential loans because of their complexity and the wide variety of issues that may occur in connection with the resolution of such loans.

The Credit Committee of the Board of Directors of the Bank actively monitors the asset resolution process to identify discount loans which have exceeded their expected foreclosure period and real estate owned which has been held longer than anticipated. Plans of action are developed for each of these assets to remedy the cause for delay and are reviewed by the Credit Committee.

SALE OF DISCOUNT LOANS. From time to time the Company sells performing discount loans either on a whole loan basis or indirectly through the securitization of such loans and sale of the mortgage-related securities backed by them. During the years ended December 31, 1998, 1997 and 1996, the Company sold \$696.1 million, \$518.9 million and \$230.2 million of discount loans, respectively, which resulted in gains of \$63.5 million, \$60.4 million and \$15.3 million, respectively, including net securitization gains of \$48.1 million, \$53.1 million and \$7.9, respectively. Also, during 1997 the LLC, as part of larger transactions involving the Company and an affiliate of Black Rock, completed the securitizations of 1,730 discount single family residential loans acquired from HUD in 1996 and 1995, with an unpaid principal balance of \$78.4 million and past due interest of \$22.5 million, which resulted in the Company recognizing indirect gains of \$14.0 million as a result of the Company's pro rata interest in the LLC.

The following table sets forth certain information related to the Company's securitization of discount loans during 1998, 1997 and 1996.

Loan Securitized		Book Value of		
Types of Loans	Principal	No. of Loans	Securities Retained(1)	Net Gain

1998:				
Single family discount.....	\$ 498,798	7,638	\$ 32,261	\$ 48,085
	=====	=====	=====	=====
1997:				
Single family discount.....	\$ 418,795	6,295	\$ 20,635	\$ 51,137
Small commercial discount.....	62,733	302	4,134	1,994
	-----	-----	-----	-----
	\$ 481,528	6,597	\$ 24,769	\$ 53,131
	=====	=====	=====	=====
1996:				
Large commercial discount.....	\$ 164,417	25	\$ 8,384	\$ 7,929
	=====	=====	=====	=====

(1) Consists of subordinated and/or residual securities resulting from the Company's securitization activities, which had a fair value of \$71.5 million at December 31, 1998.

ACTIVITY IN THE DISCOUNT LOAN PORTFOLIO. The following table sets forth the activity in the Company's gross discount loan portfolio during the periods indicated:

	Year Ended December 31,									
	1998		1997		1996		1995		1994	
	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans
(Dollars in Thousands)										
Balance at beginning of period	\$ 1,795,019	12,980	\$ 1,314,399	5,460	\$ 943,529	4,543	\$ 785,434	3,894	\$ 433,516	5,160
Acquisitions(1)	1,123,727	8,084	1,776,773	17,703	1,110,887	4,812	791,195	2,972	826,391	2,781
Resolutions and repayments(2)	(539,353)	(1,918)	(484,869)	(1,978)	(371,228)	(2,355)	(300,161)	(960)	(265,292)	(2,153)
Loans transferred to real estate owned ..	(382,904)	(3,193)	(292,412)	(1,596)	(138,543)	(860)	(281,344)	(984)	(171,300)	(1,477)
Sales	(696,063)	(7,853)	(518,872)	(6,609)	(230,246)	(680)	(51,595)	(379)	(37,881)	(417)
Balance at end of period.....	\$ 1,300,426	8,100	\$ 1,795,019	12,980	\$ 1,314,399	5,460	\$ 943,529	4,543	\$ 785,434	3,894

(1) In 1998, acquisitions consisted of \$613.2 million of single family residential loans, \$231.1 million multifamily residential loans, \$264.7 million of commercial real estate loans and \$14.7 million of consumer loans. In 1997, acquisitions consisted of \$1.06 billion of single family residential loans, \$57.7 million of multi-family residential loans and \$657.0 million of commercial real estate loans. In 1996, acquisitions consisted of \$365.4 million of single family residential loans, \$310.4 million of multi-family residential loans, \$433.5 million of commercial real estate loans and \$1.5 million of other loans. The 1996 data does not include the Company's pro rata share of the \$741.2 million of discount loans acquired by the LLC. 1995, acquisitions consisted of \$272.8 million of single family residential loans, \$141.2 million of multi-family residential loans, \$374.9 million of commercial real estate loans and \$2.3 million of other loans. In 1994, acquisitions consisted of \$395.8 million of single family residential loans, \$315.5 million of multi-family residential loans and \$115.1 million of commercial real estate loans.

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

For information relating to the activity in the Company's real estate owned which is attributable to the Company's discount loan acquisitions, see "Asset Quality - Real Estate Owned."

PAYMENT STATUS OF DISCOUNT LOANS. The following table sets forth certain information relating to the payment status of loans in the Company's discount loan portfolio at the dates indicated.

	December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
Loan status:					
Current	\$ 579,449	\$ 673,255	\$ 579,597	\$ 351,630	\$ 113,794
Past due 31 days to 89 days	39,601	22,786	22,161	86,838	57,023
Past due 90 days or more (1)	624,328	1,070,925	563,077	385,112	413,506
Acquired and servicing not yet transferred	57,048	28,053	149,564	119,949	201,111
	1,300,426	1,795,019	1,314,399	943,529	785,434
Unaccreted discount	(252,513)	(337,350)	(241,908)	(273,758)	(255,974)
Allowance for loan losses	(21,402)	(23,493)	(11,538)	--	--
	\$ 1,026,511	\$ 1,434,176	\$ 1,060,953	\$ 669,771	\$ 529,460

(1) Includes \$110.1 million, \$432.6 million and \$57.0 million of loans with forbearance agreements at December 31, 1998, 1997 and 1996, respectively, and \$522.0 billion, \$638.3 million and \$506.1 million of loans without forbearance agreements at December 31, 1998, 1997 and 1996, respectively. Of the \$110.1 million of loans with forbearance agreements past due 90 days or more in accordance with original terms, \$77.9 million were current and \$32.2 million were past due 31 to 89 days under the terms of the forbearance agreements.

ACCOUNTING FOR DISCOUNT LOANS. The acquisition cost for a pool of discount loans is allocated to each individual loan within the pool based upon relative fair value using the Company's pricing methodology. Prior to January 1, 1997, the discount associated with all single family residential loans was recognized as a yield adjustment and was accreted into interest income using the interest method applied on a loan-by-loan basis once foreclosure proceedings were initiated, to the extent the timing and amount of cash flows could be reasonably determined. Effective January 1, 1997, the Company ceased accretion of discount on its nonperforming single family residential loans. The discount which is associated with a single family residential loan and certain multi-family residential and commercial real estate loans which are current or subsequently brought current by the borrower in accordance with the loan terms is accreted into the Company's interest income as a yield adjustment using the interest method over the contractual maturity of the loan. For all other loans interest is earned as cash is received.

Gains on the repayment and discharge of loans are recorded in interest income on discount loans. Upon receipt of title to property securing a discount loan, the loans are transferred to real estate owned.

Beginning in 1996, adjustments to reduce the carrying value of discount loans to the fair value of the property securing the loan are charged against the allowance for loan losses on the discount loan portfolio. Prior to 1996, such adjustments were charged against interest income on discount loans.

INVESTMENT IN UNCONSOLIDATED ENTITIES

INVESTMENT IN OAC. At December 31, 1997, the Company, through IMI, owned 1,715,000 shares or 9.04% of the outstanding common stock of OAC. Also at December 31, 1997, the Company, through IMI, owned 160,000 units or 0.84% of the partnership units of OPLP. On February 17, 1998, IMI exchanged 175,000 shares of OAC stock for 175,000 OPLP units. On May 5, 1998, IMI acquired an additional 1,473,733 OPLP units. As a result of this activity, IMI's investment in OAC stock declined to 1,540,000 shares or 8.12% at December 31, 1998, while its investment in OPLP increased to 1,808,733 units or 8.71%. The Company began accounting for these entities on the equity method effective May 5, 1998, upon the increase in its combined ownership of OAC and OPLP to 16.83%. The Company's investment in OAC stock amounted to \$16.3 million at December 31, 1998. The Company's investment in OAC stock at December 31, 1997, was designated as available for sale and carried at a fair value of \$35.2 million (\$25.5 million cost). The Company's investment in OPLP units amounted to \$22.8 million at December 31, 1998, as compared to \$2.4 million at December 31, 1997. During 1998, the Company recorded equity in the losses of its investment in OAC and OPLP of \$4.0 million and \$4.7 million, respectively.

INVESTMENT IN KENSINGTON. The Company's investment in unconsolidated entities includes its 36.07% ownership interest in Kensington, which amounted to \$46.6 million at December 31, 1998, net of the excess of the purchase price over the net investment. The excess of the purchase price over the net investment amounted to \$34.5 million ((pound)20.9million) at December 31, 1998, net of accumulated amortization of \$2.0 million ((pound)1.2 million), and is amortized over a period of 15 years. During 1998, the Company recorded equity in earnings of Kensington of \$439,000, net of the \$2.0 million of amortization of excess cost over purchase price.

INVESTMENT IN JOINT VENTURES. From time to time, the Company and a co-investor have acquired discount loans by means of a co-owned joint venture. At December 31, 1998, the Company's \$1.1 million investment in joint venture, consisted of a 10% interest in BCFL, L.L.C. ("BCFL"), a limited liability company which was formed by the Company and BlackRock in January 1997 to acquire discount multi-family residential loans. On December 12, 1997, the LLC, a limited liability company formed in March 1996 between the Company and BlackRock, distributed all of its assets to the Company and its other 50% investor, BlackRock. Simultaneously, the Company acquired BlackRock's portion of the distributed assets. The Company recorded equity in earnings of the LLC of \$23.7 million and \$38.3 million for 1997 and 1996, respectively.

ACQUISITION OF HUD LOANS BY THE LLC. In April 1996, the LLC purchased 16,196 single family residential loans offered by HUD at an auction. Many of the loans, which had an aggregate unpaid principal balance of \$741.2 million at the date of acquisition, were not performing in accordance with their original terms or an applicable forbearance agreement. The aggregate purchase price paid to HUD amounted to \$626.4 million. All of the HUD loans acquired by the LLC were secured by first mortgage liens on single family residences.

In connection with the acquisition, the Company entered into an agreement with the LLC to service the HUD loans in accordance with its loan servicing and loan default resolution procedures. In return for such servicing, the Company received specific fees which were payable on a monthly basis. The Company did not pay any additional amount to acquire these servicing rights, and as a result, the acquisition of the right to service the HUD loans held by the LLC did not result in the Company's recording capitalized mortgage servicing rights for financial reporting purposes.

SECURITIZATION OF THE HUD LOANS BY THE LLC. During 1997, the LLC, as part of larger transactions involving the Company and an affiliate of BlackRock, completed securitizations of 1,730 HUD loans held by it with an unpaid principal balance of \$78.4 million, past due interest of \$22.5 million and a net book value of \$60.6 million; and during 1996, the LLC completed a securitization of 9,825 HUD loans with an aggregate unpaid principal balance of \$419.4 million, past due interest of \$86.1 million and a net book value of \$394.2 million. The LLC recognized gains of \$14.0 million and \$69.8 million (including a gain of \$12.9 million on the sale in 1996 of \$79.4 million of securities to the Company) from the sale of the senior classes in the residuals formed for purposes of these transactions in the years ended December 31, 1997 and 1996, respectively, of which \$7.0 million and \$34.9 million, respectively, were allocable to the Company as a result of its pro rata interest in the LLC and included in losses/equity in earnings of investment in unconsolidated entities.

ACCOUNTING FOR INVESTMENTS IN UNCONSOLIDATED ENTITIES. The Company's investment in unconsolidated entities are accounted for under the equity method of accounting. Under the equity method of accounting, an investment in the shares or other interests of an investee is initially recorded at the cost of the shares or interests acquired and thereafter is periodically increased (decreased) by the investor's proportionate share of the earnings (losses) of the investee and decreased by all dividends received by the investor from the investee.

LENDING ACTIVITIES

COMPOSITION OF LOAN PORTFOLIO. At December 31, 1998, the Company's net loan portfolio amounted to \$230.3 million or 7% of the Company's total assets. Loans held for investment in the Company's loan portfolio are carried at amortized cost, less an allowance for loan losses, because the Company has the ability and presently intends to hold them to maturity.

The following table sets forth the composition of the Company's loan portfolio by type of loan at the dates indicated.

	December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
Single family residential loans	\$ 30,361	\$ 46,226	\$ 73,186	\$ 75,928	\$ 31,926
Multi-family residential loans (1) ...	75,599	71,382	67,842	49,047	1,800
Commercial real estate and land loans:					
Hotels (2) (3)	36,631	89,362	200,311	125,791	19,659
Office buildings (4)	93,068	68,759	128,782	61,262	--
Land	2,266	2,858	2,332	24,904	1,315
Other	6,762	16,094	25,623	2,494	4,936
Total	138,727	177,073	357,048	214,451	25,910
Commercial non-mortgage	--	--	2,614	--	--
Consumer	132	244	424	3,223	1,558
Total loans	244,819	294,925	501,114	342,649	61,194
Undisbursed loan proceeds	(7,099)	(22,210)	(89,840)	(39,721)	--
Unaccrued discount	(2,480)	(2,721)	(5,169)	(5,376)	(3,078)
Allowance for loan losses	(4,928)	(3,695)	(3,523)	(1,947)	(1,071)
Loans, net	\$ 230,312	\$ 266,299	\$ 402,582	\$ 295,605	\$ 57,045

(1) At December 31, 1998, 1997, 1996 and 1995, multi-family residential loans included \$22.3 million, \$33.3 million and \$36.6 million, and \$7.7 million of construction loans, respectively.

(2) At December 31, 1998, 1997 and 1996, hotel loans included \$6.9 million, \$25.3 million and \$26.4 million of construction loans, respectively.

(3) During 1998 and 1997, payoffs of loans secured by hotels totaled \$16.6 million and \$80.5 million, respectively.

(4) During 1998 and 1997, payoffs of loans secured by office buildings totaled \$186.5 million and \$107.3 million, respectively.

The Company's lending activities are conducted on a nationwide basis, and as a result, the properties which secure its loan portfolio are located throughout the United States. At December 31, 1998, the five states in which the largest amount of properties securing loans in the Company's loan portfolio were New York, New Jersey, Florida, Texas and California, which had \$52.3 million, \$29.8 million, \$27.9 million, \$12.2 million and \$11.2 million of principal amount of loans, respectively.

CONTRACTUAL PRINCIPAL REPAYMENTS. The following table sets forth certain information at December 31, 1998 regarding the dollar amount of loans maturing in the Company's loan portfolio based on scheduled contractual amortization, as well as the dollar amount of loans which have fixed or adjustable interest rates. Demand loans (loans having no stated schedule of repayments and no stated maturity) and overdrafts are reported as due in one year or less. Loan balances have not been reduced for (i) undisbursed loan proceeds, unearned discounts and the allowance for loan losses or (ii) nonperforming loans.

	One Year or Less	After One Year Through Five Years	Maturing in After Five Years Through Ten Years	After Ten Years	Total
	(Dollars in Thousands)				
Single family residential loans.....	\$ 1,047	\$ 794	\$ 9,179	\$ 19,341	\$ 30,361
Multi-family residential loans.....	23,800	37,771	6,346	7,682	75,599
Commercial real estate and land loans.	35,517	96,183	7,027	--	138,727
Consumer and other loans.....	11	121	--	--	132
Total.....	\$ 60,375	\$ 134,869	\$ 22,552	\$ 27,023	\$ 244,819
Interest rate terms on amounts due:					
Fixed.....	\$ 25,091	\$ 17,488	\$ 2,065	\$ 12,485	\$ 57,129
Adjustable.....	35,284	117,381	20,487	14,538	187,690
	\$ 60,375	\$ 134,869	\$ 22,552	\$ 27,023	\$ 244,819

Scheduled contractual principal repayments may not reflect the actual maturities of loans because of prepayments and, in the case of conventional mortgage loans, due-on-sale clauses. The average life of mortgage loans, particularly fixed-rate loans, tends to increase when current mortgage loan rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when rates on existing mortgages are substantially higher than current mortgage loan rates.

ACTIVITY IN THE LOAN PORTFOLIO. The following table sets forth the activity in the Company's loan portfolio during the periods indicated.

	Year Ended December 31,		
	1998	1997	1996
	(Dollars in Thousands)		
Balance at beginning of period.....	\$ 294,925	\$ 501,114	\$ 342,649
Originations:			
Single family residential loans.....	--	1,987	10,681
Multi-family residential loans.....	56,657	16,799	68,076
Commercial real estate loans.....	116,452	69,948	199,017
Commercial non-mortgage and consumer loans.....	--	1,140	3,366
Total loans originated.....	173,109	89,874	281,140
Purchases:			
Single family residential loans.....	--	78	305
Total loans purchased.....	--	78	305
Sales	--	(2,346)	--
Loans transferred from available for sale.....	--	13,782	45
Principal repayments.....	(222,668)	(306,916)	(121,818)
Transfer to real estate owned.....	(547)	(661)	(1,207)
Net increase (decrease) in net loans.....	(50,106)	(206,189)	158,465
Balance at end of period.....	\$ 244,819	\$ 294,925	\$ 501,114

LOANS AVAILABLE FOR SALE. In addition to loans acquired for investment, the Company also originates and purchases loans which it presently does not intend to hold to maturity. Such loans are designated as loans available for sale upon origination or purchase and generally are carried at the lower of cost or aggregate market value. At December 31, 1998, loans available for sale amounted to \$177.8 million or 5% of the Company's total assets.

The following table sets forth the composition of the Company's loans available for sale by type of loan at the dates indicated.

	December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
Single family residential loans.....	\$ 177,578	\$ 176,554	\$ 111,980	\$ 221,927	\$ 16,825
Multi-family residential loans.....	--	--	13,657	28,694	83,845
Consumer loans.....	269	487	729	1,169	1,623
	\$ 177,847	\$ 177,041	\$ 126,366	\$ 251,790	\$ 102,293

At December 31, 1998, the five states or countries in which the largest amount of properties securing the Company's loans available for sale were the U.K., California, New Jersey, Florida and Illinois which had \$87.6 million, \$21.0 million, \$10.8 million, \$10.6 million and \$7.5 million of principal amount of loans, respectively.

Since late 1994, the Company's lending activities have included the origination and purchase of single family residential loans to borrowers who because of prior credit problems, the absence of a credit history or other factors are unable or unwilling to qualify as borrowers for a single family residential loan under guidelines of the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC") ("conforming loans") and who have substantial equity in the properties which secure the loans. Loans to non-conforming borrowers are perceived by the Company as being advantageous because they generally have higher interest rates and origination and servicing fees and generally lower loan-to-value ratios than conforming loans and because the Company's expertise in the servicing and resolution of nonperforming loans can be utilized in underwriting such loans, as well as to address loans acquired pursuant to this program which become nonperforming after acquisition.

Through 1996, the Company acquired subprime single family residential loans primarily through a correspondent relationship with Admiral and, to a lesser extent, correspondent relationships with three other financial services companies. Correspondent institutions originate loans based on guidelines provided by the Company and promptly sell the loans to the Company on a servicing-released basis.

In order to solidify and expand its sources of domestic subprime single family residential loans, the Company, through OFS, acquired substantially all of the assets of Admiral in a transaction which closed on May 1, 1997. See "Business-Subsidiaries." In connection with the Company's acquisition of assets from Admiral, the Bank transferred its retail and wholesale subprime single family residential lending operations to OFS, which included, among other things, transferring its rights under contracts with brokers and correspondent lending institutions and its rights and obligations under leases to six loan production offices recently opened by it, which are located in California, Illinois, Massachusetts, Oregon and Utah.

The principal sources of funds of OFS consist of lines of credit with unaffiliated parties of (i) a \$200.0 million secured line of credit, of which \$100.0 million was committed, (ii) a \$50.0 million secured line of credit, all of which was committed, (iii) a \$200.0 million secured line of credit, of which \$100.0 million was committed (iv) a \$100.0 million secured line of credit, none of which was committed (v) a \$20.0 million secured residual line of credit, none of which was committed and are secured by the mortgage loans acquired with such lines and (vi) a \$30.0 million unsecured, subordinated credit facility provided by the Company to OFS at the time of the acquisition of substantially all of the assets of Admiral. The Company has adopted policies that set forth the specific lending requirements of the Company as they relate to the processing, underwriting, property appraisal, closing, funding and delivery of subprime loans. These policies include program descriptions which set forth four classes of loans, designated A, B, C and D. Class A loans generally relate to borrowers who have no or limited adverse incidents in their credit histories, whereas Class B, C and D loans relate to increasing degrees of adverse incidents in the borrower's credit histories. Factors which are considered in evaluating a borrower in this regard are the presence or absence of a credit history, prior delinquencies in the payment of mortgage and consumer credit and personal bankruptcies. See "Sources of Funds - Borrowings".

The terms of the loan products offered by the Company directly or through its correspondents emphasize real estate loans which generally are underwritten with significant reliance on a borrower's level of equity in the property securing the loan, which may be an owner-occupied or, depending on the class of loan and its terms, a non-owner occupied property. Although the Company's guidelines require information in order to enable the Company to evaluate a borrower's ability to repay a loan by relating the borrower's income, assets and liabilities to the proposed indebtedness, because of the significant reliance on the ratio of the principal amount of the loans to the appraised value of the security property, each of the four principal classes of loans identified by the Company includes products which permit reduced documentation for verifying a borrower's income and employment. Loans which permit reduced documentation generally require documentation of employment and income for the most recent six-month period, as opposed to the two-year period required in the case of full documentation loans. Although the Company reserves the right to verify a borrower's income, assets and liabilities and employment history, other than as set forth above, it generally does not verify such information through other sources.

The Company's strategy is to offer a broad range of products to its borrowers and its origination sources. Loans may have principal amounts which conform to the guidelines set by FHLMC or FNMA for conforming loans or principal amounts which significantly exceed these amounts (so called "jumbo loans"). Loans may have fixed or adjustable interest rates and terms ranging up to 30 years.

The Company further expanded its subprime single family residential lending operations in 1998 by entering the United Kingdom through the acquisition of a 36.07% interest in Kensington and, through Ocwen UK, the acquisition of Cityscape UK's mortgage loan portfolio and its residential subprime mortgage loan origination and servicing businesses.

Ocwen UK's sources of funding include a Loan Facility Agreement with Greenwich International Ltd. ("Greenwich") under which Greenwich provided a short-term facility to finance the acquisition of Cityscape UK's mortgage loan portfolio (the "Term Loan") and to finance Ocwen UK's further originations and purchase of subprime single family loans (the "Revolving Facility", and together with the Term Loan, the "Greenwich Facility"). The Greenwich Facility is secured by Ocwen UK's loans available for sale. The Revolving Facility, which matures in April 1999, is set at a maximum of \$166.0 million ((pound)100.0 million reduced by the amount borrowed under the Term Loan), of which \$87.1 million ((pound)52.5 million) was funded at December 31, 1998, to finance subprime single family loan originations and bears interest at a rate of the one-month LIBOR plus 1.50%. At December 31, 1998, \$5.6 million ((pound)3.4 million) had been borrowed under the Term Loan, which matured in January 1999. In addition, Ocwen UK has entered into a secured warehouse line of credit with Barclays Bank plc (the "Barclays Facility") to finance subprime single family loan originations. The Barclays Facility, which matures in November 1999, and bears interest at a rate of the one-month LIBOR plus 0.80%, is set at a maximum of \$124.5 million ((pound)75.0 million), against which \$24.6 million ((pound)14.8 million) had been borrowed at December 31, 1998. The weighted average interest rate on these lines of credit outstanding at December 31, 1998, was 7.35%.

The following table sets forth the activity in the Company's net loans available for sale during the periods indicated:

	Year Ended December 31,		
	1998	1997	1996
		(Dollars in Thousands)	
Balance at beginning of period.....	\$ 177,041	\$ 126,366	\$ 251,790
Purchases:			
Single family residential.....	795,053	278,081	284,598
Multi-family residential.....	--	--	10,456
	795,053	278,081	295,054
Originations:			
Single family residential.....	959,105	316,101	9,447
Multi-family residential.....	--	--	--
	959,105	316,101	9,447
Sales.....	(1,658,773)	(501,079)	(395,999)
Increase in lower of cost or market reserve.....	(4,064)	(1,034)	(2,455)
Loans transferred (to)/from loan portfolio.....	--	(13,674)	45
Principal repayments, net of capitalized interest	(82,728)	(22,151)	(27,845)
Transfer to real estate owned.....	(7,787)	(5,569)	(3,671)
Net increase (decrease) in loans.....	806	50,675	(125,424)
Balance at end of period.....	\$ 177,847	\$ 177,041	\$ 126,366

The Company purchased and originated a total of \$1.75 billion of single family residential loans to non-conforming borrowers during 1998 and \$558.3 million of such loans during 1997. At December 31, 1998, the Company had \$170.1 million of subprime single family residential loans, which had a weighted average yield of 12.18%.

The Company generally intends to sell or securitize its subprime single family residential loans, and as a result, all of such loans were classified as available for sale at December 31, 1998. During 1998 the Company sold \$2.9 million of subprime single family residential loans for gains of \$53,000; during 1997 the Company sold \$82.6 million of such loans for gains of \$3.3 million; and during 1996 the Company sold \$161.5 million of subprime single family residential loans for gains of \$571,000. In addition, as presented in the table below, loans were securitized and sold in public offerings underwritten by unaffiliated investment banking firms during 1998, 1997 and 1996, generating gains of \$61.5 million, \$18.8 million and \$7.2 million, respectively, upon the sale of the securities. The Company retained subordinate and residual securities in connection with these transactions.

Loan Securitized

Types of Loans	Principal	No. of Loans	Book Value of Securities Retained(2)	Net Gain
(Dollars in thousands)				
1998:				
Single family subprime (1).....	\$ 1,626,282	31,235	\$ 139,594	\$ 61,516
1997:				
Single family subprime.....	\$ 415,830	3,640	\$ 25,334	\$ 18,802
1996:				
Single family subprime.....	\$ 211,204	1,180	\$ 18,236	\$ 7,232

(1) Includes 20,819 loans securitized by Ocwen UK with an unpaid principal balance of \$558.5 million ((pound)339.4 million) for a net gain of \$25.6 million ((pound)15.4 million).

(2) Consists of subordinated and/or residual securities resulting from the Company's securitization activities, which had a fair value of \$177.5 million at December 31, 1998, including \$87.3 million ((pound)52.6 million) related to securitizations by Ocwen UK.

Although subprime loans generally have higher levels of default than conforming loans, the Company believes that the borrower's equity in the security property and its expertise in the area of resolution of nonperforming loans will continue to make its subprime borrower loan program a successful one notwithstanding such defaults and any resulting losses. There can be no assurance that this will be the case, however.

From time to time the Company purchases pools of single family residential loans for investment purposes. During 1995, the Company purchased \$29.8 million of loans which were primarily secured by properties located in the area surrounding the Bank's physical facility in northern New Jersey.

MULTI-FAMILY RESIDENTIAL AND COMMERCIAL REAL ESTATE LOANS. The Company's lending activities include the acquisition of loans secured by commercial real estate, particularly loans secured by hotels and office buildings, which the Company began originating in late 1994 and late 1995, respectively. Commercial real estate loans currently are made to finance the purchase and refinance of commercial properties, the refurbishment of distressed properties and, recently, the construction of hotels. At December 31, 1998, the Company's loans secured by commercial real estate (and land) amounted to \$138.7 million and consisted primarily of \$36.6 million and \$93.1 million of loans secured by hotels and office buildings, respectively.

From time to time, the Company originates loans for the construction of multi-family residences, as well as bridge loans to finance the acquisition and rehabilitation of distressed multi-family residential properties. At December 31, 1998, the Company's multi-family residential loan portfolio included \$22.3 million of multi-family residential construction loans, of which \$20.1 million had been funded, and \$53.3 million of acquisition and rehabilitation loans, of which \$51.3 million had been funded.

From time to time the Company also originates loans secured by existing multi-family residences. Although the Company has deemphasized this type of lending in recent periods, it previously was active in the origination and securitization of such loans. During 1995, 1994 and 1993, the Company securitized multi-family residential loans acquired by it with an aggregate principal amount of \$83.9 million, \$346.6 million and \$67.1 million, respectively. The Company subsequently sold all of the securities backed by these loans.

The multi-family residential and commercial real estate loans acquired by the Company in recent periods generally have principal amounts between \$3.0 million and the Bank's loan-to-one-borrower limitation (see "Regulation-The Bank-Loans-to-One-Borrower") and are secured by properties which in management's view have good prospects for appreciation in value during the loan term. In addition, the Company currently is implementing a program to originate multi-family residential and commercial real estate loans with smaller principal amounts (generally up to \$3.0 million) and which may be secured by a wide variety of such properties.

The Company's large multi-family residential and commercial real estate loans generally have fixed interest rates, terms of two to five years and payment schedules which are based on amortization over 15 to 25 year periods. The maximum loan-to-value ratio generally does not exceed 80% of the stabilized value of the property and 88% of the total costs of the property in the case of construction, refurbishment or rehabilitation loans.

Multi-family residential and commercial real estate loans are secured by a first priority lien on the real property, all improvements thereon and, in the case of hotel loans, all fixtures and equipment used in connection

therewith, as well as a first priority assignment of all revenue and gross receipts generated in connection with the property. The liability of a borrower on multi-family residential and commercial real estate loans generally is limited to the borrower's interest in the property, except with respect to certain specified circumstances.

In addition to stated interest, the large multi-family residential and commercial real estate loans originated by the Company commonly include provisions pursuant to which the borrower agrees to pay the Company as additional interest on the loan an amount based on specified percentages (generally between 10-38%) of the net cash flow from the property during the term of the loan and/or the net proceeds from the sale or refinancing of the property upon maturity of the loan. Participating interests also may be obtained in the form of additional fees which must be paid by the borrower in connection with a prepayment of the loan, generally after an initial lock-out period during which prepayments are prohibited. The fees which could be payable by a borrower during specified periods of the loan consist either of fixed exit fees or yield maintenance payments, which are required to be paid over a specified number of years after the prepayment and are intended to increase the yield to the Company on the proceeds from the loan payoff to a level which is comparable to the yield on the prepaid loan. At December 31, 1998 and 1997, the Company's loan portfolio included \$12.3 million and \$89.0 million of loans in which the Company participates in the residual profits of the underlying real estate. The Company generally accounts for loans in which it participates in residual profits as loans and not as investments in real estate; however, because of concerns raised by the staff of the OTS in this regard, in December 1996 and during 1997 the Bank sold to the Company subordinated, participating interests in a total of eleven acquisition, development and construction loans, which interests had an aggregate principal balance of \$18.0 million. On a consolidated basis, eight of these loans, which amounted to \$64.3 million at December 31, 1997, were carried by the Company as investments in real estate. These eight loans were repaid in full during 1998. The Bank (but not the Company) agreed with the OTS to cease origination of mortgage loans with profit participation features in the underlying real estate, with the exception of existing commitments.

Construction loans generally have terms of three to four years and interest rates which float on a monthly basis in accordance with designated reference rates. Payments during the term of the loan may be made to the Company monthly on an interest-only basis. The loan amount may include an interest reserve which is maintained by the Company and utilized to pay interest on the loan during a portion of its term.

Construction loans are secured by a first priority lien on the real property, all improvements thereon and all fixtures and equipment used in connection therewith, as well as a first priority assignment of all revenues and gross receipts generated in connection with the property. Construction loans are made without pre-leasing requirements or any requirement of a commitment by another lender to "take-out" the construction loan by making a permanent loan secured by the property upon completion of construction. Disbursements on a construction loan are subject to a retainage percentage of 10% and are made only after evidence that available funds have been utilized by the borrower, available funds are sufficient to pay for all construction costs through the date of the construction advance and funds remain in the construction budget and from sources other than the loan to complete construction of the project.

The Company generally requires the general contractor selected by the borrower, which along with the general construction contract is subject to the Company's review and approval, to provide payment and performance bonds issued by a surety approved by the Company in an amount at least equal to the costs which are estimated to be necessary to complete construction of the project in accordance with the construction contract. Moreover, the Company generally conducts site inspections of projects under construction at least bi-monthly and of completed projects at least semi-annually.

Multi-family residential, commercial real estate and construction lending generally are considered to involve a higher degree of risk than single family residential lending because such loans involve larger loan balances to a single borrower or group of related borrowers. In addition, the payment experience on multi-family residential and commercial real estate loans typically is dependent on the successful operation of the project, and thus such loans may be adversely affected to a greater extent by adverse conditions in the real estate markets or in the economy generally. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost (including interest) of construction, as well as the availability of permanent take-out financing. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of value proves to be inaccurate, the Company may be confronted, at or prior to the maturity of the loan, with a project which, when completed, has a value which is insufficient to ensure full repayment. In addition to the foregoing, multi-family residential and commercial real estate loans which are not fully amortizing over their maturity and which have a balloon payment due at their stated maturity, as is generally the case with the Company's multi-family residential and commercial

real estate loans, involve a greater degree of risk than fully amortizing loans because the ability of a borrower to make a balloon payment typically will depend on its ability either to timely refinance the loan or to timely sell the security property. The ability of a borrower to accomplish these results will be affected by a number of factors, including the level of available mortgage rates at the time of sale or refinancing, the financial condition and operating history of the borrower and the property which secures the loan, tax laws, prevailing economic conditions and the availability of financing for multi-family residential and commercial real estate generally.

LOAN SERVICING ACTIVITIES

During 1996, the Company developed a program to provide loan servicing and various other asset management and resolution services to third party owners of nonperforming assets, underperforming assets and subprime assets such as Class B, C and D single family residential mortgage loans. Servicing contracts entered into by the Company provide for the payment to the Company of specified fees and in some cases may include terms which allow the Company to participate in the profits resulting from the successful resolution of the assets being serviced. Servicing fees, generally expressed as a percent of the unpaid principal balance, are collected from the borrowers' payments. During any period in which the borrower is not making payments, the Company is required under certain servicing agreements to advance its own funds to meet contractual principal and interest remittance requirements for certain investors, maintain property taxes and insurance, and process foreclosures. The Company generally recovers such advances from borrowers for reinstated and performing loans and from investors for foreclosed loans.

The Bank has been approved as a loan servicer by HUD, FHLMC and FNMA. The Bank is rated a Tier 1 servicer and as a preferred servicer for high-risk mortgages by FHLMC, the highest rating categories. The Bank is one of only seven special servicers of commercial mortgage loans to have received a "Strong" rating from Standard & Poor's. The Bank is recognized and/or designated by four rating agencies (Standard & Poor's, Duff and Phelps, IBC Fitch Investors, and Moody's) as a "Special Servicer" for residential mortgage loans and is the only special servicer with this designation for all mortgage categories.

The Company developed the concept of residential special servicing in 1997 and, in 1998, began entering into special servicing arrangements wherein the Company acted as a special servicer for third parties, typically as part of a securitization. The Company services loans that become greater than 90 days past due and receives incentive fees to the extent certain loss mitigation parameters are achieved. Through December 31, 1998, the Company was designated as a special servicer for securitized pools of mortgage loans totaling approximately \$9.1 billion in unpaid principal balance. Of this amount, approximately \$8.0 billion were residential loans, and the balance was commercial.

The following tables set forth the number and amount of loans serviced by the Company for others at the dates indicated:

DECEMBER 31, 1998:

	Discount Loans		Subprime Loans (1)		Other Loans		Total	
	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans
	(Dollars in thousands)							
Loans securitized and sold with recourse.....	\$1,015,988	16,840	\$1,809,533	31,607	\$ --	--	\$ 2,825,521	48,447
Loans serviced for third parties..	1,573,285	20,835	5,327,441	83,085	866,219	1,091	7,766,945	105,011
	<u>\$2,589,273</u>	<u>37,675</u>	<u>\$7,136,974</u>	<u>114,692</u>	<u>\$ 866,219</u>	<u>1,091</u>	<u>\$10,592,466</u>	<u>153,458</u>

DECEMBER 31, 1997:

	Discount Loans		Subprime Loans		Other Loans		Total	
	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans
	(Dollars in thousands)							
Loans securitized and sold with recourse.....	\$ 624,591	11,148	\$ 555,914	4,976	\$ --	--	\$1,180,505	16,124
Loans serviced for third parties..	1,682,764	23,181	2,352,352	29,911	294,198	1,092	4,329,314	54,184
	<u>\$2,307,355</u>	<u>34,329</u>	<u>\$2,908,266</u>	<u>34,887</u>	<u>\$ 294,198</u>	<u>1,092</u>	<u>\$5,509,819</u>	<u>70,308</u>

DECEMBER 31, 1996:

	Discount Loans		Subprime Loans		Other Loans		Total	
	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans
	(Dollars in thousands)							
Loans securitized and sold with recourse.....	\$ 204,586	4,796	\$ 202,766	1,879	\$ --	--	\$ 407,352	6,675
Loans serviced for third parties..	1,209,535	22,511	6,784	60	294,427	917	1,510,746	23,488
	<u>\$1,414,121</u>	<u>27,307</u>	<u>\$ 209,550</u>	<u>1,939</u>	<u>\$ 294,427</u>	<u>917</u>	<u>\$1,918,098</u>	<u>30,163</u>

(1) Includes 37,955 loans with an unpaid principal balance of \$857.2 million ((pound)504.4 million) which were serviced by Ocwen UK at December 31, 1998.

The Company generally does not purchase rights to service loans for others, and as a result, capitalized mortgage servicing rights amounted to only \$7.1 million and \$5.7 million at December 31, 1998 and 1997, respectively. In connection with the securitization and sale of loans, the Company generally retains the rights to service such loans for investors. On January 1, 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 122, "Accounting for Mortgage Servicing Rights." SFAS No. 122 was superseded, for transactions recorded after December 31, 1996, by SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" which the Company adopted on January 1, 1997. Both SFAS No. 122 and SFAS No. 125 require the recognition of a servicing asset or liability and other retained interests as an allocation of the carrying amount of the assets sold between the asset sold and the servicing obligation and other retained interests based on the relative fair value of the assets sold to the interests retained. The resulting mortgage servicing asset or liability is amortized in proportion to and over the period of estimated net servicing income or loss. The Company evaluates the mortgage servicing asset for impairment based on the fair value of the servicing asset. The Company estimates fair values by discounting servicing asset cash flows using discount and prepayment rates that it believes market participants would use.

ASSET QUALITY

The Company, like all financial institutions, is exposed to certain credit risks related to the value of the collateral that secures its loans and the ability of borrowers to repay their loans. Management of the Company closely monitors the Company's loan and investment portfolios and the Company's real estate owned for potential problems and reports to the Board of Directors at regularly scheduled meetings.

NONPERFORMING LOANS. It is the Company's policy to establish an allowance for uncollectible interest on loans in its loan portfolio and loans available for sale which are past due 90 days or more and to place such loans on non-accrual status. As a result, the Company currently does not have any loans which are accruing interest but are past due 90 days or more. Loans also may be placed on non-accrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed by a charge to interest income.

The following table sets forth certain information relating to the Company's nonperforming loans in its loan portfolio at the dates indicated:

	December 31,				
	1998	1997	1996	1995	1994
(Dollars in Thousands)					
Nonperforming loans (1):					
Single family residential loans.....	\$ 1,169	\$ 1,575	\$ 2,123	\$ 2,923	\$ 2,478
Multi-family residential loans(2)(3)....	7,392	7,583	106	731	152
Consumer and other loans.....	488	--	55	202	29
Total.....	\$ 9,049	\$ 9,158	\$ 2,284	\$ 3,856	\$ 2,659
Nonperforming loans as a percentage of:					
Total loans (4).....	3.81%	3.36%	0.56%	1.27%	4.35%
Total assets.....	0.27%	0.30%	0.09%	0.20%	0.21%
Allowance for loan losses as a percentage of:					
Total loans(4)(5).....	2.07%	1.35%	0.87%	0.65%	1.84%
Nonperforming loans.....	54.46%	40.35%	154.25%	50.49%	40.28%

(1) The Company did not have any nonperforming loans in its loan portfolio which were deemed troubled debt restructurings at the dates indicated.

(2) The increase in non performing multi-family residential loans during 1997 was primarily attributable to a \$7.4 million loan secured by 127-unit condominium building located in New York, New York, which management believes is well collateralized.

(3) Non performing multi-family residential loans at December 31, 1998 was primarily attributable to three loans with an aggregate balance of \$5.0 million, all of which management believes are well capitalized.

(4) Total loans is net of undisbursed loan proceeds.

(5) The decrease in the allowance for loan losses as a percentage of total loans during 1995 was due to the significant increase in the loan portfolio during 1995 as a result of the purchase of single family residential loans and the origination of multi-family residential and commercial real estate loans.

The following table presents a summary of the Company's nonperforming loans in the loans available for sale portfolio at the dates indicated:

	December 31,				
	1998	1997	1996	1995	1994
(Dollars in Thousands)					
Nonperforming loans:					
Single family loans.....	\$ 39,415	\$ 13,509	\$ 14,409	\$ 7,833	\$ --
Consumer loans.....	9	25	36	100	120
Total.....	\$ 39,424	\$ 13,534	\$ 14,445	\$ 7,933	\$ 120
Nonperforming loans a percentage of:					
Total loans available for sale.....	22.17%	7.64%	11.43%	3.15%	0.12%
Total assets.....	1.19%	0.44%	0.58%	0.58%	0.01%

For information relating to the payment status of loans in the Company's discount loan portfolio, see "Business-Discount Loan Acquisition and Resolution Activities."

REAL ESTATE OWNED. Properties acquired through foreclosure or by deed-in-lieu thereof are valued at the lower of amortized cost or fair value. Properties included in the Company's real estate owned portfolio are periodically re-evaluated to determine that they are being carried at the lower of cost or fair value less estimated costs to sell. Holding and maintenance costs related to properties are recorded as expenses in the period incurred. Deficiencies resulting from valuation adjustments to real estate owned subsequent to acquisition are recognized as a valuation allowance. Subsequent increases related to the valuation of real estate owned are reflected as a reduction in the valuation allowance, but not below zero. Increases and decreases in the valuation allowance are charged or credited to income, respectively. Accumulated valuation allowances amounted to \$15.3 million, \$12.3 million, \$11.5 million, \$4.6 million and \$3.9 million at December 31, 1998, 1997, 1996 1995 and 1994, respectively.

The following table sets forth certain information relating to the Company's real estate owned at the dates indicated.

	December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
Discount loan portfolio:					
Single family residential	\$ 94,641	\$ 76,409	\$ 49,728	\$ 75,144	\$ 86,426
Multi-family residential	20,130	16,741	14,046	59,932	--
Commercial real estate	82,591	71,339	36,264	31,218	8,801
	-----	-----	-----	-----	-----
Total	197,362	164,489	100,038	166,294	95,227
Loan portfolio	227	357	592	262	1,440
Loans available for sale	3,962	2,419	3,074	--	--
	-----	-----	-----	-----	-----
Total	\$201,551	\$167,265	\$103,704	\$166,556	\$ 96,667
	=====	=====	=====	=====	=====

The following table sets forth certain geographical information by type of property at December 31, 1998 related to the Company's real estate owned.

	Single Family Residential		Multi-family Residential and Commercial		Total	
	Amount	No. of Properties	Amount	No. of Properties	Amount	No. of Properties
	(Dollars in Thousands)					
Florida.....	\$ 5,334	114	\$ 54,187	12	\$ 59,521	126
California.....	29,255	469	6,491	6	35,746	475
Maryland.....	8,078	141	14,942	3	23,020	144
Connecticut.....	5,382	109	12,481	2	17,863	111
New York.....	6,938	157	955	3	7,893	160
Other(1).....	43,843	945	13,665	38	57,508	983
	-----	-----	-----	-----	-----	-----
Total.....	\$ 98,830	1,935	\$ 102,721	64	\$ 201,551	1,999
	=====	=====	=====	=====	=====	=====

(1) Consists of properties located in 43 other states, none of which aggregated over \$6.7 million in any one state.

The following table sets forth the activity in the real estate owned during the periods indicated.

	Year Ended December 31,					
	1998		1997		1996	
	Amount	No. of Properties	Amount	No. of Properties	Amount	No. of Properties
	(Dollars in Thousands)					
Balance at beginning of period...	\$ 167,265	1,505	\$103,704	825	\$ 166,556	1,070
Properties acquired through foreclosure or deed-in-lieu thereof.....	280,522	3,278	205,621	1,656	102,098	918
Acquired in connection with acquisitions of discount loans	19,949	303	38,486	545	2,529	12
Sales.....	(263,206)	(3,087)	(179,693)	(1,521)	(160,592)	(1,175)
Change in allowance.....	(2,979)	--	(853)	--	(6,887)	--
	-----	-----	-----	-----	-----	-----
Balance at end of period.....	\$ 201,551	1,999	\$167,265	1,505	\$ 103,704	825
	=====	=====	=====	=====	=====	=====

The following table sets forth the amount of time that the Company had held its real estate owned at the dates indicated.

	December 31,		
	1998	1997	1996
	(Dollars in Thousands)		
One to two months.....	\$ 38,444	\$ 83,144	\$ 17,695
Three to four months.....	79,264	28,912	15,291
Five to six months.....	27,115	20,929	14,348
Seven to 12 months.....	26,122	23,621	13,004
Over 12 months.....	30,606	10,659	43,366

\$ 201,551
=====

\$ 167,265
=====

\$ 103,704
=====

The average period during which the Company held the \$263.2 million, \$179.7 million and \$160.6 million of real estate owned which was sold during the years ended December 31, 1998, 1997 and 1996, respectively, was 6 months, 9 months and 11 months, respectively.

The following table sets forth the activity, in aggregate, in the valuation allowances on real estate owned during the periods indicated.

	Year Ended December 31,				
	1998	1997	1996	1995	1994
	(Dollars in thousands)				
Balance at beginning of year	\$ 12,346	\$ 11,493	\$ 4,606	\$ 3,937	\$ 2,455
Provisions for losses	18,626	13,450	18,360	10,510	9,074
Charge-offs and sales	(15,647)	(12,597)	(11,473)	(9,841)	(7,592)
Balance at end of year	\$ 15,325	\$ 12,346	\$ 11,493	\$ 4,606	\$ 3,937

Although the Company evaluates the potential for significant environmental problems prior to acquiring or originating a loan, there is a risk for any mortgage loan, particularly a multi-family residential and commercial real estate loan, that hazardous substances or other environmentally restricted substances could be discovered on the related real estate. In such event, the Company might be required to remove such substances from the affected properties or to engage in abatement procedures at its sole cost and expense. There can be no assurance that the cost of such removal or abatement will not substantially exceed the value of the affected properties or the loans secured by such properties, that the Company would have adequate remedies against the prior owners or other responsible parties or that the Company would be able to resell the affected properties either prior to or following completion of any such removal or abatement procedures. If such environmental problems are discovered prior to foreclosure, the Company generally will not foreclose on the related loan; however, the value of such property as collateral will generally be substantially reduced, and as a result, the Company may suffer a loss upon collection of the loan.

From time to time, the Company makes loans to finance the sale of real estate owned. At December 31, 1998, such loans amounted to \$7.5 million and consisted of \$3.6 million of single family residential loans, \$3.6 million of multi-family residential loans and \$262,000 of commercial loans. All of the Company's loans to finance the sale of real estate owned were performing in accordance with their terms at December 31, 1998.

CLASSIFIED ASSETS. OTS regulations require that each insured savings association classify its assets on a regular basis. In addition, in connection with examinations of insured associations, OTS examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: "substandard," "doubtful" and "loss." Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified as a loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. Another category designated "special mention" also must be established and maintained for assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification as substandard, doubtful or loss but do possess credit deficiencies or potential weaknesses deserving management's close attention. Assets classified as substandard or doubtful require the institution to establish general allowances for loan losses. If an asset or portion thereof is classified as a loss, the insured institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset classified as a loss or charge off such amount. In this regard, the Company establishes required reserves and charges off loss assets as soon as administratively practicable. General loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses do not qualify as regulatory capital.

In 1996, based upon discussions with the OTS and as a result of an OTS bulletin issued on December 13, 1996 entitled "Guidance on the Classification and Regulatory Reporting of Certain Delinquent Loans and Other Credit Impaired Assets," the Company has classified all discount loans that are 90 or more days contractually past due, not otherwise classified, as special mention and all real estate owned, not otherwise classified, as special mention. The Company also modified its policy for classifying nonperforming discount loans and real estate owned related to its discount loan portfolio ("nonperforming discount assets") to take into account both the holding period of such assets from the date of acquisition and the ratio of book value to market value of such assets. All nonperforming discount assets which are held 15 months or more after the date of acquisition are classified substandard; nonperforming discount assets held 12 months to less than 15 months from the date of acquisition are

classified as substandard if a ratio of book value to market value is 80% or more; and nonperforming discount assets held less than 12 months from the date of acquisition are classified as substandard if they have a ratio of book value to market value of more than 85%. In addition, nonperforming discount assets which are performing for a period of time subsequent to acquisition by the Company are classified as substandard at the time such loans become nonperforming. The Company also modified its classified assets policy to classify all real estate owned which is not cash flowing and which has been held for more than 15 months and three years as substandard and doubtful, respectively. The Company's past experience indicates that classified discount assets do not necessarily correlate to probability or severity of loss.

Excluding assets which have been classified loss and fully reserved by the Company, the Company's classified assets at December 31, 1998 under the above policy consisted of \$49.8 million of assets classified as substandard and \$636,000 of assets classified as doubtful. In addition, at the same date, \$80.5 million of assets were designated as special mention.

Substandard assets at December 31, 1998 under the above policy consisted primarily of \$5.6 million of loans and real estate owned related to the Company's discount single family residential loan program, \$22.9 million of loans and real estate owned related to the Company's discount commercial real estate loan program and \$5.6 million of subprime single family residential loans. Special mention assets at December 31, 1998 under the policy consisted primarily of \$26.9 million and \$34.2 million of loans and real estate owned related to the Company's discount single family residential and discount commercial real estate loan programs, respectively.

ALLOWANCES FOR LOSSES. The Company maintains an allowance for loan losses for each of its loan and discount loan portfolios at a level which management considers adequate to provide for potential losses in each portfolio based upon an evaluation of known and inherent risks in such portfolios.

The following table sets forth the breakdown of the allowance for loan losses on the Company's loan portfolio and discount loan portfolio by loan category and the percentage of loans in each category to total loans in the respective portfolios at the dates indicated:

	December 31,									
	1998		1997		1996		1995		1994	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)									
Loan portfolio:										
Single family residential loans	\$ 215	4.4%	\$ 512	15.7%	\$ 520	14.6%	\$ 346	22.2%	\$ 615	52.2%
Multi-family residential loans	2,714	55.1	2,163	24.2	673	13.5	683	14.3	--	2.9
Commercial real estate loans ..	1,999	40.5	1,009	60.0	2,299	71.3	875	62.6	218	42.3
Commercial non-mortgage loans .	--	--	--	--	11	0.5	--	--	--	--
Consumer loans	--	--	11	0.1	20	0.1	43	0.9	238	2.6
Total	\$4,928	100.0%	\$ 3,695	100.0%	\$ 3,523	100.0%	\$1,947	100.0%	\$1,071	100.0%
Discount loan portfolio(1):										
Single family residential loans	\$10,307	48.2%	\$15,017	50.2%	\$ 3,528	38.4%	\$ --	--%	\$ --	--%
Multi-family residential loans	2,457	11.5	2,616	10.7	3,124	26.0	--	--	--	--
Commercial real estate loans	8,607	40.2	5,860	39.0	4,886	35.4	--	--	--	--
Other loans.....	31	0.1	--	0.1	--	0.2	--	--	--	--
Total.....	\$21,402	100.0%	\$23,493	100.0%	\$11,538	100.0%	\$ --	--%	\$ --	--%

(1) The Company did not maintain an allowance for loan losses on its discount loan portfolio prior to 1996.

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

The following table sets forth an analysis of activity in the allowance for loan losses relating to the Company's loan portfolio during the periods indicated:

	Year Ended December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
Balance at beginning of period.....	\$ 3,695	\$ 3,523	\$ 1,947	\$ 1,071	\$ 884
Provision for loan losses.....	891	325	1,872	1,121	--
Charge-offs:					
Single family residential loans..	(212)	(100)	(261)	(131)	(302)
Multi-family residential loans...	--	--	(7)	--	--
Commercial real estate loans.....	--	--	--	(40)	--
Consumer loans.....	(7)	(53)	(28)	(92)	(170)
Total charge-offs.....	(219)	(153)	(296)	(263)	(472)
Recoveries:					
Single family residential loans..	--	--	--	3	410
Multi-family residential loans...	--	--	--	--	--
Commercial real estate loans.....	561	--	--	15	--
Consumer loans.....	--	--	--	--	249
Total recoveries.....	561	--	--	18	659
Net (charge-offs) recoveries...	342	(153)	(296)	(245)	187
Balance at end of period.....	\$ 4,928	\$ 3,695	\$ 3,523	\$ 1,947	\$ 1,071
Net charge-offs (recoveries) as a percentage of average loan portfolio, net.....	0.13%	0.04%	0.09%	0.19%	(0.28)%

The following table sets forth an analysis of activity in the allowance for loan losses relating to the Company's discount loan portfolio during the periods indicated:

	Year Ended December 31,		
	1998	1997	1996
	(Dollars in Thousands)		
Balance at beginning of period	\$ 23,493	\$ 11,538	\$ --
Provision for loan losses	17,618	31,894	20,578
Charge-offs:			
Single family residential loans	(14,574)	(13,281)	(7,009)
Multi-family residential loans	(2,648)	(2,056)	(704)
Commercial real estate loans	(2,888)	(5,012)	(1,503)
Other loans	(20)	--	--
Total charge-offs	(20,130)	(20,349)	(9,216)
Recoveries:			
Single family residential loans	421	410	176
Multi-family residential loans	--	--	--
Commercial real estate loans	--	--	--
Consumer loans	--	--	--
Total recoveries	421	410	176
Net (charge-offs)	(19,709)	(19,939)	(9,040)
Balance at end of period	\$ 21,402	\$ 23,493	\$ 11,538
Net charge-offs as a percentage of average discount loan portfolio	1.53%	1.55%	1.34%

INVESTMENT ACTIVITIES

GENERAL. The investment activities of the Company currently include investments in mortgage-related securities, investment securities and low-income housing tax credit interests. The investment policy of the Company, which is established by the Investment Committee and approved by the Board of Directors, is designed primarily to provide a portfolio of diversified instruments while seeking to optimize net interest income within acceptable limits of interest rate risk, credit risk and liquidity.

MORTGAGE-BACKED AND RELATED SECURITIES. From time to time, the Company invests in mortgage-backed and mortgage-related securities. Although mortgage-backed and mortgage-related securities generally yield less than the loans that back such securities because of costs associated with their payment guarantees or credit enhancements, such securities are more liquid than individual loans and may be used to collateralize borrowings of the Company. Other mortgage-backed and mortgage-related securities indirectly bear the risks of the underlying loans, such as prepayment risk (interest-only securities) and credit risk (subordinated interests), and are generally less liquid than individual loans.

Mortgage-related securities include senior and subordinate regular interests and residual interests in collateralized mortgage obligations ("CMOs"), including CMOs which have qualified as REMICs. The regular interests in some CMOs are like traditional debt instruments because they have stated principal amounts and traditionally defined interest-rate terms. Purchasers of certain other interests in REMICs are entitled to the excess, if any, of the issuer's cash inflows, including reinvestment earnings, over the cash outflows for debt service and administrative expenses. These interests may include instruments designated as residual interests, which represent an equity ownership interest in the underlying collateral, subject to the first lien of the investors in the other classes of the REMIC.

A senior-subordinated structure often is used with CMOs to provide credit enhancement for securities which are backed by collateral which is not guaranteed by FNMA, FHLMC or the Government National Mortgage Association ("GNMA"). These structures divide mortgage pools into two risk classes: a senior class and one or more subordinated classes. The subordinated classes provide protection to the senior class. When cash flow is impaired, debt service goes first to the holders of senior classes. In addition, incoming cash flows also may be held in a reserve fund to meet any future shortfalls of cash flow to holders of senior classes. The holders of subordinated classes may not receive any principal repayments until the holders of senior classes have been paid and, when appropriate, until a specified level of funds has been contributed to the reserve fund.

On July 27, 1998, the Company sold its entire portfolio of AAA-rated agency IOs for \$137.5 million, which represented book value. As a result of an increase in prepayment speeds due to declining interest rates, the Company recorded impairment charges of \$86.1 million in 1998 prior to the sale (\$77.6 million in the second quarter) resulting from the Company's decision to discontinue this investment activity and write down the book value of the IOs. The AAA-rated agency IOs consisted of IOs, which are classes of mortgage-related securities that are entitled to payments of interest but no (or only nominal) principal, and inverse IOs, which bear interest at a floating rate that varies inversely with (and often at a multiple of) changes in a specified index.

At December 31, 1998, the fair value of the Company's investment in subordinate and residual interests amounted to \$249.1 million (\$227.9 million amortized cost) or 42% of total securities available for sale and supported senior classes of securities having an outstanding principal balance of \$3.84 billion. During 1998, the Company recorded \$43.6 million of impairment charges on its portfolio of subordinate and residual securities as a result of declines in value that were deemed to be "other than temporary." Because of their subordinate position, subordinated and residual classes of mortgage-related securities provide protection to and involve more risk than the senior class. Specifically, when cash flow is impaired, debt service goes first to the holders of senior classes. In addition, incoming cash flows may be held in a reserve fund to meet any future repayments until the holders of senior classes have been paid and, when appropriate, until a specified level of funds has been contributed to the reserve fund. Further, residual interests exhibit considerably more price volatility than mortgages or ordinary mortgage pass-through securities, due in part to the uncertain cash flows that result from changes in the prepayment rates of the underlying mortgages. Lastly, subordinate and residual interests involve substantially more credit risk than the senior classes of the mortgage-related securities to which such interests relate and generally are not as liquid as the senior classes.

The Company generally retains subordinate and residual securities, which are certificated, related to its securitization of loans. Subordinate and residual interests in mortgage-related securities provide credit support to the more senior classes of the mortgage-related securities. Principal from the underlying mortgage loans generally is allocated first to the senior classes, with the most senior class having a priority right to the cash flow from the mortgage loans until its payment requirements are satisfied. To the extent that there are defaults and unrecoverable losses on the underlying mortgage loans, resulting in reduced cash flows, the most subordinate security will be the first to bear this loss. Because subordinate and residual interests generally have no credit support, to the extent there are realized losses on the mortgage loans

comprising the mortgage collateral for such securities, the Company may not recover the full amount or, indeed, any of its initial investment in such subordinate and residual interests. The Company generally retains the most subordinate classes of the securities from the securitization and therefore will be the first to bear any credit losses.

The Company determines the present value of anticipated cash flows at the time each securitization transaction closes, utilizing valuation assumptions appropriate for each particular transaction. The significant valuation assumptions include the anticipated prepayment speeds and the anticipated credit losses related to the underlying mortgages. In order to determine the present value of this estimated excess cash flow, the Company currently applies a discount rate of 18% to the projected cash flows on the unrated classes of securities. The annual prepayment rate of the securitized loans is a function of full and partial prepayments and defaults. The Company makes assumptions as to the prepayment rates of the underlying loans, which the Company believes are reasonable, in estimating fair values of the subordinate securities and residual securities retained. During 1998, the Company utilized proprietary prepayment curves generated by the Company (reaching an approximate range of annualized rates of 30% - 40%). In its estimates of annual loss rates, the Company utilizes assumptions that it believes are reasonable. The Company estimates annual losses of between 0.22% and 2.06% of the underlying loans.

Subordinate and residual interests are affected by the rate and timing of payments of principal (including prepayments, repurchase, defaults and liquidations) on the mortgage loans underlying a series of mortgage-related securities. The rate of principal payments may vary significantly over time depending on a variety of factors, such as the level of prevailing mortgage loan interest rates and economic, demographic, tax, legal and other factors. Prepayments on the mortgage loans underlying a series of mortgage-related securities are generally allocated to the more senior classes of mortgage-related securities. Although in the absence of defaults or interest shortfalls all subordinates receive interest, amounts otherwise allocable to residuals generally are used to make payments on more senior classes or to fund a reserve account for the protection of senior classes until overcollateralization or the balance in the reserve account reaches a specified level. In periods of declining interest rates, rates of prepayments on mortgage loans generally increase, and if the rate of prepayments is faster than anticipated, then the yield on subordinates will be positively affected and the yield on residuals will be negatively affected.

The credit risk of mortgage related securities is affected by the nature of the underlying mortgage loans. In this regard, the risk of loss on securities backed by commercial and multi-family loans and single family residential loans made to borrowers who, because of prior credit problems, the absence of a credit history or other factors, are unable or unwilling to qualify as borrowers under guidelines established by the FHLMC and the FNMA for purchases of loans by such agencies, generally involve more risk than securities backed by single family residential loans which conform to the requirements established by FHLMC and FNMA for their purchase by such agencies.

The Company adjusts its securities portfolio to fair value at the end of each month based upon the lower of dealer quotations or internal values, subject to an internal review process. For those securities which do not have an available market quotation, the Company will request market values and underlying assumptions from the various securities dealers that underwrote, are currently financing the securities, or have had prior experience with the type of security to be valued. When quotations are obtained from two or more dealers, the average dealer quote will be utilized.

The Company periodically assesses the carrying value of its subordinate securities and residual securities retained as well as the servicing assets for impairment. There can be no assurance that the Company's estimates used to determine the gain on securitized loan sales, subordinate securities and residual securities retained and servicing asset valuations will remain appropriate for the life of each securitization. If actual loan prepayments or defaults exceed the Company's estimates, the carrying value of the Company's subordinate securities and residual securities retained and/or servicing assets may be decreased or the Company may increase its allowance for possible credit losses on loans sold through a charge against earnings during the period management recognized the disparity. Other factors may also result in a write-down of the Company's subordinate securities and residual securities retained in subsequent periods. Accelerated prepayment speeds were a significant contributing factor to the \$43.6 million of impairment charges recorded by the Company in 1998 on its subordinate and residual securities.

The following table sets forth the fair value of the Company's mortgage-backed and related securities available for sale at the dates indicated.

	December 31,		
	1998	1997	1996
(Dollars in Thousands)			
Mortgage-related securities:			
Single family residential:			
CMOs (AAA-rated).....	\$ 344,199	\$ 160,451	\$ 73,935
Interest only:			
AAA-rated.....	--	13,863	1,173
FHLMC.....	--	64,745	47,571
FNMA.....	--	59,715	49,380
GNMA.....	--	29,766	--
BB-rated subordinates.....	8,517	2,515	--
B-rated subordinates.....	6,344	--	--
Unrated subordinates	40,595	39,219	19,164
AAA-rated subprime residuals	6,931	--	--
BBB-rated subprime residuals	17,593	--	--
Unrated subprime residuals	152,951	41,790	20,560
Futures contracts and swaps.....	--	(94)	(1,921)
Total.....	577,130	411,970	209,862
Multi-family residential and commercial:			
Interest only:			
AAA-rated.....	71	3,058	83,590
BB-rated.....	2	189	--
Unrated.....	--	--	3,799
B-rated subordinates.....	8,813	8,512	--
Unrated.....	--	--	13,848
Unrated subordinates.....	7,331	6,795	43,686
Futures contracts.....	--	--	(780)
Total.....	16,217	18,554	144,143
Marketable equity securities:			
Common stocks.....	--	46,272	--
Total.....	\$ 593,347	\$ 476,796	\$ 354,005

Under a regulatory bulletin issued by the OTS, a federally-chartered savings institution such as the Bank generally may invest in "high risk" mortgage securities only to reduce its overall interest rate risk and after it has adopted various policies and procedures, although under specified circumstances such securities also may be acquired for trading purposes. A "high risk" mortgage security for this purpose generally is any mortgage-related security which meets one of three tests which are intended to measure the average life or price volatility of the security in relation to a benchmark fixed rate, 30-year mortgage-backed pass-through security. At December 31, 1998, the Bank held mortgage-related securities with a fair value of \$19.5 million (amortized cost of \$19.5 million) which were classified as "high-risk" mortgage securities by the OTS.

The following tables detail the Company's securities available for sale portfolio at December 31, 1998, and its estimates of expected yields on such securities, taking into consideration expected prepayment and loss rates together with other factors.

SECURITIZATION	SECURITY	ISSUE DATE	CLASS DESIGNATION LETTER	RATING AGENCIES	COLLATERAL BALANCE		PRODUCT TYPE AT 12/31/98
					ISSUANCE	12/31/98	
(Dollars in Thousands)							
SINGLE-FAMILY RESIDENTIAL							
Subordinates:							
BCF 1996 R1.....	B3	Oct-96	NR	S&P, Moody's	\$ 505,513	\$ 358,075	93% Fixed, 7% ARM
BCF 1997 R1.....	B4	Mar-97	NR	Moody's, Fitch	177,823	138,739	93% Fixed, 7% ARM
BCF 97 R2.....	B4	Jun-97	Ba2, BB	Moody's, Fitch	251,790	193,342	24% Fixed, 75% ARM
	B5		B2, B				
	B6		NR				
BCF 1997 R3.....	B4	Dec-97	NR	Moody's DCR	579,851	519,213	93% Fixed, 6% ARM
ORMBS 1998 R1.....	B4	Mar-98	NR	Moody's, DCR	565,411	546,176	94% Fixed, 6% ARM
ORMBS 1998 R2.....	B4A	Jun-98	Ba2	Moody's	123,917	115,320	39% Fixed, 61% ARM
	B4F		Ba2				
	B5A		B2				
	B5F		B2				
	B6F		NR				
	B6A		NR				
ORMBS 1998 R3.....	B4	Sep-98	BB	Moody's, DCR	261,452	259,873	95% Fixed, 5% ARM
	B5		B2, B				
	B6		NR				
Subprime residuals:							
SMBS 1996-3.....	R	Jun-96	NR	S&P, Moody's	130,062	48,578	56% Fixed, 44% ARM
MLM1 1996-1.....	R	Sep-96	NR	S&P, Moody's	81,142	33,469	30% Fixed, 70% ARM
MS 1997-1.....	X1, X2	Jun-97	NR	S&P, Moody's	104,846	66,732	22% Fixed, 78% ARM
1997 OFS (2).....	X	Sep-97	NR	S&P, Moody's	102,201	67,850	16% Fixed 84% ARM
1997 OFS (3).....	X	Dec-97	NR	S&P, Moody's	208,784	167,604	16% Fixed 84% ARM
1998 OFS (1).....	X	Mar-98	NR	Moody's, DCR	161,400	137,641	13% Fixed 87% ARM
1998 OFS (2).....	X	Jun-98	NR	S&P, Moody's	382,715	304,266	37% Fixed 63% ARM
1998 OFS (3).....	X	Sep-98	NR	S&P, DCR	261,649	253,156	27% Fixed 73% ARM
1998 OFS (4).....	X	Dec-98	NR	S&P, Moody's, Fitch	262,055	262,055	37% Fixed 63% ARM
OML (1).....	R	Jun-98	NR	S&P, DCR	368,742	321,916	100% UK Subprime
OML (2).....	DAC-IO S&R B	Nov-98	Aaa, AAA NR Baa2, BBB	Moody's, Fitch	195,832	195,832	100% UK Subprime
MULTI-FAMILY AND COMMERCIAL							
Subordinates:							
CMAC 1996 C2.....	G	Dec-96	B	Fitch	164,418	133,997	37% Retail, 19% Hotel, 16% Multi-family
	H		NR				
	XI, X2		AAA				
BCF 97-C1.....	F, G	Oct-97	B	Fitch	128,387	86,959	19% Multi-family, 18% Hotel, 15% Industrial
	E-IO		BB				
	X1, X2		AAA				

SECURITIZATION	WEIGHTED	WEIGHTED	TOTAL	ACTUAL LIFE	ACTUAL LIFE	SUBORDINATION	YIELD TO	MATURITY AT:
	AVERAGE COUPON	AVERAGE	DELINQUENCY	TO DATE CPR	TO DATE			
	AT:	LTV AT:	AT:	AT:	LOSSES AT:	LEVEL	PURCHASE	
	12/31/98	12/31/98	12/31/98	12/31/98	12/31/98	AT 12/31/98		12/31/98
SINGLE-FAMILY RESIDENTIAL								
(Dollars in Thousands)								
Subordinates:								
BCF 1996 R1 B3(5).....	10.06%	101.05%	22.00%	12.47%	\$14,199	None	15.70%	14.73%
BCF 1997 R1 B4(5).....	10.08	108.90	39.87	11.78	6,145	None	13.46	-0.04
BCF 97 R2 B4(5).....	8.30	85.64	72.88	11.87	3,876	8.06	9.58	11.97
B5.....						4.94	10.74	15.97
B6.....						None	15.98	5.35
BCF 1997 R3(5).....	9.65	113.90	38.32	7.81	5,045	None	15.84	5.56
ORMBS 1998 R1(6).....	8.98	117.19	30.83	4.45	1,945	None	20.50	8.96
ORMBS 1998 R3(6).....	8.98	122.50	24.05	3.69	79	13.73	11.71	11.03
ORMBS 1998 R2 BA4(6)....	9.20	89.63	54.01	9.83	139	6.86	13.22	13.48
B4F.....						8.30	19.23	11.01
B5A.....						5.51	23.78	18.41
B5F.....						6.47	11.78	15.66
B5.....						10.16	16.54	8.82
B6A.....						None	16.72	15.53
B6F.....						None	19.50	22.33
ORMBS 1998 R3 B6(6).....	8.98	122.50	24.05	3.69	79	None	18.00	1.58
Subprime residuals:								
SMBS 1996-3(1).....	11.24	70.00	19.93	31.74	1,896	10.14	15.52	3.94
MLM1 1996-1(2).....	11.57	73.36	25.84	32.28	970	12.62	15.16	5.52
MS 1997-1 X1(3).....	10.45	74.41	17.34	24.89	191	4.51	21.47	13.30
X2.....							20.38	8.60
OML 1(7).....	14.08	64.00	22.05	22.36	24	Reserve Fund	20.72	29.98
						- (pound) 7.0		
						million		
OML 2 DAC IO(7).....	13.79	65.80	30.95	n/a	--	Reserve Fund	28.50	28.50
						- (pound)2.5		
						million		
B.....							12.50	12.50
R.....							36.50	36.50
S.....							25.30	25.30
1997 OFS 2 X(4).....	10.30	74.23	15.51	27.56	121	4.52	19.65	9.70
1997 OFS 3 X(4).....	10.16	77.77	13.73	19.23	99	3.74	19.59	12.16
1998 OFS 1X(4).....	10.34	77.14	12.74	18.73	148	2.23	18.00	12.13
1998 OFS 2 X(4).....	10.82	73.51	8.94	36.43	--	2.66	19.46	8.16
1998 OFS 3 X(4).....	10.39	75.64	8.76	11.85	--	1.09	18.00	13.52
1998 OFS 4 X(4).....	10.57	76.01	--	--	--	--	18.00	18.00
MULTI-FAMILY AND COMMERCIAL								
Subordinates:								
BCF 97-C1 F(5).....	10.54	2.31	15.16	20.50	--	n/a	10.35	11.99
G.....							15.00	20.27
CMAC 1996 C2 G.....	8.37	1.29	--	8.07	--	n/a	11.11	14.60
							18.46	31.13
H Interest-only:								
CMAC 96 C2 X1 IO(8).....	8.37	1.29	--	8.07	--	n/a	54.86	39.01
X2 IO.....							25.94	3.67
BCF 97-C1 X1(3).....	10.54	2.31	15.16	20.50	--	n/a	6.93	51.95
X2.....							8.53	35.63
E -IO.....							7.00	37.48

ISSUERS:

- (1) Salomon Brothers Mortgage Securities VII
 - (2) Merrill Lynch Mortgage Investors, Inc.
 - (3) Morgan Stanley ABS Capital I, Inc.
 - (4) Ocwen Mortgage Loan Asset Backed Certificates
 - (5) BlackRock Capital Finance L.P.
 - (6) Ocwen Residential MBS Corporation
 - (7) Ocwen Mortgage Loans
 - (8) Commercial Mortgage Acceptance Corporation
- n/a - not available

The following table sets forth the principal amount of mortgage loans by the geographic location of the property securing the mortgages that underly the Company's securities available for sale portfolio at December 31, 1998.

Description	California	Florida	Texas	New York	Illinois	Other (1)	Total
-----	-----	-----	-----	-----	-----	-----	-----
	(Dollars In Thousands)						
Single family residential ..	\$752,249	\$254,751	\$ 266,869	\$ 226,727	\$ 170,015	\$ 1,794,782	\$3,465,393
Multi-family and commercial	72,260	16,261	3,021	15,701	29,971	83,609	220,823
	-----	-----	-----	-----	-----	-----	-----
Total	\$824,509	\$271,012	\$ 269,890	\$ 242,428	\$ 199,986	\$ 1,878,391	\$3,686,216
	=====	=====	=====	=====	=====	=====	=====
Percentage (2)	% 22.4	% 7.4	% 7.3	% 6.6	% 5.4	% 50.9	% 100.0
	=====	=====	=====	=====	=====	=====	=====

- (1) No other individual state makes up more than 5% of the total. See "Certain Transaction" under Item 13.
- (2) Based on a percentage of the total unpaid principal balance of the underlying loans.

The following table summarizes information relating to the Company's mortgage-related securities available for sale at December 31, 1998.

RATING/DESCRIPTION	AMORTIZED COST	FAIR VALUE	PERCENT OWNED	ORIGINAL ANTICIPATED YIELD TO MATURITY	ANTICIPATED UNLEVERAGED YIELD TO MATURITY AT 12/31/98 (1)	COUPON	ANTICIPATED WEIGHTED AVERAGE REMAINING LIFE (2)
SINGLE-FAMILY RESIDENTIAL:							
BB-rated subordinates.....	\$8,517	\$8,517	84.27%	13.99%	11.29%	6.99%	6.08%
B-rated subordinates.....	6,344	6,344	83.95	16.44	11.37	7.04	3.06
Unrated subordinates.....	37,872	40,595	86.79	14.33	9.89	8.18	3.74
AAA-rated subprime securities.	6,178	6,931	100.00	28.50	28.50	10.90	1.70
BBB-rated subprime securities.	15,681	17,593	100.00	12.50	12.50	9.97	4.54
Unrated subprime residuals ...	141,526	152,951	100.00	24.35	30.78	--	2.69
MULTI-FAMILY AND COMMERCIAL:							
B-rated subordinates.....	7,684	8,813	85.34	11.05	13.90	8.93	5.23
Unrated subordinates.....	4,126	7,331	85.34	21.62	26.81	9.15	4.46
AAA-rated interest-only.....	71	71	85.41	4.87	(3.77)	2.02	1.23
BB-rated interest only.....	--	2	85.41	26.00	34.85	2.45	0.07

(1) Changes in the December 31, 1998 anticipated yield to maturity from that originally anticipated are primarily the result of changes in prepayment assumptions and to a lesser extent loss assumptions.

(2) Equals the weighted average duration based off of December 31, 1998 book value.

The following table sets forth the property types of the Company's commercial mortgage-backed securities at December 31, 1998, based upon the principal amount.

Property type	Percentage Invested
Retail.....	26.3
Multi-family.....	24.8%
Lodging.....	18.7
Office.....	13.1
Warehouse.....	6.0
Mixed use.....	6.2
Self storage.....	1.1
Other.....	3.8
Total.....	100.0%

The following is a glossary of terms included in the above tables.

ACTUAL DELINQUENCY - Represents the total unpaid principal balance of loans more than 30 days delinquent at the indicated date as a percentage of the unpaid principal balance of the collateral at such date.

ACTUAL LIFE-TO-DATE CPR - The Constant Prepayment Rate is used to measure the average prepayment rate for the underlying mortgage pool(s) over the period of time lapsed since the issuance of the securities through the date indicated and is calculated as follows:

$$\text{Actual Life-to-Date CPR} = 100 \times \frac{\left(\frac{1 - \text{Final Aggregate Balance actual}}{\text{Final Aggregate Balance scheduled}} \right)^{\frac{12}{\text{months in period}}}}{1}$$

ACTUAL LIFE-TO-DATE LOSSES - Represents cumulative losses expressed as a percentage of the unpaid balance of the original collateral at the indicated date.

CLASS DESIGNATION LETTER - Refers to the credit rating designated by the rating agency for each securitization transaction. Classes designated "A" have a superior claim on payment to those rated "B", which are superior to those rated "C." Additionally, multiple letters have a superior claim to designations with fewer letters. Thus, for example, "BBB" is superior to "BB," which in turn is superior to "B." The lower class designations in any securitization will receive interest payments subsequent to senior classes and will experience losses prior to any senior class. The lowest potential class designation is not rated ("NR") which, if included in a securitization, will always receive interest last and experience losses first. IO securities receive the excess interest remaining after the interest payments have been made on all senior classes of bonds based on their respective principal balances. There is no principal associated with IO securities and they are considered liquidated when the particular class they are contractually tied to is paid down to zero. Principal only ("PO") securities receive excess principal payments after the principal has been made on all classes of bonds based on their respective payment schedules. There is no interest associated with PO securities and they are sold at a discount. The return on PO securities is earned through the receipt of the payments and the collection of the discounted amount.

CLASS SIZE - Represents the percentage size of a particular class relative to the total outstanding balance of all classes.

COLLATERAL BALANCE - Represents, in the case of residuals, the unpaid principal balance of the collateral of the entire securities at the indicated date and, in the case of subordinates, the outstanding principal balance of the entire securitization at the indicated date.

ISSUE DATE - Represents the date on which the indicated securities were issued.

OVER-COLLATERIZATION LEVEL - For residual interests in residential mortgage-backed securities, over-collateralization ("OC") is the amount by which the collateral balance exceeds the sum of the bond principal amounts. OC is achieved by applying monthly a portion of the interest payments of the underlying mortgages toward the reduction of the class certificate principal amounts, causing them to amortize more rapidly than the aggregate loan balance. The OC percentage, expressed as a percentage of the outstanding collateral balance, represents the first tier of loss protection afforded to the non-residual holders. The OC percentage also determines whether the over-collateralization target has been satisfied as of a specific date, such that cash flows to the residual holder are warranted. To the extent not consumed by losses on more highly rated bonds, OC is remitted to the residual holders. Reserve funds ("RF") are actual cash reserves expressed as a percentage of the original collateral balance at issuance.

RATING - Represents the rating, if any, on the security or securities by the indicated rating agencies.

SECURITIZATION - Series description.

SECURITY - Represents the name of the class associated with each securitization held by the Company. This has no relationship to a formal rating but is for identification purposes (although the names are usually in alphabetical or numeric order from the highest rated to the lowest rated).

SUBORDINATION LEVEL - Represents the credit support for each mortgage-backed security by indicating the percentage of outstanding bonds whose right to receive payment is subordinate to the referenced security. The subordinate classes must experience a complete loss before any additional losses would affect the particular referenced security.

WEIGHTED AVERAGE DSCR - Represents debt service coverage ratio, which is calculated by dividing cash flow available for debt service by debt service.

WEIGHTED AVERAGE LTV- Represents the ratio of the loan amount to the value of the underlying collateral.

YIELD TO MATURITY - Yield to maturity represents a measure of the average rate of return that is earned on a security if held to maturity.

INVESTMENT SECURITIES. Investment securities amounted to \$10.8 million, \$10.8 million and \$8.8 million at December 31, 1998, 1997 and 1996, respectively, and consisted of the Company's required investment in FHLB stock. As a member of the FHLB of New York, the Bank is required to purchase and maintain stock in the FHLB of New York in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year or 5% of borrowings, whichever is greater. Because the Company has the ability and the intent to hold these securities to maturity they are considered non-marketable equity securities held for investment and are stated at cost.

TRADING SECURITIES. When securities are purchased with the intent to resell in the near term, they are classified as trading securities and reported on the Company's consolidated statement of financial condition as a separately identified trading account.

Securities in this account are carried at fair market value. All trading securities are marked-to-market, and any increase or decrease in unrealized appreciation or depreciation is included in the Company's consolidated statements of operations.

Under guidelines approved by the Board of Directors of the Company, the Company is authorized to hold a wide variety of securities as trading securities, including U.S. Government and agency securities and mortgage-backed and mortgage-related securities. The Company also is authorized by such guidelines to use various hedging techniques in connection with its trading activities, as well as to effect short sales of securities, pursuant to which the Company sells securities which are to be acquired by it at a future date. Under current guidelines, the amount of securities held by the Company in a trading account may not exceed on a gross basis the greater of \$200 million or 15% of the Company's total assets, and the total net amount of securities (taking into account any related hedge or buy/sell agreement relating to similar securities) may not exceed the greater of \$150 million or 10% of total assets.

The Company's securities held for trading at December 31, 1996 amounted to \$75.6 million and represented one AAA-rated CMO which was sold in January 1997. The Company held no securities for trading at December 31, 1998 and 1997.

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. The Company invests in low-income housing tax credit interests primarily through limited partnerships for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Code, which provides a tax credit to investors in qualified low-income rental housing that is constructed, rehabilitated or acquired after December 31, 1986. To be eligible for housing tax credits, a property generally must first be allocated an amount of tax credits by the tax credit allocating agency, which in most cases also serves as the housing finance agency, of the state in which the property is located. If the property is to be constructed or rehabilitated, it must be completed and placed in service within a specified time, generally within two years after the year in which the tax credit allocation is received. A specified portion of the apartment units in a qualifying project may be rented only to qualified tenants for a period of 15 years, or a portion of any previously claimed tax credits will be subject to recapture, as discussed below.

At December 31, 1998, the Company's investment in low-income housing tax credit interests amounted to \$144.2 million or 4% of total assets, as compared to \$128.6 million or 4% of total assets at December 31, 1997, and \$93.3 million or 4% of total assets at December 31, 1996. The Company's investments in low-income housing tax credit interests are made by the Company indirectly through subsidiaries of the Company, which may be a general partner and/or a limited partner in the partnership.

In accordance with a 1995 pronouncement of the Emerging Issues Task Force, the Company's accounting for investments in low-income housing tax credit partnerships in which it acts solely as a limited partner, which amounted to \$75.9 million in the aggregate at December 31, 1998, depends on whether the investment was made on or after May 18, 1995.

Low-income housing tax credit partnerships in which the Company, through a subsidiary, acts as a general partner, are presented on a consolidated basis. At December 31, 1998, the Company's investment in low-income housing tax credit interests included \$68.3 million of assets related to low-income housing tax credit partnerships in which a subsidiary of the Company acts as a general partner. At December 31, 1998, the Company had no commitments to make additional investments in such partnerships.

The Company also makes loans to low-income housing tax credit partnerships in which it has invested to construct the affordable housing project owned by the partnerships. At December 31, 1998, the Company had \$15.0 million of construction loans outstanding to low-income housing tax credit partnerships and commitments to fund an additional \$63.4 million of such loans. Approximately \$6.5 million of such funded construction loans at December 31, 1998 were made to partnerships in which subsidiaries of the Company acted as the general partner and thus were consolidated with the Company for financial reporting purposes. The risks associated with these construction loans generally are the same as those made by the Company to unaffiliated third parties. See "Lending Activities".

The affordable housing projects owned by the low-income housing tax credit partnerships in which the Company had invested at December 31, 1998 are geographically located throughout the United States. At December 31, 1998, the Company's largest investment in a low-income housing tax credit interest was a \$10.0 million investment in a partnership which owned a 170-unit qualifying project located in Racine, Wisconsin.

At December 31, 1998, the Company had invested in or had commitments to invest in 47 low-income housing tax credit partnerships, of which 33 had been allocated tax credits. The Company estimates that the investment in low-income housing tax credit interests in which it had invested at December 31, 1998 will provide approximately \$299.4 million of tax credits.

During 1998, the Company sold its investment in five low-income housing tax credit projects which had a carrying value of \$28.9 million for gains of \$7.4 million. During 1997, the Company sold an investment in a low-income housing tax credit interest which had a carrying value of \$15.7 million for a gain of \$6.1 million.

During 1996, the Company sold \$19.8 million of its investments in low-income housing tax credit interests for a gain of \$4.9 million. Depending on available prices, its ability to utilize tax credits and other factors, the Company may seek to sell other of its low-income housing tax credit interests in the future.

The ownership of low-income housing tax credit interests produces two types of tax benefits. The primary tax benefit flows from the low-income housing tax credits under the Code which are generated by the ownership and operation of the real property in the manner required to obtain such tax credits. These credits may be used to offset Federal income tax on a dollar for dollar basis but may not offset the alternative minimum tax; tax credits thus may reduce the overall Federal income tax to an effective rate of 20%. In addition, the operation of the rental properties produces losses for financial statement and tax purposes in the early years and sometimes throughout the anticipated ownership period. These tax losses may be used to offset taxable income from other operations and thereby reduce income tax which would otherwise be paid on such taxable income.

Tax credits may be claimed over a ten-year period on a straight-line basis once the underlying multi-family residential properties are placed in service. Tax credits claimed reduce the tax payments computed based upon taxable income to not less than the alternative minimum tax computed for that year or any year not more than three years before or 15 years after the year the tax credit is earned. The Taxpayer Relief Act of 1997 changed the tax credit carryback period from 3 years to 1 year and the carry forward period from 15 years to 20 years for credits that become available for use in years beginning after December 31, 1997. Tax credits are realized even if units in the project do not continue to be occupied once the units in the project have been initially rented to a qualifying tenant, and tax credits are not dependent on a project's operating income or appreciation. Tax credits can be claimed over a ten-year period and generally can be lost or recaptured only if non-qualifying tenants are placed in units, ownership of the project is transferred or the project is destroyed and not rebuilt during a 15-year compliance period for the project. The Company has established specific investment criteria for investment in multi-family residential projects which have been allocated tax credits, which require, among other things, a third party developer of the project and/or the seller of the interest therein to provide a guarantee against loss or recapture of tax credits and to maintain appropriate insurance to fund rebuilding in case of destruction of the project. Notwithstanding the Company's efforts, there can be no assurance that the multi-family residential projects owned by the low-income housing tax credit partnerships in which it has invested will satisfy applicable criteria during the 15-year compliance period and that there will not be loss or recapture of the tax credits associated therewith.

Investments made pursuant to the affordable housing tax credit program of the Code are subject to numerous risks resulting from changes in the Code. For example, the Balanced Budget Act of 1995, which was vetoed by the President of the United States in December 1995 for reasons which were unrelated to the tax credit program, generally would have established a sunset date for the affordable housing tax credit program of the Code for housing placed in service after December 31, 1997 and would have required a favorable vote by Congress to extend the credit program. Although this change would not have impacted the Company's existing investments, other potential changes in the Code, which have been discussed from time to time, could reduce the benefits associated with the Company's existing investments in low-income housing tax credit interests, including the replacement of the current graduated income taxation provisions in the Code with a "flat tax" based system and increases in the alternative minimum tax, which cannot be reduced by tax credits. Management of the Company is unable to predict whether any of the foregoing or other changes to the Code will be subject to future legislation and, if so, what the contents of such legislation will be and its effects, if any, on the Company.

SOURCES OF FUNDS

GENERAL. Deposits, FHLB advances, reverse repurchase agreements, lines of credit, and maturities and payments of principal and interest on loans and securities and proceeds from the sales and securitizations thereof currently are the principal sources of funds for use in the Company's investment and lending activities and for other general business purposes. Management of the Company closely monitors rates and terms of competing sources of funds on a regular basis and generally utilizes the sources which are the most cost effective.

DEPOSITS. The primary source of deposits for the Company currently is brokered certificates of deposit obtained primarily through national investment banking firms which, pursuant to agreements with the Company, solicit funds from their customers for deposit with the Company ("brokered deposits"). Such deposits obtained through national investment banking firms amounted to \$1.48 billion or 68% of the Company's total deposits at December 31, 1998. In addition, during 1995, the Company commenced a program to obtain certificates of deposit from customers of regional and local investment banking firms which are made aware of the Company's products by the Company's direct solicitation and marketing efforts. At December 31, 1998, \$242.2 million or 11% of the Company's deposits were obtained in this manner through over 140 regional and local investment banking firms. The Company also solicits certificates of deposit from institutional investors and high net worth individuals identified by the Company. At December 31, 1998, \$135.2 million or 6% of the Company's total deposits consisted of deposits obtained by the Company from such efforts. The Company's brokered deposits at December 31, 1998 were net of \$9.6 million of unamortized deferred fees. The amortization of deferred fees is computed using the interest method and is included in interest expense on certificates of deposit.

The Company believes that the effective cost of brokered and other wholesale deposits is more attractive to the Company than deposits obtained on a retail basis from branch offices after the general and administrative expense associated with the maintenance of branch offices is taken into account. Moreover, brokered and other wholesale deposits generally give the Company more flexibility than retail sources of funds in structuring the maturities of its deposits and in matching liabilities with comparably maturing assets. At December 31, 1998, \$976.7 million or 51% of the Company's certificates of deposits were scheduled to mature within one year.

Although management of the Company believes that brokered and other wholesale deposits are advantageous in certain respects, such funding sources, when compared to retail deposits attracted through a branch network, are generally more sensitive to changes in interest rates and volatility in the capital markets and are more likely to be compared by the investor to competing investments. In addition, such funding sources may be more sensitive to significant changes in the financial condition of the Company. There are also various regulatory limitations on the ability of all but well-capitalized insured financial institutions to obtain brokered deposits. See "Regulation - The Bank - Brokered Deposits." These limitations currently are not applicable to the Company because the Bank is a well-capitalized financial institution under applicable laws and regulations. See "Regulation - The Bank - Regulatory Capital Requirements." There can be no assurances, however, that the Company will not become subject to such limitations in the future.

As a result of the Company's reliance on brokered and other wholesale deposits, significant changes in the prevailing interest rate environment, in the availability of alternative investments for individual and institutional investors or in the Company's financial condition, among other factors, could affect the Company's liquidity and results of operations much more significantly than might be the case with an institution that obtained a greater portion of its funds from retail or core deposits attracted through a branch network.

In addition to brokered and other wholesale deposits, the Company obtains deposits from its office located in New Jersey. These deposits include non-interest bearing checking accounts, NOW and money market checking accounts, savings accounts and certificates of deposit and are obtained through advertising, walk-ins and other traditional means. At December 31, 1998, the deposits which were allocated to this office amounted to \$66.0 million or 3% of the Company's deposits.

The following table sets forth information related to the Company's deposits at the dates indicated.

	December 31,					
	1998		1997		1996	
	Amount	Avg. Rate	Amount	Avg. Rate	Amount	Avg. Rate
	(Dollars in Thousands)					
Non-interest bearing checking accounts.....	\$ 233,427	--%	\$ 130,372	--%	\$ 96,563	--%
NOW and money market checking accounts.....	33,272	3.40	27,624	4.73	22,208	2.99
Savings accounts.....	1,326	2.30	1,664	2.30	2,761	2.30
	268,025		159,660		121,532	
Certificates of deposit(1) ..	1,916,548		1,834,899		1,809,098	
Unamortized deferred fees...	(9,557)		(11,737)		(10,888)	
Total certificates of deposit	1,906,991	5.78	1,823,162	6.00	1,798,210	5.80
Total deposits.....	\$ 2,175,016	5.18	\$1,982,822	5.95	\$1,919,742	5.47

(1) At December 31, 1998, 1997 and 1996, certificates of deposit issued on an uninsured basis amounted to \$100.5 million, \$133.7 million and \$147.5 million, respectively. Of the \$100.5 million of uninsured deposits at December 31, 1998, \$47.8 million were from political subdivisions in New Jersey and secured or collateralized as required under state law.

The following table sets forth, by various interest rate categories, the certificates of deposit in the Company at the dates indicated.

	December 31,		
	1998	1997	1996
	(Dollars in Thousands)		
2.99% or less.....	\$ 819	\$ 841	\$ 1,442
3.00-3.50%.....	--	--	4
3.51-4.50.....	3,515	41	1,149
4.51-5.50.....	724,241	292,192	595,730
5.51-6.50.....	1,006,860	1,300,463	990,621
6.51-7.50.....	171,065	229,134	208,774
7.51-8.50.....	491	491	490
	-----	-----	-----
	\$ 1,906,991	\$ 1,823,162	\$ 1,798,210
	=====	=====	=====

The following table sets forth the amount and maturities of the certificates of deposit in the Company at December 31, 1998.

	Six Months and Less	Over Six Months and Less than One Year	One Year Through Two Years	Over Two Years	Total
	(Dollars in Thousands)				
2.99% or less.....	\$ 819	\$ --	\$ --	\$ --	\$ 819
3.00-3.50%.....	--	--	--	--	--
3.51-4.50.....	3,030	352	133	--	3,515
4.51-5.50.....	305,953	169,001	104,209	145,078	724,241
5.51-6.50.....	301,399	122,447	236,637	346,377	1,006,860
6.51-7.50.....	23,100	50,412	25,432	72,122	171,065
7.51-8.50.....	99	196	196	--	491
	-----	-----	-----	-----	-----
	\$ 634,400	\$ 342,408	\$ 366,607	\$ 563,577	\$ 1,906,991
	=====	=====	=====	-----	=====

At December 31, 1998, the Company had \$156.6 million of certificates of deposit in amounts of \$100,000 or more outstanding maturing as follows: \$56.1 million within three months; \$41.9 million over three months through six months; \$15.9 million over six months through 12 months; and \$42.7 million thereafter.

BORROWINGS. Through the Bank, the Company obtains advances from the FHLB of New York upon the security of certain of its residential first mortgage loans, mortgage-backed and mortgage-related securities and other assets, including FHLB stock, provided certain standards related to the creditworthiness of the Bank have been met. FHLB advances are available to member financial institutions such as the Bank for investment and lending activities and other general business purposes. FHLB advances are made pursuant to several different credit programs, each of which has its own interest rate, which may be fixed or adjustable, and range of maturities.

The Company also obtains funds pursuant to securities sold under reverse repurchase agreements. Under these agreements, the Company sells securities (generally mortgage-backed and mortgage-related securities) under an agreement to repurchase such securities at a specified price at a later date. Reverse repurchase agreements have short-term maturities (typically 90 days or less) and are deemed to be financing transactions. All securities underlying reverse repurchase agreements are reflected as assets in the Company's consolidated financial statements and are held in safekeeping by broker-dealers.

Beginning in 1997, borrowings of the Company include lines of credit obtained by OFS to finance its subprime lending as follows: (i) a \$200.0 million secured line of credit, of which \$100.0 million was committed, (ii) a \$50.0 million secured line of credit, all of which was committed, (iii) a \$200.0 million secured line of credit, of which \$100.0 million was committed and (iv) a \$100.0 million secured line of credit, none of which was committed, and (v) a \$20.0 million secured residual line of credit, none of which was committed. The lines of credit mature between March 1999 and July 2001 and bear interest at rates that float in accordance with designated indices. The terms of the line of credit agreements contain, among other provisions, requirements for maintaining certain profitability, defined levels of net worth and debt-to-equity ratios. For the period ended December 31, 1998, OFS obtained a lender's agreement waiving compliance with the maintenance of a profitability covenant for one of OFS' line of credit agreements, with which OFS failed to comply. The agreements also require annual commitment fees to be paid based on the used and unused portion of the facilities, as well as a facility fee based on the total committed amount. Such commitment fees are capitalized and amortized on a straight-line basis over a twelve-month period. An aggregate of \$59.5 million and \$118.3 million was outstanding to OFS under these lines of credit at December 31, 1998 and 1997, respectively.

In connection with the Company's acquisition of substantially all of the assets of Cityscape UK, Ocwen UK has entered into a Loan Facility Agreement with Greenwich which provided a short-term facility to finance the acquisition of Cityscape UK's mortgage loan portfolio and to finance Ocwen UK's further originations and purchase of subprime single family loans. The Greenwich Facility is secured by Ocwen UK's loans available for sale. The Revolving Facility, which matures in April 1999, is set at a maximum of \$166.0 million ((pound)100.0 million reduced by the amount borrowed under the Term Loan) of which \$87.1 million ((pound)52.5 million) was funded at December 31, 1998, to finance subprime single family loan originations and bears interest at a rate of the one-month LIBOR plus 1.50%. At December 31, 1998, \$5.6 million ((pound)3.4 million) had been borrowed under the Term Loan, which matured in January 1999. In addition, Ocwen UK has entered into a secured warehouse line of credit with Barclays Bank plc to finance subprime single family loan originations. The Barclays Facility, which matures in November 1999 and bears interest at a rate of the one-month LIBOR plus 0.80%, is set at a maximum of \$124.5 million ((pound)75.0 million), against which \$24.6 million ((pound)14.8 million) had been borrowed at December 31, 1998.

The Company's borrowings also include notes, subordinated debentures and other interest-bearing obligations. At December 31, 1998, this category of borrowings consisted of \$100.0 million of 12.000% Subordinated Debentures issued by the Bank in June 1995 and due 2005 (the "Debentures") and \$125.0 million of 11.875% Notes (the "Notes") issued by the Company through a public offering on September 25, 1996 and due 2003.

The following table sets forth information relating to the Company's borrowings and other interest-bearing obligations at the dates indicated.

	December 31,		
	1998	1997	1996
	(Dollars in Thousands)		
FHLB advances.....	\$ --	\$ --	\$ 399
Reverse repurchase agreements.....	72,051	108,250	74,546
Obligations outstanding under lines of credit.....	179,285	118,304	--
Notes, debentures and other interest bearing obligations:			
Notes.....	125,000	125,000	125,000
Debentures.....	100,000	100,000	100,000
Hotel mortgages payable.....	--	--	573
Short-term notes.....	--	1,975	--
	-----	-----	-----
	225,000	226,975	225,573
	-----	-----	-----
	\$ 476,336	\$ 453,529	\$ 300,518
	=====	=====	=====

The following table sets forth certain information relating to the Company's short term borrowings having average balances during any of the reported periods of greater than 30% of stockholders' equity at the end of the reported period.

	At or for the Year Ended December 31,		
	1998	1997	1996
	(Dollars in Thousands)		
FHLB ADVANCES:			
Average amount outstanding during the period....	\$ 2,201	\$ 9,482	\$ 71,221
Maximum month-end balance outstanding			
During the period.....	\$ --	\$ 399	\$ 81,399
Weighted average rate:			
During the period.....	5.45%	5.56%	5.69%
At end of period.....	--%	--%	7.02%
OBLIGATIONS OUTSTANDING UNDER LINES OF CREDIT:			
Average amount outstanding during the period....	\$ 481,212	\$ 84,272	\$ --
Maximum month-end balance outstanding			
during the period.....	\$ 572,707	\$ 267,095	\$ --
Weighted average rate:			
During the period.....	7.19%	6.62%	--%
At end of period.....	6.9%	6.32%	--%

COMPUTER SYSTEMS AND USE OF TECHNOLOGY

The Company believes that its use of information technology has been a key factor in achieving success in the acquisition, management and resolution of discount loans and believes that this technology also has applicability to other aspects of its business which involve servicing intensive assets, including subprime residential mortgage lending, servicing of nonperforming or underperforming loans for third parties and asset management services.

In addition to its standard industry software applications which have been customized to meet the Company's requirements, the Company has internally developed fully integrated proprietary applications designed to provide decision support, automation of decision execution, tracking and exception reporting associated with the management of nonperforming and underperforming loans. The Company also has deployed: a predictive dialing solution which permits the Company to direct the calls made by its collectors to increase the productivity of the department; an interactive voice response system which provides automated account information to customers; a document imaging system which permits immediate access to pertinent loan documents; and a data warehouse which permits corporate data to be shared on a centralized basis for decision support. The Company is also implementing electronic commerce initiatives which further automates the Company's communications with its third party service providers.

The Company's proprietary systems result in a number of benefits including consistency of service to customers, reduced training periods for employees, resolution decisions which evaluate on an automated basis the optimal means to maximize the net resolution proceeds (which may include a variety of resolution alternatives including placing the borrowers on forbearance plans, pursuing a pre-approved sale of the property, or completing foreclosure proceedings), the ability to effect foreclosure as quickly as possible within state-specific foreclosure timelines and the management of third party service providers to ensure quality of service. The federal mortgage agencies and credit-rating agencies have established a variety of measurements for approved servicers, against which the Company compares favorably. See "Business-Loan Servicing Activities."

Through its document imaging system, the Company is able to produce complete foreclosure packages within minutes. The Company believes that the industry standard generally is to prepare a complete foreclosure package within sixty days. Delays in the time to resolution result in increased third party costs, opportunity costs and direct servicing expenses. As a result, the Company has designed its systems and procedures to move a loan through the foreclosure process in a timely manner.

The Company has invested in a sophisticated computer infrastructure to support its software applications. The Company uses an IBM RISC AS400 and NetFrame and COMPAQ Proliant and SunUNIX 5500 file servers as its primary hardware platform. The Company uses CISCO Routers, Cabletron Hubs and chassis with fiber optic cabling throughout and between buildings. The Company also has deployed a DAVOX predicative dialer which currently has capacity for 120 seats. The Company's document imaging system currently stores 6 million images. The Company's systems have significant capacity for expansion and upgrade.

The Company protects its proprietary information by developing, maintaining and enforcing a comprehensive set of information security policies; by having each employee execute an intellectual property agreement with the Company, which among other things, prohibits disclosure of confidential information and provides for the assignment of developments; by affixing a copyright symbol to copies of any of the Company's proprietary information to which a third party has access; by emblazoning the start-up screen of any of the Company's proprietary software with the Company's logo and a copyright symbol; by having third-party contract employees and consultants execute a contract with the Company which contains, among other things, confidentiality and assignment provisions; and by otherwise limiting third-party access to the Company's proprietary information.

RISK FACTORS

Information related to risk factors which could directly or indirectly, affect the Company's results of operations and financial condition are included in Exhibit 99.1 and are incorporated herein by reference.

ECONOMIC CONDITIONS

GENERAL. The success of the Company is dependent to a certain extent upon the general economic conditions in the geographic areas in which it conducts substantial business activities. Adverse changes in national economic conditions or in the economic conditions of regions in which the Company conducts substantial business likely would impair the ability of the Company to collect on outstanding loans or dispose of real estate owned and would otherwise have an adverse effect on its business, including the demand for new loans, the ability of customers to repay loans and the value of both the collateral pledged to the Company to secure its loans and its real estate owned. Moreover, earthquakes and other natural disasters could have similar effects. Although such disasters have not significantly adversely affected the Company to date, the availability of insurance for such disasters in California, in which the Company conducts substantial business activities, is severely limited. At December 31, 1998, the Company had loans with an unpaid balance aggregating \$243.7 million (including loans available for sale) secured by properties located in California and \$35.7 million of the Company's real estate owned was located in California, which collectively represent 8.4% of the Company's total assets at such date.

EFFECTS OF CHANGES IN INTEREST RATES. The Company's operating results depend to a large extent on its net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with its interest-bearing liabilities. Changes in the general level of interest rates can affect the Company's net interest income by affecting the spread between the Company's interest-earning assets and interest-bearing liabilities, as well as, among other things, the ability of the Company to originate loans; the value of the Company's interest-earning assets and its ability to realize gains from the sale of such assets; the average life of the Company's interest-earning assets; the value of the Company's mortgage servicing rights; and the Company's ability to obtain deposits in competition with other available investment alternatives. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond the control of the Company. The Company actively monitors its assets and liabilities and employs a hedging strategy which seeks to limit the effects of changes in interest rates on its operations. Although management believes that the maturities of the Company's assets currently are well balanced in relation to its liabilities (based on various estimates as to how changes in the general level of interest rates will impact its assets and liabilities), there can be no assurance that the profitability of the Company would not be adversely affected during any period of changes in interest rates.

COMPETITION

The businesses in which the Company is engaged generally are highly competitive. The acquisition of discount loans is particularly competitive, as acquisitions of such loans are often based on competitive bidding. The Company also encounters significant competition in connection with its other lending activities, its investment and in its deposit-gathering activities. Many of the Company's competitors are significantly larger than the Company and have access to greater capital and other resources. In addition, many of the Company's competitors are not subject to the same extensive federal regulations that govern federally-insured institutions such as the Bank and their holding companies. As a result, many of the Company's competitors have advantages over the Company in conducting certain businesses and providing certain services.

SUBSIDIARIES

Set forth below is a brief description of the operations of the Company's significant non-banking subsidiaries.

INVESTOR'S MORTGAGE INSURANCE HOLDING COMPANY. Through subsidiaries, IMI owns an interest in the Westin Hotel in Columbus, Ohio, residential units in cooperative buildings which are acquired in connection with the foreclosure on loans held by the Bank or by deed-in-lieu thereof, as well as other real estate related ventures. During 1997, IMI sold a 69% partnership interest in the Westin Hotel for a small gain. At December 31, 1998, IMI had a combined ownership of 16.83% of the outstanding common stock of OAC and OPLP units.

OCWEN FINANCIAL SERVICES, INC. OFS was formed by the Company under Florida law in October 1996 for the purpose of purchasing substantially all of the assets of Admiral, the Company's primary correspondent mortgage banking firm for subprime single family residential loans, and assuming all of the Bank's subprime single family residential lending operations. Under the terms of the acquisition, which closed on May 1, 1997, the Company agreed to pay Admiral \$6.8 million and to transfer to Admiral 20% of the voting stock of OFS. In addition, OFS assumed specified liabilities of Admiral in connection with this transaction, including a \$3.0 million unsecured loan which was made by the Bank to Admiral at the time OFS entered into the asset acquisition agreement with Admiral, which loan was repaid with the proceeds from a \$30.0 million unsecured, subordinated credit facility provided by the Company to OFS at the time of the closing of such acquisition. On December 3, 1997, OCN purchased 2,705 additional shares of common stock of OFS for \$15.0 million, increasing its ownership percentage from 80% to 93.7%. On March 31, 1998, OCN purchased 7,518 additional shares of common stock in exchange for \$40.0 million, further increasing its ownership to 97.8%. The value of each share of stock was computed based on total stockholders' equity at December 31, 1997 divided by the shares of stock outstanding at that date.

OCWEN CAPITAL CORPORATION. OCC is a wholly-owned subsidiary of the Company which was formed under Florida law to manage the day-to-day operations of OAC, subject to supervision by OAC's Board of Directors. The directors and executive officers of OCC consist solely of William C. Erbey, Chairman, President and Chief Executive Officer, and other executive officers of the Company. OAC is a Virginia corporation which elected to be taxed as a REIT under the Code. In May 1997, OAC conducted an initial public offering of 17,250,000 shares of its common stock, which resulted in net proceeds of \$238.8 million, inclusive of the \$27.9 million contributed by the Company for an additional 1,875,000 shares, or 9.8% of the outstanding shares of OAC common stock. The OAC common stock is traded on the New York Stock Exchange under the symbol "OAC."

Pursuant to a management agreement between OCC and OAC, and subject to supervision by OAC's Board of Directors, OCC formulates operating strategies for OAC, arranges for the acquisition of assets by OAC, arranges for various types of financing for OAC, monitors the performance of OAC's assets and provides certain administrative and managerial services in connection with the operation of OAC. For performing these services, OCC receives (i) a base management fee in an amount equal to 1% of total assets per annum, calculated and paid quarterly based upon the average invested assets, as defined, by OAC, and (ii) a quarterly incentive fee in an amount equal to the product of (A) 25% of the dollar amount by which (1)(a) funds from operations, as defined, per share of OAC common stock plus (b) gains (or minus losses) from debt restructuring and sales of property per share of OAC common stock, exceeds (2) an amount equal to (a) the weighted average of the initial public offering price per share of the OAC common stock and the prices per share of any secondary offerings of OAC common stock by OAC multiplied by (b) the ten-year U.S. Treasury rate plus 5% per annum, multiplied by (B) the weighted average number of shares of OAC common stock outstanding. The Board of Directors of OAC may adjust the base management fee in the future if necessary to align the fee more closely with the actual costs of such services. OCC also may be reimbursed for the costs of certain due diligence tasks performed by it on behalf of OAC and will be reimbursed for the out-of-pocket expenses incurred by it on behalf of OAC.

During 1997, the Company transferred the lending operations associated with its large multi-family residential and commercial real estate loans to OCC. To date, OCC has emphasized originating loans for OAC (in order to enable OAC to invest the proceeds from the initial public offering of OAC's common stock) and not the Company.

OCWEN UK. In April 1998, the Company, through its wholly-owned subsidiary Ocwen UK, acquired substantially all of the assets, and certain liabilities of the U.K. operations of Cityscape Financial Corp., an originator of subprime mortgages. As consummated, the Company acquired Cityscape UK's mortgage loan portfolio and its residential subprime mortgage loan origination and servicing businesses.

OCWEN TECHNOLOGY XCHANGE, INC. ("OTX"), a wholly-owned subsidiary of the Company, is the Company's software solutions subsidiary which was formed in May 1998 by combining the Company's Information Technology Group and two previously acquired subsidiaries, AMOS and DTS. OTX designs advances software solutions for mortgage and real estate transactions, including software systems for managing the loan servicing cycle.

EMPLOYEES

At December 31, 1998 the Company had 1,462 full time employees. The employees are not represented by a collective bargaining agreement. Management considers the Company's employee relations to be satisfactory.

REGULATION

Financial institutions and their holding companies are extensively regulated under federal and state laws. As a result, the business, financial condition and prospects of the Company can be materially affected not only by management decisions and general economic conditions, but also by applicable statutes and regulations and other regulatory pronouncements and policies promulgated by regulatory agencies with jurisdiction over the Company and the Bank, such as the OTS and the FDIC. The effect of such statutes, regulations and other pronouncements and policies can be significant, cannot be predicted with a high degree of certainty and can change over time. Moreover, such statutes, regulations and other pronouncements and policies are intended to protect depositors and the insurance funds administered by the FDIC and not stockholders or holders of indebtedness which are not insured by the FDIC.

The enforcement powers available to Federal banking regulators are substantial and include, among other things, the ability to assess civil monetary penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions must be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

The following discussion and other references to and descriptions of the regulation of financial institutions contained herein constitute brief summaries thereof as currently in effect. This discussion is not intended to constitute, and does not purport to be, a complete statement of all legal restrictions and requirements applicable to the Company and the Bank and all such descriptions are qualified in their entirety by reference to applicable statutes, regulations and other regulatory pronouncements.

THE COMPANY

GENERAL. The Company is a registered savings and loan holding company under the Home Owner's Loan Act (the "HOLA"). As such, the Company is subject to regulation, supervision and examination by the OTS.

ACTIVITIES RESTRICTION. There are generally no restrictions on the activities of a savings and loan holding company, such as the Company, which holds only one subsidiary savings institution. However, if the Director of the OTS determines that there is reasonable cause to believe that the continuation by a savings and loan holding company of an activity constitutes a serious risk to the financial safety, soundness or stability of its subsidiary savings institution, the Director may impose such restrictions as are deemed necessary to address such risk, including limiting: (i) payment of dividends by the savings institution; (ii) transactions between the savings institution and its affiliates; and (iii) any activities of the savings institution that might create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings institution. Notwithstanding the above rules as to permissible business activities of unitary savings and loan holding companies, if the savings institution subsidiary of such a holding company fails to meet the qualified thrift lender ("QTL") test set forth in OTS regulations, then such unitary holding company shall become subject to the activities and restrictions applicable to multiple savings and loan holding companies and, unless the savings institution requalifies as a QTL within one year thereafter, shall register as, and become subject to the restriction applicable to, a bank holding company. See "The Bank-Qualified Thrift Lender Test."

If the Company were to acquire control of another savings institution other than through merger or other business combination with the Bank, the Company would thereupon become a multiple savings and loan holding company. Except where such acquisition is pursuant to the authority to approve emergency thrift acquisition and where each subsidiary savings institution meets the QTL test, as set forth below, the activities of the Company and any of its subsidiaries (other than the Bank or other subsidiary savings institutions) would thereafter be subject to further restrictions. Among other things, no multiple savings and loan holding company or subsidiary thereof which is not a savings institution generally shall commence or continue for a limited period of time after becoming a multiple savings and loan holding company or subsidiary thereof any business activity, other than: (i) furnishing or performing management services for a subsidiary savings institution; (ii) conducting an insurance agency or escrow business; (iii) holding, managing, or liquidating assets owned by or acquired from a subsidiary savings institution; (iv) holding or managing properties used or occupied by a subsidiary savings institution; (v) acting as trustee under deeds of trust; (vi) those activities authorized by regulation as of March 5, 1987 to be engaged in by multiple savings and loan holding companies; or (vii) unless the Director of the OTS by regulation prohibits or limits such activities for savings and loan holding companies, those activities authorized by the Federal Reserve Board as permissible for bank holding companies. Those activities described in clause (vii) above also must be approved by the Director of the OTS prior to being engaged in by a multiple savings and loan holding company.

RESTRICTIONS ON ACQUISITIONS. Except under limited circumstances, savings and loan holding companies are prohibited from acquiring, without prior approval of the Director of the OTS: (i) control of any other savings institution or savings and loan holding company or substantially all of the assets thereof; or (ii) more than 5% of the voting shares of a savings institution or holding company thereof which is not a subsidiary. Except with the prior approval of the Director of the OTS, no director or officer of a savings and loan holding company, or person owning or controlling by proxy or otherwise more than 25% of such company's stock, may acquire control of any savings institution, other than a subsidiary savings institution, or of any other savings and loan holding company.

The Director of the OTS may approve acquisitions resulting in the formation of a multiple savings and loan holding company which controls savings institutions in more than one state only if: (i) the multiple savings and loan holding company involved controls a savings institution which operated a home or branch office located in the state of the institution to be acquired as of March 5, 1987; (ii) the acquiror is authorized to acquire control of the savings institution pursuant to the emergency acquisition provisions of the Federal Deposit Insurance Act ("FDIA"); or (iii) the statutes of the state in which the institution to be acquired is located specifically permit institutions to be acquired by state-chartered savings institutions located in the state where the acquiring entity is located (or by a holding company that controls such state-chartered savings institutions).

RESTRICTIONS ON TRANSACTIONS WITH AFFILIATES. Transactions between the Company or any of its non-bank subsidiaries and the Bank are subject to various restrictions, which are described below under "The Bank-Affiliate Transactions."

THE BANK

GENERAL. The Bank is a federally-chartered savings bank organized under the HOLA. As such, the Bank is subject to regulation, supervision and examination by the OTS. The deposit accounts of the Bank are insured up to applicable limits by the SAIF administered by the FDIC and, as a result, the Bank also is subject to regulation, supervision and examination by the FDIC.

The business and affairs of the Bank are regulated in a variety of ways. Regulations apply to, among other things, insurance of deposit accounts, capital ratios, payment of dividends, liquidity requirements, the nature and amount of the investments that the Bank may make, transactions with affiliates, community and consumer lending laws, internal policies and controls, reporting by and examination of the Bank and changes in control of the Bank.

INSURANCE OF ACCOUNTS. Pursuant to legislation enacted in September 1996, a fee was required to be paid by all SAIF-insured institutions at the rate of \$0.657 per \$100 of deposits held by such institutions at March 31, 1995. The money collected recapitalized the SAIF reserve to the level of 1.25% of insured deposits as required by law. In 1996, the Bank recorded a pre-tax charge of \$7.1 million for this assessment. The recapitalization of the SAIF has resulted in lower deposit insurance premiums for most SAIF-insured financial institutions, including the Bank.

Insured institutions also are required to share in the payment of interest on the bonds issued by a specially created government entity ("FICO"), the proceeds of which were applied toward resolution of the thrift industry crisis in the 1980s. Beginning on January 1, 1997, in addition to the insurance premiums paid by SAIF-insured institutions to maintain the SAIF reserve at its required level pursuant to the current risk classification system, SAIF-insured institutions pay deposit insurance premiums at the annual rate of 6.4 basis points of their insured deposits and BIF-insured institutions will pay deposit insurance premiums at the annual rate of 1.3 basis points of their insured deposits towards the payment of interest on the FICO bonds.

Under the current risk classification system, institutions are assigned to one of three capital groups which are based solely on the level of an institution's capital--"well capitalized," "adequately capitalized" and "undercapitalized"--which are defined in the same manner as the regulations establishing the prompt corrective action system under Section 38 of the FDIA, as discussed below. These three groups are then divided into three subgroups, which are based on supervisory evaluations by the institution's primary federal regulator, resulting in nine assessment classifications. Assessment rates currently range from 0 basis points for well capitalized, healthy institutions to 27 basis points for undercapitalized institutions with substantial supervisory concerns.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of the Bank's deposit insurance.

REGULATORY CAPITAL REQUIREMENTS. Federally-insured savings associations are subject to three capital requirements of general applicability: a tangible capital requirement, a core or leverage capital requirement and a risk-based capital requirement. All savings associations currently are required to maintain tangible capital of at least 1.5% of adjusted total assets (as defined in the regulations), core capital equal to 3% of adjusted total assets and total capital (a combination of core and supplementary capital) equal to 8% of risk-weighted assets (as defined in the regulations). For purposes of the regulation, tangible capital is core capital less all intangibles other than qualifying purchased mortgage servicing rights, of which the Bank had \$3.7 million at December 31, 1998. Core capital includes common stockholders' equity, non-cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries and certain nonwithdrawable accounts and pledged deposits. Core capital generally is reduced by the amount of a savings association's intangible assets, other than qualifying mortgage servicing rights.

A savings association is allowed to include both core capital and supplementary capital in the calculation of its total capital for purposes of the risk-based capital requirements, provided that the amount of supplementary capital included does not exceed the savings association's core capital. Supplementary capital consists of certain capital instruments that do not qualify as core capital, including subordinated debt (such as the Bank's Debentures) which meets specified requirements, and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights assigned by the OTS for principal categories of assets currently range from 0% to 100%, depending on the type of asset.

OTS policy imposes a limitation on the amount of net deferred tax assets under SFAS No. 109 that may be included in regulatory capital. (Net deferred tax assets represent deferred tax assets, reduced by any valuation allowances, in excess of deferred tax liabilities.) Application of the limit depends on the possible sources of taxable income available to an institution to realize deferred tax assets. Deferred tax assets that can be realized from the following generally are not limited: taxes paid in prior carryback years and future reversals of existing taxable temporary differences. To the extent that the realization of deferred tax assets depends on an institution's future taxable income (exclusive of reversing temporary differences and carryforwards), or its tax-planning strategies, such deferred tax assets are limited for regulatory capital purposes to the lesser of the amount that can be realized within one year of the quarter-end report date or 10% of core capital.

In August 1993, the OTS adopted a final rule incorporating an interest-rate risk component into the risk-based capital regulation. Under the rule, an institution with a greater than "normal" level of interest rate risk will be subject to a deduction of its interest rate risk component from total capital for purposes of determining whether it has met the risk-based capital requirement. As a result, such an institution will be required to maintain additional capital in order to comply with the risk-based capital requirement. Although the final rule was originally scheduled to be effective as of January 1994, the OTS has indicated that it will delay invoking its interest rate risk rule until appeal procedures are implemented and evaluated. The OTS has not yet established an effective date for the capital deduction. Management of the Company does not believe that the adoption of an interest rate risk component to the risk-based capital requirement will adversely affect the Bank if it becomes effective in its current form.

Effective April 1, 1999, the OTS minimum core capital ratio will provide that only those institutions with a Uniform Financial Institution Rating System ("UFIRS") rating of "1" will be subject to a 3% minimum core capital ratio. All other institutions will be subject to a 4% minimum core capital ratio. The 3% minimum core capital ratio currently applies to all federal savings associations.

PROMPT CORRECTIVE ACTION. Federal law provides the Federal banking regulators with broad power to take "prompt corrective action" to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Under regulations adopted by the Federal banking regulators, an institution shall be deemed to be: (i) "well capitalized" if it has a total risk-based capital ratio of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a Tier 1 leverage capital ratio of 5.0% or more and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more and a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized," (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio that is less than 4.0% (3.0% under certain circumstances), (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a Tier 1 leverage capital ratio that is less than 3.0%, and (v) "critically undercapitalized" if it has a ratio of tangible equity to adjusted total assets that is equal to or less than 2.0%. The regulations also permit the appropriate Federal banking regulator to downgrade an institution to the next lower category (provided that a significantly undercapitalized institution may not be downgraded to critically undercapitalized) if the regulator determines: (i) after notice and opportunity for hearing or response, that the institution is in an unsafe or unsound condition or (ii) that the institution has received (and not corrected) a less-than-satisfactory rating for any of the categories of asset quality, management, earnings or liquidity in its most recent exam. At December 31, 1998, the Bank was a "well capitalized" institution under the prompt corrective action regulations of the OTS.

Depending upon the capital category to which an institution is assigned, the regulators' corrective powers, many of which are mandatory in certain circumstances, include: prohibition on capital distributions; prohibition on payment of management fees to controlling persons; requiring the submission of a capital restoration plan; placing limits on asset growth; limiting acquisitions, branching or new lines of business; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions with affiliates; restricting the interest rates that the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and, ultimately, appointing a receiver for the institution.

QUALIFIED THRIFT LENDER TEST. All savings associations are required to meet the QTL test set forth in the HOLA and regulations of the OTS thereunder to avoid certain restrictions on their operations. Under the QTL test provisions, a savings institution must maintain at least 65% of its portfolio assets in qualified thrift investments. In general, qualified thrift investments include loans, securities and other investments that are related to housing, small business and credit card lending, and to a more limited extent, consumer lending and community service purposes. Portfolio assets are defined as an institution's total assets less goodwill and other intangible assets, the institution's business property and a limited amount of the institution's liquid assets. A savings association that does not meet the QTL test set forth in the HOLA and implementing regulations must either convert to a bank charter or comply with the following restrictions on its operations: (i) the association may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank; (ii) the branching powers of the association shall be restricted to those of a national bank; (iii) the association shall not be eligible to obtain any advances from its FHLB; and (iv) payment of dividends by the association shall be subject to the rules regarding payment of dividends by a national bank. Upon the expiration of three years from the date the association ceases to be a QTL, it must cease any activity and not retain any investment not permissible for a national bank and immediately repay any outstanding FHLB advances (subject to safety and soundness considerations). The Bank met the QTL test throughout 1998, and its qualified thrift investments comprised 68.47% of its portfolio assets at December 31, 1998.

RESTRICTIONS ON CAPITAL DISTRIBUTIONS. The OTS has promulgated a regulation governing capital distributions by savings associations, which include cash dividends, stock redemptions or repurchases, cash-out mergers, interest payments on certain convertible debt and other transactions charged to the capital account of a savings association as a capital distribution. Generally, the regulation creates three tiers of associations based on regulatory capital, with the top two tiers providing a safe harbor for specified levels of capital distributions from associations so long as such associations notify the OTS and receive no objection to the distribution from the OTS. Associations that do not qualify for the safe harbor provided for the top two tiers of associations are required to obtain prior OTS approval before making any capital distributions.

Tier 1 associations may make the highest amount of capital distributions, and are defined as savings associations that, before and after the proposed distribution, meet or exceed their fully phased-in regulatory capital requirements. Tier 1 associations may make capital distributions during any calendar year equal to the greater of: (i) 100% of net income for the calendar year-to-date plus 50% of its "surplus capital ratio" at the beginning of the calendar year; and (ii) 75% of its net income over the most recent four-quarter period. The "surplus capital ratio" is defined to mean the percentage by which the association's ratio of total capital to assets exceeds the ratio of its fully phased-in capital requirement to assets, and "fully phased-in capital requirement" is defined to mean an association's capital requirement under the statutory and regulatory standards applicable on December 31, 1994, as modified to reflect any applicable individual minimum capital requirement imposed upon the association. At December 31, 1998, the Bank was a Tier 1 association under the OTS capital distribution regulation.

The OTS recently published amendments to its capital distribution regulation which become effective April 1, 1999. Under the revised regulation, the Bank will be required to file either an application or a notice with the OTS at least 30 days prior to making a capital distribution. The OTS may deny the Bank's application or disapprove its notice if the OTS determines that (a) the Bank will be "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," as defined in the OTS capital regulations, following the capital distribution, (b) the proposed capital distribution raises safety and soundness concerns or (c) the proposed capital distribution violates a prohibition contained in any statute, regulation or agreement between the Bank and the OTS or a condition imposed on the Bank in an application or notice approved by the OTS.

LOAN-TO-ONE BORROWER. Under applicable laws and regulations, the amount of loans and extensions of credit which may be extended by a savings institution such as the Bank to any one borrower, including related entities, generally may not exceed the greater of \$500,000 or 15% of the unimpaired capital and unimpaired surplus of the institution. Loans in an amount equal to an additional 10% of unimpaired capital and unimpaired surplus also may be made to a borrower if the loans are fully secured by readily marketable collateral. An institution's "unimpaired capital and unimpaired surplus" includes, among other things, the amount of its core capital and supplementary capital included in its total capital under OTS regulations.

At December 31, 1998, the Bank's unimpaired capital and surplus amounted to \$345.8 million, resulting in a general loans-to-one borrower limitation of \$51.9 million under applicable laws and regulations. See "Discount Loan Acquisition and Resolution Activities-Composition of the Discount Loan Portfolio" and "Lending Activities-Composition of Loan Portfolio."

BROKERED DEPOSITS. Under applicable laws and regulations, an insured depository institution may be restricted in obtaining, directly or indirectly, funds by or through any "deposit broker," as defined, for deposit into one or more deposit accounts at the institution. The term "deposit broker" generally includes any person engaged in the business of placing deposits, or facilitating the placement of deposits, of third parties with insured depository institutions or the business of placing deposits with insured depository institutions for the purpose of selling interests in those deposits to third parties. In addition, the term "deposit broker" includes any insured depository institution that is well-capitalized, and any employee of any such insured depository institution, which engages, directly or indirectly, in the solicitation of deposits by offering rates of interest (with respect to such deposits) which are significantly higher than the prevailing rates of interest on deposits offered by other insured depository institutions having the same type of charter in such depository institution's normal market area. As a result of the definition of "deposit broker," all of the Bank's brokered deposits, as well as possibly its deposits obtained through customers of regional and local investment banking firms and the deposits obtained from the Bank's direct solicitation efforts of institutional investors and high net worth individuals, are potentially subject to the restrictions described below. Under FDIC regulations, well-capitalized institutions are not subject to the brokered deposit limitations, while adequately capitalized institutions are able to accept, renew or roll over brokered deposits only: (i) with a waiver from the FDIC; and (ii) subject to the limitation that they do not pay an effective yield on any such deposit which exceeds by more than (a) 75 basis points, the effective yield paid on deposits of comparable size and maturity in such institution's normal market area for deposits accepted in its normal market area or (b) 120% for retail deposits and 130% for wholesale deposits, respectively, of the current yield on comparable maturity U.S. Treasury obligations for deposits accepted outside the institution's normal market area. Undercapitalized institutions are not permitted to accept brokered deposits and may not solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in the institution's normal market area or in the market area in which such deposits are being solicited. At December 31, 1998, the Bank was a well-capitalized institution which was not subject to restrictions on brokered deposits. See "Business - Sources of Funds - Deposits."

LIQUIDITY REQUIREMENTS. All savings associations are required to maintain an average daily balance of liquid assets, which include specified short-term assets and certain long-term assets, equal to a certain percentage of the sum of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. The liquidity requirement may vary from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings associations. In November 1997, the OTS amended its liquidity regulations to, among other things, provide that a savings association shall maintain liquid assets of not less than 4% of the amount of its liquidity base at the end of the preceding calendar quarter as well as to provide that each savings association must maintain sufficient liquidity to ensure its safe and sound operation. Prior to November 1997, the required liquid asset ratio was 5%. Historically, the Bank has operated in compliance with these requirements.

AFFILIATE TRANSACTIONS. Under federal law and regulation, transactions between a savings association and its affiliates are subject to quantitative and qualitative restrictions. Affiliates of a savings association include, among other entities, companies that control, are controlled by or are under common control with the savings association. As a result, the Company, OAC and the Company's non-bank subsidiaries are affiliates of the Bank.

Savings associations are restricted in their ability to engage in "covered transactions" with their affiliates. In addition, covered transactions between a savings association and an affiliate, as well as certain other transactions with or benefiting an affiliate, must be on terms and conditions at least as favorable to the savings association as those prevailing at the time for comparable transactions with non-affiliated companies. Savings associations are required to make and retain detailed records of transactions with affiliates.

Notwithstanding the foregoing, a savings association is not permitted to make a loan or extension of credit to any affiliate unless the affiliate is engaged only in activities the Federal Reserve Board has determined to be permissible for bank holding companies. Savings associations also are prohibited from purchasing or investing in securities issued by an affiliate, other than shares of a subsidiary.

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

COMMUNITY INVESTMENT AND CONSUMER PROTECTIONS LAWS. In connection with its lending activities, the Bank is subject to a variety of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. Included among these are the Federal Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, Truth-in-Lending Act, Equal Credit Opportunity Act, Fair Credit Reporting Act and the Community Reinvestment Act.

SAFETY AND SOUNDNESS. Other regulations include: (i) real estate lending standards for insured institutions, which provide guidelines concerning loan-to-value ratios for various types of real estate loans; (ii) risk-based capital rules to account for interest rate risk, concentration of credit risk and the risks posed by "non-traditional activities;" (iii) rules requiring depository institutions to develop and implement internal procedures to evaluate and control credit and settlement exposure to their correspondent banks; and (iv) rules addressing various "safety and soundness" issues, including operations and managerial standards, standards for asset quality, earnings and stock valuations, and compensation standards for the officers, directors, employees and principal stockholders of the insured institution.

FEDERAL TAXATION

GENERAL. The Company and all of its domestic subsidiaries currently file, and expect to continue to file, a consolidated Federal income tax return based on a calendar year. Prior to October 1, 1996, IMI and its subsidiaries filed a separate Federal consolidated tax return. Ocwen UK is a foreign entity owned by the Company that is not included in the consolidated federal income tax return but files its own tax return in the United Kingdom. Consolidated returns have the effect of eliminating inter-company transactions, including dividends, from the computation of taxable income.

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

TAX RESIDUALS. From time to time, the Company acquires REMIC residuals or retains residual securities in REMICs which were formed by the Company in connection with the securitization and sale of loans. Although a tax residual may have little or no future economic cash flows from the REMIC from which it has been issued, the tax residual does bear the income tax liability or benefit resulting from the difference between the interest rate paid on the securities by the REMIC and the interest rate received on the mortgage loans held by the REMIC. This generally results in taxable income for the Company in the first several years of the REMIC and equal amounts of tax deductions thereafter. The Company receives cash payments in connection with the acquisition of tax residuals to compensate the Company for the time value of money associated with the tax payments related to these securities and the costs of modeling, recording, monitoring and reporting the securities. The Company defers all fees received and recognizes such fees in interest income on a level yield basis over the expected life of the deferred tax asset related to tax residuals. The Company also adjusts the recognition in interest income of fees deferred based upon the changes in the actual prepayment rates of the underlying mortgages held by the REMIC and periodic reassessments of the expected life of the deferred tax asset related to tax residuals. At December 31, 1998, the Company's gross deferred tax assets included \$5.3 million which was attributable to the Company's tax residuals and related deferred income.

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. For a discussion of the tax effects of investments in low-income housing tax credit interests, see "Business-Investment Activities-Investment in Low-Income Housing Tax Credit Interests."

EXAMINATIONS. The most recent examination by the IRS of the Company's Federal income tax return was of the tax return filed for 1996. The statute of limitations has run with respect to 1994 and all prior tax years. Thus, the Federal income tax returns for the years 1995 through 1997 are open for examination. Management of the Company does not anticipate any material adjustments as a result of any examination, although there can be no assurances in this regard.

STATE TAXATION

The Company's income is subject to tax by the States of Florida and California, which have statutory tax rates of 5.5% and 10.84%, respectively, and is determined based on certain apportionment factors. The Company is taxed in New Jersey on income, net of expenses, earned in New Jersey at a statutory rate of 3.0%. No state return of the Company has been examined, and no notification has been received by the Company that any state intends to examine any of the Company's tax returns.

ITEM 2. PROPERTIES

The following table sets forth information relating to the Company's facilities at December 31, 1998.

Location	Owned/Leased	Net Book Value of Leasehold Improvements (Dollars in Thousands)
Executive offices:		
1675 Palm Beach Lakes Blvd. West Palm Beach, FL.....	Leased	\$ 6,066
Main office:		
2400 Lemoine Ave Fort Lee, NJ.....	Leased	\$ 17
Foreign offices (Ocwen UK):		
St. David's Court Union Street Wolverhampton, United Kingdom.....	Leased	\$ --
Malvern House Croxley Business Park Watford, Hertfordshire United Kingdom.....	Leased	\$ --

In addition to the above offices, OFS maintained 25 loan production offices in 4 states of December 31, 1998. These offices are operated pursuant to leases with up to three-year terms, each of which can be readily replaced on commercially reasonable terms. Also, the Company is currently constructing a national loan servicing center in Orlando, Florida which will have capacity for 900 loan servicing representatives per shift upon planned completion in the summer of 1999.

ITEM 3. LEGAL PROCEEDINGS

The Company is currently not involved in any material litigation. To the Company's knowledge, no material litigation is currently threatened against the Company.

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

None.

PART II

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

Information required by this Item appears under the caption "Shareholder Information" on page 96 of the Annual Report to Stockholders and is incorporated herein by reference.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL INFORMATION

Information required by this Item appears under the caption "Selected Consolidated Financial Information" on pages 18 to 19 of the Annual Report to Stockholders and is incorporated herein by reference.

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

Information required by this Item appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 21 to 43 of the Annual Report to Stockholders and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item appears under the caption "Asset and Liability Management" on pages 36 to 40, "Note 1: Summary of Significant Accounting Policies" on pages 52 to 58 and "Note 21: Derivative Financial Instruments" on pages 79 to 80 of the Annual Report to Stockholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS

Information required by this Item appears on pages 45 to 95 in the Annual Report to Stockholders and is incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

DIRECTORS

The following table sets forth certain information concerning the directors of the Company.

Name	Age (1)	Director Since
William C. Erbey.....	49	1988
Hon. Thomas F. Lewis.....	74	1997
W.C. Martin.....	50	1996
Howard H. Simon.....	58	1996
Barry N. Wish.....	57	1988

(1) As of March 15, 1999.

The principal occupation for the last five years of each director of the Company, as well as some other information, is set for the below.

WILLIAM C. ERBEY. Mr. Erbey has served as the Chairman of the Board of Directors of the Company since September 1996, as the Chief Executive Officer of the Company since January 1988, as the Chief Investment Officer of the Company since January 1992, and as the President of the Company from January 1988 to May 1988. Mr. Erbey has served as the Chairman of the Board of Directors of the Bank since February 1988 and as the Chief Executive Officer of the Bank since June 1990. Mr. Erbey has served as the Chairman and Chief Executive Officer of OAC since February 1997. He also serves as a director and officer of many subsidiaries of the Company and OAC. From 1983 to 1995, Mr. Erbey served as a Managing General Partner of The Oxford Financial Group ("Oxford"), a private investment partnership that was the predecessor of the Company. From 1975 to 1983, Mr. Erbey served at General Electric Capital Corporation ("GECC") in various capacities, most recently as the President and Chief Operating Officer of General Electric Mortgage Insurance Corporation. Mr. Erbey also served as the Program General Manager of GECC's Commercial Financial Services Department and as the President of Acquisition Funding Corporation. He received a Bachelor of Arts in Economics from Allegheny College and a Master's degree from the Harvard Graduate School of Business Administration.

HON. THOMAS F. LEWIS. Mr. Lewis has served as a director of the Company and of the Bank since May 1997. Mr. Lewis served as a United States Congressman, representing the 12th District of Florida from 1983 to 1995. Mr. Lewis served in the House and Senate of the Florida State Legislature at various times. Mr. Lewis is a principal of Lewis Properties, Vice President of Marian V. Lewis Real Estate and Investments and a director of T&M Ranch & Nursery.

He currently is Chairman of the Board of Directors of the U.S. Department of Veterans Affairs and Research Foundation. He is also a member of the Economic Council of Palm Beach County. Mr. Lewis formerly served as a United States delegate to the North Atlantic Treaty Organization and as a member of the Presidents Advisory Commission on Global Trade Policies. He attended the University of Florida and holds an Associate's Degree from Palm Beach Junior College, a Certificate in Engineering from the Massachusetts Institute of Technology and honorary doctorates from the Florida Institute of Technology and Nova University.

W.C. MARTIN. Mr. Martin has served as a director of the Company since July 1996 and of the Bank since June 1996. Since 1982, Mr. Martin has been associated with Holding Capital Group ("HCG") and has been engaged in the acquisition and turnaround of business in a broad variety of industries. Since March 1993, Mr. Martin also has served as President and Chief Executive Officer of SV Microwave, a company he formed along with other HCG investors to acquire the assets of the former Microwave Division of Solitron Devices, Inc. Prior to 1982, Mr. Martin was a Manager in Touche Ross & Company's Management Consulting Division, and prior to that he held positions in financial management with Chrysler Corporation. Mr. Martin received a Masters of Business Administration from Notre Dame and a Bachelor of Science in Industrial Management from LaSalle University.

HOWARD H. SIMON. Mr. Simon has served as a director of the Company since July 1996 and of the Bank since 1987. Mr. Simon is the Managing Director of Simon, Master & Sidlow, P.A., a certified public accounting firm which Mr. Simon founded in 1978 and which is based in Wilmington, Delaware. Mr. Simon is a past Chairman and current member of the Board of Directors of CPA Associates International, Inc. Prior to 1978, Mr. Simon was a Partner of Touche Ross & Company. Mr. Simon is a Certified Public Accountant in the State of Delaware and a graduate of the University of Delaware.

BARRY N. WISH. Mr. Wish has served as Chairman, Emeritus of the Board of Directors of the Company since September 1996, and he previously served as Chairman of the Board of the Company from January 1988 to September 1996. Mr. Wish has served as a director of the Bank since February 1988. From 1983 to 1995, he served as a Managing General Partner of Oxford, which he founded. From 1979 to 1983, he was a Managing General Partner of Walsh, Greenwood, Wish & Co., a member firm of the New York Stock Exchange. Prior to founding that firm, Mr. Wish was a Vice President and shareholder of Kidder, Peabody & Co., Inc. He is a graduate of Bowdoin College.

EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

The following table sets forth certain information with respect to each person who currently serves as an executive officer of the Company but does not serve on the Company's Board of Directors. Executive officers of the Company are elected annually by the Board of Directors and generally serve at the discretion of the Board. There are no arrangements or understandings between the Company and any person pursuant to which such person was elected as an executive officer of the Company. Other than William C. Erbey and John R. Erbey, who are brothers, no director or executive officer is related to any other director or executive officer of the Company or any of its subsidiaries by blood, marriage or adoption.

Name	Age(1)	Position
John R. Barnes.....	56	Senior Vice President
Joseph A. Dlutowski.....	34	Senior Vice President of the Bank and Chief Executive Officer of Ocwen UK
John R. Erbey.....	58	Senior Managing Director, General Counsel and Secretary
Ronald M. Faris.....	36	Executive Vice President
Christine A. Reich.....	37	President
Mark S. Zeidman.....	47	Senior Vice President and Chief Financial Officer

(1) As of March 15, 1999.

The background for the last five years of each executive officer of the Company who is not a director, as well as certain other information, is set forth below.

JOHN R. BARNES. Mr. Barnes has served as a Senior Vice President of the Company and the Bank since May 1994 and served as a Vice President of the Company and the Bank from October 1989 to May 1994. Mr. Barnes also has served as Senior Vice President of OAC since February 1997 and serves as an officer of many subsidiaries of the Company and OAC. Mr. Barnes was a Tax Partner in the firm of Deloitte Haskins & Sells from 1986 to 1989 and in the firm of Arthur Young & Co. from 1979 to 1986. Mr. Barnes was the Partner in Charge of the Cleveland Office Tax Department of Arthur Young & Co. from 1979 to 1984. He is a graduate of Ohio State University.

JOSEPH A. DLUTOWSKI. Mr. Dlutowski has served as Senior Vice President of the Bank since March 1997 and as Chief Executive Officer of Ocwen UK since April 1998. Mr. Dlutowski also served as Senior Vice President of the Company from May 1997 to May 1998 and of OAC from February 1997 to May 1998. He joined the Bank in October 1992 and served as a Vice President from May 1993 until March 1997. From 1989 to 1991, Mr. Dlutowski was associated with the law firm of Baker and Hostetler. He holds a Bachelor of Science degree from the Wharton School of Business at the University of Pennsylvania and a Master of Business and a Juris Doctor from the University of Pittsburgh.

JOHN R. ERBEY. Mr. Erbey has served as Senior Managing Director of the Company since May 1998, as Secretary of the Company since June 1989, as a Managing Director of the Company from January 1993 to May 1998, and as Senior Vice President of the Company from June 1989 until January 1993. Mr. Erbey has served as a director of the Bank since 1990, as a Senior Managing Director of the Bank since May 1998, and as Secretary of the Bank since July 1989. Mr. Erbey also has served as Senior Managing Director of OAC since May 1998 and as Secretary of OAC since February 1997. He also serves as an officer and/or a director of many subsidiaries of the Company and OAC. From 1971 to 1989, Mr. Erbey was a member of the Law Department of Westinghouse Electric Corporation and held various management positions, including Associate General Counsel and Assistant Secretary from 1984 to 1989. Previously, he held the positions of Assistant General Counsel of the Industries and International Group and Assistant General Counsel of the Power Systems Group of Westinghouse. He is a graduate of Allegheny College and Vanderbilt University School of Law.

RONALD M. FARIS. Mr. Faris has served as Executive Vice President of the Company and the Bank since May 1998, as a Senior Vice President of the Bank from May 1997 to May 1998, as Vice President and Chief Accounting Officer of the Company from June 1995 to May 1998 and of the Bank from July 1994 to May 1997. From March 1991 to July 1994 he served as Controller for a subsidiary of the Company. From 1986 to 1991, Mr. Faris was a Vice President with Kidder, Peabody & Co., Inc., and from 1984 to 1986 worked in the General Audit Department of Price Waterhouse. He holds a Bachelor of Science from Pennsylvania State University and is a Certified Public Accountant.

CHRISTINE A. REICH. Ms. Reich has served as President of the Company since May 1998, as a Managing Director of the Company from June 1994 to May 1988, as Chief Financial Officer of the Company from January 1990 to May 1997, as a Senior Vice President of the Company from January 1993 until June 1994 and as a Vice President of the Company from January 1990 until January 1993. Ms. Reich has served as a director of the Bank since June 1993 and as the President of the Bank since May 1998. From 1987 to 1990, Ms. Reich served as an officer of another subsidiary of the Company. Ms. Reich has served as the President and a director of OAC since February 1997. Ms. Reich also serves as an officer and/or a director of many subsidiaries of the Company and OAC. Prior to 1987, Ms. Reich was employed by KPMG Peat Marwick LLP, most recently in the position of Manager. She holds a Bachelor of Science in Accounting from the University of Southern California.

MARK S. ZEIDMAN. Mr. Zeidman has served as Senior Vice President and Chief Financial Officer of the Company and the Bank since May 1997. Mr. Zeidman also has served as Senior Vice President and Chief Financial Officer of OAC since June 1997 and serves as an officer of many subsidiaries of the Company and OAC. From 1986 until May 1997, Mr. Zeidman was employed by Nomura Securities International, Inc., most recently as Managing Director. Prior to 1986, he held positions with Shearson Lehman Brothers and Coopers & Lybrand. Mr. Zeidman is a Certified Public Accountant. He holds a Bachelor of Arts degree from the University of Pennsylvania, a Master of International Affairs from Columbia University and a Master of Business Administration from the Wharton School of Business at the University of Pennsylvania.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and directors, and persons who own more than 10% of the Common Stock, to file reports of ownership and changes in ownership with the Commission. Officers, directors and greater than 10% shareholders are required by Commission regulations to furnish the Company with copies of all Section 16(a) forms they file. Specific due dates for these reports have been established by the Commission, and the Company is required to report any failure to timely file such reports by those due dates during the 1998 fiscal year.

To the Company's knowledge, based solely upon review of the copies of such reports furnished to the Company and written representations that no other reports were required, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% shareholders were complied with during 1998.

ITEM 11. EXECUTIVE COMPENSATION.

SUMMARY COMPENSATION TABLE

The following table discloses compensation received by the Company's chief executive officer and the four other most highly paid directors and executive officers of the Company for the years indicated.

NAME AND POSITION	YEAR	ANNUAL COMPENSATION		LONG-TERM COMPENSATION			
		SALARY	BONUS (1)	AWARDS		PAYOUTS	
				RESTRICTED STOCK AWARDS	NUMBER OF UNDERLYING OPTIONS (#) (2)	LTIIP PAYOUTS	ALL OTHER COMPENSATION (4)
William C. Erbey..... Chairman of the Board and Chief Executive Officer	1998	\$357,499	\$ 197,438	--	14,143 (3)	--	\$10,000
	1997	150,000	1,300,000	--	235,756	--	3,000
	1996	150,000	650,000	--	115,790	--	3,000
Christine A. Reich..... President	1998	317,976	175,500	--	12,572 (3)	--	10,000
	1997	150,000	850,000	--	147,348	--	3,000
	1996	150,000	487,500	--	163,158	--	3,000
John R. Erbey..... Senior Managing Director and Secretary	1998	298,214	329,063	--	15,715 (3)	--	10,000
	1997	150,000	925,000	--	162,083	--	3,000
	1996	150,000	525,000	--	178,948	--	3,000
Ronald M. Faris..... Executive Vice President	1998	218,916	219,933	--	11,524 (3)	--	10,000
Joseph A. Dlutowski..... Chief Executive Officer of Ocwen UK and Senior Vice President of the Bank	1998	297,916	223,988	--	7,483 (3)	--	10,000
	1997	120,673	300,000	--	39,293	--	3,000

(1) Consists of bonuses paid pursuant to the Company's 1998 Annual Incentive Plan in the first quarter of the following year for services rendered in the year indicated.

(2) Consists of options granted pursuant to the Company's 1991 Non-Qualified Stock Option Plan, as amended (the "Stock Option Plan").

(3) Consists of grants made as of January 31, 1999 for services rendered in 1998.

(4) Consists of contributions by the Company pursuant to the Company's 401(k) Savings Plan.

OPTION GRANTS FOR 1998

The following table provides information relating to option grants made pursuant to the Company's 1991 Stock Option Plan in January 1999 to the individuals named in the Summary Compensation Table for services rendered in 1998.

NAME	NO. OF SECURITIES UNDERLYING OPTION GRANTED		PERCENT OF SECURITIES UNDERLYING TOTAL OPTIONS GRANTED TO EMPLOYEES		EXERCISE PRICE (\$/SH)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (3)		
	(#)	(1) (2)	(%)	(2)			0% (\$)	5% (\$)	10% (\$)
William C. Erbey.....	14,143		7.8		12.3125	1/31/09	--	109,573	277,592
Christine A. Reich.....	12,572		6.9		12.3125	1/31/09	--	97,402	246,757
John R. Erbey.....	15,715		8.6		12.3125	1/31/09	--	121,752	308,446
Ronald M. Faris.....	11,524		6.3		12.3125	1/31/09	--	89,282	226,187
Joseph A. Dlutowski.....	7,483		4.1		12.3125	1/31/09	--	57,975	146,873

- (1) All options are to purchase shares of Common Stock, and one third vests and becomes exercisable on each of January 31, 1999, 2000 and 2001.
- (2) Indicated grants were made in January 1999 for services rendered in 1998. The percentage of securities underlying these options to the total number of securities underlying all options granted to employees of the Company is based on options to purchase a total of 181,945 shares of Common Stock granted to employees of the Company under the Stock Option Plan as of January 31, 1999.
- (3) Assumes future prices of shares of Common Stock of \$12.3125, \$20.06 and \$31.94 at compounded rates of return of 0%, 5% and 10%, respectively.

AGGREGATED OPTION EXERCISES IN 1998 AND YEAR-END OPTION VALUES

The following table provides information relating to option exercises in 1998 by the individuals named in the Summary Compensation Table and the value of each such individual's unexercised options at December 31, 1998.

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE		VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1998 (1)		VALUE OF UNEXERCISED IN-THE MONEY OPTIONS AT DECEMBER 31, 1998 (2)	
				EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
William C. Erbey.....	--	--	--	467,336	14,143	\$303,949	\$ --
Christine A. Reich.....	163,158	2,528,949		147,348	12,572	--	--
John R. Erbey.....	--	--	--	430,031	15,715	1,074,362	--
Ronald M. Faris.....	--	--	--	60,345	11,524	27,631	--
Joseph A. Dlutowski.....	--	--	--	20,870	7,483	80,874	--

- (1) All options are to purchase shares of Common Stock and were granted pursuant to the Stock Option Plan. Options listed as "exercisable" consist of options granted in or prior to January 1998 which became exercisable in or prior to January 1999. Options listed as "unexercisable" consist of options granted in January 1999 which become exercisable in January 2000.
- (2) Based on the \$12.3125 closing price of a share of Common Stock on the New York Stock Exchange on December 31, 1998.

LONG-TERM INCENTIVE PLANS - AWARDS IN 1998

The following table provides information relating to basis points awards made pursuant to the Company's Long-Term Incentive Plan (the "LTIP") to the individuals named in the Summary Compensation Table.

NAME	NUMBER OF BASIS POINTS AWARDED IN 1998	ESTIMATED FUTURE PAYOUTS UNDER NON-STOCK PRICE-BASED PLANS (1)	
		THRESHOLD	TARGET
William C. Erbey.....	15	\$2,679,000	\$3,855,000
John R. Erbey.....	15	2,679,000	3,855,000
Christine A. Reich.....	15	2,679,000	3,855,000
Ronald M. Faris.....	15	2,679,000	3,855,000
Joseph A. Dlutowski.....	10	1,786,000	2,570,000

(1) Payout figures are for the entire five year performance period, which runs from January 1, 1998 to December 31, 2002 (the "Performance Period"). The maximum value of Basis Points that may be earned by any LTIP participant for any Performance Period is \$25 million.

The value of Basis Points awards under the LTIP (the "Basis Points Awards") is tied to the Company's achievement of specified levels of return on equity and growth in earnings per share during the Performance Period. The threshold amount will be earned if average return on equity and average annual growth in earnings per share are each five percentage points below their respective target levels. The Basis Points Awards are subject to complete forfeiture upon termination and partial forfeiture in any year certain personal performance goals are not achieved. At the end of the Performance Period, the Company will pay to the LTIP participants, as more fully described below, Basis Points Awards in the form of shares of restricted stock based on the fair market value of the Common Stock on the last day of the Performance Period. Ten percent of the shares received shall vest on each of the first ten anniversaries of the last day of the Performance Period. Upon vesting, the shares received shall be automatically placed into a nonqualified irrevocable trust established by the Company for the benefit of the recipient (the "Deferred Compensation Trust") until such shares are payable. Upon the termination of employment with the Company of an LTIP participant, all restrictions on the shares held in the Deferred Compensation Trust shall lapse, and such shares of Common Stock shall be payable in five equal annual installments.

COMPENSATION OF DIRECTORS

Pursuant to a Directors Stock Plan adopted by the Board of Directors and shareholders of the Company in July 1996, the Company compensates directors by delivering a total annual value of \$10,000 payable in shares of Common Stock (which may be prorated for a director serving less than a full one-year term, as in the case of a director joining the Board of Directors after an annual meeting of shareholders), subject to review and adjustment by the Board of Directors from time to time. Such payment is made after the annual organizational meeting of the Board of Directors which follows the annual meeting of shareholders of the Company. An additional annual fee payable in shares of Common Stock, which currently amounts to \$2,000, subject to review and adjustment by the Board of Directors from time to time, is paid to committee chairs after the annual organizational meeting of the Board of Directors. During 1998, an aggregate of 2,235 shares of Common Stock was granted to the five directors of the Company and the three committee chairs.

The number of shares issued pursuant to the Directors Stock Plan is based on their "fair market value" on the date of grant. The term "fair market value" is defined in the Directors Stock Plan to mean the average of the high and low prices of the Common Stock as reported on the New York Stock Exchange on the relevant date.

Shares issued pursuant to the Directors Stock Plan, other than the committee fee shares, are subject to forfeiture during the 12 full calendar months following election or appointment to the Board of Directors or a committee thereof if the director does not attend an aggregate of at least 75% of all meetings of the Board of Directors and committees thereof of which he is a member during such period.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Determinations regarding compensation of the Company's employees are made by the Company's Nominating and Compensation Committee. Currently, the members of the Nominating and Compensation committee are Directors Martin (Chairman), Lewis, Simon and Wish.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information regarding the beneficial ownership of the Common Stock as of the date indicated by (i) each director and executive officer of the Company, (ii) all directors and executive officers of the Company as a group and (iii) all persons known by the Company to own beneficially 5% or more of the outstanding Common Stock. The table is based upon information supplied to the Company by directors, officers and principal stockholders and filings under the Exchange Act.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED AS OF	
	MARCH 15, 1999	
	AMOUNT (1)	PERCENT (1)
J.P. Morgan & Co. Incorporated..... 60 Wall Street New York, NY 10260	4,276,200 (2)	7.0%
Directors and Executive Officers:		
William C. Erbey.....	19,617,505 (3)	32.0
Hon. Thomas F. Lewis.....	1,469 (4)	*
W.C. Martin.....	6,285 (5)	*
Howard H. Simon.....	2,885 (6)	*
Barry N. Wish.....	9,372,648 (7)	15.4
Christine A. Reich.....	587,650 (8)	*
John R. Erbey.....	2,190,491 (9)	3.6
Ronald M. Faris.....	157,674 (10)	*
Joseph A. Dlutowski.....	84,123 (11)	*
All Directors and Executive Officers as a Group (11 persons).....	32,202,127 (12)	51.9%

* Less than 1%.

(1) For purposes of this table, pursuant to rules promulgated under the Exchange Act, an individual is considered to beneficially own any shares of Common Stock if he or she directly or indirectly has or shares: (i) voting power, which includes the power to vote or to direct the voting of the shares, or (ii) investment power, which includes the power to dispose or direct the disposition of the shares. Unless otherwise indicated, (i) an individual has sole voting power and sole investment power with respect to the indicated shares and (ii) individual holdings amount to less than 1% of the outstanding shares of Common Stock.

(2) Based on information contained in a Schedule 13G filed with the Commission on February 23, 1999 by J.P. Morgan & Co. Incorporated, a parent holding company whose subsidiaries include Morgan Guaranty Trust Company of New York (a bank), J.P. Morgan Investment Management, Inc. (an investment advisor) and J.P. Morgan Florida Federal Savings Bank (an investment advisor). Includes 4,275,900 shares as to which sole voting power is claimed and 3,439,600 shares as to which sole disposal power is claimed.

(3) Includes 13,740,465 shares held by FF Plaza Partners, a Delaware partnership of which the partners are William C. Erbey, his spouse, E. Elaine Erbey, and Delaware Permanent Corporation, a corporation wholly owned by William C. Erbey. Mr. and Mrs. William C. Erbey share voting and dispositive power with respect to the shares owned by FF Plaza Partners. Also includes 5,409,704 shares held by Erbey Holding Corporation, a corporation wholly owned by William C. Erbey. Also includes options to acquire 467,336 shares which were exercisable at or within 60 days of March 15, 1999. Included in the shares held by FF Plaza Partners are 2,885 shares held pursuant to the Directors Stock Plan.

- (4) Includes 400 shares held jointly with spouse. Also includes 1,069 shares held pursuant to the Directors Stock Plan.
- (5) Includes 3,400 shares held by the Martin & Associates Management Consultants, Inc. Defined Contribution Pension Plan & Trust. Also includes 2,885 shares held pursuant to the Directors Stock Plan.
- (6) Consists of shares held pursuant to the Directors Stock Plan.
- (7) Includes 8,878,305 shares held by Wishco, Inc., a corporation controlled by Barry N. Wish pursuant to his ownership of 93.0% of the common stock thereof; 351,940 shares held by B.N.W. Partners, a Delaware partnership of which the partners are Mr. Wish and B.N.W., Inc., a corporation wholly owned by Mr. Wish; and 140,000 shares held by the Barry Wish Family Foundation, Inc., a charitable foundation of which Mr. Wish is a director. Also includes 2,403 shares held pursuant to the Directors Stock Plan.
- (8) Includes 440,300 shares held by CPR Family Limited Partnership, a Georgia limited partnership whose general partner is a corporation wholly owned by Christine A. Reich and whose limited partners are Christine A. Reich and her spouse. Also includes options to acquire 147,348 shares of Common Stock which were exercisable at or within 60 days of March 15, 1999.
- (9) Includes 1,747,330 shares held by John R. Erbey Family Limited Partnership, a Georgia limited partnership whose general partner is a corporation wholly owned by John R. Erbey and whose limited partners consist of John R. Erbey, his spouse and children. Also includes options to acquire 430,031 shares of Common Stock which were exercisable at or within 60 days of March 15, 1999.
- (10) Includes 5,000 shares held jointly with spouse. Also includes options to acquire 60,345 shares of Common Stock which were exercisable at or within 60 days of March 15, 1999.
- (11) Includes 23,960 shares held jointly with spouse. Also includes options to acquire 60,163 shares of Common Stock which were exercisable at or within 60 days of March 15, 1999.
- (12) Includes options to acquire an aggregate of 1,209,427 shares of Common Stock which were exercisable at or within 60 days of March 15, 1999.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

On January 20, 1998, the Company purchased indirectly from William C. Erbey and Barry N. Wish, 159,156 shares and 159,155 shares of Common Stock, respectively, which equaled the aggregate number of shares of Common Stock issued by the Company on the same date in connection with its acquisition of DTS. The per share price of the shares of Common Stock purchased from Messrs. Erbey and Wish was \$24.42, which was equal to the average per share price of the Common Stock determined pursuant to the Agreement of Merger, dated as of January 7, 1998, among the Company, DTS and certain other parties for purposes of determining the number of shares of Common Stock to be issued by the Company in connection with the acquisition of DTS (which price was equal to the average of the high and low per share sales price of the Common Stock on the New York Stock Exchange during each of the 20 trading days ending three trading days prior to consummation of the acquisition of DTS).

In September 1998, Howard H. Simon repaid the remaining principal balance outstanding on a residential mortgage loan with an interest rate of 8.5%. The lender was an institution that had been acquired by the Bank. The highest principal balance of this loan during 1998 was \$99,131.

In October 1998, the Company indirectly loaned \$600,000 to John R. Erbey and \$250,000 to John R. Barnes in order to prevent them from having to sell shares of Common Stock to meet or avoid margin calls. Each loan was: (i) evidenced by a promissory note bearing interest at a rate of 9.5% per annum, (ii) payable in two equal installments at 18 and 30 months from the date of issuance, and (iii) secured by pledges of Common Stock. As of December 31, 1998, John R. Erbey had prepaid approximately \$86,860 on his note.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

EXHIBITS

- 3.1 Amended and Restated Articles of Incorporation (1)
- 3.2 Amended and restated Bylaws
- 4.0 Form of Certificate of Common Stock (1)
- 4.1 Form of Indenture between the Company and Bank One, Columbus, NA, as Trustee (1)
- 4.2 Form of Note due 2003 (included in Exhibit 4.1)(1)
- 4.3 Certificate of Trust of Ocwen Capital Trust I (2)
- 4.4 Amended and Restated Declaration of Trust of Ocwen Capital Trust I (2)
- 4.5 Form of Capital Security of Ocwen Capital Trust I (3)
- 4.6 Form of Indenture between the Company and the Chase Manhattan Bank, a Trustee (3)
- 4.7 Form of 10 7/8% Junior Subordinated Debentures due 2027 of the Company (3)
- 4.8 Form of Guarantee of the Company relating to the Capital Securities of Ocwen Capital Trust I (2)
- 4.9 Form of Indenture between the Company and The Bank of New York as Trustee (4)
- 4.10 Form of Subordinated Debentures due 2005 (included in Exhibit 4.2) (4)
- 10.1 Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, as amended (5)
- 10.3 Ocwen Financial Corporation 1996 Stock Plan for Directors, as amended (5)
- 10.4 Ocwen Financial Corporation 1998 Annual Incentive Plan (6)
- 10.5 Ocwen Financial Corporation Long-Term Incentive Plan (6)
- 11.1 Computation of earnings per share (7)
- 12.1 Ratio of Earnings to Fixed Charges
- 13.1 Annual Report to Stockholders for the year ended December 31, 1998
- 21.0 Subsidiaries (see "Business-General")
- 23.0 Consent of PricewaterhouseCoopers LLP
- 27.1 Financial Data Schedule - For the year ended December 31, 1998
- 99.1 Risk Factors

- (1) Incorporated by reference to the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-1, File No. 333-5153, declared effective by the commission on September 25, 1996.
- (2) Incorporated by reference to the similarly identified exhibit filed in connection with the Registrant's Registration Statement on Form S-1 (File No. 333-28889), as amended, declared effective by the Commission on August 6, 1997.
- (3) Incorporated by reference to the similarly described exhibit included with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.
- (4) Incorporated by reference to the similarly described exhibit filed in connection with Amendment No. 2 to Offering Circular on Form OC (on Form S-1) filed on June 7, 1995.
- (5) Incorporated by reference to the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-8, File No. 333-44999, effective when filed with the Commission on January 28, 1998.
- (6) Incorporated by reference to the similarly described exhibit to the Company's Definitive Proxy Statement with respect to the Company's 1998 Annual Meeting as filed with the Commission on March 31, 1998.
- (7) Computation of earnings per share appears on page 78 in the Annual Report to Stockholders and is incorporated herein by reference.

FINANCIAL STATEMENTS AND SCHEDULES. The following Consolidated Financial Statements of Ocwen Financial Corporation and Report of PricewaterhouseCoopers LLP, Independent Certified Public Accountants, are incorporated herein by reference from pages 45 to 95 of the Company's Annual Report to Stockholders:

Report of Independent Certified Public Accountants

Consolidated Statements of Financial Condition at December 31, 1998 and 1997

Consolidated Statements of Operations for each of the three years in the period ended December 31, 1998

Consolidated Statements of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 1998

Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 1998

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1998.

Notes to Consolidated Financial Statements

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

REPORTS ON FORM 8-K FILED DURING THE QUARTER ENDED DECEMBER, 31, 1998.

- (1) A Form 8-K was filed by the Company on October 28, 1998 which contained a news release announcing the Company's financial results for the three and nine months ended September 30, 1998.

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/ WILLIAM C. ERBEY

William C. Erbey
Chairman of the Board and
Chief Executive Officer
(duly authorized representative)

Date: March 31, 1999

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

/s/ WILLIAM C. ERBEY Date: March 31, 1999

William C. Erbey, Chairman of the Board and
Chief Executive Officer
(principal executive officer)

/s/ CHRISTINE A. REICH Date: March 31, 1999

Christine A. Reich, President

/s/ BARRY N. WISH Date: March 31, 1999

Barry N. Wish, Director

/s/ W.C. MARTIN Date: March 31, 1999

W.C. Martin, Director

/s/ HOWARD H. SIMON Date: March 31, 1999

Howard H. Simon, Director

/s/ HON. THOMAS F. LEWIS Date: March 31, 1999

Hon. Thomas F. Lewis, Director

/s/ MARK S. ZEIDMAN Date: March 31, 1999

Mark S. Zeidman, Senior Vice President and
Chief Financial Officer
(principal financial and accounting officer)

BYLAWS OF
OCWEN FINANCIAL CORPORATION

ARTICLE I
SHAREHOLDERS

SECTION 1.1 ANNUAL MEETING. Except as otherwise provided in Section 1.9 of these Bylaws, an annual meeting of shareholders of the Corporation for the election of directors and for the transaction of any other proper business shall be held each year on such date, at such hour on said date and at such place within or without the State of Florida as may be fixed by the Board of Directors.

SECTION 1.2 SPECIAL MEETINGS. A special meeting of shareholders of the Corporation entitled to vote on any business to be considered at any such meeting may be called by the Chairman of the Board or the President, and shall be called by the Chairman of the Board, the President or the Secretary when directed to do so by resolution of the Board of Directors or at the written request of shareholders holding at least 10% of the Corporation's stock entitled to vote at such meeting. Any such request shall state the purpose or purposes of the proposed meeting.

SECTION 1.3 NOTICE OF MEETINGS. Whenever shareholders are required or permitted to take any action at a meeting, unless notice is waived as provided in Article VIII herein, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

Unless otherwise provided by law, and except as to any shareholder duly waiving notice, the written notice of any meeting shall be given personally or by mail, not less than ten nor more than sixty days before the date of the meeting to each shareholder entitled to vote at such meeting. If mailed, notice shall be deemed given when deposited in the United States mail, postage prepaid, directed to the shareholder at his address as it appears on the records of the Corporation.

When a meeting is adjourned to another date, time or place, notice need not be given of the new date, time or place if the new date, time and place thereof are announced at the meeting before the adjournment is taken. At the adjourned meeting the Corporation may transact any business that might have been transacted at the original meeting. If, however, the adjournment is for more than one hundred twenty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting.

SECTION 1.4 QUORUM. Except as otherwise provided by law, by the Articles of Incorporation or by these Bylaws in respect of the vote required for a specified action, at any meeting of shareholders the holders of a majority of the shares of stock entitled to vote thereat, either present or represented by proxy, shall constitute a quorum for the transaction of any business, but the shareholders present, although less than a quorum, may adjourn the meeting to another time or place and, except as provided in the last paragraph of Section 1.3 of these Bylaws, notice need not be given of the adjourned meeting.

SECTION 1.5 VOTING. Whenever directors are to be elected at a meeting, they shall be elected by a plurality of the votes cast at the meeting by the holders of stock entitled to vote. Whenever any corporate action, other than the election of directors, is to be taken by vote of shareholders at a meeting, it shall, except as otherwise required by law, by the Articles of Incorporation or by these Bylaws, be approved if the votes cast by the holders of the shares represented at the meeting and entitled to vote on the subject matter favoring the action exceed the votes cast opposing the action.

Except as otherwise provided by law or by the Articles of Incorporation, each holder of record of stock of the Corporation entitled to vote on any matter at any meeting of shareholders shall be entitled to one vote

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for each share of such stock standing in the name of such holder on the stock ledger of the Corporation on the record date for the determination of the shareholders entitled to vote at the meeting.

Upon the demand of any shareholder entitled to vote, the vote for directors or the vote on any other matter at a meeting shall be by written ballot, but otherwise the method of voting and the manner in which votes are counted shall be discretionary with the presiding officer at the meeting.

SECTION 1.6 PRESIDING OFFICER AND SECRETARY. At every meeting of shareholders the Chairman of the Board, or in his or her absence the Chief Executive Officer, or in his or her absence the President, or in his or her absence a Senior Managing Director or Managing Director, or, if none be present, the appointee of the meeting, shall preside. The Secretary, or in his or her absence an Assistant Secretary, or if none be present, the appointee of the presiding officer of the meeting, shall act as secretary of the meeting.

SECTION 1.7 PROXIES. A shareholder entitled to vote at any meeting of shareholders or any adjournment thereof may vote in person or by proxy executed in writing and signed by the shareholder or the shareholder's attorney-in-fact. The appointment of proxy will be effective when received by the Secretary or other officer or agent authorized to tabulate votes. If a proxy designates two or more persons to act as proxies, a majority of these persons present at the meeting, or if only one is present, that one, shall have all of the powers conferred by the instrument upon all the persons designated unless the

instrument otherwise provides. No proxy shall be valid more than eleven (11) months after the date of its execution unless a longer term is expressly stated in the proxy.

SECTION 1.8 LIST OF SHAREHOLDERS. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of shareholders, a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in the name of each shareholder. Such list shall be open to the examination of any shareholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, at the Corporation's principal office, at the office of the Corporation's transfer agent or registrar or at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any shareholder who is present.

The stock ledger shall be the only evidence as to who are the shareholders entitled to examine the stock ledger, the list required by this Section or the books of the Corporation, or to vote in person or by proxy at any meeting of shareholders.

SECTION 1.9 WRITTEN CONSENT OF SHAREHOLDERS IN LIEU OF MEETING. Except as otherwise provided by law or by the Articles of Incorporation, any action required or permitted by statute to be taken at any annual or special meeting of shareholders of the Corporation may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be dated and signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Any such written consent may be given by one or any number of substantially concurrent written instruments of substantially similar tenor dated and signed by such shareholders, in person or by attorney or proxy duly appointed in writing, and filed with the Secretary or an Assistant Secretary of the Corporation. Within ten days after obtaining such authorization by written consent, notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those shareholders who have not consented in writing or who are not entitled to vote on such action. The notice shall fairly summarize the material features of the authorized action. If the action creates dissenters' rights, the notice shall contain a clear statement of the right of dissenting shareholders to be paid the fair value of their shares upon compliance with and as provided for by the Florida Business Corporation Act.

ARTICLE II

DIRECTORS

SECTION 2.1 NUMBER OF DIRECTORS. The Board of Directors shall consist of not less than three directors and not more than seven directors, with the exact number to be fixed by the Board of Directors. The number of directors may be fixed at any time and from time to time by a resolution of the Board of Directors passed by a majority of the whole Board of Directors or by a vote at a meeting or by written consent of the holders of stock entitled to vote on the election of directors, except that no decrease shall shorten the term of any incumbent director unless such director is specifically removed pursuant to Section 2.5 of these Bylaws at the time of such decrease.

SECTION 2.2 ELECTION AND TERM OF DIRECTORS. Directors shall be elected annually, by election at the annual meeting of shareholders or by written consent of the holders of stock entitled to vote thereon in lieu of such meeting. If the annual election of directors is not held on the date designated therefor, the directors shall cause such election to be held as soon thereafter as convenient. Each director shall hold office from the time of his election and qualification until his successor is elected and qualified or until his earlier resignation or removal.

SECTION 2.3 VACANCIES AND NEWLY CREATED DIRECTORSHIPS. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by election at a meeting of shareholders or by written consent of the holders of stock entitled to vote thereon in lieu of a meeting. Except as otherwise provided by law or by the Articles of Incorporation, vacancies and such newly created directorships may also be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

SECTION 2.4 RESIGNATION. Any director may resign at any time upon written notice to the Board of Directors, the Chairman of the Board or the Corporation. Any such resignation shall take effect at the time specified therein or, if the time be not specified, upon receipt thereof, and the acceptance of such resignation, unless required by the terms thereof, shall not be necessary to make such resignation effective.

SECTION 2.5 REMOVAL. Any or all of the directors may be removed at any time, with or without cause, by vote of the holders of the shares of stock entitled to vote on the election of directors, taken at a meeting or by written consent, if the number of votes cast to remove such director or directors exceeds the number of votes cast not to remove such director or directors.

SECTION 2.6 MEETINGS. Meetings of the Board of Directors, regular or special, shall be held at the principal place of business of the Corporation or at another place designated by the person or persons giving notice or otherwise calling the meeting. Members of the Board of Directors, or of any committee designated by the Board, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting may simultaneously hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting. The Board of Directors may fix dates, times and places for regular meetings of the Board of Directors and no notice of such meetings need be given. A special meeting of the Board of Directors shall be held whenever called by the Chairman of the Board, if any, or by the President at such date, time and place as shall be specified in the notice or waiver thereof. Notice of each special meeting shall be given by the Secretary or by a person calling the meeting to each director orally or in writing, and may be communicated in person, by telegraph, teletype, telecopy or other form of electronic communication not later than the day before the meeting or by mailing the same, postage prepaid, not later than the second day before the meeting. Notice of a meeting of the Board of Directors need not be given to a director who signs a waiver of notice either before or after the meeting. Attendance of a director at a meeting shall constitute a waiver of notice of that meeting and waiver of all objections to the place of the meeting, the time of the meeting and the manner in which it is called or convened, except when a director states, at the beginning of the meeting or promptly upon arrival at the meeting, objection to the transaction of business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors must be specified in the notice or waiver of notice of such meeting.

SECTION 2.7 QUORUM AND VOTING. A majority of the total number of directors shall constitute a quorum for the transaction of business, but, if there be less than a quorum at any meeting of the Board of Directors, a majority of the directors present may adjourn the meeting from time to time, and no further notice thereof need be given other than announcement at the meeting which shall be so adjourned. Except as otherwise provided by law, by the Articles of Incorporation or by these Bylaws, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

SECTION 2.8 WRITTEN CONSENT OF DIRECTORS IN LIEU OF A MEETING. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board or of such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

SECTION 2.9 COMPENSATION. Directors may receive compensation for services to the Corporation in their capacities as directors or otherwise in such manner and in such amounts as may be fixed from time to time by the Board of Directors.

ARTICLE III

COMMITTEES OF THE BOARD OF DIRECTORS

SECTION 3.1 APPOINTMENT AND POWERS. The Board of Directors may from time to time, by resolution passed by majority of the whole Board, designate one or more committees, each committee to consist of two or more directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The resolution of the Board of Directors may, in addition or alternatively, provide that in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it, except as otherwise provided by law. Any such committee may adopt rules governing the method of calling and date, time and place of holding its meetings. Unless otherwise provided by the Board of Directors, a majority of any such committee shall constitute a quorum for the transaction of business, and the vote of a majority of the members of such committee present at a meeting at which a quorum is present shall be the act of such committee. Each such committee shall keep a record of its acts and proceedings and shall report thereon to the Board of Directors whenever requested so to do. Any or all members of any such committee may be removed, with or without cause, by resolution of the Board of Directors, passed by a majority of the whole Board.

ARTICLE IV

OFFICERS, AGENTS AND EMPLOYEES

SECTION 4.1 APPOINTMENT AND TERM OF OFFICE. The officers of the Corporation shall include a Chairman of the Board, a Chief Executive Officer, a President, a Secretary and a Treasurer, and may include one or more Senior Managing Directors, Managing Directors, Executive Vice Presidents, Senior Vice Presidents and Vice Presidents. All such officers shall be appointed by the Board of Directors or by a duly authorized committee thereof. Any number of such offices may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity. Except as may be prescribed otherwise by the Board of Directors or a committee thereof in a particular case, all such officers shall hold their offices at the pleasure of the Board of Directors for an unlimited term and need not be reappointed annually or at any other periodic interval. The Board of Directors may appoint, and may delegate power to appoint, such other officers (including Assistant Secretaries and Assistant Treasurers) and agents as it may deem necessary or proper, who shall hold their offices or positions for such terms, have such authority and perform such duties as may from time to time be determined by or pursuant to authorization of the Board of Directors.

SECTION 4.2 RESIGNATION AND REMOVAL. Any officer may resign at any time upon written notice to the Secretary of the Corporation. Any officer, agent or employee of the Corporation may be removed by the Board of Directors, or by a duly authorized committee thereof, with or without cause at any time. The Board of Directors or such a committee thereof may delegate such power of removal as to officers, agents and employees not appointed by the Board of Directors or such a committee.

SECTION 4.3 COMPENSATION AND BOND. The compensation of the officers of the Corporation shall be fixed by the Board of Directors, but this power may be delegated to any officer in respect of other officers under his control. The Corporation may secure the fidelity of any or all of its officers, agents or employees by bond or otherwise.

SECTION 4.4 CHAIRMAN OF THE BOARD. The Chairman of the Board shall preside at all meetings of the Board of Directors and of the shareholders. The Chairman of the Board shall have such other powers and perform such other duties as are prescribed by these Bylaws and as usually pertain to such office and as may be assigned to him or her at any time or from time to time by the Board of Directors.

SECTION 4.5 CHIEF EXECUTIVE OFFICER; PRESIDENT. The Chairman of the Board shall be the Chief Executive Officer of the Corporation, unless the Board of Directors designates the President as Chief Executive Officer. The Chief Executive Officer shall have the responsibility for carrying out the policies of the Board of Directors, subject to the direction of the Board, and shall have general supervision over the business and affairs of the Corporation. In the absence of the Chairman of the Board, the President shall preside at meetings of the Board of Directors and of the shareholders. The Chief Executive Officer or President may employ and discharge employees and agents of the Corporation, except as otherwise prescribed by the Board of Directors, and may delegate these powers. The Chief Executive Officer or President may vote the stock or other securities of any other domestic or foreign corporation of any type or kind which may at any time be owned by the Corporation, may execute any shareholders' or other consents in respect thereof and may in his or her discretion delegate such powers by executing proxies, or otherwise, on behalf of the Corporation. The Board of Directors by resolution from time to time may confer like powers upon any other person or persons. The Chief Executive Officer and President shall have such other powers and perform such other duties as are prescribed by these Bylaws and as usually pertain to such office and as may be assigned to him or her at any time or from time to time by the Board of Directors.

SECTION 4.6 MANAGING DIRECTORS. Each Senior Managing Director or Managing Director shall have such powers and perform such duties as the Board of Directors, the Chief Executive Officer or the President may from time to time prescribe. In the absence or inability to act of the President, unless the Board of Directors shall otherwise provide, the Senior Managing Director (or if none, the Managing Director) who has served in that capacity for the longest time and who shall be present and able to act, shall perform all the duties and may exercise any of the powers of the President. The performance of any duty by a Senior Managing Director or a Managing Director shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act.

SECTION 4.7 VICE PRESIDENTS. Each Executive Vice President, Senior Vice President and Vice President shall have such powers and perform such duties as the Board of Directors, the Chief Executive Officer or the President may from time to time prescribe. The performance of any duty by an Executive Vice President, Senior Vice President or Vice President shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act.

SECTION 4.8 TREASURER. The Treasurer shall have charge of all funds and securities of the Corporation, shall endorse the same for deposit or collection when necessary and deposit the same to the credit of the Corporation in such banks or depositories as the Board of Directors may authorize. He may endorse all commercial documents requiring endorsements for or on behalf of the Corporation and may sign all receipts and vouchers for payments made to the Corporation. He shall have all such further powers and duties as generally are incident to the position of Treasurer or as may be assigned to him by the Board of Directors, the Chief Executive Officer or the President.

SECTION 4.9 SECRETARY. The Secretary shall record all the proceedings of the meetings of the shareholders and directors in a book to be kept for that purpose and shall also record therein all action taken by written consent of the shareholders or directors in lieu of a meeting. He or she shall attend to the

giving and serving of all notices of the Corporation. The Secretary shall have custody of the seal of the Corporation and shall attest the same by his or her signature whenever required. The Secretary shall have charge of the stock ledger and such other books and papers as the Board of Directors may direct, but he or she may delegate responsibility for maintaining the stock ledger to any transfer agent appointed by the Board of Directors. He or she shall have all such further powers and duties as generally are incident to the position of Secretary or as may be assigned to him by the Board of Directors, the Chief Executive Officer or the President

SECTION 4.10 ASSISTANT TREASURERS. In the absence or inability to act of the Treasurer, any Assistant Treasurer may perform all the duties and exercise all the powers of the Treasurer. The performance of any such duty shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act. An Assistant Treasurer shall also perform such other duties as the Treasurer, the Board of Directors, the Chief Executive Officer or the President may assign to him or her.

SECTION 4.11 ASSISTANT SECRETARIES. In the absence or inability to act of the Secretary, any Assistant Secretary may perform all the duties and exercise all the powers of the Secretary. The performance of any such duty shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act. An Assistant Secretary shall also perform such other duties as the Secretary, the Board of Directors, the Chief Executive Officer or the President may assign to him or her.

SECTION 4.12 DELEGATION OF DUTIES. In case of the absence of any officer of the Corporation, or for any other reason that the Board of Directors may deem sufficient, the Board of Directors may confer for the time being the powers or duties, or any of them, of such officer upon any other officer or upon any director.

SECTION 4.13 LOANS TO OFFICERS, DIRECTORS AND EMPLOYEES; GUARANTY OF OBLIGATIONS OF OFFICERS, DIRECTORS AND EMPLOYEES. The Corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer, director or employee of the Corporation or any subsidiary whenever, in the judgment of the Board of Directors, such loan, guaranty or assistance may reasonably be expected to benefit the Corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the Corporation.

ARTICLE V

INDEMNIFICATION

SECTION 5.1 INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS. Any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including any action or suit by or in the right of the Corporation to procure a judgment in its favor) by reason of the fact that he or she is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified by the Corporation, if, as and to the extent authorized by applicable law, against expenses (including attorneys' fees), judgments, liabilities, fines, costs and amounts paid in settlement actually and reasonably incurred by him or her in connection with the defense or settlement of such action, suit or proceeding. The indemnification expressly provided by applicable law and by these Bylaws in a specific case shall not be deemed exclusive of any other rights to which any person indemnified may be entitled under any lawful agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 5.2 INSURANCE. The Corporation may maintain insurance, at its expense, to protect itself and its directors, officers, employees and agents against expenses, judgments, liabilities, fines, costs and amounts paid in settlement, whether or not the Corporation would have the legal power to indemnify them directly against such liability.

SECTION 5.3 SAVINGS CLAUSE. If this Article or any portion of it is invalidated on any ground by a court of competent jurisdiction, the Corporation nevertheless shall indemnify each person described in Section 5.1 of this Article to the fullest extent permitted by all portions of this Article that shall not have been invalidated and to the fullest extent permitted by law.

ARTICLE VI

STOCK

SECTION 6.1 CERTIFICATES. The Board of Directors may authorize the issuance of some or all of the Corporation's shares of stock of any or all classes or series with or without certificates. Certificates for stock of the Corporation shall be in such form as shall be approved by the Board of Directors and shall be signed in the name of the Corporation by the Chairman of the Board, the President, a Senior Managing Director or a Managing Director, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary. Such certificates may be sealed with the seal of the Corporation or a facsimile thereof. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

SECTION 6.2 REGISTERED SHAREHOLDERS. No certificate shall be issued for any share until the share is fully paid. The Corporation shall be entitled to treat the holder of record of shares as the holder in fact and, except as otherwise provided by law, shall not be bound to recognize any equitable or other claim to or interest in the shares.

SECTION 6.3 TRANSFERS OF STOCK. Transfers of stock shall be made only upon the books of the Corporation by the holder, in person or by duly authorized attorney, and on the surrender of the certificate or certificates for such stock properly endorsed. The Board of Directors shall have the power to make all such rules and regulations, not inconsistent with applicable law, the Articles of Incorporation or these Bylaws, as the Board of Directors may deem appropriate concerning the issue, transfer and registration of certificates for stock of the Corporation. The Board may appoint one or more transfer agents or registrars of transfers, or both, and may require all stock certificates to bear the signature of either or both.

SECTION 6.4 LOST, STOLEN OR DESTROYED CERTIFICATES. The Corporation may issue a new stock certificate in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate or his legal representative to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate. The Board of Directors may require such owner to satisfy other reasonable requirements.

SECTION 6.5 SHAREHOLDER RECORD DATE. In order that the Corporation may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not precede the date upon which the Board of Directors adopts the resolution fixing such record date nor be more than seventy days before the date of such meeting or other action requiring shareholder determination. Only such shareholders as shall be shareholders of record on the date so fixed shall be entitled to notice of, and to vote at, such meeting and any adjournment thereof, or to give such consent, or to receive payment of such dividend or other distribution, or to exercise such rights in respect of any such change, conversion or exchange of stock, or to participate in such action, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any record date so fixed.

If no record date is fixed by the Board of Directors, (i) the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the date on which notice is given or, if notice is waived by all shareholders entitled to vote at the meeting, at the close of business on the day next preceding the day on which the meeting is held, (ii) the record date for determining shareholders entitled to express consent to corporate action in

writing without a meeting, when no prior action by the Board of Directors is necessary, shall be at the close of business on the day on which the first written consent is expressed by the filing thereof with the Corporation as provided in Section 1.10 of these Bylaws, and (iii) the record date for determining shareholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

ARTICLE VII

SEAL

SECTION 7.1 SEAL. The seal of the Corporation shall be circular in form and shall bear, in addition to any other emblem or device approved by the Board of Directors, the name of the Corporation, the year of its incorporation and the words "Corporate Seal" and "Florida". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

ARTICLE VIII

WAIVER OF NOTICE

SECTION 8.1 WAIVER OF NOTICE. Whenever notice is required to be given by statute or under any provision of the Articles of Incorporation or these Bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. In the case of a shareholder, such waiver of notice may be signed by such shareholder's attorney or proxy duly appointed in writing. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the shareholders, directors or members of a committee of directors need be specified in any written waiver of notice.

ARTICLE IX

CHECKS, NOTES, DRAFTS, ETC.

SECTION 9.1 CHECKS, NOTES, DRAFTS, ETC. Checks, notes, drafts, acceptances, bills of exchange and other orders or obligations for the payment of money shall be signed by such officer or officers or person or persons as the Board of Directors or a duly authorized committee thereof may from time to time designate.

ARTICLE X

AMENDMENT

SECTION 10.1 AMENDMENT. These Bylaws or any of them may be altered, amended or repealed, and new Bylaws may be adopted, by the Board of Directors or by the shareholders.

Ocwen Financial Corporation and Subsidiaries
 Computation of Earnings to Fixed Charges
 (Dollars in Thousands)

Exhibit 12.1

	Year Ended December 31,				
	1998	1997	1996	1995	1994
Earnings:					
(Loss) income from continuing operations before income taxes (1)	\$ (32,805)	\$ 99,538	\$ 61,301	\$ 37,701	\$ 81,577
Add:					
Fixed charges (2)	\$ 202,003	\$163,798	\$116,680	\$ 84,626	\$ 63,549
Earnings for computation purposes	\$ 169,198	\$263,336	\$177,981	\$122,327	\$145,126
Ratio of earnings to fixed charges:					
Including interest on deposits (3) (4)	0.84	1.61	1.53	1.45	2.28
Excluding interest on deposits (3) (4)	0.62	3.39	3.68	3.95	5.40

(1) Earnings represents income from continuing operations excluding undistributed income of \$440 from a less than fifty percent owned entity.

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

(3) The ratios of earnings to fixed charges were computed by dividing (x) income from continuing operations before income taxes, extraordinary gains and cumulative effect of a change in accounting principle excluding undistributed income from a less than fifty percent owned entity plus fixed charges by (y) fixed charges.

(4) Excluding after-tax impairment charges of \$97.1 million (\$152.8 million pre-tax) the Company's ratio of earnings to fixed charges for the year ended December 31, 1998 would have been 1.95 and 3.14 including and excluding interest on deposits, respectively.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial data of the Ocwen Financial Corporation and its subsidiaries ("OCN" or the "Company") at the dates and for the periods indicated. The historical operations and balance sheet data at and for the years ended December 31, 1998, 1997, 1996, 1995 and 1994, have been derived from financial statements audited by PricewaterhouseCoopers LLP, independent certified public accountants. The selected consolidated financial data should be read in conjunction with, and is qualified in its entirety by reference to, the information in the Consolidated Financial Statements and related notes set forth elsewhere herein.

	For the Year Ended December 31,				
	1998 (1)	1997	1996	1995 (2)	1994 (2)
	(Dollars in thousands, except per share data)				
OPERATIONS DATA:					
Interest income.....	\$ 307,694	\$ 272,531	\$ 193,894	\$ 137,275	\$ 131,458
Interest expense.....	184,893	156,289	116,160	84,060	62,598
Net interest income.....	122,801	116,242	77,734	53,215	68,860
Provision for loan losses (3).....	18,509	32,218	22,450	1,082	--
Net interest income after provision for loan losses.....	104,292	84,024	55,284	52,133	68,860
(Loss) gain on interest-earning assets, net.....	(1,594)	82,212	21,682	6,916	5,727
Servicing fees and other charges.....	59,180	25,962	4,682	2,870	4,786
Gain on sale of branch offices.....	--	--	--	5,430	62,600
Income on real estate owned, net.....	14,033	7,277	3,827	9,540	5,995
Other non-interest income.....	39,696	8,498	7,112	6,385	2,467
Total non-interest income.....	111,315	123,949	37,303	31,141	81,575
Compensation and employee benefits.....	115,556	77,573	39,043	24,797	42,776
Other non-interest expense.....	110,838	49,301	30,563	20,776	26,082
Total non-interest expense.....	226,394	126,874	69,606	45,573	68,858
Distributions on Capital Securities.....	13,594	5,249	--	--	--
Equity in (losses) earnings of investment in unconsolidated entities (4).....	(7,985)	23,688	38,320	--	--
Income tax benefit (expense).....	30,699	(21,309)	(11,159)	(4,562)	(29,724)
Minority interest in net loss of consolidated subsidiary.....	467	703	--	--	--
(Loss) income from continuing operations.....	(1,200)	78,932	50,142	33,139	51,853
Discontinued operations (5).....	--	--	--	(7,672)	(4,514)
Net income.....	\$ (1,200)	\$ 78,932	\$ 50,142	\$ 25,467	\$ 47,339
(Loss) income from continuing operations per share (5):					
Basic.....	\$ (0.02)	\$ 1.40	\$ 0.99	\$ 0.64	\$ 0.81
Diluted.....	\$ (0.02)	\$ 1.39	\$ 0.94	\$ 0.60	\$ 0.76
Net (loss) income per share (6):					
Basic.....	\$ (0.02)	\$ 1.40	\$ 0.99	\$ 0.49	\$ 0.74
Diluted.....	\$ (0.02)	\$ 1.39	\$ 0.94	\$ 0.46	\$ 0.70

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	At or For the Year Ended December 31,				
	1998 (1)	1997	1996	1995 (2)	1994 (2)
	(Dollars in thousands)				
BALANCE SHEET DATA:					
Total assets.....	\$ 3,308,079	\$ 3,069,165	\$ 2,483,685	\$ 1,973,590	\$ 1,226,403
Securities available for sale (7).....	593,347	476,796	354,005	337,480	187,717
Loans available for sale (7) (8).....	177,847	177,041	126,366	251,790	102,293
Investment securities, net.....	10,825	10,825	8,901	18,665	17,011
Mortgage-related securities held for investment, net	--	--	--	--	91,917
Loan portfolio, net (8).....	230,312	266,299	402,582	295,605	57,045
Discount loan portfolio (8).....	1,026,511	1,434,176	1,060,953	669,771	529,460
Investment in low-income housing tax credit interests	144,164	128,614	93,309	81,362	49,442
Real estate owned, net (9).....	201,551	167,265	103,704	166,556	96,667
Investment in unconsolidated entities.....	86,893	3,526	67,909	--	--
Excess of purchase price over net assets acquired, net.....	12,706	15,560	--	--	--
Deposits.....	2,175,016	1,982,822	1,919,742	1,501,646	1,023,268
Borrowings and other interest-bearing obligations...	476,336	453,529	300,518	272,214	25,510
Capital Securities.....	125,000	125,000	--	--	--
Stockholders' equity (10).....	436,376	419,692	203,596	139,547	153,383
OTHER DATA:					
Average assets (11).....	\$ 3,586,985	\$ 2,835,514	\$ 2,013,283	\$ 1,521,368	\$ 1,714,953
Average equity.....	427,512	290,030	161,332	121,291	119,500
Return on average assets (11) (12):					
Income from continuing operations.....	(0.03)%	2.78%	2.49%	2.18%	3.02%
Net income.....	(0.03)	2.78	2.49	1.67	2.76
Return on average equity (12):					
Income from continuing operations.....	(0.28)	27.22	31.08	27.32	43.39
Net income.....	(0.28)	27.22	31.08	21.00	39.61

Average equity to average assets.....	11.92	10.23	8.01	7.97	6.97
Net interest spread.....	3.98	4.81	5.46	5.25	4.86
Net interest margin.....	4.32	4.91	4.84	4.54	4.75
Efficiency ratio (13).....	100.12	48.08	45.39	54.00	45.77
Nonperforming loans to total loans at end of period (14).....	3.81	3.36	0.56	1.27	4.35
Allowance for loan losses to total loans (14).....	2.07	1.39	0.87	0.65	1.84
Bank regulatory capital ratios at end of period:					
Tangible.....	9.07	10.66	9.33	6.52	11.28
Core (Leverage).....	9.07	10.66	9.33	6.52	11.28
Risk-based.....	17.26	14.83	12.85	11.80	14.74
Number of full-service offices at end of period.....	1	1	1	1	3

NOTES TO SELECTED CONSOLIDATED FINANCIAL INFORMATION

- (1) Financial results for 1998 reflect pre-tax impairment charges of \$152.8 million, of which \$86.1 million related to the Company's portfolio of AAA-rated agency interest-only securities ("IOs"), \$43.6 million related to residual and subordinate securities available for sale, \$13.0 million was for the anticipated curtailment of its domestic operations, \$8.2 million was for losses on its equity investments in Ocwen Asset Investment Corp. ("OAC") and Ocwen Partnership L.P. ("OPLP"), and \$1.9 million related to an impaired commercial real estate investment. OAC specializes in the acquisition and management of real estate and mortgage assets. OPLP is the operating partnership subsidiary of OAC. Exclusive of these impairment charges and related income taxes, net income for 1998 would have been \$95.9 million.
- (2) Financial data at December 31, 1995 and 1994, reflects the Company's sale of two and 23 branch offices, respectively, which resulted in the transfer of deposits of \$111.7 million and \$909.3 million, respectively, and resulted in a gain on sale of \$5.4 million and \$62.6 million during 1995 and 1994, respectively. Operations data for 1995 and 1994 reflect the gains

from these transactions. Exclusive of these gains and related income taxes and profit sharing expense, the Company's income from continuing operations would have been \$30.3 million and \$24.0 million during 1995 and 1994, respectively.

- (3) The provision for loan losses in 1998, 1997 and 1996 consists primarily of \$17.6 million, \$31.9 million and \$20.6 million, respectively, related to the Company's discount loan portfolio. Beginning in the first quarter of 1996, the Company began recording general valuation allowances on discount loans. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations-Provision for Loan Losses."
- (4) Results for 1998 related primarily to the Company's 16.83% combined investment in OAC and OPLP, and its 36.07% investment in Norland Capital Group plc, doing business as Kensington Mortgage Company ("Kensington"), a leading originator of non-conforming residential mortgages in the United Kingdom ("U.K."). See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations-General." Results for 1997 and 1996 related to the Company's investment in BCBF, L.L.C. (the "LLC"), a 50% owned joint venture formed between the Company and BlackRock Capital Finance ("BlackRock") to acquire loans from the Department of Housing and Urban Development ("HUD") in April 1996.
- (5) In September 1995, the Company announced its decision to dispose of its automated banking division, which was substantially complete at December 31, 1995.
- (6) All per share amounts have been adjusted retroactively to reflect the 10-for-1 stock split in 1996 and the 2-for-1 stock split in 1997. In addition, all per share amounts have been adjusted for the adoption of Statement of Financial Accounting Standards No. 128, "Earnings per Share." See Note 1 to the Consolidated Financial Statements.
- (7) Securities available for sale are carried at fair market value. Loans available for sale are carried at the lower of cost or fair market value.
- (8) The discount loan portfolio consists of mortgage loans purchased at a discount to the unpaid debt, most of which were nonperforming or subperforming at the date of acquisition. The loan portfolio and loans available for sale consist of other loans which were originated or purchased by the Company for investment or for potential sale, respectively. Data related to discount loans does not include discount loans held by the LLC.
- (9) Real estate owned consists of properties acquired by foreclosure or by deed-in-lieu thereof and is primarily attributable to the Company's discount loan acquisition and resolution business.
- (10) Reflects the Company's repurchase of 17,630,120 shares of its common stock during 1995 for an aggregate of \$42.0 million.
- (11) Includes the Company's pro rata share of the average assets held by the LLC during 1997 and 1996.
- (12) Exclusive of the after-tax impairment charges of \$97.1 million recorded in 1998, the return on average assets would have been 2.64%, and the return on average equity would have been 22.16%. Exclusive of the \$7.1 million one-time assessment to recapitalize the Savings Association Insurance Fund (the "SAIF") in 1996 and of the gains from the sales of branch offices in 1995 and 1994 and related income taxes, (i) return on average assets on income from continuing operations would have been 2.54%, 2.00% and 1.40% during 1996, 1995 and 1994, respectively, and (ii) return on average equity on income from continuing operations would have been 33.35%, 25.02% and 20.06% during 1996, 1995 and 1994, respectively.
- (13) The efficiency ratio represents non-interest expense divided by the sum of net interest income before provision for loan losses, non-interest income and equity in earnings of investment in unconsolidated entities. Exclusive of the impairment charges of \$152.8 million recorded in 1998, the efficiency ratio would have been 58.05%. Exclusive of the SAIF assessment in 1996 and gains from the sales of branch offices in 1995 and 1994, the efficiency ratio would have been 41.33%, 56.34% and 64.14% during 1996, 1995 and 1994, respectively.
- (14) Nonperforming loans and total loans do not include loans in the Company's discount loan portfolio or loans available for sale.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

RESULTS OF OPERATIONS

General. The Company recorded a net loss of \$1.2 million for 1998, as compared to net income of \$78.9 million for 1997 and \$50.1 million for 1996. Diluted loss per share was \$0.02 for 1998, as compared with diluted earnings per share of \$1.39 for 1997 and \$0.94 for 1996. The results for 1998 include pre-tax impairment charges of \$152.8 million, of which \$86.1 million related to the Company's securities portfolio of AAA-rated agency IOs, \$43.6 million related to residual and subordinate securities available for sale, \$13.0 million was for the anticipated curtailment of its domestic subprime operations, \$8.2 million was for combined losses on its equity investments in OAC and OPLP during the fourth quarter, and \$1.9 million related to an impaired commercial real estate investment. Exclusive of these impairment charges, net income for 1998 would have been \$95.9 million, or \$1.57 per diluted share.

The Company's operating results for 1998 have also been significantly affected by the following transactions:

- o On November 6, 1997, the Company acquired AMOS, Inc. ("AMOS"), a Connecticut-based company engaged primarily in the development of mortgage loan servicing software. AMOS' products are Microsoft(R) Windows(R)-based, have client/server architecture and feature real-time processing, are designed to be year 2000 compliant, feature a scalable database platform and have strong workflow capabilities.
- o On December 12, 1997, the LLC distributed all of its assets to the Company and its other 50% investor, BlackRock. Simultaneously, the Company acquired BlackRock's portion of the distributed assets. As a result, the Company recorded equity in earnings of the LLC of \$0 in 1998, as compared to \$23.7 million and \$38.3 million for 1997 and 1996, respectively. See "Results of Operations N Equity in (Losses) Earnings of Investment in Unconsolidated Entities."
- o On January 20, 1998, the Company acquired DTS Communications, Inc. ("DTS"), a real estate technology company located in San Diego, California. DTS has developed technology tools to automate real estate transactions. DTS has been recognized by Microsoft Corporation for the Microsoft(R) component-based architecture to facilitate electronic data interchange. Both AMOS and DTS are wholly-owned subsidiaries of Ocwen Technology Xchange, Inc. ("OTX"), which incurred a net loss of \$9.6 million in 1998.
- o On February 25, 1998, the Company purchased 36.07% of the total outstanding common stock of Kensington. Kensington is a leading originator of non-conforming residential mortgages in the U.K. The Company recorded equity in earnings of Kensington in 1998 of \$439,000, net of goodwill amortization of \$2.0 million. See "Results of Operations N Equity in (Losses) Earnings of Investment in Unconsolidated Entities."
- o On April 24, 1998, the Company, through its wholly-owned subsidiary Ocwen UK, acquired substantially all of the assets, and certain liabilities, of the U.K. operations of Cityscape Financial Corp. ("Cityscape UK"). As consummated, the Company acquired Cityscape UK's mortgage loan portfolio and its residential subprime mortgage loan origination and servicing businesses. The Company recorded net income of \$12.3 million (\$18.9 million before income taxes) in 1998 from Ocwen UK's loan origination and servicing businesses.
- o On May 5, 1998, the Company, through its wholly-owned subsidiary Investor's Mortgage Holding Company ("IMI"), acquired 1,473,733 partnership units of OPLP for \$24.5 million. This purchase was in addition to the 160,000 units owned at December 31, 1997, and the 175,000 units acquired on February 17, 1998, increasing the total number of units owned by IMI to 1,808,733 or 8.71% of the total partnership units outstanding at December 31, 1998. OPLP is the operating partnership subsidiary of OAC, which is managed by Ocwen Capital Corporation ("OCC"), a wholly-owned subsidiary of OCN. At December 31, 1998, the Company owned 1,540,000 or 8.12% of the outstanding common stock of OAC. Combined equity in the losses of the Company's investments in OPLP and OAC amounted to \$8.7 million in 1998, of which \$8.2 million was

incurred during the fourth quarter. See "Results of Operations Equity in (Losses) Earnings of Investment in Unconsolidated Entities."

See Note 2 to the Consolidated Financial Statements for additional information regarding these transactions.

SEGMENT PROFITABILITY. The following table presents the contribution by business segment to the Company's net (loss) income for the years indicated.

	1998	1997	1996
	(Dollars in thousands)		
Discount loans:			
Single family residential loans.....	\$ 14,394	\$ 23,349	\$ 16,827
Large commercial real estate loans.....	28,103	24,474	15,480
Small commercial real estate loans.....	8,195	5,349	1,398
	-----	-----	-----
	50,692	53,172	33,705
	-----	-----	-----
Mortgage loan servicing:			
Domestic.....	8,066	3,972	(2,558)
Foreign (U.K.).....	4,771	--	--
	-----	-----	-----
	12,837	3,972	(2,558)
	-----	-----	-----
Investment in low-income housing tax credits.....	9,119	9,087	11,577
Commercial real estate lending.....	13,588	12,405	3,617
OTX.....	(9,623)	--	--
Subprime single family residential lending:			
Domestic.....	(20,524)	(2,166)	3,131
Foreign (U.K.).....	7,475	--	--
	-----	-----	-----
	(13,049)	(2,166)	3,131
	-----	-----	-----
Investment securities.....	(59,186)	3,587	987
Equity investment in OAC.....	(8,701)	--	--
Other.....	3,123	(1,125)	(317)
	-----	-----	-----
	\$ (1,200)	\$ 78,932	\$ 50,142
	=====	=====	=====

- o Single Family Residential Discount Loans. Included in 1998 is an impairment charge of approximately \$12.2 million on residential subordinate securities and gains of \$48.1 million earned on the securitization of loans with an aggregate unpaid principal balance of \$498.8 million. Securitization gains during 1997 and 1996 were \$51.1 million and \$0, respectively. See "Results of Operations Non-Interest Income."
- o Large Commercial Discount Real Estate Loans. Net income for 1998 reflects a gain of \$4.7 million earned on the sale of loans. Net income for 1997 includes \$3.5 million of gains from sales of loans, as compared to a \$7.9 million gain earned in 1996 in connection with the securitization of 25 loans with an unpaid principal balance of \$164.4 million. See "Results of Operations Non-Interest Income."
- o Small Commercial Discount Real Estate Loans. Gains from the sale of loans amounted to \$7.6 million, \$2.7 million (of which \$2.0 million were securitization gains), and \$0 during 1998, 1997 and 1996, respectively. See "Results of Operations Non-Interest Income."
- o Investment in Low-Income Housing Tax Credits. Net income for 1998 includes \$7.4 million of gains associated with the sale of tax credit interests. This compares to gains of \$6.1 million and \$4.9 million in 1997 and 1996, respectively. Low-income housing tax credits and benefits amounted to \$17.7 million, \$14.9 million and \$9.3 million for 1998, 1997 and 1996, respectively. Net operating losses from tax credit properties in service amounted to \$6.9 million, \$4.9 million and \$636,000

during 1998, 1997 and 1996, respectively. See "Changes in Financial Condition Investment in Low-Income Housing Tax Credit Interests."

- o Commercial Real Estate Lending. Net income for 1998 includes \$12.4 million of additional interest received on the payoff of nine loans with an unpaid principal balance of \$107.2 million. The increase in net income during 1997 as compared to 1996 is primarily attributed to \$12.3 million of additional interest received on the repayment of loans.
- o Subprime Single Family Residential Lending. The net loss in 1998 from the domestic lending operations includes a \$31.0 million impairment charge on subprime residual securities available for sale, \$13.0 million of goodwill write-offs and other charges recorded in connection with the anticipated curtailment of the domestic subprime operations and gains of \$35.9 million on the securitization of loans with an unpaid principal balance of \$1.07 billion. The Company's domestic subprime lending operations are conducted primarily through Ocwen Financial Services, Inc. ("OFS"), which was formed in 1997. The \$13.0 million of curtailment charges consisted of \$10.1 million of goodwill write-offs, \$1.5 million of compensation to former owners and employees and \$1.4 million related to lease terminations and fixed asset write-offs. During 1997, gains of \$18.8 million were recorded in connection with the securitization of loans with an unpaid principal balance of \$415.8 million. During 1998, Ocwen UK recorded gains of \$25.6 million ((pound)15.4 million) in connection with the securitization of loans with an unpaid principal balance of \$558.5 million ((pound)339.4 million).
- o Mortgage Loan Servicing. Servicing fees amounted to \$45.6 million, \$22.1 million and \$2.4 million during 1998, 1997 and 1996, respectively. The increases in servicing fees reflects an increase in loans serviced for others from \$1.92 billion at December 31, 1996, to \$5.51 billion at December 31, 1997, and \$10.59 billion at December 31, 1998. The unpaid principal balance of loans serviced for others averaged \$8.06 billion, \$3.11 billion and \$887.9 million during 1998, 1997 and 1996, respectively. The increase in net income for 1998 was partially offset by the increase in expenses associated with establishing a nationwide customer service and collection facility in Orlando, Florida. At December 31, 1998, the Company serviced 153,458 loans, as compared to 70,308 and 30,163 at December 31, 1997 and 1996, respectively.
- o OTX. The 1998 operating loss of \$9.6 million was partially offset by \$2.4 million of capitalized software costs in 1998.
- o Investment Securities. The \$59.2 million loss in 1998 includes the \$86.1 million of pre-tax impairment charges (\$54.9 million net of tax) related to the Company's securities portfolio of AAA-rated agency IOs. These charges were recorded prior to the sale of the IOs on July 27, 1998. The Company has discontinued this investment activity. See "Changes in Financial Condition Securities Available for Sale."
- o Equity Investment in OAC. The \$8.7 million loss for 1998 represents the combined equity in the losses of the Company's investments in OAC and its operating partnership subsidiary, OPLP. As a result of the Company's increased combined ownership of OAC and OPLP during 1998, the Company began accounting for these investments on the equity method. The losses incurred by OAC and OPLP relate primarily to impairment losses on subordinate and residual mortgage-backed securities. See "Changes in Financial Condition Investment in Unconsolidated Entities."

See Note 27 to the Consolidated Financial Statements for additional disclosures related to the Company's operating segments.

NET INTEREST INCOME: 1998 VERSUS 1997 AND 1997 VERSUS 1996. The operations of the Company are substantially dependent on its net interest income, which is the difference between the interest income received from its interest-earning assets and the interest expense paid on its interest-bearing liabilities. Net interest income is determined by an institution's net interest spread (i.e., the difference between the yield earned on its interest-earning assets and the rates paid on its interest-bearing liabilities), the relative amount of interest-earning assets and interest-bearing liabilities and the degree of mismatch in the maturity and repricing characteristics of its interest-earning assets and interest-bearing liabilities.

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

	Year Ended December 31,								
	1998			1997			1996		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
(Dollars in thousands)									
AVERAGE ASSETS:									
Federal funds sold and repurchase agreements.....	\$ 149,441	\$ 7,930	5.31%	\$ 163,671	\$ 8,975	5.48%	\$ 84,997	\$ 4,681	5.51%
Securities held for trading.....	--	--	--	3,295	248	7.53	21,291	1,216	5.71
Securities available for sale (1)...	590,367	40,705	6.90	299,558	29,851	9.97	284,433	26,932	9.47
Loans available for sale (2).....	520,859	56,791	10.90	171,837	18,368	10.69	175,078	17,092	9.76
Investment securities and other....	32,122	2,812	8.75	36,905	2,739	7.42	36,264	3,990	11.00
Loan portfolio (2).....	266,519	38,609	14.49	410,863	54,701	13.31	328,378	36,818	11.21
Discount loan portfolio.....	1,285,383	160,847	12.51	1,283,020	157,649	12.29	675,345	103,165	15.28
Total interest earning assets...	2,844,691	307,694	10.82	2,369,149	272,531	11.50	1,605,786	193,894	12.07
Non-interest earning cash.....	23,739			14,843			6,372		
Allowance for loan losses.....	(25,655)			(22,001)			(11,250)		
Low-income									
Housing tax credit interests.....	130,391			96,096			83,110		
Investment in joint ventures.....	82,779			34,777			46,193		
Real estate owned, net.....	178,223			131,007			137,250		
Investment in real estate.....	36,922			44,722			--		
Other assets.....	315,895			166,921			145,822		
Total assets.....	\$3,586,985			\$2,835,514			\$2,013,283		
AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY:									
Interest-bearing demand deposits...	\$ 39,934	1,434	3.59%	\$ 31,719	1,220	3.85%	\$ 33,167	620	1.87%
Savings deposits.....	1,652	38	2.30	2,121	49	2.31	3,394	78	2.30
Certificates of deposit.....	1,844,977	115,112	6.24	1,964,351	120,801	6.15	1,481,197	93,075	6.28
Total interest-bearing deposits.	1,886,563	116,584	6.18	1,998,191	122,070	6.11	1,517,758	93,773	6.18
Securities sold under agreements to repurchase.....	104,980	6,514	6.20	16,717	1,000	5.98	19,581	1,101	5.62
Advances from the Federal Home Loan Bank.....	2,201	120	5.45	9,482	527	5.56	71,221	4,053	5.69
Obligation outstanding under lines of credit.....	481,212	34,587	7.19	84,272	5,578	6.62	--	--	--
Subordinated debentures.....	227,858	27,088	11.89	228,233	27,114	11.88	148,282	17,233	11.62
Total interest-bearing liabilities	2,702,814	184,893	6.84	2,336,895	156,289	6.69	1,756,842	116,160	6.61
Non-interest bearing deposits.....	19,483			23,224			10,938		
Escrow deposits.....	165,111			78,986			41,306		
Capital securities.....	125,000			48,387			\$ --		
Other liabilities.....	147,065			57,992			42,865		
Total liabilities.....	3,159,473			2,545,484			1,851,951		
Stockholders' equity.....	427,512			290,030			161,332		
Total liabilities and stockholders' equity.....	\$3,586,985			\$2,835,514			\$2,013,283		
Net interest income.....		\$ 122,801			\$ 116,242			\$ 77,734	
Net interest spread.....			3.98%			4.81%			5.46%
Net interest margin.....			4.32%			4.91%			4.84%
Ratio of interest-earning assets to interest-bearing liabilities..	105%			101%			91%		

(1) Excludes effect of unrealized gains or losses on securities available for sale.

(2) The average balances of loans available for sale and the loan portfolio include nonperforming loans, interest on which is recognized on a cash basis.

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

Year Ended December 31,

	Year Ended December 31,					
	1998 vs. 1997			1997 vs. 1996		
	Increase (Decrease) Due To			Increase (Decrease) Due To		
	Rate	Volume	Total	Rate	Volume	Total
(Dollars in thousands)						
INTEREST-EARNING ASSETS:						
Federal funds sold and repurchase agreements	\$ (283)	\$ (762)	\$ (1,045)	\$ (20)	\$ 4,314	\$ 4,294
Securities available for sale	(11,348)	22,202	10,854	1,449	1,470	2,919
Securities held for trading	(124)	(124)	(248)	297	(1,265)	(968)
Loans available for sale	375	38,048	38,423	1,597	(321)	1,276
Loan portfolio	4,479	(20,571)	(16,092)	7,642	10,241	17,883
Discount loan portfolio	2,907	291	3,198	(23,426)	77,910	54,484
Investment securities and other	455	(382)	73	(1,320)	69	(1,251)
Total interest-earning assets	(3,539)	38,702	35,163	(13,781)	92,418	78,637
INTEREST-BEARING LIABILITIES:						
Interest-bearing demand deposits	(85)	299	214	628	(28)	600
Savings deposits	--	(11)	(11)	--	(29)	(29)
Certificates of deposit	1,738	(7,427)	(5,689)	(2,026)	29,752	27,726
Total interest-bearing deposits ...	1,653	(7,139)	(5,486)	(1,398)	29,695	28,297
Securities sold under agreements to repurchase	39	5,475	5,514	67	(168)	(101)
Advances from the Federal Home Loan Bank	(10)	(397)	(407)	(92)	(3,434)	(3,526)
Obligations outstanding under lines of credit	519	28,490	29,009	--	5,578	5,578
Notes, debentures and other interest-bearing obligations	19	(45)	(26)	391	9,490	9,881
Total interest-bearing liabilities	2,220	26,384	28,604	(1,032)	41,161	40,129
Increase (decrease) in net interest income	\$ (5,759)	\$ 12,318	\$ 6,559	\$ (12,749)	\$ 51,257	\$ 38,508

1998 VERSUS 1997:

The Company's net interest income before provision for loan losses of \$122.8 million increased \$6.6 million or 6% during 1998 as compared to the prior year. The increase was due to an increase in average interest-earning assets, offset by an increase in average interest-bearing liabilities and a decline in the net interest spread. Average interest-earning assets increased by \$475.5 million or 20% during 1998 and yielded \$38.7 million of interest income, while average interest-bearing liabilities increased \$365.9 million or 16% and contributed \$26.4 million of interest expense. The net impact of these volume changes resulted in an increase of \$12.3 million to net interest income. The increase in average interest-earning assets was primarily due to a \$349.0 million increase in the average balance of loans available for sale and a \$290.8 million increase in securities available for sale, offset by a \$144.3 million decrease in the average balance of the loan portfolio. The increase in average interest-bearing liabilities was primarily due to a \$396.9 million increase in the average balance of obligations outstanding under lines of credit. The net interest spread decreased 83 basis points during 1998 as a result of a 68-basis-point decline in the weighted average rate on interest-earning assets and a 15-basis-point increase in the weighted average rate on interest-bearing liabilities. The net impact of these rate changes resulted in a \$5.7 million decrease in net interest income.

Interest income on loans available for sale increased \$38.4 million or 209% during 1998 as compared to 1997 primarily as a result of a \$349.0 million or 203% increase in the average balance and a 21-basis-point increase in the weighted average yield earned. The increase in the average balance was due to significant growth in the Company's domestic purchases and originations, as well as those of Ocwen UK, which accounted for the U.S. dollar equivalent of \$147.1 million of the increase in the average balance. The Company anticipates a significant curtailment of its domestic subprime lending operations in 1999.

Interest income on securities available for sale increased \$10.9 million or 36% during 1998 as compared to 1997 primarily as a result of a \$290.8 million or 97% increase in the average balance, offset by a 307 basis-point decline in the weighted average yield earned. The increase in the average balance, as well as the decline in the weighted average yield, are due in large part to the Company's increased investment in collateralized mortgage obligations ("CMOs"). The average balance of CMOs held for sale during 1998 amounted to \$405.0 million, or 69% of the average balance of securities available for sale, as compared to \$182.3 million, or 61% of the average balance of securities available for sale, during 1997. Because CMOs have less cash flow variability, their average lives and yields to maturity are more stable and, therefore, CMOs are priced to yield less than a less stable class of mortgage-related securities such as IOs. See "Changes in Financial Condition Securities Available for Sale."

Interest income on the loan portfolio decreased by \$16.1 million or 29% in 1998 versus 1997 primarily due to a \$144.3 million or 35% decrease in the average balance of the loan portfolio which was offset in part by a 118-basis-point increase in the weighted average yield earned. The significant yield earned during 1998, as well as the decrease in the average balance, were primarily due

to \$12.4 million of additional interest received in connection with the repayment of nine commercial real estate (secured primarily by hotel properties) and multi-family residential loans having an unpaid principal balance of \$107.2 million.

Interest expense on obligations outstanding under lines of credit increased \$29.0 million or 520% during 1998 as compared to 1997 due to a \$396.9 million or 471% increase in the average balance and a 57-basis-point increase in the weighted average interest rate. The increase in the average balance is primarily due to the Company's use of lines of credit at OFS and Ocwen UK to fund the growth in subprime single family residential loans. Ocwen UK accounted for the US dollar equivalent of \$130.5 million of the increase in the average balance. See "Changes in Financial Condition Obligations Outstanding Under Lines of Credit."

Interest expense on securities sold under agreements to repurchase increased by \$5.5 million or 551% during 1998 primarily as a result of an \$88.3 million or 528% increase in the average balance. From time to time, the Company utilizes such collateralized borrowings as an additional source of liquidity depending on the cost and availability of alternative sources of funding.

Interest expense on deposits decreased \$5.5 million or 4% during 1998 primarily due to a \$111.6 million or 6% net decrease in the average balance of interest-bearing deposits. Certificates of deposits accounted for \$119.4 million of the \$111.6 million net decrease in the average balance of interest-bearing deposits.

1997 versus 1996:

The Company's net interest income before provision for loan losses of \$116.2 million increased \$38.5 million or 50% during 1997 as compared to the prior year. The increase was due to an increase in average interest-earning assets, offset by an increase in average interest-bearing liabilities and a decline in the net interest spread. Average interest-earning assets increased by \$763.4 million or 48% during 1998 and yielded \$92.4 million of interest income, while average interest-bearing liabilities increased \$580.1 million or 33% and contributed \$41.2 million of interest expense. The net impact of these volume changes resulted in an increase of \$51.2 million to net interest income. The increase in average interest-earning assets was primarily due to a \$607.7 million increase in the average balance of discount loans and an \$82.5 million increase in loan portfolio. The increase in average interest-bearing liabilities was primarily due to a \$483.2 million increase in the average balance of certificates of deposit, an \$84.3 million increase in the average balance of obligations outstanding under lines of credit and an \$80.0 million increase in notes, debentures and other interest-bearing obligations. The net interest spread decreased 65 basis points during 1998 as a result of a 57-basis-point decline in the weighted average rate on interest-earning assets and an 8-basis-point increase in the weighted average rate on interest-bearing liabilities. The net impact of these rate changes resulted in a \$12.7 million decrease in net interest income.

Interest income on the discount loan portfolio increased by \$54.5 million or 53% in 1997 versus 1996 as a result of a \$607.7 million or 90% increase in the average balance of the discount loan portfolio, which was offset in part by a 299-basis-point decrease in the weighted average yield earned. The decline in the yield during 1997, as compared to 1996, is primarily attributable to an increase in the average balance of single family discount loans as a result of acquisitions from HUD and the Company's decision to cease accretion of discount on nonperforming single family residential discount loans effective January 1, 1997. Discount accretion on nonperforming single family discount loans amounted to \$4.6 million or 69 basis points in yield during 1996. The Company believes that the yield earned on its single family residential discount loan portfolio in 1997 remained below the yield earned in the prior year also due to its current strategy of attempting to work with borrowers to either (i) bring their loans current, (ii) modify the terms of their loans, (iii) enter into forbearance agreements that require the borrower to make monthly payments greater than or equal to scheduled payment amounts or (iv) refinance the loans with the Company. This resolution strategy results in lower initial yields as compared to borrowers paying off their loans in full or in part and, to the extent the loans are ultimately sold, will result in a significant portion of the earnings being reflected in gains on sales of interest earning assets. In addition, the majority of the single family HUD loans acquired by the Company in February and September 1997 are currently under a HUD forbearance plan whereby the borrower makes payments based upon ability to pay for a specific period of time, which generally results in a lower effective yield than the contract rate. Once this period is over the borrower must make at least its contractual mortgage payment or the Company can pursue foreclosure or other actions. The yield on the overall discount loan portfolio is also likely to continue to fluctuate from year to year as a result of the timing of resolutions, particularly the resolution of large multi-family residential and commercial real estate loans, and the mix of the overall portfolio between paying and nonpaying loans.

Interest income on the loan portfolio increased by \$17.9 million or 49% in 1997 as compared to 1996 primarily due to \$12.3 million of additional interest received in connection with the repayment of 10 loans secured by hotel and office properties and, to a lesser extent, net increase in the average balance of the loan portfolio for 1997 of \$82.5 million or 25% over that of 1996.

Interest income on federal funds sold and repurchase agreements increased \$4.3 million or 91% during 1997 as compared to 1996 primarily as a result of a \$78.7 million or 93% increase in the average balance.

Interest expense on deposits increased \$28.3 million or 30% during 1997 as compared to 1996, and reflected the Company's continued use of certificates of deposit to fund its asset growth. The average amount of the Company's certificates of deposits increased from \$1.48 billion during 1996 to \$1.96 billion during 1997.

Interest expense on notes, debentures and other interest-bearing obligations increased by \$9.9 million or 57% during 1997 as compared to 1996 primarily due to the issuance of \$125.0 million of 11.875% Notes (the "Notes") in September 1996.

Also contributing to the increase in interest expense during 1997 is the interest expense on lines of credit established at OFS (see "Changes in Financial Condition Obligations Outstanding Under Lines of Credit"), which amounted to \$5.6 million during 1997, as compared to \$0 during 1996.

Provisions for Loan Losses. Provisions for losses on loans are charged to operations to maintain an allowance for losses on both the loan portfolio and the discount loan portfolio at a level which management considers adequate based upon an evaluation of known and inherent risks in such loan portfolios. Management's periodic evaluation is based on an analysis of both the discount loan portfolio and the loan portfolio, historical loss experience, current economic conditions and other relevant factors.

The following table presents the provisions for loan losses by the discount loan and loan portfolios for the years indicated.

	1998	1997	1996
	-----	-----	-----
	(Dollars in thousands)		
Provisions for loan losses:			
Discount loan.....	\$ 17,618	\$ 31,894	\$ 20,578
Loan portfolio.....	891	324	1,872
	-----	-----	-----
	\$ 18,509	\$ 32,218	\$ 22,450
	=====	=====	=====

The \$14.3 million decrease in the provision for losses on the discount loan portfolio in 1998 as compared to 1997 was primarily due to a \$407.7 million or 28% decrease in the balance of the discount loan portfolio. See "Changes in Financial Condition Discount Loan Portfolio, Net." The \$11.3 million increase in the provision for losses on the discount loan portfolio in 1997 occurred primarily as a result of a \$373.2 million or 35% increase in the balance of the discount loan portfolio and higher charge-offs. Net charge-offs on the discount loan portfolio amounted to \$20.1 million, \$20.3 million and \$9.2 million during 1998, 1997 and 1996, respectively. The Company establishes provisions for losses on discount loans as necessary to maintain an allowance for losses at a level which management believes reflects the inherent losses which may have occurred but have not yet been specifically identified, and records all charge-offs on the discount loan portfolio, net of recoveries, against the allowance for losses on discount loans. At December 31, 1998 and 1997, the Company had allowances for losses on its discount loan portfolio of \$21.4 million and \$23.5 million, respectively, which amounted to 2.0% and 1.6% of the respective balances.

Charge-offs on the loan portfolio amounted to \$219,000, \$153,000 and \$296,000 during 1998, 1997 and 1996, respectively. At December 31, 1998 and 1997, the Company maintained allowances for losses on its loan portfolio of \$4.9 million and \$3.7 million, respectively, which amounted to 2.1% and 1.4% of the respective balances.

Although management utilizes its best judgment in providing for possible loan losses, there can be no assurance that the Company will not increase or decrease its provisions for possible loan losses in subsequent periods. Changing economic and business conditions, fluctuations in local markets for real estate, future changes in nonperforming asset trends, material upward movements in market interest rates or other factors could affect the Company's future provisions for loan losses. In addition, the Office of Thrift Supervision ("OTS"), as an integral part of its examination process, periodically reviews the adequacy of the Company's allowance for losses on loans and discount loans and as a result, may require the Company to recognize changes to such allowances for losses based on its judgment about information available to it at the time of examination.

Non-Interest Income. Non-interest income decreased \$12.6 million or 10% during 1998 and increased \$86.6 million or 232% during 1997.

The following table sets forth the principal components of the Company's non-interest income during the years indicated.

	1998	1997	1996
	(Dollars in thousands)		
Servicing fees and other charges.....	\$ 59,180	\$ 225,962	\$ 4,682
(Loss) gain on interest-earning assets, net.....	(1,594)	82,212	21,682
Gain on real estate owned, net.....	14,033	7,277	3,827
Other income.....	39,696	8,498	7,112
Total.....	\$ 111,315	\$ 123,949	\$ 37,303

Servicing fees and other charges increased during 1998 and 1997 primarily as a result of increases in loan servicing and related fees as a result of the Company's increase in loans serviced for others. During 1998, 1997 and 1996, the average unpaid principal balance of loans serviced for others amounted to \$8.06 billion, \$3.11 billion and \$887.9 million, respectively. The increases in loans serviced for others during 1998 and 1997 were primarily related to subprime loans and resulted from servicing retained in connection with the securitizations of loans, the acquisition of servicing rights and the acquisition of Cityscape UK's servicing business by Ocwen UK in 1998.

The following table sets forth the Company's loans serviced for others at the dates indicated.

DECEMBER 31, 1998:

	Discount Loans		Subprime Loans (1)		Other Loans		Total	
	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans
	(Dollars in thousands)							
Loans securitized and sold with recourse.....	\$1,015,988	16,840	\$1,809,533	31,607	\$ --	--	\$ 2,825,521	48,447
Loans serviced for third parties..	1,573,285	20,835	5,327,441	83,085	866,219	1,091	7,766,945	105,011
	\$2,589,273	37,675	\$7,136,974	114,692	\$ 866,219	1,091	\$10,592,466	153,458

DECEMBER 31, 1997:

	Discount Loans		Subprime Loans		Other Loans		Total	
	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans
	(Dollars in thousands)							
Loans securitized and sold with recourse.....	\$ 624,591	11,148	\$ 555,914	4,976	\$ --	--	\$1,180,505	16,124
Loans serviced for third parties..	1,682,764	23,181	2,352,352	29,911	294,198	1,092	4,329,314	54,184
	\$2,307,355	34,329	\$2,908,266	34,887	\$ 294,198	1,092	\$5,509,819	70,308

DECEMBER 31, 1996:

	Discount Loans		Subprime Loans		Other Loans		Total	
	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans
	(Dollars in thousands)							
Loans securitized and sold with recourse.....	\$ 204,586	4,796	\$ 202,766	1,879	\$ --	--	\$ 407,352	6,675
Loans serviced for third parties..	1,209,535	22,511	6,784	60	294,427	917	1,510,746	23,488
	\$1,414,121	27,307	\$ 209,550	1,939	\$ 294,427	917	\$1,918,098	30,163

(1) Includes 37,955 loans with an unpaid principal balance of \$857.2 million ((pound)504.4 million) which were serviced by Ocwen UK at December 31, 1998.

Net losses on interest-earning assets in 1998 were primarily comprised of \$129.7 million of impairment charges on securities available for sale, including \$86.1 million on the portfolio of AAA-rated agency IOs which were sold in the third quarter, offset by \$112.1 million of gains recognized in connection with the securitization of single family subprime loans and discount loans, as presented in the table below, \$7.6 million of gains from the sales of small commercial discount loans and \$4.7 million of gains from the sales of large commercial discount loans.

Net gains on interest-earning assets in 1997 were primarily comprised of \$71.9

million of net gains recognized in connection with the securitization of single family subprime loans, single family discount loans and small commercial discount loans, as presented in the table below. Additionally, the Company recorded a \$2.6 million gain on the sale of mortgage-related securities to OAC, \$2.7 million of gains from the sales of single family subprime loans and \$3.5 million of gains from sales of certain large commercial loans in the Company's discount loan portfolio.

Net gains on interest-earning assets in 1996 were primarily comprised of a \$5.4 million gain from the sale of 256 single family loans in the Company's discount loan portfolio which had been brought current in accordance with their terms, a \$4.5 million gain from the sale of large commercial discount loans and, as presented in the table below, \$15.2 million of net gains in connection with the securitization of single family subprime loans and large commercial discount loans.

The following table sets forth the Company's net gains recognized in connection with the securitization of loans during 1998, 1997 and 1996.

Types of Loans	Loan Securitized		Book Value of	
	Principal	No. of Loans	Securities Retained(2)	Net Gain
(Dollars in thousands)				
1998:				
Single family discount.....	\$ 498,798	7,638	\$ 32,261	\$ 48,085
Single family subprime (1).....	1,626,282	31,235	139,594	61,516
	<u>\$ 2,125,080</u>	<u>38,873</u>	<u>\$ 171,855</u>	<u>\$ 109,601</u>
1997:				
Single family discount.....	\$ 418,795	6,295	\$ 20,635	\$ 51,137
Single family subprime.....	415,830	3,640	25,334	18,802
Small commercial discount.....	62,733	302	4,134	1,994
	<u>\$ 897,358</u>	<u>10,237</u>	<u>\$ 50,103</u>	<u>\$ 71,933</u>
1996:				
Large commercial discount.....	\$ 164,417	25	\$ 8,384	\$ 7,929
Single family subprime.....	211,204	1,180	18,236	7,232
	<u>\$ 375,621</u>	<u>1,205</u>	<u>\$ 26,620</u>	<u>\$ 15,161</u>

(1) Includes 20,819 loans securitized by Ocwen UK with an unpaid principal balance of \$558.5 million ((pound)339.4 million) for a net gain of \$25.6 million ((pound)15.4 million).

(2) Consists of subordinated and/or residual securities resulting from the Company's securitization activities, which had a fair value of \$249.0 million at December 31, 1998, including \$87.3 million ((pound)52.6 million) related to securitizations by Ocwen UK.

Gains on interest-earning assets (as well as other assets, such as real estate owned, as discussed below) generally are dependent on various factors which are not necessarily within the control of the Company, including market and economic conditions. As a result, there can be no assurance that the gains on interest-earning assets (and other assets) reported by the Company in prior periods will be reported in future periods or that there will not be substantial inter-period variations in the results from such activities.

The following table sets forth the results of the Company's real estate owned (which does not include investments in real estate, as discussed below) during the years indicated.

	Year Ended December 31,		
	1998	1997	1996
	(Dollars in thousands)		
Gains on sales.....	\$ 43,839	\$ 30,651	\$ 22,835
Provision for losses in fair value.....	(18,626)	(13,450)	(18,360)
Carrying costs, net.....	(11,180)	(9,924)	(648)
	<u>\$ 14,033</u>	<u>\$ 7,277</u>	<u>\$ 3,827</u>

The increases in gains on sales during 1998 and 1997 reflect increases in the number of properties sold from 1,175 during 1996, to 1,521 and 3,087 during 1997 and 1998, respectively. At December 31, 1998, 1997 and 1996, the Company owned 1,999, 1,505 and 825 properties, respectively, the majority of which were related to the discount loan portfolio. For additional information relating to the Company's real estate owned, see "Changes in Financial Condition Real Estate Owned."

Other income of \$39.7 million for 1998 included \$10.4 million of gains on sales of investments in real estate (see "Changes in Financial Condition Investment in Real Estate"), \$10.0 million of brokerage commissions earned in connection with Ocwen UK loan originations, \$7.4 million of gains recognized in connection with the sale of investments in low-income housing tax credit projects (see "Changes in Financial Condition Investments in Low Income Housing Tax Credit Interests"), and \$5.9 million of management fees earned from OAC. Other income of \$8.5 million for 1997 was primarily comprised of \$6.1 million of gains recognized in connection with the sale of investments in low-income housing tax credit projects and \$1.8 million of management fees earned from OAC. Other income of \$7.1 million for 1996 was primarily comprised of \$4.9 million of gains recognized in connection with the sale of investments in low-income housing tax credit projects.

NON-INTEREST EXPENSE. Non-interest expense increased \$99.5 million or 78% during 1998 and \$57.2 million or 82% during 1997. The increase in non-interest expense during 1998 and 1997 is largely due to recent acquisitions, new business lines and growth in existing business lines. Non-interest expense for 1998 included \$41.3 million and \$11.3 million related to Ocwen UK and OTX, respectively.

The following table sets forth the principal components of the Company's non-interest expense during the years indicated.

	1998	1997	1996
	-----	-----	-----
	(Dollars in thousands)		
Compensation and employee benefits.....	\$ 115,556	\$ 77,573	\$ 39,043
Occupancy and equipment.....	34,878	17,657	8,921
Net operating loss (income) on investment in real estate and certain low-income housing tax credit interests.....	6,753	4,792	(425)
Amortization of excess of purchase price over net assets acquired (Goodwill).....	11,614	557	--
Loan expenses.....	25,193	7,014	4,111
Other operating expenses.....	32,400	19,281	17,956
	-----	-----	-----
Total.....	\$ 226,394	\$ 126,874	\$ 69,606
	=====	=====	=====

The increases in compensation and employee benefits in 1998 and 1997 reflect an increase in the average number of employees from 398 during 1996 to 872 during 1997 to 1,512 during 1998. Compensation and employee benefit expense for 1998 includes \$12.4 million and \$7.4 million related to Ocwen UK and OTX, respectively.

Occupancy and equipment expense increased \$17.2 million in 1998, of which \$5.6 million related to Ocwen UK, primarily as a result of a \$5.8 million increase in data processing costs, a \$4.7 million increase in general office expenses and a \$3.5 million increase in rent expense. The increase in occupancy and equipment expense of \$8.7 million in 1997 was primarily related to a \$3.4 million increase in general office expenses, a \$3.1 million increase in data processing costs and a \$1.3 million increase in rent expense.

The increase in net operating losses on investments in real estate and certain low-income housing tax credits during 1998 and 1997 is primarily the result of net operating losses and depreciation expense on low-income housing tax credit projects placed in service, primarily during 1997. The associated tax credits on such projects are reported as a reduction of income tax expense. See "Income Tax Benefit (Expense)."

Of the \$11.1 million increase in the amortization of goodwill during 1998, \$10.3 million related to OFS, including the \$10.1 million write-off of the remaining unamortized balance which was deemed impaired by the Company.

Loan expenses of \$15.2 million incurred by Ocwen UK account for the majority of the total increase in loan expenses in 1998 of \$18.2 million.

Primarily due to a \$9.7 million increase in professional fees and a \$4.5 million increase in marketing costs, other operating expenses increased \$13.1 million in 1998, of which \$8.1 million and \$3.0 million related to Ocwen UK and OTX, respectively. Exclusive of the non-recurring expense of \$7.1 million in 1996 related to the Federal Deposit Insurance Corporation's ("FDIC") assessment to recapitalize the Savings Association Insurance Fund ("SAIF"), other operating expenses increased by \$8.5 million in 1997, primarily as a result of a \$2.7 million increase in professional fees, a \$1.4 million increase in due diligence costs, a \$1.4 million reserve established on a receivable and \$1.1 million of certain other one-time charges. See Note 26 to the Consolidated Financial Statements for a disclosure of the components of other operating expenses.

DISTRIBUTIONS ON COMPANY OBLIGATED, MANDATORILY REDEEMABLE SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY. In August 1997, Ocwen Capital Trust I ("OCT"), a wholly-owned subsidiary of the Company, issued \$125.0 million of 10-7/8% Capital Securities. Cash distributions on the Capital Securities accrue from the date of original issuance and are payable semi-annually in arrears on February 1 and August 1 of each year, commencing on February 1, 1998, at an annual rate of 10-7/8% of the liquidation amount of \$1,000 per Capital Security. The Company recorded \$13.6 million and \$5.2 million of distributions to holders of the Capital Securities during 1998 and 1997, respectively. See Note 19 to the Consolidated Financial Statements and "Changes in Financial Condition Company-Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company."

EQUITY IN (LOSSES) EARNINGS OF INVESTMENTS IN UNCONSOLIDATED ENTITIES. Equity in earnings of investment in unconsolidated entities for 1997 and 1996 included the Company's 50% joint venture investment in the LLC. All of the assets of the LLC were distributed at the end of 1997, and therefore the Company recorded no income from this investment in 1998. The Company's \$23.7 million of earnings from the LLC during 1997 consisted primarily of \$4.5 million of interest income on discount loans, \$14.0 million of gains on the sale of discount loans, including the securitizations of HUD loans in March and December of 1997, and the recapture of \$5.1 million of valuation allowances established in 1996 by the Company on its equity investment in the LLC. The Company's equity in earnings of LLC amounted to \$38.3 million in 1996 and consisted primarily of \$10.1 million of net interest income on discount loans, \$35.6 million of gains on sales of discount loans, offset by a \$7.6 million provision for losses on the equity investment in the LLC. The Company has recognized 50% of the loan servicing fees not eliminated in consolidation in servicing fees and other charges. See "Changes in Financial Condition Investment in Unconsolidated Entities."

During 1998, the Company recorded equity in the losses of its investments in OAC and OPLP of \$4.0 million and \$4.7 million, respectively. The Company owned, through IMI, 1,540,000 or 8.12% of the outstanding common stock of OAC at December 31, 1998. The Company also owned, through IMI, 1,808,733 or 8.71% of the total partnership units of OPLP outstanding at December 31, 1998. The Company began accounting for its investments in OAC and OPLP on the equity method effective May 5, 1998, upon the acquisition of 1,473,733 OPLP units, which increased its combined ownership in OAC and OPLP to 16.83%. Equity in the losses of OAC and OPLP reflect the period from May 5, 1998, through December 31, 1998, and relate primarily to losses incurred by those entities in connection with impairment charges recorded on subordinate and residual mortgage-backed securities. See "Changes in Financial Condition Investment in Unconsolidated Entities."

During 1998, the Company recorded equity in earnings of Kensington of \$439,000, net of \$2.0 million of goodwill amortization. At December 31, 1998, the Company owned 36.07% of the total outstanding common stock of Kensington, a leading originator of non-conforming residential mortgages in the U.K. See "Changes in Financial Condition Investment in Unconsolidated Entities."

Income Tax Benefit (Expense). Income tax benefit (expense) on the Company's net (loss) income amounted to \$30.7 million, \$(21.3) million and \$(11.2) million during 1998, 1997 and 1996, respectively. The Company's effective tax rate was (94.8)%, 21.4% and 18.2% during 1998, 1997 and 1996, respectively. The Company's effective tax rates in 1998, 1997 and 1996 reflect tax credits resulting from the Company's investment in low-income housing tax credit interests of \$17.7 million, \$14.9 million and \$9.3 million during 1998, 1997 and 1996, respectively. Exclusive of the above amounts, the Company's effective tax rate amounted to 31.0%, 36.4% and 33.4% during 1998, 1997 and 1996, respectively. See "Changes in Financial Condition Investments in Low Income Housing Tax Credit Interests."

CHANGES IN FINANCIAL CONDITION

The following table sets forth information relating to certain of the Company's assets and liabilities at the dates indicated.

	December 31,		Increase (Decrease)	
	1998	1997	Dollars	Percent
	(Dollars in thousands)			
ASSETS:				
Total assets.....	\$ 3,308,079	\$ 3,069,165	\$ 238,914	8%
Securities available for sale.....	593,347	476,796	116,551	24
Loans available for sale.....	177,847	177,041	806	--
Loan portfolio, net.....	230,312	266,299	(35,987)	(14)
Discount loan portfolio, net.....	1,026,511	1,434,176	(407,665)	(28)
Investment in low-income housing tax credit interests.....	144,164	128,614	15,550	12
Investment in unconsolidated entities.....	86,893	3,526	83,367	2,364
Real estate owned, net.....	201,551	167,265	34,286	20
Investment in real estate.....	36,860	76,340	(39,480)	(52)
Deferred tax asset.....	66,975	45,148	21,827	48
LIABILITIES:				
Total liabilities.....	2,746,111	2,523,430	222,681	9
Deposits.....	2,175,016	1,982,822	192,194	10
Securities sold under agreements to repurchase.....	72,051	108,250	(36,199)	(33)
Notes, debentures and other interest-bearing obligations..	225,000	226,975	(1,975)	(1)
Obligations outstanding under lines of credit.....	179,285	118,304	60,981	52
Capital Securities.....	125,000	125,000	--	--
Stockholders' equity.....	436,376	419,692	16,684	4

SECURITIES AVAILABLE FOR SALE. At December 31, 1998, securities available for sale amounted to \$593.3 million or 18% of total assets, as compared to \$476.8 million or 16% at December 31, 1997. Securities available for sale are carried at fair value with unrealized gains or losses reported as a separate component of stockholders' equity net of deferred taxes. Unrealized losses on securities that reflect a decline in value which is other than temporary are charged to earnings. At December 31, 1998, securities available for sale included an aggregate of \$21.7 million of unrealized gains (\$22.0 million of gross gains and \$335,000 of gross losses), as compared to \$11.8 million of unrealized losses (\$32.5 million of gross losses and \$20.7 million of gross gains) at December 31, 1997.

The following table sets forth the carrying value (which represents fair value) of the Company's securities available for sale at the dates indicated.

	December 31,		Increase (Decrease)	
	1998	1997	Dollars	Percent
MORTGAGE-RELATED SECURITIES:				
Single family residential:				
CMOs (AAA-rated).....	\$ 344,199	\$ 160,451	\$ 183,748	115%
Interest-only:				
FHLMC.....	--	64,745	(64,745)	(100)
FNMA.....	--	59,715	(59,715)	(100)
GNMA.....	--	29,766	(29,766)	(100)
AAA-rated.....	--	13,863	(13,863)	(100)
BB-rated subordinates.....	8,517	2,515	6,002	239
B-rated subordinates.....	6,344	--	6,344	100
Unrated subordinates.....	40,595	39,219	1,376	4
AAA-rated subprime residuals.....	6,931	--	6,931	100
BBB-rated subprime residuals.....	17,593	--	17,593	100
Unrated subprime residuals.....	152,951	41,790	111,161	266
Swap contracts.....	--	(94)	94	100
	577,130	411,970	165,160	40
MULTI-FAMILY RESIDENTIAL AND COMMERCIAL:				
Interest-only:				
AAA-rated.....	71	3,059	(2,988)	(98)
BB-rated.....	2	189	(187)	(99)
Subordinates:				
B-rated.....	8,813	8,511	302	4
Unrated.....	7,331	6,795	536	8
	16,217	18,554	(2,337)	(13)
MARKETABLE EQUITY SECURITIES:				
Common stocks.....	--	46,272	(46,272)	(100)
Total.....	\$ 593,347	\$ 476,796	\$ 116,551	24

The Company's securities available for sale increased by \$116.6 million or 24% during 1998 due primarily to \$735.6 million of purchases, \$171.9 million of subordinates and residual securities acquired in connection with the Company's securitizations of loans which was offset by \$270.0 million of sales, \$360.0 million of maturities and principal repayments, \$56.5 million of net premium amortization and \$129.7 million of impairment charges, including \$86.1 million on AAA-rated agency IOs and \$43.6 million on certain subordinate and residual securities.

On July 27, 1998, the Company sold its entire portfolio of AAA-rated agency IOs for \$137.5 million, which represented book value. As a result of an increase in prepayment speeds due to declining interest rates, the Company recorded impairment charges of \$86.1 million in 1998 prior to the sale (\$77.6 million in the second quarter) resulting from the Company's decision to discontinue this investment activity and write down the book value of the IOs. The AAA-rated agency IOs consisted of IOs, which are classes of mortgage-related securities that are entitled to payments of interest but no (or only nominal) principal, and inverse IOs, which bear interest at a floating rate that varies inversely with (and often at a multiple of) changes in a specified index.

Common stocks at December 31, 1997, were comprised primarily of the Company's investment in OAC. At December 31, 1997, the Company, through IMI, owned 1,715,000 shares or 9.04% of the outstanding common stock of OAC, having a market value of \$35.2 million (\$25.5 million book value). On May 5, 1998, IMI purchased an additional 1,473,733 units of OAC's operating partnership subsidiary, OPLP, increasing its combined ownership of OAC and OPLP to 16.83%. As a result of this increase in ownership, the Company began accounting for its investments in OAC and OPLP under the equity method. See "Investment in Unconsolidated Entities." The Company's other common stock investment, which had a market value of \$11.1 million (\$13.0 million book value) at December 31, 1997, was sold during 1998 for a loss of \$293,000.

At December 31, 1998, the fair value of the Company's investment in subordinate and residual interests amounted to \$249.1 million (\$227.9 million amortized cost) or 42% of total securities available for sale and supported senior classes of securities having an outstanding principal balance of \$3.84 billion. During 1998, the Company recorded \$43.6 million of impairment charges on its portfolio of subordinate and residual securities as a result of declines in value that were deemed to be "other than temporary."

Because of their subordinate position, subordinated and residual classes of mortgage-related securities provide protection to and involve more risk than the senior class. Specifically, when cash flow is impaired, debt service goes first to the holders of senior classes. In addition, incoming cash flows may be held in a reserve fund to meet any future repayments until the holders of senior classes have been paid and, when appropriate, until a specified level of funds has been contributed to the reserve fund. Further, residual interests exhibit considerably more price volatility than mortgages or ordinary mortgage pass-through securities, due in part to the uncertain cash flows that result from changes in the prepayment rates of the underlying mortgages. Lastly, subordinate and residual interests involve substantially more credit risk than the senior classes of the mortgage-related securities to which such interests relate and generally are not as liquid as the senior classes. The weighted average prospective yield to maturity on subordinate securities and subprime residual securities was 0.04% and 13.66%, respectively, at December 31, 1998.

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

The Company determines the present value of anticipated cash flows at the time each securitization transaction closes, utilizing valuation assumptions appropriate for each particular transaction. The significant valuation assumptions include the anticipated prepayment speeds and the anticipated credit losses related to the underlying mortgages. In order to determine the present value of this estimated excess cash flow, the Company currently applies a discount rate of 18% to the projected cash flows on the unrated classes of securities. The annual prepayment rate of the securitized loans is a function of full and partial prepayments and defaults. The Company makes assumptions as to the prepayment rates of the underlying loans, which the Company believes are reasonable, in estimating fair values of the subordinate securities and residual securities retained. During 1998, the Company utilized proprietary prepayment curves generated by the Company (reaching an approximate range of annualized rates of 30% - 40%). In its estimates of annual loss rates, the Company utilizes assumptions that it believes are reasonable. The Company estimates annual losses of between 0.22% and 2.06% of the underlying loans.

Subordinate and residual interests are affected by the rate and timing of payments of principal (including prepayments, repurchase, defaults and liquidations) on the mortgage loans underlying a series of mortgage-related securities. The rate of principal payments may vary significantly over time depending on a variety of factors, such as the level of prevailing mortgage loan interest rates and economic, demographic, tax, legal and other factors. Prepayments on the mortgage loans underlying a series of mortgage-related securities are generally allocated to the more senior classes of mortgage-related securities. Although in the absence of defaults or interest shortfalls all subordinates receive interest, amounts otherwise allocable to residuals generally are used to make payments on more senior classes or to fund a reserve account for the protection of senior classes until overcollateralization or the balance in the reserve account reaches a specified level. In periods of declining interest rates, rates of prepayments on mortgage loans generally increase, and if the rate of prepayments is faster than anticipated, then the yield on subordinates will be positively affected and the yield on residuals will be negatively affected.

The credit risk of mortgage related securities is affected by the nature of the underlying mortgage loans. In this regard, the risk of loss on securities backed by commercial and multi-family loans and single family residential loans made to borrowers who, because of prior credit problems, the absence of a credit history or other factors, are unable or unwilling to qualify as borrowers under guidelines established by the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal National Mortgage Association ("FNMA") for purchases of loans by such agencies, generally involve more risk than securities backed by single family residential loans which conform to the requirements established by FHLMC and FNMA for their purchase by such agencies.

The Company adjusts its securities portfolio to market value at the end of each month based upon the lower of dealer quotations or internal values, subject to an internal review process. For those securities which do not have an available market quotation, the Company will request market values and underlying assumptions from the various securities dealers that underwrote, are currently financing the securities, or have had prior experience with the type of security to be valued. When quotations are obtained from two or more dealers, the average dealer quote will be utilized.

The Company periodically assesses the carrying value of its subordinate securities and residual securities retained as well as the servicing assets for impairment. There can be no assurance that the Company's estimates used to determine the gain on securitized loan sales, subordinate securities and residual securities retained and servicing asset valuations will remain appropriate for the life of each securitization. If actual loan prepayments or defaults exceed the Company's estimates, the carrying value of the Company's subordinate securities and residual securities retained and/or servicing assets may be decreased or the Company may increase its allowance for possible credit losses on loans sold through a charge against earnings during the period management recognized the disparity. Other factors may also result in a write-down of the Company's subordinate securities and residual securities retained in subsequent periods. Accelerated prepayment speeds were a significant contributing factor to the \$43.6 million of impairment charges recorded by the Company in 1998 on its subordinate and residual securities. See Note 1 to the Consolidated Financial Statements.

It is intended that any securities retained by the Bank resulting from the securitization of assets held by it directly will be distributed to the Company as a dividend, subject to the Bank's ability to declare such dividends under applicable limitations. Four securities with an aggregate value of \$60.8 million were distributed to the Company from the Bank in the form of dividends during 1998. At December 31, 1998, the Bank held two subordinate securities with a fair value and amortized cost of \$13.9 million.

LOANS AVAILABLE FOR SALE. Loans available for sale, which are comprised primarily of subprime single family residential loans, increased by \$806,000 during 1998. The increase in 1998 occurred primarily as a result of purchases and originations of \$1.75 billion of single family residential subprime loans, offset in part by sales of \$1.66 billion and principal repayments of \$82.7 million of such loans. Purchases and originations during 1998 include \$292.8 million purchased from the U.S. operations of Cityscape Financial Corp. and \$675.6 million purchased and originated by Ocwen UK. Of the single family loans sold during 1998, \$1.63 billion or 98% were due to the Company's securitization of such loans, including \$558.5 million related to securitizations by Ocwen UK. Of the \$177.8 million loans available for sale at December 31, 1998, \$85.0 million related to Ocwen UK.

At December 31, 1998, nonperforming loans available for sale amounted to \$39.4 million or 22.2% of total loans available for sale, as compared to \$13.5 million or 7.6% at December 31, 1997. Nonperforming loans available for sale consist primarily of subprime single family residential loans, reflecting the higher risks associated with such loans. During 1998, 1997 and 1996, respectively, the Company recorded \$5.4 million, \$1.4 million and \$2.5 million of reductions in the carrying value of these loans to record them at the lower of cost or fair market value. The reductions in carrying value recorded during 1998 reflect the significant increase in volume, including the acquisition of Ocwen UK. Ocwen UK accounted for \$1.9 million of such reductions in carrying value. See Note 6 to the Consolidated Financial Statements.

LOAN PORTFOLIO, NET. The Company's net loan portfolio decreased by \$36.0 million or 14% during 1998 primarily as a result of \$227.7 million of principal repayments, offset by \$188.7 million of originations. The Company earned \$12.4 million of additional fees during 1998 in connection with the payoff of \$107.2 million of commercial real estate loans, secured primarily by hotel properties, and multi-family residential loans.

Nonperforming loans amounted to \$9.0 million or 3.8% of total loans at December 31, 1998, as compared to \$9.2 million or 3.4% of total loans at December 31, 1997. At December 31, 1998 and 1997, nonperforming loans consisted primarily of multi-family residential loans. The Company's allowance for loan losses amounted to 54.5% and 40.4% of nonperforming loans at December 31, 1998 and 1997, respectively. See Note 7 to the Consolidated Financial Statements.

DISCOUNT LOAN PORTFOLIO, NET. The discount loan portfolio decreased \$407.7 million or 28% during 1998. During 1998, sales of loans with an unpaid principal balance of \$696.1 million, resolutions and repayments of \$539.4 million and transfers to real estate owned of \$382.9 million more than offset acquisitions having an unpaid principal balance of \$1.12 billion. Of the discount loans sold during 1998, \$498.8 million resulted from the Company's securitization of performing single family discount loans. See Note 8 to the Consolidated Financial Statements.

At December 31, 1998, discount loans which were performing in accordance with original or modified terms amounted to \$781.8 million or 60% of the gross discount loan portfolio, as compared to \$1.01 billion or 56% at December 31, 1997. The Company's allowance for losses on its discount loan portfolio amounted to \$21.4 million, or 2.0% of the loan balance, at December 31, 1998, as compared to \$23.5 million, or 1.6% of the loan balance, at December 31, 1997.

INVESTMENTS IN LOW INCOME HOUSING TAX CREDIT INTERESTS. In 1993, the Company commenced a program to invest in multi-family residential projects which have been allocated low-income housing tax credits under Section 42 of the Internal Revenue Code by a state tax credit allocating agency. At December 31, 1998, the Company had \$144.2 million of investments in low-income housing tax credit interests, as compared to \$128.6 million at December 31, 1997. During 1998, the Company sold its investment in five low-income housing tax credit projects which had a carrying value of \$28.9 million for gains of \$7.4 million.

Investments by the Company in low-income housing tax credit interests made on or after May 18, 1995, in which the Company invests solely as a limited partner, which amounted to \$56.3 million and \$47.2 million at December 31, 1998 and 1997, respectively, are accounted for using the equity method in accordance with the consensus of the Emerging Issues Task Force through Issue Number 94-1. Limited partnership investments made prior to May 18, 1995, which amounted to \$19.6 million and \$31.4 million at December 31, 1998 and 1997, respectively, are accounted for under the effective yield method as a reduction of income tax expense. Low-income housing tax credit partnerships in which the Company invests as both a limited and, through a subsidiary, a general partner, amounted to \$68.3 million and \$50.0 million at December 31, 1998 and 1997, respectively, and are presented on a consolidated basis. See Note 13 to the Consolidated Financial Statements.

INVESTMENT IN UNCONSOLIDATED ENTITIES. At December 31, 1997, the Company, through IMI, owned 1,715,000 shares or 9.04% of the outstanding common stock of OAC. Also at December 31, 1997, the Company, through IMI, owned 160,000 units or 0.84% of the partnership units of OPLP, the operating partnership subsidiary of OAC. On February 17, 1998, IMI exchanged 175,000 shares of OAC stock for 175,000 OPLP units. On May 5, 1998, IMI acquired an additional 1,473,733 OPLP units. As a result of this activity, IMI's investment in OAC stock declined to 1,540,000 shares or 8.12% at December 31, 1998, while its investment in OPLP increased to 1,808,733 units or 8.71%. The Company began accounting for these entities on the equity method effective May 5, 1998, upon the increase in its combined ownership of OAC and OPLP to 16.83%. An adjustment to reduce retained earnings in the amount of \$979,000 (net of income taxes of \$526,000) was recorded to reflect the cumulative effect of the conversion to the equity method of accounting. The Company's investment in OAC stock amounted to \$16.3 million at December 31, 1998. The Company's investment in OAC stock at December 31, 1997, was designated as available for sale and carried at a fair value of \$35.2 million (\$25.5 million cost). The Company's investment in OPLP units amounted to \$22.8 million at December 31, 1998, as compared to \$2.4 million at December 31, 1997. During 1998, the Company recorded equity in the losses of its investment in OAC and OPLP of \$4.0 million and \$4.7 million, respectively. See Note 9 to the Consolidated Financial Statements.

On February 25, 1998, the Company purchased 36.07% of the total outstanding common stock of Kensington for \$45.9 million ((pound)27.8 million). The Company's investment in Kensington amounted to \$46.6 million at December 31, 1998, net of the excess of the purchase price over the net investment. The excess of the purchase price over the net investment amounted to \$34.5 million ((pound)20.9 million) at December 31, 1998, net of accumulated amortization of \$2.0 million ((pound)1.2 million), and is amortized over a period of 15 years. During 1998, the Company recorded equity in earnings of Kensington of \$439,000, net of the \$2.0 million of amortization of excess cost over purchase price. See Note 9 to the Consolidated Financial Statements.

From time to time, the Company and a co-investor have acquired discount loans by means of a co-owned joint venture. At December 31, 1997, the Company's \$1.1 million investment in joint venture, net consisted of a 10% interest in BCFL, a limited liability company which was formed by the Company and BlackRock in January 1997 to acquire discount multi-family residential loans from HUD. On December 12, 1997, the LLC, a limited liability company formed in March 1996 between the Company and BlackRock distributed all of its assets to the Company and its other 50% investor, BlackRock. Simultaneously, the Company acquired BlackRock's portion of the distributed assets. The Company recorded equity in earnings of the LLC of \$23.7 million and \$38.3 million for 1997 and 1996, respectively. See Note 9 to the Consolidated Financial Statements.

REAL ESTATE OWNED, NET. Real estate owned, net, increased by \$34.3 million or 21% during 1998 due primarily to \$292.3 million of foreclosures and acquisitions in connection with the acquisition of discount loans, offset by \$263.2 million of sales. Real estate owned consists almost entirely of properties acquired by foreclosure or deed-in-lieu thereof on loans in the Company's discount loan portfolio. Such properties amounted to \$197.4 million or 98% of total real estate owned at December 31, 1998, and consisted of \$94.6 million, \$20.1 million and \$82.6 million of properties attributable to single family residential loans, multi-family residential loans and commercial real estate loans, respectively.

The Company actively manages its real estate owned. During 1998, the Company sold 3,087 properties with a carrying value of \$263.2 million, as compared to the sale of 1,521 properties with a carrying value of \$179.7 million during 1997 and 1,175 properties with a carrying value of \$160.6 million during 1996. These sales resulted in gains, net of the provision for loss, of \$25.2 million, \$17.2 million and \$4.5 million during 1998, 1997 and 1996, respectively, which are included in determining the Company's income (loss) on real estate owned. The average holding period for real estate owned which was sold during 1998, 1997 and 1996, was six months, nine months and 11 months, respectively. See Note 10 to the Consolidated Financial Statements.

INVESTMENT IN REAL ESTATE. In conjunction with its multi-family residential and commercial real estate lending business activities, the Company has made certain acquisition, development and construction loans in which the Company participates in the expected residual profits of the underlying real estate and the borrower has not contributed substantial equity to the project. As such, the Company accounted for these loans under the equity method of accounting as though it had made an investment in a real estate limited partnership. The Company's investment in such loans, which amounted to \$64.3 million at December 31, 1997, has been reduced to \$0 at December 31, 1998, as a result of loan payoffs during 1998.

The Company's investments in real estate also included \$32.9 million and \$6.4 million at December 31, 1998 and 1997, respectively, of property (land and buildings) held for lease.

The Company also has invested, indirectly through a 31% partnership interest, in The Westin Hotel located in Columbus, Ohio. The Company's investment in such property amounted to \$1.3 million at December 31, 1998, as compared to \$1.4 million at December 31, 1997. See Note 11 to the Consolidated Financial Statements.

DEFERRED TAX ASSET. At December 31, 1998, the deferred tax asset, net of deferred tax liabilities, amounted to \$67.0 million, an increase of \$21.9 million from the \$45.1 million deferred tax asset at December 31, 1997. At December 31, 1998, the gross deferred tax asset amounted to \$80.0 million and consisted primarily of \$5.3 million related to tax residuals, \$6.2 million of gains on loan foreclosures, \$3.8 million mark-to-market and reserves on real estate owned properties, \$7.9 million of loan loss reserves, \$16.3 million of reserves on securities available for sale, \$3.5 million of goodwill reserves, \$3.9 million of accrued profit sharing expense, \$12.6 million of deferred interest expense on the discount loan portfolio, \$7.1 million partnership losses and low-income housing tax credits, \$2.7 million contingent interest income on equity participations and \$5.0 million reserves on investments. The gross deferred tax liability amounted to \$6.6 million and consisted primarily of \$4.7 million of deferred interest income on the discount loan portfolio. Additional deferred tax liabilities consisted of \$7.9 million mark-to-market on securities available for sale. At December 31, 1997, the gross deferred tax asset amounted to \$42.9 million and consisted primarily of \$3.5 million related to tax residuals, \$5.6 million of gains on loan foreclosures, \$3.2 million mark-to-market and reserves on real estate owned properties, \$9.8 million of loan loss reserves, \$4.0 million of reserves on securities available for sale, \$2.0 million of contingency reserves, \$3.2 million of accrued profit sharing expense, \$7.7 million of deferred interest expense on the discount loan portfolio. Additional deferred tax assets consisted of \$6.7 million mark-to-market on securities available for sale. The gross deferred tax liability amounted to \$4.4 million and consisted primarily of \$2.3 million of deferred interest income on the discount loan portfolio.

As a result of the Company's earnings history, current tax position and taxable income projections, management believes that the Company will generate sufficient taxable income in future years to realize the deferred tax asset which existed at December 31, 1998. In evaluating the expectation of sufficient future taxable income, management considered future reversals of temporary differences and available tax planning strategies that could be implemented, if required. A valuation allowance was not required at December 31, 1998, because it was management's assessment that, based on available information, it is more likely than not that all of the deferred tax asset will be realized. A valuation allowance will be established in the future to the extent of a change in management's assessment of the amount of the net deferred tax asset that is expected to be realized. See Note 22 to the Consolidated Financial Statements.

DEPOSITS. Deposits increased \$192.2 million or 10% during 1998 primarily as a result of a \$116.6 million increase in escrow deposits, primarily related to loans serviced for others, and an \$83.8 million increase in certificates of deposit. Brokered deposits obtained through national investment banking firms which solicit deposits from their customers, amounted to \$1.49 billion at December 31, 1998, as compared to \$1.35 billion at December 31, 1997. Deposits obtained as a result of the Company's direct solicitation and marketing efforts to regional and local investment banking firms and institutional investors and high net worth individuals amounted to \$377.4 million at December 31, 1998, as compared to \$430.1 million at December 31, 1997. See Note 15 to the Consolidated Financial Statements.

NOTES, DEBENTURES AND OTHER INTEREST-BEARING OBLIGATIONS. Notes, debentures and other interest-bearing obligations of \$225.0 million at December 31, 1998, decreased \$2.0 million during 1998 and consists of the \$125.0 million of 11.875% Notes issued by the Company in 1996 and the \$100.0 million of 12% Debentures issued by the Bank in 1995. See Note 18 to the Consolidated Financial Statements.

OBLIGATIONS OUTSTANDING UNDER LINES OF CREDIT. Obligations outstanding under lines of credit increased \$61.0 million during 1998 to \$179.3 million at December 31, 1998, and included \$59.5 million of borrowings at OFS and \$117.3 million of borrowings under new lines of credit established at Ocwen UK during 1998. These lines of credit fund the acquisition and origination of subprime single family residential loans at OFS and Ocwen UK and generally have a one-year term with interest rates that float in accordance with a designated prime rate. During that one-year period, the Company would anticipate securitizing the underlying loans (or refinancing any remaining loans) and then repaying the corresponding lines of credit. See Note 17 to the Consolidated Financial Statements.

COMPANY OBLIGATED, MANDATORILY REDEEMABLE SECURITIES OF SUBSIDIARY TRUST HOLDINGS SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY. In August 1997, OCT, a wholly-owned subsidiary of Ocwen, issued \$125.0 million of 10-7/8% Capital Securities. Proceeds from issuance of the Capital Securities were invested in 10-7/8% Junior Subordinated Debentures issued by Ocwen. The Junior Subordinated Debentures, which represent the sole assets of the Trust, will mature on August 1, 2027. Intercompany transactions between OCT and the Company, including the Junior Subordinated Debentures, are eliminated in the consolidated financial statements of the Company.

For the years ended December 31, 1998 and 1997, the Company recorded \$13.6 million and \$5.2 million, respectively, of distributions to holders of the Capital Securities, of which \$5.7 million was accrued and unpaid at December 31, 1998. See Note 19 to the Consolidated Financial Statements.

STOCKHOLDERS' EQUITY. Stockholders' equity increased \$16.7 million or 4% during 1998. The increase in stockholder's equity during 1998 was primarily due to a \$19.1 million increase in unrealized gains on securities available for sale, offset by a \$1.7 million foreign currency translation loss related to the Company's investments in Ocwen UK and Kensington, and a \$1.2 million net loss for the year.

ASSET AND LIABILITY MANAGEMENT

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. It is the objective of the Company to attempt to control risks associated with interest rate and foreign currency exchange rate movements. In general, management's strategy is to match asset and liability balances within maturity categories and to manage foreign currency rate exposure related to its investments in non-U.S. dollar functional currency operations in order to limit the Company's exposure to earnings variations and variations in the value of assets and liabilities as interest rates and foreign currency exchange rates change over time. The Company's asset and liability management strategy is formulated and monitored by the Asset/Liability Committee, which is composed of directors and officers of the Company, in accordance with policies approved by the Board of Directors of the Company. The Asset/Liability Committee meets to review, among other things, the sensitivity of the Company's assets and liabilities to interest rate changes and foreign currency exchange rate changes, the book and market values of assets and liabilities, unrealized gains and losses, including those attributable to hedging transactions, purchase and sale activity, and maturities of investments and borrowings. The Asset/Liability Committee also approves and establishes pricing and funding decisions with respect to overall asset and liability composition.

The Asset/Liability Committee is authorized to utilize a wide variety of off-balance sheet financial techniques to assist it in the management of interest rate risk and foreign currency exchange rate risk. These techniques include interest rate exchange or "swap" agreements, Eurodollar and U.S. Treasury interest rate futures contracts, foreign currency futures contracts and foreign currency swap agreements.

INTEREST RATE RISK MANAGEMENT. Under interest rate swap agreements, the parties exchange the difference between fixed-rate and floating-rate interest payments on a specified principal amount (referred to as the "notional amount") for a specified period without the exchange of the underlying principal amount. Interest rate exchange agreements are utilized by the Company to protect against the decrease in value of a fixed-rate asset or the increase in borrowing cost from a short-term, fixed-rate liability, such as reverse repurchase agreements, in an increasing interest-rate environment. At December 31, 1998, the Company had no interest rate exchange agreements outstanding. At December 31, 1997, the Company had entered into interest rate exchange agreements with an aggregate notional amount of \$36.9 million. Interest rate exchange agreements had the effect of decreasing the Company's net interest income by \$115,000, \$198,000 and \$58,000 during 1998, 1997 and 1996, respectively. See Note 21 to the Consolidated Financial Statements.

The Company also enters into interest rate futures contracts, which are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. Eurodollar futures contracts have been sold by the Company to hedge the repricing or maturity risk of certain short duration mortgage-related securities, and U.S. Treasury futures contracts have been sold by the Company to offset declines in the market value of its fixed-rate loans and certain fixed-rate mortgage-backed and related securities available for sale in the event of an increasing interest rate environment. At December 31, 1998, the Company had no U.S. Treasury futures contracts outstanding. At December 31, 1997, the Company had entered into U.S. Treasury futures (short) contracts with an aggregate notional amount of \$194.5 million. The Company had no outstanding Eurodollar futures contracts at December 31, 1998 or 1997. Futures contracts had the effect of (decreasing) increasing the Company's net interest income by \$(49,000), \$2.0 million, and \$(729,000) during 1998, 1997 and 1996, respectively. In addition, futures contracts had the effect of decreasing the Company's non-interest income by \$5.8 million, \$4.8 million and \$4.1 million during 1998, 1997 and 1996, respectively. See Note 21 to the Consolidated Financial Statements.

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

The following table sets forth the estimated maturity or repricing of the Company's interest-earning assets and interest-bearing liabilities at December 31, 1998. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, except (i) adjustable-rate loans, performing discount loans, securities and FHLB advances are included in the period in which they are first scheduled to adjust and not in the period in which they mature, (ii) fixed-rate mortgage-related securities reflect estimated prepayments, which were estimated based on analyses of broker estimates, the results of a prepayment model utilized by the Company and empirical data, (iii) nonperforming discount loans reflect the estimated timing of resolutions which result in repayment to the Company, (iv) NOW and money market checking deposits and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which are based on detailed studies of each such category of deposit by the Company, and (v) escrow deposits and other non-interest bearing checking accounts, which amounted to \$233.4 million at December 31, 1998, are excluded. Management believes that these assumptions approximate actual experience and considers them reasonable; however, the interest rate sensitivity of the Company's assets and liabilities in the table could vary substantially if different assumptions were used or actual experience differs from the historical experience on which the assumptions are based.

December 31, 1998

	Within Three Months	Four to Twelve Months	More Than One Year to Three Years	Three Years and Over	Total
(Dollars in thousands)					
RATE-SENSITIVE ASSETS:					
Interest-earning deposits.....	\$ 49,374	\$ --	\$ --	\$ --	\$ 49,374
Federal funds sold.....	275,000	--	--	--	275,000
Securities available for sale.....	134,291	198,047	118,180	142,829	593,347
Loans available for sale (1).....	4,049	81,436	19,453	72,909	177,847
Investment securities, net.....	--	--	--	10,825	10,825
Loan portfolio, net (1).....	46,279	60,063	87,544	36,426	230,312
Discount loan portfolio, net.....	119,727	328,160	320,932	257,692	1,026,511
Total rate-sensitive assets.....	628,720	667,706	546,109	520,681	2,363,216
RATE-SENSITIVE LIABILITIES:					
NOW and money market checking deposits.....	10,124	3,507	6,958	12,683	33,272
Savings deposits.....	75	202	399	650	1,326
Certificates of deposit.....	329,189	647,743	659,524	270,535	1,906,991
Total interest-bearing deposits.....	339,388	651,452	666,881	283,868	1,941,589
Securities sold under agreements to repurchase	72,051	--	--	--	72,051
Obligations outstanding under lines of credit	179,285	--	--	--	179,285
Notes and debentures.....	--	--	--	225,000	225,000
Total rate-sensitive liabilities.....	590,724	651,452	666,881	508,868	2,417,925
Interest rate sensitivity gap before off-balance sheet financial instruments.....	37,996	16,254	(120,772)	11,813	(54,709)
Futures contracts.....	--	--	--	--	--
Interest rate sensitivity gap.....	\$ 37,996	\$ 16,254	\$ (120,772)	\$ 11,813	\$ (54,709)
Cumulative interest rate sensitivity gap.....	\$ 37,996	\$ 54,250	\$ (66,522)	\$ (54,709)	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets....	1.61%	2.30%	(2.81)%	(2.32)%	

(1) Balances have not been reduced for nonperforming loans.

Although the interest rate sensitivity gap analysis is a useful measurement and contributes toward effective asset and liability management, it is difficult to predict the effect of changing interest rates based solely on that measure. The OTS has established specific minimum guidelines for thrift institutions to observe in the area of interest rate risk as described in Thrift Bulletin No. 13a, "Management of Interest Rate Risk, Investment Securities, and Derivative Activities" ("TB 13a"). Under TB 13a, institutions are required to establish and demonstrate quarterly compliance with board-approved limits on interest rate risk that are defined in terms of net portfolio value ("NPV"), which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments. These limits specify the minimum net portfolio value ratio ("NPV Ratio") allowable under current interest rates and hypothetical interest rate scenarios. An institution's NPV Ratio for a given interest rate scenario is calculated by dividing the NPV that would result in that scenario by the present value of the institution's assets in that same scenario. The hypothetical scenarios are represented by immediate, permanent, parallel movements in the term structure of interest rates of plus and minus 100, 200 and 300 basis points from the actual term structure observed at quarter end. The current NPV Ratio for each of the seven rate scenarios and the corresponding limits approved by the Board of Directors of the Bank, is as follows at December 31, 1998:

Rate Shock (in basis points)	Board Limits (minimum NPV Ratios)	Current NPV Ratios
+300	5.00%	14.90%
+200	6.00%	15.73%
+100	7.00%	16.43%
0	8.00%	16.95%
-100	7.00%	17.49%
-200	6.00%	18.00%
-300	5.00%	18.45%

The Asset/Liability Committee also regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and NPV and evaluating such impacts against the maximum potential changes in net interest income and NPV that is authorized by the Board of Directors of the Bank. The following table quantifies the potential changes in net interest income and net portfolio value should interest rates go up or down (shocked) 300 basis points, assuming the yield curves of the rate shocks will be parallel to each other. The cash flows associated with the loan portfolios and securities available for sale are calculated based on prepayment and default rates that vary by asset. Projected losses, as well as prepayments, are generated based upon the actual experience with the subject pool, as well as similar, more seasoned pools. To the extent available, loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty terms and product types are used to produce the projected loss and prepayment assumptions that are included in the cash flow projections of the securities. When interest rates are shocked, these projected loss and prepayment assumptions are further adjusted. For example, under current market conditions, a 100-basis-point decline in the market interest rate is estimated to result in a 200-basis-point increase in the prepayment rate of a typical subprime residential loan. Most commercial and multi-family loans are not subject to prepayments as a result of prepayment penalties and contractual terms which prohibit prepayments during specified periods. However, for those commercial and multi-family loans where prepayments are not currently precluded by contract, declines in interest rates are associated with steep increases in prepayment speeds in computing cash flows. A risk premium is then calculated for each asset, which, when added to the interest rate being modeled, results in a matrix of discount rates that are applied to the cash flows computed by the model. The base interest rate scenario assumes interest rates at December 31, 1998. Actual results could differ significantly from those estimated in the table.

Change in Interest Rates (Rate Shock in basis points)	Estimated Changes in	
	Net Interest	NPV
+300	12.2%	(17.3)%
+200	8.1 %	(10.7)%
+100	4.1 %	(4.9)%
0	--	--
-100	(4.1)%	5.1%
-200	(8.1)%	10.2%
-300	(12.2)%	15.0%

Management of the Company believes that the assumptions used by it to evaluate the vulnerability of the Company's operations to changes in interest rates approximate actual experience and considers them reasonable; however, the interest rate sensitivity of the Company's assets and liabilities and the estimated effects of changes in interest rates on the Company's net interest income and NPV could vary substantially if different assumptions are used or actual experience differs from the historical experience on which they are based.

The following table shows the Company's financial instruments that are sensitive to changes in interest rates, categorized by expected maturity, and the instruments' fair values at December 31, 1998. Market-rate-sensitive instruments are generally defined as on and off balance sheet derivatives and other financial instruments.

Expected Maturity Date At December 31, 1998

	1999	2000	2001	2002	2003	Thereafter	Total Balance	Fair Value
(Dollars in thousands)								
Rate-Sensitive Assets:								
Interest-earning deposits.....	\$ 49,374	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 49,374	\$ 49,374
Average interest rate	4.49%	--	--	--	--	--	4.49%	
Federal funds sold.....	275,000	--	--	--	--	--	275,000	275,000
Average interest rate	3.57%	--	--	--	--	--	3.57%	
Securities available for sale.....	332,338	85,666	32,514	20,246	22,233	100,350	593,347	593,347
Average interest rate	6.52%	10.26%	16.96%	17.58%	17.79%	17.06%	10.21%	
Loans available for sale(2).....	85,485	13,771	5,683	4,656	3,558	64,694	177,847	177,847
Average interest rate	8.94%	8.95%	8.97%	8.99%	9.01%	9.05%	8.98%	
Investment securities, net.....	--	--	--	--	--	10,825	10,825	10,825
Average interest rate	--	--	--	--	--	--	--	
Loan portfolio, net(2).....	106,341	56,613	30,931	7,577	4,397	24,453	230,312	232,242
Average interest rate	9.87%	9.61%	9.35%	9.11%	8.97%	8.79%	9.58%	
Discount loan portfolio, net.....	447,887	228,740	92,192	62,637	49,582	145,473	1,026,511	1,046,945
Average interest rate	8.46%	8.40%	8.42%	8.46%	8.49%	8.62%	8.46%	
Total rate-sensitive assets.....	\$1,296,425	\$ 384,790	\$ 161,320	\$ 95,116	\$ 79,770	\$345,795	\$2,363,216	\$2,385,580
Rate-Sensitive Liabilities:								
NOW and money market checking deposits	\$ 13,631	\$ 3,860	\$ 3,098	\$ 2,487	\$ 1,997	\$ 8,199	\$ 33,272	\$ 32,901
Average interest rate	3.50%	3.39%	3.38%	3.37%	3.35%	3.28%	3.40%	
Savings deposits.....	277	222	177	142	114	394	1,326	1,259
Average interest rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	
Certificates of deposit.....	976,932	366,658	292,866	197,447	48,873	24,215	1,906,991	1,950,955
Average interest rate	5.64%	5.83%	5.92%	6.12%	5.51%	5.86%	5.78%	
Total interest-bearing deposits..	990,840	370,740	296,141	200,076	50,984	32,808	1,941,589	1,985,115
Securities sold under agreements to repurchase.....	72,051	--	--	--	--	--	72,051	72,051
Average interest rate	7.77%	--	--	--	--	--	7.77%	
Obligations outstanding under lines of credit.....	179,285	--	--	--	--	--	179,285	179,285
Average interest rate	6.85%	--	--	--	--	--	6.85%	
Notes and debentures.....	--	--	--	--	125,000	100,000	225,000	205,750
Average interest rate	--	--	--	--	11.88%	12.00%	11.93%	
Total rate-sensitive liabilities.	\$1,242,176	\$ 370,740	\$ 296,141	\$200,076	\$175,984	\$132,808	\$2,417,925	\$2,442,201

(1) Expected maturities are contractual maturities adjusted for prepayments of principal. The Company uses certain assumptions to estimate fair values and expected maturities. For assets, expected maturities are based upon contractual maturity, projected repayments and prepayments of principal. The prepayment experience reflected herein is based on the Company's historical experience. The Company's average Constant Prepayment Rate ("CPR") is 13.3% and 11.79% on its fixed-rate and adjustable-rate portfolios, respectively, for interest-earning assets (excluding investment securities, which do not have prepayment features). The actual maturities of these instruments could vary substantially if future prepayments differ from the Company's historical experience.

(2) Balances have not been reduced for nonperforming loans.

The Company believes that the broad geographic distribution of its discount loan portfolio, loan portfolio and loans available for sale reduces the risks that would otherwise result from concentrating such loans in limited geographic areas. See Note 6, Note 7 and Note 8 to the Consolidated Financial Statements.

Foreign Currency Exchange Rate Risk Management. The Company uses foreign currency derivatives to hedge its equity investment in Ocwen UK and Kensington ("net investment hedges"). The Company's exposure to foreign currency exchange rates exists with the British Pound versus the U.S. dollar. It is the Company's policy to periodically adjust the amount of foreign currency derivative contracts it has entered into in response to changes in its recorded equity investment in these foreign entities.

On February 25, 1998, the Company entered into a foreign currency swap with a AAA-rated counterparty to hedge its equity investment in Kensington. Under the terms of the agreement, the Company will swap (pound)27.5 million for \$43.5 million in five years based on the exchange rate on the date the contract became effective. On August 6, 1998, the Company also sold short foreign currency futures contracts to further hedge its foreign currency exposure related to its equity investment in Kensington. Under the terms of the currency futures, the Company has the right to receive \$1.5 million and pay (pound)938,000.

During 1998, the Company sold short foreign currency futures to hedge its foreign currency exposure related to its equity investment in Ocwen UK. Under the terms of the currency futures, the Company has the right to receive \$43.8 million and pay (pound)26.6 million. The value of the currency futures is based on quoted market prices.

The Company's net investment hedges and related foreign currency equity investments and net exposures as of December 31, 1998, were as follows. There were no net investment hedges at December 31, 1997:

	Equity Investment	Net Hedges	Net Exposure
	-----	-----	-----
Ocwen UK.....	\$53.8 million	\$43.8 million	\$10.0 million
Kensington.....	\$46.6 million	\$45.1 million	\$ 1.5 million

The net exposures are subject to gain or loss if foreign currency exchange rates fluctuate. See Note 21 to the Consolidated Financial Statements.

Liquidity, Commitments and Off-Balance Sheet Risks

Liquidity is a measurement of the Company's ability to meet potential cash requirements, including ongoing commitments to fund deposit withdrawals, repay borrowings, fund investment, loan acquisition and lending activities and for other general business purposes. The primary sources of funds for liquidity consist of deposits, FHLB advances, reverse repurchase agreements, lines of credit and maturities and payments of principal and interest on loans and securities and proceeds from sales and securitizations thereof. Consistent with the Company's disclosure in its Form 10-Q for the quarter ended September 30, 1998, the Company is continuing its efforts to increase its liquidity position.

Sources of liquidity include certificates of deposit obtained primarily from wholesale sources. At December 31, 1998, the Company had \$1.92 billion of certificates of deposit, including \$1.86 billion of brokered certificates of deposit obtained through national, regional and local investment banking firms, all of which are non-cancelable. At the same date, scheduled maturities of certificates of deposit during the 12 months ending December 31, 1999 and 2000, and thereafter amounted to \$982.9 million, \$381.4 million and \$542.7 million, respectively. Brokered and other wholesale deposits generally are more responsive to changes in interest rates than core deposits and, thus, are more likely to be withdrawn from the Company upon maturity as changes in interest rates and other factors are perceived by investors to make other investments more attractive. Management of the Company believes that it can adjust the rates paid on certificates of deposit to retain deposits in changing interest rate environments and that brokered and other wholesale deposits can be both a relatively cost-effective and stable source of funds. There can be no assurance that this will continue to be the case in the future, however.

Sources of borrowings include FHLB advances, which are required to be secured by single family and/or multi-family residential loans or other acceptable collateral, and reverse repurchase agreements. At December 31, 1998, the Company was eligible to borrow up to an aggregate of \$641.0 million from the FHLB of New York (subject to the availability of acceptable collateral) and had \$31.8 million of single family residential loans and \$5.6 million of multi-family residential loans which could be pledged as security for such advances. At the same date, the Company had contractual relationships with 12 brokerage firms and the FHLB of New York pursuant to which it could obtain funds from reverse repurchase agreements. Additionally, at December 31, 1998, the Company had unrestricted cash and cash equivalents of \$424.8 million, \$344.2 million of short duration CMOs and \$100.2 million of subordinate and residual mortgages which could be used to secure additional borrowings. At present, the Company has no outstanding FHLB advances.

The liquidity of the Company includes lines of credit obtained by OFS to finance its subprime lending as follows: (i) a \$200.0 million secured line of credit, of which \$100.0 million was committed, (ii) a \$50.0 million secured line of credit, all of which was committed, (iii) a \$200.0 million secured line of credit, of which \$100.0 million was committed, (iv) a \$100.0 million secured line of credit, none of which was committed, and (v) a \$20.0 million secured residual line of credit, none of which was committed. The lines of credit mature between March 1999 and July 2001 and bear interest at rates that float in accordance with designated indices. The terms of the line of credit agreements contain, among other provisions, requirements for maintaining certain profitability, defined levels of net worth and debt-to-equity ratios. For the period ended December 31, 1998, OFS obtained a lender's agreement waiving compliance with the maintenance of a profitability covenant for one of OFS' line of credit agreements, with which OFS failed to comply. The agreements also require annual commitment fees to be paid based on the used and unused portion of the facilities, as well as a facility fee based on the total committed amount. Such commitment fees are capitalized and amortized on a straight-line basis over a twelve-month period. An aggregate of \$59.5 million was outstanding to OFS under these lines of credit at December 31, 1998. In addition, the Company has provided a \$30.0 million unsecured, subordinated credit facility to OFS, of which \$30.0 million was outstanding at December 31, 1998.

In connection with the Company's acquisition of substantially all of the assets of Cityscape UK, Ocwen UK, has entered into a Loan Facility Agreement with Greenwich International Ltd. ("Greenwich") under which Greenwich provided a short-term facility to finance the acquisition of Cityscape UK's mortgage loan portfolio (the "Term Loan") and to finance Ocwen UK's further originations and purchase of subprime single family loans (the "Revolving Facility" and together with the Term Loan, the "Greenwich Facility"). The Greenwich Facility is secured by Ocwen UK's loans available for sale. The Revolving Facility, which matures in April 1999, is set at a maximum of \$166.0 million ((pound)100.0 million reduced by the amount borrowed under the Term Loan) of which \$87.1 million ((pound)52.5 million) was funded at December 31, 1998, to finance subprime single family loan originations and bears interest at a rate of the one-month LIBOR plus 1.50%. At December 31, 1998, \$5.6 million ((pound)3.4 million) had been borrowed under the Term Loan, which matured in January 1999. In addition, Ocwen UK has entered into a secured warehouse line of credit with Barclays Bank plc (the "Barclays Facility") to finance subprime single family loan originations. The Barclays Facility, which matures in November 1999 and bears interest at a rate of the one-month LIBOR plus 0.80%, is set at a maximum of \$124.5 million ((pound)75.0 million), against which \$24.6 million ((pound)14.8 million) had been borrowed at December 31, 1998.

The Company believes that its existing sources of liquidity, including internally generated funds, will be adequate to fund planned activities for the foreseeable future, although there can be no assurances in this regard. Moreover, the Company continues to evaluate other sources of liquidity, such as lines of credit from unaffiliated parties, which will enhance the management of its liquidity and the costs thereof.

The Company's operating activities provided \$398.7 million, \$90.2 million and \$63.0 million of cash flows during 1998, 1997 and 1996, respectively. During the foregoing years, cash resources were provided primarily by net income and proceeds from sales of loans available for sale, and cash resources were used primarily to purchase and originate loans available for sale.

The Company's investing activities used cash flows totaling \$314.0 million, \$471.1 million and \$519.9 million during 1998, 1997 and 1996, respectively. During the foregoing years, cash flows from investing activities were provided primarily by principal payments on discount loans and loans held for investment, maturities of and principal payments received on securities available for sale and proceeds from sales of discount loans, securities available for sale and real estate owned. Cash flows from investing activities were primarily utilized to purchase and originate discount loans and loans held for investment and to purchase securities available for sale.

The Company's financing activities provided cash flows of \$208.7 million, \$479.5 million and \$454.5 million during 1998, 1997 and 1996, respectively. Cash flows from financing activities were primarily related to changes in the Company's deposits, issuance of obligations outstanding under lines of credit, issuance of common stock and the Capital Securities in 1997, issuance of the Notes in 1996 and advances from FHLB. Cash flows used by financing activities were primarily utilized to repay advances from the FHLB, reverse repurchase agreements and obligations outstanding under lines of credit.

The Bank is required under applicable federal regulations to maintain specified levels of "liquid" investments in qualifying types of U.S. government, federal agency and other investments having maturities of five years or less. Current OTS regulations require that a savings association maintain liquid assets of not less than 4% of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. Monetary penalties may be imposed for failure to meet applicable liquidity requirements. The Bank's liquidity, as measured for regulatory purposes, averaged 8.34%, 5.6%, 8.8% and 12.9% during the years ended December 31, 1998, 1997, 1996 and 1995, respectively, and amounted to 10.78% at December 31, 1998.

The Bank's ability to make capital distributions pursuant to the OTS capital distribution regulations is limited by the regulatory capital levels which it has committed to the OTS it would maintain, commencing on June 30, 1997. As a result of a verbal agreement between the Bank and the OTS to dividend subordinate and residual mortgage-related securities resulting from securitization activities conducted by the Bank, which had an aggregate fair value of \$13.9 million at December 31, 1998, the Bank may be limited in its ability to pay cash dividends to the Company. The Bank recently received approval from the OTS to pay a \$30.0 million cash dividend to OCN, which the Bank paid to OCN on November 16, 1998. Future cash dividends depend on future operating results of the Bank. See "Regulatory Capital and Other Requirements."

At December 31, 1998, the Company had \$133.5 million of unfunded commitments related to the purchase and origination of loans. Management of the Company believes that the Company has adequate resources to fund all such unfunded commitments to the extent required and that substantially all of such unfunded commitments will be funded during 1998. See Note 28 to the Consolidated Financial Statements. In addition, management of the Company believes it has adequate resources to fund its anticipated employee and facility expansion needs.

In addition to commitments to extend credit, the Company is party to various off-balance sheet financial instruments in the normal course of the Company's business in order to manage its interest rate risk and foreign currency exchange rate. See "Asset and Liability Management" above and Note 21 to the Consolidated Financial Statements.

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

Regulatory Capital and Other Requirements

Federally-insured institutions such as the Bank are required to maintain minimum levels of regulatory capital. These standards generally must be as stringent as the comparable capital requirements imposed on national banks. In addition to regulatory capital requirements of general applicability, a federally-chartered savings association such as the Bank may be required to meet individual minimum capital requirements established by the OTS on a case-by-case basis upon a determination that a savings association's capital is or may become inadequate in view of its circumstances.

Following an examination in late 1996 and early 1997, the Bank committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9% and 13%, respectively. The Bank continues to be in compliance with this commitment as well as the regulatory capital requirements of general applicability, as indicated in Note 25 to the Consolidated Financial Statements. The Bank's core capital, Tier 1 risk-based capital and total risk-based capital ratios at December 31, 1998, were 9.07%, 11.71% and 17.26%, respectively, placing the Bank in the "well-capitalized" category as defined by federal regulations. Based on discussions with the OTS, the Bank believes that this commitment does not affect its status as a "well-capitalized" institution, assuming the Bank's continued compliance with the regulatory capital requirements required to be maintained by it pursuant to such commitment.

Although the above individual regulatory capital requirements have been agreed to by the OTS, there can be no assurance that in the future the OTS will agree to a decrease in such requirements or will not seek to increase such requirements or will not impose these or other individual regulatory capital requirements in a manner which affects the Bank's status as a "well-capitalized" institution under applicable laws and regulations.

Recent Accounting Developments

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

Year 2000 Date Conversion

The Company is in the process of establishing the readiness of its computer systems and applications for the year 2000 with no effect on customers or disruption to business operations. The Company has established a project plan to achieve year 2000 readiness of its mission critical and non-mission critical systems, including hardware infrastructure and software applications. The project plan has a budget of approximately \$2.0 million and is divided into six phases: identification, evaluation, remediation, validation, risk assessment and contingency planning. The addition of risk assessment and contingency planning efforts to the overall project plan accounts for the difference between the \$2.0 million budgeted as of December 31, 1998, and the estimate of \$1.5 million for achieving year 2000 compliance included in the Company's 10-Q for the quarter ended June 30, 1998.

As of December 31, 1998, the Company had expended approximately 66% of budgeted man-hours and incurred costs of approximately \$1.1 million, which included approximately \$115,000 for year 2000 testing tools, additional hardware and outside consulting assistance, while the remainder consisted of labor and overhead expense from within the Company. To date, the Company has substantially completed the systems identification, evaluation, remediation and validation phases of the project, at a cost that was approximately 27% below budget.

In its systems evaluation and validation efforts, the Company has employed automated testing tools that are designed to meet guidelines established by the Federal Financial Institution Examination Council (FFIEC) as required by the OTS. All new application development will include significant year 2000 readiness validation prior to implementation, followed by such end-to-end testing as necessary. During 1999, the Company plans to focus on any remaining validation tasks, including end-to-end testing with third parties. During the second and third quarters of 1999, the Company plans to participate in the Mortgage Banker Association Year 2000 Inter-System Readiness Test with other mortgage industry leaders as a means of coordinating critical end-to-end validation.

As part of the identification and evaluation phases of the project, the Company documented critical operating functions within each business unit, as well as strategic third-party and vendor relationships. These efforts also are serving as the basis of the Company's year 2000 risk assessment and contingency planning efforts. The Company has retained a business continuity expert to prepare contingency plans and assist with the testing and validation of these plans. Until the risk assessment phase is completed, the Company will not know the full extent of the risks associated with year 2000 readiness, including an analysis of the most reasonably likely worst case year 2000 scenario. The Company expects to complete its year 2000 risk assessment and contingency planning efforts during the first half of 1999.

FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS CONTAINED HEREIN ARE NOT, AND CERTAIN STATEMENTS CONTAINED IN FUTURE FILINGS BY THE COMPANY WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION"), IN THE COMPANY'S PRESS RELEASES OR IN THE COMPANY'S OTHER PUBLIC OR SHAREHOLDER COMMUNICATIONS MAY NOT BE, BASED ON HISTORICAL FACTS AND ARE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS, WHICH ARE BASED ON VARIOUS ASSUMPTIONS (SOME OF WHICH ARE BEYOND THE COMPANY'S CONTROL), MAY BE IDENTIFIED BY REFERENCE TO A FUTURE PERIOD(S) OR BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "ANTICIPATE," "BELIEVE," "COMMITMENT," "CONSIDER," "CONTINUE," "COULD," "ENCOURAGE," "ESTIMATE," "EXPECT," "FORESEE," "INTEND," "IN THE EVENT OF," "MAY," "PLAN," "PRESENT," "PROPOSE," "PROSPECT," "UPDATE," "WHETHER," "WILL," "WOULD," FUTURE OR CONDITIONAL VERB TENSES, SIMILAR TERMS, VARIATIONS ON SUCH TERMS OR NEGATIVES OF SUCH TERMS. ALTHOUGH THE COMPANY BELIEVES THE ANTICIPATED RESULTS OR OTHER EXPECTATIONS REFLECTED IN SUCH FORWARD-LOOKING STATEMENTS ARE BASED ON REASONABLE ASSUMPTIONS, IT CAN GIVE NO ASSURANCE THAT THOSE RESULTS OR EXPECTATIONS WILL BE ATTAINED. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE INDICATED IN SUCH STATEMENTS DUE TO RISKS, UNCERTAINTIES AND CHANGES WITH RESPECT TO A VARIETY OF FACTORS, INCLUDING, BUT NOT LIMITED TO, INTERNATIONAL, NATIONAL, REGIONAL OR LOCAL ECONOMIC ENVIRONMENTS (PARTICULARLY IN THE MARKET AREAS WHERE THE COMPANY OPERATES), GOVERNMENT FISCAL AND MONETARY POLICIES (PARTICULARLY IN THE MARKET AREAS WHERE THE COMPANY OPERATES), PREVAILING INTEREST OR CURRENCY EXCHANGE RATES, EFFECTIVENESS OF INTEREST RATE, CURRENCY AND OTHER HEDGING STRATEGIES, LAWS AND REGULATIONS AFFECTING FINANCIAL INSTITUTIONS, REAL ESTATE INVESTMENT TRUSTS, INVESTMENT COMPANIES AND REAL ESTATE (INCLUDING REGULATORY FEES, CAPITAL REQUIREMENTS, INCOME AND PROPERTY TAXATION, ACCESS FOR DISABLED PERSONS AND ENVIRONMENTAL COMPLIANCE), UNCERTAINTY OF FOREIGN LAWS, COMPETITIVE PRODUCTS, PRICING AND CONDITIONS (INCLUDING FROM COMPETITORS THAT HAVE SIGNIFICANTLY GREATER RESOURCES THAN THE COMPANY), CREDIT, PREPAYMENT, BASIS, DEFAULT, SUBORDINATION AND ASSET/LIABILITY RISKS, LOAN SERVICING EFFECTIVENESS, ABILITY TO IDENTIFY ACQUISITIONS AND INVESTMENT OPPORTUNITIES MEETING THE COMPANY'S INVESTMENT STRATEGY, COURSE OF NEGOTIATIONS AND ABILITY TO REACH AGREEMENT WITH RESPECT TO MATERIAL TERMS OF ANY PARTICULAR TRANSACTION, SATISFACTORY DUE DILIGENCE RESULTS, SATISFACTION OR FULFILLMENT OF AGREED UPON TERMS AND CONDITIONS OF CLOSING OR PERFORMANCE, TIMING OF TRANSACTION CLOSINGS, RECENT EFFORTS TO REFOCUS ON CORE BUSINESSES AND INCREASE LIQUIDITY, DISPOSITIONS AND WINDING DOWN OF DISCONTINUED BUSINESSES, ACQUISITIONS AND INTEGRATION OF ACQUIRED BUSINESSES, SOFTWARE INTEGRATION, DEVELOPMENT AND LICENSING, AVAILABILITY OF AND COSTS ASSOCIATED WITH OBTAINING ADEQUATE AND TIMELY SOURCES OF LIQUIDITY, DEPENDENCE ON EXISTING SOURCES OF FUNDING, ABILITY TO REPAY OR REFINANCE INDEBTEDNESS (AT MATURITY OR UPON ACCELERATION), TO MEET COLLATERAL CALLS BY LENDERS (UPON RE-VALUATION OF THE UNDERLYING ASSETS OR OTHERWISE), TO GENERATE REVENUES SUFFICIENT TO MEET DEBT SERVICE PAYMENTS AND OTHER OPERATING EXPENSES AND TO SECURITIZE WHOLE LOANS, TAXABLE INCOME EXCEEDING CASH FLOW, AVAILABILITY OF DISCOUNT LOANS FOR PURCHASE, SIZE OF, NATURE OF AND YIELDS AVAILABLE WITH RESPECT TO THE SECONDARY MARKET FOR MORTGAGE LOANS AND FINANCIAL, SECURITIES AND SECURITIZATION MARKETS IN GENERAL, ALLOWANCES FOR LOAN LOSSES, CHANGES IN REAL ESTATE CONDITIONS (INCLUDING LIQUIDITY, VALUATION, REVENUES, RENTAL RATES, OCCUPANCY LEVELS AND COMPETING PROPERTIES), ADEQUACY OF INSURANCE COVERAGE IN THE EVENT OF A LOSS, KNOWN OR UNKNOWN ENVIRONMENTAL CONDITIONS, YEAR 2000 COMPLIANCE, OTHER FACTORS GENERALLY UNDERSTOOD TO AFFECT THE REAL ESTATE ACQUISITION, MORTGAGE AND LEASING MARKETS, SECURITIES INVESTMENTS AND RAPID GROWTH COMPANIES, AND OTHER RISKS DETAILED FROM TIME TO TIME IN THE COMPANY'S REPORTS AND FILINGS WITH THE COMMISSION, INCLUDING ITS REGISTRATION STATEMENTS ON FORMS S-1 AND S-3 AND PERIODIC REPORTS ON FORMS 10-Q, 8-K AND 10-K. GIVEN THESE UNCERTAINTIES, READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH STATEMENTS. THE COMPANY DOES NOT UNDERTAKE, AND SPECIFICALLY DISCLAIMS ANY OBLIGATION, TO PUBLICLY RELEASE THE RESULT OF ANY REVISIONS THAT MAY BE MADE TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT THE OCCURRENCE OF ANTICIPATED OR UNANTICIPATED EVENTS OR CIRCUMSTANCES AFTER THE DATE OF SUCH STATEMENTS. PLEASE REFER TO EXHIBIT 99.1, RISK FACTORS, INCLUDED WITH THE FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998, AND FILED WITH THE COMMISSION, FOR A DESCRIPTION OF MATERIAL RISKS FACED BY THE COMPANY AND ITS SECURITIES HOLDERS.

REPORT OF MANAGEMENT

The management of Ocwen is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this annual report. The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and include amounts based on management's best estimates and judgments. Nonfinancial information included in this annual report has also been prepared by management and is consistent with the consolidated financial statements. In the opinion of management, the consolidated financial statements fairly reflect the Company's financial position, results of operations and cash flows.

To assure that financial information is reliable and assets are safeguarded, management has established and maintains an effective system of internal accounting controls and procedures that provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets against loss from unauthorized use or disposition and the prevention and detection of errors and irregularities on a timely basis.

PricewaterhouseCoopers LLP conducts its audit of the consolidated financial statements in accordance with generally accepted auditing standards. Such standards include the evaluation of internal accounting controls to establish a basis for developing the scope of its examination of the consolidated financial statements. In addition to the use of independent certified public accountants, the Company maintains a professional staff of internal auditors who conduct financial, procedural and special audits. To ensure their independence, both PricewaterhouseCoopers LLP and the internal auditors have direct access to the Audit Committee of the Board of Directors.

The Audit Committee, which consists solely of independent directors of the Company, makes recommendations to the Board of Directors concerning the appointment of the independent certified public accountants and meets with PricewaterhouseCoopers LLP and the internal auditors to discuss the results of their audits, the Company's internal accounting controls and financial reporting matters.

/s/ WILLIAM C. ERBEY

/s/ MARK S. ZEIDMAN

William C. Erbey
Chairman and Chief Executive Officer

Mark S. Zeidman
Senior Vice President and
Chief Financial Officer

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OCWEN FINANCIAL CORPORATION

PRICEWATERHOUSECOOPERS
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Fort Lauderdale, FL 33301
Telephone (954) 463-6280

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Ocwen Financial Corporation

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, of comprehensive income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Ocwen Financial Corporation (the "Company") and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP
Fort Lauderdale, Florida
January 29, 1999

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in Thousands, Except Share Data)

	December 31, 1998	December 31, 1997
ASSETS:		
Cash and amounts due from depository institutions.....	\$ 120,805	\$ 11,832
Interest earning deposits.....	49,374	140,001
Federal funds sold.....	275,000	--
Securities available for sale, at fair value.....	593,347	476,796
Loans available for sale, at lower of cost or market.....	177,847	177,041
Investment in capital stock of Federal Home Loan Bank, at cost.....	10,825	10,825
Loan portfolio, net.....	230,312	266,299
Discount loan portfolio, net.....	1,026,511	1,434,176
Investments in low-income housing tax credit interests.....	144,164	128,614
Investments in unconsolidated entities.....	86,893	3,526
Real estate owned, net.....	201,551	167,265
Investment in real estate.....	36,860	76,340
Premises and equipment, net.....	33,823	21,542
Income taxes receivable.....	34,333	--
Deferred tax asset.....	66,975	45,148
Excess of purchase price over net assets acquired, net.....	12,706	15,560
Principal, interest and dividends receivable.....	18,993	17,280
Escrow advances on loans.....	88,277	47,888
Other assets.....	99,483	29,032
	\$ 3,308,079	\$ 3,069,165
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits.....	\$ 2,175,016	\$ 1,982,822
Securities sold under agreements to repurchase.....	72,051	108,250
Obligations outstanding under lines of credit.....	179,285	118,304
Notes, debentures and other interest bearing obligations.....	225,000	226,975
Accrued interest payable.....	33,706	32,238
Income taxes payable.....	--	3,132
Accrued expenses, payables and other liabilities.....	61,053	51,709
	2,746,111	2,523,430
	-----	-----
Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company.....	125,000	125,000
Minority interest.....	592	1,043
COMMITMENTS AND CONTINGENCIES (NOTE 28)		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value; 20,000,000 shares authorized; 0 shares issued and outstanding.....	--	--
Common stock, \$.01 par value; 200,000,000 shares authorized; 60,800,357 and 60,565,835 shares issued and outstanding at December 31, 1998, and December 31, 1997, respectively.....	608	606
Additional paid-in capital.....	166,234	164,751
Retained earnings.....	257,170	259,349
Accumulated other comprehensive income, net of taxes:		
Unrealized gain (loss) on securities available for sale.....	14,057	(5,014)
Net unrealized foreign currency translation loss.....	(1,693)	--
	436,376	419,692
	-----	-----
	\$ 3,308,079	\$ 3,069,165
	=====	=====

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Share Data)

	For the years ended December 31,		
	1998	1997	1996
Interest income:			
Federal funds sold and repurchase agreements	\$ 7,930	\$ 8,975	\$ 4,681
Securities available for sale	40,705	29,851	26,932
Securities held for trading	--	248	1,216
Loans available for sale	56,791	18,368	17,092
Loans	38,609	54,701	36,818
Discount loans	160,847	157,649	103,165
Investment securities and other	2,812	2,739	3,990
	-----	-----	-----
	307,694	272,531	193,894
	-----	-----	-----
Interest expense:			
Deposits	116,584	122,070	93,773
Securities sold under agreements to repurchase	6,514	1,000	1,101
Advances from the Federal Home Loan Bank	120	527	4,053
Obligations outstanding under lines of credit	34,587	5,578	--
Notes, debentures and other interest bearing obligations	27,088	27,114	17,233
	-----	-----	-----
	184,893	156,289	116,160
	-----	-----	-----
Net interest income before provision for loan losses	122,801	116,242	77,734
Provision for loan losses	18,509	32,218	22,450
	-----	-----	-----
Net interest income after provision for loan losses	104,292	84,024	55,284
	-----	-----	-----
Non-interest income:			
Servicing fees and other charges	59,180	25,962	4,682
(Loss) gain on interest earning assets, net	(1,594)	82,212	21,682
Gain on real estate owned, net	14,033	7,277	3,827
Other income	39,696	8,498	7,112
	-----	-----	-----
	111,315	123,949	37,303
	-----	-----	-----
Non-interest expense:			
Compensation and employee benefits	115,556	77,573	39,043
Occupancy and equipment	34,878	17,657	8,921
Net operating loss (income) on investments in real estate and certain low-income housing tax credit interests	6,753	4,792	(425)
Amortization and write-off of excess of purchase price over net assets acquired	11,614	557	--
Loan expenses	25,193	7,014	4,111
Other operating expenses	32,400	19,281	17,956
	-----	-----	-----
	226,394	126,874	69,606
	-----	-----	-----
Distributions on Company-obligated, mandatory redeemable securities of subsidiary trust holding solely junior subordinated debentures	13,594	5,249	--
Equity in (losses) earnings of investments in unconsolidated entities	(7,985)	23,688	38,320
	-----	-----	-----
(Loss) income before income taxes	(32,366)	99,538	61,301
Income tax benefit (expense)	30,699	(21,309)	(11,159)
Minority interest in net loss of consolidated subsidiary	467	703	--
	-----	-----	-----
Net (loss) income	\$ (1,200)	\$ 78,932	\$ 50,142
	=====	=====	=====
(Loss) earnings per share:			
Basic	\$ (0.02)	\$ 1.40	\$ 0.99
Diluted	\$ (0.02)	\$ 1.39	\$ 0.94
Weighted average common shares outstanding:			
Basic	60,736,950	56,185,956	50,556,572
Diluted	60,736,950	56,836,484	53,378,882

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

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

	For the years ended December 31,		
	1998	1997	1996
Net (loss) income.....	\$ (1,200)	\$ 78,932	\$ 50,142
Other comprehensive income, net of taxes:			
Unrealized gain (loss) on securities available for sale.....	1,493	(8,500)	4,901
Unrealized foreign currency translation loss	(1,693)	--	--
Less: Reclassification adjustment for losses included in net income.	17,578	--	--
	-----	-----	-----
Other comprehensive income.....	17,378	(8,500)	4,901
	-----	-----	-----
Comprehensive income.....	\$ 16,178	\$ 70,432	\$ 55,043
	=====	=====	=====
Disclosure of reclassification adjustment:			
Unrealized holding losses arising during the year on securities sold	\$ (37,390)		
Add: Adjustment for losses included in net loss.....	54,968		

Net reclassification adjustment for losses recognized in other comprehensive income in prior years.....	\$ 17,578		
	=====		

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996
(Dollars in Thousands)

	Common Stock		Additional paid-in capital	Retained earnings	Accumulated other Comprehensive income net of taxes	Notes receivable on exercise of common stock options	Total
	Shares	Amount					
Balances at December 31, 1995	\$47,624,540	\$ 476	\$ 10,211	\$ 130,275	\$ (1,415)	\$ --	\$ 139,547
Net income	--	--	--	50,142	--	--	50,142
Issuance of common stock	6,140	--	23	--	--	--	23
Repurchase of common stock options ...	--	--	(177)	--	--	--	(177)
Exercise of common stock options	5,857,660	59	12,933	--	--	--	12,992
Notes receivable on exercise of common stock options, net of repayments .	--	--	--	--	--	(3,832)	(3,832)
Change in unrealized gain (loss) on securities, net of taxes	--	--	--	--	4,901	--	4,901
Balances at December 31, 1996	53,488,340	535	22,990	180,417	3,486	(3,832)	203,596
Net income	--	--	--	78,932	--	--	78,932
Issuance of common stock	6,906,198	69	141,934	--	--	--	142,003
Repurchase of common stock options ...	--	--	(3,208)	--	--	--	(3,208)
Exercise of common stock options	171,297	2	3,035	--	--	--	3,037
Notes receivable on exercise of common stock options, net of advances ...	--	--	--	--	--	3,832	3,832
Change in unrealized gain (loss) on securities, net of taxes	--	--	--	--	(8,500)	--	(8,500)
Balances at December 31, 1997	60,565,835	606	164,751	259,349	(5,014)	--	419,692
Net loss	--	--	--	(1,200)	--	--	(1,200)
Conversion of investment in an unconsolidated entity to the equity method	--	--	--	(979)	--	--	(979)
Repurchase of common stock	(318,311)	(3)	(7,769)	--	--	--	(7,772)
Issuance of common stock	320,550	3	7,825	--	--	--	7,828
Repurchase of common stock options ...	--	--	(6,502)	--	--	--	(6,502)
Exercise of common stock options	232,283	2	7,929	--	--	--	7,931
Other comprehensive income, net of taxes:	--	--	--	--	--	--	--
Change in unrealized gain (loss) on securities available for sale	--	--	--	--	19,071	--	19,071
Net unrealized foreign currency translation loss	--	--	--	--	(1,693)	--	(1,693)
Balances at December 31, 1998	\$60,800,357	\$ 608	\$ 166,234	\$ 257,170	\$ 12,364	\$ --	\$ 436,376

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

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

	For the years ended December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net (loss) income	\$ (1,200)	\$ 78,932	\$ 50,142
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Net cash provided (used) by trading activities	109,601	132,600	(60,881)
Proceeds from sales of loans available for sale	1,659,368	519,163	397,606
Purchases of loans available for sale	(370,865)	(278,081)	(295,054)
Origination of loans available for sale	(959,105)	(316,101)	(9,447)
Principal payments received on loans available for sale	82,728	22,240	26,689
Premium amortization (discount accretion), net	56,487	63,506	11,640
Depreciation and amortization	26,229	10,865	7,646
Provision for loan losses	18,509	32,218	22,450
Provision for real estate owned, net	18,627	13,450	18,360
Loss (gain) on interest-earning assets, net	1,594	(82,212)	(21,682)
Loss on sales of premises and equipment	47	1	97
Gain on sale of low-income housing tax credit interests	(7,316)	(6,298)	(4,861)
Gain on real estate owned, net	(43,839)	(30,651)	(22,835)
Gain on sale of real estate held for investment	(10,383)	--	--
Equity in losses (earnings) of unconsolidated entities, net	7,985	(23,688)	(38,320)
Increase in principal, interest and dividends receivable	(1,713)	(459)	(2,277)
(Increase) decrease in income taxes receivable	(37,465)	18,247	(14,110)
(Increase) decrease in deferred tax asset	(21,827)	(39,288)	16,403
Increase in escrow advances	(40,389)	(20,479)	(6,255)
Increase in other assets	(84,137)	(27,916)	(12,037)
Increase (decrease) in accrued expenses, interest payable and other liabilities	(4,257)	24,118	(226)
Net cash provided (used) by operating activities	398,679	90,167	63,048
Cash flows from investing activities:			
Proceeds from sales of securities available for sale	269,828	202,670	175,857
Purchases of securities available for sale	(914,232)	(415,822)	(233,858)
Maturities of and principal payments received on securities available for sale	359,525	46,084	28,756
Maturities of and principal payments received on securities held for investment	--	--	10,006
Purchase of securities held for investment	--	(42,166)	(276)
Acquisition of subsidiaries	(426,096)	(11,635)	--
Purchase of low-income housing tax credit interests	(49,063)	(54,573)	(34,240)
Proceeds from sales of low-income housing tax credit interests	37,918	22,026	24,667
Proceeds from sales of discount loans	626,423	500,151	190,616
Proceeds from sale of real estate held for investment	47,644	14,905	--
Proceeds from sales of loans held for investment	--	2,384	14,883
Purchase and originations of loans held for investment, net of undisbursed loan funds	(188,716)	(138,884)	(237,525)
Purchase of discount loans	(938,859)	(1,464,611)	(925,850)
(Increase) decrease in investment in unconsolidated entities	(70,190)	90,541	(29,589)
Principal payments received on loans held for investment	227,349	291,998	119,923
Principal payments received on discount loans	446,566	382,781	244,205
Purchase of and capital improvements to real estate held for investment	--	(39,844)	(29,946)
Proceeds from sale of real estate owned	301,485	196,180	169,084
Purchase of real estate owned in connection with discount loan purchase	(19,949)	(38,486)	(1,628)
Additions to premises and equipment	(23,680)	(13,745)	(5,243)
Other, net	--	--	227
Net cash (used) provided by investing activities	(314,047)	(470,046)	(519,931)

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

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

	For the years ended December 31,		
	1998	1997	1996
Cash flows from financing activities:			
Increase in deposits	192,194	63,080	414,728
Increase (decrease) in securities sold under agreements to repurchase	(36,199)	33,704	(10,215)
Proceeds from issuance of notes, debentures and other interest-bearing obligations, net of repayment	--	1,402	125,000
Proceeds from issuance of obligations under lines of credit	60,981	118,304	--
Payments of obligations assumed in connection with acquisition of subsidiary	--	(3,000)	--
Payment of debt issuance costs	--	--	(5,252)
Payments on advances from Federal Home Loan Bank	--	(399)	(146,000)
Payments on notes and mortgages payable	(1,975)	--	(8,798)
Repayments (originations) of loans made to executive officers, net	--	3,832	(3,832)
Exercise of common stock options	7,931	3,037	12,993
Advances from the Federal Home Loan Bank	--	--	76,000
Proceeds from issuance of Capital Trust Securities	--	125,000	--
Payment of Capital Trust Securities issuance costs	--	(4,262)	--
Issuance of shares of common stock, net	56	142,003	--
Repurchase of common stock options	(6,502)	(3,208)	(177)
Repurchase of common stock	(7,772)	--	--
Other	--	--	23
Net cash provided by financing activities	208,714	479,493	454,470
Net increase (decrease) in cash and cash equivalents	293,346	99,614	(2,413)
Cash and cash equivalents at beginning of period	151,833	52,219	54,632
Cash and cash equivalents at end of period	\$ 445,179	\$ 151,833	\$ 52,219
Reconciliation of cash and cash equivalents at end of period:			
Cash and amounts due from depository institutions	\$ 120,805	\$ 11,832	\$ 6,878
Interest-earning deposits	49,374	140,001	13,341
Federal funds sold and repurchase agreements	275,000	--	32,000
	\$ 445,179	\$ 151,833	\$ 52,219
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	\$ 183,424	\$ 148,895	\$ 115,051
Income taxes	\$ 36,754	\$ 28,228	\$ 4,725
Supplemental schedule of non-cash investing and financing activities:			
Real estate owned acquired through foreclosure	\$ 280,522	\$ 205,621	\$ 102,140
Exchange of discount loans and loans available for sale for securities	\$ 2,125,080	\$ 897,358	\$ 375,621
Transfer of securities for sale to investment in unconsolidated entities	\$ 35,158	\$ --	\$ --
Acquisition of businesses:			
Fair value of assets acquired	\$ 449,420	\$ 15,052	\$ --
Liabilities assumed	15,069	3,399	--
Less stock issued	(7,772)	--	--
Cash paid	426,579	11,653	--
Less cash acquired	(483)	(18)	--
Net cash paid for assets acquired	\$ 426,096	\$ 11,635	\$ --

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

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

Ocwen Financial Corporation ("OCN" or the "Company") is a specialty financial services company whose primary business activities consist of single family, small commercial and large commercial discount loan acquisition and resolution commercial real estate lending activities, subprime single family residential lending mortgage loans serviced for others, investments in a wide variety of mortgage-related securities and investments in low-income housing tax credit interests. The Company's consolidated financial statements include the accounts of OCN and its subsidiaries. The Company owns directly and indirectly all of the outstanding common and preferred stock of its primary subsidiaries, Ocwen Federal Bank FSB (the "Bank"), Investors Mortgage Insurance Holding Company ("IMI"), Ocwen UK plc ("Ocwen UK") and Ocwen Technology Xchange, Inc. ("OTX"). The Company also owns 97.8% of Ocwen Financial Services, Inc. ("OFS"), with the remaining 2.2% owned by owners (and their spouses) of Admiral Home Loan ("Admiral") and is reported in the consolidated financial statements as a minority interest. All significant intercompany transactions and balances have been eliminated in consolidation.

The consolidated financial statements of the Company's foreign subsidiary, Ocwen UK, and its equity investee, Norland Capital Group plc, doing business as Kensington Mortgage Company ("Kensington"), have been prepared in accordance with accounting principles generally accepted in the United Kingdom ("U.K. GAAP"). U.K. GAAP varies in certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"). The principal adjustment made to conform to U.S. GAAP was to recognize a gain on sale of interest-earning assets in connection with the securitization of single family subprime residential mortgage loans and record the residual security retained at fair value.

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

RECLASSIFICATION

Certain amounts included in the 1997 and 1996 consolidated financial statements have been reclassified in order to conform to the 1998 presentation.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

SHORT-TERM HIGHLY LIQUID INVESTMENTS

The Company's short-term highly liquid investments generally consist of federal funds sold and assets purchased under agreements to resell. The Company invests in these assets to maximize its return on liquid funds. At December 31, 1998, such investments amounted to \$275,000 of federal funds sold which had an overnight maturity. The Company had no such short-term highly liquid investments at December 31, 1997. The average investment in federal funds sold and assets purchased under agreements to resell amounted to \$149,441, \$163,671 and \$84,997 during 1998, 1997 and 1996, respectively.

The Bank is required by the Federal Reserve System to maintain non-interest-earning cash reserves against certain of its transaction accounts and time deposit accounts. Such reserves totaled \$5,557 and \$895 at December 31, 1998 and 1997, respectively.

TRADING ACTIVITIES

From time to time, the Company purchases investment and mortgage-backed and related securities into its trading account. In addition, securities acquired and sold shortly thereafter resulting from the securitization of loans available for sale are accounted for as the sale of loans and the purchase and sale of trading securities. Securities held for trading purposes are carried at fair value with the unrealized gains or losses included in gains on sales of interest-earning assets, net.

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SECURITIES AVAILABLE FOR SALE

Certain mortgage-related securities are designated as assets available for sale because the Company does not intend to hold them to maturity. Securities available for sale are carried at fair value with the net unrealized gains or losses reported as a separate component of accumulated comprehensive income in stockholders' equity. At disposition, the realized net gain or loss is included in earnings on a specific identification basis. The amortization of premiums and accretion of discounts are computed using the interest method after considering actual and estimated prepayment rates, if applicable. Actual prepayment experience is periodically reviewed and effective yields are recalculated when differences arise between prepayments originally anticipated and amounts actually received plus anticipated future prepayments.

On a quarterly basis the Company evaluates each individual security in its available for sale portfolio to determine whether a decline in value below amortized cost has occurred which is other than temporary. In making this assessment, the Company considers several factors, including but not limited to the following:

- (1) Determining whether the present value of estimated future cash flows discounted at a risk-free rate (the rate on monetary assets of a comparable duration which are essentially risk free, such as the three-month Treasury bill rate) is less than the amortized cost basis of the instrument;
- (2) Examining whether the duration of the decline in market value has exceeded six consecutive months; and
- (3) Identifying and understanding the reasons for significant declines in value (i.e., greater than 20%).

For each security where the Company concludes that all or a portion of the decrease in value is other than temporary, such amount is charged to earnings, thereby establishing a new cost basis for the security.

Investments in marketable equity securities not accounted for under the equity method are designated as available for sale and are carried at fair value based on quoted market prices. Net unrealized gains or losses are reported as a separate component of accumulated comprehensive income in stockholders' equity. Unrealized losses on securities that reflect a decline in value which is other than temporary, if any, are charged to earnings.

LOAN AVAILABLE FOR SALE AND HELD FOR INVESTMENT

Loans originated or purchased by the Company which the Company presently does not intend to hold to maturity are designated as loans available for sale upon origination or purchase and are stated at the lower of cost, after considering deferred loan fees and costs, or aggregate market value. Unrealized losses are recorded as a reduction in earnings and are included under the caption "(Loss) gain on interest-earning assets" in the consolidated statements of operations. Loan origination fees and certain direct loan origination costs are deferred and included in the carrying value. Upon the sale of a loan, any unamortized deferred loan fees, net of costs, are included in the gain or loss on sale of interest earning assets. Gains and losses on disposal of such loans are computed on a specific identification basis.

Loans held for investment are stated at amortized cost, less an allowance for loan losses, discount, deferred loan fees and undisbursed loan funds. To qualify for this treatment, the Company must have both the ability and the intent to hold such loans to maturity. Loan origination fees and certain direct loan origination costs are deferred and recognized over the lives of the related loans as a yield adjustment and included in interest income using the interest method applied on a loan-by-loan basis.

Interest income is accrued as it is earned. Loans are placed on non-accrual status after being delinquent greater than 89 days, or earlier if the borrower is deemed by management to be unable to continue performance. When a loan is placed on non-accrual status, interest accrued but not received is reversed. Loans are returned to accrual status only when the loan is reinstated and ultimate collectibility is no longer in doubt. In addition, the amortization of deferred loan fees is suspended when a loan is placed on nonaccrual status.

ALLOWANCE FOR ESTIMATED LOAN LOSSES ON LOAN PORTFOLIO

The allowance for estimated loan losses is maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for potential losses. Specific valuation allowances are established for impaired loans in the amount by which

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the carrying value, before allowance for estimated losses, exceeds the fair value of collateral less costs to dispose on an individual loan basis, except for single family residential mortgage loans and consumer loans which are generally evaluated for impairment as homogeneous pools of loans. The Company considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. The Company measures these impaired loans at the fair value of the loans' underlying collateral less estimated disposal costs. Impaired loans may be left on accrual status during the period the Company is pursuing repayment of the loan. These loans are placed on non-accrual status at such time that the loans either: (i) become 90 days delinquent; or (ii) the Company determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment. Impairment losses are recognized through an increase in the allowance for loan losses and a corresponding charge to the provision for loan losses. When an impaired loan is either sold, transferred to real estate owned ("REO") or charged off, any related valuation allowance is removed from the allowance for loan losses. Charge-offs occur when loans, or a portion thereof, are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. Valuation allowances are also established for the inherent risks in the loan portfolio which have occurred but have yet to be specifically identified. Management's periodic evaluation of the allowance for estimated loan losses is based upon an analysis of the portfolio, historical loss experience, economic conditions and trends, collateral values and other relevant factors. Future adjustments to the allowance may be necessary if economic conditions and trends, collateral values and other relevant factors differ substantially from the assumptions used in making the evaluation.

DISCOUNT LOAN PORTFOLIO

Certain mortgage loans, for which the borrower is not current as to principal and interest payments or for which there is a reason to believe the borrower will be unable to continue to make its scheduled principal and interest payments, are acquired at a discount. The Company accounts for its initial investment in a pool of loans based upon the pricing methodologies used to bid on the pool. The acquisition cost is allocated to each loan within the pool when the bid price was determined based upon an analysis of the expected future cash flows of each individual loan. The acquisition cost is accounted for in the aggregate when the bid price was determined using assumptions concerning the expected future cash flows from groups of loans within the pool. Prior to January 1, 1997, the discount associated with all single family residential loans was recognized as a yield adjustment and accreted into interest income using the interest method applied on a loan-by-loan basis once foreclosure proceedings are initiated, to the extent the timing and amount of cash flows could be reasonably determined. Effective January 1, 1997, the Company ceased accretion of discount on its nonperforming discount single family residential loans. For those single family residential mortgage loans which are brought current by the borrower and certain multi-family and commercial real estate loans which are current and which the Company believes will remain current, the remaining unamortized discount is accreted into interest income as a yield adjustment using the interest method over the contractual maturity of the loan. For all other loans, interest is reported as cash is received. Gains on the repayment and discharging of loans are reported as interest income. In situations where the collateral is foreclosed upon, the loans are transferred to real estate owned upon receipt of title to the property and accretion of the related discount is discontinued.

The Company periodically evaluates loans in the discount loan portfolio for impairment. Individually identified impaired loans are measured based on either the present value of payments expected to be received (using a discount rate equating the Company's estimate of expected future cash flows to the acquisition price), observable market prices, or the estimated fair value of the collateral (for loans that are solely dependent on the collateral for repayment). If the recorded investment in the impaired loan exceeds the measure of estimated fair value, a valuation allowance is established as a component of the allowance for loan losses.

REAL ESTATE OWNED

Properties acquired through foreclosure are valued at the lower of the adjusted cost basis of the loan or fair value less estimated costs of disposal of the property at the date of foreclosure. Properties held are periodically re-evaluated to determine that they are being carried at the lower of cost or fair value less estimated costs to dispose. Sales proceeds and related costs are recognized with passage of title to the buyer and, in cases where the Company finances the sale, receipt of sufficient down payment. Rental income related to properties is reported as income as earned. Holding and maintenance costs related to properties are reported as period costs as incurred. No depreciation expense related to properties has been recorded. Decreases in market value of foreclosed real estate subsequent to foreclosure are recognized as a valuation allowance on a property specific basis. Subsequent increases in market value of the foreclosed real estate are reflected as reductions in the valuation allowance, but not below zero. Such changes in the valuation allowance are charged or credited to income.

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VALUATION ALLOWANCES ON DISCOUNT LOANS AND REAL ESTATE OWNED

The Company records valuation allowances on discount loans and real estate owned to reflect the inherent losses which have occurred but have yet to be specifically identified. Management has established the valuation allowances based upon historical loss experience, economic conditions and trends, collateral values and other relevant factors. The Company records losses and charge-offs on discount loans against the allowance for loan losses.

MORTGAGE SERVICING RIGHTS

In connection with the securitization and sale of loans, the Company generally retains the rights to service such loans for investors. On January 1, 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 122, "Accounting for Mortgage Servicing Rights." SFAS No. 122 was superseded, for transactions recorded after December 31, 1996, by SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" which the Company adopted on January 1, 1997. Both SFAS No. 122 and SFAS No. 125 require the recognition of a servicing asset or liability and other retained interests as an allocation of the carrying amount of the assets sold between the asset sold and the servicing obligation and other retained interests based on the relative fair value of the assets sold to the interests retained. The resulting mortgage servicing asset or liability is amortized in proportion to and over the period of estimated net servicing income or loss. The Company evaluates the mortgage servicing asset for impairment based on the fair value of the servicing asset. The Company estimates fair values by discounting servicing asset cash flows using discount and prepayment rates that it believes market participants would use.

The Company receives fees from investors for servicing mortgage loans. Servicing fees, generally expressed as a percent of the unpaid principal balance, are collected from the borrowers' payments. During any period in which the borrower is not making payments, the Company is required under certain servicing agreements to advance its own funds to meet contractual principal and interest remittance requirements for certain investors, maintain property taxes and insurance, and process foreclosures. The Company generally recovers such advances from borrowers for reinstated and performing loans and from investors for foreclosed loans.

INVESTMENT IN REAL ESTATE

Investment in real estate is recorded at cost less accumulated depreciation (which is less than the net realizable value of the property) and relates primarily to properties held for lease. The Company reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements.....	40 years
Land improvements	20 years
Furniture, fixtures and equipment..	5-10 years

Expenditures for repairs and maintenance are charged to operations as incurred. Significant improvements are capitalized. The leases are classified as operating leases in accordance with SFAS No. 13 "Accounting for Leases." Fees and costs incurred in the successful negotiation of leases are deferred and amortized on a straight-line basis over the terms of the respective leases. Rental income is reported on a straight-line basis over the terms of the respective leases.

In conjunction with its multi-family and commercial lending business activity, the Company made certain acquisition, development and construction loans in which the Company participated in the residual profits of the underlying real estate and the borrower had not contributed substantial equity to the project. As such, the Company accounted for these loans under the equity method of accounting as though it has made an investment in a real estate limited partnership. All such loans were repaid during 1998 and no new loans were originated.

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INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS

Low-income housing tax credit partnerships own multi-family residential properties which have been allocated tax credits under the Internal Revenue Code. The obligations of the partnership to sustain qualifying status of the properties covers a 15-year period; however, tax credits accrue over a 10-year period on a straight-line basis. Investments by the Company in low-income housing tax credit partnerships made on or after May 18, 1995, in which the Company invests solely as a limited partner, are accounted for using the equity method in accordance with the consensus of the Emerging Issues Task Force through issue number 94-1. For the Company's limited partnership investments made prior to this date, the Company records its receipt of income tax credits and other tax benefits on a level yield basis over the 15-year obligation period and reports the tax credits and tax benefits net of amortization of its investment in the limited partnership as a reduction of income tax expense. Low-income housing tax credit partnerships in which the Company has invested as a limited partner, and through which a subsidiary acts as the general partner, are consolidated and included in the Company's consolidated financial statements. For all investments in low-income housing tax credit partnerships made after May 18, 1995, the Company capitalizes interest expense and certain direct costs incurred during the pre-operating period.

EXCESS OF COST OVER NET ASSETS ACQUIRED

The excess of purchase price over net assets of acquired businesses is stated at cost and is amortized on a straight-line basis over the estimated future periods to be benefited, not to exceed 15 years. The carrying value of cost in excess of net assets acquired is reviewed for impairment whenever events or changes in circumstances indicate that it may not be recoverable. If such an event occurred, the Company would prepare projections of expected cash flows for the remaining amortization period. If such projections indicated that the cost in excess of net assets acquired would not be recoverable, the Company's carrying value of such asset would be reduced by the estimated excess of such value over projected income. The results of operations of acquired companies are included in the consolidated statements of operations beginning with the acquisition date.

PREMISES AND EQUIPMENT

Premises and equipment are carried at cost and, except for land, are depreciated over their estimated useful lives on the straight-line method. The estimated useful lives of the related assets range from three to 10 years.

CAPITALIZED SOFTWARE COSTS

The Company's policy is to capitalize certain costs attributable to developing, modifying and enhancing its software revenue products in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Costs incurred up to the establishment of technological feasibility are expensed as research and development expenses. Once the products are made available for general release to customers, capitalized costs are amortized using the straight-line method over the estimated economic lives of the individual products. The unamortized costs by product are reduced to an amount not to exceed the future net realizable value by product at each financial statement date.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest and foreign currency exchange rates. While these hedging instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged. The Company does not hold any derivative financial instruments for trading purposes. To qualify for hedge accounting, the asset or liability to be hedged must be specifically identified and expose the Company to interest rate or currency risk, and must eliminate or substantially reduce the risk of loss from the asset or liability being hedged. If the derivative financial instrument fails or ceases to qualify for hedge accounting, it is accounted for at fair value with changes in fair value recorded in earnings in the consolidated statements of operations.

The Company enters into foreign currency futures contracts and foreign currency swap agreements to hedge its equity investments in Ocwen UK and Kensington. It is the Company's policy to periodically adjust the amount of foreign currency derivative contracts it has entered into in response to changes in its recorded equity investment in these foreign entities. The unamortized discount related to foreign currency swaps and the values of financial hedge instruments are included as a component of comprehensive income in stockholders' equity.

The Company manages its exposure to interest rate movements by seeking to match asset and liability balances within maturity categories, both directly and through the use of derivative financial instruments. These derivative instruments include interest rate swaps ("swaps") and interest rate futures

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contracts that are designated and effective as hedges, as well as swaps that are designated and effective in modifying the interest rate and/or maturity characteristics of specified assets or liabilities.

The net interest received or paid on swaps is reflected as interest income or expense of the related hedged position. Gains and losses resulting from the termination of swaps are recognized over the shorter of the remaining contract lives of the swaps or the lives of the related hedged positions or, if the hedged positions are sold, are recognized in the current period as gains on sales of interest-earning assets, net. Gains and losses on futures contracts are deferred and amortized over the terms of the related assets or liabilities and reflected as interest income or expense of the related hedged positions. If the hedged positions are sold, any unamortized deferred gains or losses on futures contracts are recognized in the current period as gains on sales of interest-earning assets, net. Interest rate contracts are measured at fair value.

FOREIGN CURRENCY TRANSLATION

The Company has determined that the functional currency of Ocwen UK and the Company's equity investment in Kensington is the British Pound. In accordance with SFAS No. 52, "Foreign Currency Translation," assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange existing at the statement of financial condition date and revenues and expenses are translated at average monthly rates. The resulting translation adjustments are included as a component of accumulated comprehensive income in stockholders' equity.

INCOME TAXES

The Company files consolidated Federal income tax returns with its subsidiaries. Consolidated income tax is allocated among the subsidiaries participating in the consolidated returns as if each subsidiary of the Company, which has one or more subsidiaries, filed its own consolidated return.

The Company accounts for income taxes using the asset and liability method which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Additionally, deferred taxes are adjusted for subsequent tax rate changes.

INVESTMENT IN UNCONSOLIDATED ENTITIES

The Company's investments in unconsolidated entities are accounted for under the equity method of accounting. Under the equity method of accounting, an investment in the shares or other interests of an investee is initially recorded at the cost of the shares or interests acquired and thereafter is periodically increased (decreased) by the investor's proportionate share of the earnings (losses) of the investee and decreased by all dividends received by the investor from the investee.

BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated based upon the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share is calculated based upon the weighted average number of shares of common stock outstanding and all dilutive potential common shares outstanding during the year. The computation of diluted earnings per share includes the impact of the exercise of the outstanding options to purchase common stock and assumes that the proceeds from such issuance are used to repurchase common shares at fair value. Common stock equivalents would be excluded from the diluted calculation if a net loss was incurred for the period as they would be antidilutive.

COMPREHENSIVE INCOME

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. SFAS No. 130 requires that comprehensive income be presented beginning with net income, adding the elements of comprehensive income not included in the determination of net income, to arrive at comprehensive income. Accumulated other comprehensive income is presented net of income taxes and is comprised of unrealized gains and losses on securities available for sale, and unrealized foreign currency translation gains and losses.

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RISKS AND UNCERTAINTIES

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

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near or medium term relate to the determination of the allowance for losses on loans and discount loans.

CURRENT ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 128, "Earnings per Share." SFAS No. 128 simplifies the standards found in Accounting Principles Board Opinion ("APB") No. 15 for computing earnings per share ("EPS") and makes them comparable to international standards. Under SFAS No. 128, the Company is required to present both basic and diluted EPS on the face of its statements of operations. Basic EPS, which replaces primary EPS required by APB No. 15 for entities with complex capital structures, excludes common stock equivalents and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS gives effect to all dilutive potential common shares that were outstanding during the period. SFAS No. 128 is effective for financial statements for both interim and annual periods ending after December 15, 1997, with earlier application not permitted. The Company adopted SFAS No. 128 effective December 31, 1997. All prior period EPS data have been restated.

In February 1997, the FASB also issued SFAS No. 129, "Disclosure of Financial Information About Capital Structure." SFAS No. 129 supersedes capital structure disclosure requirements found in previous accounting pronouncements and consolidates them into one statement for ease of retrieval and greater visibility for non-public entities. These disclosures are required for financial statements for periods ending after December 15, 1997. As SFAS No. 129 makes no changes to previous accounting pronouncements as those pronouncements applied to the Company, the adoption of SFAS No. 129 had no impact on the Company's results of operations and financial condition.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires the inclusion of comprehensive income, either in a separate statement for comprehensive income, or as part of a combined statement of income and comprehensive income in a full-set of general-purpose financial statements. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. SFAS No. 130 requires that comprehensive income be presented beginning with net income, adding the elements of comprehensive income not included in the determination of net income, to arrive at comprehensive income. SFAS No. 130 also requires that an enterprise display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the statement of financial position. SFAS No. 130 is effective for the Company's fiscal year beginning January 1, 1998. SFAS No. 130 requires the presentation of information already contained in the Company's financial statements and therefore did not have an impact on the Company's financial position or results of operation upon adoption.

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In June 1997, the FASB also issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the reporting of information about operating segments by public business enterprises in their annual and interim financial reports issued to shareholders. SFAS No. 131 requires that a public business enterprise report financial and descriptive information, including profit or loss, certain specific revenue and expense items, and segment assets, about its reportable operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. SFAS No. 131 is effective for financial statements for periods beginning after December 15, 1997. SFAS No. 131 is a disclosure requirement and therefore did not have an effect on the Company's financial position or results of operations upon adoption.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative and hedging activities and supersedes and amends a number of existing standards. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition. The gain or loss recognition is determined on the intended use and resulting designation of the financial instruments as follows:

- o Gains or losses on derivative instruments not designated as hedging instruments are recognized in the period of change in fair value.
- o Gains or losses on derivative instruments designated as hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment are recognized in earnings in the period of the fair value change, together with the offsetting fair value loss or gain on the hedged item.
- o Gains or losses on derivative instruments designated as hedging exposure to variable cash flows arising from a forecasted transaction are initially reported, to the extent the fair value change is offset by the change in the forecasted cash flows, as a component of other comprehensive income. The portion of the change in fair value in excess of the offsetting change in forecasted cash flows is reported in earnings in the period of the change.
- o Gains or losses on derivative instruments designated as foreign currency hedges of net investments in foreign operations are reported in other comprehensive income as part of the foreign currency translation adjustment.

SFAS No. 133 precludes the use of nonderivative financial instruments as hedging instruments, except that nonderivative financial instruments denominated in a foreign currency may be designated as a hedge of the foreign currency exposure of an unrecognized firm commitment denominated in a foreign currency or a net investment in a foreign operation.

Under SFAS No. 133, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk.

SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Initial application of SFAS No. 133 should be as of the beginning of an entity's fiscal quarter; on that date, hedging relationships must be designated anew and documented pursuant to the provisions of SFAS No. 133. Earlier application of SFAS No. 133 is encouraged but is permitted only as of the beginning of any fiscal quarter that begins after issuance of SFAS No. 133. The Company has not yet adopted SFAS No. 133 nor has it determined the impact on the results of operations, financial position or cash flows as a result of implementing SFAS No. 133.

In October 1998, the FASB issued SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" as an amendment of SFAS No. 65, "Accounting for Certain Mortgage Banking Activities." SFAS No. 65 establishes accounting and reporting standards for certain activities of mortgage banking enterprises and other enterprises that conduct operations that are substantially similar to the primary operations of a mortgage banking enterprise. SFAS No. 65, as amended by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," requires that after the securitization of a mortgage loan held for sale, an entity engaged in mortgage banking activities classifies the resulting mortgage-backed security as a trading security. SFAS No. 134 further amends SFAS No. 65 to require that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classifies the resulting mortgage-backed securities

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or other retained interests based on its ability and intent to sell or hold those investments. SFAS No. 134 conforms the subsequent accounting for securities retained after the securitization of mortgage loans by a mortgage banking enterprise with the subsequent accounting for securities retained after the securitization of other types of assets by a nonmortgage banking enterprise. SFAS No. 134 is effective for the first fiscal quarter beginning after December 15, 1998. Early application is encouraged and is permitted as of October 1998. The Company adopted SFAS No. 134 effective October 31, 1998, which did not have a material impact on the Company's financial position or results of operations upon adoption.

NOTE 2: ACQUISITION AND DISPOSITION TRANSACTIONS

On May 5, 1998, the Company, through IMI, acquired 1,473,733 partnership units of Ocwen Partnership L.P. ("OPLP") for \$24,508. This purchase was in addition to the 160,000 units owned at December 31, 1997, and the 175,000 units acquired on February 17, 1998, for which the Company exchanged shares of Ocwen Asset Investment Corp. ("OAC") stock, increasing the total number of units owned by IMI to 1,808,733 or 8.71% of the total partnership units outstanding at December 31, 1998. OPLP is the operating partnership subsidiary of OAC. OAC specializes in the acquisition and management of real estate and mortgage assets and is managed by Ocwen Capital Corporation ("OCC"), a wholly-owned subsidiary of OCN. At December 31, 1998, the Company also owned 1,540,000 or 8.12% of the outstanding common stock of OAC. Combined equity in the losses of the Company's investments in OPLP and OAC amounted to \$8,701 in 1998.

On April 24, 1998, the Company, through its wholly-owned subsidiary Ocwen UK, acquired substantially all of the assets, and certain liabilities, of the United Kingdom ("UK") operations of Cityscape Financial Corp. ("Cityscape UK"). The acquisition was accounted for as a purchase. The Company acquired Cityscape UK's mortgage loan portfolio and its residential subprime mortgage loan origination and servicing businesses for \$421,326 ((pound)249,571) and assumed \$12,393 ((pound)7,341) of Cityscape UK's liabilities. The excess of net assets acquired over the purchase price (negative goodwill) related to this transaction was applied to reduce non-current assets, primarily fixed assets.

On February 25, 1998, the Company purchased 36.07% of the total outstanding common stock of Kensington for \$45,858 ((pound)27,837). This investment is accounted for under the equity method. The acquisition was accounted for as a purchase. The excess of the purchase price over the net investment, which amounted to \$34,492 ((pound)20,933) net of accumulated amortization of \$2,029 ((pound)1,192) at December 31, 1998, is being amortized on a straight-line basis over a period of 15 years and is included under the caption "Investment in unconsolidated entities" in the consolidated statements of financial condition.

On January 20, 1998, the Company acquired DTS Communications, Inc. ("DTS"), a real estate technology company located in San Diego, California, for a purchase price of \$13,025 in cash, common stock of the Company and repayment of certain indebtedness. The acquisition was accounted for as a purchase. DTS has developed technology tools to automate real estate transactions. DTS has been recognized by Microsoft Corporation for the Microsoft(R) component-based architecture to facilitate electronic data interchange. The common stock of the Company issued in the acquisition was acquired from affiliates of the Company at the same price per share as was used to calculate the number of shares issued in the acquisition. The excess of purchase price over net assets acquired related to this transaction, which amounted to \$7,584 net of accumulated amortization of \$505 at December 31, 1998, is being amortized on a straight-line basis over a period of 15 years. DTS is a wholly-owned subsidiary of OTX.

During 1997, the Company consolidated its subprime single family lending operations within OFS in connection with its acquisition of substantially all of the assets of Admiral in a transaction which closed on May 1, 1997. The excess of purchase price over net assets acquired related to this transaction, which amounted to \$10,826, net of accumulated amortization of \$504 at December 31, 1997, was deemed impaired and therefore written off during 1998.

On November 6, 1997, the Company acquired AMOS, Inc. ("AMOS"), a Connecticut-based company engaged primarily in the development of mortgage loan servicing software. The acquisition was accounted for as a purchase. AMOS' products are Microsoft(R) Windows(R)-based, have client/server architecture and feature real-time processing, are designed to be year 2000 compliant, feature a scalable database platform and have strong workflow capabilities. The aggregate purchase price was \$9,718, including \$4,815 which is contingent on AMOS meeting certain software development performance criteria. The excess of purchase price over net assets acquired related to this transaction, which amounted to \$5,122 net of accumulated amortization of \$389 at December 31, 1998, is being amortized on a straight-line basis over a period of 15 years. AMOS is a wholly-owned subsidiary of OTX.

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On December 12, 1997, BCBF, L.L.C., (the "LLC"), a limited liability company formed in March 1996 between the Company and BlackRock Capital Finance L.P. ("BlackRock") distributed all of its assets to the Company and its other 50% investor, BlackRock. Simultaneously, the Company acquired BlackRock's portion of the distributed assets.

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair values reflected below are indicative of the interest rate environments as of December 31, 1998 and 1997, and do not take into consideration the effects of interest rate fluctuations. In different interest rate environments, fair value results can differ significantly, especially for certain fixed-rate financial instruments and non-accrual assets. In addition, the fair values presented do not attempt to estimate the value of the Company's fee generating businesses and anticipated future business activities. In other words, they do not represent the Company's value as a going concern. Furthermore, the differences between the carrying amounts and the fair values presented may not be realized.

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

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

CASH AND CASH EQUIVALENTS

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

SECURITIES AVAILABLE FOR SALE

The Company adjusts its securities portfolio to fair value at the end of each month based upon the lower of dealer quotations or internal values, subject to an internal review process. For those securities which do not have an available market quotation, the Company will request market values and underlying assumptions from the various securities dealers that underwrote, are currently financing the securities, or have had prior experience with the type of security to be valued. When quotations are obtained from two or more dealers, the average dealer quote is utilized.

LOANS AND DISCOUNT LOANS

The fair value of performing loans is estimated based upon quoted market prices for similar whole loan pools. The fair value of nonperforming loans is based on estimated cash flows discounted using a rate commensurate with the risk associated with the estimated cash flows. The fair value of the discount loan portfolio is estimated based upon current market yields at which recent pools of similar mortgages have traded taking into consideration the timing and amount of expected cash flows.

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LOW-INCOME HOUSING TAX CREDIT INTERESTS

The fair value of the investments in low-income housing tax credit interests is estimated by discounting the future tax benefits expected to be realized from these investments using discount rates at which similar investments were being made on or about the respective financial statement dates.

DEPOSITS

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

BORROWINGS

The fair value of the Company's notes and debentures and capital securities are based upon quoted market prices. The fair value of the Company's other borrowings, including securities sold under agreements to repurchase and obligations outstanding under lines of credit, approximate carrying value.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of an interest rate swap is the estimated amount that the Company would receive or pay to terminate the swap at the reporting date taking into account interest rates and the creditworthiness of the swap counterparties on or about the respective financial statement dates. Market quotes are used to estimate the fair value of interest rate futures contracts. The fair value of a currency swap is calculated as the notional amount of the swap multiplied by the difference between the spot rate at the date of inception and the spot rate at the financial statement date.

LOAN COMMITMENTS

The fair value of loan commitments is estimated considering the difference between interest rates on or about the respective financial statement dates and the committed rates.

REAL ESTATE OWNED

Real estate, although not a financial instrument, is an integral part of the Company's business. The fair value of real estate is estimated based upon appraisals, broker price opinions and other standard industry valuation methods, less anticipated selling costs.

The carrying amounts and the estimated fair values of the Company's financial instruments and real estate owned are as follows:

	December 31, 1998		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS:				
Cash and cash equivalents	\$ 445,179	\$ 445,179	\$ 151,833	\$ 151,833
Securities available for sale	593,347	593,347	476,796	476,796
Loans available for sale	177,847	177,847	177,041	184,884
Investment securities	10,825	10,825	10,825	10,825
Loan portfolio, net	230,312	232,242	266,299	281,850
Discount loan portfolio, net	1,026,511	1,046,945	1,434,176	1,657,222
Investments in low-income housing tax credit interests	144,164	158,521	128,614	151,130
Real estate owned, net	201,551	245,471	167,265	212,443
FINANCIAL LIABILITIES:				
Deposits	2,175,016	2,218,542	1,982,822	2,024,857
Securities sold under agreements to repurchase..	72,051	72,051	108,250	108,250
Obligations outstanding under lines of credit ..	179,285	179,285	118,304	118,304
Notes, debentures and other interest-bearing Obligations	225,000	205,750	226,975	255,538
Capital securities	125,000	97,500	125,000	135,313
OTHER:				
Loan commitments	133,489	133,489	182,095	182,095

NOTE 4: SECURITIES HELD FOR TRADING

The Company traded assets totaling \$2,250,831, \$1,023,965 and \$373,723 in aggregate sales proceeds during the years ended December 31, 1998, 1997 and 1996, respectively, primarily in connection with the Company's securitizations of loans, resulting in realized net gains of \$109,601, \$72,214 and \$14,645 for the years ended December 31, 1998, 1997 and 1996, respectively. The Company held no securities for trading at December 31, 1998 or 1997.

NOTE 5: SECURITIES AVAILABLE FOR SALE

The amortized cost, fair value and gross unrealized gains and losses on the Company's securities and loans available for sale are as follows at the periods ended:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	-----	-----	-----	-----
DECEMBER 31, 1998				
Mortgage-related securities				
Single family residential:				
AAA-rated collateralized mortgage obligations.	\$ 343,686	\$ 552	\$ (39)	\$ 344,199
BB-rated subordinates.....	8,517	--	--	8,517
B-rated subordinates.....	6,344	--	--	6,344
Unrated subordinates.....	37,872	2,723	--	40,595
AAA-rated subprime residuals (1).....	6,178	753	--	6,931
BBB-rated subprime residuals (1).....	15,681	1,912	--	17,593
Unrated subprime residuals (1).....	141,526	11,425	--	152,951
	-----	-----	-----	-----
	559,804	17,365	(39)	577,130
	-----	-----	-----	-----
Multi-family and commercial:				
B-rated subordinates.....	7,684	1,290	(161)	8,813
Unrated subordinates.....	4,126	3,340	(135)	7,331
AAA-rated interest-only.....	71	--	--	71
BB-rated interest-only.....	--	2	--	2
	-----	-----	-----	-----
	11,881	4,632	(296)	16,217
	-----	-----	-----	-----
	\$ 571,685	\$ 21,997	\$ (335)	\$ 593,347
	=====	=====	=====	=====

(1) Includes subprime residuals with a total fair value of \$87,334 ((pound)51,274) and amortized cost of \$73,615 ((pound)44,354) relating to Ocwen UK.

One security in the available for sale portfolio, with a fair value of \$9,929 is pledged as collateral to the State of New Jersey in connection with the Bank's sales of certificates of deposit over \$100 to New Jersey municipalities. Additionally, certain mortgage-related securities are pledged as collateral for securities sold under agreements to repurchase (see Note 16).

The amortized cost of mortgage-related securities at December 31, 1998, was net of unaccreted (discounts) and unamortized premiums of \$(65,546).

A profile of the maturities of securities available for sale at December 31, 1998, follows. Mortgage-backed securities are included based on their weighted-average maturities, reflecting anticipated future prepayments based on consensus of dealers in the market.

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	Amortized Cost	Fair Value
Due within one year.....	\$ 328,551	\$ 332,338
Due after 1 through 5 years.....	151,625	160,659
Due after 5 through 10 years.....	55,780	61,615
Due after 10 years.....	35,729	38,735
	-----	-----
	\$ 571,685	\$ 593,347
	=====	=====

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
DECEMBER 31, 1997:				
Mortgage-related securities:				
Single family residential:				
AAA-rated collateralized mortgage obligations..	\$ 160,347	\$ 195	\$ (91)	\$ 160,451
FHLMC interest-only.....	73,214	219	(8,688)	64,745
FNMA interest-only.....	71,215	829	(12,329)	59,715
GNMA interest-only.....	35,221	--	(5,455)	29,766
AAA-rated interest-only.....	14,700	19	(856)	13,863
BB-rated subordinates.....	2,496	19	--	2,515
Unrated subordinates.....	34,041	5,922	(744)	39,219
Unrated subprime residuals.....	42,977	552	(1,739)	41,790
Swaps.....	--	--	(94)	(94)
	-----	-----	-----	-----
	434,211	7,755	(29,996)	411,970
	-----	-----	-----	-----
Multi-family and commercial:				
B-rated subordinates.....	7,585	927	--	8,512
Unrated subordinates.....	6,106	1,325	(636)	6,795
AAA-rated interest-only.....	2,002	1,056	--	3,058
BB-rated interest-only.....	165	24	--	189
	-----	-----	-----	-----
	15,858	3,332	(636)	18,554
	-----	-----	-----	-----
Marketable equity securities:				
Common stocks.....	38,545	9,638	(1,911)	46,272
	-----	-----	-----	-----
	\$ 488,614	\$ 20,725	\$ (32,543)	\$ 476,796
	=====	=====	=====	=====

Common stocks at December 31, 1997, were comprised primarily of the Company's investment in OAC. At December 31, 1997, the Company, through IMI, owned 1,715,000 shares or 9.04% of the outstanding common stock of OAC. On May 5, 1998, IMI purchased an additional 1,473,733 units of OPLP, OAC's operating partnership subsidiary, increasing its combined ownership of OAC and OPLP to 16.83%. As a result of this increase in ownership, the Company began accounting for its investments in OAC and OPLP under the equity method. See Note 9. The Company's other common stock investment at December 31, 1997, was sold during 1998.

A profile of the maturities of mortgage-related securities at December 31, 1997, follows. Mortgage-backed securities are included based on their weighted-average maturities, reflecting anticipated future prepayments based on consensus of dealers in the market.

	Amortized Cost	Fair Value
Due within one year.....	\$ 120,839	\$ 120,700
Due after 1 through 5 years.....	246,204	223,873
Due after 5 through 10 years....	79,322	81,655
Due after 10 years.....	3,704	4,296
	-----	-----
	\$ 450,069	\$ 430,524
	=====	=====

Gross realized gains and losses, proceeds on sales, premiums amortized against and discounts accreted to income were as follows during the periods ended December 31:

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Securities	1998	1997	1996
Gross realized gains	\$ 9,082	\$ 9,637	\$ 4,323
Gross realized losses	(957)	(3,591)	(3,757)
Net realized gains (losses) (1) ..	\$ 8,125	\$ 6,046	\$ 566
Proceeds on sales	\$ 269,828	\$ 202,670	\$ 175,857
Net premium amortization	\$ 56,487	\$ 66,285	\$ 20,247

(1) Excludes impairment charges of \$129,714 incurred during 1998 related to AAA-rated agency interest-only securities, subordinates and subprime residual securities.

NOTE 6: LOANS AVAILABLE FOR SALE

The following table sets forth the composition of the Company's loans available for sale by type of loan at the December 31:

	Carrying Value	
	1998	1997
Loan type:		
Single family residential	\$ 177,578	\$ 176,554
Consumer	269	487
Total loans available for sale.....	\$ 177,847	\$ 177,041

The loans available for sale portfolio is secured by mortgages on property located throughout the United States and the United Kingdom. The following table sets forth the five states or countries in which the largest amount of properties securing the Company's loans available for sale were located at December 31, 1998:

	Single family Residential	Consumer	Total
U.K. (1).....	\$ 87,644	\$ --	\$ 87,644
California.....	20,960	--	20,960
New Jersey.....	10,806	--	10,806
Florida.....	10,635	108	10,743
Illinois.....	7,455	--	7,455
Other (2).....	40,078	161	40,239
Total.....	\$ 177,578	\$ 269	\$ 177,847

(1) Represents loans originated by Ocwen UK with a carrying value of (pound) 52,808.

(2) Consists of properties located in 40 other states, none of which aggregated over \$6,180 in any one state.

The following table presents a summary of the Company's nonperforming loans (loans which were past due 90 days or more) in the loans available for sale portfolio at December 31:

	1998	1997
Nonperforming loans:		
Single family.....	\$ 39,415	\$ 13,509
Consumer.....	9	25
	\$ 39,424	\$ 13,534
Nonperforming loans as a percentage of:		
Total loans available for sale.....	22.17%	7.64%
Total assets.....	1.19%	0.44%

NOTE 7: LOAN PORTFOLIO

The Company's loan portfolio consisted of the following at December 31:

	Carrying Value	
	1998	1994
Loan type:		
Single family residential	\$ 30,361	\$ 46,226
Multi-family residential:		
Permanent	53,311	38,105
Construction	22,288	33,277
Total multi-family residential	75,599	71,382
Commercial real estate:		

Commercial real estate:

Hotel:		
Permanent	29,735	64,040
Construction	6,896	25,322
Office	93,068	68,759
Land	2,266	2,858
Other	6,762	16,094
	-----	-----
Total commercial real estate	138,727	177,073
	-----	-----
Consumer	132	244
	-----	-----
Total loans	244,819	294,925
Undisbursed loan funds	(7,099)	(22,210)
Unaccreted discount	(2,480)	(2,721)
Allowance for loan losses	(4,928)	(3,695)
	-----	-----
Loans, net	\$ 230,312	\$ 266,299
	=====	=====

At December 31, 1998, the Company had \$3,582 of single family residential loans and \$3,645 of multi-family residential loans outstanding, at market interest rates and terms, which were issued to facilitate the sale of the Company's real estate owned and real estate held for development.

Included in the loan portfolio at December 31, 1998 and 1997, was \$12,297 and \$88,954, respectively, of loans in which the Company participated in the residual profits of the underlying real estate. The Company records any residual profits as part of interest income when received.

The following table presents a summary of the Company's nonperforming loans, allowance for loan losses and significant ratios at and for the years ended December 31:

	1998	1997	1996
	-----	-----	-----
Nonperforming loans:			
Single family residential.....	\$ 1,169	\$ 1,575	\$ 2,123
Multi-family residential.....	7,392	7,583	106
Commercial real estate and other.....	488	--	55
	-----	-----	-----
	\$ 9,049	\$ 9,158	\$ 2,284
	=====	=====	=====
Allowance for loan losses:			
Balance, beginning of year.....	\$ 3,695	\$ 3,523	\$ 1,947
Provision for loan losses.....	891	325	1,872
Charge-offs.....	(219)	(153)	(296)
Recoveries.....	561	--	--
	-----	-----	-----
Balance, end of year.....	\$ 4,928	\$ 3,695	\$ 3,523
	=====	=====	=====
Significant ratios:.....			
Nonperforming loans as a percentage of: Loans	3.81%	3.36%	0.56%
Total assets.....	0.27%	0.30%	0.09%
Allowance for loan losses as a percentage of Loans	2.07%	1.35%	0.87%
Nonperforming loans.....	54.46%	40.35%	154.25%

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If non-accrual loans had been current in accordance with their original terms, interest income for the years ended December 31, 1998, 1997 and 1996, would have been greater by approximately \$284, \$515 and \$214, respectively. No interest has been accrued on loans greater than 89 days past due.

At and for the years ended December 31, 1998 and 1997, the Company had no investment in impaired loans as defined in accordance with SFAS No. 114, and as amended by SFAS No. 118.

The loan portfolio is secured by mortgages on property located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing the Company's loans were located at December 31, 1998.

	Single Family Residential	Multi-family Residential	Commercial Real Estate	Consumer	Total
New York.....	\$ 1,554	\$ 23,042	\$ 27,663	\$ 55	\$ 52,314
New Jersey.....	19,679	6,875	3,219	14	29,787
Florida.....	177	--	27,686	--	27,863
Texas.....	1,710	7,372	3,122	--	12,204
California.....	268	6,358	4,523	--	11,149
Other.....	6,973	31,952	72,514	63	111,502
Total.....	\$ 30,361	\$ 75,599	\$ 138,727	\$ 132	\$ 244,819

NOTE 8: DISCOUNT LOAN PORTFOLIO

The Company has acquired, through private sales and auctions, mortgage loans at a discount because the borrowers are either not current as to principal and interest payments or there is doubt as to the borrowers' ability to pay in full the contractual principal and interest. The Company estimates the amounts it will realize through foreclosure, collection efforts or other resolution of each loan and the length of time required to complete the collection process in determining the amounts it will bid to acquire such loans.

The resolution alternatives applied to the discount loan portfolio are: (i) the borrower brings the loan current in accordance with original or modified terms; (ii) the borrower repays the loan or a negotiated amount; (iii) the borrower agrees to a deed-in-lieu of foreclosure, in which case it is classified as real estate owned and held for sale by the Company and (iv) the Company forecloses on the loan and the property is either acquired at the foreclosure sale by a third-party or by the Company, in which case it is classified as real estate owned and held for sale. The Company periodically reviews the discount loan portfolio performance to ensure that nonperforming loans are carried at the lower of amortized cost or net realizable value of the underlying collateral and the remaining unaccreted discount is adjusted accordingly. Upon receipt of title to the property, the loans are transferred to real estate owned.

The Company's discount loan portfolio consists of the following at December 31:

	Carrying Value	
	1998	1997
Loan type:		
Single family residential.....	\$ 597,100	\$ 900,817
Multi-family residential.....	244,172	191,302
Commercial real estate.....	449,010	701,035
Other.....	10,144	1,865
Total discount loans.....	1,300,426	1,795,019
Unaccreted discount.....	(252,513)	(337,350)
Allowance for loan losses.....	(21,402)	(23,493)
Discount loans, net.....	\$ 1,026,511	\$ 1,434,176

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The following table sets forth the payment status at December 31 of the loans in the Company's gross discount loan portfolio:

	December 31, 1998		December 31, 1997	
	Principal Amount	% of Loans	Principal Amount	% of Loans
Loans without Forbearance Agreements:				
Current.....	\$ 578,269	44.47%	\$ 670,115	37.33%
Past due 31 to 89 days.....	35,555	2.73	21,098	1.18
Past due 90 days or more.....	509,838	39.21	638,319	35.56
Acquired and servicing not yet transferred....	57,048	4.39	28,053	1.56
Subtotal.....	1,180,710	90.80	1,357,585	75.63
Loans with Forbearance Agreements:				
Current.....	1,180	0.09	3,140	0.18
Past due 31 to 89 days.....	4,046	0.31	1,688	0.09
Past due 90 days or more (1) (2).....	114,490	8.80	432,606	24.10
Subtotal.....	119,716	9.20	437,434	24.37
Total.....	\$ 1,300,426	100.00%	\$ 1,795,019	100.00%

(1) Includes \$110,072 of loans which were less than 90 days past due under the terms of the forbearance agreements at December 31, 1998, of which \$77,893 were current and \$32,179 were past due 31 to 89 days.

(2) Includes \$316,347 of loans which were less than 90 days past due under the terms of the forbearance agreements at December 31, 1997, of which \$184,526 were current and \$131,821 were past due 31 to 89 days.

A summary of income on discount loans is as follows for the years ended December 31:

	1998	1997	1996
Interest income:			
Realized.....	\$ 160,847	\$ 157,649	\$ 97,174
Accreted and unrealized.....	--	--	5,991
	\$ 160,847	\$ 157,649	\$ 103,165
Gains on sales:			
Realized gains on sales.....	\$ 12,609	\$ 4,215	\$ 7,393
Proceeds on sales.....	\$ 626,423	\$ 500,151	\$ 190,616

Proceeds and gains on sales of discount loans exclude non-cash proceeds related to the exchange of discount loans for securities in connection with the Company's securitization activities (see Note 4).

The following table sets forth the activity in the Company's gross discount loan portfolio during the years ended December 31:

	1998	1997	1996
Principal balance at beginning of year....	\$ 1,795,019	\$ 1,314,399	\$ 943,529
Acquisitions.....	1,123,727	1,776,773	1,110,887
Resolutions and repayments.....	(539,353)	(484,869)	(371,228)
Loans transferred to real estate owned....	(382,904)	(292,412)	(138,543)
Sales.....	(696,063)	(518,872)	(230,246)
Principal balance at end of year.....	\$ 1,300,426	\$ 1,795,019	\$ 1,314,399

The discount loan portfolio is secured by mortgages on property located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing the Company's discount loans were located at December 31, 1998:

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	Single Family Residential	Multi-Family Residential	Commercial Real Estate and Other	Total
California.....	\$ 87,850	\$ 26,391	\$ 97,395	\$ 211,636
New York.....	71,076	8,506	64,381	143,963
Illinois.....	25,310	74,186	11,662	111,158
Michigan.....	8,527	65,808	30,513	104,848
New Jersey.....	71,233	2,903	10,270	84,406
Other.....	333,104	66,378	244,933	644,415
Total.....	\$ 597,100	\$ 244,172	\$ 459,154	\$ 1,300,426

The following schedule presents a summary of the Company's allowance for loan losses and significant ratios for its discount loans at and for the years ended December 31:

	1998	1997	1996
ALLOWANCE FOR LOAN LOSSES:			
Balance at beginning of year.....	\$ 23,493	\$ 11,538	\$ --
Provision for loan losses.....	17,618	31,894	20,578
Charge-offs.....	(20,130)	(20,349)	(9,216)
Recoveries.....	421	410	176
Balance at end of year.....	\$ 21,402	\$ 23,493	\$ 11,538
SIGNIFICANT RATIOS:			
Allowances for loan losses as a percentage of discount loan portfolio, net of discount.....	2.04%	1.61%	1.08%
Net charge-offs as a percentage of average discount loans.....	1.53%	1.55%	1.34%

NOTE 9: INVESTMENT IN UNCONSOLIDATED ENTITIES

At December 31, 1997, the Company, through IMI, owned 1,715,000 shares or 9.04% of the outstanding common stock of OAC. Also at December 31, 1997, the Company, through IMI, owned 160,000 units or 0.84% of the partnership units of OPLP, the operating partnership subsidiary of OAC. On February 17, 1998, IMI exchanged 175,000 shares of OAC stock for 175,000 OPLP units. On May 5, 1998, IMI acquired an additional 1,473,733 OPLP units. As a result of this activity, IMI's investment in OAC stock declined to 1,540,000 shares or 8.12% at December 31, 1998, while its investment in OPLP increased to 1,808,733 units or 8.71%. The Company began accounting for these entities under the equity method effective May 5, 1998 upon the increase in the combined ownership of OAC and OPLP to 16.83%. An adjustment to reduce retained earnings in the amount of \$979 (net of income taxes of \$526) was recorded upon conversion to the equity method to reflect the cumulative effect of the accounting change. The Company's investment in OAC stock amounted to \$16,268 at December 31, 1998. The Company's investment in OAC stock at December 31, 1997, was designated as available for sale and carried at a fair value of \$35,158 (\$25,519 cost). The Company's investment in OPLP units amounted to \$22,820 at December 31, 1998, as compared to \$2,381 at December 31, 1997. During 1998, the Company recorded equity in the losses of its investment in OAC and OPLP of \$4,007 and \$4,694, respectively. At December 31, 1998, the Company's investment in OAC stock was pledged as collateral on obligations outstanding under a line of credit.

The Company's investment in unconsolidated entities at December 31, 1998, includes 36.07% of the total outstanding common stock of Kensington, a leading originator of non-conforming residential mortgages in the U.K., purchased on February 25, 1998, for \$45,858 ((pound)27,837). The Company's investment in Kensington amounted to \$46,586 at December 31, 1998, net of the excess of the purchase price over the net investment. The excess of the purchase price over the net investment amounted to \$34,492 ((pound)20,933) at December 31, 1998, net of accumulated amortization of \$2,029 ((pound)1,192), and is amortized over a period of 15 years. During 1998, the Company recorded equity in earnings of Kensington of \$439, net of the \$2,029 amortization of excess cost over purchase price.

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On December 12, 1997, the LLC distributed all of its assets. The Company's equity in earnings of the LLC of \$23,688 and \$38,320 for the years ended December 31, 1997 and 1996, respectively, includes 50% of the net income of the LLC before deduction of the Company's 50% share of loan servicing fees which are paid 100% to the Company. Equity in earnings for 1997 also includes the recapture of \$5,114 of valuation allowances established in 1996 by the Company on its equity investment in the joint venture as a result of the resolution and securitization of loans. Equity in earnings for 1996 includes a provision for losses on the Company's equity investment in the joint venture of \$7,614. The Company has recognized 50% of the loan servicing fees not eliminated in consolidation in servicing fees and other charges. Because the LLC was a pass-through entity for federal income tax purposes, provisions for income taxes were established by each of the Company and its co-investor, and not the LLC.

Set forth below are the statements of operations of the LLC for the periods indicated.

BCBF, L.L.C.
STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 1997	For the Period March March 13, 1996 through December 31, 1996
	-----	-----
Interest income.....	\$ 8,928	\$ 38,647
Interest expense.....	--	18,503
	-----	-----
Net interest income.....	8,928	20,144
	-----	-----
Non-interest income:		
Gain on sale of loans held for sale.....	27,994	71,156
Gain on sale of loan servicing rights.....	--	1,048
Loss on real estate owned, net.....	(93)	(130)
Loan fees.....	23	50
	-----	-----
	27,924	72,124
Operating expenses:		
Loan servicing fees.....	1,850	5,743
Other loan expenses.....	13	273
	-----	-----
	1,863	6,016
	-----	-----
Net income.....	\$ 34,989	\$ 86,252
	=====	=====

In October 1996, the LLC securitized 9,825 loans with an unpaid principal balance of \$419,382, past due interest of \$86,131 and a net book value of \$394,234. Proceeds from sales of the related securities by the LLC amounted to \$466,806. In March 1997, as part of a larger transaction involving the Company and an affiliate of BlackRock, the LLC securitized 1,196 loans with an unpaid principal balance of \$51,714, past due interest of \$14,209 and a net book value of \$40,454. Proceeds from the sale of the related securities amounted to \$58,866. In December 1997, as part of a larger transaction involving the Company and BlackRock, the LLC securitized 534 loans with an unpaid principal balance of \$26,644, past due interest of \$8,303 and a net book value of \$20,139. Proceeds from the sale of the related securities amounted to \$30,178.

The Company's investment in unconsolidated entities also includes a joint venture investment in BCFL, L.L.C. ("BCFL"), a limited liability corporation formed in January 1997 between the Company and BlackRock. The Company owns a 10% interest in BCFL which was formed to acquire multi-family loans. At December 31, 1998 and 1997, the Company's investment amounted to \$1,133 and \$1,056, respectively. Equity in earnings of BCFL amounted to \$277 during 1998.

NOTE 10: REAL ESTATE OWNED

Real estate owned, net of allowance for losses, is held for sale and were provided from the following portfolios at December 31:

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	1998	1997
	-----	-----
Discount loan portfolio:		
Single family residential.....	\$ 94,641	\$ 76,409
Multi-family residential.....	20,130	16,741
Commercial real estate.....	82,591	71,339
	-----	-----
Total discount loan portfolio.....	197,362	164,489
Loan portfolio.....	227	357
Loans available for sale.....	3,962	2,419
	-----	-----
	\$ 201,551	\$ 167,265
	=====	=====

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

	1998	1997	1996
	-----	-----	-----
Balance at beginning of year.....	\$ 12,346	\$ 11,493	\$ 4,606
Provision for losses.....	18,626	13,450	18,360
Charge-offs and sales.....	(15,647)	(12,597)	(11,473)
	-----	-----	-----
Balance at end of year.....	\$ 15,325	\$ 12,346	\$ 11,493
	=====	=====	=====

The following table sets forth the results of the Company's investment in real estate owned, which were primarily related to the discount loan portfolio, during the years ended December 31:

	1998	1997	1996
	-----	-----	-----
Gains on sales.....	\$ 43,839	\$ 30,651	\$ 22,835
Provision for losses.....	(18,626)	(13,450)	(18,360)
Carrying costs, net.....	(11,180)	(9,924)	(648)
	-----	-----	-----
	\$ 14,033	\$ 7,277	\$ 3,827
	=====	=====	=====

NOTE 11: INVESTMENT IN REAL ESTATE

The Company's investment in real estate consisted of the following at December 31:

	1998	1997
	-----	-----
Loans accounted for as investments in real estate:		
Multi-family residential.....	\$ --	\$ 61,967
Nonresidential.....	--	2,369
	-----	-----
	\$ --	\$ 64,336
	-----	-----
Properties held for lease:		
Land and land improvements, (net of accumulated depreciation of \$3 and \$0, respectively)....	5,170	3,477
Building, (net of accumulated depreciation of \$115 and \$0, respectively).....	26,011	2,156
Other (net of accumulated amortization of \$170 and \$0, respectively).....	1,701	814
	-----	-----
	32,882	6,447
	-----	-----
Other investments in real estate:		
Land.....	--	3,921
Nonresidential.....	3,978	1,636
	-----	-----
	3,978	5,557
	-----	-----
	\$ 36,860	\$ 76,340
	=====	=====

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NOTE 12: MORTGAGE SERVICING

The Company services for other investors mortgage loans which it does not own. The total amount of such loans serviced for others was \$10,592,467 and \$5,509,819 at December 31, 1998 and 1997, respectively. Servicing fee income on such loans amounted to \$45,559, \$22,056 and \$2,414 for the years ended December 31, 1998, 1997 and 1996, respectively.

The unamortized balance of mortgage servicing rights, which are included in other assets, is as follows at December 31:

	1998	1997
	-----	-----
Unamortized balance.....	\$ 8,690	\$ 7,369
Valuation allowance.....	(1,630)	(1,630)
	-----	-----
	\$ 7,060	\$ 5,739
	=====	=====

NOTE 13: INVESTMENTS IN LOW INCOME HOUSING TAX CREDIT INTERESTS

The carrying value of the Company's investments in low-income housing tax credit interests are as follows at December 31:

	1998	1997
	-----	-----
Investments solely as a limited partner made prior to May 18, 1995	\$ 19,607	\$ 31,418
Investments solely as a limited partner made on or after May 18, 1995	56,299	47,153
Investments both as a limited and, through subsidiaries, as a general partner.	68,258	50,043
	-----	-----
	\$144,164	\$128,614
	=====	=====

The qualified affordable housing projects underlying the Company's investments in low-income housing tax credit interests are geographically located throughout the United States. At December 31, 1998, the Company's largest single investment was \$9,965, which related to a project located in Racine, Wisconsin.

Income on the Company's limited partnership investments made prior to May 18, 1995 is recorded under the level yield method as a reduction of income tax expense, and amounted to \$4,650, \$6,846 and \$8,144 for the years ended December 31, 1998, 1997 and 1996, respectively. Had these investments been accounted for under the equity method, net income would have been reduced by \$1,113, \$665 and \$2,194 for the years ended December 31, 1998, 1997 and 1996, respectively. For limited partnership investments made after May 18, 1995, and for investments as a limited and, through subsidiaries, as a general partner, the Company recognized tax credits of \$13,017, \$8,035 and \$1,186 for the years ended December 31, 1998, 1997 and 1996, respectively, and recorded a loss of \$6,905, \$4,935 and \$636 from operations on the underlying real estate after depreciation for the years ended December 31, 1998, 1997 and 1996, respectively.

Included in other income for the years ended December 31, 1998, 1997 and 1996, are gains of \$7,366, \$6,053 and \$4,861, respectively, on the sales of certain investments in low-income housing tax credit interests which had carrying values of \$28,887, \$15,728 and \$19,806, respectively, at time of sale.

NOTE 14: PREMISES AND EQUIPMENT

Premises and equipment at December 31 are summarized as follows:

	1998	1997
	-----	-----
Land and land improvements.....	\$ 4,782	\$ 773
Leasehold improvements.....	9,062	7,664
Office and computer equipment.....	44,828	28,675
Construction in progress.....	951	--
Less accumulated depreciation and amortization.....	(25,800)	(15,570)
	-----	-----
	\$ 33,823	\$ 21,542
	=====	=====

Occupancy and equipment expenses include depreciation expense of \$11,703, \$6,821 and \$4,547 for 1998, 1997 and 1996, respectively. Construction in progress represents the construction costs incurred in connection with the nationwide customer service and collection facility currently under construction in Orlando, Florida.

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NOTE 15: DEPOSITS

The Company's deposits consist of the following at December 31:

	1998			1997		
	Weighted Average Rate	Percent Book Value	Weighted of Total Deposits	Percent Average Rate	Book Value	of Total Deposits
Non-interest-bearing deposits.....	--%	\$ 233,427	10.7%	--%	\$ 130,372	6.6%
NOW and money market checking accounts.....	3.40	33,272	1.5	4.73	27,624	1.4
Savings accounts.....	2.30	1,326	0.1	2.30	1,664	0.1
		268,025	12.3		159,660	8.1
Certificates of deposit.....		1,916,548			1,834,899	
Unamortized deferred fees.....		(9,557)			(11,737)	
	5.78	1,906,991	87.7	6.00	1,823,162	91.9
Total deposits.....	5.18	\$ 2,175,016	100.0%	5.95	\$ 1,982,822	100.0%

At December 31, 1998 and 1997, certificates of deposit, exclusive of unamortized deferred fees, include \$1,856,902 and \$1,777,586, respectively, of deposits originated through national, regional and local investment banking firms which solicit deposits from their customers, all of which are non-cancelable. Additionally, at December 31, 1998 and 1997, \$100,463 and \$133,738, respectively, of certificates of deposit were issued on an uninsured basis. Of the \$100,463 of uninsured deposits at December 31, 1998, \$47,858 were from political subdivisions in New Jersey and are secured or collateralized as required under state law. Non-interest bearing deposits include \$213,116 and \$96,518 of advance payments by borrowers for taxes, insurance and principal and interest collected but not yet remitted in accordance with loan servicing agreements at December 31, 1998 and 1997, respectively.

The contractual maturity of the Company's certificates of deposit at December 31, 1998, follows:

CONTRACTUAL REMAINING MATURITY:

Within one year.....	\$ 976,808
Within two years.....	366,607
Within three years.....	292,871
Within four years.....	197,493
Within five years.....	48,879
Thereafter.....	24,333

	\$ 1,906,991
	=====

The amortization of the deferred fees of \$6,353, \$6,619 and \$5,384 for the years ended December 31, 1998, 1997 and 1996, respectively, is computed using the interest method and is included in interest expense on certificates of deposit. The interest expense by type of deposit account is as follows for the years ended December 31:

	1998	1997	1996
NOW accounts and money market checking.....	\$ 1,434	\$ 1,220	\$ 620
Savings	38	49	78
Certificates of deposit.....	115,112	120,801	93,075
	-----	-----	-----
	\$ 116,584	\$ 122,070	\$ 93,773
	=====	=====	=====

Accrued interest payable on deposits amounted to \$22,687 and \$21,967 at December 31, 1998 and 1997, respectively.

NOTE 16: SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company periodically enters into sales of securities under agreements to repurchase the same securities ("reverse repurchase agreements"). Fixed coupon reverse repurchase agreements with maturities of three months or less are treated as financings, and the obligations to repurchase securities sold are

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reflected as a liability in the accompanying consolidated statements of financial condition. All securities underlying reverse repurchase agreements are reflected as assets in the accompanying consolidated statements of financial condition and are held in safekeeping by broker/dealers.

	December 31,		
	1998	1997	1996
OTHER INFORMATION CONCERNING SECURITIES			
SOLD UNDER AGREEMENTS TO REPURCHASE:			
Balance at end of year (1).....	\$ 72,051	\$ 108,250	\$ 74,546
Accrued interest payable at end of year.....	\$ 214	\$ 306	\$ 12
Weighted average interest rate at end of year...	7.95%	6.06%	5.46%
Average balance during the year.....	\$ 104,980	\$ 16,717	\$ 19,581
Weighted average interest rate during the year..	6.20%	5.98%	5.62%
Maximum month-end balance.....	\$ 314,515	\$ 108,250	\$ 84,321

(1) At December 31, 1998, \$29,011 ((pound)17,480) related to Ocwen UK.

Securities sold under agreements to repurchase at December 31, 1998, were contractually due between January 1999 and December 2030. Mortgage-related securities with an amortized cost of \$137,705 and a fair value of \$148,839 were posted as collateral for securities sold under agreements to repurchase at December 31, 1998. Interest expense incurred on securities sold under agreements to repurchase amounted to \$6,514, \$1,000 and \$1,101 during 1998, 1997 and 1996 respectively.

NOTE 17: OBLIGATIONS OUTSTANDING UNDER LINES OF CREDIT

The Company through its subsidiaries has obtained secured lines of credit arrangements from various unaffiliated financial institutions primarily to fund its growth in subprime single family residential loans, both domestically and in the U.K.

At December 31, 1998, the Company, through its subsidiary OFS, had short-term secured lines of credit with unaffiliated financial institutions as follows: (i) a \$200,000 secured line of credit, of which \$100,000 was committed, (ii) a \$50,000 secured line of credit, all of which was committed, (iii) a \$200,000 secured line of credit, of which \$100,000 was committed, (iv) a \$100,000 secured line of credit, none of which was committed, and (v) a \$20,000 secured residual line of credit, none of which was committed. The lines of credit mature between March 1999 and July 2001 and bear interest at rates that float in accordance with designated indices. The terms of the line of credit agreements contain, among other provisions, requirements for maintaining certain profitability, defined levels of net worth and debt-to-equity ratios. At December 31, 1998, OFS failed to comply with the maintenance of profitability covenant for one of its credit lines. OFS obtained the lender's agreement waiving the requirement of this covenant for the period ended December 31, 1998. The agreements also require a facility fee based on the total committed amount. Such commitment fees are capitalized and amortized on a straight-line basis over a twelve-month period. In addition, one agreement requires a non-usage fee, which is expensed as incurred, based on the unused portion of the committed amount. At December 31, 1998 and 1997, obligations outstanding under these lines of credit totaled \$59,492 and \$118,304, respectively. The weighted average interest rate on these lines of credit outstanding at December 31, 1998 and 1997, was 6.26% and 6.32%, respectively.

Additionally, the Company's foreign subsidiary, Ocwen UK, has entered into a Loan Facility Agreement with Greenwich International Ltd. ("Greenwich") under which Greenwich provided a short-term facility to finance the acquisition of Cityscape UK's mortgage loan portfolio (the "Term Loan") and to finance Ocwen UK's further originations and purchase of subprime single family loans (the "Revolving Facility, and together with the Term Loan, the "Greenwich Facility"). The Greenwich Facility is secured by Ocwen UK's loans available for sale. The Revolving Facility which matures in April 1999, is set at a maximum of \$166,000 ((pound)100,000 reduced by the amount borrowed under the Term Loan) of which \$87,100 ((pound)52,504) was funded at December 31, 1998, to finance subprime single family loan originations and bears interest at a rate of the one-month LIBOR plus 1.50%. At December 31, 1998, \$5,600 ((pound)3,381) had been borrowed under the Term Loan, which matured in January 1999. In addition, Ocwen UK has entered into a secured warehouse line of credit with Barclays Bank plc (the "Barclays Facility") to finance subprime single family loan originations. The Barclays Facility, which matures in November 1999, and bears interest at a rate of the one-month LIBOR plus 0.80%, is set at a maximum of \$124,500 ((pound)75,000), against which \$24,600 ((pound)14,800) had been borrowed at December 31, 1998. The weighted average interest rate on these lines of credit outstanding at December 31, 1998, was 7.35%.

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The lines are used to fund mortgage loan originations and are generally advanced at a rate of 80% to 98% of the principal balance of the mortgage loan. Interest expense on obligations outstanding under lines of credits amounted to \$34,587, \$5,578 and \$0 during 1998, 1997 and 1996, respectively.

NOTE 18: NOTES, DEBENTURES AND OTHER INTEREST-BEARING OBLIGATIONS

Notes, debentures and other interest-bearing obligations mature as follows:

	December 31,	
	1998	1997
1998:		
7.063% Note due January 31.....	\$ --	\$ 1,975
2003:		
11.875% Notes due October 1.....	125,000	125,000
2005:		
12% Subordinated Debentures due June 15.....	100,000	100,000
	-----	-----
	\$ 225,000	\$ 226,975
	=====	=====

The \$100,000 of 12% Subordinated Debentures due 2005 (the "Debentures") were issued by the Bank with interest payable semiannually on June 15 and December 15. The Debentures are unsecured general obligations of the Bank and are subordinated in right of payment to all existing and future senior debt.

The Debentures may not be redeemed prior to June 15, 2000, except as described below. On or after such date, the Debentures may be redeemed at any time at the option of the Bank, in whole or in part, together with accrued and unpaid interest, if any, on not less than 30 nor more than 60 days notice at the following redemption prices (expressed as a percentage of the principal amount), if redeemed during the twelve-month period beginning June 15 of the years indicated below:

Year	Redemption Price
-----	-----
2000.....	105.333%
2001.....	104.000%
2002.....	102.667%
2003.....	101.333%
2004 and thereafter.....	100.000%

In connection with the issuance of the Debentures, the Bank incurred certain costs which have been capitalized and are being amortized on a straight-line basis over the expected life of the Debentures. The unamortized balance of these issuance costs amounted to \$1,894 and \$2,319, at December 31, 1998 and 1997, respectively, and is included in other assets. Accrued interest payable on the Debentures amounted to \$500 at December 31, 1998 and 1997, and is included in accrued expenses, payables and other liabilities.

On September 25, 1996, the Company completed the public offering of \$125,000 aggregate principal of 11.875% Notes due October 1, 2003, ("the Notes") with interest payable semiannually on April 1 and October 1. The Notes are unsecured general obligations of the Company and are subordinated in right of payment to the claims of creditors of the Company's subsidiaries.

The Notes may not be redeemed prior to October 1, 2001, except as described below. On or after such date, the Notes may be redeemed at any time at the option of the Company, in whole or in part, at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest, if redeemed during the twelve-month period beginning October 1 of the years indicated below:

Year	Redemption Price
-----	-----
2001.....	105.938%
2002.....	102.969%

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In addition, the Company may redeem, at its option, up to 35% of the original aggregate principal amount of the Notes at any time and from time to time until October 1, 1999, with the net cash proceeds received by the Company from one or more public or private equity offerings at a redemption price of 111.875% of the principal amount thereof, plus accrued and unpaid interest.

The indenture governing the Notes requires the Company to maintain, at all times when the Notes are not rated in an investment grade category by one or more nationally recognized statistical rating organizations, unencumbered liquid assets with a value equal to 100% of the required interest payments due on the Notes on the next two succeeding semiannual interest payment dates. The Company maintains an investment in cash and cash equivalents, or \$14,844 at December 31, 1998 and 1997, that is restricted for purposes of meeting this liquidity requirement. The indenture further provides that the Company shall not sell, transfer or otherwise dispose of shares of common stock of the Bank or permit the Bank to issue, sell or otherwise dispose of shares of its common stock unless in either case the Bank remains a wholly-owned subsidiary of the Company.

Proceeds from the offering of the Notes amounted to approximately \$120,156 (net of underwriting discount). On September 30, 1996, the Company contributed \$50,000 of such proceeds to the Bank to support future growth. The remainder of the proceeds retained by the Company have been available for general corporate purposes, with the exception of the liquidity maintenance requirement described above.

In connection with the issuance of the Notes, the Company incurred certain costs which have been capitalized and are being amortized on a straight-line basis over the life of the Notes. The unamortized balance of these issuance costs amounted to \$3,838 and \$4,647 at December 31, 1998 and 1997, respectively, and is included in other assets. Accrued interest payable on the Notes amounted to \$3,711 at December 31, 1998 and 1997, and is included in accrued expenses, payables and other liabilities.

NOTE 19: CAPITAL SECURITIES

In August 1997, Ocwen Capital Trust ("OCT") issued \$125.0 million of 10-7/8% Capital Securities (the "Capital Securities"). Proceeds from issuance of the Capital Securities were invested in 10-7/8% Junior Subordinated Debentures issued by Ocwen. The Junior Subordinated Debentures, which represent the sole assets of OCT, will mature on August 1, 2027.

Holder of the Capital Securities are entitled to receive cumulative cash distributions accruing from the date of original issuance and payable semiannually in arrears on February 1 and August 1 of each year, commencing on February 1, 1998, at an annual rate of 10-7/8% of the liquidation amount of \$1,000 per Capital Security. Payment of distributions out of moneys held by OCT, and payments on liquidation of OCT or the redemption of Capital Securities, are guaranteed by the Company to the extent OCT has funds available. If the Company does not make principal or interest payments on the Junior Subordinated Debentures, OCT will not have sufficient funds to make distributions on the Capital Securities, in which event the guarantee shall not apply to such distributions until OCT has sufficient funds available therefor. Accumulated distributions payable on the Capital Securities amounted to \$5,664 and \$5,249 at December 31, 1998 and 1997, respectively, and is included in accrued interest payable.

The Company has the right to defer payment of interest on the Junior Subordinated Debentures at any time or from time to time for a period not exceeding 10 consecutive semiannual periods with respect to each deferral period, provided that no extension period may extend beyond the stated maturity of the Junior Subordinated Debentures. Upon the termination of any such extension period and the payment of all amounts then due on any interest payment date, the Company may elect to begin a new extension period. Accordingly, there could be multiple extension periods of varying lengths throughout the term of the Junior Subordinated Debentures. If interest payments on the Junior Subordinated Debentures are deferred, distributions on the Capital Securities will also be deferred and the Company may not, and may not permit any subsidiary of the Company to, (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, the Company's capital stock or (ii) make any payment of principal, interest or premium, if any, on or repay, repurchase or redeem any debt securities that rank pari passu with or junior to the Junior Subordinated Debentures. During an extension period, interest on the Junior Subordinated Debentures will continue to accrue at the rate of 10-7/8% per annum, compounded semiannually.

The Junior Subordinated Debentures are redeemable prior to maturity at the option of the Company, subject to the receipt of any necessary prior regulatory approval, (i) in whole or in part on or after August 1, 2007, at a redemption price equal to 105.438% of the principal amount thereof on August 1, 2007, declining ratably on each August 1 thereafter to 100% on or after August 1, 2017, plus accrued interest thereon, or (ii) at any time, in whole (but not in part), upon the occurrence and continuation of a special event (defined as a tax event, regulatory capital event or an investment company event) at a redemption price equal to the greater of (a) 100% of the principal amount thereof or (b)

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the sum of the present values of the principal amount and premium payable with respect to an optional redemption of such Junior Subordinated Debentures on August 1, 2007, together with scheduled payments of interest from the prepayment date to August 1, 2007, discounted to the prepayment date on a semiannual basis at the adjusted Treasury rate plus accrued interest thereon to the date of prepayment. The Capital Securities are subject to mandatory redemption, in whole or in part, upon repayment of the Junior Subordinated Debentures at maturity or their earlier redemption, in an amount equal to the amount of the related Junior Subordinated Debentures maturing or being redeemed and at a redemption price equal to the redemption price of the Junior Subordinated Debentures, plus accumulated and unpaid distributions thereon to the date of redemption.

For financial reporting purposes, OCT is treated as a subsidiary of the Company and, accordingly, the accounts of OCT are included in the consolidated financial statements of the Company. Intercompany transactions between OCT and the Company, including the

Junior Subordinated Debentures, are eliminated in the consolidated financial statements of the Company. The Capital Securities are presented as a separate caption between liabilities and stockholders' equity in the consolidated statement of financial condition of the Company as "Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely Junior Subordinated Debentures of the Company." Distributions on the Capital Securities are recorded as a separate caption immediately following non-interest expense in the consolidated statement of operations of the Company. The Company intends to continue this method of accounting going forward.

In connection with the issuance of the Capital Securities, the Company incurred certain costs which have been capitalized and are being amortized over the term of the Capital Securities. The unamortized balance of these issuance costs amounted to \$4,187 and \$4,262 at December 31, 1998 and 1997, respectively, and is included in other assets.

NOTE 20: BASIC AND DILUTED EARNINGS PER SHARE

Under SFAS No. 128, the Company is required to present both basic and diluted EPS on the face of its statement of operations. Basic EPS, which replaced primary EPS required by APB 15, excludes common stock equivalents and is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding, including the dilutive potential common shares related to outstanding stock options. In computing diluted net loss per share for 1998, the conversion of common stock equivalents was not assumed as the effect would be antidilutive.

The following is a reconciliation of the calculation of basic EPS to diluted EPS.

	1998	1997	1996
	-----	-----	-----
Net (loss) income	\$ (1,200)	\$ 78,932	\$ 50,142
	=====	=====	=====
Basic EPS:			
Weighted average shares of common stock...	60,736,950	56,185,956	50,556,572
	=====	=====	=====
Basic EPS	\$ (0.02)	\$ 1.40	\$ 0.99
	=====	=====	=====
Diluted EPS:			
Weighted average shares of common stock...	60,736,950	56,185,956	50,556,572
Effect of dilutive securities:			
Stock options	--	650,528	2,822,310
	-----	-----	-----
	60,736,950	56,836,484	53,378,882
	=====	=====	=====
Diluted EPS	\$ (0.02)	\$ 1.39	\$ 0.94
	=====	=====	=====

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NOTE 21: DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest and foreign currency exchange rates. While these hedging instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged.

INTEREST RATE MANAGEMENT

In managing its interest rate risk, the Company on occasion enters into swaps. Under swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The terms of the swaps provide for the Company to receive a floating rate of interest based on the London Interbank Offered Rate ("LIBOR") and to pay fixed interest rates. In addition, the notional amount of the swap outstanding is amortized (i.e., reduced) monthly based on estimated prepayment rates. At December 31, 1998, the Company had no swaps outstanding.

The terms of the outstanding swap at December 31, 1997, are as follows:

Maturity	Notional Amount	LIBOR Index	Fixed Rate	Floating Rate at End of Year	Fair Value
1998	\$36,860	1-Month	6.18%	5.69%	\$(94)

The interest expense or benefit of the swaps had the effect of decreasing net interest income by \$115, \$198 and \$58 for the years ended December 31, 1998, 1997 and 1996, respectively.

The Company also enters into short sales of Eurodollar and U.S. Treasury interest rate futures contracts as part of its overall interest rate risk management activity. Interest rate futures contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. The Eurodollar futures contracts have been sold by the Company to hedge the maturity risk of certain short-duration mortgage-related securities. U.S. Treasury futures have been sold by the Company to hedge the risk of a reduction in the market value of fixed rate mortgage loans and certain fixed rate mortgage-backed and related securities available for sale in a rising interest rate environment. At December 31, 1998, the Company had no interest rate futures contracts outstanding.

Terms and other information on interest rate futures contracts sold short at December 31, 1997, were as follows:

	Maturity	Notional Principal	Fair Value
U.S. Treasury futures.....	1998	\$194,500	\$1,996

The fair value of the interest rate swaps and interest rate futures contracts represent the estimated amount that the Company would receive or pay to terminate these agreements taking into account current interest rates. Market quotes are available for these agreements. The fair values are recorded in the Consolidated Statements of Financial Condition offsetting the items being hedged. The following table summarizes the Company's use of interest rate risk management instruments.

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	Notional Amount		
	Short Eurodollar Swaps	Short U.S. Treasury Futures	Futures
BALANCE, DECEMBER 31, 1996.....	\$ 45,720	\$ 405,000	\$ 165,100
Purchases.....	--	--	966,400
Maturities.....	(8,860)	--	--
Terminations.....	--	(405,000)	(937,000)
BALANCE, DECEMBER 31, 1997.....	36,860	--	194,500
Purchases.....	--	--	440,500
Maturities.....	(36,860)	--	--
Terminations.....	--	--	(635,000)
BALANCE, DECEMBER 31, 1998.....	\$ --	\$ --	\$ --

U.S. Treasury Bills with a fair value of \$2,055 were pledged by the Company as security for the obligations under these swaps and interest rate futures contracts at December 31, 1997.

FOREIGN CURRENCY MANAGEMENT

The Company enters into foreign currency derivatives to hedge its equity investments in Ocwen UK and Kensington. It is the Company's policy to periodically adjust the amount of foreign currency derivative contracts it has entered into in response to changes in its recorded equity investment in these foreign entities.

The Company has determined that the local currency of its foreign subsidiary, Ocwen UK and its equity investment in Kensington, is the functional currency. In accordance with SFAS No. 52, "Foreign Currency Translation," assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange existing at the statement of financial condition date and revenues and expenses are translated at average monthly rates.

On April 22, 1998, the Company sold short foreign currency futures contracts ("currency futures") to hedge its foreign currency exposure related to its equity investment in Ocwen UK. Periodically, the Company adjusts the amount of currency futures contracts it has entered into in response to changes in its equity investment in Ocwen UK. Under the terms of the currency futures at December 31, 1998, the Company has the right to receive \$43,828 and pay (pound)26,563. The fair value of the currency futures is based on quoted market prices.

On February 25, 1998, the Company entered into a foreign currency swap agreement ("currency swap") with a AAA-rated counterparty to hedge its equity investment in Kensington. Under the terms of the currency swap, the Company will swap (pound)27,500 for \$43,546 in five years based on the exchange rate on the date the contract became effective. The discount on the currency swap, representing the difference between the contracted forward rate and the spot rate at the date of inception, is amortized over the life of the currency swap on a straight-line basis. The value of the currency swap is calculated as the notional amount of the currency swap multiplied by the difference between the spot rate at the date of inception and the spot rate at the financial statement date. In addition, the Company sold short foreign currency futures contracts to further hedge its foreign currency exposure related to its equity investment in Kensington. Under the terms of the currency futures, the Company has the right to receive \$1,547 and pay (pound)938. The fair value of the currency futures is based on quoted market prices.

The resulting translation adjustments, the unamortized discount on the currency swap and the values of the hedging financial instruments are reported as translation adjustments and included as a component of stockholders' equity.

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The following table sets forth the terms and values of these financial instruments at December 31, 1998. No such financial instruments were held at December 31, 1997:

	Maturity	Notional Amount		Contract Rate	Unamortized Discount	Fair Value
		Pay	Receive			
Currency swap.....	2003	(pound)27,500	\$ 43,546	1.5835	\$ 1,562	\$ (2,096)
British Pound currency futures.....	1999	(pound)938	\$ 1,547	1.6500	n/a	\$ (6)
	1999	(pound)26,563	\$ 43,828	1.6500	n/a	\$ (181)

Because interest rate futures and foreign currency futures contracts are exchange traded, holders of these instruments look to the exchange for performance under these contracts and not the entity holding the offsetting futures contract, thereby minimizing the risk of nonperformance under these contracts. The Company is exposed to credit loss in the event of nonperformance by the counterparty to the interest and currency swaps and controls this risk through credit monitoring procedures. The notional principal amount does not represent the Company's exposure to credit loss.

On January 1, 1999, 11 of the 15 member countries of the European Union converted to a common currency (the "Euro"). Since such time transactions have been conducted using either the Euro or the countries' existing currencies. Although the United Kingdom is a member of the European Union, it is not one of the participating countries in the Euro conversion, and the Company currently does not have transactions or operations in any of the participating countries. As a result, the Euro conversion had no effect on the Company's financial condition or results of operations.

NOTE 22: INCOME TAXES

Total income tax expense (benefit) was allocated as follows:

	Years Ended December 31,		
	1998	1997	1996
Income (loss) from continuing operations.....	\$ (30,699)	\$ 21,309	\$ 11,159
Benefit of tax deduction in excess of amounts recognized for financial reporting purposes related to employee stock options reflected in stockholders' equity....	(2,398)	(1,965)	(2,987)
Benefit of tax deduction in excess of amounts recognized for financial reporting purposes related to director restricted stock reflected in stockholders' equity.	(13)	--	--
	\$ (33,110)	\$ 19,344	\$ 8,172
	=====	=====	=====

The components of income tax expense (benefit) attributable to income from continuing operations were as follows:

	Years Ended December 31,		
	1998	1997	1996
CURRENT:			
Federal.....	\$ (11,668)	\$ 42,482	\$ (6,844)
Foreign.....	5,995	--	--
State.....	4,608	3,579	(576)
	(1,065)	46,061	(7,420)
DEFERRED:			
Federal.....	(27,443)	(23,085)	16,616
State.....	(2,191)	(1,667)	1,963
	(29,634)	(24,752)	18,579
Total.....	\$ (30,699)	\$ 21,309	\$ 11,159
	=====	=====	=====

Income tax expense differs from the amounts computed by applying the U.S. Federal corporate income tax rate of 35% as follows:

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	Years Ended December 31,		
	1998	1997	1996
Expected income tax expense at statutory rate	\$(11,328)	\$ 34,838	\$ 21,455
Differences between expected and actual tax:	--	--	--
Excess of cost over net assets acquired	19	(30)	(76)
adjustments			
Tax effect of utilization of net operating loss	(3,003)	(906)	(1,782)
State tax (after Federal tax benefit)	1,571	1,243	901
Low-income housing tax credits	(17,666)	(14,881)	(9,330)
Adjustments resulting from IRS audit	--	921	--
Other	(292)	124	(9)
	-----	-----	-----
Actual income tax (benefit) expense	\$(30,699)	\$ 21,309	\$ 11,159
	=====	=====	=====

For taxable years beginning prior to January 1, 1996, a savings institution that met certain definitional tests relating to the composition of its assets and the sources of its income (a "qualifying savings institution") was permitted to establish reserves for bad debts and make annual additions thereto under the experience method. Alternatively, a qualifying savings institution could elect, on an annual basis, to use the percentage of taxable income method to compute its allowable addition to its bad debt reserve on qualifying real property loans (generally loans secured by an interest in improved real estate). The applicable percentage was 8% for tax periods after 1987. The Bank utilized the percentage of taxable income method for these years.

On August 20, 1996, President Clinton signed the Small Business Job Protection Act (the "Act") into law. One provision of the Act repealed the reserve method of accounting for bad debts for savings institutions effective for taxable years beginning after 1995. The Bank, therefore, was required to use the specific charge-off method on its 1996 and subsequent federal income tax returns. The Bank will be required to recapture its "applicable excess reserves," which are its federal tax bad debt reserves in excess of the base year reserve amount described in the following paragraph. The Bank will include one-sixth of its applicable excess reserves in taxable income in each year from 1996 through 2001. As of December 31, 1995, the Bank had approximately \$42,400 of applicable excess reserves. As of December 31, 1996, the Bank had fully provided for the tax related to this recapture.

The base year reserves will continue to be subject to recapture and the Bank could be required to recognize a tax liability if: (1) the Bank fails to qualify as a "bank" for federal income tax purposes, (2) certain distributions are made with respect to the stock of the Bank, (3) the bad debt reserves are used for any purpose other than to absorb bad debt losses, or (4) there is a change in federal tax law. The enactment of this legislation is expected to have no material impact on the Bank's or the Company's operations or financial position.

In accordance with SFAS No. 109 "Accounting for Income Taxes," a deferred tax liability has not been recognized for the tax bad debt base year reserves of the Bank. The base year reserves are generally the balance of reserves as of December 31, 1987, reduced proportionately for reductions in the Bank's loan portfolio between that date and December 31, 1995. At December 31, 1998 and 1997, the amount of those reserves was approximately \$5,700. This reserve could be recognized in the future under the conditions described in the preceding paragraph.

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The net deferred tax assets were comprised of the following:

	December 31,	
	1998	1997
DEFERRED TAX ASSETS:		
Tax residuals and deferred income on tax residuals..	\$ 5,328	\$ 3,497
State taxes	2,511	2,203
Application of purchase accounting	127	655
Accrued profit sharing	3,861	3,234
Accrued other liabilities	773	2,495
Deferred interest expense on discount loan portfolio	12,554	7,685
Mark-to-market and reserves on REO properties	3,828	3,187
Gain on loan foreclosure	6,246	5,635
Bad debt and loan loss reserves	7,857	9,770
Reserves and impairments on securities held for sale	16,308	4,007
Mortgage servicing right impairment and amortization	787	--
Goodwill impairment and amortization	3,521	--
Contingent interest income on equity participation..	2,673	--
Reserves and impairment on investments	4,978	--
Partnership losses and low-income housing tax credit	7,113	--
Other	1,542	495
	80,007	42,863
DEFERRED TAX LIABILITIES:		
Net U.S. tax on undistributed foreign income	784	--
Deferred interest income on discount loan portfolio ...	4,698	2,254
Partnership losses and low income housing tax credit ..	--	1,386
Other	1,094	763
	6,576	4,403
Mark-to-market on certain mortgage-backed and related securities available for sale	(7,894)	6,688
Foreign currency translation adjustments	912	--
Prior period adjustment on investments	526	--
	66,975	45,148
Deferred tax asset valuation allowance	--	--
Net deferred tax assets	\$ 66,975	\$45,148

Deferred tax assets, net of deferred fees, include tax residuals which result from the ownership of Real Estate Mortgage Investment Conduits ("REMIC"). While a tax residual is anticipated to have little or no future cash flows from the REMIC from which it has been issued, the tax residual does bear the income tax liability and benefit resulting from the annual differences between the interest paid on the debt instruments issued by the REMIC and the interest received on the mortgage loans held by the REMIC. Typically this difference generates taxable income to the Company in the first several years of the REMIC and equal amounts of tax losses thereafter, thus resulting in the deferred tax asset. As a result of the manner in which REMIC residual interests are treated for tax purposes, at December 31, 1998, 1997 and 1996, the Company had approximately \$0, \$0 and \$10,228, respectively, of net operating loss carryforwards for tax purposes.

International Hotel Group ("IHG"), a wholly-owned subsidiary of IMI, and IHG's subsidiaries had at December 31, 1998, approximately \$1,079 of Separate Return Limitation Year ("SRLY") net operating loss carryforwards. The SRLY net operating loss carryforward can only offset IHG and its subsidiaries' future taxable income. The \$1,079 operating loss carryforward will expire, if unused, in the year 2008.

As a result of the Company's earnings history, current tax position and taxable income projections, the Company believes that it will generate sufficient taxable income in future years to realize the net deferred tax asset position as of December 31, 1998. In evaluating the expectation of sufficient future taxable income, the Company considered future reversals of temporary differences and available tax planning strategies that could be implemented, if required.

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A valuation allowance was not required as of December 31, 1998 and 1997, as it was the Company's assessment that, based on available information, it is more likely than not that all of the deferred tax asset will be realized. A valuation allowance will be established in the future to the extent of a change in the Company's assessment of the amount of the net deferred tax asset that is expected to be realized.

NOTE 23: EMPLOYEE BENEFIT AND COMPENSATION PLANS

The Company maintains a defined contribution plan to provide postretirement benefits to eligible employees. The Company also adopted a number of compensation plans for certain employees. These plans were designed to facilitate a pay-for-performance policy, further align the interests of officers and key employees with the interests of the Company's shareholders and assist in the attraction and retention of employees vital to the Company's long-term success. These plans are summarized below.

RETIREMENT PLAN

The Company maintains a defined contribution 401(k) plan. The Company matches 50% of each employee's contributions, limited to 2% of the employee's compensation. The Company's contributions to the 401(k) plan in the years ended December 31, 1998, 1997 and 1996, were \$611, \$368 and \$258, respectively.

In connection with its acquisition of Berkeley Federal Savings Bank in June 1993, the Bank assumed the obligations under a noncontributory defined benefit pension plan (the "Plan") covering substantially all employees upon their eligibility under the terms of the Plan. The Plan was frozen for the plan year ended December 31, 1993, and has been fully funded.

ANNUAL INCENTIVE PLAN

In May 1998, the Company's shareholders approved the 1998 Annual Incentive Plan (the "AIP") to replace the Company's former annual incentive plan. Participation in the AIP is limited to officers and other key employees of the Company and designated subsidiaries that are selected by the AIP Committee. Performance targets are established based on the achievement of specified levels of increases in net earnings, return in equity, average net equity used or growth in assets, as well as individual participant performance targets. Awards under the AIP are based on achieving the performance targets and are paid in cash or a combination of cash and non-qualified stock options to purchase OCN's common stock. Such non-qualified stock options are granted pursuant to the Ocwen Financial Corporation Non-Qualified Stock Option Plan.

Stock options awarded to key employees under the AIP (both the 1998 plan and former plan) to purchase shares of OCN common stock are summarized as follows.

	Options Granted	Exercise Price	Options Exercised	Forfeited or Repurchased	Options Vested
	-----	-----	-----	-----	-----
1995.....	594,760	\$ 2.880	223,919	281,841	89,000
1995.....	14,220	.472	5,057	4,083	5,080
1996.....	1,147,370	11.000	174,573	281,743	691,054
1997.....	1,083,794	20.350	--	145,678	938,116
1998.....	80,000	20.350	--	40,000	40,000
1998.....	181,945	12.313	--	--	--

Stock options awarded under the AIP prior to 1998 have a one-year vesting period. Stock options awarded under the AIP in 1998 vest ratably over a three-year period. The difference, if any, between the fair market value of the stock at the date of grant and the exercise price is treated as compensation expense. Included in compensation expense is \$0, \$5,514 and \$2,725 for the years ended December 31, 1998, 1997 and 1996, respectively, related to options granted.

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LONG-TERM INCENTIVE PLAN

In May 1998 the Company's shareholders approved the Long-Term Incentive Plan (the "LIP"). Participation in the LIP is limited to officers and other key employees of the Company and designated subsidiaries that are selected by the LIP Administrator. The LIP provides for the grant of Basis Points to participants. In connection with this grant, the LIP Administrator has established three five-year performance cycles as well as Company and individual participant performance targets for such periods. At the end of each performance cycle, the Company will determine the value of the Basis Points held by each participant based on the extent to which the related performance targets are achieved, and will pay each participant their respective value in restricted common stock of the Company. The number of shares received will be determined based on the fair market value, as defined, of the common stock on the last day of the performance cycle. The restricted stock issued to participants will vest over a ten-year period and, upon vesting, certificates representing the shares will be held by the Company in a nonqualified irrevocable trust established by the Company for the benefit of the participant and will be issued to participants in 20% increments in each year over a five-year pay-out period. While the shares are held by the Company the participant will have all the rights of a shareholder, including the right to vote except that (i) the participant will not be entitled to receive a certificate representing the shares and (ii) the shares may not be transferred, sold, assigned, pledged or otherwise encumbered. Any cash dividends paid on common stock will be reinvested to purchase additional shares of common stock, subject to the same restrictions that apply to restricted stock. Compensation expense of \$2,369 was recorded in 1998 for future distributions under the Plan.

PRO FORMA EFFECT OF SFAS NO. 123

The Company adopted SFAS No. 123 during 1996. In accordance with the provisions of SFAS No. 123, the Company has retained its current accounting method for its stock-based employee compensation plans under the provisions of APB 25. However, entities continuing to apply APB 25 are required to disclose pro forma net income and earnings per share as if the fair value method of accounting for stock-based employee compensation plans as prescribed by SFAS No. 123 had been utilized. The following is a summary of the Company's pro forma information:

	Years Ended December 31,		
	1998	1997	1996
Net (loss) income, as reported.....	\$ (1,200)	\$ 78,932	\$ 50,142
Pro forma net (loss) income.....	\$ (2,638)	\$ 72,668	\$ 47,777
Earnings per share, as reported:			
Basic.....	\$ (0.02)	\$ 1.40	\$ 0.99
Diluted.....	\$ (0.02)	\$ 1.39	\$ 0.94
Pro forma earnings per share:			
Basic.....	\$ (0.04)	\$ 1.29	\$ 0.95
Diluted.....	\$ (0.04)	\$ 1.28	\$ 0.90

The fair value of the option grants were estimated using the Black-Scholes option-pricing model with the following assumptions:

	Year Ended December 31,	
	1998	1997
Expected dividend yield.....	0.00%	0.00%
Expected stock price volatility.....	57.00%	48.00%
Risk-free interest rate.....	4.54%	5.71%
Expected life of options.....	5 years	5 years

NOTE 24: STOCKHOLDERS' EQUITY

On July 12, 1996, shareholders of the Company approved an amendment to the Company's articles of incorporation to increase the authorized number of common shares from 20,000,000 to 200,000,000 shares, to increase the authorized number of preferred shares from 250,000 to 20,000,000 shares and to decrease the par value of the authorized preferred shares from \$1.00 to \$0.01 per share. On July 30, 1996, the Company's Board of Directors declared a 10-for-1 stock split for each share of common stock then outstanding in the form of a stock dividend which was paid to holders of record on July 31, 1996. On October 29, 1997, the Company's Board of Directors approved a 2-for-1 stock split of its issued and outstanding common stock. The stock split was effected through the distribution of authorized but unissued shares of its common stock on November 20, 1997, to holders of record of its common stock at the close of business on November 12, 1997. All references in the consolidated financial statements to the number of shares and per share amounts have been adjusted retroactively for the recapitalization and the stock splits.

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During September 1996, 5,857,660 shares of common stock were issued in connection with the exercise of vested stock options by certain of the Company's and the Bank's current and former officers and directors. The Company loaned \$6,654 to certain of such officers to fund their exercise of the stock options. Such notes, which are presented as a reduction of shareholders' equity, were repaid during 1997.

On September 25, 1996, certain shareholders of Ocwen completed an initial public offering of 4,600,000 shares of Ocwen common stock. At that time, the Company's common stock began trading on the NASDAQ National Market System under the symbol "OCWN." Prior to this offering, there had been no public trading market for the common stock. The Company did not receive any of the proceeds from this common stock offering.

On August 12, 1997, the Company completed a secondary stock offering to the public of 6,900,000 shares which resulted in net proceeds of \$141,898. Effective August 1, 1997, shares of the Company's common stock began trading on the New York Stock Exchange ("NYSE") under the symbol "OCN." Upon effectiveness of the NYSE listing, the Company delisted its common stock from NASDAQ.

During 1995, the Company repurchased from shareholders and retired 17,630,120 shares of common stock for the aggregate price of \$41,997.

NOTE 25: REGULATORY REQUIREMENTS

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and the regulations promulgated thereunder established certain minimum levels of regulatory capital for savings institutions subject to OTS supervision. The Bank must follow specific capital guidelines stipulated by the OTS which involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items. An institution that fails to comply with its regulatory capital requirements must obtain OTS approval of a capital plan and can be subject to a capital directive and certain restrictions on its operations. At December 31, 1998, the minimum regulatory capital requirements were:

Tangible and core capital of 1.50 percent and 3.00 percent of total adjusted assets, respectively, consisting principally of stockholders' equity, but excluding most intangible assets, such as goodwill and any net unrealized gains or losses on debt securities available for sale.

Risk-based capital consisting of core capital plus certain subordinated debt and other capital instruments and, subject to certain limitations, general valuation allowances on loans receivable, equal to 8.00 percent of the value of risk-weighted assets.

At December 31, 1998 and 1997, the Bank was "well capitalized" under the prompt corrective action ("PCA") regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). To be categorized as "well capitalized," the Bank must maintain minimum core capital, Tier 1 risk-based capital and risk-based capital ratios as set forth in the table below. The Bank's capital amounts and classification are subject to review by federal regulators about components, risk-weightings and other factors. There are no conditions or events since December 31, 1998, that management believes have changed the institution's category.

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The following tables summarize the Bank's actual and required regulatory capital at December 31, 1998 and 1997.

December 31, 1998	Actual		Minimum For Capital Adequacy Purposes		To Be Well Capitalized For Prompt Corrective Action Provisions		Agreed Upon Capital Requirements Actual
	Ratio	Amount	Ratio	Amount	Ratio	Amount	Percentage
Stockholders' equity, and ratio to total assets.....	9.30%	\$ 241,419					
Net unrealized (gain) loss on certain available for sale securities.....		(303)					
Non includable subsidiary.....		(6,030)					
Excess mortgage servicing rights and deferred tax assets.....		(411)					
Tangible capital, and ratio to adjusted total assets.....	9.07%	\$ 234,675	1.50%	\$ 38,821			
Tier 1 (core) capital, and ratio to adjusted total assets.....	9.07%	\$ 234,675	3.00%	\$ 77,641	5.00%	\$ 129,402	9.00%
Tier 1 capital, and ratio to risk-weighted assets.....	11.71%	\$ 234,675			6.00%	\$ 120,027	
Allowance for loan and lease losses...		25,047					
Subordinated debentures.....		100,000					
Tier 2 Capital.....		125,047					
Low-level recourse reduction.....		(13,897)					
Total risk-based capital, and ratio to risk-weighted assets.....	17.26%	\$ 345,825	8.00%	\$ 160,295	10.00%	\$ 200,368	13.00%
Total regulatory assets.....		\$2,594,792					
Adjusted total assets.....		\$2,588,048					
Risk-weighted assets.....		\$2,003,684					

December 31, 1997	Actual		Minimum For Capital Adequacy Purposes		To Be Well Capitalized For Prompt Corrective Action Provisions		Agreed Upon Capital Requirements Actual
	Ratio	Amount	Ratio	Amount	Ratio	Amount	Percentage
Stockholders' equity, and ratio to total assets.....	10.62%	\$ 276,277					
Net unrealized loss on certain available for sale securities.....		2,378					
Excess mortgage servicing rights and deferred tax assets.....		(1,029)					
Tangible capital, and ratio to adjusted total assets.....	10.66%	\$ 277,626	1.50%	\$ 39,060			
Tier 1 (core) capital, and ratio to adjusted total assets.....	10.66%	\$ 277,626	3.00%	\$ 78,120	5.00%	\$ 130,200	9.00%
Tier 1 capital, and ratio to risk-weighted assets.....	10.17%	\$ 277,626			6.00%	\$ 163,837	
Allowance for loan and lease losses...		27,436					
Subordinated debentures.....		100,000					
Tier 2 Capital.....		127,436					
Total risk-based capital, and ratio to risk-weighted assets.....	14.83%	\$ 405,062	8.00%	\$ 218,449	10.00%	\$ 273,062	13.00%
Total regulatory assets.....		\$2,602,642					
Adjusted total assets.....		\$2,603,991					
Risk-weighted assets.....		\$2,730,616					

The OTS has promulgated a regulation governing capital distributions. The Bank is considered to be a Tier 1 association under this regulation because it met or

exceeded its fully phased-in capital requirements at December 31, 1996. A Tier 1 association that before and after a proposed capital distribution meets or exceeds its fully phased-in capital requirements may make capital distributions during any calendar year equal to the greater of (i) 100% of net income for the calendar year to date plus 50% of its "surplus capital ratio" at the beginning of the year or (ii) 75% of its net income over the most recent four-quarter period. In order to make these capital distributions, the Bank must submit written notice to the OTS 30 days in advance of making the distribution.

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The OTS recently published amendments to its capital distribution regulation which becomes effective April 1, 1999. Under the revised regulation, the Bank will be required to file either an application or a notice with the OTS at least 30 days prior to making a capital distribution. The OTS may deny the Bank's application or disapprove its notice if the OTS determines that (a) the Bank will be "undercapitalized," "significantly undercapitalized" or "critically under capitalized," as defined in the OTS capital regulations, following the capital distribution, (b) the proposed capital distribution raises safety and soundness concerns or (c) the proposed capital distribution violates a prohibition contained in any statute, regulation or agreement between the Bank and the OTS or a condition imposed on the Bank in an application or notice approved by the OTS.

In addition to these OTS regulations governing capital distributions, the indenture governing the Bank's debentures limits the declaration or payment of dividends and the purchase or redemption of common or preferred stock in the aggregate to the sum of 50% of consolidated net income and 100% of all capital contributions and proceeds from the issuance or sale (other than to a subsidiary) of common stock, since the date the Debentures were issued (see Note 18).

Following an examination by the OTS in late 1996 and early 1997, the Bank committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9% and 13%, respectively. The Bank continues to be in compliance with this commitment as well as the regulatory capital requirements of general applicability (as indicated above). Based on discussions with the OTS, the Bank believes that this commitment does not affect its status as a "well-capitalized" institution, assuming the Bank's continued compliance with the regulatory capital requirements required to be maintained by it pursuant to such commitment.

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NOTE 26: OTHER OPERATING EXPENSES

	Years Ended December 31,		
	1998	1997	1996
Professional fees	\$14,647	\$ 4,989	\$ 2,293
Marketing	5,246	774	701
Travel, lodging, meals and entertainment	4,573	2,636	1,522
FDIC insurance	1,867	1,593	3,098
Amortization of offering costs	1,381	1,302	622
Conferences and seminars	1,117	666	295
Investment and treasury services	914	458	438
Corporate insurance	608	611	441
Deposit related expenses	420	255	91
OTS assessment	400	375	293
Due diligence costs	315	1,977	564
Other	912	3,645	458
SAIF recapitalization assessment (1) ...	--	--	7,140
	-----	-----	-----
	\$32,400	\$19,281	\$17,956
	=====	=====	=====

(1) Represents a non-recurring expense of \$7,140 related to the Federal Deposit Corporation's ("FDIC") assessment to recapitalize the Savings Association Insurance Fund ("SAIF") as a result of federal legislation passed into law on September 30, 1996.

NOTE 27: BUSINESS SEGMENT REPORTING

The Company adopted SFAS No. 131 which requires public enterprises to report financial and descriptive information about its reportable operating segments. Operating segments are defined as components of an enterprise that (a) engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. An operating segment may engage in business activities for which it has yet to earn revenues. The Company conducts a variety of business activities within the following segments.

	Net Interest Income	Non-Interest Income	Non-Interest Expense	Net (Loss) Income	Total Assets
	-----	-----	-----	-----	-----
December 31, 1998 Discount loans:					
Single family residential loans	\$ 21,568	\$ 35,667	\$ 17,339	\$ 14,394	\$ 613,769
Large commercial real estate loans	35,220	31,254	13,723	28,103	591,612
Small commercial real estate loans	23,149	7,643	9,634	8,195	259,609
	-----	-----	-----	-----	-----
	79,937	74,564	40,696	50,692	1,464,990
	-----	-----	-----	-----	-----
Mortgage loan servicing:					
Domestic	6,604	46,732	39,945	8,066	56,302
Foreign (U.K.)	147	12,989	6,222	4,771	11,974
	-----	-----	-----	-----	-----
	6,751	59,721	46,167	12,837	68,276
	-----	-----	-----	-----	-----
Investment in low-income housing tax credits	(8,246)	8,286	11,498	9,119	220,234
Commercial real estate lending	16,066	8,542	2,624	13,588	74,439
OTX	5	1,711	11,335	(9,623)	21,659
Subprime single family residential lending:					
Domestic	14,080	5,807	52,514	(20,524)	156,997
Foreign (U.K.)	11,898	35,609	35,550	7,475	286,224
	-----	-----	-----	-----	-----
	25,978	41,416	88,064	(13,049)	443,221
	-----	-----	-----	-----	-----
Investment securities	(214)	(85,031)	5,143	(59,186)	382,201
Equity investment in OAC	--	(8,701)	--	(8,701)	39,088
Other	7,493	7,790	17,557	(4,764)	593,971
	-----	-----	-----	-----	-----
	127,770	108,298	223,084	(9,087)	3,308,079
Unallocated amounts	(4,969)	3,017	3,310	7,887	--
	-----	-----	-----	-----	-----
	\$ 122,801	\$ 111,315	\$ 226,394	\$ (1,200)	\$3,308,079
	=====	=====	=====	=====	=====

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	Net Interest Income	Non-Interest Income	Non-Interest Expense	Net (Loss) Income	Total Assets
	-----	-----	-----	-----	-----
December 31, 1997					
Discount loans:					
Single family residential loans	\$ 24,870	\$ 45,195	\$ 17,695	\$ 23,349	\$ 844,146
Large commercial real estate loans	33,142	18,505	12,940	24,474	585,035
Small commercial real estate loans	19,257	1,966	8,555	5,349	308,543
	-----	-----	-----	-----	-----
	77,269	65,666	39,190	53,172	1,737,724
	-----	-----	-----	-----	-----
Mortgage loan servicing:					
Domestic	2,629	25,934	29,215	3,972	11,160
Foreign (U.K.)	--	--	--	--	--
	-----	-----	-----	-----	-----
	2,629	25,934	29,215	3,972	11,160
	-----	-----	-----	-----	-----
Investment in low income housing tax credits	(5,080)	6,121	10,052	9,087	168,748
Commercial real estate lending	25,794	(191)	6,520	12,405	230,682
OTX	(33)	(2)	419	--	5,116
Subprime single family residential lending:					
Domestic	5,205	18,475	28,875	(2,166)	225,814
Foreign (U.K.)	--	--	--	--	--
	-----	-----	-----	-----	-----
	5,205	18,475	28,875	(2,166)	225,814
	-----	-----	-----	-----	-----
Investment securities	2,698	5,227	3,784	3,587	344,231
Equity investment in OAC	--	--	--	--	--
Other	7,960	2,737	9,241	944	345,690
	-----	-----	-----	-----	-----
	116,442	123,967	127,296	81,001	3,069,165
Unallocated amounts	(200)	(18)	(422)	(2,069)	--
	-----	-----	-----	-----	-----
	\$ 116,242	\$ 123,949	\$ 126,874	\$ 78,932	\$3,069,165
	=====	=====	=====	=====	=====

	Net Interest Income	Non-Interest Income	Non-Interest Expense	Net (Loss) Income	Total Assets
	-----	-----	-----	-----	-----
December 31, 1996					
Discount loans:					
Single family residential loans	\$ 12,122	\$ (3,865)	\$ 10,163	\$ 16,827	\$ 650,261
Large commercial real estate loans	17,565	24,117	11,376	15,480	516,622
Small commercial real estate loans	14,851	(5)	7,525	1,398	283,466
	-----	-----	-----	-----	-----
	44,538	20,247	29,064	33,705	1,450,349
	-----	-----	-----	-----	-----
Mortgage loan servicing:					
Domestic	1,685	7,498	13,308	(2,558)	5,020
Foreign (U.K.)	--	--	--	--	--
	-----	-----	-----	-----	-----
	1,685	7,498	13,308	(2,558)	5,020
	-----	-----	-----	-----	-----
Investment in low-income housing tax credits	(4,962)	4,572	4,280	11,577	93,309
Commercial real estate lending	12,305	118	5,458	3,617	402,582
Subprime single family residential lending:					
Domestic	4,486	6,504	5,346	3,131	128,878
Foreign (U.K.)	--	--	--	--	--
	-----	-----	-----	-----	-----
	4,486	6,504	5,346	3,131	128,878
	-----	-----	-----	-----	-----
Investment securities	8,632	(1,777)	5,084	987	342,801
Other	11,030	(34)	7,553	2,591	60,746
	-----	-----	-----	-----	-----
	77,714	37,128	70,093	53,050	2,483,685
Unallocated amounts	20	175	(487)	(2,908)	--
	-----	-----	-----	-----	-----
	\$ 77,734	\$ 37,303	\$ 69,606	\$ 50,142	\$2,483,685
	=====	=====	=====	=====	=====

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The Company's discount loan activities include asset acquisition, servicing and resolution of single family residential, large commercial and small commercial loans and the related real estate owned. Investment in low-income housing tax credits includes the Company's investments, primarily through limited partnerships, in qualified low-income rental housing for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Code. Low-income housing tax credits and benefits of \$17,667, \$14,881, and \$9,330 are included as credits against income tax expense for the years ended December 31, 1998, 1997 and 1996, respectively. Commercial and real estate lending includes the Company's origination of multi-family and commercial real estate loans held for investment. Subprime single family residential lending includes the Company's acquisition and origination of single family residential loans to non-conforming borrowers, which are recorded as available for sale. Mortgage loan servicing includes the Company's fee-for-services business of providing loan servicing, including asset management and resolution services, to third-party owners of nonperforming, underperforming and subprime assets. Investment securities includes the results of the securities portfolio, whether available for sale, trading or investment, other than subprime residuals and subordinate interests related to the Company's securitization activities which have been included in the related business activity. Other consists primarily of individually insignificant business activities, including the Company's historical loan portfolio of conventional single family residential loans, small commercial loan originations, unsecured collections, and the operations of OCC.

Interest income and expense have been allocated to each business segment for the investment of funds raised or funding of investments made at an interest rate based upon the Treasury swap yield curve taking into consideration the actual duration of such liabilities or assets. Allocations of non-interest expense generated by corporate support services were made to each business segment based upon management's estimate of time and effort spent in the respective activity. Income taxes are allocated to each business segment based on the Company's estimated effective tax rate, exclusive of low-income housing tax credit interests. As such, the resulting amounts represent estimates of the contribution of each business activity to the Company. Unallocated amounts represent amounts not allocated to the operating segments, and are primarily comprised of distributions on the Capital Securities, transfer pricing mismatches, unallocated income taxes, and other general corporate expenses.

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NOTE 28: COMMITMENTS AND CONTINGENCIES

Certain premises are leased under various noncancellable operating leases with terms expiring at various times through 2007, exclusive of renewal option periods. The annual aggregate minimum rental commitments under these leases are summarized as follows:

1999.....	\$ 8,993
2000.....	9,240
2001.....	8,653
2002.....	8,485
2003.....	8,264
Thereafter.....	32,812

Minimum lease payments (1).....	\$ 76,447
	=====

(1) Includes \$50,875 ((pound)30,642) which relates to Ocwen UK.

Rent expense for the years ended December 31, 1998, 1997 and 1996 was \$6,410, \$2,877 and \$1,563, respectively.

At December 31, 1998, the Company was committed to purchase \$17,619 of commercial discount loans. The Company also had commitments to originate (i) \$22,455 of loans secured by multi-family residential buildings, (ii) \$2,484 of mortgage loans secured by office buildings, (iii) \$370 of loans secured by hotel properties and (iv) \$90,561 of loans secured by single family residential buildings. In connection with its 1993 acquisition of Berkeley Federal Savings Bank, the Company has a recourse obligation of \$1,913 on single family residential loans sold to the Federal Home Loan Mortgage Corporation. The Company, through its investment in subordinated securities and subprime residuals, which had a carrying value of \$230,157 at December 31, 1998, supports senior classes of securities.

The Company is subject to various pending legal proceedings. Management is of the opinion that the resolution of these claims will not have a material effect on the consolidated financial statements.

NOTE 29: PARENT COMPANY ONLY FINANCIAL INFORMATION

Condensed Statements of Financial Condition

	December 31,	
	1998	1997
	-----	-----
Assets:		
Cash and cash equivalents.....	\$ 32,516	\$ 62,586
Securities available for sale, at market value.....	--	116,943
Investment securities, net.....	--	11,115
Investment in bank subsidiary.....	232,336	272,401
Investments in non-bank subsidiaries.....	314,215	120,059
Investment in unconsolidated entity.....	46,586	--
Loan portfolio, net.....	2,484	7,285
Discount loan portfolio, net.....	6,876	48,413
Investment in real estate.....	--	10,675
Income taxes receivable.....	35,321	13,739
Deferred tax asset.....	19,780	6,636
Other assets.....	4,945	11,063
	-----	-----
	\$ 695,059	\$ 680,915
Liabilities and Stockholders' Equity:		
Notes payable.....	\$ 250,000	\$ 250,000
Securities sold under agreements to repurchase.....	--	3,075
Other liabilities.....	21,031	15,008
	-----	-----
Total liabilities.....	271,031	268,083
Stockholders' equity.....	424,028	412,832
	-----	-----
	\$ 695,059	\$ 680,915
	=====	=====

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Condensed Statements of Operations

	Years Ended December 31,		
	1998	1997	1996
Interest income	\$ 12,402	\$ 10,019	\$ 1,645
Interest expense	(33,178)	(20,367)	(6,656)
Non-interest income	--	--	266
Non-interest expense	(44,174)	(3,942)	(1,131)
Loss before income taxes	(64,950)	(14,290)	(5,876)
Income tax benefit	42,942	5,083	2,925
Loss before equity in net income of subsidiaries ...	(22,008)	(9,207)	(2,951)
Equity in net income of bank subsidiary	55,747	88,598	48,486
Equity in net (loss) income of non-bank subsidiaries	(34,939)	(459)	4,607
Net (loss) income	\$ (1,200)	\$ 78,932	\$ 50,142

Condensed Statements of Cash Flows

	For the Years Ended December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net (loss) income	\$ (1,200)	\$ 78,932	\$ 50,142
Adjustments to reconcile net income to net cash provided (used) in operating activities:			
Equity in income of bank subsidiary	(56,124)	(88,598)	(49,186)
Equity in loss (income) of non-bank subsidiaries	38,107	459	(1,657)
Equity in income of unconsolidated entity, net	(439)	--	--
Premium amortization, net	18,383	11,467	--
Provision for loan losses	162	--	--
Loss on interest-earning assets	44,998	--	--
Gain on sale of real estate held for investment	(2,389)	--	--
Increase in deferred tax assets	(13,144)	(6,830)	--
(Increase) decrease in other assets	(3,333)	(5,662)	4,067
Increase in income taxes receivable	(21,582)	(3,736)	(10,003)
Increase (decrease) in accrued expenses, payables and other liabilities	6,023	9,970	(3,286)
Net cash provided (used) by operating activities	9,462	(3,998)	(9,923)
Cash flows from investing activities:			
Purchase of securities available for sale	(34,755)	(146,643)	(13,125)
Maturities of and principal payments received on securities available for sale	8	579	63
Net distributions from (investments in) bank subsidiary	96,189	37,291	(49,707)
Net (investments in) distributions from non-bank subsidiaries	(201,059)	(86,599)	5,410
Investment in unconsolidated entity	(45,886)	--	--
Proceeds from sales of securities available for sale	70,080	15,574	--
Purchase of securities held for investment	--	(11,115)	--
Proceeds from sales of securities held for investment	13,025	--	--
Purchase of discount loans	(2,557)	(48,413)	--
Proceeds from sales of loans held for investment	53,949	5,080	--
Proceeds from real estate held for investment	13,064	--	--
Purchase of real estate held for investment	--	(995)	(9,680)
Purchase of loans held for investment	--	--	(11,845)
Net cash used by investing activities	(37,942)	(235,241)	(78,884)
Cash flows from financing activities:			
Proceeds from issuance of notes and debentures	--	120,738	125,000
Payment of debt issuance costs	--	--	(5,252)
Repayment of notes payable	--	--	(8,628)
(Decrease) increase in securities sold under agreements to repurchase	(3,075)	3,075	--
Repayments (originations) of loans to executive officers, net	--	3,832	(3,832)
Exercise of common stock options	7,931	3,037	12,993
Issuance of shares of communion stock	7,828	142,003	--
Repurchase of common stock options	(6,502)	(3,208)	(177)
Repurchase of common stock	(7,772)	--	--
Other	--	--	23
Net cash (used) provided by financing activities	(1,590)	269,477	120,127
Net (decrease) increase in cash and cash equivalents	(30,070)	30,238	31,320
Cash and cash equivalents at beginning of year	62,586	32,348	1,028
Cash and cash equivalents at end of year	\$ 32,516	\$ 62,586	\$ 32,348

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NOTE 30: QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	1998	1998	1998	1998
Interest income.....	\$ 66,237	\$ 88,542	\$ 90,891	\$ 62,024
Interest expense.....	(43,602)	(47,859)	(52,576)	(40,856)
Provision for loan losses.....	(4,775)	(1,806)	(9,675)	(2,253)
Net interest income after provision for loan losses.....	17,860	38,877	28,640	18,915
Non-interest income.....	28,742	54,942	(13,750)	41,381
Non-interest expense.....	(70,618)	(65,516)	(56,249)	(34,011)
Distributions on Capital Securities.....	(3,399)	(3,398)	(3,398)	(3,399)
Equity in (losses) earnings of investments in unconsolidated entities.....	(11,443)	2,915	513	30
(Loss) income before income taxes.....	(38,858)	27,820	(44,244)	22,916
Income taxes (expense) benefit.....	27,811	(2,922)	6,383	(573)
Minority interest in net loss (earnings) of consolidated subsidiary.....	469	33	(68)	33
Net (loss) income.....	\$ (10,578)	\$ 24,931	\$ (37,929)	\$ 22,376
Earnings per share:				
Basic.....	\$ (0.17)	\$ 0.41	\$ (0.62)	\$ 0.37
Diluted.....	\$ (0.17)	\$ 0.41	\$ (0.62)	\$ 0.36

	Quarters Ended			
	December 31,	September 30,	June 30,	March 31,
	1997	1997	1997	1997
Interest income.....	\$ 73,736	\$ 77,326	\$ 66,942	\$ 54,527
Interest expense.....	(40,313)	(39,944)	(38,868)	(37,164)
Provision for loan losses.....	(10,479)	(4,088)	(7,909)	(9,742)
Net interest income after provision for loan losses.....	22,944	33,294	20,165	7,621
Non-interest income.....	43,770	25,431	33,397	21,351
Non-interest expense.....	(41,770)	(31,219)	(31,188)	(22,697)
Distributions on Capital Securities.....	(3,399)	(1,850)	--	--
Equity in earnings of investment in unconsolidated entities.....	7,468	547	1,301	14,372
Income before income taxes.....	29,013	26,203	23,675	20,647
Income taxes (expense) benefit.....	(6,398)	(6,179)	(5,126)	(3,606)
Minority interest in net loss of consolidated subsidiary.....	319	141	243	--
Net income.....	\$ 22,934	\$ 20,165	\$ 18,792	\$ 17,041
Earnings per share:				
Basic.....	\$ 0.38	\$ 0.35	\$ 0.35	\$ 0.32
Diluted.....	\$ 0.37	\$ 0.35	\$ 0.35	\$ 0.31

SHAREHOLDER INFORMATION

PRICE RANGE OF THE COMPANY'S COMMON STOCK

The Company's common stock was traded on The NASDAQ Stock Market's National Market ("NASDAQ") from September 25, 1996, until

July 31, 1997, under the symbol "OCWN" and has been traded on the New York Stock Exchange ("NYSE") since August 1, 1997, under the symbol "OCN." There was no established market for the common stock prior to September 25, 1996. The following table sets forth for the indicated periods the high and low bid prices (for the period through July 31, 1997) and high and low sales prices (for the period beginning August 1, 1997) for the common stock, as traded on such market and exchange. The share price information below has been retroactively adjusted to reflect the 2-for-1 stock split effective November 20, 1997, to stockholders of record on November 12, 1997.

	High -----	Low -----
1996:		
Third quarter (from September 25).....	\$ 10.5000	\$ 9.5000
Fourth quarter.....	15.2500	10.1250
1997:		
First quarter.....	\$ 17.3750	\$ 12.6250
Second quarter.....	16.4375	12.7500
Third quarter.....	22.6250	15.7500
Fourth quarter.....	28.8125	21.0000
1998:		
First quarter.....	\$ 30.7500	\$ 22.2500
Second quarter.....	28.3750	22.3125
Third quarter.....	27.8750	8.5000
Fourth quarter.....	16.1875	5.6875

At the close of business on March 9, 1999, the Company's common stock price was \$8.8125.

The Company does not currently pay cash dividends on common stock and has no current plans to do so in the future. In the future, the timing and amount of dividends, if any, will be determined by the Board of Directors of the Company and will depend, among other factors, upon the Company's earnings, financial condition, cash requirements, the capital requirements of the Bank and other subsidiaries and investment opportunities at the time any such payment is considered. In addition, the indentures relating to the Notes and the Junior Subordinated Debentures contain certain limitations on the payment of dividends by the Company.

As a holding company, the payment of any dividends by the Company will be significantly dependent on dividends and other payments received by the Company from its subsidiaries, including the Bank. For a description of limitations on the ability of the Company to pay dividends on the common stock and on the ability of the Bank to pay dividends on its capital stock to the Company, see Notes 18, 19 and 25 to the Consolidated Financial Statements. The Company has not paid any cash dividends on its common stock in recent years.

NUMBER OF HOLDERS OF COMMON STOCK

At March 9, 1999, 60,800,357 shares of Company common stock were outstanding and held by approximately 1,310 holders of record. Such number of stockholders does not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms and others.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 on January 27, 1998 (Registration No. 333-44999), Registration Statement on Form S-8 filed on August 25, 1998 (Registration No. 333-62217) and Registration Statement on Form S-3 filed on November 5, 1998 (Registration No. 333-64915) of Ocwen Financial Corporation of our report dated January 29, 1999 appearing on page 45 of the 1998 Annual Report of Shareholders which is incorporated in this Annual Report on Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP
Ft. Lauderdale, Florida
March 31, 1999

RISK FACTORS

Each of the factors set forth below could, directly or indirectly, affect the Company's results of operations and financial condition. Capitalized terms that are not defined herein shall have the meaning ascribed in the Annual Report on Form 10-K of the Company to which this Exhibit relates.

CHANGING NATURE OF RISKS; NO ASSURANCES AS TO CONSISTENCY OF EARNINGS

CHANGING NATURE OF RISKS. The Company's corporate strategy emphasizes the identification, development and management of specialized businesses which the Company believes are not accurately evaluated and priced by the marketplace due to market, economic and competitive conditions. This strategy can result in the entry into or development of businesses and investment in assets which produce substantial initial returns, which may be followed by an exit from any of those businesses or the sale of those assets if, for example, results decrease because markets become more efficient in the evaluation and pricing of such businesses and assets. For example, in recent years, the Company's efforts have focused on lending, the acquisition and resolution of discounted loans, and investment in various types of mortgage-related securities. However, on October 26, 1998, the Company announced that it would refocus its resources on its core competencies, namely the acquisition and management of servicing-intensive assets and the development of exportable loan serving technology for the mortgage and real estate industries. Given that this strategy involves the potential of entering and exiting different businesses, past financial performance may not be considered a reliable indicator of future performance and historical trends may not be reliable indicators of anticipated results or trends in future periods. In addition, there can be no assurance that the Company will be able to accomplish its strategic objectives as a result of changes in the nature of the Company's operations over time or that such changes will not have a material adverse effect from time to time or generally on the Company's business, financial condition or results of operations.

INCONSISTENCY OF RESULTS AND NON-RECURRING ITEMS. In addition to inconsistency in results caused by the entry or exit of businesses by the Company, the consistency of the operating results of the Company has and may continue to be significantly affected by inter-period variations in its current operations, including in respect of (i) the amount of assets acquired, particularly discounted loans; (ii) the amount of resolutions of discounted loans, particularly large multi-family residential and commercial real estate loans; (iii) the amount of multi-family residential and commercial real estate loans which mature or are prepaid, particularly loans with terms pursuant to which the Company participates in the profits of the underlying real estate; and (iv) sales by the Company of loans and/or securities acquired from the Company's securitization of loans. In addition, the Company's operating results have been significantly affected by certain non-recurring items. For example, the Company has earned significant non-interest income from gains on sales of interest-earning assets and real estate owned. Gains on sales of interest-earning assets and real estate owned generally are dependent on various factors which are not within the control of the Company, including market and economic conditions and accounting regulations. In addition, during 1998, the Company took charges related to its portfolio of AAA-rated agency interest-only ("IO") strips, residual and subordinate securities available for sale, curtailment of its domestic operations and investments in OAC and OPLP. There can be no assurance that the level of gains on sales of interest-earning assets and real estate owned reported by the Company in prior periods will be repeated in future periods or that there will not be substantial inter-period variations in the results from such activities or as a result of other non-recurring items.

RISKS RELATED TO NON-TRADITIONAL OPERATING ACTIVITIES

As discussed below, the Company is engaged in a variety of businesses which generally involve more uncertainties and risks than the single-family residential lending activities historically emphasized by savings institutions. In addition, many of the Company's business activities, including its lending activities, are conducted on a nationwide basis, which reduces the risks associated with concentration in any one particular market area but involves other risks because, among other things, the Company may not be as familiar with market conditions and other relevant factors as it would be in the case of activities which are conducted in the market areas in which its executive offices and branch office are located.

DISCOUNTED LOAN ACQUISITION AND RESOLUTION ACTIVITIES. The Company's lending activities include the acquisition and resolution of non-performing or underperforming single-family (one to four units) residential loans, multi-family (over four units) residential loans and commercial real estate loans which are purchased at a discount. Non-performing and subperforming mortgage loans may presently be in default or may have a greater than normal risk of future defaults and delinquencies, as compared to newly-originated, high-quality loans of comparable type, size and geographic concentration. Returns on an investment of this type depend on the borrower's ability to make required payments or, in the event of default, the ability of the loan's servicer to foreclose and liquidate the mortgage loan. There can be no assurance that the servicer can liquidate a defaulted mortgage loan successfully or in a timely fashion.

The Company acquires discounted loans from governmental agencies, which in the early years of the program consisted primarily of the Federal Deposit Insurance Corporation (the "FDIC") and the Resolution Trust Corporation, a federal agency formed to resolve failed savings institutions which has since ceased operations, and in recent years has consisted primarily of the U.S. Department of Housing and Urban

Development. In addition to governmental agencies, the Company acquires discounted loans from various private sector sellers, such as banks, savings institutions, mortgage companies and insurance companies. Although the Company believes that a permanent market for the acquisition of non-performing and underperforming mortgage loans at a discount has emerged in recent years, there can be no assurance that the Company will be able to acquire the desired amount and type of discounted loans in future periods or that there will not be significant inter-period variations in the amount of such acquisitions. There also can be no assurance that the discount on the non-performing and underperforming loans acquired by the Company will enable the Company to resolve discounted loans in the future as profitably as in prior periods. Adverse changes in national economic conditions or in the economic conditions in regions in which the Company acquires pools of loans could impair its ability to resolve successfully loans and could have an adverse effect on the value of those loan pools. The yield on the Company's discounted portfolio also is subject to significant inter-period variations as a result of the timing of resolutions of discounted loans, particularly multi-family residential and commercial real estate loans and non-performing single-family residential loans, interest on which is recognized on a cash basis, and the mix of the overall portfolio between performing and non-performing loans. In addition, the volume of discounted loans acquired by the Company may vary over time, thereby affecting results of operations in future periods as the quantity of loans resolved in any one time period may be affected.

MULTI-FAMILY RESIDENTIAL, COMMERCIAL REAL ESTATE AND CONSTRUCTION LENDING ACTIVITIES. The Company's lending activities currently include (though to a lesser extent than in previous years) nationwide loans secured by existing commercial real estate, particularly hotels and office buildings, and existing multi-family residential real estate. In addition, from time to time the Company originates loans for the construction of multi-family residential real estate and land acquisition and development loans (again, to a lesser extent than in previous years). Multi-family residential real estate, commercial real estate and construction lending generally are considered to involve a higher degree of risk than single-family residential lending due to a variety of factors, including generally larger loan balances, the dependency on successful completion or operation of the project for repayment, the difficulties in estimating construction costs and loan terms which often require little or no amortization of the loan over its term (typically five years) and, instead, provide for a balloon payment at stated maturity. Furthermore, mezzanine loans, which are subordinate to senior loans, and construction loans generally have higher loan-to-value ratios than conventional loans. Although the Company's borrowers generally have an equity investment of 10% to 15% of total project costs, such equity may not be sufficient to protect the Company's investment in these higher-yielding loans. There can be no assurance that any multi-family residential, commercial real estate and construction lending activities engaged in by the Company risks also related to loans already made will not be adversely affected by these and the other risks related to such activities.

SUB-PRIME FAMILY RESIDENTIAL LENDING ACTIVITIES. The Company's lending activities also continue to include the origination or purchase on a nationwide basis of single-family residential loans made to borrowers who have significant equity in the properties which secure the loans but who, because of prior credit problems, the absence of a credit history or other factors, are unable or unwilling to qualify as borrowers under federal agency guidelines. These loans are offered pursuant to various programs, including programs which provide for reduced or no documentation for verifying a borrower's income and employment. Sub-prime loans present a higher level of risk of delinquency or default than loans made to more creditworthy borrowers, and may not be as saleable as loans which conform to the guidelines established by various federal agencies. While the Company believes that the business practices it employs enable it to reduce higher risks inherent in these loans, no assurance can be given that such practices will afford adequate protection against higher delinquencies, foreclosures or losses than anticipated, and as a result, the Company's financial condition or results of operation could be adversely affected.

ENVIRONMENTAL RISKS OF LOAN ACQUISITION AND LENDING ACTIVITIES.

The Company evaluates the potential for significant environmental problems prior to acquiring or originating a loan because there is a risk for any mortgage loan, particularly a multifamily residential and commercial real estate loan, that hazardous substances or other environmentally restricted substances could be discovered on the related real estate. Through foreclosure, the Company could become the owner of the real estate that secured its loan and might be required to remove such substances from the affected properties or to engage in abatement procedures at its sole cost and expense. There can be no assurance that the cost of such removal or abatement will not substantially exceed the value of the affected properties or the loans secured by such properties, that the Company would have adequate remedies against the prior owners or other responsible parties or that the Company would be able to resell the affected properties either prior to or following completion of any such removal or abatement procedures. If such environmental problems are discovered prior to foreclosure, the Company generally will not foreclose on the related loan; however, the value of such property as collateral will generally be substantially reduced, and as a result, the Company may suffer a loss upon collection of the loan.

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. The Company invests in low-income housing tax credit interests (generally limited partnerships) in order to obtain federal income tax credits which are allocated pursuant to Section 42 of the Internal Revenue Code of 1986, as amended (the "Code"). There are many uncertainties and risks associated with an investment in low-income housing tax credit interests, including the risks involved in the construction, lease-up and operation of multi-family residential real estate, the investor's ability to earn sufficient income to utilize the tax credits resulting from such investments in accordance with the requirements of the Code and the possibility of required recapture of previously-earned tax credits. In addition, there are numerous tax risks associated with tax credits resulting from potential changes to the Code.

INVESTMENTS IN MORTGAGE-RELATED SECURITIES. From time to time the Company invests in a variety of mortgage-related securities, such as senior, subordinate and residual interests in collateralized mortgage obligations ("CMOs"), including CMOs which have qualified as Real Estate Mortgage Investment Conduits. These investments include so-called stripped mortgage-related securities, in which interest coupons may be stripped from a mortgage security to create an interest-only strip, where the investor receives all of the interest cash flows and none of the principal, and a principal-only ("PO") strip, where the investor receives all of the principal cash flows and none of the interest. Some mortgage-related securities, such as IO strips, PO strips and residual interests, exhibit considerably more price volatility than mortgages or ordinary mortgage pass-through securities, due in part to the uncertain cash flows that result from changes in the prepayment rates of the underlying mortgages. Other mortgage-related securities, such as subordinate interests, also involve substantially more credit risk than the senior classes of the mortgage-related securities to which such interests relate and generally are not as liquid as such senior classes. The Company generally acquires subordinate and residual interests primarily in connection with the securitization of its loans, particularly single-family residential loans to non-conforming borrowers and discounted loans, and under circumstances in which it continues to service the loans which back the related securities. The Company has sought to offset the risk of changing interest rates on certain of its mortgage-related securities by selling U.S. Treasury futures contracts and through other hedging techniques, and believes that the resulting interest-rate sensitivity profile compliments the Company's overall exposure to changes in interest rates. See "--Economic Conditions" below. Although generally intended to reduce the effects of changing interest rates on the Company, investments in certain mortgage-related securities and hedging transactions could cause the Company to recognize losses depending on the terms of the instrument and the interest rate environment.

RISK OF FUTURE ADJUSTMENTS TO ALLOWANCES FOR LOSSES

The Company believes that it has established adequate allowances for losses for each of its loan portfolio and discounted loan portfolio in accordance with generally accepted accounting principles. Future additions to these allowances, in the form of provisions for losses on loans and discounted loans, may be necessary, however, due to changes in economic conditions, increases in loans and discounted loans and the performance of the Company's loan and discounted loan portfolios.

In addition, the OTS, as part of its examination process, periodically reviews the Company's allowances for losses and the carrying value of its assets. As a result of OTS reviews, the Company in the past has increased its allowances for losses on loans and discounted loans and written down the carrying value of certain loans. There can be no assurance that the Company will not determine, at the request of the OTS or otherwise, to further increase its allowances for losses on loans and discounted loans or adjust the carrying value of its real estate owned or other assets. Increases in the Company's provisions for losses on loans would adversely affect the Company's results of operations.

RISKS RELATED TO REAL ESTATE OWNED

GENERAL. The Company's real estate owned consists almost entirely of single-family residential real estate and multi-family residential and commercial real estate acquired by foreclosure or deed-in-lieu thereof on loans in the Company's discounted loan portfolio. Generally, real estate owned properties are non-earning assets, although multi-family residential and commercial real estate owned may provide some operating income to the Company depending on the circumstances. Such operating income may be affected by problems experienced by lessees, which may weaken their financial condition and result in failure to make rental payments when due. At any time, a lessee of the Company's properties may seek the protection of bankruptcy laws, which could result in rejection and termination of the lessee's lease and thereby cause a reduction in cash flow available for distribution to the Company. Moreover, the value of real estate can be significantly affected by adverse changes in national or local economic conditions, competition from other properties offering the same or similar services, changes in interest rates and in the availability, cost and terms of mortgage funds, acts of nature, including earthquakes, hurricanes and other natural disasters, and other factors which are beyond the control of the Company. These factors may require the establishment of provisions for losses to ensure that real estate owned properties are carried at the lower of cost or fair value, less estimated costs to dispose of the properties, which may adversely affect operations. Real estate owned also requires increased allocation of resources and expense to the management and work out of the asset, property taxes and compliance with respect to environmental laws and the Americans with Disabilities Act of 1990, which can also adversely affect operations. There can be no assurance that the amount of the Company's real estate owned will not increase in the future as a result of the Company's discounted loan acquisition and resolution activities and the Company's single-family residential, multi-family residential, commercial real estate and construction lending activities.

ENVIRONMENTAL RISKS. Operating costs and the value of real property may be affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of future legislation. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Therefore, an environmental liability could have a material adverse effect on the underlying value of a real property, and the revenue therefrom. Although the Company believes that its pre-acquisition due diligence identified all material environmental concerns which relate to its current investments in real estate and accurately assessed the costs and liabilities to be incurred by it in this regard, there can be no assurance that such investments will not raise material unanticipated environmental concern or costs in the future.

RISKS ASSOCIATED WITH ACQUISITIONS AND DIVESTITURES

Acquiring businesses and assets has been and may continue to be an important focus of the Company's strategic efforts. Any acquisitions could vary in size and may include those that are large relative to the Company. There can be no assurance that suitable acquisition candidates can be identified, that financing for such acquisitions would be available on satisfactory terms, that the Company would be able to accomplish its strategic objectives as a result of any such acquisitions, that any business or assets acquired by the Company would be integrated successfully or that integration of acquired businesses would not divert management resources or otherwise have a material adverse effect on the Company's business, financial condition or results of operations. The Company is continually evaluating possible acquisitions and engages in discussions with acquisition candidates from time to time.

In addition, in the event that the Company chooses to divest any business or sell any asset in the future, there can be no assurance that a suitable purchaser could be identified, that the Company would be able to accomplish its strategic objectives as a result of any such sale, that any proposed asset or business sold by the Company would be completed or that the separation of any such asset or business from the Company would not diminish management resources or otherwise have a material adverse effect on the Company's business, financial condition or results of operations.

ABILITY TO MANAGE GROWTH

The Company has grown rapidly in the past and may continue to grow rapidly in the future. If so, continued growth can be expected to place a significant strain on the Company's management operations, employees and resources. The Company's ability to support, manage and control continued growth is dependent upon, among other things, its ability to hire, train, supervise and manage its workforce and to continue to develop the skills necessary for the Company to compete successfully. There can be no assurance that the Company will be able to manage effectively its expanding operations or achieve growth as planned on a timely or profitable basis. If the Company is unable to manage growth effectively, its business, results of operations or financial condition could be materially adversely affected.

RISKS ASSOCIATED WITH PARTNERING

On July 28, 1998, the Company announced that it has engaged an investment bank to identify potential business partners who can enable the Company to expand its franchise both domestically and internationally. Any transaction resulting therefrom could take on many different forms, including a merger. No assurance can be given that the Company will identify a business partner and transaction that will satisfy its objectives or, if so identified, that such objectives will be achieved.

INTERNATIONAL OPERATIONS

The Company conducts business in the United States and the United Kingdom and may explore opportunities outside of these markets. The Company's U.K. operations are subject to most of the same risks associated with its U.S. operations, as well as additional risks, such as unexpected changes in U.K. and European regulatory requirements, difficulties in managing international operations, potentially adverse tax consequences, enhanced accounting and control expenses and the burden of complying with foreign laws. Changes in foreign currency exchange rates may also affect the value of the Company's U.K. assets and the gains realized from the sale of such assets. Although the Company implements hedging strategies to limit the effects of currency exchange rate fluctuations on the Company's results of operations, currency hedging strategies, like those for interest rates, may not perform their intended purpose. See "--Economic Conditions". There can be no assurance that such factors will not have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the Company's management has only limited international experience outside of the U.S. and the U.K, which could limit the Company's ability to capitalize on investment opportunities that may arise elsewhere.

REGULATION AND REGULATORY CAPITAL REQUIREMENTS

Both the Company, as a savings and loan holding company, and the Bank, as a federally-chartered savings institution, are subject to significant governmental supervision and regulation, which is intended primarily for the protection of depositors. Statutes and regulations affecting the Company and the Bank may be changed at any time, and the interpretation of these statutes and regulations by examining authorities also is subject to change. There can be no assurance that future changes in applicable statutes and regulations or in their interpretation will not adversely affect the business of the Company. The applicable regulatory authorities may, as a result of such regulation and examination, impose regulatory sanctions upon the Company or the Bank, as applicable, as well as various requirements or restrictions which could adversely affect their business activities.

A substantial portion of the Bank's operations involves businesses that are not traditionally conducted by savings institutions and, as a result, there can be no assurance that future actions by applicable regulatory authorities, or future changes in applicable statutes or regulations, will not limit or otherwise adversely affect the Bank's ability to engage in such activities.

Following an examination of the Bank in late 1996 and early 1997, the staff of the Office of Thrift Supervision (the "OTS") expressed concern about many of the Bank's non-traditional operations (which are discussed under "--Risks Related to Non-Traditional Operating Activities" above) and the adequacy of the Bank's capital in light of the Bank's lending and investment strategies. As a result of such examination, the Bank committed to the OTS to maintain, commencing on June 30, 1997, regulatory capital ratios which significantly exceed the requirements which are generally applicable to federally-chartered savings institutions such as the Bank. Specifically, the Bank has committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9% and 13%, respectively (the requirements of general applicability are 3% and 8%, respectively). At December 31, 1998, the Bank's core capital, Tier 1 risk-based capital and total risk-based capital ratios amounted to 9.07%, 11.71% and 17.26%, respectively. Based on discussions with the OTS, the Bank believes that this commitment does not affect its status as a "well-capitalized" institution, assuming the Bank's continued compliance with the regulatory capital requirements that it committed to maintain. Under applicable laws and regulations, an institution is considered to be "well-capitalized" if it maintains a total risk-based capital ratio of 10.0% or more, a Tier 1 risk-based capital ratio of 6.0% or more and a core capital (leverage) ratio of 5.0% or more and is not subject to a written agreement, order or directive issued by an appropriate agency to meet and maintain a specific capital level for any capital measure.

There can be no assurance that in the future the OTS either will agree to a decrease in the 9% core capital (leverage) ratio and the 13% total risk-based capital ratio committed to be maintained by the Bank or will not seek an increase in such requirements. Unless and until these regulatory capital requirements are decreased, the Bank's ability to leverage its capital through future growth in assets (including its ability to continue growing at historical rates) will be adversely affected, as will the Company's ability to receive dividends from the Bank, which are a primary source of payments on outstanding indebtedness and other expenses of the Company. Although the Company and its non-banking subsidiaries will not be restricted in their growth by these capital requirements, because they do not have access to the Bank's funding sources, their profitability may be different from the Bank's for particular types of businesses. In addition, there can be no assurance that the Bank will continue to meet the regulatory capital requirements that it has committed to maintain or that the OTS will not formally impose such requirements pursuant to a written agreement, order or directive, which would cause the Bank to cease to be a "well-capitalized" institution under applicable laws and regulations. In the event that the Bank ceased to be a "well-capitalized" institution, the Bank would be prohibited from accepting, renewing or rolling over its brokered and other wholesale deposits, which are its principal source of funding, without the prior approval of the FDIC, and the Bank could become subject to other regulatory restrictions on its operations.

ECONOMIC CONDITIONS

GENERAL. The success of the Company is dependent to a certain extent upon the general economic conditions in the geographic areas in which it conducts substantial business activities. Adverse changes in national economic conditions or in the economic conditions of regions in which the Company conducts substantial business likely would impair the ability of the Company to collect on outstanding loans or dispose of real estate owned and would otherwise have an adverse effect on its business, including the demand for new loans, the ability of customers to repay loans and the value of both the collateral pledged to the Company to secure its loans and its real estate owned. Moreover, earthquakes and other natural disasters could have similar effects. Although such disasters have not significantly adversely affected the Company to date, the availability of insurance for such disasters in California, in which the Company conducts substantial business activities, is severely limited. Moreover, changes in building codes and ordinances, environmental considerations and other factors also might render infeasible the use of insurance proceeds to replace damaged or destroyed property. Under such circumstances, the insurance proceeds received by a borrower or the Company might not be adequate to restore the Company's economic position with respect to the affected collateral or real estate.

EFFECTS OF CHANGES IN INTEREST RATES. The Company's operating results depend to a large extent on its net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with its interest-bearing liabilities. Changes in the general level of interest rates can affect the Company's net interest income by affecting the spread between the Company's return on interest-earning assets and the Company's cost of interest-bearing liabilities, as well as, among other things, the ability of the Company to originate loans; the value of the Company's interest-earning assets and its ability to realize gains from the sale of such assets; the average life of the Company's interest-earning assets; the value of the Company's mortgage servicing rights; and the Company's ability to obtain deposits in competition with other available investment alternatives. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond the control of the Company. Although management believes that the maturities of the Company's assets are well balanced in relation to its liabilities (which involves various estimates and assumptions, including as to how changes in the general level of interest rates will impact its assets and liabilities), there can be no assurance that the profitability of the Company would not be adversely affected during any period of changing interest rates.

POTENTIAL ADVERSE EFFECTS OF HEDGING STRATEGIES. The Company may utilize a variety of financial instruments, including interest rate swaps, caps, floors and other interest rate exchange contracts, in order to limit the effects of interest rates on its operations. Among the risks inherent with respect to the purchase and/or sale of such derivative instruments are (i) interest rate risk, which consists of the risks relating to fluctuating interest rates; (ii) basis risk, which consists of the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge costs; (iii) credit or default risk, which consists of the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder; (iv) prepayment risk, which consists of reinvestment risk to the extent the Company is not able to reinvest repayments, if any, at a yield which is comparable to the yield being generated on the particular security; (v) liquidity risk, which consists of the risk that the Company may not be able to sell a particular security at a particular price; (vi) legal enforceability risk, which consists of the risks related to the Company's ability to enforce the terms of a particular instrument or to obtain or collect upon a legal judgment in the United States in the event that the counterparty to the transaction is a foreign entity or the underlying collateral is located in a foreign jurisdiction; and (vii) volatility risk, which consists of the risk that actual volatility (i.e., the degree of uncertainty relating to the price of the underlying asset) differs from the historical volatility or "implied" volatility of the instrument.

RISKS RELATED TO RELIANCE ON BROKERED AND OTHER WHOLESALE DEPOSITS

The Company currently utilizes as its principal source of funds certificates of deposit obtained through national investment banking firms which obtain funds from their customers for deposit with the Company ("brokered deposits") and, to a lesser extent, certificates of deposit obtained from customers of regional and local investment banking firms and direct solicitation efforts by the Company of institutional investors and high net worth individuals. The Company believes that the effective cost of brokered and other wholesale deposits, as well as other non-branch dependent sources of funds, such as securities sold under agreements to repurchase ("reverse repurchase agreements") and advances from the Federal Home Loan Board ("FHLB") of New York, generally is more attractive to the Company than deposits obtained through branch offices after the general and administrative costs associated with operating a branch office network are taken into account. However, such funding sources, when compared to retail deposits attracted through a branch network, are generally more sensitive to changes in interest rates and volatility in the capital markets and their availability and terms are more likely to be subject to competitive pressures. In addition, such funding sources may be more sensitive to significant changes in the financial condition of the Company. There are also regulatory limitations on an insured institution's ability to solicit and obtain brokered deposits in certain circumstances, which currently are not applicable to the Bank because of its status as a "well capitalized" institution under applicable laws and regulations. See "--Regulation and Regulatory Capital Requirements" above. As a result of the Company's reliance on brokered and other wholesale deposits, significant changes in prevailing interest rates, in the availability of alternative investments for individual and institutional investors or in the Company's financial condition, among other factors, could have a much more significant effect on the Company's liquidity and results of operations than might be the case with an institution that attracted a greater portion of its funds from retail or core deposits obtained through a branch network.

RISKS ASSOCIATED WITH CURRENT SOURCES OF LIQUIDITY AND ADDITIONAL FINANCING FOR GROWTH

CURRENT SOURCES OF LIQUIDITY. The Company's primary sources of funds for liquidity consist of deposits, FHLB advances, reverse repurchase agreements, lines of credit and maturities and principal payments on loans and securities and proceeds from sales thereof. An additional significant source of asset liquidity stems from the Company's ability to securitize assets such as discount loans and sub-prime loans. The Company believes that its existing sources of liquidity will be adequate to fund planned activities for the foreseeable future, although there can be no assurances in this regard. Moreover, the Company continues to evaluate other sources of liquidity, such as lines of credit from unaffiliated parties, which will enhance the Company's ability to increase its liquidity position. The inability of the Company to maintain adequate sources of liquidity, including as a result of the failure to extend or replace existing lines of credit or as a result of the factors described under "--Risks Related to Reliance on Brokered and Other Wholesale Deposits" above or "Risks of Securitization" below, could have a material adverse effect on the Company's business, financial condition or results of operations.

ADDITIONAL FINANCING FOR GROWTH. The Company's ability to enter into certain business lines as opportunities emerge depends to a significant degree on its ability to obtain additional indebtedness, obtain additional equity capital or have access to other sources of capital (e.g., through partnering, joint venturing or other economic or contractual relationships). The Company has no commitments for borrowings in addition to those under its current debt securities and lines of credit, no commitments for future sales of equity capital and no commitments to provide access to other sources of capital. There can be no assurance that the Company will be successful in consummating future financing transactions, if any, on terms satisfactory to the Company, if at all. Factors which could affect the Company's access to the capital markets or other economic or contractual relationships, or the conditions under which the Company could obtain additional financing, involve the perception in the capital markets and the financial services industry of the Company's business, results of operations, leverage, financial condition and business prospects. Each of these factors is to a large extent subject to economic, financial and competitive factors beyond the Company's control. In addition, covenants under the Company's current debt securities and lines of credit do, and future ones may, significantly restrict the Company's ability to incur additional indebtedness, to issue Preferred Stock and to enter into certain other contractual relationships.

RISKS ASSOCIATED WITH HOLDING COMPANY STRUCTURE

As a holding company, the ability of the Company to pay dividends, to pay indebtedness and to conduct its financial operating activities directly or in non-banking subsidiaries will depend significantly on the receipt of dividends or other distributions from the Bank, as well as any cash reserves and other liquid assets held by the Company, any proceeds from securities offerings or other borrowings and any dividends from non-banking subsidiaries of the Company. The ability of the Bank to pay dividends or make other distributions to the Company generally is dependent on the Bank's compliance with applicable regulatory capital requirements and regulatory restrictions.

The Bank's ability to make capital distributions as a Tier 1 association pursuant to the OTS capital distribution regulation are limited by the regulatory capital levels which it has committed to the OTS it would maintain, commencing on June 30, 1997. As a result of an agreement between the Bank and the OTS to dividend subordinate and residual mortgage-related securities resulting from securitization activities conducted by the Bank, which had an aggregate carrying value of \$13.9 million at December 31, 1998, the Bank may be limited in its ability to pay cash dividends to the Company.

In addition to the foregoing limitations, there are certain contractual restrictions on the Bank's ability to pay dividends set forth in the Indenture, dated as of June 12, 1995, between the Bank and the Bank of New York, as trustee, relating to the Bank's issuance in June 1995 of \$100 million of 12% Subordinated Debentures due 2005, and there are certain contractual restrictions on the ability of the Company and the Bank to pay dividends set forth in the Indenture, dated as of September 30, 1996, between the Company and Bank One, Columbus, NA, as trustee, relating to the Company's issuance in September 1996 of \$125 million of 11.875% Notes due 2003, as well as in the Indenture, dated as of August 12, 1997, between the Company and The Chase Manhattan Bank, as trustee, relating to the Company's issuance in August 1997 of \$125 million of 10.875% Junior Subordinated Debentures due 2027. In addition, the right of the Company to participate in any distribution of assets of any subsidiary, including the Bank, upon such subsidiary's liquidation or reorganization or otherwise, will be subject to the prior claims of creditors of that subsidiary, except to the extent that any claims of the Company as a creditor of such subsidiary may be recognized as such.

RISKS OF SECURITIZATION

The Company has historically generated a significant amount of revenues, earnings and cash flows from its pooling and selling through securitizations of mortgages and other loans originated or purchased by the Company. Adverse changes in the secondary market for such loans could impair the Company's ability to originate or sell mortgages and other loans on a favorable or timely basis. Accordingly, such impairments could have an adverse effect upon the Company's business and results of operations. Market and other considerations, including rating agency requirements, could also affect the timing of such transactions. Any delay in the sale of loans beyond the reporting period in which such sale is anticipated to take place would delay any expected gains and adversely affect the Company's reported earnings for such reporting period. In addition, the Company retains some degree of credit risk on substantially all loans sold. During the period of time that loans are held pending sale, the Company is at risk for loan delinquencies and defaults and the risk that the rapid increase in interest rates would result in a decline in the value of loans to potential purchasers. Following the sale of loans through a securitization, the Company's direct risk with respect to loan delinquency or default on such loan is limited to those circumstances in which it is required to repurchase such loan due to a breach of a representation or warranty in connection with the securitization.

COMPETITION

The businesses in which the Company is engaged generally are highly competitive. The acquisition of discounted loans is particularly competitive, as acquisitions of such loans are often based on competitive bidding. The Company also encounters significant competition in connection with its other lending activities, its investment activities, its deposit-gathering activities and its servicing activities. Many of the Company's competitors are significantly larger than the Company and have access to greater capital and other resources. In addition, many of the Company's competitors are not subject to the same extensive federal regulation that govern federally-insured institutions such as the Bank and their holding companies. As a result, many of the Company's competitors have advantages over the Company in conducting certain businesses and providing certain services.

POTENTIAL CONFLICTS OF INTEREST INVOLVING OCWEN ASSET INVESTMENT CORP.

The Company will be subject to various potential conflicts of interest arising from the relationship between Ocwen Asset Investment Corp. ("OAC"), a real estate investment trust that specializes in investments in real estate and real estate-related assets in which the Company also may invest, directly or indirectly, through the Bank, and the Company and Ocwen Capital Corporation ("OCC"), a wholly-owned subsidiary of the Company that manages OAC. Historically, OAC has invested primarily in (i) subordinate and residual interests in commercial and residential mortgage-backed securities; (ii) distressed commercial and multi-family residential real estate, including properties acquired by a mortgage lender by foreclosure or by deed-in-lieu thereof and underperforming or otherwise distressed real property (collectively, "Distressed Real Estate"); and (iii) single-family residential loans, multi-family residential loans and commercial real estate loans, including in each case loans that are current in accordance with their terms or are non-performing or underperforming. The Company does not intend to invest in subordinate classes of mortgage-related securities which are not created in connection with its securitization activities or Distressed Real Estate and, as a result, the Company, the Bank and OCC generally have agreed to give OAC an exclusive right to purchase such subordinated classes of mortgage-related securities and Distressed Real Estate. Both the Company and OAC may engage in the acquisition and resolution of mortgage loans, including non-performing and underperforming mortgage loans, and from time to time each such entity also may invest in various non-subordinated classes of mortgage-related securities. In this regard, OCC, which, in addition to managing OAC, conducts the large multi-family residential and commercial real estate lending activities of the Company, has in the past acquired loans for OAC (in order to enable OAC to leverage the proceeds from its initial public offering) rather than for the Company. As a result of the similarity of the Company's and OAC's strategies to invest in certain assets, there can be no assurance that investment opportunities which

previously would have been taken by the Company will not be allocated to OAC. In addition, from time to time the Company may sell loans, securities and real estate owned to OAC, which also would involve potential conflicts of interest. Although the Company and OAC have established certain policies and procedures in order to ensure that sales and other transactions between the Company, the Bank and/or OCC, on the one hand, and OAC, on the other hand (including, without limitation, the base compensation to be paid to OCC by OAC for managing its day-to-day operations), are conducted on an arms'-length basis on substantially the same terms as would be present in transactions with unaffiliated parties, there can be no assurance that such procedures will be sufficient in all situations to solve potential conflicts of interest.

IMPORTANCE OF THE CHIEF EXECUTIVE OFFICER

William C. Erbey, Chairman and Chief Executive Officer of the Company, has had, and will continue to have, a significant role in the development and management of the Company's business. The loss of his services could have an adverse effect on the Company. The Company and Mr. Erbey are not parties to an employment agreement, and the Company currently does not maintain key man life insurance relating to Mr. Erbey or any of its other officers.

CONTROL OF CURRENT STOCKHOLDERS

As of March 15, 1999, the Company's directors and executive officers and their affiliates in the aggregate beneficially owned or controlled 51.9% of the outstanding Common Stock of the Company, including 32.0% owned or controlled by William C. Erbey, Chairman and Chief Executive Officer of the Company, and 15.4% owned or controlled by Barry N. Wish, currently a director and formerly the Chairman of the Company. As a result, these shareholders, acting together, would be able effectively to control virtually all matters requiring approval by the shareholders of the Company, including amendment of the Company's Articles of Incorporation, the approval of mergers or similar transactions and the election of all directors.

SOFTWARE PRODUCT DEVELOPMENT; TECHNOLOGICAL CHANGE

The Company's wholly-owned subsidiary, Ocwen Technology Xchange, Inc. ("OTX"), licenses the Company's mortgage loan servicing resolution and work flow technology to third parties in the mortgage and real estate industries. The products offered by OTX have resulted from the enhancement of software products acquired through the Company's purchases of Amos, Inc., a developer of mortgage loan servicing software, and DTS Communication, Inc., a real estate technology company, with the Company's own proprietary technology. While the Company believes it has developed products attractive to the mortgage and real estate industries, the computer software industry is subject to rapid technological change, changing customer requirements, frequent new product introductions and evolving industry standards that may render existing products and services obsolete.

There can be no assurance that OTX will not experience future difficulties that could delay or prevent the successful development, introduction and marketing of its products, or that its products and product enhancements will meet the requirements of the marketplace and achieve market acceptance. If OTX is unable to develop and introduce products of marketable quality in a timely manner in response to changing market conditions or customer requirements, the Company's business, operating results and financial condition could be adversely affected.

DEPENDENCE ON PROPRIETARY INFORMATION

The Company's success is in part dependent upon its proprietary information and technology. The Company relies on a combination of copyright, trade secret and contract protection to establish and protect its proprietary rights in its products and technology. The Company generally enters into confidentiality agreements with its management and technical staff and limits access to and distribution of its proprietary information. There can be no assurance that the steps taken by the Company in this regard will be adequate to deter misappropriation of its proprietary rights or information or independent third party development of substantially similar products and technology. Although the Company believes that its products and technology do not infringe any proprietary rights of others, the growing use of copyrights and patents to protect proprietary rights has increased the risk that third parties will increasingly assert claims of infringement in the future.

YEAR 2000 DATE CONVERSION

The Company is in the process of establishing the readiness of its computer systems and applications for the year 2000 with no effect on customers or disruption to business operations. The Company has established a project plan to achieve year 2000 readiness of its mission critical and non-mission critical systems, including hardware infrastructure and software applications. To date, the Company has substantially completed the systems identification, evaluation, remediation and validation phases of the project. The Company has retained a business continuity expert to prepare contingency plans and assist with the testing and validation of these plans. Until this phase is completed, the Company will not know the full extent of the risks associated with year 2000 readiness, including an analysis of the most reasonably likely worst case year 2000 scenario. In addition, while the Company expects its year 2000 conversion will be completed on a timely basis and within the anticipated budget of approximately \$2.0 million, no assurance can be given in that regard or that third-party computer systems and applications will not experience problems associated with the recognition and processing of the year 2000 and beyond, any of which could have a material adverse effect on the Company's business, results of operations or financial condition.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM OCWEN FINANCIAL CORPORATION'S CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AND STATEMENT OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS FROM ITS FILING ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998.

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OCWEN FINANCIAL CORPORATION
1,000
USD

12-MOS
DEC-31-1998
JAN-01-1998
DEC-31-1998
1

	120,805	
49,374		
275,000		
0		
593,347		
10,825		
10,825		
	1,434,670	
	26,330	
	3,308,079	
	2,175,016	
	251,336	
94,759		
	225,000	
0		
	0	
	608	
	435,768	
3,308,079		
	256,247	
	43,517	
	7,930	
	307,694	
	116,584	
	184,893	
122,801		
	18,509	
(121,589)		
	239,933	
(32,366)		
(32,366)		
	0	
	0	
	(1,200)	
	(.02)	
	(.02)	
	10.82	
	672,801	
	0	
	0	
	0	
	27,188	
	20,350	
	421	
	26,330	
26,330		
	0	
	0	

Tag 9-03(7) includes Loans Available for Sale of \$177,847, Loan Portfolio of \$230,312, and Discount Loan Portfolio of \$1,026,511.

Tag 9-03(7)(2) includes Allowance for Loan Losses on Loan Portfolio of \$4,928 and on the Discount Loan Portfolio of \$21,402.

Tag 9-03(13) includes Securities sold under agreements to repurchase of \$72,051 and Obligations outstanding under lines of credit of \$179,285.

Tag 9-04(1) includes Interest Income on Loans Available for Sale of \$56,791, Loan Portfolio of \$38,609, and Discount Loans of \$160,847.

Tag 9-04(13)(h) includes Gains on sale of securities of \$8,125 and an impairment loss on AAA-rated agency IO's of \$129,714.

Tag 9-04(14) includes Non-Interest expense of \$226,394 and Distributions on Company obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company of \$13,594.