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

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from: ___________________ to ___________________

Commission File No. 1-13219

OCWEN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large Accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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

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

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

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

Number of shares of common stock outstanding as of May 1, 2019: 134,438,610 shares

OCWEN FINANCIAL CORPORATION
FORM 10-Q
TABLE OF CONTENTS

		PAGE
PART I - FINANCIAL INFORMATION		
Item 1.	Unaudited Consolidated Financial Statements	3
	Consolidated Balance Sheets at March 31, 2019 and December 31, 2018	4
	Consolidated Statements of Operations for the Three Months Ended March 31, 2019 and 2018	5
	Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended March 31, 2019 and 2018	6
	Consolidated Statements of Changes in Equity for the Three Months Ended March 31, 2019 and 2018	7
	Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2019 and 2018	8
	Notes to Unaudited Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	55
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	85
Item 4.	Controls and Procedures	88
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	89
Item 1A.	Risk Factors	89
Item 6.	Exhibits	89
Signatures		90

FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact included in this report, including, without limitation, statements regarding our financial position, business strategy and other plans and objectives for our future operations, are forward-looking statements.

These statements include declarations regarding our management's beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could", "intend," "consider," "expect," "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such terms or other comparable terminology. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Our business has been undergoing substantial change, which has magnified such uncertainties. Readers should bear these factors in mind when considering forward-looking statements and should not place undue reliance on such statements. Forward-looking statements involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those suggested by such statements. In the past, actual results have differed from those suggested by forward-looking statements and this may happen again. Important factors that could cause actual results to differ include, but are not limited to, the risks discussed or referenced under Item 1A, Risk Factors and the following:

- uncertainty related to claims, litigation, cease and desist orders and investigations brought by government agencies and private parties regarding our servicing, foreclosure, modification, origination and other practices, including uncertainty related to past, present or future investigations, litigation, cease and desist orders and settlements with state regulators, the Consumer Financial Protection Bureau (CFPB), state attorneys general, the Securities and Exchange Commission (SEC), the Department of Justice or the Department of Housing and Urban Development (HUD) and actions brought under the False Claims Act by private parties on behalf of the United States of America regarding incentive and other payments made by governmental entities;
- adverse effects on our business because of regulatory investigations, litigation, cease and desist orders or settlements;
- reactions to the announcement of such investigations, litigation, cease and desist orders or settlements by key counterparties or others, including lenders, the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the GSEs) and the Government National Mortgage Association (Ginnie Mae);
- our ability to reach settlements with regulatory agencies and state attorneys general on reasonable terms and to comply with the terms of our settlements;
- increased regulatory scrutiny, and media attention;
- any adverse developments in existing legal proceedings or the initiation of new legal proceedings;
- our ability to effectively manage our regulatory and contractual compliance obligations;
- our ability to comply with our servicing agreements, including our ability to comply with our agreements with, and the requirements of, Fannie Mae, Freddie Mac and Ginnie Mae and maintain our seller/servicer and other statuses with them;
- the adequacy of our financial resources, including our sources of liquidity and ability to sell, fund and recover advances, repay borrowings, meet our MSR or other asset investment objectives and comply with our debt agreements, including the financial and other covenants contained in them;
- our ability to invest in MSRs or other assets at adequate risk-adjusted returns;
- limits on our ability to repurchase our own stock as a result of regulatory settlements and other conditions;
- our servicer and credit ratings as well as other actions from various rating agencies, including the impact of prior or future downgrades of our servicer and credit ratings;
- failure of our information technology and other security measures or breach of our privacy protections, including any failure to protect customers' data;
- volatility in our stock price;
- the characteristics of our servicing portfolio, including prepayment speeds along with delinquency and advance rates;
- our ability to execute on our cost re-engineering efforts to reduce operating costs while minimizing disruption from our human capital and site closure initiatives;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;
- uncertainty related to legislation, regulations, regulatory agency actions, regulatory examinations, government programs and policies, industry initiatives and evolving best servicing practices;
- the dependence of our business on New Residential Investment Corp. (NRZ), our largest client and the source for a substantial portion of our advance funding for non-agency mortgage servicing rights;
- our ability to timely transfer mortgage servicing rights under our agreements with NRZ and our ability to maintain our long-term relationship with NRZ;

- our ability to successfully integrate PHH Corporation (PHH) and its business, and to realize the strategic objectives and other benefits of the acquisition at the time anticipated or at all, including our ability to integrate, maintain and enhance PHH's servicing, subservicing and other business relationships, including its relationship with NRZ;
- our ability to transition to the PHH servicing technology platform within the time and cost parameters anticipated and without significant disruptions to our customers and operations;
- our ability to efficiently merge our primary licensed subsidiaries into PHH Mortgage Corporation (PMC) and reduce organizational complexity through our corporate reorganization initiatives;
- the loss of the services of our senior managers and our ability to execute effective executive officer leadership transitions;
- uncertainty related to general economic and market conditions, delinquency rates, home prices and disposition timelines on foreclosed properties;
- uncertainty related to the actions of loan owners and guarantors, including mortgage-backed securities investors, GSEs, Ginnie Mae and trustees regarding loan put-backs, penalties and legal actions;
- uncertainty related to the GSEs substantially curtailing or ceasing to purchase our conforming loan originations or the Federal Housing Administration (FHA) of the HUD or Department of Veterans Affairs (VA) ceasing to provide insurance;
- uncertainty related to the processes for judicial and non-judicial foreclosure proceedings, including potential additional costs or delays or moratoria in the future or claims pertaining to past practices;
- our ability to adequately manage and maintain real estate owned (REO) properties and vacant properties collateralizing loans that we service;
- uncertainty related to our ability to continue to collect certain expedited payment or convenience fees and potential liability for charging such fees;
- uncertainty related to our reserves, valuations, provisions and anticipated realization of assets;
- uncertainty related to the ability of third-party obligors and financing sources to fund servicing advances on a timely basis on loans serviced by us;
- uncertainty related to the ability of our technology vendors to adequately maintain and support our systems, including our servicing systems, loan originations and financial reporting systems;
- our ability to realize anticipated future gains from future draws on existing loans in our reverse mortgage portfolio;
- our ability to effectively manage our exposure to interest rate changes and foreign exchange fluctuations;
- uncertainty related to our ability to adapt and grow our business, including our new business initiatives;
- our ability to meet capital requirements established by, or agreed with, regulators or counterparties;
- our ability to protect and maintain our technology systems and our ability to adapt such systems for future operating environments; and
- uncertainty related to the political or economic stability of foreign countries in which we have operations.

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the SEC including our Annual Report on Form 10-K for the year ended December 31, 2018 and our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K since such date. Forward-looking statements speak only as of the date they were made and we disclaim any obligation to update or revise forward-looking statements whether because of new information, future events or otherwise.

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

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

	March 31, 2019	December 31, 2018
Assets		
Cash	$ 263,188	$ 329,132
Restricted cash (amounts related to variable interest entities (VIEs) of $16,499 and $20,968)	63,379	67,878
Mortgage servicing rights, at fair value	1,400,191	1,457,149
Advances, net	225,360	249,382
Match funded advances (related to VIEs)	868,720	937,294
Loans held for sale ($153,140 and $176,525 carried at fair value)	222,687	242,622
Loans held for investment, at fair value (amounts related to VIEs of $26,237 and $26,520)	5,753,154	5,498,719
Receivables, net	197,043	198,262
Premises and equipment, net	69,316	33,417
Other assets ($7,639 and $7,568 carried at fair value)(amounts related to VIEs of $2,214 and $2,874)	474,172	379,567
Assets related to discontinued operations	—	794
Total assets	$ 9,537,210	$ 9,394,216
Liabilities and Equity		
Liabilities		
HMBS-related borrowings, at fair value	$ 5,614,688	$ 5,380,448
Match funded liabilities (related to VIEs)	649,384	778,284
Other financing liabilities ($975,778 and $1,057,671 carried at fair value) (amounts related to VIEs of $24,562 and $24,815)	1,043,698	1,127,613
Other secured borrowings, net	436,982	382,538
Senior notes, net	448,143	448,727
Other liabilities ($4,209 and $4,986 carried at fair value)	832,721	703,636
Liabilities related to discontinued operations	—	18,265
Total liabilities	9,025,616	8,839,511
Commitments and Contingencies (Notes 20 and 21)		
Stockholders' Equity		
Common stock, $.01 par value; 200,000,000 shares authorized; 133,946,055 and 133,912,425 shares issued and outstanding at March 31, 2019 and December 31, 2018 respectively	1,339	1,339
Additional paid-in capital	555,046	554,056
Retained earnings (accumulated deficit)	(40,911)	3,567
Accumulated other comprehensive loss, net of income taxes	(3,880)	(4,257)
Total stockholders' equity	511,594	554,705
Total liabilities and stockholders' equity	$ 9,537,210	$ 9,394,216

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

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

	For the Three Months Ended March 31,	
	2019	2018
Revenue		
Servicing and subservicing fees	$ 255,863	$ 222,138
Gain on loans held for sale, net	17,595	19,800
Other revenue, net	30,430	18,319
Total revenue	303,888	260,257
Expenses		
MSR valuation adjustments, net	108,998	17,129
Compensation and benefits	94,696	78,075
Servicing and origination	28,698	31,418
Technology and communications	24,435	22,803
Occupancy and equipment	16,589	12,614
Professional services	3,441	37,770
Other expenses	3,248	6,692
Total expenses	280,105	206,501
Other income (expense)		
Interest income	4,558	2,700
Interest expense	(70,445)	(50,810)
Bargain purchase gain	(285)	—
Other, net	1,305	(681)
Total other expense, net	(64,867)	(48,791)
Income (loss) before income taxes	(41,084)	4,965
Income tax expense	3,410	2,348
Net income (loss)	(44,494)	2,617
Net income attributable to non-controlling interests	—	(69)
Net income (loss) attributable to Ocwen stockholders	$ (44,494)	$ 2,548
Income (loss) per share attributable to Ocwen stockholders		
Basic	$ (0.33)	$ 0.02
Diluted	$ (0.33)	$ 0.02
Weighted average common shares outstanding		
Basic	133,918,986	133,121,465
Diluted	133,918,986	134,606,929

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

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

	For the Three Months Ended March 31,	
	2019	2018
Net income (loss)	$ (44,494)	$ 2,617
Other comprehensive income, net of income taxes:		
Reclassification adjustment for losses on cash flow hedges included in net income (1)	34	41
Change in unfunded pension plan obligation liability	337	—
Other	6	—
Comprehensive income (loss)	(44,117)	2,658
Comprehensive income attributable to non-controlling interests	—	(69)
Comprehensive income (loss) attributable to Ocwen stockholders	$ (44,117)	$ 2,589

(1) These losses are reclassified to Other, net in the unaudited consolidated statements of operations.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(Dollars in thousands)

	Ocwen Stockholders						
	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Non-controlling Interest in Subsidiaries	Total
	Shares	Amount					
Balance at December 31, 2018	133,912,425	$ 1,339	$ 554,056	$ 3,567	$ (4,257)	$ —	$ 554,705
Net loss	—	—	—	(44,494)	—	—	(44,494)
Cumulative effect of adoption of FASB Accounting Standards Update No. 2016-02	—	—	—	16	—	—	16
Equity-based compensation and other	33,630	—	990	—	—	—	990
Other comprehensive income, net of income taxes	—	—	—	—	377	—	377
Balance at March 31, 2019	133,946,055	$ 1,339	$ 555,046	$ (40,911)	$ (3,880)	$ —	$ 511,594
Balance at December 31, 2017	131,484,058	$ 1,315	$ 547,057	$ (2,083)	$ (1,249)	$ 1,834	$ 546,874
Net income	—	—	—	2,548	—	69	2,617
Cumulative effect of fair value election - Mortgage servicing rights	—	—	—	82,043	—	—	82,043
Cumulative effect of adoption of FASB Accounting Standards Update No. 2016-16	—	—	—	(5,621)	—	—	(5,621)
Issuance of common stock	1,875,000	19	5,700	—	—	—	5,719
Equity-based compensation and other	46,527	—	669	—	—	—	669
Other comprehensive income, net of income taxes	—	—	—	—	41	—	41
Balance at March 31, 2018	133,405,585	$ 1,334	$ 553,426	$ 76,887	$ (1,208)	$ 1,903	$ 632,342

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

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

	For the Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net income (loss)	$ (44,494)	$ 2,617
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
MSR valuation adjustments, net	108,998	17,129
Gain on sale of mortgage servicing rights, net	(369)	(958)
Provision for bad debts	9,170	15,336
Depreciation	8,551	6,527
Equity-based compensation expense	857	575
Gain on valuation of financing liability	(26,237)	(16,712)
Net gain on valuation of mortgage loans held for investment and HMBS-related borrowings	(23,487)	(8,975)
Gain on loans held for sale, net	(11,112)	(8,832)
Origination and purchase of loans held for sale	(304,182)	(358,078)
Proceeds from sale and collections of loans held for sale	305,322	383,734
Changes in assets and liabilities:		
Decrease in advances and match funded assets	91,114	71,096
Decrease in receivables and other assets, net	23,627	57,949
Decrease in other liabilities	(36,755)	(68,128)
Other, net	(339)	6,131
Net cash provided by operating activities	100,664	99,411
Cash flows from investing activities		
Origination of loans held for investment	(209,264)	(251,086)
Principal payments received on loans held for investment	104,630	82,719
Purchase of mortgage servicing rights	(48,641)	—
Proceeds from sale of mortgage servicing rights	868	123
Proceeds from sale of advances	1,070	4,286
Issuance of automotive dealer financing notes	—	(19,642)
Collections of automotive dealer financing notes	—	49,756
Additions to premises and equipment	(531)	(2,983)
Other, net	525	916
Net cash used in investing activities	(151,343)	(135,911)
Cash flows from financing activities		
Repayment of match funded liabilities, net	(128,900)	(198,022)
Proceeds from mortgage loan warehouse facilities and other secured borrowings	616,891	801,155
Repayment of mortgage loan warehouse facilities and other secured borrowings	(727,711)	(964,104)
Proceeds from issuance of additional senior secured term loan (SSTL)	119,100	—
Repayment of SSTL borrowings	(6,358)	(4,188)
Payment of debt issuance costs related to SSTL	(1,284)	—
Proceeds from sale of mortgage servicing rights accounted for as a financing	577	279,586
Proceeds from sale of reverse mortgages (HECM loans) accounted for as a financing (HMBS-related borrowings)	210,563	222,825
Repayment of HMBS-related borrowings	(102,389)	(80,811)
Other, net	(253)	(74)
Net cash (used in) provided by financing activities	(19,764)	56,367
Net increase (decrease) in cash and restricted cash	(70,443)	19,867
Cash and restricted cash at beginning of year	397,010	302,560
Cash and restricted cash at end of period	$ 326,567	$ 322,427
Supplemental non-cash investing and financing activities		
Issuance of common stock in connection with litigation settlement	$ —	$ 5,719
Recognition of gross right-of-use asset and lease liability upon adoption of FASB Accounting Standards Update No. 2016-02:		

Right-of-use asset	66,231	—
Lease liability	66,247	—
Transfers of loans held for sale to real estate owned	1,791	1,195

The following table provides a reconciliation of cash and restricted cash reported within the unaudited consolidated balance sheets that sums to the total of the same such amounts reported in the unaudited consolidated statements of cash flows:

	March 31, 2019	March 31, 2018
Cash	$ 263,188	$ 285,653
Restricted cash and equivalents:		
Debt service accounts	22,087	27,496
Other restricted cash	41,292	9,278
Total cash and restricted cash reported in the statements of cash flows	$ 326,567	$ 322,427

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

Note 1 – Organization, Business Environment and Basis of Presentation

Organization

Ocwen Financial Corporation (NYSE: OCN) (Ocwen, we, us and our) is a financial services holding company which, through its subsidiaries, originates and services loans. We are headquartered in West Palm Beach, Florida with offices located throughout the United States (U.S.) and in the United States Virgin Islands (USVI) and with operations located in India and the Philippines. Ocwen is a Florida corporation organized in February 1988.

Ocwen owns all of the common stock of its primary operating subsidiary, Ocwen Mortgage Servicing, Inc. (OMS) and PHH Corporation (PHH), and directly or indirectly owns all of the outstanding stock of its other primary operating subsidiaries: Ocwen Loan Servicing, LLC (OLS), PHH Mortgage Corporation (PMC), Ocwen Financial Solutions Private Limited (OFSPL) and Liberty Home Equity Solutions, Inc. (Liberty).

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

We originate, sell and securitize conventional (conforming to the underwriting standards of Fannie Mae or Freddie Mac; collectively referred to as Agency loans) and government-insured (Federal Housing Administration (FHA) or Department of Veterans Affairs (VA)) forward mortgages. The GSEs or Ginnie Mae guarantee these mortgage securitizations. We originate Home Equity Conversion Mortgages (HECM, or reverse mortgages) that are insured by the FHA and are an approved issuer of Home Equity Conversion Mortgage-Backed Securities (HMBS) that are guaranteed by Ginnie Mae.

We had a total of approximately 7,000 employees at March 31, 2019 of which approximately 4,000 were located in India and approximately 500 were based in the Philippines. Our operations in India and the Philippines primarily provide internal support services, principally to our loan servicing business and our corporate functions. Of our foreign-based employees, nearly 80% were engaged in supporting our loan servicing operations as of March 31, 2019.

Business Environment

We are facing certain challenges and uncertainties that could have significant adverse effects on our business, financial condition, liquidity and results of operations. The ability of management to appropriately address these challenges and uncertainties in a timely manner is critical to our ability to operate our business successfully.

Losses have significantly eroded stockholders' equity and weakened our financial condition. Our near-term priority is to return to profitability in the shortest timeframe possible within an appropriate risk and compliance environment. We believe our acquisition of PHH provided us with the opportunity to transform into a stronger, more efficient company better able to serve our customers and clients, and positioned us for a return to growth and profitability. See Note 2 – Business Acquisition for additional information regarding the acquisition of PHH.

Now that we have consummated our acquisition of PHH, if we can execute on our five key initiatives, we believe we will drive stronger financial performance.

First, we must successfully execute on the integration of PHH's business with ours, including a smooth transition onto the Black Knight Financial Services, Inc. (Black Knight) LoanSphere MSP® servicing system (Black Knight MSP). From the date of acquisition through April 30, 2019, we have transferred approximately 470,000 loans to Black Knight MSP. We expect to complete the transfer of the rest of the portfolio in the second quarter of 2019.

Second, we must re-engineer our cost structure to go beyond eliminating redundant costs through the integration process. Our cost re-engineering plans address organizational, process and control redesign, human capital planning, off-shore utilization, strategic sourcing and facilities rationalization. As part of our cost re-engineering plans, we expect to reduce total staffing levels significantly and to close a number of our U.S. facilities. We believe these steps are necessary in order to drive stronger financial performance and, in the longer term, simplify our operations.

We anticipate that a substantial portion of our expense reductions, and the related re-engineering costs, will be realized in the second half of 2019 following the completion of the transition onto the Black Knight MSP servicing system and the completion of the mergers of our primary operating entities into PMC. We successfully completed the first phase of our entity mergers during the quarter, merging Homeward Residential Inc. into PMC, with PMC being the surviving corporation. We are planning to complete the merger of OLS into PMC, with PMC being the surviving corporation, during the second quarter of 2019.

Third, we must replenish our servicing portfolio through expanding our lending business and permissible MSR acquisitions that are prudent and well-executed with appropriate financial return targets and return to a focus on growth. During the quarter we closed MSR acquisitions with $4.9 billion unpaid principal balance (UPB) and, as of March 31, 2019, have been awarded approximately $25.5 billion UPB in connection with acquisitions that are expected to close in the second quarter of 2019, subject to negotiation and execution of purchase documentation and satisfaction of customary closing conditions. Our goal is to maintain, at a minimum, a servicing portfolio of at least $260.0 billion in UPB.

Fourth, we must ensure that we continue to manage our balance sheet to provide a solid platform for executing on our growth and other initiatives. On March 18, 2019, we increased our Senior Secured Term Loan (SSTL) by $120.0 million, providing incremental liquidity to address maturing debt assumed in the PHH acquisition. In the second quarter, we are planning to establish financing facilities secured by existing and purchased MSRs that will initially provide up to $300.0 million in committed borrowings and fund the majority of the initial capital we believe is needed to support our 2019 growth initiatives.

Finally, we must fulfill our regulatory commitments and resolve our remaining legal and regulatory matters on satisfactory terms. Our business, operating results and financial condition have been significantly impacted in recent periods by regulatory actions against us and by significant litigation matters. Should the number or scope of regulatory or legal actions against us increase or expand or should we be unable to reach reasonable resolutions in existing regulatory and legal matters, our business, reputation, financial condition, liquidity and results of operations could be materially and adversely affected, even if we are successful in our ongoing efforts to drive stronger financial performance. See Note 19 – Regulatory Requirements and Note 21 – Contingencies for further information.

Our ability to execute on our key initiatives is not certain and is dependent on the successful execution of several complex actions, including the Black Knight MSP conversion, entity mergers, U.S. facilities consolidation and organizational redesign and headcount reductions, as well as the absence of significant unforeseen costs, including regulatory or legal costs, that could negatively impact our cost re-engineering efforts. There can be no assurances that the desired strategic and financial benefits of these actions will be realized.

Regarding the current maturities of our borrowings, as of March 31, 2019 we have approximately $720.4 million of debt outstanding under facilities coming due in the next 12 months. Portions of our match funded facilities and all of our mortgage loan warehouse facilities have 364-day terms consistent with market practice. We have historically renewed these facilities on or before their expiration in the ordinary course of financing our business. We expect to renew, replace or extend all such borrowings to the extent necessary to finance our business on or prior to their respective maturities consistent with our historical experience.

Our debt agreements contain various qualitative and quantitative events of default provisions that include, among other things, noncompliance with covenants, breach of representations, or the occurrence of a material adverse change. If a lender were to allege an event of default and we are unable to avoid, remedy or secure a waiver of such alleged default, we could be subject to adverse actions by our lenders that could have a material adverse impact on us. In addition, OLS, PMC and Liberty are parties to seller/servicer agreements and/or subject to guidelines and regulations (collectively, seller/servicer obligations) with one or more of the GSEs, the Department of Housing and Urban Development (HUD), FHA, VA and Ginnie Mae. To the extent these requirements are not met or waived, the applicable agency may, at its option, utilize a variety of remedies including requirements to provide certain information or take actions at the direction of the applicable agency, requirements to deposit funds as security for our obligations, sanctions, suspension or even termination of approved seller/servicer status, which would prohibit future originations or securitizations of forward or reverse mortgage loans or servicing for the applicable agency. Any of these actions could have a material adverse impact on us. See Note 13 – Borrowings, Note 19 – Regulatory Requirements and Note 21 – Contingencies for further information.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions of the Securities and Exchange Commission (SEC) to Form 10-Q and SEC Regulation S-X, Article 10, Rule 10-01 for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The results of operations and other data for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2019. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Use of Estimates and Assumptions

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

Reclassifications

Within the Other income (expense) section of the unaudited statement of operations for the three months ended March 31, 2018, we reclassified Gain on sale of mortgage servicing rights, net of $1.0 million to Other, net to conform to the current year presentation.

Certain amounts in the unaudited consolidated statement of cash flows for the three months ended March 31, 2018 have been reclassified to conform to the current year presentation as follows:

- Within the Cash flows from operating activities section, we reclassified Amortization of debt issuance costs of $0.7 million to Other, net.
- Within the Cash flows from financing activities section, we reclassified repayments of the SSTL of $4.2 million from Repayment of mortgage loan warehouse facilities and other secured borrowings to a new separate line item (Repayment of SSTL borrowings).

These reclassifications had no impact on our consolidated cash flows from operating, investing or financing activities.

Recently Adopted Accounting Standards

Leases (Accounting Standards Update (ASU) 2016-02, ASU 2018-10, ASU 2018-11 and ASU 2019-01)

This ASU requires a lessee to recognize right-of-use (ROU) assets and lease liabilities on the balance sheet, regardless of whether the lease is classified as a finance or operating lease.

We adopted the new leasing guidance on January 1, 2019, and we elected practical expedients permitted by the new standard which provided us transition relief when assessing leases that commenced prior to the adoption date, including determining whether existing contracts are or contain leases, the classification of such leases as operating or financing, and the accounting for initial direct costs.

The adoption resulted in the recognition of a cumulative-effect adjustment to the opening balance of Retained earnings, the recognition of a gross ROU asset and lease liability, and the reclassification of existing balances for our leases as follows:

	Balances as of December 31, 2018 (1)	Recognition of Gross ROU Asset and Lease Liability	Reclassification of Existing Balances	Balances January 1, 2019 after Transition Adjustments (2)
Premises and Equipment:				
Right-of-use assets	$ —	$ 66,231	$ (21,438)	$ 44,793
Other Assets:				
Prepaid expenses (rent)	977	—	(977)	—
Other Liabilities:				
Liability for lease abandonments and deferred rent	(5,498)	—	5,498	—
Lease liability	—	(66,247)	977	65,270
Liabilities related to discontinued operations:				
Liability for lease abandonments (3)	(15,940)	—	15,940	—
Retained Earnings:				
Cumulative effect of adopting ASU 2016-02	—	16	—	16

(1) Represents amounts related to leases impacted by the adoption of this ASU that were included in our December 31, 2018 consolidated balance sheet.
(2) ROU assets as of January 1, 2019 after transition adjustments includes $30.4 million related to premises located in the U.S., $13.6 million related to premises located in India and the Philippines, and $0.7 million related to equipment.
(3) Represents lease impairments recognized by PHH prior to the acquisition.

Our leases include non-cancelable operating leases for premises and equipment with maturities extending to 2025, exclusive of renewal option periods. At lease commencement date, we estimate the ROU assets and lease liability at present value using our estimated incremental borrowing rate of 7.5%. We elected to recognize ROU assets and lease liabilities that arise from short-term leases. A maturity analysis of our lease liability as of March 31, 2019 is summarized as follows:

Annual obligation for the twelve months ended March 31,	
2020	$ 17,914
2021	16,227
2022	15,467
2023	11,431
2024	2,400
Thereafter	1,235
	64,674
Less: Adjustment to present value	(4,617)
Total minimum lease payments, net	$ 60,057

Restricted cash includes a $23.2 million deposit as collateral for an irrevocable standby letter of credit issued in connection with one of our leased facilities. This letter of credit requirement under the terms of the lease agreement is primarily the result of PHH not meeting certain credit rating criteria prior to the acquisition. The required amount of the letter of credit will be reduced each month beginning in January 2021 through the lease expiration on December 31, 2022.

Subsequent to the adoption, we amortize the balance of the ROU assets and interest on the lease liability and report in Occupancy and equipment expense on our unaudited consolidated statements of operations. Our lease liability is reduced as we make cash payments on our lease obligations. Our ROU lease assets will be evaluated for impairment, in accordance with ASC 360, *Premises and Equipment*, at each reporting date.

Note 2 – Business Acquisition

On October 4, 2018, we completed our acquisition of PHH, a non-bank servicer with established servicing and origination recapture capabilities. As a result of the acquisition, PHH became a wholly owned subsidiary of Ocwen.

The acquisition has been accounted for under the acquisition method of accounting pursuant to ASC 805, *Business Combinations*. Assets acquired and liabilities assumed are recorded at their fair value as of the date of acquisition based on management's estimates using currently available information. The results of PHH operations are included in Ocwen's consolidated statements of operations from the date of acquisition. For U.S. income tax purposes, the acquisition of PHH is treated as a stock purchase.

Purchase Price Allocation

The purchase price allocation provided in the table below reflects the fair value of assets acquired and liabilities assumed in the acquisition of PHH, with the excess of total identifiable net assets over total consideration paid recorded as a bargain purchase gain. Independent valuation specialists conducted analyses to assist management in determining the fair value of certain acquired assets and assumed liabilities. Management is responsible for these third-party valuations and appraisals. The methodologies that we use and key assumptions that we made to estimate the fair value of the acquired assets and assumed debt are described in Note 5 – Fair Value.

In a business combination, the initial allocation of the purchase price is considered preliminary and therefore subject to change until the end of the measurement period (not to exceed one year from the acquisition date). Because the measurement period is still open, certain fair value estimates may change once all information necessary to make a final fair value assessment has been received.

Purchase Price Allocation	October 4, 2018	Adjustments	Revised
Cash	$ 423,088	$ —	$ 423,088
Restricted cash	38,813	—	38,813
Mortgage servicing rights	518,127	—	518,127
Advances, net	96,163	—	96,163
Loans held for sale	42,324	358	42,682
Receivables, net	46,838	—	46,838
Premises and equipment, net	15,203	—	15,203
Real estate owned	3,289	—	3,289
Other assets	6,293	—	6,293
Assets related to discontinued operations	2,017	—	2,017
Financing liabilities (MSRs pledged, at fair value)	(481,020)	—	(481,020)
Other secured borrowings, net	(27,594)	—	(27,594)
Senior notes, net (Senior unsecured notes)	(120,624)	—	(120,624)
Accrued legal fees and settlements	(9,960)	—	(9,960)
Other accrued expenses	(36,889)	—	(36,889)
Loan repurchase and indemnification liability	(27,736)	—	(27,736)
Unfunded pension liability	(9,815)	—	(9,815)
Other liabilities	(34,131)	(643)	(34,774)
Liabilities related to discontinued operations	(21,954)	—	(21,954)
Total identifiable net assets	422,432	(285)	422,147
Total consideration paid to seller	(358,396)	—	(358,396)
Bargain purchase gain	$ 64,036	$ (285)	$ 63,751

We acquired tax attributes, including the estimated future tax benefit of U.S. federal net operating losses (NOLs) valued at $30.2 million, state NOLs valued at $50.3 million and state tax credits of $9.2 million on the acquisition date. All of the acquired tax attributes were fully offset by a valuation allowance. All of these attributes are subject to annual limitations with regard to future utilization under Sections 382 and 383 of the Internal Revenue Code or the comparable provisions of state law. Accordingly, as of December 31, 2018, Ocwen combined had U.S. federal NOLs valued at $58.2 million, USVI NOLs valued at $3.1 million, state NOLs valued at $50.3 million and state tax credits of $9.2 million, all of which were fully offset by a valuation allowance. All of these attributes are subject to the provisions of Sections 382 and 383 of the Internal Revenue Code or the comparable provisions of foreign and state law. All of the attributes are subject to further potential annual limitations in the event of additional ownership changes in the future.

Pro Forma Results of Operations

The pro forma consolidated results presented below are not indicative of what Ocwen's consolidated results would have been had we completed the acquisition on the date indicated due to a number of factors, including but not limited to expected reductions in servicing, origination and overhead costs through the realization of targeted cost synergies and improved economies of scale, the impact of incremental costs to integrate the two companies and differences in servicing practices and cost structures between Ocwen and PHH. In addition, the pro forma consolidated results do not purport to project combined future operating results of Ocwen and PHH nor do they reflect the expected realization of any cost savings associated with the acquisition of PHH.

The following table presents supplemental pro forma information for Ocwen for the three months ended March 31, 2018 as if the PHH Acquisition occurred on January 1, 2017. Pro forma adjustments include:

- Fair value adjustments include a reduction of $5.7 million to conform the accounting for MSRs to the valuation policies of Ocwen related to acquired MSRs;
- Adjust interest expense for a total net impact of $2.3 million. The pro forma adjustment primarily pertains to fair value adjustments of $2.6 million related to the assumed MSR secured liability using valuation assumptions consistent with Ocwen's methodology;
- Report the bargain purchase gain of $64.0 million as if the acquisition had occurred in 2017 rather than 2018;
- Report Ocwen and PHH acquisition-related charges of $3.7 million for professional services as if they had been incurred in 2017 rather than 2018;
- Adjust depreciation expense to amortize internally developed software acquired from PHH on a straight-line basis for the years presented based on a useful life of three years;
- Adjust revenue for a total net impact of $33.9 million which primarily includes increasing servicing and subservicing fees by $44.8 million to gross up activity related to PHH MSRs sold accounted for as secured borrowings, and reclassifying $12.4 million to MSR valuation adjustments, net in expenses, consistent with Ocwen's presentation. The offset to these adjustments are expenses, interest income and interest expense, with no net effect on earnings.
- Income tax benefit of $0.9 million based on management's estimate of the blended applicable statutory tax rates and observing the continued need for a valuation allowance. The net income tax benefit recorded as a result of pro forma adjustments represents lower current federal tax under the new base erosion and anti-abuse tax (BEAT) provision of the 2017 Tax Cuts and Jobs Act (Tax Act) assuming Ocwen and PHH would file a consolidated federal tax return beginning January 1, 2017. The pro forma tax adjustments contemplate the effects of the Tax Act.

Revenues	$	344,522
Net loss from continuing operations	$	(11,201)

Note 3 – Cost Re-engineering Plan

In February 2019, we announced our intention to execute cost re-engineering opportunities in order to drive stronger financial performance and, in the longer term, simplify our operations. Our cost re-engineering plans extend beyond eliminating redundant costs through the integration process and address organizational, process and control redesign, human capital planning, off-shore utilization, strategic sourcing and facilities rationalization. Costs estimated for this plan include severance, retention and other incentive awards, facilities-related costs and other costs to execute the reorganization.

The following is a summary of expenses incurred to-date, including an estimate of remaining and total plan costs:

	Three Months Ended March 31, 2019			
	Employee-related	**Facility-related**	**Other**	**Total**
Costs incurred in current year:				
First quarter (1)	$ 19,163	$ —	$ 2,973	$ 22,136
Estimate of remaining costs (2)	20,837	7,000	15,027	42,864
Total plan costs	$ 40,000	$ 7,000	$ 18,000	$ 65,000

(1) The above expenses were all incurred within the Corporate Items and Other segment. Employee-related costs and facility-related costs are reported in Compensation and benefits expense and Occupancy and equipment expense, respectively, in the unaudited consolidated statements of operations.
(2) We expect to incur the remaining plan costs within the year ending December 31, 2019.

The following table provides a summary of the aggregate activity of the liability for the re-engineering plan costs:

	Three Months Ended March 31, 2019			
	Employee-related	Facility-related	Other	Total
Beginning balance	$ —	$ —	$ —	$ —
Charges	19,163	—	2,973	22,136
Payments	(2,600)	—	(1,747)	(4,347)
Ending balance	$ 16,563	$ —	$ 1,226	$ 17,789

Note 4 – Securitizations and Variable Interest Entities

We securitize, sell and service forward and reverse residential mortgage loans and regularly transfer financial assets in connection with asset-backed financing arrangements. We have aggregated these securitizations and asset-backed financing arrangements into two groups: (1) securitizations of residential mortgage loans and (2) financings of advances.

We have determined that the special purpose entities (SPEs) created in connection with our match funded advance financing facilities are variable interest entities (VIEs) for which we are the primary beneficiary.

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

Securitizations of Residential Mortgage Loans

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

Transfers of Forward Loans

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

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

	Three Months Ended March 31,	
	2019	2018
Proceeds received from securitizations	$ 242,960	$ 377,499
Servicing fees collected	15,918	10,348
Purchases of previously transferred assets, net of claims reimbursed	(904)	(2,170)
	$ 257,974	$ 385,677

In connection with these transfers, we retained MSRs of $0.8 million and $2.4 million during the three months ended March 31, 2019 and 2018, respectively, which are reported in Gain on loans held for sale, net in the unaudited consolidated statements of operations. See Note 6 – Loans Held for Sale for additional information regarding gains or losses on the transfer of loans held for sale.

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

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

	March 31, 2019	December 31, 2018
Carrying value of assets		
MSRs, at fair value	$ 123,448	$ 132,774
Advances and match funded advances	150,136	138,679
UPB of loans transferred (1)	15,147,575	15,600,971
Maximum exposure to loss	$ 15,421,159	$ 15,872,424

(1) Represents UPB of loans we transferred for which we continue to act as servicer or subservicer. Our maximum exposure to loss from transferred loans cannot be estimated because we do not service all of the loans for which we have provided representations and warranties.

At March 31, 2019 and December 31, 2018, 8.1% and 8.3%, respectively, of the transferred residential loans that we service were 60 days or more past due.

Transfers of Reverse Mortgages

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

At March 31, 2019 and December 31, 2018, Loans held for investment included $70.4 million and $68.4 million, respectively, of originated loans which had not yet been pledged as collateral. See Note 5 – Fair Value and Note 13 – Borrowings for additional information.

Financings of Advances

Match funded advances result from our transfers of residential loan servicing advances to SPEs in exchange for cash. We consolidate these SPEs because we have determined that Ocwen is the primary beneficiary of the SPE. These SPEs issue debt supported by collections on the transferred advances, and we refer to this debt as Match funded liabilities.

We make transfers to these SPEs in accordance with the terms of our advance financing facility agreements. Debt service accounts require us to remit collections on pledged advances to the trustee within two days of receipt. Collected funds that are not applied to reduce the related match funded debt until the payment dates specified in the indenture are classified as debt service accounts within Restricted cash in our unaudited consolidated balance sheets. The balances also include amounts that have been set aside from the proceeds of our match funded advance facilities to provide for possible shortfalls in the funds available to pay certain expenses and interest, as well as amounts set aside as required by our warehouse facilities as security for our obligations under the related agreements. The funds are held in interest earning accounts and those amounts related to match funded facilities are held in the name of the SPE created in connection with the facility.

We classify the transferred advances on our unaudited consolidated balance sheets as a component of Match funded advances and the related liabilities as Match funded liabilities. The SPEs use collections of the pledged advances to repay principal and interest and to pay the expenses of the SPE. Holders of the debt issued by these entities have recourse only to the assets of the SPE for satisfaction of the debt. The assets and liabilities of the advance financing SPEs are comprised solely of Match funded advances, Debt service accounts, Match funded liabilities and amounts due to affiliates. Amounts due to affiliates are eliminated in consolidation in our unaudited consolidated balance sheets.

Mortgage-Backed Securitizations

The table below presents the carrying value and classification of the assets and liabilities of two consolidated mortgage-backed securitization trusts included in our unaudited consolidated balance sheets as a result of residual securities issued by the trust that we acquired during 2018.

	March 31, 2019	December 31, 2018
Loans held for investment, at fair value - Restricted for securitization investors	$ 26,237	$ 26,520
Financing liability - Owed to securitization investors, at fair value	24,562	24,815

We have concluded we are the primary beneficiary of certain residential mortgage-backed securitizations as a result of beneficial interests consisting of residual securities, which expose us to the expected losses and residual returns of the trust, and our role as master servicer, where we have the ability to direct the activities that most significantly impact the performance of the trust.

Upon consolidation of the securitization trusts, we elected to apply the measurement alternative to ASC Topic 820, *Fair Value Measurement* for collateralized financing entities. The measurement alternative requires a reporting entity to use the more observable of the fair value of the financial assets or the financial liabilities to measure both the financial assets and the financial liabilities of the entity. We determined that the fair value of the loans held by the trusts is more observable than the fair value of the debt certificates issued by the trusts. Through the application of the measurement alternative, the fair value of the financial liabilities of the trusts are measured as the difference between the fair value of the financial assets and the fair value of our investment in the residual securities of the trusts.

Holders of the debt issued by these entities have recourse only to the assets of the SPE for satisfaction of the debt and have no recourse against the assets of Ocwen. Similarly, the general creditors of Ocwen have no claim on the assets of the trusts. Our exposure to loss as a result of our continuing involvement is limited to the carrying values of our investments in the residual securities of the trusts, our MSRs and related advances. At March 31, 2019, MSRs of $0.2 million and our $1.7 million investment in the residual securities of the trusts were eliminated in consolidation. Advances outstanding at March 31, 2019 were $1.2 million.

Note 5 – Fair Value

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

We classify assets in their entirety based on the lowest level of input that is significant to the fair value measurement.

We have elected to fair value future draw commitments for HECM loans purchased or originated after December 31, 2018. The estimated fair value is included in Loans held for investment on our unaudited consolidated balance sheets with changes in fair value recognized in Other revenue, net in our unaudited consolidated statements of operations. The value of future draw commitments for HECM loans purchased or originated before January 1, 2019 will be recognized over time as such future draws are securitized or sold.

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

		March 31, 2019		December 31, 2018	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets					
Loans held for sale					
Loans held for sale, at fair value (a)	2	$ 153,140	$ 153,140	$ 176,525	$ 176,525
Loans held for sale, at lower of cost or fair value (b)	3	69,547	69,547	66,097	66,097
Total Loans held for sale		$ 222,687	$ 222,687	$ 242,622	$ 242,622

	Level	March 31, 2019 Carrying Value	March 31, 2019 Fair Value	December 31, 2018 Carrying Value	December 31, 2018 Fair Value
Loans held for investment					
Loans held for investment - Reverse mortgages (a)	3	$ 5,726,917	$ 5,726,917	$ 5,472,199	$ 5,472,199
Loans held for investment - Restricted for securitization investors (a)	3	26,237	26,237	26,520	26,520
Total loans held for investment		$ 5,753,154	$ 5,753,154	$ 5,498,719	$ 5,498,719
Advances (including match funded) (c)	3	$ 1,094,080	$ 1,094,080	$ 1,186,676	$ 1,186,676
Receivables, net (c)	3	197,043	197,043	198,262	198,262
Mortgage-backed securities (a)	3	1,786	1,786	1,502	1,502
U.S. Treasury notes (a)	1	1,068	1,068	1,064	1,064
Corporate bonds (a)	2	446	446	450	450
Financial liabilities:					
Match funded liabilities (c)	3	$ 649,384	$ 649,121	$ 778,284	$ 776,485
Financing liabilities:					
HMBS-related borrowings (a)	3	$ 5,614,688	$ 5,614,688	$ 5,380,448	$ 5,380,448
Financing liability - MSRs pledged (a)	3	951,216	951,216	1,032,856	1,032,856
Financing liability - Owed to securitization investors (a)	3	24,562	24,562	24,815	24,815
Other (c)	3	67,920	51,980	69,942	53,570
Total Financing liabilities		$ 6,658,386	$ 6,642,446	$ 6,508,061	$ 6,491,689
Other secured borrowings:					
Senior secured term loan (c) (d)	2	$ 338,943	$ 344,710	$ 226,825	$ 227,449
Other (c)	3	98,039	98,039	155,713	155,713
Total Other secured borrowings		$ 436,982	$ 442,749	$ 382,538	$ 383,162
Senior notes:					
Senior unsecured notes (c) (d)	2	$ 119,224	$ 115,657	$ 119,924	$ 119,258
Senior secured notes (c) (d)	2	328,919	315,261	328,803	306,889
Total Senior notes		$ 448,143	$ 430,918	$ 448,727	$ 426,147
Derivative financial instrument assets (liabilities)					
Interest rate lock commitments (a)	2	$ 3,982	$ 3,982	$ 3,871	$ 3,871
Forward mortgage-backed securities (a)	1	(4,126)	(4,126)	(4,983)	(4,983)
Interest rate caps (a)	3	276	276	678	678
Mortgage servicing rights (a)	3	$ 1,400,191	$ 1,400,191	$ 1,457,149	$ 1,457,149

(a) Measured at fair value on a recurring basis.
(b) Measured at fair value on a non-recurring basis.
(c) Disclosed, but not measured, at fair value.
(d) The carrying values are net of unamortized debt issuance costs and discount. See Note 13 – Borrowings for additional information.

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

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Loans Held for Inv. - Restricted for Securitiza-tion Investors	Financing Liability - Owed to Securit - ization Investors	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs
Three months ended March 31, 2019								
Beginning balance	$ 5,472,199	$ (5,380,448)	$ 26,520	$ (24,815)	$ 1,502	$ (1,032,856)	$ 678	$ 1,457,149
Purchases, issuances, sales and settlements								
Purchases	—	—	—	—	—	(577)	—	55,920
Issuances	209,264	(210,563)	—	—	—	—	—	—
Sales	—	—	—	—	—	—	—	(567)
Settlements	(104,630)	102,389	(283)	253	—	50,129	—	(3,313)
Transfers (to) from:								
Loans held for sale, at fair value	(396)	—	—	—	—	—	—	—
Other assets	(119)	—	—	—	—	—	—	—
Receivables, net	(68)	—	—	—	—	—	—	—
	104,051	(108,174)	(283)	253	—	49,552	—	52,040
Total realized and unrealized gains (losses)								
Included in earnings:								
Change in fair value (1)	150,667	(126,066)	—	—	284	26,237	(402)	(108,998)
Calls and other	—	—	—	—	—	5,851	—	—
Included in Other comprehensive income	—	—			—	—	—	—
	150,667	(126,066)	—	—	284	32,088	(402)	(108,998)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—	—
Ending balance	$ 5,726,917	$ (5,614,688)	$ 26,237	$ (24,562)	$ 1,786	$ (951,216)	$ 276	$ 1,400,191

Three months ended March 31, 2018	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs
Beginning balance	$ 4,715,831	$ (4,601,556)	$ 1,592	$ (508,291)	$ 2,056	$ 671,962
Purchases, issuances, sales and settlements						
Purchases	—	—	—	—	—	2,378
Issuances	251,086	(222,825)	—	(279,586)	—	(1,758)
Sales	—	—	—	—	—	(131)
Settlements	(82,719)	80,811	—	54,547	(371)	—
Transfers (to) from:						
MSRs carried at amortized cost, net of valuation allowance	—	—	—	—	—	418,925
Loans held for sale, at fair value	(184)	—	—	—	—	—
Other assets	(104)	—	—	—	—	—
Receivables, net	(50)	—	—	—	—	—
	168,029	(142,014)	—	(225,039)	(371)	419,414
Total realized and unrealized gains (losses)						
Included in earnings:						
Change in fair value	104,291	(94,623)	87	16,712	181	(17,129)
Calls and other	—	—	—	694	—	—
Included in Other comprehensive income	—	—	—	—	—	—
	104,291	(94,623)	87	17,406	181	(17,129)
Transfers in and / or out of Level 3	—	—	—	—	—	—
Ending balance	$ 4,988,151	$ (4,838,193)	$ 1,679	$ (715,924)	$ 1,866	$ 1,074,247

(1) The Change in fair value adjustments on Loans held for investment for the three months ended March 31, 2019 include $2.9 million in connection with the fair value election for future draw commitments on HECM reverse mortgage loans purchased or originated after December 31, 2018.

The methodologies that we use and key assumptions that we make to estimate the fair value of financial instruments and other assets and liabilities measured at fair value on a recurring or non-recurring basis and those disclosed, but not carried, at fair value are described below.

Loans Held for Sale

Residential forward and reverse mortgage loans that we intend to sell are carried at fair value as a result of a fair value election. Such loans are subject to changes in fair value due to fluctuations in interest rates from the closing date through the date of the sale of the loan into the secondary market. These loans are classified within Level 2 of the valuation hierarchy because the primary component of the price is obtained from observable values of mortgage forwards for loans of similar terms and characteristics. We have the ability to access this market, and it is the market into which conventional and government-insured mortgage loans are typically sold.

We purchase certain loans from Ginnie Mae guaranteed securitizations in connection with loan modifications and loan resolution activity as part of our contractual obligations as the servicer of the loans. These loans are classified as loans held for sale at the lower of cost or fair value, in the case of modified loans, as we expect to redeliver (sell) the loans into new Ginnie Mae guaranteed securitizations. The fair value of these loans is estimated using published forward Ginnie Mae prices. Loans repurchased in connection with loan resolution activities are modified or otherwise remediated through loss mitigation activities or are reclassified to receivables. Because these loans are insured or guaranteed by the FHA or VA, the fair value of these loans represents the net recovery value taking into consideration the insured or guaranteed claim.

For all other loans held for sale, which we report at the lower of cost or fair value, market illiquidity has reduced the availability of observable pricing data. When we enter into an agreement to sell a loan or pool of loans to an investor at a set price, we value the loan or loans at the commitment price. We base the fair value of loans for which we have no agreement to sell on the expected future cash flows discounted at a rate commensurate with the risk of the estimated cash flows.

Loans Held for Investment

Loans Held for Investment - Reverse Mortgages

We measure these loans at fair value based on the expected future cash flows discounted over the expected life of the loans at a rate commensurate with the risk of the estimated cash flows, including future draw commitments for HECM loans purchased or originated after December 31, 2018. Significant assumptions include expected prepayment and delinquency rates and cumulative loss curves. The discount rate assumption for these assets is primarily based on an assessment of current market yields on newly originated reverse mortgage loans, expected duration of the asset and current market interest rates.

Significant valuation assumptions	March 31, 2019	December 31, 2018
Life in years		
Range	3.2 to 7.5	3.0 to 7.6
Weighted average	6.0	5.9
Conditional repayment rate		
Range	6.8% to 36.1%	6.8% to 38.4%
Weighted average	14.4%	14.7%
Discount rate	3.1%	3.4%

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

Loans Held for Investment – Restricted for securitization investors

We have elected to measure loans held by consolidated mortgage-backed securitization trusts at fair value. The loans are secured by first liens on single family residential properties. Fair value is based on proprietary cash flow modeling processes for a third-party broker/dealer and a third-party valuation expert. Significant assumptions used in the valuation include projected monthly payments, projected prepayments and defaults, property liquidation values and discount rates.

Mortgage Servicing Rights

The significant components of the estimated future cash inflows for MSRs include servicing fees, late fees, float earnings and other ancillary fees. Significant cash outflows include the cost of servicing, the cost of financing servicing advances and compensating interest payments.

Third-party valuation experts generally utilize: (a) transactions involving instruments with similar collateral and risk profiles, adjusted as necessary based on specific characteristics of the asset or liability being valued; and/or (b) industry-standard modeling, such as a discounted cash flow model, in arriving at their estimate of fair value. The prices provided by the valuation experts reflect their observations and assumptions related to market activity, including risk premiums and liquidity adjustments. The models and related assumptions used by the valuation experts are owned and managed by them and, in many cases, the significant inputs used in the valuation techniques are not reasonably available to us. However, we understand the processes and assumptions used to develop the prices based on our ongoing due diligence, which includes regular discussions with the valuation experts. We believe that the procedures executed by the valuation experts, supported by our verification and analytical procedures, provide reasonable assurance that the prices used in our unaudited consolidated financial statements comply with the accounting guidance for fair value measurements and disclosures and reflect the assumptions that a market participant would use.

We evaluate the reasonableness of our third-party experts' assumptions using historical experience adjusted for prevailing market conditions. Assumptions used in the valuation of MSRs include:

- Mortgage prepayment speeds
- Cost of servicing
- Discount rate
- Interest rate used for computing the cost of financing servicing advances
- Delinquency rates
- Interest rate used for computing float earnings
- Compensating interest expense
- Collection rate of other ancillary fees

Fair Value MSRs

MSRs carried at fair value are classified within Level 3 of the valuation hierarchy. The fair value is equal to the mid-point of the range of prices provided by third-party valuation experts, without adjustment, except in the event we have a potential or completed sale, including transactions where we have executed letters of intent, in which case the fair value of the MSRs is disclosed at the estimated sale price. Fair value reflects actual Ocwen sale prices for orderly transactions where available in lieu of independent third-party valuations. Our valuation process includes discussions of bid pricing with the third-party valuation experts and are contemplated along with other market-based transactions in their model validation.

A change in the valuation inputs utilized by the valuation experts might result in a significantly higher or lower fair value measurement. Changes in market interest rates tend to impact the fair value for Agency MSRs via prepayment speeds by altering the borrower refinance incentive and the non-Agency MSRs via a market rate indexed cost of advance funding. Other key assumptions used in the valuation of these MSRs include delinquency rates and discount rates.

	March 31, 2019		December 31, 2018	
Significant valuation assumptions	**Agency**	**Non-Agency**	**Agency**	**Non-Agency**
Weighted average prepayment speed	9.8%	15.4%	8.5%	15.4%
Weighted average delinquency rate	6.5%	27.2%	6.6%	27.1%
Advance financing cost	5-year swap	5-yr swap plus 2.75%	5-year swap	5-yr swap plus 2.75%
Interest rate for computing float earnings	5-year swap	5-yr swap minus 0.50%	5-year swap	5-yr swap minus 0.50%
Weighted average discount rate	9.0%	12.7%	9.1%	12.8%
Weighted average cost to service (in dollars)	$ 89	$ 297	$ 90	$ 297

Because the mortgages underlying these MSRs permit the borrowers to prepay the loans, the value of the MSRs generally tends to diminish in periods of declining interest rates, an improving housing market or expanded product availability (as prepayments increase) and increase in periods of rising interest rates, a deteriorating housing market or reduced product availability (as prepayments decrease). The following table summarizes the estimated change in the value of the MSRs that we carry at fair value as of March 31, 2019 given 10% and 20% hypothetical shifts in prepayment speeds and interest rate assumptions:

Adverse change in fair value	10%	20%
Weighted average prepayment speeds	$ (127,188)	$ (245,678)
Weighted average discount rate	(39,816)	(77,754)

The sensitivity analysis measures the potential impact on fair values based on hypothetical changes, which in the case of our portfolio at March 31, 2019 are increased prepayment speeds and an increase in the yield assumption.

Advances

We value advances at their net realizable value, which generally approximates fair value, because advances have no stated maturity, are generally realized within a relatively short period of time and do not bear interest.

Receivables

The carrying value of receivables generally approximates fair value because of the relatively short period of time between their origination and realization.

Mortgage-Backed Securities (MBS)

Our subordinate and residual securities are not actively traded, and therefore, we estimate the fair value of these securities using a process based upon the use of an independent third-party valuation expert. Where possible, we consider observable trading activity in the valuation of our securities. Key inputs include expected prepayment rates, delinquency and cumulative loss curves and discount rates commensurate with the risks. Where possible, we use observable inputs in the valuation of our securities. However, the subordinate and residual securities in which we have invested trade infrequently and therefore have few or no observable inputs and little price transparency. Additionally, during periods of market dislocation, the observability of inputs is further reduced. We classify subordinate and residual securities as trading securities and account for them at fair value on a recurring basis. Changes in the fair value of our investment in subordinate and residual securities are recognized in Other, net in the unaudited consolidated statements of operations.

U.S. Treasury Notes

We classify U.S. Treasury notes as trading securities and account for them at fair value on a recurring basis. We base the fair value on quoted prices in active markets to which we have access. Changes in the fair value of our investment in U.S. Treasury notes are recognized in Other, net in the unaudited consolidated statements of operations.

Match Funded Liabilities

For match funded liabilities that bear interest at a rate that is adjusted regularly based on a market index, the carrying value approximates fair value. For match funded liabilities that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. We assume the notes are refinanced at the end of their revolving periods, consistent with how we manage our advance facilities.

Financing Liabilities

HMBS-Related Borrowings

We have elected to measure these borrowings at fair value. These borrowings are not actively traded, and therefore, quoted market prices are not available. We determine fair value by discounting the projected recovery of principal, interest and advances over the estimated life of the borrowing at a market rate commensurate with the risk of the estimated cash flows. Significant assumptions include prepayments, discount rate and borrower mortality rates. The discount rate assumption for these liabilities is based on an assessment of current market yields for newly issued HMBS, expected duration and current market interest rates.

Significant valuation assumptions	March 31, 2019	December 31, 2018
Life in years		
Range	3.2 to 7.5	3.0 to 7.6
Weighted average	6.0	5.9
Conditional repayment rate		
Range	6.8% to 36.1%	6.8% to 38.4%
Weighted average	14.4%	14.7%
Discount rate	3.1%	3.3%

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

MSRs Pledged (Rights to MSRs)

We have elected to measure these borrowings at fair value. We recognize the proceeds received in connection with Rights to MSRs transactions as a secured borrowing that we account for at fair value. Fair value for the portion of the borrowing attributable to the MSRs underlying the Rights to MSRs is determined using the mid-point of the range of prices provided by third-party valuation experts. Fair value for the portion of the borrowing attributable to any lump sum payments received in connection with the transfer of MSRs underlying such Rights to MSRs to the extent such transfer is accounted for as a financing is determined by discounting the relevant future cash flows that were altered through such transfer using assumptions consistent with the mid-point of the range of prices provided by third-party valuation experts for the related MSR. Because we measure all MSRs at fair value, changes in the Financing Liability - MSRs Pledged value are partially offset by changes in the fair value of the related MSRs. See Note 10 — Rights to MSRs for additional information.

Significant valuation assumptions	March 31, 2019	December 31, 2018
Weighted average prepayment speed	14.3%	13.9%
Weighted average delinquency rate	20.3%	20.3%
Advance financing cost	5-year swap plus 0% to 2.75%	5-year swap plus 0% to 2.75%
Interest rate for computing float earnings	5-year swap minus 0% to 0.50%	5-year swap minus 0% to 0.50%
Weighted average discount rate	11.9%	12.0%
Weighted average cost to service (in dollars)	$ 233	$ 234

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

Secured Notes

We issued Ocwen Asset Servicing Income Series (OASIS), Series 2014-1 Notes secured by Ocwen-owned MSRs relating to Freddie Mac mortgages. We accounted for this transaction as a financing. We determine the fair value based on bid prices provided by third parties involved in the issuance and placement of the notes.

Financing Liability – Owed to Securitization Investors

Consists of securitization debt certificates due to third parties that represent beneficial ownership interests in mortgage-backed securitization trusts that we include in our consolidated financial statements. We determine fair value using the measurement alternative to ASC Topic 820, *Fair Value Measurement* as disclosed in Note 4 – Securitizations and Variable Interest Entities. In accordance with the measurement alternative, the fair value of the consolidated securitization debt certificates is measured as the fair value of the loans held by the trust less the fair value of the beneficial interests held by us in the form of residual securities.

Other Secured Borrowings

The carrying value of secured borrowings that bear interest at a rate that is adjusted regularly based on a market index approximates fair value. For other secured borrowings that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. For the SSTL, we based the fair value on valuation data obtained from a pricing service.

Senior Notes

We base the fair value on quoted prices in a market with limited trading activity, or on valuation data obtained from a pricing service in the absence of trading data.

Derivative Financial Instruments

Interest rate lock commitments (IRLCs) represent an agreement to purchase loans from a third-party originator or an agreement to extend credit to a mortgage applicant (locked pipeline), whereby the interest rate is set prior to funding. IRLCs are classified within Level 2 of the valuation hierarchy as the primary component of the price is obtained from observable values of mortgage forwards for loans of similar terms and characteristics. Fair value amounts of IRLCs are adjusted for expected “fallout” (locked pipeline loans not expected to close) using models that consider cumulative historical fallout rates and other factors.

We enter into forward MBS trades to provide an economic hedge against changes in the fair value of residential forward and reverse mortgage loans held for sale that we carry at fair value. Forward MBS trades are primarily used to fix the forward sales price that will be realized upon the sale of mortgage loans into the secondary market. Forward contracts are actively traded in the market and we obtain unadjusted market quotes for these derivatives; thus, they are classified within Level 1 of the valuation hierarchy.

In addition, we may use interest rate caps to minimize future interest rate exposure on variable rate debt issued on servicing advance financing facilities from increases in one-month or three-month Eurodollar rate (1ML or 3 ML, respectively) interest rates. The fair value for interest rate caps is based on counterparty market prices and adjusted for counterparty credit risk.

Note 6 – Loans Held for Sale

Loans Held for Sale - Fair Value	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Beginning balance	$ 176,525	$ 214,262
Originations and purchases	219,867	205,994
Proceeds from sales	(235,895)	(293,063)
Principal collections	(5,516)	(804)
Transfers from (to):		
Loans held for investment, at fair value	396	184
Receivables, net	(581)	—
Real estate owned (Other assets)	(696)	—
Gain on sale of loans	8,191	4,652
Decrease in fair value of loans	(228)	(3,871)
Other	(8,923)	(1,506)
Ending balance (1)	$ 153,140	$ 125,848

(1) At March 31, 2019 and 2018, the balances include $(7.8) million and $3.8 million, respectively, of fair value adjustments.

Loans Held for Sale - Lower of Cost or Fair Value	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Beginning balance	$ 66,097	$ 24,096
Purchases	84,315	152,084
Proceeds from sales	(62,135)	(86,421)
Principal collections	(1,776)	(3,446)
Transfers from (to):		
Receivables, net	(27,411)	(35,666)
Real estate owned (Other assets)	(1,095)	(1,195)
Gain on sale of loans	551	692
(Increase) decrease in valuation allowance	706	(1,185)
Other	10,295	3,271
Ending balance (1)	$ 69,547	$ 52,230

(1) At March 31, 2019 and 2018, the balances include $42.7 million and $46.1 million, respectively, of loans that we repurchased from Ginnie Mae guaranteed securitizations pursuant to Ginnie Mae servicing guidelines. We may repurchase loans that have been modified, to facilitate loss reduction strategies, or as otherwise obligated as a Ginnie Mae servicer. Repurchased loans may be modified or otherwise remediated through loss mitigation activities, may be sold to a third party, or are reclassified to receivables.

Valuation Allowance - Loans Held for Sale at Lower of Cost or Fair Value	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Beginning balance	$ 11,569	$ 7,318
Provision	642	853
Transfer from Liability for indemnification obligations (Other liabilities)	67	719
Sales of loans	(1,415)	(409)
Other	—	22
Ending balance	$ 10,863	$ 8,503

Gain on Loans Held for Sale, Net	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Gain on sales of loans, net		
MSRs retained on transfers of forward mortgage loans	$ 828	$ 2,378
Fair value gains related to transfers of reverse mortgage loans, net	6,483	10,968
Gain on sale of repurchased Ginnie Mae loans	538	692
Gain on sale of forward mortgage loans	10,444	5,767
Other, net	2,130	248
	20,423	20,053
Change in fair value of IRLCs	(341)	1,377
Change in fair value of loans held for sale	(142)	(3,924)
Gain (loss) on economic hedge instruments	(2,270)	2,398
Other	(75)	(104)
	$ 17,595	$ 19,800

Note 7 – Advances

	March 31, 2019	December 31, 2018
Principal and interest	$ 47,039	$ 43,671
Taxes and insurance	141,466	160,373
Foreclosures, bankruptcy and other	59,990	68,597
	248,495	272,641
Allowance for losses	(23,135)	(23,259)
	$ 225,360	$ 249,382

The following table summarizes the activity in net advances:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Beginning balance	$ 249,382	$ 211,793
Sales of advances	(707)	(439)
Collections of advances, charge-offs and other, net	(23,439)	(13,719)
Net (increase) decrease in allowance for losses	124	(515)
Ending balance	$ 225,360	$ 197,120

Allowance for Losses	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Beginning balance	$ 23,259	$ 16,465
Provision	1,762	2,524
Net charge-offs and other	(1,886)	(2,009)
Ending balance	$ 23,135	$ 16,980

Note 8 – Match Funded Advances

	March 31, 2019	December 31, 2018
Principal and interest	$ 374,820	$ 412,897
Taxes and insurance	345,589	374,853
Foreclosures, bankruptcy, real estate and other	148,311	149,544
	$ 868,720	$ 937,294

The following table summarizes the activity in match funded assets:

	Three Months Ended March 31,		
	2019	2018	
	Advances	Advances	Automotive Dealer Financing Notes
Beginning balance	$ 937,294	$ 1,144,600	$ 32,757
Transfer to Other assets	—	—	(36,896)
New advances (collections), net	(68,574)	(59,843)	1,504
Decrease in allowance for losses (1)	—	—	2,635
Ending balance	$ 868,720	$ 1,084,757	$ —

(1) The remaining allowance was charged off in connection with the exit from the automotive capital services business. In January 2018, we terminated the automotive dealer loan financing facility.

Note 9 – Mortgage Servicing

	Three Months Ended March 31,	
Mortgage Servicing Rights – Amortization Method	2019	2018
Beginning balance	$ —	$ 336,882
Fair value election - transfer of MSRs carried at fair value (1)	—	(361,670)
Decrease in impairment valuation allowance (1) (2)	—	24,788
Ending balance	$ —	$ —

(1) Effective January 1, 2018, we elected fair value accounting for our MSRs previously accounted for using the amortization method, which included Agency MSRs and government-insured MSRs. This irrevocable election applies to all subsequently acquired or originated servicing assets and liabilities that have characteristics consistent with each of these classes. We recorded a cumulative-effect adjustment of $82.0 million to retained earnings as of January 1, 2018 to reflect the excess of the fair value of the Agency MSRs over their carrying amount. We also recognized the tax effect of this adjustment through an increase in retained earnings of $6.8 million and a deferred tax asset for the same amount. However, we established a full valuation allowance on the resulting deferred tax asset through a reduction in retained earnings. The government-insured MSRs were impaired by $24.8 million at December 31, 2017; therefore, these MSRs were already effectively carried at fair value.

(2) Impairment valuation allowance balance of $24.8 million was reclassified to reduce the carrying value of the related MSRs on January 1, 2018 in connection with our fair value election.

Mortgage Servicing Rights – Fair Value Measurement Method	Three Months Ended March 31,					
	2019			2018		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	$ 865,587	$ 591,562	$ 1,457,149	$ 11,960	$ 660,002	$ 671,962
Fair value election - transfer from MSRs carried at amortized cost	—	—	—	336,882	—	336,882
Cumulative effect of fair value election	—	—	—	82,043	—	82,043
Sales and other transfers	(435)	(132)	(567)	—	(131)	(131)
Additions:						
Recognized on the sale of residential mortgage loans	1,510	—	1,510	2,378	—	2,378
Purchase of MSRs	54,410	—	54,410	—	—	—
Servicing transfers and adjustments	—	(3,313)	(3,313)	(1)	(1,757)	(1,758)
Changes in fair value (1):						
Changes in valuation inputs or other assumptions	(64,117)	(156)	(64,273)	20,460	—	20,460
Realization of expected future cash flows and other changes	(31,263)	(13,462)	(44,725)	(15,501)	(22,088)	(37,589)
Ending balance	$ 825,692	$ 574,499	$ 1,400,191	$ 438,221	$ 636,026	$ 1,074,247

(1) Changes in fair value are recognized in MSR valuation adjustments, net in the unaudited consolidated statements of operations.

Portfolio of Assets Serviced

The following table presents the composition of our residential primary servicing and subservicing portfolios as measured by UPB, including foreclosed real estate and small-balance commercial loans. The UPB amounts in the table below are not included on our unaudited consolidated balance sheets.

UPB at March 31, 2019	
Servicing	$ 75,288,090
Subservicing	49,805,407
NRZ	125,987,243
	$ 251,080,740
UPB at December 31, 2018	
Servicing	$ 72,378,693
Subservicing	53,104,560
NRZ	130,517,237
	$ 256,000,490
UPB at March 31, 2018	
Servicing	$ 73,264,640
Subservicing	1,792,880
NRZ	98,331,356
	$ 173,388,876

During the three months ended March 31, 2019, we acquired MSRs on portfolios consisting of 22,083 loans with a UPB of $4.9 billion. During the three months ended March 31, 2019, we also sold MSRs on portfolios consisting of 304 loans with a UPB of $99.4 million.

A significant portion of the servicing agreements for our non-Agency servicing portfolio contain provisions where we could be terminated as servicer without compensation upon the failure of the serviced loans to meet certain portfolio delinquency or cumulative loss thresholds. As a result of the economic downturn beginning in 2007 - 2008, the portfolio delinquency and/or cumulative loss threshold provisions have been breached in many private-label securitizations in our non-Agency servicing portfolio. To date, terminations as servicer as a result of a breach of any of these provisions have been minimal.

At March 31, 2019, the S&P Global Ratings, Inc.'s (S&P) and Fitch Ratings, Inc.'s (Fitch) servicer ratings outlook for both OLS and PHH is stable. Moody's Investors Service, Inc.'s (Moody's) servicer ratings for OLS are on Review for Downgrade. Downgrades in servicer ratings could adversely affect our ability to sell or finance servicing advances and could impair our ability to consummate future servicing transactions or adversely affect our dealings with lenders, other contractual counterparties, and regulators, including our ability to maintain our status as an approved servicer by Fannie Mae and Freddie Mac. The servicer rating requirements of Fannie Mae do not necessarily require or imply immediate action, as Fannie Mae has discretion with respect to whether we are in compliance with their requirements and what actions it deems appropriate under the circumstances in the event that we fall below their desired servicer ratings.

Certain of our servicing agreements require that we maintain specified servicer ratings from rating agencies such as Moody's and S&P. At March 31, 2019, 695 non-Agency servicing agreements with a UPB of $25.1 billion have minimum servicer ratings criteria. As a result of our current servicer ratings, 170 termination rights have been triggered in non-Agency servicing agreements with a UPB of $7.9 billion, or approximately 8% of our total non-Agency servicing portfolio. To date, terminations as servicer as a result of a breach of any of these provisions have been minimal.

	Three Months Ended March 31,	
Servicing Revenue	**2019**	**2018**
Loan servicing and subservicing fees		
Servicing	$ 52,429	$ 58,995
Subservicing	6,207	914
NRZ	155,847	127,017
	214,483	186,926
Late charges	15,439	14,589
Custodial accounts (float earnings)	11,934	7,263
Loan collection fees	4,349	5,018
Home Affordable Modification Program (HAMP) fees (1)	1,777	4,104
Other, net	7,881	4,238
	$ 255,863	$ 222,138

(1) The HAMP expired on December 31, 2016. Borrowers who had requested assistance or to whom an offer of assistance had been extended as of that date had until September 30, 2017 to finalize their modification. We continue to earn HAMP success fees for HAMP modifications that remain less than 90 days delinquent at the first-, second- and third-year anniversary of the start of the trial modification.

Float balances (balances in custodial accounts, which represent collections of principal and interest that we receive from borrowers) are held in escrow by an unaffiliated bank and are excluded from our unaudited consolidated balance sheets. Float balances amounted to $1.8 billion and $1.6 billion at March 31, 2019 and March 31, 2018, respectively.

Note 10 — Rights to MSRs

Ocwen and PHH have entered into agreements to sell MSRs or Rights to MSRs and the related servicing advances to NRZ, and in all cases have been retained by NRZ as subservicer. In the case of Ocwen Rights to MSRs transactions, while the majority of the risks and rewards of ownership were transferred, legal title was retained by Ocwen, causing the Rights to MSRs transactions to be accounted for as secured financings. In the case of the PHH transactions, and for those Ocwen MSRs where consents were subsequently received and legal title was transferred to NRZ, due to the length of the non-cancellable term of the subservicing agreement, the transactions do not qualify as a sale and are accounted for as secured financings. As a result, we continue to recognize the MSRs and related financing liability on our consolidated balance sheet, as well as the full amount of servicing revenue and changes in the fair value of the MSRs and related financing liability in our consolidated statements of operations.

NRZ is our largest servicing client, accounting for 50% of the UPB of residential assets serviced and 73% of our loan servicing and subservicing fee revenue as of and for the three months ended March 31, 2019, respectively.

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

Balance Sheets	March 31, 2019	December 31, 2018
MSRs, at fair value	$ 831,284	$ 894,002
Due from NRZ		
Sales and transfers of MSRs (1)	23,430	23,757
Advance funding, subservicing fees and reimbursable expenses	9,238	30,845
Due to NRZ	55,907	53,001
Financing liability - MSRs pledged, at fair value		
Original Rights to MSRs Agreements	424,086	436,511
2017 Agreements and New RMSR Agreements (2)	119,932	138,854
PHH MSR Agreements	407,198	457,491
Financing liability - MSRs pledged, at fair value	$ 951,216	$ 1,032,856

	Three Months Ended March 31,	
	2019	2018
Statements of Operations		
Servicing fees collected on behalf of NRZ	$ 155,847	$ 127,017
Less: Subservicing fee retained by Ocwen	37,407	34,217
Net servicing fees remitted to NRZ	118,440	92,800
Less: Reduction (increase) in financing liability		
Changes in fair value:		
Original Rights to MSRs Agreements	121	116
2017 Agreements and New RMSR Agreements	(6,980)	16,596
PHH MSR Agreements	33,096	—
	26,237	16,712
Runoff and settlement:		
Original Rights to MSRs Agreements	9,035	18,852
2017 Agreements and New RMSR Agreements	23,320	35,695
PHH MSR Agreements	17,774	—
	50,129	54,547
Other	(1,882)	(1,509)
Interest expense	$ 43,956	$ 23,050

(1) Balance represents the holdback of proceeds from PHH MSR sales and transfers to address indemnification claims and mortgage loan document deficiencies. These sales were executed by PHH prior to the acquisition date.

(2) $105.8 million and $33.0 million is expected to be recognized as a reduction in the financing liability and interest expense for the years ended December 31, 2019 and 2020, respectively.

Financing Liability - MSRs Pledged	Original Rights to MSRs Agreements	2017 Agreements and New RMSR Agreements	PHH MSR Agreements	Total
Balance at December 31, 2018	$ 436,511	$ 138,854	$ 457,491	$ 1,032,856
Additions	—	—	577	577
Changes in fair value:				
Original Rights to MSRs Agreements	(121)	—	—	(121)
2017 Agreements and New RMSR Agreements	—	6,980	—	6,980
PHH MSR Agreements	—	—	(33,096)	(33,096)
Runoff and settlement:				
Original Rights to MSRs Agreements	(9,035)	—	—	(9,035)
2017 Agreements and New RMSR Agreements	—	(23,320)	—	(23,320)
PHH MSR Agreements	—	—	(17,774)	(17,774)
Calls (1):				
Original Rights to MSRs Agreements	(3,269)	—	—	(3,269)
2017 Agreements and New RMSR Agreements	—	(2,582)	—	(2,582)
Balance at March 31, 2019	$ 424,086	$ 119,932	$ 407,198	$ 951,216

Financing Liability - MSRs Pledged	Original Rights to MSRs Agreements	2017 Agreements and New RMSR Agreements	Total
Balance at December 31, 2017	$ 499,042	$ 9,249	$ 508,291
Receipt of lump-sum cash payments	—	279,586	279,586
Changes in fair value:			
Original Rights to MSRs Agreements	(116)	—	(116)
2017 Agreements and New RMSR Agreements	—	(16,596)	(16,596)
Runoff and settlement:			
Original Rights to MSRs Agreements	(18,852)	—	(18,852)
2017 Agreements and New RMSR Agreements	—	(35,695)	(35,695)
Calls (1):			
Original Rights to MSRs Agreements	(420)	—	(420)
2017 Agreements and New RMSR Agreements	—	(274)	(274)
Balance at March 31, 2018	$ 479,654	$ 236,270	$ 715,924

(1) Represents the carrying value of MSRs in connection with call rights exercised by NRZ, for MSRs transferred to NRZ under the 2017 Agreements and New RMSR Agreements, or by Ocwen at NRZ's direction, for MSRs underlying the Original Rights to MSRs Agreements. Ocwen derecognizes the MSRs and the related financing liability upon collapse of the securitization.

Ocwen Transactions

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

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

On January 18, 2018, the parties entered into new agreements (including a Servicing Addendum) regarding the Rights to MSRs related to MSRs that remained subject to the Original Rights to MSRs Agreements as of January 1, 2018 and amended the Transfer Agreement (collectively, New RMSR Agreements) to accelerate the implementation of certain parts of our arrangements in order to achieve the intent of the 2017 Agreements sooner. Upon receiving the required consents and transferring the MSRs, Ocwen will subservice the mortgage loans underlying the MSRs pursuant to the 2017 Agreements.

Ocwen received lump-sum cash payments of $54.6 million and $279.6 million in September 2017 and January 2018 in accordance with the terms of the 2017 Agreements and New RMSR Agreements, respectively. These upfront payments generally represent the net present value of the difference between the future revenue stream Ocwen would have received under the Original Rights to MSRs Agreements and the future revenue stream Ocwen expects to receive under the 2017 Agreements and the New RMSR Agreements.

On August 17, 2018, Ocwen and NRZ entered into certain amendments to the New RMSR Agreements to include New Penn Financial, LLC dba Shellpoint Mortgage Servicing (Shellpoint), a subsidiary of NRZ, as a party and to conform the New RMSR Agreements to certain of the terms of the Shellpoint Subservicing Agreement between Ocwen and Shellpoint.

As of March 31, 2019, there remains $25.9 billion in UPB of MSRs for which legal title has not transferred to NRZ. In the event the required third-party consents are not obtained by May 31, 2019, and in accordance with the process set forth in, the New RMSR Agreements, such MSRs will either: (i) remain subject to the New RMSR Agreements at the option of NRZ, (ii) be acquired by Ocwen at a price determined in accordance with the terms of the New RMSR Agreements, or (iii) be sold to a third party in accordance with the terms of the New RMSR Agreements. Ocwen and NRZ are in discussions regarding the arrangements that will be made with respect to these MSRs.

At any time during the Initial Term, NRZ may terminate the Subservicing Agreement and Servicing Addendum for convenience, subject to Ocwen's right to receive a termination fee and proper notice. Following the Initial Term, NRZ may extend the term of the Subservicing Agreement and Servicing Addendum for additional three-month periods by providing proper notice. Following the Initial Term, the Subservicing Agreement and Servicing Addendum can be cancelled by Ocwen on an annual basis. NRZ and Ocwen have the ability to terminate the Subservicing Agreement and Servicing Addendum for cause if certain specified conditions occur.

Under the terms of the Subservicing Agreement and Servicing Addendum, in addition to a base servicing fee, Ocwen will continue to receive ancillary income, which primarily includes late fees, loan modification fees and Speedpay® fees. NRZ will receive all float earnings and deferred servicing fees related to delinquent borrower payments, as well as be entitled to receive certain real estate owned (REO) related income including REO referral commissions.

Prior to January 18, 2018, MSRs as to which necessary transfer consents had not yet been obtained continued to be subject to the terms of the agreements entered into in 2012 and 2013. Under the 2012 and 2013 agreements, the servicing fees payable under the servicing agreements underlying the Rights to MSRs were apportioned between NRZ and us. NRZ retained a fee based on the UPB of the loans serviced, and OLS received certain fees, including a performance fee based on servicing fees paid less an amount calculated based on the amount of servicing advances and the cost of financing those advances.

PHH Transactions

On December 28, 2016, PHH entered into an agreement to sell substantially all of its MSRs, and the related servicing advances, to New Residential Mortgage LLC, a wholly-owned subsidiary of NRZ. In connection with this agreement, on December 28, 2016, PHH also entered into a subservicing agreement with NRZ (collectively, the PHH MSR Agreements). The PHH subservicing agreement has an initial term of three years from the initial transaction date of June 16, 2017, subject to certain transfer and termination provisions.

Through its acquisition of PHH on October 4, 2018, Ocwen recognized MSRs of $42.3 billion UPB related to the PHH MSR Agreements. As of March 31, 2019, $3.2 billion in UPB of MSRs and related advances remain to be sold to NRZ under the PHH MSR Agreements pending receipt of required third-party consents. Ocwen and NRZ are in discussions regarding disposition of these assets.

At any time during each of the second and third years of the initial term, and subject to the payment of the applicable deboarding fee, NRZ may terminate an amount not to exceed 25% of the underlying mortgage loans with proper notice. The PHH MSR Agreements automatically renew for successive one-year terms unless either party provides notice of termination. NRZ and PHH each have the ability to terminate the subservicing agreement for cause if certain specified conditions occur.

Note 11 – Receivables

	March 31, 2019	December 31, 2018
Servicing-related receivables:		
Government-insured loan claims, net	$ 99,918	$ 105,258
Due from NRZ:		
Sales and transfers of MSRs	23,430	23,757
Advance funding, subservicing fees and reimbursable expenses	9,238	30,845
Due from custodial accounts	17,780	9,060
Reimbursable expenses	11,992	11,508
Other	7,304	7,754
	169,662	188,182
Income taxes receivable	39,382	45,987
Other receivables	40,401	17,672
	249,445	251,841
Allowance for losses	(52,402)	(53,579)
	$ 197,043	$ 198,262

At March 31, 2019 and December 31, 2018, the allowance for losses relates to receivables of our Servicing business. Allowance for losses related to defaulted FHA- or VA-insured loans repurchased from Ginnie Mae guaranteed securitizations (government-insured loan claims) was $51.3 million and $52.5 million at March 31, 2019 and December 31, 2018, respectively.

	Three Months Ended March 31,	
Allowance for Losses - Government-Insured Loan Claims	**2019**	**2018**
Beginning balance	$ 52,497	$ 53,340
Provision	7,247	10,376
Charge-offs and other, net	(8,464)	(6,123)
Ending balance	$ 51,280	$ 57,593

Note 12 – Other Assets

	March 31, 2019	December 31, 2018
Contingent loan repurchase asset	$ 399,202	$ 302,581
Prepaid expenses	25,668	27,647
Prepaid representation, warranty and indemnification claims - Agency MSR sale	15,193	15,173
Real estate	7,256	7,368
Deferred tax asset, net	5,858	5,289
Prepaid lender fees, net (1)	5,496	6,589
Derivatives, at fair value	4,341	4,552
Security deposits	2,257	2,278
Mortgage backed securities, at fair value	1,786	1,502
Interest-earning time deposits	1,373	1,338
Other	5,742	5,250
	$ 474,172	$ 379,567

(1) We amortize these costs to the earlier of the scheduled amortization date, contractual maturity date or prepayment date of the debt.

Note 13 – Borrowings

Match Funded Liabilities

Borrowing Type	Maturity (1)	Amorti- zation Date (1)	Available Borrowing Capacity (2)	March 31, 2019		December 31, 2018	
				Weighted Average Interest Rate (3)	Balance	Weighted Average Interest Rate (3)	Balance
Advance Financing Facilities:							
Advance Receivables Backed Notes - Series 2015-VF5 (4)	Dec. 2049	Dec. 2019	110,794	4.12	$ 114,206	4.06	$ 216,559
Advance Receivables Backed Notes - Series 2016-T2 (5)	Aug. 2049	Aug. 2019	—	2.99	235,000	2.99	235,000
Advance Receivables Backed Notes, Series 2018-T1 (5)	Aug. 2049	Aug. 2019	—	3.50	150,000	3.50	150,000
Advance Receivables Backed Notes, Series 2018-T2 (5)	Aug. 2050	Aug. 2020	—	3.81	150,000	3.81	150,000
Total Ocwen Master Advance Receivables Trust (OMART)			110,794	3.50	649,206	3.56	751,559
Ocwen Freddie Advance Funding (OFAF) - Advance Receivables Backed Notes, Series 2015-VF1 (6)	Jun. 2049	Jun. 2019	64,822	5.10	178	5.03	26,725
Total Servicing Advance Financing Facilities			175,616	3.50%	649,384	3.61%	778,284
			$ 175,616	3.50%	$ 649,384	3.61%	$ 778,284

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

(2) Borrowing capacity under the OMART and OFAF facilities is available to us provided that we have eligible collateral to pledge according to their respective criteria. At March 31, 2019, $66.1 million of the available borrowing capacity of our advance financing notes could be used based on the amount of eligible collateral that had been pledged.

(3) 1ML was 2.49% and 2.50% at March 31, 2019 and December 31, 2018, respectively.

(4) The total borrowing capacity of the Series 2015-VF5 variable notes is $225.0 million, with interest computed based on the lender's cost of funds plus a margin of 105 to 250 bps.

(5) Under the terms of the agreement, we must continue to borrow the full amount of the Series 2016-T2, 2018-T1 and 2018-T2 fixed-rate term notes until the amortization date. If there is insufficient eligible collateral to support the level of borrowing, the excess cash proceeds in an amount necessary to make up the deficit are not distributed to Ocwen but are held by the trustee, and interest expense continues to be based on the full amount of the outstanding notes. The Series 2016-T2, 2018-T1 and 2018-T2 term notes have a total combined borrowing capacity of $535.0 million. Rates on the individual classes of notes range from 2.72% to 4.53%. On August 15, 2018, we issued two $150.0 million fixed-rate term notes (Series 2018 T-1 and Series 2018-T2) with amortization dates of August 15, 2019 and August 17, 2020, respectively.

(6) The borrowing capacity is $65.0 million with interest computed based on the lender's cost of funds plus a margin of 180 to 450 bps. There is a ceiling of 300 bps for 3ML in determining the interest rate for these variable rate notes.

Pursuant to the 2017 Agreements and New RMSR Agreements, NRZ is obligated to fund new servicing advances with respect to the MSRs underlying the Rights to MSRs. We are dependent upon NRZ for funding the servicing advance obligations for Rights to MSRs where we are the servicer. NRZ currently uses advance financing facilities in order to fund a substantial portion of the servicing advances that they are contractually obligated to purchase pursuant to our agreements with them. As of March 31, 2019, we were the servicer of Rights to MSRs sold to NRZ pertaining to $25.9 billion in UPB, which excludes those Rights to MSRs where legal title has transferred to NRZ. NRZ's associated outstanding servicing advances as of such date were approximately $842.9 million. Should NRZ's advance financing facilities fail to perform as envisaged or should NRZ otherwise be unable to meet its advance funding obligations, our liquidity, financial condition and business could be materially and adversely affected. As the servicer, we are contractually required under our servicing agreements to make certain servicing advances even if NRZ does not perform its contractual obligations to fund those advances. See Note 10 — Rights to MSRs for additional information.

In addition, although we are not an obligor or guarantor under NRZ's advance financing facilities, we are a party to certain of the facility documents as the servicer of the underlying loans on which advances are being financed. As the servicer, we make certain representations, warranties and covenants, including representations and warranties in connection with advances subsequently sold to, or reimbursed by, NRZ.

Financing Liabilities				**Outstanding Balance**	
Borrowing Type	**Collateral**	**Interest Rate**	**Maturity**	**March 31, 2019**	**December 31, 2018**
HMBS-Related Borrowings, at fair value (1)	Loans held for investment	1ML + 260 bps	(1)	$ 5,614,688	$ 5,380,448
Other Financing Liabilities					
MSRs pledged, at fair value:					
Original Rights to MSRs Agreements	MSRs	(2)	(2)	424,086	436,511
2017 Agreements and New RMSR Agreements	MSRs	(3)	(3)	119,932	138,854
PHH MSR Agreements	MSRs	(4)	(4)	407,198	457,491
				951,216	1,032,856
Secured Notes, Ocwen Asset Servicing Income Series, Series 2014-1 (4)	MSRs	(5)	Feb. 2028	63,835	65,523
Financing liability - Owed to securitization investors, at fair value:					
IndyMac Mortgage Loan Trust (INDX 2004-AR11) (5)	Loans held for investment	(6)	(6)	10,923	11,012
Residential Asset Securitization Trust 2003-A11 (RAST 2003-A11) (5)	Loans held for investment	(6)	(6)	13,639	13,803
				24,562	24,815
Advances pledged (6)	Advances on loans	(7)	(7)	4,085	4,419
				1,043,698	1,127,613
				$ 6,658,386	$ 6,508,061

(1) Represents amounts due to the holders of beneficial interests in Ginnie Mae guaranteed HMBS. The beneficial interests have no maturity dates, and the borrowings mature as the related loans are repaid.

(2) This financing liability has no contractual maturity or repayment schedule. The balance of the liability is adjusted each reporting period to its fair value based on the present value of the estimated future cash flows underlying the related MSRs.

(3) This financing liability arose in connection with lump sum payments received upon transfer of legal title of the MSRs related to the Rights to MSRs transactions to NRZ in September 2017. In connection with the execution of the New RMSR Agreements in January 2018, we received a lump sum payment of $279.6 million as compensation for foregoing certain payments under the Original Rights to MSRs Agreements. The balance of the liability is adjusted each reporting period to its fair value based on the present value of the estimated future cash flows. The expected maturity of the liability is April 30, 2020, the date through which we were scheduled to be the servicer on loans underlying the Rights to MSRs per the Original Rights to MSRs Agreements.

(4) Represents a liability for sales of MSRs that are accounted for as a secured borrowing which we assumed in connection with the acquisition of PHH. Under this accounting treatment, the MSRs transferred to NRZ remain on the consolidated balance sheet and the proceeds from the sale are recognized as a secured liability. We elected to record the liability at fair value consistent with the related MSRs.

(5) OASIS noteholders are entitled to receive a monthly payment equal to the sum of: (a) 21 basis points of the UPB of the reference pool of Freddie Mac mortgages; (b) any termination payment amounts; (c) any excess refinance amounts; and (d) the note redemption amounts, each as defined in the indenture supplement for the notes. Monthly amortization of the liability is estimated using the proportion of monthly projected service fees on the underlying MSRs as a percentage of lifetime projected fees, adjusted for the term of the notes.

(6) Consists of securitization debt certificates due to third parties that represent beneficial interests in trusts that we include in our unaudited consolidated financial statements, as more fully described in Note 4 – Securitizations and Variable Interest Entities. The holders of these certificates have no recourse against the assets of Ocwen. The certificates in the INDX 2004-AR11 Trust pay interest based on variable rates which are generally based on weighted average net mortgage rates and which range between 3.68% and 4.26% at March 31, 2019. The certificates in the RAST 2003-A11 Trust pay interest based on fixed rates ranging between 4.25% and 5.75% and a variable rate based on 1ML plus 0.45%. The maturity of the certificates occurs upon maturity of the loans held by the trust. The remaining loans in the INDX 2004-AR11 Trust and RAST 2003-A11 Trust have maturity dates extending through November 2034 and October 2033, respectively.

(7) Certain sales of advances did not qualify for sales accounting treatment and were accounted for as a financing. This financing liability has no contractual maturity. The effective interest rate is based on 1ML plus a margin of 450 bps.

Other Secured Borrowings					**Outstanding Balance**	
Borrowing Type	**Collateral**	**Interest Rate**	**Termination / Maturity**	**Available Borrowing Capacity (1)**	**March 31, 2019**	**December 31, 2018**
SSTL (2)	(2)	1-Month Euro-dollar rate + 500 bps with a Eurodollar floor of 100 bps (2)	Dec. 2020	$ —	$ 345,143	$ 231,500
Mortgage loan warehouse facilities						
Repurchase agreement (3)	Loans held for sale (LHFS)	1ML + 195 - 300 bps	Sep. 2019	59,468	40,532	74,693
Participation agreement (4)	LHFS	N/A	Jul. 2019	—	5,637	42,331
Mortgage warehouse agreement (5)	LHFS (reverse mortgages)	1ML + 275 bps; 1ML floor of 350 bps	Aug. 2019	—	12,466	8,009
Master repurchase agreement (6)	LHFS (forward and reverse mortgages)	1ML + 225 bps forward; 1ML + 275 bps reverse	Dec. 2019	170,060	29,940	30,680
Master repurchase agreement (7)	LHFS (reverse mortgages)	Prime + 0.0% (4.0% floor)	Jan. 2020	—	733	—
Master repurchase agreement (8)	N/A	1ML + 170bps	N/A	—	—	—
Participation agreement (9)	LHFS	N/A	Feb. 2020	—	8,731	—
				229,528	98,039	155,713
				$ 229,528	443,182	387,213
Unamortized debt issuance costs - SSTL					(4,074)	(3,098)
Discount - SSTL					(2,126)	(1,577)
					$ 436,982	$ 382,538
Weighted average interest rate					5.90%	5.49%

(1) Available borrowing capacity for our mortgage loan warehouse facilities does not consider the amount of the facility that the lender has extended on an uncommitted basis. Of the borrowing capacity extended on a committed basis, $89.0 million could be used at March 31, 2019 based on the amount of eligible collateral that could be pledged.

(2) On March 18, 2019, we entered into a Joinder and Amendment Agreement (the Amendment) which amends the existing Amended and Restated SSTL Facility Agreement dated December 5, 2016 to provide an additional term loan of $120.0 million subject to the same maturity, interest rate and other material terms of existing borrowings under the SSTL. Effective with the Amendment, the original borrowing capacity of $335.0 million has been increased to $455.0 million and the quarterly principal payment has been increased from $4.2 million to $6.4 million beginning March 31, 2019. See information regarding collateral in the table below.

Borrowings bear interest, at the election of Ocwen, at a rate per annum equal to either (a) the base rate (the greatest of (i) the prime rate in effect on such day, (ii) the federal funds rate in effect on such day plus 0.50% and (iii) 1ML, plus a margin of 4.00% and subject to a base rate floor of 2.00% or (b) 1ML, plus a margin of 5.00% and subject to a 1ML floor of 1.00%. To date, we have elected option (b) to determine the interest rate.

(3) The maximum borrowing under this agreement is $175.0 million, of which $100.0 million is available on a committed basis and the remainder is available at the discretion of the lender.

(4) Under this participation agreement, the lender provides financing on an uncommitted basis of $175.0 million. The participation agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing. The lender earns the stated interest rate of the underlying mortgage loans while the loans are financed under the participation agreement. On April 29, 2019, the maturity date was extended to

July 31, 2019. Effective with the merger of Homeward Residential Inc. into PMC in February 2019, an additional existing participation agreement with uncommitted borrowing capacity of $75.0 million and a maturity date of May 31, 2019 was terminated.

(5) Under this participation agreement, the lender provides financing for $100.0 million on an uncommitted basis. The participation agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing.

(6) The maximum borrowing under this agreement is $250.0 million, of which $200.0 million is available on a committed basis and the remainder is available on an uncommitted basis. The agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing.

(7) Under this agreement, the lender provides financing for up to $50.0 million on an uncommitted basis. On January 23, 2019, we renewed this facility through January 22, 2020.

(8) This agreement was originally entered into by PHH and subsequently assumed by Ocwen in connection with its acquisition of PHH. The lender provides financing for up to $200.0 million at the discretion of the lender. The agreement has no stated maturity date.

(9) We entered into a master participation agreement on February 4, 2019 under which the lender will provide $300.0 million of borrowing capacity to PMC on an uncommitted basis. The participation agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing. The lender earns the stated interest rate of the underlying mortgage loans while the loans are financed under the participation agreement.

			Outstanding Balance	
Senior Notes	**Interest Rate**	**Maturity**	**March 31, 2019**	**December 31, 2018**
Senior unsecured notes (1)				
PHH	7.375%	Sep. 2019	$ 97,521	$ 97,521
PHH	6.375%	Aug. 2021	21,543	21,543
			119,064	119,064
Senior secured notes	8.375%	Nov. 2022	330,878	330,878
			449,942	449,942
Unamortized debt issuance costs			(1,959)	(2,075)
Fair value adjustments (1)			160	860
			$ 448,143	$ 448,727

(1) These notes were originally issued by PHH and subsequently assumed by Ocwen in connection with its acquisition of PHH. We recorded the notes at their respective fair values on the date of acquisition, and we are amortizing the resulting fair value purchase accounting adjustments over the remaining term of the notes. We have the option to redeem the notes due in August 2021, in whole or in part, on or after January 1, 2019 at a redemption price equal to 100.0% of the principal amount plus any accrued and unpaid interest.

At any time, OLS may redeem all or a part of the Senior Secured Notes, upon not less than 30 nor more than 60 days' notice at a specified redemption price, plus accrued and unpaid interest to the date of redemption. OLS may redeem all or a part of the Senior Secured Notes at the redemption prices (expressed as percentages of principal amount) specified in the Indenture. The redemption prices during the twelve-month periods beginning on November 15th of each year are as follows:

Year	**Redemption Price**
2018	106.281%
2019	104.188%
2020	102.094%
2021 and thereafter	100.000%

Upon a change of control (as defined in the Indenture), OLS is required to make an offer to the holders of the Senior Secured Notes to repurchase all or a portion of each holder's Senior Secured Notes at a purchase price equal to 101.0% of the principal amount of the Senior Secured Notes purchased plus accrued and unpaid interest to the date of purchase.

Credit Ratings

Credit ratings are intended to be an indicator of the creditworthiness of a company, security or obligation. At March 31, 2019, the S&P long-term corporate rating was "B-". On December 11, 2018, Moody's affirmed the long-term corporate rating of "Caa1" and revised the outlook to stable from negative. It is possible that additional actions by credit rating agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Covenants

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

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

Many of the restrictive covenants arising from the indenture for the Senior Secured Notes will be suspended if the Senior Secured Notes achieve an investment-grade rating from both Moody's and S&P and if no default or event of default has occurred and is continuing.

Financial covenants in certain of our debt agreements require that we maintain, among other things:

- a 40% loan to collateral value ratio, as defined under our SSTL, as of the last date of any fiscal quarter; and
- specified levels of tangible net worth and liquidity at the Ocwen level.

As of March 31, 2019, the most restrictive consolidated tangible net worth requirements contained in our debt agreements were for a minimum of $275.0 million in consolidated tangible net worth, as defined, at Ocwen under our match funded debt and certain of our other debt agreements.

As a result of the covenants to which we are subject, we may be limited in the manner in which we conduct our business and may be limited in our ability to engage in favorable business activities or raise additional forms of capital to finance future operations or satisfy future liquidity needs. In addition, breaches or events that may result in a default under our debt agreements include, among other things, nonpayment of principal or interest, noncompliance with our covenants, breach of representations, the occurrence of a material adverse change, insolvency, bankruptcy, certain material judgments and changes of control.

Covenants and default provisions of this type are commonly found in debt agreements such as ours. Certain of these covenants and default provisions are open to subjective interpretation and, if our interpretation was contested by a lender, a court may ultimately be required to determine compliance or lack thereof. In addition, our debt agreements generally include cross default provisions such that a default under one agreement could trigger defaults under other agreements. If we fail to comply with our debt agreements and are unable to avoid, remedy or secure a waiver of any resulting default, we may be subject to adverse action by our lenders, including termination of further funding, acceleration of outstanding obligations, enforcement of liens against the assets securing or otherwise supporting our obligations and other legal remedies. Our lenders can waive their contractual rights in the event of a default.

We believe that we are in compliance with all of the qualitative and quantitative covenants in our debt agreements as of the date of these financial statements.

Collateral

Our assets held as collateral related to secured borrowings, committed under sale or other contractual obligations and which may be subject to secured liens under the SSTL and Senior Secured Notes are as follows at March 31, 2019:

			Collateral for Secured Borrowings			
	Total Assets	Match Funded Liabilities	Financing Liabilities	Mortgage Loan Warehouse Facilities	Sales and Other Commitments (1)	Other (2)
Cash	$ 263,188	$ —	$ —	$ —	$ —	$ 263,188
Restricted cash	63,379	16,499	—	5,588	41,292	—
Mortgage servicing rights	1,400,191	—	913,465	—	9,210	477,516
Advances, net	225,360	—	8,569	—	32,057	184,734
Match funded advances	868,720	868,720	—	—	—	—
Loans held for sale	222,687	—	—	64,223	—	158,464
Loans held for investment	5,753,154	—	5,640,925	30,875	—	81,354
Receivables, net	197,043	—	—	—	—	197,043
Premises and equipment, net	69,316	—	—	—	—	69,316
Other assets	474,172	—	—	—	416,652	57,520
Total assets	$ 9,537,210	$ 885,219	$ 6,562,959	$ 100,686	$ 499,211	$ 1,489,135

(1) Sales and Other Commitments include MSRs and related advances committed under sale agreements, Restricted cash and deposits held as collateral to support certain contractual obligations, and Contingent loan repurchase assets related to the Ginnie Mae early buyout program for which a corresponding liability is recognized in Other liabilities.

(2) The borrowings under the SSTL are secured by a first priority security interest in substantially all of the assets of Ocwen, OLS, PHH, PMC and the other guarantors thereunder, excluding among other things, 35% of the voting capital stock of foreign subsidiaries, securitization assets and equity interests of securitization entities, assets securing permitted funding indebtedness and non-recourse indebtedness, REO assets, Agency MSRs with respect to which an acknowledgment agreement acknowledging such security interest has not been obtained, as well as other customary carve-outs (collectively, the Collateral). The Collateral is subject to certain permitted liens set forth under the SSTL and related security agreement. The Senior Secured Notes are guaranteed by Ocwen and the other guarantors that guarantee the SSTL, and the borrowings under the Senior Secured Notes are secured by a second priority security interest in the Collateral. Security interests securing borrowings under the SSTL and Senior Secured Notes may include amounts presented in Other as well as certain assets presented in Collateral for Secured Borrowings and Sales and Other Commitments, subject to permitted liens as defined in the applicable debt documents. The amounts presented here may differ in their calculation and are not intended to represent amounts that may be used in connection with covenants under the applicable debt documents.

Note 14 – Other Liabilities

	March 31, 2019	December 31, 2018
Contingent loan repurchase liability	$ 399,202	$ 302,581
Other accrued expenses	81,393	99,739
Lease liability	60,057	—
Due to NRZ - Advance collections and servicing fees	55,907	53,001
Accrued legal fees and settlements	52,916	62,763
Liability for indemnification obligations	48,668	51,574
Servicing-related obligations	39,041	41,922
Checks held for escheat	22,299	20,686
Accrued interest payable	13,172	7,209
Liability for uncertain tax positions	12,492	13,739
Liability for unfunded pension obligation	12,452	12,683
Liability for mortgage insurance contingency	6,820	6,820
Derivatives, at fair value	4,209	4,986
Deferred revenue	2,699	4,441
Other	21,394	21,492
	$ 832,721	$ 703,636

Accrued Legal Fees and Settlements	Three Months Ended March 31,	
	2019	2018
Beginning balance	$ 62,763	$ 51,057
Net accrual (reversal of accrual) for probable losses (1)	(631)	7,452
Payments (2)	(9,407)	(6,036)
Issuance of common stock in settlement of litigation (3)	—	(5,719)
Net increase (decrease) in accrued legal fees	191	(299)
Other	—	(150)
Ending balance	$ 52,916	$ 46,305

(1) Consists of amounts accrued for probable losses in connection with legal and regulatory settlements and judgments. Such amounts are reported in Professional services expense in the unaudited consolidated statements of operations.
(2) Includes cash payments made in connection with resolved legal and regulatory matters.
(3) In January 2018, Ocwen issued 1,875,000 shares of common stock in connection with a securities litigation settlement.

Note 15 – Derivative Financial Instruments and Hedging Activities

The following table summarizes derivative activity, including the derivatives used in each of our identified hedging programs. The notional amount of our contracts does not represent our exposure to credit loss. None of the derivatives were designated as a hedge for accounting purposes at March 31, 2019:

		Interest Rate Risk	
		IRLCs and Loans Held for Sale	Borrowings
	IRLCs	Forward MBS Trades	Interest Rate Caps
Notional balance at March 31, 2019	$ 117,770	$ 105,500	$ 193,750
Maturity	April 2019 - June 2019	April 2019	May 2019 to May 2020
Fair value of derivative assets (liabilities) (1) at:			
March 31, 2019	$ 3,982	$ (4,126)	$ 276
December 31, 2018	3,871	(4,983)	678
Gains (losses) on derivatives during the three months ended:	**Gain on loans held for sale, net**		**Other, Net**
March 31, 2019	$ (341)	$ (2,270)	$ (402)
March 31, 2018	1,377	2,398	193

(1) Derivatives are reported at fair value in Other assets or in Other liabilities on our unaudited consolidated balance sheets.

As loans are originated and sold or as loan commitments expire, our forward MBS trade positions mature and are replaced by new positions based upon new loan originations and commitments and expected time to sell.

Foreign Currency Exchange Rate Risk

Our operations in India and the Philippines expose us to foreign currency exchange rate risk to the extent that our foreign exchange positions remain unhedged. We have not entered into any forward exchange contracts during the reported periods to hedge against the effect of changes in the value of the India Rupee or Philippine Peso. Foreign currency remeasurement exchange gains (losses) were $0.2 million and $(0.7) million, during the three months ended March 31, 2019 and 2018, respectively, and are reported in Other, net in the unaudited consolidated statements of operations. The losses in 2018 are primarily attributed to depreciation of the India Rupee against the U.S. Dollar.

Interest Rate Risk

Interest Rate Lock Commitments

A loan commitment binds us (subject to the loan approval process) to fund the loan at the specified rate, regardless of whether interest rates have changed between the commitment date and the loan funding date. As such, outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of the commitment through the loan funding date or expiration date. The borrower is not obligated to obtain the loan; thus, we are subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. Our interest rate exposure on these derivative loan commitments is hedged with freestanding derivatives such as forward contracts. We enter into forward contracts with respect to both fixed and variable rate loan commitments.

Loans Held for Sale, at Fair Value

Mortgage loans held for sale that we carry at fair value are subject to interest rate and price risk from the loan funding date until the date the loan is sold into the secondary market. Generally, the fair value of a loan will decline in value when interest rates increase and will rise in value when interest rates decrease. To mitigate this risk, we enter into forward MBS trades to provide an economic hedge against those changes in fair value on mortgage loans held for sale. Forward MBS trades are primarily used to fix the forward sales price that will be realized upon the sale of mortgage loans into the secondary market.

Match Funded Liabilities

As required by certain of our advance financing arrangements, we have purchased interest rate caps to minimize future interest rate exposure from increases in the interest on our variable rate debt as a result of increases in the index, such as 1ML, which is used in determining the interest rate on the debt. We currently do not hedge our fixed rate debt.

Accumulated Other Comprehensive Loss (AOCL)

Included in AOCL at March 31, 2019 and 2018, were $1.0 million and $1.2 million of deferred unrealized losses, before taxes of $0.1 million and $0.1 million, respectively, on interest rate swaps that we had designated as cash flow hedges. These deferred losses in AOCL are amortized to Other, net in the unaudited consolidated statements of operations.

Note 16 – Interest Expense

	Three Months Ended March 31,	
	2019	**2018**
Financing liabilities		
NRZ	$ 43,956	$ 23,050
Other financing liabilities	1,069	1,194
	45,025	24,244
Senior notes	8,512	7,452
Other secured borrowings	7,878	8,188
Match funded liabilities	7,652	9,549
Other	1,378	1,377
	$ 70,445	$ 50,810

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

Basic earnings or loss per share excludes common stock equivalents and is calculated by dividing net income or loss attributable to Ocwen common stockholders by the weighted average number of common shares outstanding during the period. We calculate diluted earnings or loss per share by dividing net income or loss attributable to Ocwen by the weighted average number of common shares outstanding including the potential dilutive common shares related to outstanding stock options and restricted stock awards. For the three months ended March 31, 2019, we have excluded the effect of all stock options and common stock awards from the computation of diluted loss per share because of the anti-dilutive effect of our reported net loss.

	Three Months Ended March 31,	
	2019	**2018**
Basic income (loss) per share		
Net income (loss) attributable to Ocwen stockholders	$ (44,494)	$ 2,548
Weighted average shares of common stock	133,918,986	133,121,465
Basic income (loss) per share	$ (0.33)	$ 0.02
Diluted loss per share		
Net income (loss) attributable to Ocwen stockholders	$ (44,494)	$ 2,548
Weighted average shares of common stock	133,918,986	133,121,465
Effect of dilutive elements		
Stock option awards	—	—
Common stock awards	—	1,485,464
Dilutive weighted average shares of common stock	133,918,986	134,606,929
Diluted income (loss) per share	$ (0.33)	$ 0.02
Stock options and common stock awards excluded from the computation of diluted earnings per share		
Anti-dilutive (1)	3,226,255	6,503,348
Market-based (2)	381,877	817,446

(1) Includes stock options that are anti-dilutive because their exercise price was greater than the average market price of Ocwen's stock, and stock awards that are anti-dilutive based on the application of the treasury stock method.
(2) Shares that are issuable upon the achievement of certain market-based performance criteria related to Ocwen's stock price.

Note 18 – Business Segment Reporting

Our business segments reflect the internal reporting that we use to evaluate operating performance of services and to assess the allocation of our resources. A brief description of our current business segments is as follows:

Servicing. This segment is primarily comprised of our core residential mortgage servicing business and currently accounts for most of our total revenues. We provide residential and commercial mortgage loan servicing, special servicing and asset management services. We earn fees for providing these services to owners of the mortgage loans and foreclosed real estate. In most cases, we provide these services either because we purchased the MSRs from the owner of the mortgage, retained the MSRs on the sale of residential mortgage loans or because we entered into a subservicing or special servicing agreement with the entity that owns the MSR. Our residential servicing portfolio includes conventional, government-insured and non-Agency loans. Non-Agency loans include subprime loans, which represent residential loans that generally did not qualify under GSE guidelines or have subsequently become delinquent.

Lending. The Lending segment purchases and originates conventional and government-insured residential forward and reverse mortgage loans. The loans are typically sold shortly after origination into a liquid market on a servicing retained (securitization) or servicing released (sale to a third party) basis. We originate loans directly with customers (retail channel) in forward lending as well as through our correspondent lending arrangements, broker relationships (wholesale) and retail channels of reverse mortgage lending.

Corporate Items and Other. Corporate Items and Other includes revenues and expenses of corporate support services, CR Limited (CRL), our wholly-owned captive reinsurance subsidiary, discontinued operations and inactive entities, business activities that are individually insignificant, revenues and expenses that are not directly related to other reportable segments, interest income on short-term investments of cash and interest expense on corporate debt. Corporate Items and Other also includes severance, retention, facility-related and other expenses incurred in the first quarter of 2019 related to our re-engineering plan. Our cash balances are included in Corporate Items and Other. CRL provides re-insurance related to coverage on foreclosed real estate properties owned or serviced by us.

We allocate a portion of interest income to each business segment, including interest earned on cash balances and short-term investments. We also allocate expenses incurred by corporate support services to each business segment. Interest expense on direct asset financings are recorded in the respective Servicing and Lending segments, while interest expense on the SSTL and Senior Notes is recorded in Corporate Items and Other and is not allocated.

Financial information for our segments is as follows:

	Three Months Ended March 31, 2019				
Results of Operations	**Servicing**	**Lending**	**Corporate Items and Other**	**Corporate Eliminations**	**Business Segments Consolidated**
Revenue	$ 259,274	$ 41,091	$ 3,523	$ —	$ 303,888
Expenses (1) (2)	265,898	21,331	(7,124)	—	280,105
Other income (expense):					
Interest income	2,294	1,549	715	—	4,558
Interest expense	(54,698)	(1,668)	(14,079)	—	(70,445)
Bargain purchase gain	—	—	(285)	—	(285)
Other	1,525	219	(439)	—	1,305
Other income (expense), net	(50,879)	100	(14,088)	—	(64,867)
Income (loss) before income taxes	$ (57,503)	$ 19,860	$ (3,441)	$ —	$ (41,084)

Results of Operations	Three Months Ended March 31, 2018 Servicing	Lending	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
Revenue	$ 226,096	$ 29,195	$ 4,966	$ —	$ 260,257
Expenses (1)	171,095	20,296	15,110	—	206,501
Other income (expense):					
Interest income	429	1,492	779	—	2,700
Interest expense	(34,517)	(1,946)	(14,347)	—	(50,810)
Other	(429)	325	(577)	—	(681)
Other expense, net	(34,517)	(129)	(14,145)	—	(48,791)
Income (loss) before income taxes	$ 20,484	$ 8,770	$ (24,289)	$ —	$ 4,965

Total Assets	Servicing	Lending	Corporate Items and Other	Corporate Eliminations	Business Segments Consolidated
March 31, 2019	$ 3,221,779	$ 5,848,830	$ 466,601	$ —	$ 9,537,210
December 31, 2018	$ 3,306,208	$ 5,603,481	$ 484,527	$ —	$ 9,394,216
March 31, 2018	$ 2,938,827	$ 5,131,232	$ 393,259	$ —	$ 8,463,318

Depreciation and Amortization Expense	Servicing	Lending	Corporate Items and Other	Business Segments Consolidated
Three months ended March 31, 2019				
Depreciation expense	$ 806	$ 36	$ 7,709	$ 8,551
Amortization of debt discount	—	—	351	351
Amortization of debt issuance costs	—	—	700	700
Three months ended March 31, 2018				
Depreciation expense	$ 1,358	$ 29	$ 5,140	$ 6,527
Amortization of debt discount	—	—	264	264
Amortization of debt issuance costs	—	—	656	656

(1) Compensation and benefits expense in the Corporate Items and Other segment for the three months ended March 31, 2019 and 2018 includes $18.5 million and $5.6 million, respectively, of severance expense attributable to PHH integration-related headcount reductions of primarily U.S.-based employees in 2019 and headcount reductions in connection with our strategic decisions to exit the automotive capital services business and the forward lending correspondent and wholesale channels in late 2017 and early 2018, as well as our overall efforts to reduce costs.

(2) In the Corporate Items and Other segment for the three months ended March 31, 2019, we recorded in Professional services expense a recovery from a service provider of $30.7 million of amounts previously recognized as expense.

Note 19 – Regulatory Requirements

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

In the current regulatory environment, we have faced and expect to continue to face heightened regulatory and public scrutiny as an organization as well as stricter and more comprehensive regulation of the entire mortgage sector. We continue to work diligently to assess and understand the implications of the evolving regulatory environment in which we operate and to meet its requirements. We devote substantial resources to regulatory compliance, while, at the same time, striving to meet the needs and expectations of our customers, clients and other stakeholders. Our failure to comply with applicable federal, state and local laws, regulations and licensing requirements could lead to (i) administrative fines and penalties and litigation, (ii) loss of our licenses and approvals to engage in our servicing and lending businesses, (iii) governmental investigations and enforcement actions, (iv) civil and criminal liability, including class action lawsuits and actions to recover incentive and other payments made by governmental entities, (v) breaches of covenants and representations under our servicing, debt or other agreements, (vi) damage to our reputation, (vii) inability to raise capital or otherwise fund our operations and (viii) inability to execute on our business strategy. In addition to amounts paid to resolve regulatory matters, we could incur costs to comply with the terms of such resolutions, including, but not limited to, the costs of audits, reviews and third-party firms to monitor our compliance with such resolutions.

We must comply with a large number of federal, state and local consumer protection and other laws and regulations, including, among others, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the Telephone Consumer Protection Act (TCPA), the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, the Real Estate Settlement Procedures Act (RESPA), the Truth in Lending Act (TILA), the Servicemembers Civil Relief Act, the Homeowners Protection Act, the Federal Trade Commission Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, as well as individual state licensing and foreclosure laws, individual state and local laws relating to registration of vacant or foreclosed properties, and federal and local bankruptcy rules. These laws and regulations apply to many facets of our business, including loan origination, default servicing and collections, use of credit reports, safeguarding of non-public personally identifiable information about our customers, foreclosure and claims handling, investment of, and interest payments on, escrow balances and escrow payment features and fees assessed on borrowers, and they mandate certain disclosures and notices to borrowers. These requirements can and do change as laws and regulations are enacted, promulgated, amended, interpreted and enforced, including through CFPB interpretive bulletins and other regulatory pronouncements. In addition, the actions of legislative bodies and regulatory agencies relating to a particular matter or business practice may or may not be coordinated or consistent. As a result, ensuring ongoing compliance with applicable legal and regulatory requirements can be challenging. Over the past decade, the general trend among federal, state and local legislative bodies and regulatory agencies as well as state attorneys general has been toward increasing laws, regulations, investigative proceedings and enforcement actions with regard to residential real estate lenders and servicers. New regulatory and legislative measures, or changes in enforcement practices, including those related to the technology we use, could, either individually or in the aggregate, require significant changes to our business practices, impose additional costs on us, limit our product offerings, limit our ability to efficiently pursue business opportunities, negatively impact asset values or reduce our revenues. Accordingly, they could materially and adversely affect our business and our financial condition, liquidity and results of operations.

As further described below and in Note 21 – Contingencies, in recent years Ocwen has entered into a number of significant settlements with federal and state regulators and state attorneys general that have imposed additional requirements on our business. For example, we have made various commitments relating to the process of moving loans off the REALServicing® servicing system and onto Black Knight MSP, we have engaged a third-party auditor to perform an analysis with respect to our compliance with certain federal and state laws relating to the escrow of mortgage loan payments, we have revised various aspects of our complaint handling processes and we have extensive review and reporting obligations to various regulatory bodies with respect to various matters, including our financial condition. We devote significant management time and resources to compliance with these additional requirements. These requirements are generally unique to Ocwen and, while certain of our competitors may have entered into regulatory-related settlements of their own, our competitors are generally not subject to either the same specific or the same breadth of additional requirements to which we are subject.

Ocwen has various subsidiaries that are licensed to originate and/or service forward and reverse mortgage loans in those jurisdictions in which they operate and which require licensing. Our licensed entities are required to renew their licenses, typically on an annual basis, and to do so they must satisfy the license renewal requirements of each jurisdiction, which generally include financial requirements such as providing audited financial statements and satisfying minimum net worth requirements and non-financial requirements such as satisfactory completion of examinations relating to the licensee's compliance with applicable laws and regulations. Failure to satisfy any of the requirements to which our licensed entities are subject could result in a variety of regulatory actions ranging from a fine, a directive requiring a certain step to be taken, entry into a consent order, a suspension or, ultimately, a revocation of a license, any of which could have a material adverse impact on our business, reputation, results of operations and financial condition. The minimum net worth requirements to which our licensed entities are subject are unique to each state and type of license. We believe our licensed entities were in compliance with all of their minimum net worth requirements at March 31, 2019.

OLS, PMC and Liberty are also subject to seller/servicer obligations under agreements with one or more of the GSEs, HUD, FHA, VA and Ginnie Mae. These seller/servicer obligations contain financial requirements, including capital requirements related to tangible net worth, as defined by the applicable agency, an obligation to provide audited consolidated financial statements within 90 days of the applicable entity's fiscal year end as well as extensive requirements regarding servicing, selling and other matters. To the extent that these requirements are not met or waived, the applicable agency may, at its option, utilize a variety of remedies including requirements to provide certain information or take actions at the direction of the applicable agency, requirements to deposit funds as security for our obligations, sanctions, suspension or even termination of approved seller/servicer status, which would prohibit future originations or securitizations of forward or reverse mortgage loans or servicing for the applicable agency. Any of these actions could have a material adverse impact on us. To date, none of these counterparties has communicated any material sanction, suspension or prohibition in connection with our seller/servicer obligations. We believe we were in compliance with applicable net worth requirements at March 31, 2019. Our non-Agency servicing agreements also contain requirements regarding servicing practices and other matters, and a failure to comply with these requirements could have a material adverse impact on our business.

The most restrictive of the various net worth requirements referenced above is based on the total assets of OLS, and the required net worth was $169.0 million at March 31, 2019.

In addition, a number of foreign laws and regulations apply to our operations outside of the U.S., including laws and regulations that govern licensing, employment, safety, taxes and insurance and laws and regulations that govern the creation, continuation and the winding up of companies as well as the relationships between shareholders, our corporate entities, the public and the government in these countries. Non-compliance with these laws and regulations could result in adverse actions against us, including (i) restrictions on our operations in these countries, (ii) fines, penalties or sanctions or (iii) reputational damage.

New York Department of Financial Services. In March 2017, we entered into a consent order with the NY DFS (the 2017 NY Consent Order) that provided for the termination of the engagement of a monitor appointed pursuant to an earlier 2014 consent order and for us to address certain concerns raised by the NY DFS that primarily relate to our servicing operations, as well as for us to comply with certain reporting and other obligations. In addition, in connection with the NY DFS' approval in September 2018, of our acquisition of PHH, we agreed to satisfy certain post-closing requirements, including reporting obligations and record retention and other requirements relating to the transfer of loans collateralized by New York property (New York loans) onto Black Knight MSP and certain requirements with respect to the evaluation and supervision of management of both Ocwen Financial Corporation and PHH Mortgage Corporation. In addition, we are prohibited from boarding any additional loans onto the current REALServicing system and we must transfer all New York loans off the REALServicing system by April 30, 2020. The conditional approval also modified a preexisting restriction on our ability to acquire MSRs such that the restriction applies only to New York loans and, with respect to New York loans, provides that Ocwen may not increase its aggregate portfolio of New York loans serviced or subserviced by Ocwen by more than 2% per year (based on the unpaid principal balance of loans serviced at the prior calendar year-end). This restriction will remain in place until the NY DFS determines that all loans serviced on the REALServicing system have been successfully migrated to Black Knight MSP and that Ocwen has developed a satisfactory infrastructure to board sizable portfolios of MSRs.

We continue to work with the NY DFS to address matters they continue to raise with us as well as to fulfill our commitments under the 2017 NY Consent Order and PHH acquisition conditional approval. To the extent that we fail to address adequately any concerns raised by the NY DFS or fail to fulfill our commitments to the NY DFS, the NY DFS could take regulatory action against us, including imposing fines or penalties or otherwise restricting our business activities. Any such actions could have a material adverse impact on our business, financial condition liquidity and results of operations.

California Department of Business Oversight. In January 2015, OLS entered into a consent order (the 2015 CA Consent Order) with the CA DBO relating to our alleged failure to produce certain information and documents during a routine licensing examination. In February 2017, we entered into another consent order with the CA DBO (the 2017 CA Consent Order) that terminated the 2015 CA Consent Order and resolved open matters between us and the CA DBO. We believe that we have completed those obligations of the 2017 CA Consent Order that have already come due, and we have so notified the CA DBO. We have certain remaining reporting and other obligations under the 2017 CA Consent Order. Pursuant to the 2017 CA Consent Order, the CA DBO has engaged a third-party administrator who, at the expense of the CA DBO, has commenced work to confirm that Ocwen has completed certain commitments under the 2017 CA Consent Order. Still outstanding, however, is confirmation of our completion of $198.0 million in debt forgiveness for California borrowers by June 30, 2019. As of March 31, 2019, we believe that we have fulfilled this requirement. However, our completion of this requirement is subject to testing by the CA DBO's third-party administrator who must confirm, among other things, that modified loans have remained current for specified time periods. If we are unable to satisfy this requirement by the deadline or obtain an extension, the 2017 CA Consent Order obligates us to pay the remaining amount to the CA DBO in cash. Our debt forgiveness activities take place as we modify loans - our loan modifications are designed to be sustainable for homeowners while providing a net present value for mortgage loan investors that is superior to that of foreclosure. Debt forgiveness as part of a loan modification is determined on a case-by-case basis in accordance with the applicable servicing agreement. Debt forgiveness does not involve an expense to Ocwen other than the operating expense incurred in arranging the modification, which is part of Ocwen's role as loan servicer. If the CA DBO were to allege that we failed to comply with our obligations under the 2017 CA Consent Order or that we otherwise were in breach of applicable laws, regulations or licensing requirements, the CA DBO could also take regulatory actions against us, including imposing fines or penalties or otherwise restricting our business activities. Any such actions could have a material adverse impact on our business, financial condition liquidity and results of operations.

Note 20 — Commitments

Unfunded Lending Commitments

We have originated floating-rate reverse mortgage loans under which the borrowers have additional borrowing capacity of $1.5 billion at March 31, 2019. This additional borrowing capacity is available on a scheduled or unscheduled payment basis. We also had short-term commitments to lend $97.6 million and $20.1 million in connection with our forward and reverse mortgage loan IRLCs, respectively, outstanding at March 31, 2019. We finance originated and purchased forward and reverse mortgage loans with repurchase and participation agreements, commonly referred to as warehouse lines.

HMBS Issuer Obligations

As an HMBS issuer, we assume certain obligations related to each security issued. The most significant obligation is the requirement to purchase loans out of the Ginnie Mae securitization pools once the outstanding principal balance of the related HECM is equal to or greater than 98% of the maximum claim amount (MCA repurchases). Active repurchased loans are assigned to HUD and payment is received from HUD, typically within 60 days of repurchase. HUD reimburses us for the outstanding principal balance on the loan up to the maximum claim amount. We bear the risk of exposure if the amount of the outstanding principal balance on a loan exceeds the maximum claim amount. Inactive repurchased loans (the borrower is deceased, no longer occupies the property or is delinquent on tax and insurance payments) are generally liquidated through foreclosure and subsequent sale of REO.

The timing and amount of our obligation with respect to MCA repurchases is uncertain as repurchase is dependent largely on circumstances outside of our control including the amount and timing of future draws and the status of the loan. MCA repurchases are expected to continue to increase due to the increased flow of HECMs and REO that are reaching 98% of their maximum claim amount. Activity with regard to HMBS repurchases, including MCA repurchases, follows:

	Three Months Ended March 31, 2019					
	Active		Inactive		Total	
	Number	Amount	Number	Amount	Number	Amount
Beginning balance	10	$ 2,047	252	$ 14,833	262	$ 16,880
Additions (1)	2	1,245	48	5,066	50	6,311
Recoveries, net (2)	(5)	(914)	(1)	(1,411)	(6)	(2,325)
Transfers	(1)	(377)	1	377	—	—
Changes in value	—	—	—	(513)	—	(513)
Ending balance	6	$ 2,001	300	$ 18,352	306	$ 20,353

(1) Total repurchases during the three months ended March 31, 2019 includes 25 loans totaling $5.8 million related to MCA repurchases.
(2) Includes amounts received upon assignment of loan to HUD, loan payoff, REO liquidation and claim proceeds less any amounts charged off as unrecoverable.

Active loan repurchases are classified as Receivables as reimbursement from HUD is generally received within 60 days and are initially recorded at fair value. Inactive loan repurchases are classified as Loans held for sale and are initially recorded at fair value. Loans are reclassified to REO in Other assets or Receivables as the loans move through the resolution process and permissible claims are submitted to HUD for reimbursement. Loans held for sale repurchased prior to October 1, 2018 are carried at the lower of cost or fair value. Receivables are valued at net realizable value. REO is valued at the estimated value of the underlying property less cost to sell.

Long-Term Contracts

Our business is currently dependent on many of the services and products provided by a subsidiary of Altisource Portfolio Solutions, S.A. (Altisource) under long-term agreements, many of which include renewal provisions.

Each of Ocwen and OMS are parties to a Services Agreement, a Technology Products Services Agreement, an Intellectual Property Agreement and a Data Center and Disaster Recovery Services Agreement with Altisource. Under the Services Agreements, Altisource provides various business process outsourcing services, such as valuation services and property preservation and inspection services, among other things. Altisource provides certain technology products and support services under the Technology Products Services Agreements and the Data Center and Disaster Recovery Services Agreements. These agreements expire August 31, 2025. Ocwen and Altisource have also entered into a Master Services Agreement pursuant to which Altisource currently provides title services to Liberty. Ocwen also has a General Referral Fee Agreement with Altisource pursuant to which Ocwen receives referral fees which are paid out of the commission that would otherwise be paid to Altisource as the selling broker in connection with real estate sales services provided by Altisource. However, for MSRs that transferred to NRZ in September 2017, as well as those subject to the New RMSR Agreements we entered into in January 2018, we are not entitled to REO referral commissions.

Our servicing system runs on an information technology system that we license from Altisource pursuant to a statement of work under the Technology Products Services Agreements. If Altisource were to fail to fulfill its contractual obligations to us, including through a failure to provide services at the required level to maintain and support our systems, or if Altisource were to become unable to fulfill such obligations, our business and operations would suffer. We are currently in the process of transitioning to Black Knight MSP from REALServicing. On February 22, 2019, Ocwen and Altisource S.à r.l (a subsidiary of Altisource) signed a Binding Term Sheet, which among other things, confirms Altisource's cooperation with the de-boarding of loans from Altisource's REALServicing servicing system to Black Knight's MSP servicing system. The Binding Term Sheet also includes provisions regarding assuring that data is accurately transferred to Ocwen, including Ocwen having the ability to verify data accuracy and having continued access to the REALServicing system for an acceptable period of time.

The Binding Term Sheet also amends certain provisions in the Services Agreements. After certain conditions have been met and where Ocwen has the right to select the services provider, Ocwen will use Altisource to provide the types of services that Altisource currently provides under the Services Agreements for at least 90% of services for all portfolios for which Ocwen is the servicer or subservicer, except that Altisource will be the provider for all such services for the portfolios: (i) acquired by Ocwen pursuant to loan servicing under agreements from Homeward (acquired in 2012) or assigned and assumed by Ocwen from Residential Capital, LLC, et al (assets acquired in 2013); and (ii) acquired from Ocwen, excluding certain portfolios in which PHH Corporation has an interest, by NRZ or its affiliates prior to the date of the Binding Term Sheet. Notwithstanding the foregoing, Altisource will be the provider of mortgage charge-off collections services under the Services Agreements. The Binding Term Sheet also sets forth a framework for negotiating additional service level changes in the future. As specified in the Binding Term Sheet, if Altisource fails certain performance standards for specified periods of time, then Ocwen may terminate Altisource as a provider for the applicable service(s), subject to Altisource's right to cure. For certain claims arising from referrals received by Altisource after the effective date of the Binding Term Sheet, the provisions include reciprocal indemnification obligations in the event of negligence by either Party and Altisource's indemnification obligations of Ocwen in the event of any breach by Altisource of its obligations under the Services Agreements. The limitations of liability provisions include an exception for losses either party suffers as a result of third party claims.

Certain services provided by Altisource under these agreements are charged to the borrower and/or mortgage loan investor. Accordingly, such services, while derived from our loan servicing portfolio, are not reported as expenses by Ocwen. These services include residential property valuation, residential property preservation and inspection services, title services and real estate sales-related services. Similar to other vendors, in the event that Altisource's activities do not comply with the applicable servicing criteria, we could be exposed to liability as the servicer and it could negatively impact our relationships with our servicing clients, borrowers or regulators, among others. Under certain circumstances, we would have recourse under our contractual agreements with Altisource if we were to experience adverse consequences as a result of Altisource's non-compliance with applicable servicing criteria.

Note 21 – Contingencies

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

Litigation

In the ordinary course of business, we are a defendant in, or a party or potential party to, many threatened and pending legal proceedings, including proceedings brought by regulatory agencies (discussed further under “Regulatory” below), those brought on behalf of various classes of claimants, and those brought derivatively on behalf of Ocwen against certain current or former officers and directors or others.

The majority of these proceedings are based on alleged violations of federal, state and local laws and regulations governing our mortgage servicing and lending activities, including, among others, the Dodd-Frank Act, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act (FDCPA), the Real Estate Settlement Procedures Act, the Truth in Lending Act, the Fair Credit Reporting Act, the Servicemembers Civil Relief Act, the Homeowners Protection Act, the Federal Trade Commission Act, the TCPA, the Equal Credit Opportunity Act, as well as individual state licensing and foreclosure laws and federal and local bankruptcy rules. Such proceedings include wrongful foreclosure and eviction actions, allegations of wrongdoing in connection with lender-placed insurance arrangements, claims relating to our property preservation activities, claims related to REO management, claims relating to our written and telephonic communications with our borrowers such as claims under the TCPA, claims related to our payment, escrow and other processing operations, claims relating to fees imposed on borrowers relating to payment processing, payment facilitation, or payment convenience, claims related to ancillary products marketed and sold to borrowers, and claims regarding certifications of our legal compliance related to our participation in certain government programs. In some of these proceedings, claims for substantial monetary damages are asserted against us. For example, we are currently a defendant in various matters alleging that (1) certain fees imposed on borrowers relating to payment processing, payment facilitation, or payment convenience violate the Fair Debt Collection Practices Act (FDCPA), (2) we violated the Telephone Consumer Protection Act by using an automated telephone dialing system to call class members’ cell phones without their consent, (3) we committed securities fraud in connection with certain of our public disclosures, (4) certain fees we assess on borrowers are marked up improperly in violation of applicable state and federal law, (5) the solicitation and marketing to borrowers of certain ancillary products was unfair and deceptive and (6) that we breached fiduciary duties we purportedly owe to benefit plans due to the discretion we exercise in servicing certain securitized mortgage loans. In the future, we are likely to become subject to other private legal proceedings alleging failures to comply with applicable laws and regulations, including putative class actions, in the ordinary course of our business.

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

Where we determine that a loss contingency is probable in connection with a pending or threatened legal proceeding and the amount of our loss can be reasonably estimated, we record an accrual for the loss. We have accrued for losses relating to threatened and pending litigation that we believe are probable and reasonably estimable based on current information regarding these matters. Where we determine that a loss is not probable but is reasonably possible or where a loss in excess of the amount accrued is reasonably possible, we disclose an estimate of the amount of the loss or range of possible losses for the claim if a reasonable estimate can be made, unless the amount of such reasonably possible loss is not material to our financial position, results of operations or cash flows. It is possible that we will incur losses relating to threatened and pending litigation that materially exceed the amount accrued. Our accrual for probable and estimable legal and regulatory matters, including accrued legal fees, was $52.9 million at March 31, 2019. We cannot currently estimate the amount, if any, of reasonably possible losses above amounts that have been recorded at March 31, 2019.

In 2014, plaintiffs filed a putative class action against Ocwen in the United States District Court for the Northern District of Alabama, alleging that Ocwen violated the FDCPA by charging borrowers a convenience fee for making certain loan payments. See *McWhorter et al. v. Ocwen Loan Servicing, LLC (N.D. Ala.)*. The plaintiffs are seeking statutory damages under the FDCPA, compensatory damages and injunctive relief. The presiding court previously ruled on Ocwen’s motions to dismiss, and Ocwen answered the operative complaint. Ocwen subsequently entered into an agreement in principle to resolve this matter, and in January 2019, the presiding court granted preliminary approval of the parties’ proposed class settlement. While Ocwen believes that it has sound legal and factual defenses, we agreed to this settlement in principle in order to avoid the uncertain outcome of litigation and the additional expense and demands on the time of its senior management that such litigation would involve. There can be no assurance that the court will finally approve the settlement. In the event the settlement is not finally approved, the litigation would continue, and we would vigorously defend the allegations made against Ocwen. Our accrual with respect to this matter is included in the $52.9 million legal and regulatory accrual referenced above. We cannot currently estimate the amount, if any, of reasonably possible loss above the amount accrued.

Ocwen has been named in putative class actions and individual actions related to its compliance with the TCPA. Generally, plaintiffs in these actions allege that Ocwen knowingly and willfully violated the TCPA by using an automated telephone dialing system to call class members’ cell phones without their consent. In July 2017, Ocwen entered into an agreement in principle to resolve two such putative class actions, which have been consolidated in the United States District Court for the Northern District of Illinois. See *Snyder v. Ocwen Loan Servicing, LLC (N.D. Ill.); Beecroft v. Ocwen Loan Servicing, LLC (N.D. Ill.)*. Subject to final approval by the court, the settlement will include the establishment of a settlement fund to be distributed to impacted borrowers that submit claims for settlement benefits pursuant to a claims administration process.

While Ocwen believes that it has sound legal and factual defenses, Ocwen agreed to this settlement in principle in order to avoid the uncertain outcome of litigation and the additional expense and demands on the time of its senior management that such litigation would involve. In October 2017, the court preliminarily approved the settlement and, thereafter, we paid the settlement amount into an escrow account held by the settlement administrator. However, in September 2018, the Court denied the motion for final approval. In November 2018, the parties engaged in mediation to address the issues raised by the Court in its denial order. The parties thereafter reached a revised agreement, and in January 2019, the Court indicated it intended to grant the parties' renewed motion for final approval, but to date has not yet done so. Additional lawsuits may be filed against us in relation to these matters. At this time, Ocwen is unable to predict the outcome of these existing lawsuits or any additional lawsuits that may be filed, the possible loss or range of loss, if any, associated with the resolution of such lawsuits or the potential impact such lawsuits may have on us or our operations. Ocwen intends to vigorously defend against these lawsuits. If our efforts to defend these lawsuits are not successful, our business, financial condition liquidity and results of operations could be materially and adversely affected.

We have settled two "opt-out" securities fraud actions brought on behalf of certain putative shareholders of Ocwen based on allegations in connection with the restatements of our 2013 and first quarter 2014 financial statements, among other matters. *See Brahman Partners et al. v. Ocwen Financial Corporation et al. (S.D. Fla.)* and *Owl Creek et al. v. Ocwen Financial Corporation et al. (S.D. Fla.)*. Both of these cases have been dismissed with prejudice in February 2019.

We have previously disclosed that as a result of the federal and state regulatory actions taken in April 2017 and shortly thereafter, which are described below under "Regulatory", and the impact on our stock price, several putative securities fraud class action lawsuits were filed against Ocwen and certain of its officers that contain allegations in connection with Ocwen's statements concerning its efforts to satisfy the evolving regulatory environment, and the resources it devoted to regulatory compliance, among other matters. Those lawsuits were consolidated in the United States District Court for the Southern District of Florida in the matter captioned *Carvelli v. Ocwen Financial Corporation et al. (S.D. Fla.)*. In April 2018, the court in Carvelli granted our motion to dismiss, and dismissed the consolidated case with prejudice. Plaintiffs thereafter filed a notice of appeal, and that appeal remains pending. Ocwen and the other defendants intend to defend themselves vigorously. Additional lawsuits may be filed against us in relation to these matters. At this time, Ocwen is unable to predict the outcome of this existing lawsuit or any additional lawsuits that may be filed, the possible loss or range of loss, if any, associated with the resolution of such lawsuits or the potential impact such lawsuits may have on us or our operations. If additional lawsuits are filed, Ocwen intends to vigorously defend itself against such lawsuits. If our efforts to defend the existing lawsuit or any future lawsuit are not successful, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

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

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

In addition, several RMBS trustees have received notices of default alleging material failures by servicers to comply with applicable servicing agreements. Although Ocwen has not yet been sued by an RMBS trustee in response to a notice of default, there is a risk that Ocwen could be replaced as servicer as a result of said notices, that the trustees could take legal action on behalf of the trust certificateholders, or, under certain circumstances, that the RMBS investors who issue notices of default could seek to press their allegations against Ocwen, independent of the trustees. Previously, one such group of affiliated RMBS investors sought to direct one trustee to bring suit against Ocwen. The trustee declined to bring suit, and the RMBS investors instead brought suit against Ocwen directly. The trial court dismissed the RMBS investors' suit with prejudice in 2018. The

RMBS investors thereafter appealed the court's dismissal, and on February 13, 2019, the appellate court affirmed the trial court's dismissal. It is unknown whether the RMBS investors will attempt to further appeal this matter; Ocwen will continue to vigorously defend itself. We are unable at this time to predict what, if any, actions any trustee will take in response to a notice of default, nor can we predict at this time the potential loss or range of loss, if any, associated with the resolution of any notices of default or the potential impact on our operations. If Ocwen were to be terminated as servicer, or other related legal actions were pursued against Ocwen, it could have an adverse effect on Ocwen's business, financing activities, financial condition and results of operations.

Regulatory

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

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

CFPB

In April 2017, the CFPB filed a lawsuit in the federal district court for the Southern District of Florida against Ocwen, OMS and OLS alleging violations of federal consumer financial laws relating to our servicing business dating back to 2014. The CFPB's claims include allegations regarding (1) the adequacy of Ocwen's servicing system and integrity of Ocwen's mortgage servicing data, (2) Ocwen's foreclosure practices and (3) various purported servicer errors with respect to borrower escrow accounts, hazard insurance policies, timely cancellation of private mortgage insurance, handling of customer complaints, and marketing of optional products. The CFPB alleges violations of unfair, deceptive acts or abusive practices, as well as violations of specific laws or regulations. The CFPB does not claim specific monetary damages, although it does seek consumer relief, disgorgement of allegedly improper gains, and civil money penalties. We believe we have factual and legal defenses to the CFPB's allegations and are vigorously defending ourselves. Prior to the initiation of legal proceedings, we had been engaged with the CFPB in efforts to resolve the matter and recorded $12.5 million as of December 31, 2016 as a result of these discussions. Our accrual with respect to this matter is included in the $52.9 million legal and regulatory accrual referenced above. The outcome of the matters raised by the CFPB, whether through negotiated settlements, court rulings or otherwise, could have a material adverse impact on our business, reputation, financial condition, liquidity and results of operations.

State Licensing, State Attorneys General and Other Matters

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

In April 2017 and shortly thereafter, mortgage and banking regulatory agencies from 29 states and the District of Columbia took regulatory actions against OLS and certain other Ocwen companies that alleged deficiencies in our compliance with laws and regulations relating to our servicing and lending activities. An additional state regulator brought legal action together with that state's attorney general, as described below. In general, the regulatory actions took the form of orders styled as "cease and desist orders," and we use that term to refer to all of the orders for ease of reference; for ease of reference we also include the District of Columbia as a state when we reference states below. All of the cease and desist orders were applicable to OLS, but additional Ocwen entities were named in some orders, including Ocwen Financial Corporation, OMS, Homeward, Liberty, OFSPL and Ocwen Business Solutions, Inc. (OBS).

We entered into agreements with all 29 states plus the District of Columbia to resolve these regulatory actions. These agreements generally contained the following key terms (the Multi-State Common Settlement Terms):

- Ocwen would not acquire any new residential MSRs until April 30, 2018.
- Ocwen would develop a plan of action and milestones regarding its transition from the REALServicing servicing system to an alternate servicing system and, with certain exceptions, would not board any new loans onto the REALServicing system.
- In the event that Ocwen chose to merge with or acquire an unaffiliated company or its assets in order to effectuate a transfer of loans from the REALServicing system, Ocwen was required to comply with regulatory notice and waiting period requirements.
- Ocwen would engage a third-party auditor to perform an analysis with respect to our compliance with certain federal and state laws relating to escrow by testing approximately 9,000 loan files relating to residential real property in various states, and Ocwen would develop corrective action plans for any errors identified by the third-party auditor.
- Ocwen would develop and submit for review a plan to enhance our consumer complaint handling processes.
- Ocwen would provide financial condition reporting on a confidential basis as part of each state's supervisory framework through September 2020.

In addition to the terms described above, Ocwen entered into settlements with certain states on different or additional terms, which include making additional communications with and for borrowers, certain restrictions, certain review, reporting and remediation obligations, and the following additional terms:

- Ocwen agreed with the Connecticut Department of Banking to pay certain amounts only in the event we fail to comply with certain requirements under our agreement with Connecticut.
- In its agreement with the Maryland Office of the Commissioner of Financial Regulation, Ocwen agreed to complete an independent management assessment and enterprise risk assessment and to a prohibition, with certain *de minimis* exceptions, on repurchases of our stock until December 7, 2018. Ocwen also agreed to make certain payments to Maryland, to provide remediation to certain borrowers in the form of cash payments or credits and to pay certain amounts only in the event we fail to comply with certain requirements under our agreement with Maryland.
- Ocwen agreed with the Massachusetts Division of Banks to pay $1.0 million to the Commonwealth of Massachusetts Mortgage Education Trust. Ocwen and the Massachusetts regulatory agency also agreed on a schedule pursuant to which we will regain eligibility to acquire residential MSRs on Massachusetts loans (including loans originated by Ocwen) as it meets certain thresholds in its transition to a new servicing system. All restrictions on Massachusetts MSR acquisitions will be lifted when Ocwen completes the second phase of a three-phase data integrity audit which will be conducted by an independent third-party following completion of Ocwen's servicing system transition. The first phase of this audit, which was required to be completed prior to transitioning any Massachusetts loans to a new servicing system, has already been completed.
- Ocwen agreed with the Nebraska Department of Banking and Finance until April 30, 2019, to limit its growth through acquisition from correspondent relationships to no more than ten percent per year for Nebraska loans (based on the total number of loans held at the prior calendar year-end).

Accordingly, we have now resolved all of the administrative actions (but not all of the legal actions, which are described below) taken by state regulators in April 2017.

We have taken substantial steps toward fulfilling our commitments under the agreements described above, including transferring loans to Black Knight MSP, developing and implementing certain enhancements to our consumer complaint process, engaging a third-party auditor who is currently performing escrow-related testing, and complying with our other information sharing and reporting obligations.

In April 2017 and shortly thereafter, and concurrent with the issuance of the cease and desist orders and the filing of the CFPB lawsuit discussed above, two state attorneys general took actions against us relating to our servicing practices. The Florida Attorney General, together with the Florida Office of Financial Regulation, filed a lawsuit in the federal district court for the Southern District of Florida against Ocwen, OMS and OLS alleging violations of federal and state consumer financial laws relating to our servicing business. These claims are similar to the claims made by the CFPB. The Florida lawsuit seeks injunctive and equitable relief, costs, and civil money penalties in excess of $10,000 per confirmed violation of the applicable statute. We believe we have factual and legal defenses to the allegations raised in this lawsuit and are vigorously defending ourselves. The outcome of this lawsuit, whether through a negotiated settlement, court rulings or otherwise, could potentially involve monetary fines or penalties or additional restrictions on our business and could be materially adverse to our business, reputation, financial condition, liquidity and results of operations. Our accrual with respect to this matter is included in the $52.9 million litigation and regulatory matters accrual referenced above. We cannot currently estimate the amount, if any, of reasonably possible loss above the amount currently accrued.

The Massachusetts Attorney General filed a lawsuit against OLS in the Superior Court for the Commonwealth of Massachusetts alleging violations of state consumer financial laws relating to our servicing business, including with respect to our activities relating to lender-placed insurance and property preservation fees. In April 2019, we agreed to resolve this matter without admitting liability. The resolution includes a payment to the Commonwealth of Massachusetts of $675,000, a loan modification program for certain eligible Massachusetts borrowers, and certain already-completed relief. The settlement amount of $675,000 was included in our legal and regulatory matters accrual as of December 31, 2018 and is included in the $52.9 million litigation and regulatory matters accrual referenced above.

Our accrual with respect to the administrative and legal actions initiated in April 2017 is included in the $52.9 million litigation and regulatory matters accrual referenced above. We will also incur costs complying with the terms of the settlements we have entered into, including the costs of conducting an escrow analysis, Maryland organizational assessments, Massachusetts data integrity audits, and transition to Black Knight MSP. For example, with respect to the escrow review, which is currently underway, we will incur remediation costs to the extent that errors are identified which require remediation. If we fail to comply with the terms of our settlements, additional administrative or legal regulatory actions could be taken against us. Such actions could have a materially adverse impact on our business, reputation, financial condition, liquidity and results of operations.

Certain of the state regulators' cease and desist orders referenced a confidential supervisory memorandum of understanding (MOU) that we entered into with the Multistate Mortgage Committee (MMC), a multistate coalition of various mortgage banking regulators, and six states relating to a servicing examination from 2013 to 2015. The MOU contained various provisions relating to servicing practices and safety and soundness aspects of the regulatory review, as a step toward closing the 2013-2015 examination. Ocwen responded to the MOU items and continues to provide certain reports and other information pursuant to the MOU. There were no monetary or other penalties imposed under the MOU. However, the MOU prohibited us from repurchasing stock during the development of a going forward plan and, thereafter, except as permitted by the plan. We prepared and submitted a plan that contained no stock repurchase restrictions and, therefore, we do not believe we are currently restricted from repurchasing stock. However, the MMC may not agree with our interpretation. For this reason, and on the basis of our progress to date responding to our obligations under the MOU, we have requested that the MOU be terminated. To the extent that we cannot terminate the MOU, we may remain subject to a share repurchase restriction and continued reporting obligations.

On occasion, we engage with agencies of the federal government on various matters. For example, OLS received a letter from the Department of Justice, Civil Rights Division, notifying OLS that the Department of Justice had initiated a general investigation into OLS's policies and procedures to determine whether violations of the Servicemembers Civil Relief Act by OLS might exist. We continue to provide information to the Department of Justice and we are engaged in ongoing discussions with the Department of Justice relating to this inquiry. In addition, Ocwen was named as a defendant in a HUD administrative complaint filed by a non-profit organization alleging discrimination in the manner in which the company maintains REO properties in minority communities. In February 2018, this matter was administratively closed, and similar claims were filed in federal court. We believe these claims are without merit and intend to vigorously defend ourselves.

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

In April 2019, PMC received a subpoena from the VA Office of the Inspector General requesting the production of documentation related to the origination and underwriting of loans guaranteed by the Veterans Benefits Administration. We understand that other servicers in the industry have received similar subpoenas.

Loan Put-Back and Related Contingencies

Our contracts with purchasers of originated loans contain provisions that require indemnification or repurchase of the related loans under certain circumstances. While the language in the purchase contracts varies, they contain provisions that require us to indemnify purchasers of related loans or repurchase such loans if:

- representations and warranties concerning loan quality, contents of the loan file or loan underwriting circumstances are inaccurate;
- adequate mortgage insurance is not secured within a certain period after closing;
- a mortgage insurance provider denies coverage; or
- there is a failure to comply, at the individual loan level or otherwise, with regulatory requirements.

We received origination representations and warranties from our network of approved originators in connection with loans we purchased through our correspondent lending channel. To the extent that we have recourse against a third-party originator, we may recover part or all of any loss we incur.

We believe that, as a result of historical actions by investors, many purchasers of residential mortgage loans are particularly aware of the conditions under which originators must indemnify or repurchase loans and under which such purchasers would benefit from enforcing any indemnification rights and repurchase remedies they may have.

In our lending business, we have exposure to indemnification risks and repurchase requests. If home values were to decrease, our realized loan losses from loan repurchases and indemnifications may increase as well. As a result, our liability for repurchases may increase beyond our current expectations. If we are required to indemnify or repurchase loans that we originate and sell, or where we have assumed this risk on loans that we service, as discussed above, in either case resulting in losses that exceed our related liability, our business, financial condition and results of operations could be adversely affected.

We have exposure to origination representation, warranty and indemnification obligations because of our lending, sales and securitization activities and in connection with our servicing practices. We initially recognize these obligations at fair value. Thereafter, the estimation of the liability considers probable future obligations based on industry data of loans of similar type segregated by year of origination, to the extent applicable, and estimated loss severity based on current loss rates for similar loans, our historical rescission rates and the current pipeline of unresolved demands. Our historical loss severity considers the historical loss experience that we incur upon sale or liquidation of a repurchased loan as well as current market conditions. We monitor the adequacy of the overall liability and make adjustments, as necessary, after consideration of other qualitative factors including ongoing dialogue and experience with our counterparties.

At March 31, 2019 and March 31, 2018, we had outstanding representation and warranty repurchase demands of $46.3 million UPB (273 loans) and $31.4 million UPB (192 loans), respectively. Outstanding representation and warranty repurchase demands at March 31, 2019 include $26.0 million UPB (173 loans) related to PHH. We review each demand and monitor through resolution, primarily through rescission, loan repurchase or make-whole payment.

The following table presents the changes in our liability for representation and warranty obligations, compensatory fees for foreclosures that may ultimately exceed investor timelines and similar indemnification obligations:

	Three Months Ended March 31,	
	2019	**2018**
Beginning balance	$ 49,267	$ 19,229
Provision for (reversal of) representation and warranty obligations	(2,155)	57
New production reserves	75	104
Charge-offs and other (1)	(573)	(1,844)
Ending balance	$ 46,614	$ 17,546

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

We believe that it is reasonably possible that losses beyond amounts currently recorded for potential representation and warranty obligations and other claims described above could occur, and such losses could have an adverse impact on our results of operations, financial condition or cash flows. However, based on currently available information, we are unable to estimate a range of reasonably possible losses above amounts that have been recorded at March 31, 2019.

Other

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

We may, from time to time, have affirmative indemnification claims against parties from whom we acquired MSRs or other assets. Although we pursue these claims, we cannot currently estimate the amount, if any, of further recoveries.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as other portions of this Form 10-Q, may contain certain statements that constitute forward-looking statements within the meaning of the federal securities laws. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "intend," "consider," "expect," "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such terms or other comparable terminology. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Our business has been undergoing substantial change, which has magnified such risks and uncertainties. You should bear these factors in mind when considering forward-looking statements and should not place undue reliance on such statements. Forward-looking statements involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those suggested by such statements. In the past, actual results have differed from those suggested by forward-looking statements, and this may happen again. You should consider all uncertainties and risks discussed or referenced in this report, including those under "Forward-Looking Statements" and Item 1A, Risk Factors, as well as those discussed in our other reports and filings with the SEC, including those in our Annual Report on Form 10-K for the year ended December 31, 2018 and any subsequent SEC filings.

OVERVIEW

General

We are a financial services company that services and originates loans. The majority of our revenues are generated from our residential mortgage servicing business. At March 31, 2019, our residential mortgage servicing portfolio consisted of 1,534,351 loans with a UPB of $251.1 billion. In our lending business, we originate, purchase, sell and securitize conventional and government-insured forward and reverse mortgage loans. During the quarter ended March 31, 2019, our lending business originated or purchased forward and reverse mortgage loans with a UPB of $211.2 million and $141.3 million, respectively.

We have established a set of five initiatives to achieve our objective of returning to growth and profitability.

First, we must successfully execute on the integration of PHH's business with ours, including a smooth transition onto the Black Knight MSP servicing system which includes loan boarding, payment processing, escrow administration, and default management, among other functions. From the date of acquisition through April 30, 2019, we have transferred approximately 470,000 loans to Black Knight MSP. We expect to complete the transfer of the rest of the portfolio in the second quarter of 2019.

Second, we must re-engineer our cost structure to go beyond eliminating redundant costs. We developed our cost re-engineering plan to address organizational, process and control redesign, human capital planning, off-shore utilization, strategic sourcing and facilities rationalization. As part of our cost re-engineering plans, we expect to reduce total staffing levels significantly and to close a number of our U.S. facilities. We believe these steps are necessary in order to drive stronger financial performance and, in the longer term, simplify our operations. By the end of 2019, we intend to have reduced overall staffing levels by over 2,100 relative to combined Ocwen and PHH staffing levels at the end of the second quarter of 2018. Against this goal, as of March 31, 2019, we have reduced staffing levels by over 900. In terms of U.S. facilities consolidation, by the end of 2019, we intend to be primarily operating out of four U.S. and USVI locations: West Palm Beach, FL, Mount Laurel, NJ, Rancho Cordova, CA, and St. Croix, USVI.

We believe these cost re-engineering efforts will lower our expenses substantially, including in the areas of compensation and benefits, occupancy and equipment and technology and communications. However, in order to achieve these reductions, we will incur significant re-engineering-related expenses, primarily relating to severance and retention and facilities closures but also in the areas of technology and communications. Our cost re-engineering plans contain identified opportunities to achieve expense reductions totaling $340.0 million against corresponding annualized second quarter 2018 expenses for both Ocwen and PHH. This target excludes the re-engineering costs necessary to achieve such savings, which we currently estimate to be between $55.0 million and $65.0 million. We have incurred $22.1 million of re-engineering costs, consisting primarily of $19.2 million of employee-related expenses, in the first quarter of 2019.

We anticipate that a substantial portion of our expense reductions, and the related re-engineering costs, will be realized in the second half of 2019 following the completion of the transition onto the Black Knight MSP servicing system and the completion of the mergers of our primary operating entities into PMC. We successfully completed the first phase of our entity mergers during the quarter, merging Homeward Residential Inc. into PMC, with PMC being the surviving corporation. We are planning to complete the merger of OLS into PMC (with PMC being the surviving corporation) during the second quarter of 2019.

Our ability to re-engineer our cost structure is not certain and is dependent on the successful execution of several complex actions, including the Black Knight MSP conversion, entity mergers, U.S. facilities consolidation and organizational redesign and headcount reductions, as well as the absence of significant unforeseen costs, including regulatory or legal costs, that could negatively impact our cost re-engineering efforts. There can be no assurances that the desired strategic and financial benefits of these actions will be realized.

Third, we must replenish our servicing portfolio through expanding our lending business and making permissible MSR acquisitions that are prudent and well-executed with appropriate financial return targets and return to a focus on growth. During the first quarter of 2019, we closed MSR acquisitions with $4.9 billion UPB and, as of March 31, 2019, have been awarded approximately $25.5 billion UPB in connection with acquisitions that are expected to close in the second quarter 2019, subject to negotiation and execution of purchase documentation and satisfaction of customary closing conditions. Our goal is to maintain, at a minimum, a servicing portfolio of at least $260.0 billion in UPB. We expect to continue to focus on acquiring Agency and government-insured MSR portfolios with strong credit quality and high-quality collateral that meet our target returns.

Fourth, we must ensure that we continue to manage our balance sheet to provide a solid platform for executing on our growth and other initiatives. On March 18, 2019, we increased our SSTL by $120.0 million, providing incremental liquidity to address maturing debt assumed in the PHH acquisition. In the second quarter we are planning to establish financing facilities secured by existing and purchased MSRs that will initially provide up to $300.0 million in committed borrowings and fund the majority of the initial capital we believe is needed to support our 2019 growth initiatives.

Unless we are able to return to sustainable profitability, continuing losses will erode our stockholders' equity and negatively impact our available liquidity which could impair our ability to invest in growth and investment opportunities, including our ability to acquire MSRs.

Finally, we must fulfill our regulatory commitments and resolve our remaining legal and regulatory matters on satisfactory terms. We have intensified our focus over the past several years on our risk and compliance infrastructure to drive stronger regulatory performance and enhance our relationships with regulators. We are also very focused on fulfilling the commitments we have made to regulators, including those relating to our acquisition of PHH and our transition to Black Knight MSP. Our business, operating results and financial condition have been significantly impacted by regulatory actions against us and by significant litigation matters. Should the number or scope of regulatory or legal actions against us increase or expand or should we be unable to reach reasonable resolutions in existing regulatory and legal matters, our business, reputation, financial condition, liquidity and results of operations could be materially and adversely affected, even if we are successful in our ongoing efforts to optimize our cost structure and improve our financial performance.

Results of Operations and Financial Condition

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our unaudited consolidated financial statements and the related notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Results of Operations Summary	Three Months Ended March 31, 2019	2018	% Change
Revenue			
Servicing and subservicing fees	$ 255,863	$ 222,138	15 %
Gain on loans held for sale, net	17,595	19,800	(11)
Other revenue, net	30,430	18,319	66
Total revenue	303,888	260,257	17
Expenses			
MSR valuation adjustments, net	108,998	17,129	536
Compensation and benefits	94,696	78,075	21
Servicing and origination	28,698	31,418	(9)
Technology and communications	24,435	22,803	7
Occupancy and equipment	16,589	12,614	32
Professional services	3,441	37,770	(91)
Other expenses	3,248	6,692	(51)
Total expenses	280,105	206,501	36
Other income (expense)			
Interest income	4,558	2,700	69
Interest expense	(70,445)	(50,810)	39
Bargain purchase gain	(285)	—	n/m
Other, net	1,305	(681)	(292)
Other expense, net	(64,867)	(48,791)	37
Income (loss) before income taxes	(41,084)	4,965	(965)
Income tax expense	3,410	2,348	45
Net income (loss)	(44,494)	2,617	n/m
Net income attributable to non-controlling interests	—	(69)	(100)
Net income (loss) attributable to Ocwen stockholders	$ (44,494)	$ 2,548	n/m
Segment income (loss) before income taxes			
Servicing	$ (57,503)	$ 20,484	(381)%
Lending	19,860	8,770	126
Corporate Items and Other	(3,441)	(24,289)	(86)
	$ (41,084)	$ 4,965	(927)%

n/m: not meaningful

Our results for the first quarter of 2019 include the post-acquisition results of PHH. The following table provides details of the PHH results by segment:

Results of Operations	Servicing	Lending (1)	Corporate Items and Other	PHH Consolidated
Revenue				
Servicing and subservicing fees	$ 66,418	$ 94	$ —	$ 66,512
Gain on loans held for sale, net	(3)	7,123	9	7,129
Other revenue	3,459	813	23	4,295
Total revenue	69,874	8,030	32	77,936
Expenses				
Compensation and benefits	10,756	6,547	11,768	29,071
Professional services	2,372	109	4,520	7,001
MSR valuation adjustments, net	61,753	—	—	61,753
Servicing and origination	5,776	994	245	7,015
Technology and communications	2,549	270	4,230	7,049
Occupancy and equipment	2,995	612	1,363	4,970
Corporate overhead allocations	10,320	161	(10,481)	—
Other expenses	3,056	(349)	507	3,214
Total expenses	99,577	8,344	12,152	120,073
Other income (expense):				
Interest income	43	585	474	1,102
Interest expense	16,438	(728)	(1,441)	14,269
Other, net	210	52	158	420
Other income (expense), net	16,691	(91)	(809)	15,791
Loss before income taxes	$ (13,012)	$ (405)	$ (12,929)	$ (26,346)

(1) Includes the results of operations for the period from March 1 to March 31, 2019 of Homeward Residential Holdings, Inc. and Homeward Residential, Inc. which were merged as of February 28, 2019 into PHH and PMC, respectively, with PHH and PMC as the surviving entities.

Three Months Ended March 31, 2019 versus 2018

Servicing and subservicing fee revenue increased $33.7 million, or 15%, as compared to the first quarter of 2018, primarily due to the increase in the portfolio resulting from the acquisition of PHH on October 4, 2018, offset by portfolio runoff. Servicing and subservicing fee revenue earned on the acquired PHH portfolio during the first quarter of 2019 was $66.5 million. Servicing and subservicing fee revenue, excluding revenue on the acquired PHH portfolio, declined 15%, in line with the 15% decline in the Ocwen portfolio UPB from March 31, 2018 to March 31, 2019.

Gain on loans held for sale, net declined $2.2 million, or 11%, as compared to the first quarter of 2018. According to the HUD HECM Endorsement Summary Report, industry endorsements, or the number of new HECM loans insured by the FHA during the reporting period, totaled 8,224 and 15,814, for the three months ended March 31, 2019 and 2018, respectively, representing a decline of 48%. Reverse lending gain on loans held for sale declined by $2.2 million, or 20%, due to a 14% decline in loan production, which was lower across all channels, and lower overall margin. Our volume decline for the three months ended March 31, 2019 versus the same period in 2018 was proportionately less than the decline in industry endorsements for the comparable periods due to our efforts to re-start purchases with former customers and increase wallet share with existing customers in our wholesale, correspondent and closed whole-loan purchase channels. The reduction in margin was largely attributable to volume in our wholesale, correspondent and closed whole-loan purchase channels increasing to 93% of our total volume in the three months ended March 31, 2019 versus 88% for the same period in 2018.

Other revenue, net increased $12.1 million, or 66%, as compared to the first quarter of 2018, largely due to $14.5 million favorable net change in the fair values of our HECM reverse mortgage loans and the related HMBS financing liability due to valuation assumption updates and the impact of changes in interest rates, offset by a $1.2 million decline in CRL premium revenue consistent with the decline in the number of foreclosed real estate properties in the servicing portfolio. $11.5 million of the favorable change in fair value was driven by an update of the financing assumption for active HECM reverse mortgage loan repurchases in connection with our HMBS Issuer obligations. As these repurchases have become more prevalent, a more liquid market for financing has developed, resulting in a lower financing cost assumption. Lower interest rates generally result in favorable net fair value impacts on our HECM reverse mortgage loans and the related HMBS financing liability and higher interest rates generally result in unfavorable net fair value impacts.

MSR valuation adjustments, net, increased $91.9 million, or 536%, as compared to the first quarter of 2018, primarily due to portfolio runoff and the impact of changes in interest rates. The increase in MSR valuation adjustments, net, includes $100.3 million due to runoff and the impact of changes in interest rates on the value of our Agency MSR portfolio. The acquired PHH MSR portfolio is primarily Agency MSRs that are more sensitive to interest rates. Fair value adjustments to our MSRs are offset, in part, by fair value adjustments related to the NRZ financing liabilities, which are recorded in interest expense.

Excluding MSR valuation adjustments, net, total expenses decreased $18.3 million, or 10%, as compared to the first quarter of 2018. Total expenses for the first quarter of 2019, excluding MSR valuation adjustments, includes PHH expenses of $58.3 million.

Compensation and benefits expense increased $16.6 million, or 21%, as compared to the first quarter of 2018, due to PHH compensation and benefits expense of $29.1 million and $19.2 million of severance and retention costs recognized in connection with our integration-related headcount reductions of primarily U.S.-based employees, partially offset by an $18.2 million decline in Compensation and benefits expense versus the first quarter of 2018. The decline compared to the first quarter of 2018 reflects the results of our efforts to re-engineer our cost structure, align headcount in our servicing operations and corporate segment with the size of our servicing portfolio as well as the strategic decisions executed in late 2017 and early 2018 to exit the automotive capital services business and the forward lending correspondent and wholesale channels. U.S.-based headcount at March 31, 2019 includes approximately 1,100 PHH employees.

Servicing and origination expense decreased $2.7 million, or 9%, as compared to the first quarter of 2018, primarily due to a $4.3 million reduction in government-insured claim loss provisions on reinstated or modified loans in line with a decline in claims and a $2.9 million decrease in provisions for non-recoverable servicing advances and receivables. Government-insured claim loss provisions are generally offset by changes in the fair value of the corresponding MSRs, which are recorded in MSR valuation adjustments, net. PHH incurred $7.0 million of Servicing and origination expenses during the first quarter of 2019.

Technology and communication expense increased $1.6 million, or 7%, as compared to the first quarter of 2018, due to PHH expenses of $7.0 million offset by the results of our cost reduction efforts which included bringing technology services in-house.

Occupancy and equipment expense increased $4.0 million, or 32%, as compared to the first quarter of 2018, due to PHH expenses of $5.0 million offset by a decline of $1.0 million resulting from our cost reduction efforts which include consolidating vendors and closing and consolidating certain facilities.

Professional services expense decreased $34.3 million, or 91%, as compared to the first quarter of 2018, primarily due to the recovery of $30.7 million of amounts previously recognized as expense, whether paid or accrued, from a service provider, an $8.1 million decline compared to the first quarter of 2018 in provisions for probable losses in connection with litigation and a $1.5 million decline in fees related to the PHH acquisition, offset by a $1.5 million increase in fees incurred in connection with our conversion of NRZ's Rights to MSRs to fully-owned MSRs. PHH incurred $7.0 million of Professional services expense during the first quarter of 2019. The fees incurred in connection with the MSR conversions are primarily legal fees of our counsel and the fees of counsel of counterparties that we are required to pay. NRZ is currently responsible for paying 50% of the costs that are incurred in connection with the MSR conversions. We do not expect to incur significant costs in connection with the MSR conversions in the future.

Other expenses decreased $3.4 million, or 51%, as compared to the first quarter of 2018, due in large part to a $1.3 million reduction in advertising expenses and decreases attributable to the timing of recognition of certain expenses, including expenses in connection with borrower advocacy groups and licensing expenses.

Interest expense increased $19.6 million, or 39%, as compared to the first quarter of 2018, primarily because of the $20.9 million increase in interest expense on the NRZ financing liabilities, which we account for at fair value and $2.1 million of interest expense on the PHH senior unsecured notes, offset by a $1.9 million decrease in interest on match funded liabilities, consistent with the decline in servicing advances. Changes in the fair value of the NRZ financing liabilities offset, to a large extent, changes in the fair value of our MSRs which are recorded in MSR valuation adjustments, net.

The net increase in interest expense on the NRZ financing liabilities was due to a $37.7 million increase and a $16.8 million decrease under the Ocwen and PHH agreements, respectively. The primary components driving the increase in interest expense under the Ocwen agreements are changes in the fair value of the NRZ financing liability related to the 2017 and New RMSR Agreements and runoff of the underlying MSRs. In the first quarter of 2018, a favorable fair value adjustment reduced the Ocwen NRZ financing liabilities, and interest expense, by $16.6 million, driven by the initial fair value gain attributable to the $279.6 million lump-sum cash payment received in connection with the New RMSR Agreements. This compares to a $7.0 million unfavorable fair value adjustment in the first quarter of 2019 in connection with changes in estimated cash flows. Runoff attributed to the Original Rights to MSRs Agreements declined to $9.0 million in the first quarter of 2019 as compared to $18.9 million in the first quarter of 2018. The MSRs underlying the Ocwen agreements are seasoned non-Agency mortgage loans and changes in interest rates do not have any significant impact on prepayments. The MSRs underlying the PHH agreements are Agency mortgage loans and as a result, both their fair value and runoff are highly sensitive to changes in interest rates. In the first quarter of 2019, a $33.1 million favorable fair value adjustment reduced the NRZ financing liability, and interest expense, offsetting the unfavorable fair value adjustment of the underlying MSRs. Runoff of $17.8 million further reduced interest expense under the PHH agreements.

Although we incurred a pre-tax loss for the first quarter of 2019 of $41.1 million, we recorded income tax expense of $3.4 million due to the mix of earnings among different tax jurisdictions with different statutory tax rates. Our overall effective tax rates for the three months ended March 31, 2019 and 2018 were (8.3)% and 47.3%, respectively. Under our transfer pricing agreements, our operations in India and Philippines are compensated on a cost-plus basis for the services they provide, such that even when we have a consolidated pre-tax loss from continuing operations, which is subject to statutory tax rates in these jurisdictions that are significantly higher than the U.S. statutory rate of 21%. The change in income tax expense for the three months ended March 31, 2019, compared with the same period in 2018, was primarily due to the effects of the Base Erosion and Anti-Abuse Tax (BEAT) provision of the Tax Act and the increase in the BEAT tax rate from 5% in 2018 to 10% in 2019 as well as increased income tax expense as a result of recognizing income previously deferred for tax related to our NRZ agreements.

Financial Condition Summary	March 31, 2019	December 31, 2018	% Change
Cash	$ 263,188	$ 329,132	(20)%
Restricted cash (amounts related to variable interest entities (VIEs) of $16,499 and $20,968)	63,379	67,878	(7)
Mortgage servicing rights, at fair value	1,400,191	1,457,149	(4)
Advances and match funded advances (amounts related to VIES of $868,720 and $937,294)	1,094,080	1,186,676	(8)
Loans held for sale ($153,140 and $176,525 carried at fair value)	222,687	242,622	(8)
Loans held for investment, at fair value (amounts related to VIEs of $26,237 and $26,520)	5,753,154	5,498,719	5
Other assets ($7,639 and $7,568 carried at fair value)(amounts related to VIEs of $2,214 and $2,874)	740,531	612,040	21
Total assets	$ 9,537,210	$ 9,394,216	2 %
Total Assets by Segment			
Servicing	$ 3,221,779	$ 3,306,208	(3)%
Lending	5,848,830	5,603,481	4
Corporate Items and Other	466,601	484,527	(4)
	$ 9,537,210	$ 9,394,216	2 %
HMBS-related borrowings, at fair value	$ 5,614,688	$ 5,380,448	4 %
Match funded liabilities (related to VIEs)	649,384	778,284	(17)
Other financing liabilities ($975,778 and $1,057,671 carried at fair value) (amounts related to VIEs of $24,562 and $24,815)	1,043,698	1,127,613	(7)
SSTL and other secured borrowings, net	436,982	382,538	14
Senior notes, net	448,143	448,727	—
Other liabilities ($4,209 and $4,986 carried at fair value)	832,721	721,901	15
Total liabilities	9,025,616	8,839,511	2 %
Total stockholders’ equity	511,594	554,705	(8)
Total liabilities and equity	$ 9,537,210	$ 9,394,216	2 %
Total Liabilities by Segment			
Servicing	$ 2,272,492	$ 2,437,383	(7)%
Lending	5,746,701	5,532,069	4
Corporate Items and Other	1,006,423	870,059	16
	$ 9,025,616	$ 8,839,511	2 %

Changes in the composition and balance of our assets and liabilities during the first quarter of 2019 are principally attributable to the impact of our ongoing HMBS activity, which is accounted for as secured financings, increasing Loans held for investment and HMBS-related borrowings. Match funded liabilities declined during the first quarter of 2019 as a result of lower advances and match funded advances consistent with our declining servicing portfolio and declines in the non-performing portion of our servicing portfolio. Total equity decreased as a result of the net loss we recognized for the three months ended March 31, 2019. See the Overview and Cash Flows sections of “Liquidity and Capital Resources” for a discussion regarding the decline in Cash during the first quarter of 2019.

SEGMENT RESULTS OF OPERATIONS

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

Servicing

We earn contractual monthly servicing fees pursuant to servicing agreements, which are typically payable as a percentage of UPB, as well as ancillary fees, including late fees, modification incentive fees, REO referral commissions, float earnings and Speedpay fees. We also earn fees under both subservicing and special servicing arrangements with banks and other institutions that own the MSRs. Subservicing and special servicing fees are earned either as a percentage of UPB or on a per-loan basis. Per loan fees typically vary based on delinquency status. As of March 31, 2019, we serviced 1.5 million loans with an aggregate UPB of $251.1 billion.

We are actively pursuing actions to replenish our servicing portfolio through expanding our lending business and making permissible MSR acquisitions that are prudent and well-executed with appropriate financial return targets and return to a focus on growth. Our goal is to maintain, at a minimum, a servicing portfolio of at least $260.0 billion in UPB. During the first quarter of 2019, we closed MSR acquisitions with $4.9 billion UPB and, as of March 31, 2019, have been awarded approximately $25.5 billion UPB in connection with acquisitions that are expected to close in the second quarter 2019, subject to negotiation and execution of purchase documentation and satisfaction of customary closing conditions. We expect to continue to focus on acquiring Agency and government-insured MSR portfolios with strong credit quality and high-quality collateral that meet our target returns.

NRZ is our largest servicing client, accounting for 50% and 60% of the UPB and loans in our servicing portfolio as of March 31, 2019 and 73% of our loan servicing and subservicing fee revenue for the three months then ended. In 2017 and early 2018, we renegotiated the Ocwen agreements with NRZ to more closely align with a typical subservicing arrangement whereby we receive a base servicing fee and certain ancillary fees, primarily late fees, loan modification fees and Speedpay fees. We may also receive certain incentive fees or pay penalties tied to various contractual performance metrics. We received upfront cash payments of $54.6 million and $279.6 million from NRZ in connection with the resulting 2017 and New RMSR Agreements. These upfront payments generally represent the net present value of the difference between the future revenue stream Ocwen would have received under the original agreements and the future revenue Ocwen will receive under the renegotiated agreements. These upfront payments amortize through the remaining term of the original agreements (April 2020). Accordingly, the aggregate economics of these agreements will be similar through the end of April 2020, although cash receipts will be lower in future periods as a result of the upfront payments.

As a result of the 2017 and New RMSR Agreements, our retained subservicing fees for the three months ended March 31, 2019 and 2018 were $37.4 million and $34.2 million, respectively, representing average annualized subservicing fees retained by Ocwen as a percentage of UPB of 0.12% and 0.14%, respectively. We also recognized reductions of interest expense of $23.3 million and $35.7 million for the three months ended March 31, 2019 and 2018, respectively, in connection with the amortization of the lump-sum cash payments received under the 2017 and New RMSR Agreements. Thus, retained subservicing fees and amortization of the lump-sum cash payments totaled $60.7 million and $69.9 million for the three months ended March 31, 2019 and 2018, respectively.

Our MSR portfolio is carried at fair value. The value of our MSRs are typically correlated to changes in interest rates; as interest rates rise, the value of the servicing portfolio typically rises as a result of lower anticipated prepayment speeds. In the current market rate environment, we believe we have limited incremental fair value that can be realized even as interest rates increase absent comparable market transaction data supporting higher valuation multiples, which are already at historic highs. Valuation is also impacted by loan delinquency rates whereby as delinquency rates decline, the value of the servicing portfolio rises. While we do not hedge changes in the fair value of our MSRs, changes in fair value of any fair value elected MSR financing liabilities, which are recorded in interest expense in our unaudited consolidated statements of operations, will partially offset the changes in fair value of the related MSRs.

Third-Party Servicer Ratings

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

The following table summarizes our key servicer ratings by these rating agencies:

	Ocwen Loan Servicing, LLC			PHH Corporation		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Residential Prime Servicer	SQ3-	Average	RPS3-	SQ3	Average	RPS3
Residential Subprime Servicer	SQ3-	Average	RPS3-	SQ3	Average	—
Residential Special Servicer	SQ3-	Average	RSS3-	SQ3	Average	RPS3
Residential Second/Subordinate Lien Servicer	SQ3-	Average	RPS3-	SQ3	Average	RPS3
Residential Home Equity Servicer	—	—	RPS3-	—	—	RPS3
Residential Alt-A Servicer	—	—	RPS3-	—	—	RPS3
Master Servicer	SQ3	Average	RMS3-	—	—	—
Ratings Outlook	N/A	Stable	Stable	N/A	Stable	Stable
Date of last action (1)	April 24, 2017	February 26, 2018	July 27, 2018	October 30, 2018	October 8, 2018	November 1, 2018

(1) Moody's placed the OLS servicer ratings on Watch for Downgrade on April 24, 2017.

In addition to servicer ratings, each of the rating agencies will from time to time assign an outlook (or a ratings watch such as Moody's review status) to the rating status of a mortgage servicer. A negative outlook is generally used to indicate that a rating "may be lowered," while a positive outlook is generally used to indicate a rating "may be raised."

Downgrades in servicer ratings could adversely affect our ability to sell or finance servicing advances and could impair our ability to consummate future servicing transactions or adversely affect our dealings with lenders, other contractual counterparties, and regulators, including our ability to maintain our status as an approved servicer by Fannie Mae and Freddie Mac. The servicer rating requirements of Fannie Mae do not necessarily require or imply immediate action, as Fannie Mae has discretion with respect to whether we are in compliance with their requirements and what actions it deems appropriate under the circumstances if we fall below their desired servicer ratings.

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

	Three Months		
Periods ended March 31,	**2019**	**2018**	**% Change**
Revenue			
Servicing and subservicing fees			
Residential	$ 255,211	$ 220,903	16 %
Commercial	1,227	1,745	(30)
	256,438	222,648	15
Gain on loans held for sale, net	1,216	992	23
Other revenue	1,620	2,456	(34)
Total revenue	259,274	226,096	15
Expenses			
MSR valuation adjustments, net	108,914	16,975	542
Compensation and benefits	40,403	37,177	9
Servicing and origination	24,887	28,044	(11)
Occupancy and equipment	12,607	10,090	25
Professional services	11,423	17,450	(35)
Technology and communications	9,500	10,940	(13)
Corporate overhead allocations	57,594	50,403	14
Other expenses	570	16	n/m
Total expenses	265,898	171,095	55
Other income (expense)			
Interest income	2,294	429	435
Interest expense	(54,698)	(34,517)	58
Other, net	1,525	(429)	(455)
Total other expense, net	(50,879)	(34,517)	47
Income (loss) before income taxes	$ (57,503)	$ 20,484	(381)%

n/m: not meaningful

The following tables provide selected operating statistics:

At March 31,	2019	2018	% Change
Residential Assets Serviced			
Unpaid principal balance (UPB):			
Performing loans (1)	$ 239,373,994	$ 157,796,653	52 %
Non-performing loans	9,763,305	12,653,359	(23)
Non-performing real estate	1,943,441	2,938,864	(34)
Total	$ 251,080,740	$ 173,388,876	45 %
Conventional loans (2)	$ 124,460,752	$ 47,323,711	163 %
Government-insured loans	28,084,833	20,836,179	35
Non-Agency loans	98,535,155	105,228,986	(6)
Total	$ 251,080,740	$ 173,388,876	45 %
Percent of total UPB:			
Servicing portfolio	30%	42%	(29)%
Subservicing portfolio	20	1	n/m
NRZ (3)	50	57	(12)
Non-performing residential assets serviced	5	9	(44)
Number:			
Performing loans (1)	1,475,824	1,107,498	33 %
Non-performing loans	49,199	63,838	(23)
Non-performing real estate	9,328	14,576	(36)
Total	1,534,351	1,185,912	29 %
Conventional loans (2)	664,937	288,316	131 %
Government-insured loans	183,757	153,067	20
Non-Agency loans	685,657	744,529	(8)
Total	1,534,351	1,185,912	29 %
Percent of total number:			
Servicing portfolio	31%	40%	(23)%
Subservicing portfolio	9	2	350
NRZ (3)	60	58	3
Non-performing residential assets serviced	4	7	(43)

	Three Months		
Periods ended March 31,	**2019**	**2018**	**% Change**
Residential Assets Serviced			
Average UPB:			
Servicing portfolio	$ 73,322,765	$ 74,448,687	(2)%
Subservicing portfolio	51,996,682	1,865,467	n/m
NRZ (3)	128,340,739	100,053,876	28
Total	$ 253,660,186	$ 176,368,030	44 %
Prepayment speed (average CPR)	12%	13%	(8)%
% Voluntary	78	82	(5)
% Involuntary	22	18	22
% CPR due to principal modification	1	1	—
Average number:			
Servicing portfolio	462,438	479,223	(4)%
Subservicing portfolio	148,794	18,922	686
NRZ (3)	937,414	705,791	33
	1,548,646	1,203,936	29 %
Residential Servicing and Subservicing Fees			
Loan servicing and subservicing fees:			
Servicing	$ 52,515	$ 58,691	(11)%
Subservicing	6,207	914	579
NRZ	155,847	127,017	23
	214,569	186,622	15
Late charges	15,338	14,508	6
Custodial accounts (float earnings)	11,909	7,231	65
Loan collection fees	4,262	5,002	(15)
HAMP fees	1,777	4,104	(57)
Other	7,356	3,436	114
	$ 255,211	$ 220,903	16 %

Periods ended March 31,	Three Months 2019	2018	% Change
Interest Expense on NRZ Financing Liability (4)			
Servicing fees collected on behalf of NRZ	$ 155,847	$ 127,017	23 %
Less: Subservicing fee retained by Ocwen	37,407	34,217	9
Net servicing fees remitted to NRZ	118,440	92,800	28
Less: Reduction (increase) in financing liability			
Changes in fair value			
Original Rights to MSRs Agreements	121	116	4
2017 Agreements and New RMSR Agreements	(6,980)	16,596	(142)
PHH MSR Agreements	33,096	—	n/m
	26,237	16,712	57
Runoff and settlements:			
Original Rights to MSRs Agreements	9,035	18,852	(52)
2017 Agreements and New RMSR Agreements	23,320	35,695	(35)
PHH MSR Agreements	17,774	—	n/m
	50,129	54,547	(8)
Other	(1,882)	(1,509)	25
	$ 43,956	$ 23,050	91 %
Number of Completed Modifications			
HAMP	253	357	(29)%
Non-HAMP	8,032	11,241	(29)
Total	8,285	11,598	(29)%
Financing Costs			
Average balance of advances and match funded advances	$ 1,147,164	$ 1,316,240	(13)%
Average borrowings			
Match funded liabilities	717,652	813,977	(12)
Financing liabilities	1,047,631	785,721	33
Other secured borrowings	28,401	5,500	416
Interest expense on borrowings			
Match funded liabilities	7,652	8,380	(9)
Financing liabilities	45,024	24,281	85
Other secured borrowings	646	478	35
Effective average interest rate			
Match funded liabilities	4.27%	4.12%	4
Financing liabilities (4)	17.19	12.36	39
Other secured borrowings	9.10	34.76	(74)
Facility costs included in interest expense	$ 1,283	$ 1,572	(18)
Average 1ML	2.49%	1.80%	38

Periods ended March 31,	Three Months 2019	2018	% Change
Average Employment			
India and other	3,675	4,405	(17)%
U.S.	1,517	1,068	42
Total	5,192	5,473	(5)%
Collections on loans serviced for others	$ 9,185,311	$ 7,796,201	18 %

n/m: not meaningful

(1) Performing loans include those loans that are current (less than 90 days past due) and those loans for which borrowers are making scheduled payments under loan modification, forbearance or bankruptcy plans. We consider all other loans to be non-performing.
(2) Conventional loans include 107,954 and 132,285 prime loans with a UPB of $18.3 billion and $23.1 billion at March 31, 2019 and March 31, 2018, respectively, which we service or subservice.
(3) Loans serviced or subserviced pursuant to our agreements with NRZ.
(4) The effective average interest rate on the financing liability that we recognized in connection with the sales of Rights to MSRs to NRZ is 18.43% and 13.11% for the three months ended March 31, 2019 and 2018, respectively.

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

	Amount of UPB		Count	
	2019	2018	2019	2018
Portfolio at January 1	$ 256,000,490	$ 179,352,554	1,562,238	1,221,695
Additions (1)	5,387,517	546,619	18,430	2,694
Sales	(78,061)	(3,292)	(723)	(39)
Servicing transfers	(1,157,156)	(302,120)	(5,103)	(1,840)
Runoff	(9,072,050)	(6,204,885)	(40,491)	(36,598)
Portfolio at March 31	$ 251,080,740	$ 173,388,876	1,534,351	1,185,912

(1) On February 28, 2019, we acquired Agency MSRs on portfolios consisting of 9,532 loans with a UPB of $2.3 billion. These loans are scheduled to transfer onto the Black Knight MSP servicing system on July 1, 2019. Because we have legal title to the MSRs as of March 31, 2019, the UPB and count of the loans are included in our reported portfolio at such date. The seller continues to subservice the loans on an interim basis between the transaction closing date and the servicing transfer date.

The key drivers of our servicing segment operating results for the first quarter of 2019, as compared to the first quarter of 2018, are the PHH acquisition and related integration, portfolio runoff and the effects of cost improvements achieved in aligning our servicing operations more appropriately to the size of our servicing portfolio. Until we have completed the Black Knight MSP conversion, we are maintaining the infrastructure and related costs of two servicing platforms, including certain corporate functions. The Black Knight MSP conversion is expected to be completed in the second quarter of 2019. Once the conversion is complete and all post-conversion support and validation is finalized, we expect expense reductions in connection with the integration to accelerate.

Three Months Ended March 31, 2019 versus 2018

Servicing and subservicing fee revenue increased by $33.8 million, or 15%, as compared to the first quarter of 2018, due to the increase in the portfolio resulting from the acquisition of PHH, offset in part by portfolio runoff and a decline in completed modifications. Servicing and subservicing fee revenue earned on the acquired PHH portfolio was $66.4 million during the three months ended March 31, 2019. Servicing and subservicing fee revenue, excluding revenue on the acquired PHH portfolio, declined 15%, in line with the 15% decline in the Ocwen portfolio UPB from March 31, 2018 to March 31, 2019. Revenue recognized in connection with loan modifications declined 28% to $11.6 million for the first quarter of 2019 as compared to $16.1 million in the first quarter of 2018. Total completed loan modifications decreased 29% as compared to the first quarter of 2018, due to the expiration of government sponsored modification programs and fewer available modification opportunities due to the reduction in non-performing loans in our servicing portfolio.

MSR valuation adjustments, net, increased $91.9 million, or 542%, as compared to the first quarter of 2018, primarily due to portfolio runoff and the 30 basis-point decline in the 10-year swap rate in the first quarter of 2019, as compared to the 38 basis-point increase in the first quarter of 2018. The increase in MSR valuation adjustments, net, includes $100.3 million due to runoff and the impact of changes in interest rates on the value of our Agency MSR portfolio. The acquired PHH MSR portfolio is primarily Agency MSRs that are more sensitive to interest rates. Fair value adjustments to our MSRs are offset, in part, by fair value adjustments related to the NRZ financing liabilities, which are recorded in interest expense.

Excluding MSR valuation adjustments, net, total expenses increased $2.9 million, or 2%, as compared to the first quarter of 2018. Servicing segment expenses for the first quarter of 2019, excluding MSR valuation adjustments, net, includes $37.8 million of expenses attributable to PHH.

Compensation and benefits expense increased $3.2 million, or 9%, as compared to the first quarter of 2018, due to PHH compensation and benefits expense of $10.8 million. Partially offsetting the PHH costs is a $7.5 million decline in Compensation and benefits expense versus the first quarter of 2018, reflecting the results of our efforts to re-engineer our cost structure and align headcount in our servicing operations with the size of our servicing portfolio. Average servicing headcount decreased 5% compared to the first quarter of 2018 despite the increase in headcount attributable to the acquisition of PHH, which consisted of 628 U.S. employees at March 31, 2019.

Servicing and origination expense declined $3.2 million, or 11%, as compared to the first quarter of 2018, primarily due to a $4.3 million decrease in government-insured claim loss provisions on reinstated or modified loans in line with a decline in the volume of claims and a $2.9 million decrease in provisions for non-recoverable servicing advances and receivables. Government-insured claim loss provisions are generally offset by changes in the fair value of the corresponding MSRs, which are recorded in MSR valuation adjustments, net. PHH incurred Servicing and origination expenses of $5.8 million during the first quarter of 2019.

Occupancy and equipment expense increased $2.5 million, or 25%, as compared to the first quarter of 2018, due to PHH expense of $3.0 million.

Professional services expense declined $6.0 million, or 35%, as compared to the first quarter of 2018, primarily due to a $5.9 million decline in provisions for probable losses in connection with litigation, offset by a $1.5 million increase in fees incurred in connection with the conversion of NRZ's Rights to MSRs to fully-owned MSRs. PHH incurred $2.4 million of Professional services expense during the first quarter of 2019. The fees incurred in connection with the MSR conversions are primarily legal fees of our counsel and the fees of counsel of counterparties that we are required to pay. NRZ is currently responsible for paying 50% of the costs that are incurred in connection with the MSR conversions. We do not expect to incur significant costs in connection with the MSR conversions in the future.

Technology and communication expense declined $1.4 million, or 13%, as compared to the first quarter of 2018. The $2.5 million increase due to PHH Technology and communication expense was more than offset by the results of our cost reduction efforts which included bringing technology services in-house.

Corporate overhead allocations increased $7.2 million, as compared to the first quarter of 2018, primarily due to PHH overhead expense allocations of $10.3 million.

Interest expense increased by $20.2 million, or 58%, as compared to the first quarter of 2018, primarily due to a $20.9 million increase in interest expense on the NRZ financing liabilities. Changes in the fair value of the NRZ financing liabilities offset, to a large extent, changes in the fair value of our MSRs which are recorded in MSR valuation adjustments, net.

The net increase in interest expense on the NRZ financing liabilities was due to a $37.7 million increase and a $16.8 million decrease under the Ocwen and PHH agreements, respectively. The primary components driving the increase in interest expense under the Ocwen agreements are changes in the fair value of the NRZ financing liability related to the 2017 and New RMSR Agreements and runoff of the underlying MSRs. In the first quarter of 2018, a favorable fair value adjustment reduced the Ocwen NRZ financing liabilities, and interest expense, by $16.6 million, driven by the initial fair value gain attributable to the $279.6 million lump-sum cash payment received in connection with the New RMSR Agreements. This compares to a $7.0 million unfavorable fair value adjustment in the first quarter of 2019 in connection with changes in estimated cash flows. Runoff attributed to the Original Rights to MSRs Agreements declined to $9.0 million in the first quarter of 2019 as compared to $18.9 million in the first quarter of 2018. The MSRs underlying the Ocwen agreements are seasoned non-Agency mortgage loans and changes in interest rates do not have any significant impact on prepayments. The MSRs underlying the PHH agreements are Agency mortgage loans and as a result, both their fair value and runoff are highly sensitive to changes in interest rates. In the first quarter of 2019, a $33.1 million favorable fair value adjustment reduced the NRZ financing liability, and interest expense, offsetting the unfavorable fair value adjustment of the underlying MSRs. Runoff of $17.8 million further reduced interest expense under the PHH agreements.

Lending

We originate and purchase conventional and government-insured forward mortgage loans through our forward lending operations. Since the 2017 strategic shift in our forward lending activities, our efforts have principally focused on targeting existing Ocwen customers by offering them competitive mortgage refinance opportunities (i.e., portfolio recapture), where permitted by the governing servicing and pooling agreement. In doing so, we generate revenues for our forward lending business and protect the servicing portfolio by retaining these customers. We expect to re-enter the correspondent channel in the second quarter of 2019 to drive higher loan production.

Under the terms of our agreements with NRZ, to the extent we refinance a loan underlying the MSRs subject to these agreements, we are obligated to transfer such recaptured MSR to NRZ under the terms of a separate subservicing agreement. Effective June 1, 2019, we will no longer perform any portfolio recapture on behalf of NRZ. We expect this change will not have a material negative impact on pre-tax earnings after associated direct cost reductions and factoring in additional marketing opportunities to customers obtained through acquiring MSRs.

We originate and purchase reverse mortgages through our reverse lending operations under the guidelines of the HECM reverse mortgage insurance program of HUD. Loans originated under this program are generally guaranteed by the FHA, which provides investors with protection against risk of borrower default. We retain the servicing rights to reverse loans securitized through the Ginnie Mae HMBS program. We have originated HECM loans under which the borrowers have additional borrowing capacity of $1.5 billion at March 31, 2019. These draws are funded by the servicer and can be subsequently securitized or sold (Future Value). We do not incur any substantive underwriting, marketing or compensation costs in connection with any future draws, although we must maintain sufficient capital resources and available borrowing capacity to ensure that we are able to fund these future draws. At March 31, 2019, unrecognized Future Value related to future draw commitments on loans purchased or originated prior to January 1, 2019 is estimated to be $64.1 million (versus $68.1 million at December 31, 2018) and will be recognized over time as future draws are securitized or sold. Effective for loans purchased or originated after December 31, 2018, we elected to fair value future draw commitments.

On February 28, 2019, we merged Homeward Residential Inc. into PMC with PMC being the surviving entity. All of our forward lending purchase and origination activities are conducted under the PHH brand effective April 1, 2019.

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

	Three Months		
Periods ended March 31,	**2019**	**2018**	**% Change**
Revenue			
Gain on loans held for sale, net			
Forward loans	$ 7,687	$ 7,933	(3)%
Reverse loans	8,683	10,875	(20)
	16,370	18,808	(13)
Other revenue, net	24,721	10,387	138
Total revenue	41,091	29,195	41
Expenses			
Compensation and benefits	12,442	11,955	4
Servicing and origination	3,861	4,045	(5)
Occupancy and equipment	1,855	805	130
Technology and communications	681	397	72
Professional services	345	365	(5)
MSR valuation adjustments, net	84	154	(45)
Corporate overhead allocations	1,684	1,014	66
Other expenses	379	1,561	(76)
Total expenses	21,331	20,296	5
Other income (expense)			
Interest income	1,549	1,492	4
Interest expense	(1,668)	(1,946)	(14)
Other, net	219	325	(33)
Total other income (expense), net	100	(129)	(178)
Income before income taxes	$ 19,860	$ 8,770	126 %

n/m: not meaningful

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

	March 31,		
	2019	2018	% Change
Short-term loan funding commitments			
Forward loans	$ 97,625	$ 110,908	(12)%
Reverse loans	20,145	17,892	13
Future Value (1) (2)	64,076	81,087	(21)%
Future draw commitment (UPB) (3)	1,487,561	1,442,916	3 %

	Three Months		
Periods ended March 31,	2019	2018	% Change
Loan Production by Channel			
Forward loans			
Correspondent	$ —	$ 408	(100)%
Wholesale	—	1,750	(100)
Retail	211,247	213,605	(1)
	$ 211,247	$ 215,763	(2)%
% HARP production	2%	10%	(80)%
% Purchase production	1	—	n/m
% Refinance production	99	100	(1)
Reverse loans			
Correspondent	$ 88,585	$ 91,855	(4)%
Wholesale	42,311	53,052	(20)
Retail	10,396	18,946	(45)
	$ 141,292	$ 163,853	(14)%
Average Employment			
U.S.	500	429	17 %
India and other	131	136	(4)
Total	631	565	12 %

(1) Future Value represents the net present value of estimated future cash flows from customer draws of the loans and projected performance assumptions based on historical experience and industry benchmarks discounted at 12% related to HECM loans originated prior to January 1, 2019. We recognize this Future Value over time as future draws are securitized or sold.
(2) Excludes the fair value of future draw commitments related to HECM loans purchased or originated after December 31, 2018 that we elected to carry at fair value.
(3) Includes all future draw commitments.

Our Lending segment results for the first quarter of 2019, as compared to the first quarter of 2018, were primarily driven by the acquisition of PHH and reverse lending HECM program and market changes and the related impacts on loan production, revenue and expenses. According to the HUD HECM Endorsement Summary Report, industry endorsements, or the number of new HECM loans insured by the FHA during the reporting period, totaled 8,224 and 15,814, for the three months ended March 31, 2019 and 2018, respectively, representing a decline of 48%.

Three Months Ended March 31, 2019 versus 2018

Total revenue increased $11.9 million, or 41%, as compared to the first quarter of 2018, primarily due to $14.5 million of favorable fair value adjustments on our HECM reverse mortgage loans and the related HMBS financing liability, which is recorded in Other revenue. The favorable fair value adjustments include $2.9 million in connection with the fair value election for future draw commitments on HECM reverse mortgage loans purchased or originated after December 31, 2018 and $11.5 million driven by an update of the financing assumption for active HECM reverse mortgage loan repurchases in connection with our HMBS Issuer obligations. As these repurchases have become more prevalent, a more liquid market for financing has developed, resulting in a lower financing cost assumption. Lower interest rates generally result in favorable net fair value impacts on our HECM reverse mortgage loans and the related HMBS financing liability and higher interest rates generally result in unfavorable net fair value impacts.

Gain on loans held for sale, net, declined $2.4 million, or 13%, as compared to the first quarter of 2018, as total loan production decreased $27.1 million, or 7% driven primarily by lower volume in our reverse lending business. Reverse lending gain on loans held for sale declined by $2.2 million, or 20%, due to a 14% decline in loan production, which was lower across all channels, and lower overall margin. Our volume decline for the three months ended March 31, 2019 versus the same period in 2018 was less than the decline in industry endorsements for the comparable periods due to our efforts to re-start purchases with former customers and increase wallet share with existing customers in our wholesale, correspondent and closed whole-loan purchase channels. The reduction in margin was largely attributable to volume in our wholesale, correspondent and closed whole-loan purchase channels increasing to 93% of our total volume in the three months ended March 31, 2019 versus 88% for the same period in 2018. The $0.2 million, or 3%, reduction in forward lending gain on loans held for sale was due to a 2% decline in loan production and slightly lower margin in our retail channel.

Total expenses increased $1.0 million, or 5%, as compared to the first quarter of 2018, due to PHH total expenses of $8.3 million. The majority of expenses are variable, and as a result, as origination volume declines so do the related expenses. Examples include commissions, recorded in Compensation and benefits expense, and advertising expense, recorded in Other expenses. Total average headcount increased 12% as compared to the first quarter of 2018, reflecting the increase due to the acquisition of PHH offset by reductions driven by lower origination volume in the reverse lending channels.

Corporate Items and Other

Corporate Items and Other includes revenues and expenses of corporate support services, CRL, discontinued operations and inactive entities, and our other business activities that are currently individually insignificant, revenues and expenses that are not directly related to other reportable segments, interest income on short-term investments of cash and interest expense on corporate debt. Interest expense on direct asset financings are recorded in the respective Servicing and Lending segments, while interest expense on the SSTL and the Senior Notes is recorded in Corporate Items and Other and is not allocated. Our cash balances are included in Corporate Items and Other.

Corporate support services include finance, facilities, human resources, internal audit, legal, risk and compliance and technology functions. Corporate support services costs, specifically compensation and benefits and professional services expense, have been, and continue to be, significantly impacted by regulatory actions against us and by significant litigation matters. As part of our drive to return to profitability as soon as possible, we will seek to reduce our corporate support services expenses while complying with our legal and regulatory obligations. We anticipate that our ability to return to sustainable profitability will be significantly impacted by the degree to which we can reduce these costs going forward. Corporate Items and Other also includes severance, retention, facility-related and other expenses incurred in the first quarter of 2019 related to our re-engineering plan.

CRL, our wholly-owned captive reinsurance subsidiary, provides re-insurance related to coverage on REO properties owned or serviced by us. CRL assumes a quota share of REO insurance coverage written by a third-party insurer under a blanket policy issued to OLS. The underlying REO policy provides coverage for direct physical loss on commercial and residential properties, subject to certain limitations. Under the terms of the reinsurance agreement, CRL assumes a 40% share of all related losses and loss adjustment expenses incurred by the third-party insurer. The reinsurance agreement excludes properties located in the State of New York and has an expiration date of December 31, 2020, although it may be terminated by either party at any time with thirty days' advance written notice.

Certain expenses incurred by corporate support services are allocated to the Servicing and Lending segments.

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

Periods ended March 31,	Three Months 2019	Three Months 2018	% Change
Revenue			
Premiums (CRL)	$ 3,411	$ 4,604	(26)%
Other revenue	112	362	(69)
Total revenue	3,523	4,966	(29)
Expenses			
Compensation and benefits	41,851	28,943	45
Technology and communications	14,254	11,466	24
Occupancy and equipment	2,127	1,719	24
Professional services	(8,327)	19,955	(142)
Servicing and origination	(50)	(671)	(93)
Other expenses	2,299	5,115	(55)
Total expenses before corporate overhead allocations	52,154	66,527	(22)
Corporate overhead allocations			
Servicing segment	(57,594)	(50,403)	14
Lending segment	(1,684)	(1,014)	66
Total expenses	(7,124)	15,110	(147)
Other income (expense), net			
Interest income	715	779	(8)
Interest expense	(14,079)	(14,347)	(2)
Bargain purchase gain	(285)	—	n/m
Other, net	(439)	(577)	(24)
Total other expense, net	(14,088)	(14,145)	—
Loss before income taxes	$ (3,441)	$ (24,289)	(86)%

n/m: not meaningful

Three Months Ended March 31, 2019 versus 2018

CRL premium revenue decreased $1.2 million, or 26%, as compared to the first quarter of 2018, as a result of a 32% decline in the average number of foreclosed real estate properties in our servicing portfolio.

Expenses before allocations declined $14.4 million, or 22%, as compared to the first quarter of 2018. Expenses before allocations for the first quarter of 2019 includes PHH expenses of $22.6 million.

Compensation and benefits expense increased $12.9 million, or 45%, as compared to the first quarter of 2018, due to PHH compensation and benefits expense of $11.8 million and $19.2 million of severance and retention costs recognized in connection with our integration-related headcount reductions of primarily U.S. based employees. Partially offsetting the PHH costs and severance, is a $4.7 million decline in Compensation and benefits expense versus the first quarter of 2018, reflecting the results of our efforts to re-engineer our cost structure and align headcount in the corporate support service functions with the size of our servicing portfolio and lower loan production in our lending segment. Average headcount declined 5% despite the increase in headcount attributed to the PHH acquisition.

Technology and communication expense increased $2.8 million, or 24%, as compared to the first quarter of 2018, due to PHH expenses of $4.2 million offset by the results of our cost reduction efforts which included bringing technology services in-house.

Professional services expense decreased $28.3 million, or 142%, as compared to the first quarter of 2018, primarily due to the recovery of $30.7 million of amounts previously recognized as expense, whether paid or accrued, from a service provider and a $1.5 million decline in fees related to the PHH acquisition, offset by a $1.8 million increase in legal fees and settlements. PHH incurred $4.5 million of Professional services expense during the first quarter of 2019.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We closely monitor our liquidity position and ongoing funding requirements, and we regularly monitor and project cash flow by period to mitigate liquidity risk.

In assessing our liquidity outlook, our primary focus is on six measures:

- Financial projections for ongoing business revenues, costs and net income;
- Anticipated amounts and timing of payments relating to our cost re-engineering plans and integration costs;
- Requirements for maturing liabilities compared to amounts generated from maturing assets and operating cash flow;
- Projected future acquisitions of MSRs to, at a minimum, replenish portfolio runoff;
- The projected change in advances and match funded advances compared to the projected borrowing capacity to fund such advances under our facilities, including capacity for cyclical and monthly peak funding dates; and
- Projected funding requirements of new investment and business initiatives.

At March 31, 2019, our unrestricted cash position was $263.2 million compared to $329.1 million at December 31, 2018. We invest cash in excess of our immediate operating needs to fund certain of our most liquid assets and in money market deposit accounts. Our March 31, 2019 cash position was reduced by $155.1 million used to fund loans made by our lending business and to fund servicing advances compared to $62.4 million used for such purposes as of December 31, 2018. Although we could have funded such activities by borrowing under our warehouse lines and servicing advance financing facilities, respectively, we chose to forgo the borrowing and fund with corporate cash to reduce interest costs. In the first quarter, our liquidity was bolstered by the upsizing of our SSTL in the amount of $120.0 million, which was partially offset by $48.6 million of cash paid to acquire MSRs.

On October 4, 2018, we completed our acquisition of PHH. This transaction was initially cash and book value accretive, with PHH having an opening cash balance of $423.1 million, $64.7 million more than the purchase price of $358.4 million. Upon the closing of the transaction, we assumed $119.1 million of senior unsecured notes, representing $97.5 million of PHH's 7.375% Senior Notes due 2019 and $21.5 million of PHH's 6.375% Senior Notes due 2021. Ocwen also assumed a mortgage warehouse line with maximum borrowing of $200.0 million on an uncommitted basis. There were no borrowings outstanding under this facility on the acquisition date or at December 31, 2018 and March 31, 2019.

We strengthened our cash position by monetizing a portion of our future revenue stream under our NRZ agreements. We received lump-sum payments of $54.6 million and $279.6 million in September 2017 and January 2018, respectively, under our agreements with NRZ. These lump-sum payments generally represent the net present value of the excess of the future revenue stream we would have received under our original agreements with NRZ over the revenue stream we now receive under our current agreements. We are effectively amortizing these lump-sum payments through our statements of operations from the dates such lump-sum payments were received through the end of the initial term of the original agreements, which is generally April 2020.

Establishing funding for growth is a key initiative to achieving our objective of returning to profitability. We regularly evaluate capital structure options that we believe will most effectively provide the necessary capacity to invest in targeted assets, address upcoming debt maturities and accommodate our business needs. For example, we are currently evaluating MSR funding structures and other capital structure alternatives in order to optimize access to capital, improve our cost of capital and reduce funding risk. Historical losses have significantly eroded our stockholder's equity and weakened our financial condition. To the extent we are not successful in achieving our objective of returning to profitability, funding continuing losses will limit our opportunities to grow our business.

The available borrowing capacity under our advance financing facilities has increased by $128.9 million from $46.7 million at December 31, 2018 to $175.6 million at March 31, 2019. The $128.9 million decline in outstanding borrowings drove the net increase in available capacity as our maximum borrowing capacity is unchanged from December 31, 2018. Our ability to continue to pledge collateral under our advance financing facilities depends on the performance of the advances, among other factors. At March 31, 2019, $66.1 million of the available borrowing capacity could be used based on the amount of eligible collateral that had been pledged to our advance financing facilities.

At March 31, 2019, we had maximum borrowing capacity under our warehouse facilities of $1.3 billion. Of the borrowing capacity extended on a committed basis, $229.5 million was available at March 31, 2019, and $89.0 million of the available borrowing capacity could have been used based on the amount of eligible collateral that could be pledged. Uncommitted amounts ($922.4 million available at March 31, 2019) can be advanced solely at the discretion of the lender, and there can be no assurance that any uncommitted amounts will be available to us at any particular time. At March 31, 2019, $23.6 million of uncommitted borrowing capacity could have been used based on the amount of eligible collateral that could be pledged, assuming our lenders were willing to do so.

We are required to maintain certain minimum levels of cash under our debt agreements and portions of our cash balances are held in our non-U.S. subsidiaries. We would have to repatriate the cash held by our non-U.S. subsidiaries, potentially with tax consequences and in compliance with applicable laws, should we wish to utilize that cash in the U.S.

We have considered the impact of financial projections on our liquidity analysis and have evaluated the appropriateness of the key assumptions in our forecast such as revenues, expenses, our assessment of the likely impact of open regulatory matters, recurring and nonrecurring costs, levels of investment and availability of funding sources. As part of this analysis, we have also assessed the cash requirements to operate our business and our financial obligations coming due. Based upon these evaluations and analysis, we believe that we have sufficient liquidity and access to adequate sources of new capital to meet our obligations and fund our operations for the next twelve months.

Sources of Funds

Our primary sources of funds for near-term liquidity are:

- Collections of servicing fees and ancillary revenues;
- Collections of advances in excess of new advances;
- Proceeds from match funded advance financing facilities;
- Proceeds from other borrowings, including warehouse facilities; and
- Proceeds from sales and securitizations of originated loans and repurchased loans.

Servicing advances are an important component of our business and represent amounts that we, as servicer, are required to advance to, or on behalf of, our servicing clients if we do not receive such amounts from borrowers. Our use of advance financing facilities is integral to our servicing advance financing strategy. Revolving variable funding notes issued by our advance financing facilities to large global financial institutions have revolving periods of 12 to 18 months. Term notes are generally issued to institutional investors with one-, two- or three-year maturities.

We use mortgage loan warehouse facilities to fund newly originated loans on a short-term basis until they are sold to secondary market investors, including GSEs or other third-party investors. Warehouse facilities are structured as repurchase or participation agreements under which ownership of the loans is temporarily transferred to the lender. Currently, our master repurchase and participation agreements generally have maximum terms of 364-days. The funds are typically repaid using the proceeds from the sale of the loans to the secondary market investors, usually within 30 days.

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

Collateral

Our assets held as collateral related to secured borrowings, committed under sale or other contractual obligations and which may be subject to a secured lien under the SSTL are as follows at March 31, 2019:

	Total Assets	Collateral for Secured Borrowings	Sale Commitments	Other Commitments (1)	Other (2)
Cash	$ 263,188	$ —	$ —	$ —	$ 263,188
Restricted cash	63,379	22,087	—	41,292	—
Mortgage servicing rights	1,400,191	913,465	9,210	—	477,516
Advances, net	225,360	8,569	32,057	—	184,734
Match funded assets	868,720	868,720	—	—	—
Loans held for sale	222,687	64,223	—	—	158,464
Loans held for investments	5,753,154	5,671,800	—	—	81,354
Receivables, net	197,043	—	—	—	197,043
Premises and equipment, net	69,316	—	—	—	69,316
Other assets	474,172	—	—	416,652	57,520
Total assets	$ 9,537,210	$ 7,548,864	$ 41,267	$ 457,944	$ 1,489,135

(1) Other Commitments includes Restricted cash and deposits held as collateral to support certain contractual obligations, and Contingent loan repurchase assets related to the Ginnie Mae early buyout program for which a corresponding liability is recognized in Other liabilities.
(2) The borrowings under the SSTL are secured by a first priority security interest in substantially all of the assets of Ocwen, OLS, PHH, PMC and the other guarantors thereunder, excluding among other things, 35% of the voting capital stock of foreign subsidiaries, securitization assets and equity interests of securitization entities, assets securing permitted funding indebtedness and non-recourse indebtedness, REO assets, Agency MSRs with respect to which an acknowledgment agreement acknowledging such security interest has not been obtained, as well as other customary carve-outs (collectively, the Collateral). The Collateral is subject to certain permitted liens set forth under the SSTL and related security agreement. The Senior Secured Notes are guaranteed by Ocwen and the other guarantors that guarantee the SSTL, and the borrowings under the Senior Secured Notes are secured by a second priority security interest in the Collateral. Security interests securing borrowings under the SSTL and Senior Secured Notes may include amounts presented in Other as well as certain assets presented in Collateral for Secured Borrowings and Sale Commitments, subject to permitted liens as defined in the applicable debt documents. The amounts presented here may differ in their calculation and are not intended to represent amounts that may be used in connection with covenants under the applicable debt documents.

Use of Funds

Our primary uses of funds are:

- Payment of interest and operating costs;
- Payment relating to our cost re-engineering plans and integration costs;
- Payments for advances in excess of collections;
- Investing in our servicing and lending businesses, including MSR and other asset acquisitions;
- Funding of originated and repurchased loans;
- Repayments of borrowings, including match funded liabilities and warehouse facilities; and
- Working capital and other general corporate purposes.

Under the terms of our SSTL facility agreement, subject to certain exceptions, we are required to prepay the SSTL with 100% of the net cash proceeds from certain permitted asset sales, subject to our ability to reinvest such proceeds in our business within 270 days of receipt.

Outlook

Regarding the current maturities of our borrowings, as of March 31, 2019, we have approximately $720.4 million of debt outstanding under facilities coming due in the next 12 months. The revolving periods of our variable funding and term notes under our advance financing facilities with a total borrowing capacity of $290.0 million and $385.0 million, respectively, are scheduled to end during 2019, subject to renewal, replacement or extension. Total borrowings outstanding on these notes was $499.4 million at March 31, 2019. We had $88.6 million outstanding under our master repurchase and participation agreements for financing new loan originations and loan repurchases at March 31, 2019 that mature in 2019. Finally, in addition to scheduled quarterly repayments totaling $25.4 million under our SSTL, $97.5 million of PHH’s 7.375% Senior Notes are also due in 2019.

We believe that we will be able to renew, replace or extend our debt agreements to the extent necessary to finance our business before or as they become due, consistent with our historical experience.

We are actively engaged with our lenders and as a result, have successfully completed the following with respect to our current and anticipated financing needs:

- On January 23, 2019, we renewed a mortgage loan warehouse agreement through January 22, 2020. Under this agreement, the lender provides uncommitted financing for up to $50.0 million for reverse mortgage loan originations.
- On February 4, 2019, we entered into a mortgage loan warehouse agreement under which the lender will provide $300.0 million of borrowing capacity on an uncommitted basis for forward mortgage loan originations.
- On March 18, 2019, we amended the SSTL to provide an additional term loan of $120.0 million subject to the same maturity, interest rate and other material terms of existing borrowings under the SSTL. The required quarterly principal payment was increased from $4.2 million to $6.4 million beginning March 31, 2019.
- On April 29, 2019, we extended the maturity of a mortgage loan warehouse facility through July 31, 2019. Under this agreement, the lender provides uncommitted financing of up to $175.0 million for forward mortgage loan originations.

Our liquidity forecast requires management to use judgment and estimates and includes factors that may be beyond our control. Additionally, our business has been undergoing substantial change, which has magnified the uncertainties that are inherent in the forecasting process. Our actual results could differ materially from our estimates. If we were to default under any of our debt agreements, it could become very difficult for us to renew, replace or extend some or all of our debt agreements. Challenges to our liquidity position could have a material adverse effect on our operating results and financial condition and could cause us to take actions that would be outside the normal course of our operations to generate additional liquidity.

Covenants

Our debt agreements contain various qualitative and quantitative covenants including financial covenants, covenants to operate in material compliance with applicable laws, monitoring and reporting obligations and restrictions on our ability to engage in various activities, including but not limited to incurring additional debt, paying dividends, repurchasing or redeeming capital stock, transferring assets or making loans, investments or acquisitions. Because of the covenants to which we are subject, we may be limited in the manner in which we conduct our business and may be limited in our ability to engage in favorable business activities or raise additional capital to finance future operations or satisfy future liquidity needs. In addition, breaches or events that may result in a default under our debt agreements include, among other things, nonpayment of principal or interest, noncompliance with our covenants, breach of representations, the occurrence of a material adverse change, insolvency, bankruptcy, certain material judgments and litigation and changes of control.

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

Credit Ratings

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

Rating Agency	Long-term Corporate Rating	Review Status / Outlook	Date of last action
Moody’s	Caa1	Stable	December 11, 2018
S&P	B –	Negative	June 18, 2018

As of March 31, 2019, the S&P long-term corporate rating was “B-”. On December 11, 2018, Moody’s affirmed the long-term corporate rating of “Caa1”. It is possible that additional actions by credit rating agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Cash Flows

Our operating cash flow is primarily impacted by operating results, changes in our servicing advance balances, the level of mortgage loan production and the timing of sales and securitizations of mortgage loans. We classify proceeds from the sale of servicing advances, including advances sold in connection with the sale of MSRs, as investing activity. We classify changes in HECM loans held for investment as investing activity and changes in the related HMBS secured financing as financing activity.

Our NRZ agreements have a significant impact on our consolidated statements of cash flows. Because the lump-sum payments we received in connection with our 2017 and New RMSR Agreements are recorded as secured financings, additions to, and reductions in, the balance of those secured financings are recognized as financing activity in our consolidated statements of cash flows. Excluding the impact of changes to the secured financings attributed to changes in fair value, changes in the balance of these secured financings are reflected in cash flows from operating activities despite having no impact on our consolidated cash balance. Net cash provided by operating activities for the three months ended March 31, 2019 and 2018 includes $23.3 million and $35.7 million, respectively, of such cash flows and they were offset by corresponding amounts in net cash used in financing activities in the same periods.

Cash flows for the three months ended March 31, 2019

Our operating activities provided $100.7 million of cash largely due to $91.1 million of net collections of servicing advances. Net cash received on loans held for sale was $1.1 million for the three months ended March 31, 2019.

Our investing activities used $151.3 million of cash. The primary uses of cash in our investing activities include net cash outflows in connection with our HECM reverse mortgages of $104.6 million. Cash outflows also include $48.6 million to purchase MSRs.

Our financing activities used $19.8 million of cash. Cash outflows include $128.9 million of net repayments on match funded liabilities as a result of advance recoveries and $50.1 million of net payments on the financing liabilities related to MSRs pledged. In addition, we reduced borrowings under our mortgage loan warehouse facilities by $57.7 million. Cash inflows include $210.6 million received in connection with our reverse mortgage securitizations, which are accounted for as secured financings, less repayments on the related financing liability of $102.4 million. We increased borrowings under the SSTL through the issuance of an additional term loan of $120.0 million, less the $6.4 million first quarter repayment.

Cash flows for the three months ended March 31, 2018

Our operating activities provided $99.4 million of cash largely due to $71.1 million of net collections of servicing advances. Net cash received on loans held for sale during the three months ended March 31, 2018 was $25.7 million.

Our investing activities used $135.9 million of cash. The primary uses of cash in our investing activities include net cash outflows in connection with our HECM reverse mortgages of $168.4 million. Cash inflows include net proceeds of $30.1 million in connection with the automotive capital services business and the receipt of $4.4 million of net proceeds from the sale of MSRs and related advances.

Our financing activities provided $56.4 million of cash. Cash inflows include $222.8 million received in connection with our reverse mortgage securitizations, less repayments on the related financing liability of $80.8 million. In January 2018, Ocwen received a lump-sum payment of $279.6 million in accordance with the terms of the New RMSR Agreements. Cash outflows include $198.0 million of net repayments on match funded liabilities as a result of advance recoveries, and $4.2 million of repayments on the SSTL. In addition, we reduced borrowings under our mortgage loan warehouse facilities by $100.1 million.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

Contractual Obligations

We believe that we have adequate resources to fund all unfunded commitments to the extent required and meet all contractual obligations as they come due. At March 31, 2019, such contractual obligations were primarily comprised of secured and unsecured borrowings, interest payments, leases and commitments to originate or purchase loans, including equity draws on reverse mortgages. There were no material changes to the table of specified contractual obligations contained in our Annual Report on Form 10-K during the three months ended March 31, 2019, other than changes related to our secured borrowings. We renewed an existing $50.0 million mortgage loan warehouse facility through January 22, 2020, entered into a new $300.0 million mortgage loan warehouse facility and amended the SSTL to provide an additional term loan of $120.0 million subject to the same maturity and interest rate terms of existing borrowings under the SSTL. See Note 13 – Borrowings to the Unaudited Consolidated Financial Statements for additional information.

Our forecasting with respect to our ability to satisfy our contractual obligations requires management to use judgment and estimates and includes factors that may be beyond our control. Additionally, our business has been undergoing substantial change, which has magnified the uncertainties that are inherent in the forecasting process. Our actual results could differ materially from our estimates, and if this were to occur, it could have a material adverse effect on our business, financial condition, liquidity and results of operations.

Off-Balance Sheet Arrangements

In the normal course of business, we engage in transactions with a variety of financial institutions and other companies that are not reflected on our balance sheet. We are subject to potential financial loss if the counterparties to our off-balance sheet transactions are unable to complete an agreed upon transaction. We manage counterparty credit risk by entering into financial instrument transactions through national exchanges, primary dealers or approved counterparties and through the use of mutual margining agreements whenever possible to limit potential exposure. We regularly evaluate the financial position and creditworthiness of our counterparties. Our off-balance sheet arrangements include mortgage loan repurchase and indemnification obligations, unconsolidated SPEs (a type of VIE) and notional amounts of our derivatives. We have also entered into non-cancelable operating leases principally for our office facilities.

Mortgage Loan Repurchase and Indemnification Liabilities. We have exposure to representation, warranty and indemnification obligations in our capacity as a loan originator and servicer. We recognize the fair value of representation and warranty obligations in connection with originations upon sale of the loan or upon completion of an acquisition. Thereafter, the estimation of the liability considers probable future obligations based on industry data of loans of similar type segregated by year of origination and estimated loss severity based on current loss rates for similar loans. Our historical loss severity considers the historical loss experience that we incur upon sale or liquidation of a repurchased loan as well as current market conditions. See Note 4 – Securitizations and Variable Interest Entities, Note 14 – Other Liabilities and Note 21 – Contingencies to the Unaudited Consolidated Financial Statements for additional information.

HMBS Issuer Obligations. As an HMBS issuer, we assume certain obligations related to each security issued. The most significant obligation is the requirement to purchase loans out of the Ginnie Mae securitization pools once the outstanding principal balance of the related HECM is equal to or greater than 98% of the maximum claim amount (MCA repurchases). Active repurchased loans are assigned to HUD and payment is received from HUD, typically within 60 days of repurchase. HUD reimburses us for the outstanding principal balance on the loan up to the maximum claim amount. We bear the risk of exposure if the amount of the outstanding principal balance on a loan exceeds the maximum claim amount. Inactive repurchased loans (the borrower is deceased, no longer occupies the property or is delinquent on tax and insurance payments) are generally liquidated through foreclosure and subsequent sale of REO. See Note 20 — Commitments to the Unaudited Consolidated Financial Statements for additional information.

Involvement with VIEs. We use SPEs and VIEs for a variety of purposes but principally in the financing of our servicing advances and in the securitization of mortgage loans. We include VIEs in our consolidated financial statements if we determine we are the primary beneficiary. See Note 4 – Securitizations and Variable Interest Entities to the Unaudited Consolidated Financial Statements for additional information.

We generally use match funded securitization facilities to finance our servicing advances. The SPEs to which the receivables for servicing advances are transferred in the securitization transaction are included in our consolidated financial statements either because we have the majority equity interest in the SPE or because we are the primary beneficiary where the SPE is a VIE. Holders of the debt issued by the SPEs have recourse only to the assets of the SPEs for satisfaction of the debt.

Derivatives. We record all derivatives at fair value on our consolidated balance sheets. We use these derivatives primarily to manage our interest rate risk. The notional amounts of our derivative contracts do not reflect our exposure to credit loss. See Note 15 – Derivative Financial Instruments and Hedging Activities to the Unaudited Consolidated Financial Statements for additional information.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our ability to measure and report our financial position and operating results is influenced by the need to estimate the impact or outcome of future events based on information available at the date of the financial statements. An accounting estimate is considered critical if it requires that management make assumptions about matters that were highly uncertain at the time the accounting estimate was made. If actual results differ from our judgments and assumptions, then it may have an adverse impact on the results of operations and cash flows. We have processes in place to monitor these judgments and assumptions, and management is required to review critical accounting policies and estimates with the Audit Committee of the Board of Directors. Our significant accounting policies and critical accounting estimates are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018 in Note 1 to the Consolidated Financial Statements and in Management’s Discussion and Analysis of Financial Condition and Results of Operations under “Critical Accounting Policies and Estimates.”

Fair Value Measurements

We use fair value measurements to record fair value adjustments to certain instruments and to determine fair value disclosures. Refer to Note 5 – Fair Value to the Unaudited Consolidated Financial Statements for the fair value hierarchy, descriptions of valuation methodologies used to measure significant assets and liabilities at fair value and details of the valuation models, key inputs to those models, and significant assumptions utilized. We follow the fair value hierarchy to prioritize the inputs utilized to measure fair value. We review and modify, as necessary, our fair value hierarchy classifications on a quarterly basis. As such, there may be reclassifications between hierarchy levels.

The following table summarizes assets and liabilities measured at fair value on a recurring and nonrecurring basis and the amounts measured using Level 3 inputs:

	March 31, 2019	December 31, 2018
Loans held for sale	$ 222,687	$ 242,622
Loans held for investment - Reverse mortgages	5,726,917	5,472,199
Loans held for investment - Restricted for securitization investors	26,237	26,520
MSRs	1,400,191	1,457,149
Derivative assets	4,341	4,552
Mortgage-backed securities	1,786	1,502
U.S. Treasury notes and corporate bonds	1,514	1,514
Assets at fair value	$ 7,383,673	$ 7,206,058
As a percentage of total assets	77%	77%
Financing liabilities		
HMBS-related borrowings	5,614,688	5,380,448
Financing liability - MSRs pledged	951,216	1,032,856
Financing liability - Owed to securitization investors	24,562	24,815
	6,590,466	6,438,119
Derivative liabilities	4,209	4,986
Liabilities at fair value	$ 6,594,675	$ 6,443,105
As a percentage of total liabilities	73%	73%
Assets at fair value using Level 3 inputs	$ 7,224,954	$ 7,024,145
As a percentage of assets at fair value	98%	97%
Liabilities at fair value using Level 3 inputs	$ 6,590,466	$ 6,438,119
As a percentage of liabilities at fair value	100%	100%

Assets at fair value using Level 3 inputs increased during the three months ended March 31, 2019 primarily due to reverse mortgage originations and the fair value election on our remaining portfolio of amortization method MSRs. Liabilities at fair value using Level 3 inputs increased primarily in connection with reverse mortgage securitizations, which we account for as secured financings. Our net economic exposure to Loans held for investment - Reverse mortgages and the related Financing liabilities (HMBS-related borrowings) is limited to the residual value we retain. Changes in inputs used to value the loans held for investment are largely offset by changes in the value of the related secured financing.

We have various internal controls in place to ensure the appropriateness of fair value measurements. Significant fair value measures are subject to analysis and management review and approval. Additionally, we utilize a number of operational controls to ensure the results are reasonable, including comparison, or "back testing," of model results against actual performance and monitoring the market for recent trades, including our own price discovery in connection with potential and completed sales, and other market information that can be used to benchmark inputs or outputs. Considerable judgment is used in forming conclusions about Level 3 inputs such as interest rate movements, prepayment speeds, delinquencies, credit losses and discount rates. Changes to these inputs could have a significant effect on fair value measurements.

Valuation of MSRs

MSRs are assets that represent the right to service a portfolio of mortgage loans. We originate MSRs from our lending activities and obtain MSRs through asset acquisitions or business combinations. For initial measurement, acquired and originated MSRs are initially measured at fair value. Subsequent to acquisition or origination, we elect to account for MSRs using either the amortization method or the fair value measurement method. Effective January 1, 2018, we elected fair value accounting for our MSRs previously accounted for using the amortization method, which included Agency MSRs and government-insured MSRs. Effective with this election, our entire portfolio of MSRs is accounted for using the fair value measurement method. This irrevocable election applies to all subsequently acquired or originated servicing assets and liabilities that have characteristics consistent with each of these classes.

The determination of the fair value of MSRs requires management judgment due to the number of assumptions that underlie the valuation. We estimate the fair value of our MSRs using a process based upon the use of independent third-party valuation experts and supported by commercially available discounted cash flow models and analysis of current market data.

The key assumptions used in the valuation of these MSRs include prepayment speeds, loan delinquency, cost to service and discount rates.

The following table provides the range of key assumptions and weighted average (expressed as a percentage of UPB) by class projected for the five-year period beginning March 31, 2019:

	Conventional	Government-Insured	Non-Agency
Prepayment speed			
Range	7.0% to 13.5%	9.1% to 17.4%	12.4% to 20.6%
Weighted average	10.3%	12.9%	15.5%
Delinquency			
Range	3.6% to 4.1%	14.6% to 16.4%	23.5% to 30.4%
Weighted average	3.8%	15.5%	27.6%
Cost to service			
Range	$77 to $78	$129 to $136	$200 to $304
Weighted average	$77	$132	$290
Discount rate	9.0%	9.1%	12.7%

Changes in these assumptions are generally expected to affect our results of operations as follows:

- Increases in prepayment speeds generally reduce the value of our MSRs as the underlying loans prepay faster which causes accelerated MSR amortization, higher compensating interest payments and lower overall servicing fees, partially offset by a lower overall cost of servicing, increased float earnings on higher float balances and lower interest expense on lower servicing advance balances.
- Increases in delinquencies generally reduce the value of our MSRs as the cost of servicing increases during the delinquency period, and the amounts of servicing advances and related interest expense also increase.
- Increases in the discount rate reduce the value of our MSRs due to the lower overall net present value of the net cash flows.
- Increases in interest rate assumptions will increase interest expense for financing servicing advances although this effect is partially offset because rate increases will also increase the amount of float earnings that we recognize.

Allowance for Losses on Servicing Advances and Receivables

We record an allowance for losses on servicing advances through a charge to earnings to the extent that we believe that a portion of advances are uncollectible under the provisions of each servicing contract taking into consideration, among other factors, our historical collection rates, probability of cure or modification, length of delinquency and the amount of the advance. We continually assess collectability using proprietary cash flow projection models that incorporate a number of different factors, depending on the characteristics of the mortgage loan or pool, including, for example, the probable loan liquidation path, estimated time to a foreclosure sale, estimated costs of foreclosure action, estimated future property tax payments and the estimated value of the underlying property net of estimated carrying costs, commissions and closing costs. At March 31, 2019, the allowance for losses on servicing advances was $23.1 million.

We record an allowance for losses on receivables in our Servicing business related to defaulted FHA or VA insured loans repurchased from Ginnie Mae guaranteed securitizations (government-insured loan claims). This allowance represents management's estimate of incurred losses and is maintained at a level that management considers adequate based upon continuing assessments of collectability, current trends, and historical loss experience. At March 31, 2019, the allowance for losses on receivables related to government-insured claims was $51.3 million.

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

Income Taxes

In December 2017, the Securities and Exchange Commission Staff issued Staff Accounting Bulletin (SAB) 118 (as further clarified by FASB ASU 2018-05, Income Taxes (Topic 740): "Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118"), which provides guidance on accounting for the income tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date of December 22, 2017 for companies to complete the accounting under ASC 740, *Income Taxes*. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements and should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. We adopted the guidance of SAB 118 as of December 31, 2017. We finalized our provisional amounts under SAB 118 in the fourth quarter of 2018.

We record a tax provision for the anticipated tax consequences of the reported results of operations. We compute the provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. We measure deferred tax assets and liabilities using the currently enacted tax rates in each jurisdiction that applies to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We record a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

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

For the three-year periods ended December 31, 2018 and 2017, the USVI filing jurisdiction was in a material cumulative loss position. The U.S. jurisdiction was also in a three-year cumulative loss position as of December 31, 2018 and 2017. We recognize that cumulative losses in recent years is an objective form of negative evidence in assessing the need for a valuation allowance and that such negative evidence is difficult to overcome. Other factors considered in these evaluations are estimates of future taxable income, future reversals of temporary differences, tax character and the impact of tax planning strategies that may be implemented, if warranted.

As a result of these evaluations, we recognized a full valuation allowance of $46.3 million and $62.9 million on our U.S. deferred tax assets at December 31, 2018 and 2017, respectively, and a full valuation allowance of $21.3 million and $43.9 million on our USVI deferred tax assets at December 31, 2018 and 2017, respectively. The U.S. and USVI jurisdictional deferred tax assets are not considered to be more likely than not realizable based on all available positive and negative evidence. We intend to continue maintaining a full valuation allowance on our deferred tax assets in both the U.S. and USVI until there is sufficient evidence to support the reversal of all or some portion of these allowances. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period in which the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change based on the profitability that we achieve.

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

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

We have evaluated whether we experienced an ownership change as measured under Section 382, and during 2018 determined that an ownership change did occur in January 2015 and in December 2017 in the U.S. jurisdiction, which also results in an ownership change under Section 382 in the USVI jurisdiction. This determination was made based on information available as of the date of our Form 10-K filing for the fiscal year ended December 31, 2018. Due to the Section 382 and 383 limitations and the maximum carryforward period for our NOLs and tax credits, we will be unable to fully recognize certain deferred tax assets. Accordingly, as of December 31, 2018, we had reduced our gross deferred tax asset related to our NOLs by $160.9 million, our foreign tax credit deferred tax asset by $29.5 million and corresponding valuation allowance by $55.7 million. The realization of all or a portion of our deferred income tax assets (including NOLs and tax credits) is dependent upon the generation of future taxable income during the statutory carryforward periods. In addition, the limitation on the utilization of our NOL and tax credit carryforwards could result in Ocwen incurring a current tax liability in future tax years. Our inability to utilize our pre-ownership change NOL carryforwards, any future recognized built-in losses or deductions, and tax credit carryforwards could have an adverse effect on our financial condition, results of operations and cash flows.

As part of our Section 382 evaluation and consistent with the rules provided within Section 382, Ocwen relies strictly on the existence or absence, as well as the information contained in certain publicly available documents (*e.g.*, Schedule 13D, Schedule 13G or other documents filed with the SEC) to identify shareholders that own a 5-percent or greater interest in Ocwen stock throughout the period tested. Further, Ocwen relies on such public filings to identify dates in which such 5-percent shareholders acquired, disposed, or otherwise transacted in Ocwen common stock. As the requirement for filing such notices of ownership from the SEC is to report beneficial ownership, as opposed to actual economic ownership of the stock of Ocwen, certain SEC filings may not represent ownership in Ocwen stock that should be considered in determining whether Ocwen experienced an ownership change under the Section 382 rules. Notwithstanding the preceding sentences (regarding Ocwen' s ability to rely on the existence and absence of information in publicly filed Schedules 13D and 13G), the rules prescribed in Section 382 and the regulations thereunder provide that Ocwen may (but is not required to) seek additional clarification from shareholders filing such Schedules 13D and 13G if there are questions or uncertainty regarding the true economic ownership of shares reported in such filing (whether due to ambiguity in the filing, an overly complex ownership structure, the type of instruments owned and reported in the filings, etc.) (often referred to "actual knowledge" questionnaires). Such information can be sought on a filer by filer basis (*i.e.,* there is no requirement that if actual knowledge is sought with respect to one shareholder, actual knowledge must be sought with respect to all shareholders that filed schedules 13D or 13G). While the seeking of actual knowledge can be beneficial in some instances it may be detrimental in others. Once such actual knowledge is received, Section 382 requires the inclusion of such actual knowledge, even if such inclusion is detrimental to the conclusion reached.

Ocwen has performed its analysis of the rules under Section 382 and, based on all currently available information, identified it experienced an ownership change for Section 382 purposes in January 2015 and December 2017. Prior to 2018, Ocwen was aware of shareholder activity in 2015 and 2017 that may have caused a Section 382 ownership change(s), but determined that additional information could potentially be obtained from certain shareholders that would indicate a Section 382 ownership change had not occurred. In completing this analysis, Ocwen identified several shareholders that filed a schedule 13G during the period disclosing a greater than 5-percent interest in Ocwen stock where beneficial versus economic ownership of the stock was unclear, and Ocwen therefore requested further details. As of the date of this Form 10-Q, Ocwen has not received all requested responses from selected shareholders, and will continue to consider such shareholders as economic owners of Ocwen's stock until actual knowledge is otherwise received.

Ocwen is continuing to monitor the ownership in its stock to evaluate information that will become available later in 2019 and that may result in a different outcome for Section 382 purposes and our future cash tax obligations. As part of this monitoring, Ocwen periodically evaluates whether it is appropriate and beneficial to retroactively seek actual knowledge on certain previously identified and included 5-percent shareholders, whereby, depending on the responses received, Ocwen may conclude that either the January 2015 or December 2017 Section 382 ownership changes may have instead occurred on a different date, or did not occur at all. As such, our analysis regarding the amount of tax attributes that may be available to offset taxable income in the future without restrictions imposed by Section 382 may continue to evolve.

Indemnification Obligations

We have exposure to representation, warranty and indemnification obligations because of our lending, sales and securitization activities, our acquisitions to the extent we assume one or more of these obligations, and in connection with our servicing practices. We initially recognize these obligations at fair value. Thereafter, the estimation of the liability considers probable future obligations based on industry data of loans of similar type segregated by year of origination, to the extent applicable, and estimated loss severity based on current loss rates for similar loans, our historical rescission rates and the current pipeline of unresolved demands. Our historical loss severity considers the historical loss experience that we incur upon sale or liquidation of a repurchased loan as well as current market conditions. We monitor the adequacy of the overall liability and make adjustments, as necessary, after consideration of other qualitative factors including ongoing dialogue and experience with our counterparties.

Litigation

We monitor our litigation matters, including advice from external legal counsel, and regularly perform assessments of these matters for potential loss accrual and disclosure. We establish liabilities for settlements, judgments on appeal and filed and/or threatened claims for which we believe it is probable that a loss has been or will be incurred and the amount can be reasonably estimated.

Going Concern

In accordance with ASC 205-40, *Presentation of Financial Statements - Going Concern*, we evaluate whether there are conditions that are known or reasonably knowable that raise substantial doubt about our ability to continue as a going concern within one year after the date that our financial statements are issued. We perform a detailed review and analysis of relevant quantitative and qualitative information from across our organization in connection with this evaluation. To support this effort, senior management from key business units reviews and assesses the following information:

- our current financial condition, including liquidity sources at the date that the financial statements are issued (e.g., available liquid funds and available access to credit, including covenant compliance);

- our conditional and unconditional obligations due or anticipated within one year after the date that the financial statements are issued (regardless of whether those obligations are recognized in our financial statements);
- funds necessary to maintain operations considering our current financial condition, obligations and other expected cash flows within one year after the date that the financial statements are issued (i.e., financial forecasting); and
- other conditions and events, when considered in conjunction with the above items, that may adversely affect our ability to meet obligations within one year after the date that the financial statements are issued (e.g., negative financial trends, indications of possible financial difficulties, internal matters such as a need to significantly revise operations and external matters such as adverse regulatory/legal proceedings or rating agency decisions).

If such conditions exist, management evaluates its plans that when implemented would mitigate the condition(s) and alleviate the substantial doubt about our ability to continue as a going concern. Such plans are considered only if information available as of the date that the financial statements are issued indicates both of the following are true:

- it is probable management's plans will be implemented within the evaluation period; and
- it is probable management's plans, when implemented individually or in the aggregate, will mitigate the condition(s) that raise substantial doubt about our ability to continue as a going concern in the evaluation period.

Our evaluation of whether it is probable that management's plans will be effectively implemented within the evaluation period is based on the feasibility of implementation of management's plans in light of our specific facts and circumstances.

Our evaluation of whether it is probable that our plans, individually or in the aggregate, will be implemented in the evaluation period involves a degree of judgment, including about matters that are, to different degrees, uncertain.

RECENT ACCOUNTING DEVELOPMENTS

Recent Accounting Pronouncements

We adopted the new leasing guidance (ASU 2016-02, ASU 2018-10, ASU 2018-11 and ASU 2019-01) on January 1, 2019 by applying the guidance at the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The transition adjustment resulted in an adjustment to the opening balance of retained earnings of $16 thousand and we increased both our total assets and total liabilities by $66.2 million, representing the gross recognition of the right-of-use assets and lease liabilities. See Note 1 – Organization, Business Environment and Basis of Presentation to the Unaudited Consolidated Financial Statements for additional information.

Our adoption of the standards listed below on January 1, 2019 did not have a material impact on our unaudited consolidated financial statements.

- ASU 2017-08: Receivables: Nonrefundable Fees and Other Costs
- ASU 2018-02: Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
- ASU 2018-09: Codification Improvements

We are also evaluating the impact of recently issued ASUs not yet adopted that are not effective for us until on or after January 1, 2020. While we do not anticipate that our adoption of these ASUs will have a material impact on our consolidated financial statements, we are currently evaluating the effect.

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

Interest Rates

Our principal market exposure is to interest rate risk due to the impact on our mortgage-related assets and commitments, including MSRs, loans held for sale, loans held for investment and IRLCs. Changes in interest rates could materially and adversely affect our volume of mortgage loan originations or reduce the value of our MSRs. We also have exposure to the effects of changes in interest rates on our borrowings, including advance financing facilities.

Interest rate risk is a function of (i) the timing of re-pricing and (ii) the dollar amount of assets and liabilities that re-price at various times. We are exposed to interest rate risk to the extent that our interest rate sensitive liabilities mature or re-price at different speeds, or on different bases, than interest-earning assets.

Our management-level Market Risk Committee establishes and maintains policies that govern our hedging program, including such factors as our target hedge ratio, the hedge instruments that we are permitted to use in our hedging activities and the counterparties with whom we are permitted to enter into hedging transactions. See Note 15 – Derivative Financial Instruments and Hedging Activities to the Unaudited Consolidated Financial Statements for additional information regarding our use of derivatives.

Home Prices

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

MSRs and MSR Financing Liabilities

Effective January 1, 2018, we elected fair value accounting for our MSRs previously accounted for using the amortization method, which included Agency MSRs and government-insured MSRs. Effective with this election, our entire portfolio of MSRs is accounted for using the fair measurement method. MSRs are subject to interest rate risk as the mortgage loans underlying the MSRs permit borrowers to prepay their loans. The fair value of MSRs generally decreases in periods where interest rates are declining, as prepayments increase, and increase in periods where interest rates are increasing, as prepayments decrease.

While the majority of our non-Agency MSRs have been sold to NRZ, these transactions did not qualify as sales and are accounted for as secured financings. We have elected fair value accounting for these MSR financing liabilities. Through these transactions, the majority of the risks and rewards of ownership of the MSRs transferred to NRZ, including interest rate risk. Changes in the fair value of the MSRs sold to NRZ are offset by a corresponding change in the fair value of the MSR financing liabilities, which are recognized as a component of interest expense in our unaudited consolidated statements of operations.

Loans Held for Sale, Loans Held for Investment and IRLCs

In our lending business, newly-originated forward mortgage loans held for sale and newly originated reverse mortgage loans held for investment that we have elected to carry at fair value and IRLCs are subject to the effects of changes in mortgage interest rates from the date of the commitment through the sale of the loan into the secondary market. IRLCs represent an agreement to purchase loans from a third-party originator or an agreement to extend credit to a mortgage loan applicant, whereby the interest rate on the loan is set prior to funding. We are exposed to interest rate risk and related price risk during the period from the date of the lock commitment through (i) the lock commitment cancellation or expiration date or (ii) through the date of sale of the resulting loan into the secondary mortgage market. Loan commitments for forward loans range from 5 to 90 days, but the majority of our commitments are for 60 days. Our holding period for forward mortgage loans from funding to sale is typically less than 30 days. Loan commitments for reverse mortgage loans range from 10 to 30 days. The majority of our reverse loans are variable rate loan commitments. Our interest rate exposure is hedged with freestanding derivatives, including forward sales of agency “to be announced” securities (TBAs) and forward mortgage-backed securities (Forward MBS).

Loans Held for Investment and HMBS-related Borrowings

In our reverse mortgage business, the fair value of our HECM loan portfolio, which is held for investment, decreases as market rates rise and increases as market rates fall. The primary contributors to the portfolio earnings are estimated securitization gains on future interest and mortgage insurance premium balance accruals, servicing fee income net of subservicing fees and losses, and repurchase funding requirements related to the 98% MCA liquidation. As our HECM portfolio is predominantly comprised of ARMs, higher interest rates cause the loan balance to accrue and reach a 98% maximum claim amount liquidation event more quickly, with lower interest rates extending the timeline to liquidation.

The asset value for securitized HECM loans, net of the corresponding HMBS-related liability for securitized loans is comprised of net servicing income on the existing securitized HECM portfolio which we currently do not hedge, but which acts as a partial hedge for our forward MSR value sensitivity.

Match Funded Liabilities

We monitor the effect of increases in interest rates on the interest paid on our variable rate advance financing debt. Earnings on cash and float balances are a partial offset to our exposure to changes in interest expense. Based on the extent to which the projected excess of our interest expense on variable rate debt exceeds interest income on our cash and float balances require, we would consider hedging this exposure with interest rate swaps or other derivative instruments. We may purchase interest rate caps as economic hedges (not designated as a hedge for accounting purposes) if required by our advance financing arrangements.

Interest Rate Sensitive Financial Instruments

The tables below present the notional amounts of our financial instruments that are sensitive to changes in interest rates and the related fair value of these instruments at the dates indicated. We use certain assumptions to estimate the fair value of these instruments. See Note 5 – Fair Value to the Unaudited Consolidated Financial Statements for additional information regarding fair value of financial instruments.

	March 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Rate-Sensitive Assets:				
Interest-earning cash	$ 248,342	$ 248,342	$ 266,235	$ 266,235
Loans held for sale, at fair value	153,140	153,140	176,525	176,525
Loans held for sale, at lower of cost or fair value(1)	69,547	69,547	66,097	66,097
Loans held for investment, at fair value	5,726,917	5,726,917	5,472,199	5,472,199
U.S. Treasury notes	1,068	1,068	1,064	1,064
Debt service accounts and time deposits	23,460	23,460	27,964	27,964
Total rate-sensitive assets	$ 6,222,474	$ 6,222,474	$ 6,010,084	$ 6,010,084
Rate-Sensitive Liabilities:				
Match funded liabilities	$ 649,384	$ 649,121	$ 778,284	$ 776,485
HMBS-related borrowings, at fair value	5,614,688	5,614,688	5,380,448	5,380,448
SSTL and other secured borrowings (2)	436,982	442,749	382,538	383,162
Senior notes (2)	448,143	430,918	448,727	426,147
Total rate-sensitive liabilities	$ 7,149,197	$ 7,137,476	$ 6,989,997	$ 6,966,242

	March 31, 2019		December 31, 2018	
	Notional Balance	Fair Value	Notional Balance	Fair Value
Rate-Sensitive Derivative Financial Instruments:				
Derivative assets (liabilities):				
Interest rate caps	$ 193,750	$ 276	$ 260,000	$ 678
IRLCs	117,770	3,982	150,175	3,871
Forward MBS trades	105,500	(4,126)	165,363	(4,983)
Derivatives, net		$ 132		$ (434)

(1) Net of market valuation allowances and including non-performing loans.
(2) Carrying values are net of unamortized debt issuance costs and discount.

Sensitivity Analysis

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

The following table summarizes the estimated change in the fair value of our MSRs, HECM loans held for investment and loans held for sale that we have elected to carry at fair value as well as any related derivatives at March 31, 2019, given hypothetical instantaneous parallel shifts in the yield curve. We used March 31, 2019 market rates to perform the sensitivity analysis. The estimates are based on the market risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves. These sensitivities are hypothetical and presented for illustrative purposes only. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship to the change in fair value may not be linear.

	Change in Fair Value	
	Down 25 bps	**Up 25 bps**
HECM loans held for investment	$ 2,537	$ (3,334)
Loans held for sale	732	(873)
Forward MBS trades	(702)	827
Total loans held for sale and related derivatives	2,567	(3,380)
MSRs (1)	(52,481)	51,392
MSRs, embedded in pipeline	(18)	16
Total MSRs	(52,499)	51,408
Total, net	$ (49,932)	$ 48,028

(1) Primarily reflects the impact of market rate changes on projected prepayments on the Agency MSR portfolio and on advance funding costs on the non-Agency MSR portfolio carried at fair value. The acquisition of PHH MSRs significantly increased sensitivity on the Agency MSR portfolio.

Borrowings

The debt used to finance much of our operations is exposed to interest rate fluctuations. We may purchase interest rate swaps and interest rate caps to minimize future interest rate exposure from increases in 1ML interest rates.

Based on March 31, 2019 balances, if interest rates were to increase by 1% on our variable rate debt and interest earning cash and float balances, we estimate a net positive impact of approximately $14.1 million resulting from an increase of $23.8 million in annual interest income and an increase of $9.7 million in annual interest expense. The increase in interest expense reflects the effect of our hedging activities, which would offset $1.5 million of the increase in interest on our variable rate debt.

ITEM 4. CONTROLS AND PROCEDURES

Our management, under the supervision of and with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), as of March 31, 2019.

Based on such evaluation, management concluded that our disclosure controls and procedures as of March 31, 2019 were (1) designed and functioning effectively to ensure that material information relating to Ocwen, including its consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) operating effectively in that they provided reasonable assurance that information required to be disclosed by Ocwen in the reports that it files or submits under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including our chief executive officer or chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There have not been any changes in our internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

An investment in our common stock involves significant risk. We describe the most significant risks that management believes affect or could affect us under Part I of our Annual Report on Form 10-K for the year ended December 31, 2018. Understanding these risks is important to understanding any statement in such Annual Report and in our subsequent SEC filings (including this Form 10-Q) and to evaluating an investment in our common stock. You should carefully read and consider the risks and uncertainties described therein together with all the other information included or incorporated by reference in such Annual Report and in our subsequent SEC filings before you make any decision regarding an investment in our common stock. You should also consider the information set forth above under "Forward-Looking Statements." If any of the risks actually occur, our business, financial condition, liquidity and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could significantly decline, and you could lose some or all of your investment.

ITEM 6. EXHIBITS

3.1	Amended and Restated Articles of Incorporation, as amended (1)
3.2	Amended and Restated Bylaws of Ocwen Financial Corporation (2)
10.1*	Binding Term Sheet dated as of February 22, 2019 between Altisource S.à r.l., Ocwen Financial Corporation and Ocwen Mortgage Servicing, Inc. (filed herewith)
10.2**	Amendment to April 17, 2018 Offer Letter between Ocwen Financial Corporation and Glen Messina, dated February 27, 2019 (filed herewith)
10.3**	Offer Letter between Ocwen Financial Corporation and June Campbell, dated January 17, 2019 (filed herewith)
10.4	Joinder and Amendment Agreement among Ocwen Financial Corporation, Ocwen Loan Servicing, LLC, as borrower, Barclays Bank PLC as administrative agent, and the other parties thereto, dated as of March 18, 2019 (3)
31.1	Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of the principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of the principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

* Certain information in this exhibit has been omitted pursuant to Item 601(b)(10) of Regulation S-K and the exhibits to the agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted exhibit to the agreement upon request.

** Management contract or compensatory plan or agreement.

(1) Incorporated by reference to the similarly described exhibit to the Registrant's Form 10-Q for the quarter ended June 30, 2017 filed on August 3, 2017.
(2) Incorporated by reference to the similarly described exhibit to the Registrant's Form 8-K filed on February 25, 2019.
(3) Incorporated by reference to the similarly described exhibit to the Registrant's Form 8-K filed on March 18, 2019.

Signatures

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

Ocwen Financial Corporation

By: /s/ June C. Campbell

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

Date: May 7, 2019

Exhibit 10.1

Certain Information in this Exhibit marked by [***] has been redacted pursuant to Item 601(b)(10) of Regulation S-K because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

February 22, 2019

Confidential Information

Ocwen Financial Corporation
1661 Worthington Road, Suite 100
West Palm Beach, Florida 33409

Ocwen Mortgage Servicing, Inc.
(mailing address)
1108 King Street, Suite 3
Christiansted, VI 00820
(physical address)
Hamilton House, 56 King Street, 3rd Floor
Christiansted, St. Croix VI 00820

c/o Scott Anderson
Ocwen Financial Corporation
Executive Vice President and Chief Servicing Officer

Sent via email

RE: Binding Term Sheet

Dear Scott:

Thank you for taking the time to continue our discussions regarding amendments to the terms of certain agreements between Altisource and Ocwen. Our organizations have been discussing these amendments for several months now, and I am pleased that we were able to come to an agreement to resolve several of the open items, as set forth in this binding term sheet (the "Binding Term Sheet").

While there are additional details to be worked out between the parties, we have agreed to sign this Binding Term Sheet to resolve the most significant of the outstanding issues, pursuant to the terms set forth herein. We further agreed that both parties will undertake diligent, good faith efforts to resolve the remaining issues and negotiate more detailed agreements that reflect the terms of this Binding Term Sheet and resolution of the remaining open issues in the form of a Fourth Amendment to the Services Agreement (such open issues as identified below in Section D include amendments to applicable performance standards), the "Detailed Agreement") to be signed on or before March 14, 2019. Notwithstanding the immediately preceding sentence, however, the failure of the parties to sign the Detailed Agreement as contemplated by such sentence will have no effect on the validity, applicability or enforceability of this Binding Term Sheet. Should the business units and law departments of the respective parties fail to finalize the Detailed Agreement by March 1, 2019, the parties agree to the following escalation procedures:

- On March 1, 2019, the remaining open issues will be escalated to Ocwen's Chief Servicing Officer and Altisource's Chief Executive Officer;
- If Ocwen's Chief Servicing Officer and Altisource's Chief Executive Officer are unable to reach an agreement by March 14, 2019, the parties may submit to non-binding mediation to help resolve the remaining open issues.
- If the parties are unable to reach agreement during non-binding mediation, the parties reserve any rights to pursue any remedies pursuant to the Applicable Services Agreements (as defined below), as amended hereby, and/or that certain Agreement among Ocwen Financial Corporation, Ocwen Mortgage Servicing, Inc. and Altisource Solutions S.à r.l. dated April 12, 2013.

By signing this Binding Term Sheet, Altisource and Ocwen agree that the terms herein will be immediately binding on them and will supersede and control over any conflicting or inconsistent terms and conditions in any other agreements between the parties other than any agreements signed substantially contemporaneously herewith (including the letter agreement regarding reservation of rights dated on or about the date hereof). Subject to the immediately preceding sentence, all terms and conditions in agreements between the parties as of the date of this Binding Term Sheet that are not otherwise in conflict or inconsistent with this Binding Term Sheet will remain in full force and effect.

This Binding Term Sheet will constitute joint Confidential Information of the parties and is subject to the confidentiality obligations in effect between the parties as set forth in the Services Agreements dated August 10, 2009 and October 1, 2012, as amended, that Altisource has with Ocwen Financial Corporation and Ocwen Mortgage Servicing, Inc. (the "Services Agreements") and the Technology Products Services Agreements dated August 10, 2009 and October 1, 2012, as amended, that Altisource has with Ocwen Financial Corporation and Ocwen

Mortgage Servicing, Inc. (collectively, the "TPSAs" and together with the Services Agreements, the "Applicable Services Agreements"). This Binding Term Sheet will be governed by the law and jurisdiction clauses in the Services Agreements, at Sections 9(d) and 9(m) respectively, and will extend through August 31, 2025, pursuant to the Services Agreements.

As used herein, the term "Ocwen" will collectively mean Ocwen Financial Corporation and Ocwen Mortgage Servicing, Inc., together with their affiliates. As used herein, the term "Altisource" shall mean Altisource S.à r.l., successor in interest to Altisource Solutions S.à r.l.

Section A. REALServicing Technology

1) For the avoidance of doubt, the parties' rights and obligations under Sections A and B and Exhibit 2 hereunder are governed by the TPSAs, to the extent not in conflict with the terms herein. Altisource will consent to Ocwen's transition off of the REALServicing Technology on the terms and conditions set forth in this Binding Term Sheet. "REALServicing Technology" consists of the technology and applications described in Exhibit 1 hereto.

2) Ocwen will pay all reasonable time (at US$[***]/hour) and materials costs, software and hardware licensing fees and other out-of-pocket costs (such hourly charges, costs and fees collectively referred to as "Costs") incurred by Altisource in connection with or related to the REALServicing Technology transition and/or for any continued access to REALServicing Technology following the transition as specified in Section A.3 below. Altisource will use commercially reasonable efforts to minimize such Costs.

   a) Ocwen will pay Altisource for all Costs incurred through the REALServicing Initial Access Period (as defined below) and the REALDoc Initial Access Period (as described in Section B.1 and B.2 below); provided, however, Ocwen will not be required to pay Costs during such periods in excess of [***] (the "Cap"). Prior to the end of the REALServicing Initial Access Period, Ocwen will notify Altisource in writing if it believes there has been any material REALServicing Data not delivered by Altisource or any material error in the REALServicing Data delivered to Ocwen ("Incomplete REALServicing Data"). Altisource will remediate such Incomplete REALServicing Data (to the extent necessary), and, Ocwen will pay Altisource for all Costs associated with providing the Incomplete REALServicing Data subject to the Cap (irrespective of when these Costs are incurred by Altisource). Notwithstanding the immediately prior three sentences, the following will not be counted for purposes of determining payments subject to the Cap: (i) the per loan per month and other fees that are payable under the TPSAs and Servicing SOW (as defined in Exhibit 1 and which will not constitute Costs); and (ii) Costs incurred other than the costs for services for items 1-5 in the attached Exhibit 2 ("Out-of-Scope Costs"). Altisource will not be obligated to provide services as part of the transition off of REALServicing Technology other than all in-scope services identified in the attached Exhibit 2, and Ocwen will not be obligated to pay for Out-of-Scope Costs unless mutually agreed upon by the parties.

   b) Altisource will invoice the Costs on a monthly basis, and Ocwen will pay the Costs reflected on such invoice within thirty (30) days following receipt of such invoice. Upon request, Altisource will provide reasonable supporting documentation for the Costs set forth in an invoice.

   c) Ocwen will pay fifty percent (50%) of payments and costs for employees in accordance with the Request for Services (Resource Retention) document (including such payments and costs already incurred by Altisource) negotiated between Ocwen and Altisource, and each of Ocwen and Altisource will sign such document simultaneously with the signing of this Binding Term Sheet. For the avoidance of doubt, these payments and costs will not be subject to the Cap (as defined herein).

3) Ocwen's current access rights to the REALServicing Technology and Altisource's obligations to provide the same pursuant to the TPSAs and Servicing SOW will cease as of the earlier of (1) midnight U.S. Eastern time on [***] or (2) the date on which Ocwen has de-boarded all loans from the REALServicing Technology (the "REALServicing Termination Date"). Altisource will reasonably cooperate with Ocwen in moving loans off of the REALServicing Technology. Beginning on the REALServicing Termination Date and thereafter, Ocwen will be permitted only to access the data stored within REALServicing as provided herein and will not be permitted to add, delete, modify or otherwise change data contained therein; however Ocwen will be permitted to query, view, read, and extract REALServicing system data, reporting and tools (to the extent consistent with access rights in effect as of the date of this Binding Term Sheet and without manipulating or changing any data) (the "REALServicing Limited Access"). Notwithstanding the foregoing, Ocwen may, upon written advance notice, extend the REALServicing Termination Date. The notice must specify the duration of the extension. Ocwen will use reasonable efforts to provide thirty (30) days advance written notice, but Ocwen will provide at least fifteen (15) days advance written notice.

   a) Following the REALServicing Termination Date (to the extent not already commenced), Altisource will use commercially reasonable, diligent efforts to deliver to Ocwen the REALServicing Data, as defined in Exhibit 2 within [***] of the REALServicing Termination Date. The date on which such REALServicing Data is delivered to Ocwen will be the "REALServicing Delivery Date."

   b) Altisource will maintain the REALServicing Limited Access for [***] following the REALServicing Delivery Date (the "REALServicing Initial Access Period"). During the REALServicing Initial Access Period, Ocwen will use reasonable efforts to evaluate the REALServicing Data to determine whether there is Incomplete REALServicing Data and Ocwen will promptly notify Altisource in writing of Incomplete REALServicing Data, with sufficient specificity for Altisource to validate the existence of Incomplete REALServicing Data, upon discovery.

   c) The REALServicing Initial Access Period may be extended beyond the [***] REALServicing Initial Access Period if, prior to the end of the REALServicing Initial Access Period, Ocwen notifies Altisource in writing of any remaining material unremediated Incomplete REALServicing Data with sufficient specificity for Altisource to validate the existence of Incomplete REALServicing Data. If Altisource is able to validate the existence of Incomplete REALServicing Data, Altisource will use commercially reasonable efforts to correct such Incomplete REALServicing Data (with reasonable cooperation from Ocwen in identifying, validating and correcting such Incomplete REALServicing Data) and deliver corrected REALServicing Data to Ocwen. Following such delivery (and within [***] if possible), Ocwen will reevaluate whether Altisource has remediated the Incomplete REALServicing Data and either accept the data or notify Altisource in writing of any unremediated issues. Once Altisource has remediated the Incomplete REALServicing Data, the REALServicing Initial Access Period will end on the day that is [***] following Altisource's delivery of corrected REALServicing Data to Ocwen. Notwithstanding the foregoing, if the REALServicing Initial Access Period is extended beyond [***], the REALServicing End Date (as defined below) will be extended by a period of time equal to the number of days between [***] and the last day of the REALServicing Initial Access Period. Notwithstanding the foregoing, to the extent that it is determined that any Incomplete REALServicing Data is permanently destroyed, lost or otherwise not recoverable, or that continued provision of the REALServicing Limited Access would otherwise not provide Ocwen with access to such Incomplete REALServicing Data ("Unresolved REALServicing Data"), then (i) continued unavailability of such Incomplete REALServicing Data will not cause any further extensions to the REALServicing Initial Access Period, and (ii) the parties may seek to resolve any dispute regarding such Unresolved REALServicing Data under the terms of the TPSAs.

d) Ocwen may extend the period of REALServicing Limited Access for additional periods of time upon written notice provided to Altisource. Ocwen will use reasonable efforts to provide such notice at least fifteen (15) days prior to expiration of the REALServicing Limited Access period, but in no event will such notice be less than seven (7) days prior to such expiration, and will specify the length of the extension (each being a "REALServicing Additional Access Period"); provided that unless otherwise agreed upon by the parties no REALServicing Additional Access Period may continue beyond [***] (except to the extent that the REALServicing Termination Date has been extended pursuant to A.3.) (the "REALServicing End Date"). Notwithstanding the foregoing, if the REALServicing Delivery Date occurs after [***], the REALServicing End Date will be extended by a period of time equal to the number of days between [***] and the last day of the REALServicing Initial Access Period. Ocwen will pay to Altisource the Costs (excluding any data center costs) incurred (on an uncapped basis) during all REALServicing Additional Access Periods.

e) Following the REALServicing Termination Date, Ocwen will pay to Altisource a monthly access fee (in addition to applicable Costs, if any, and prorated for partial months) as set forth below:

   i) Prior to the REALServicing Delivery Date a fee in the amount of [***] per month for up to [***];

   ii) During the REALServicing Initial Access Period, a fee in the amount of [***] per month for [***]; and

   iii) During REALServicing Additional Access Periods (if any), a fee in the amount of [***] per month.

f) Following expiration of the REALServicing Initial Access Period (or, if applicable, the last REALServicing Additional Access Period), Altisource will have no responsibility to provide Ocwen with access to REALServicing Technology or any data or to maintain the same on Ocwen's behalf.

g) If the REALServicing Termination Date is extended by Ocwen beyond [***], the following fees will apply:

   i) REALServicing Termination Date between [***] and [***]: the per month per loan fee for all periods through [***] will be the greater of (a) [***] and (b) the per month per loan fee pursuant to the Servicing SOW (nothing herein will limit any other amounts due and payable under the terms of the Servicing SOW);

   ii) REALServicing Termination Date on or after [***]: the per month per loan fee for all periods before [***] will be the same as that set forth in A.3.g(i) above and the per month per loan fee for all periods after [***] will be the greater of (a) [***] and (b) the per month per loan fee pursuant to the Servicing SOW (nothing herein will limit any other amounts due and payable under the terms of the Servicing SOW);

   iii) Notwithstanding anything in paragraph A.3.e. above, the monthly access fee for [***] and [***] will be [***]. However, under this section A.3.g(iii), to the extent the REALServicing Initial Access Period is longer than [***], the monthly fee for the portion of the REALServicing Initial Access Period that exceeds sixty [***] will be [***] per month; and

   iv) Notwithstanding anything in paragraph A.3.e. above, the monthly access fee for [***] and all subsequent months through the REALServicing End Date will be [***]. However, under this section A.3.g(iv), to the extent the REALServicing Initial Access Period is longer than [***], the monthly fee for the portion of the REALServicing Initial Access Period that exceeds [***] will be [***] per month.

4) Ocwen will cooperate, and use commercially reasonable efforts to cause third party technology providers (including, but not limited to, the provider of Ocwen's servicing platform that replaces REALServicing Technology) to cooperate, with Altisource's interconnection efforts to the technology of such providers.

5) Ocwen will pay all undisputed amounts due to Altisource as of the REALServicing Termination Date within thirty (30) days of receipt of invoice. The parties will work together in good faith to resolve any disputed amounts for the first sixty (60) days following the REALServicing Termination Date. After such sixty (60) day period, upon request by either party, the parties will promptly submit to binding mediation to resolve any amounts that remain disputed; upon request by either party, binding mediation will also be applied to any disputes involving amounts invoiced after the REALServicing Termination Date which are not resolved within sixty (60) days of the invoice date. Mediator fees will be borne equally by the parties.

Section B. REALDoc Technology

1) Ocwen will pay all Costs incurred by Altisource in connection with or related to the REALDoc Technology transition and/or for any

continued access to REALDoc Technology following the transition as specified in Section B.2 below. Altisource will use commercially reasonable efforts to minimize such Costs.

a) Ocwen will pay Altisource for all Costs incurred through the REALDoc Initial Access Period (as defined below), subject to the Cap set forth in Section A.2.a. Prior to the end of the REALDoc Initial Access Period, Ocwen will notify Altisource in writing if it believes there has been any material REALDoc Data not delivered by Altisource or any material error in the REALDoc Data delivered to Ocwen ("Incomplete REALDoc Data"). Altisource will remediate such Incomplete REALDoc Data (to the extent necessary), and, Ocwen will pay Altisource for all Costs associated with providing the Incomplete REALDoc Data subject to the Cap (irrespective of when these Costs are incurred by Altisource). Notwithstanding the immediately prior three sentences, the following will not be counted for purposes of determining payments subject to the Cap: (i) the fees payable through the REALDoc Termination Date under the Imaging SOW (defined below) and which will not constitute Costs; and (ii) Costs that are Out-of-Scope Costs. Altisource will not be obligated to provide services as part of the transition off of REALDoc other than all the in-scope transition services identified in the attached Exhibit 2, and Ocwen will not be obligated to pay for Out-of-Scope Costs unless mutually agreed upon by the parties.

b) Altisource will invoice the Costs on a monthly basis, and Ocwen will pay the Costs reflected on such invoice within thirty (30) days following receipt of such invoice. Upon request, Altisource will provide reasonable supporting documentation for the Costs set forth in an invoice.

2) Ocwen's current access rights to the REALDoc technology (including REALDoc Capture, REALDoc Correspondence and REALDoc Vault as those terms are defined in that certain Statement of Work – Imaging, Document Management, and Correspondence Systems dated February 17, 2017 (the "Imaging SOW")) and Altisource's obligations to provide the same pursuant to the TPSAs and Imaging SOW will cease as of the earlier of (1) midnight U.S. Eastern time on [***] or (2) the date on which Ocwen has de-boarded all loans from the REALServicing Technology (the "REALDoc Termination Date"). Beginning on the REALDoc Termination Date and thereafter, Ocwen will be permitted only to access the data stored within REALDoc as provided herein and will not be permitted to add, delete, modify or otherwise change data contained therein, however Ocwen will be permitted to query, view, read, and extract REALDoc system data, reporting and tools (to the extent consistent with access rights in effect as of the date of this Binding Term Sheet and without manipulating or changing any data) (the "REALDoc Limited Access"). Notwithstanding the foregoing, Ocwen may, upon written advance notice, extend the REALDoc Termination Date. The notice must specify the duration of the extension. Ocwen will use reasonable efforts to provide thirty (30) days advance written notice, but Ocwen will provide at least fifteen (15) days advance written notice.

a) Following the REALDoc Termination Date (to the extent not already commenced), Altisource will use commercially reasonable, diligent efforts to deliver to Ocwen the REALDoc Data (as defined in Exhibit 2) within [***] to the extent stored in REALDoc Vault as of the REALDoc Termination Date. The date on which Altisource notifies Ocwen that such REALDoc Data has been delivered to Ocwen will be the "REALDoc Delivery Date." Additionally, without limiting the foregoing, Altisource will use commercially reasonable efforts to provide [***], in each case after considering any Accessible Provided Data (as defined in Exhibit 2) (the "Interim Vault Image Milestones") according to the process in Exhibit 2. Notwithstanding the foregoing, each of the Interim Vault Image Milestones is contingent in all respects on Ocwen ensuring that Altisource has at least five (5) Snowball (as defined in Exhibit 2) devices in Altisource's designated data center at all times beginning on March 8, 2019, with such Snowball devices being procured by Ocwen. For each day that the foregoing sentence is not satisfied, the Interim Vault Image Milestones are each extended by one (1) day.

b) Altisource will maintain the REALDoc Limited Access for [***] following the REALDoc Delivery Date (the "REALDoc Initial Access Period"). During the REALDoc Initial Access Period, Ocwen will use reasonable efforts to evaluate the REALDoc Data to determine whether there is Incomplete REALDoc Data and Ocwen will promptly notify Altisource in writing of Incomplete REALDoc Data, with sufficient specificity for Altisource to validate the existence of Incomplete REALDoc Data, upon discovery.

c) The REALDoc Initial Access Period may be extended beyond the [***] REALDoc Initial Access Period if, prior to the end of the REALDoc Initial Access Period, Ocwen notifies Altisource in writing of any remaining material unremediated Incomplete REALDoc Data with sufficient specificity for Altisource to validate the existence of Incomplete REALDoc Data. If Altisource is able to validate the existence of Incomplete REALDoc Data, Altisource will use commercially reasonable efforts to correct such Incomplete REALDoc Data (with reasonable cooperation from Ocwen in identifying, validating and correcting such Incomplete REALDoc Data) and deliver corrected REALDoc Data to Ocwen. Following such delivery (and within [***] if possible), Ocwen will reevaluate whether Altisource has remediated the Incomplete REALDoc Data and either accept the data or notify Altisource in writing of any unremediated issues. Once Altisource has remediated the Incomplete REALDoc Data, the REALDoc Initial Access Period will end on the day that is [***] following Altisource's delivery of corrected REALDoc Data to Ocwen. Notwithstanding the foregoing, if the REALDoc Initial Access Period is extended beyond [***], the REALDoc End Date will be extended by a period of time equal to the number of days between [***] and the last day of the REALDoc Initial Access Period. Notwithstanding the foregoing, to the extent that it is determined that any Incomplete REALDoc Data is permanently destroyed, lost or otherwise not recoverable, or that continued provision of the REALDoc Limited Access would otherwise not provide Ocwen with access to such Incomplete REALDoc Data ("Unresolved REALDoc Data"), then (i) continued unavailability of such Incomplete REALDoc Data will not cause any further extensions to the REALDoc Initial Access Period, and (ii) the parties may seek to resolve any dispute regarding such Unresolved REALDoc Data under the terms of the TPSAs.

d) Ocwen may extend the period of REALDoc Limited Access for additional periods of time upon written notice provided to Altisource. Ocwen will use reasonable efforts to provide such notice at least fifteen (15) days prior to expiration of the REALDoc Limited Access period, but in no event will such notice be less than seven (7) days prior to such expiration, and will specify the length of the extension (each being a "REALDoc Additional Access Period"); provided that unless otherwise agreed upon by the parties no REALDoc Additional Access Period may continue beyond [***] (except to the extent that the REALDoc Termination Date has been extended pursuant to B.2.) (the "REALDoc End Date"). Notwithstanding the foregoing, if the REALDoc Delivery Date occurs after [***], the

REALDoc End Date will be extended by a period of time equal to the number of days between [***] and the last day of the REALDoc Initial Access Period. Ocwen will pay to Altisource the Costs (excluding any data center costs) incurred (on an uncapped basis) during all REALDoc Additional Access Periods.

e) Following the REALDoc Termination Date, Ocwen will pay to Altisource a monthly access fee (in addition to applicable Costs, if any, and prorated for partial months) as set forth below:

i) Prior to the REALDoc Delivery Date a fee in the amount of [***] per month for up to [***];

ii) During the REALDoc Initial Access Period, a fee in the amount of [***] per month for [***]; and

iii) During REALDoc Additional Access Periods (if any), a fee in the amount of [***] per month; provided, however, that for each day that Altisource is not compliant with the Interim Vault Image Milestones, such fee will be reduced to [***] per month.

f) Following expiration of the REALDoc Initial Access Period (or, if applicable, the last REALDoc Additional Access Period), Altisource will have no responsibility to provide Ocwen with access to REALDoc Technology or any data or to maintain the same on Ocwen's behalf.

2) Ocwen will pay all undisputed amounts due to Altisource as of the REALDoc Termination Date within thirty (30) days of receipt of invoice. The parties will work together in good faith to resolve any disputed amounts for the first sixty (60) days following the REALDoc Termination Date. After such sixty (60) day period, upon request by either party, the parties will promptly submit to binding mediation to resolve any amounts that remain disputed; upon request by either party, binding mediation will also be applied to any disputes involving amounts invoiced after the REALDoc Termination Date which are not resolved within sixty (60) days of the invoice date. Mediator fees will be borne equally by the parties.

Section C. Altisource as Ocwen's Strategic Service Provider

1) After the transition events in Section C.13 have occurred, Altisource will become the Strategic Provider (as defined below) of Standard Services (as defined below) on any and all portfolios, mortgage servicing rights, economic rights in mortgage servicing rights and similar or associated rights (collectively, "Portfolios") for which Ocwen is a Servicer. For purposes of this Section C, "Servicer" means mortgage servicer, subservicer or other party performing tasks typically associated with mortgage servicers or subservicers.

2) As used herein, "Strategic Provider" means that, with respect to referrals for which Ocwen has the right to select the services provider, Altisource will be the provider of each Standard Service for the Portfolios, and with the number of referrals, as described in Section C.6.

3) Referrals relate to all service descriptions referenced in Exhibit 4 (the "Standard Services"). The services within Standard Services constitute the "Services", or individually, a "Service."

4) The following terms are used for identifying the specific Portfolios referenced in this Binding Term Sheet, including in order to determine the number of referrals.

a) "HR Portfolio(s)" means the Portfolios Ocwen acquired, directly or indirectly, through its acquisitions of loan servicing under agreements (I) acquired by Ocwen from the Homeward Residential, Inc. acquisition or (II) assigned to and assumed by Ocwen pursuant to the ResCap Sale Order (which, for the avoidance of doubt, collectively include all Portfolios that Ocwen acquired, directly or indirectly, through its acquisitions of the equity, assets and/or other business rights of Homeward Residential, Inc. (and any affiliates thereof) and Residential Capital, LLC (and any affiliates thereof)).

b) "HRN Portfolio(s)" means the HR Portfolios and the Ocwen-NRZ Portfolios.

c) "Ocwen-NRZ Portfolio(s)" means Portfolios for which any rights thereto or interests therein were acquired from Ocwen, excluding PHH, by New Residential Investment Corp or any affiliates or predecessors in interest thereof (collectively, "NRZ") prior to the date of this Binding Term Sheet.

d) "Other Portfolio(s)" means Portfolios in which Ocwen has an interest or for which Ocwen is a Servicer, including the PHH Portfolios but excluding the HRN Portfolios and any Pending Portfolios.

e) "PHH Portfolio(s)" means Portfolios in which PHH has an interest or for which PHH is a Servicer, but excluding any Portfolios in which Ocwen has an interest or for which Ocwen is a Servicer; provided however that any such Portfolios in which PHH acquired such interest or for which PHH became such a Servicer due to a merger of an Ocwen entity into PHH occurring on or before [***] will not be a PHH Portfolio.

5) The number of referrals will be calculated on a Standard Service-by-Standard Service basis.

6) For each Standard Service, the number of referrals from HRN Portfolios and Other Portfolios where Ocwen has the right to select the Services provider for which Altisource will be the provider on a monthly basis will be equal to or greater than the amount determined by the following calculations:

a) the total number of referrals from the HRN Portfolio for such Standard Service where Ocwen has the right to select the Services provider; ***plus***

b) ninety percent (90%) of the referrals from the Other Portfolios for such Standard Service where Ocwen has the right to select the

Services provider, ***plus***

c) the lesser of

i) the total number of referrals from the HRN Portfolio and the Other Portfolios for such Standard Service, made to a non-Altisource services provider, where Ocwen does not have the right to select the Services provider, and

ii) ten percent (10%) of the referrals from the Other Portfolios for such Standard Service where Ocwen has the right to select the Services provider.

7) Notwithstanding the foregoing, with respect to referrals for which Ocwen has the right to select the Services provider, the actual referrals for which Altisource will be the provider on a monthly basis will include all referrals of Standard Services for the HR Portfolios. Until such time as the transition events in Section C.13. have occurred, Ocwen will continue to use Altisource as the service provider for the Standard Services. Referrals of Standard Services to Altisource will be done in a manner that allocates incoming referrals at random and is intended to (and is reasonably designed to) yield a representative sample of referrals across each Service and all applicable Portfolios in a manner that does not prejudice Altisource in any way.

8) For all Portfolios acquired by Ocwen after the date of this Binding Term Sheet, Ocwen will use commercially reasonable efforts to cause Altisource to be designated as the provider of Standard Services for such Portfolio in accordance with the provisions of Section C.1.

9) Ocwen will not be required to use Altisource as Service provider on a given Portfolio until such Portfolio is boarded onto Ocwen's loan servicing platform (during such status, the Portfolio is a "Pending Portfolio") and such Portfolios will be excluded for purposes of calculating the referrals referenced in Section C.6. For avoidance of doubt, if Ocwen acquires one or more entities or businesses that own Portfolios, Ocwen will use commercially reasonable efforts to provide referrals on such Portfolios in compliance with Section C.1 of this Binding Term Sheet promptly thereafter.

10) To the extent the actual referrals to Altisource in a given calendar month for a given Standard Service from Portfolios identified in Section C.6 are less than required by Section C.6. (each a "Monthly Deficit", and collectively, the "Monthly Deficits"), Ocwen will cause the referrals of such Standard Service to Altisource to be increased in each following month until such Monthly Deficit and any prior outstanding Monthly Deficits are satisfied. To the extent Ocwen is unable to remedy a Monthly Deficit in such immediately subsequent calendar month, Ocwen will use its commercial best efforts to increase the number of referrals for such Standard Service until such time as no cumulative Monthly Deficits remain for such Standard Service in as short a time as possible.

11) For the avoidance of doubt, Ocwen's sale of Portfolios to third parties will not be limited by this Binding Term Sheet in any way. If Ocwen transfers a Portfolio to a third party in a transaction in which Ocwen will remain as a Servicer following the transaction (including, for the avoidance of doubt, as a sub-servicer), to the extent Altisource is performing in compliance with the Services Agreements with respect to a given Standard Service, Ocwen will use commercially reasonable efforts to recommend that Altisource is designated as the provider for such Portfolio for such Standard Service and will ensure that any non-Altisource provider selected for such Portfolio will be subject to the same vendor oversight policies and at least as stringent performance standards as Altisource.

12) Within [***] following the end of each calendar month, Ocwen will accurately calculate and report to Altisource, the Monthly Deficit calculation with respect to each Standard Service. The form of the reporting will be reasonably agreed upon by the parties. As reasonably requested by Altisource (to the extent that such requests would not pose an unreasonable and undue hardship on Ocwen), Ocwen will provide to Altisource written reports to enable it to budget and forecast resources needed to provide the Services.

13) In accordance with the provisions set forth in Section C.1 above, Ocwen will begin using Altisource as the provider of Standard Services for the PHH Portfolios by [***]. Notwithstanding the prior sentence, Ocwen will use commercially reasonable efforts to refer all new Standard Services for REO Sales and Management Services as set forth in the 24th Amendment to the Services Letter under the Services Agreements to Altisource beginning on or before March 1, 2019. Ocwen's obligations set forth in this Section shall be subject to Ocwen's ability to terminate the current service providers for the PHH Portfolios in accordance with the provisions set forth the agreements with such service providers.

For the avoidance of doubt, Section 8 of the Services Agreements pertaining to Altisource's "Right of First Opportunity," will remain in effect.

Section D. Additional Modifications to Applicable Services Agreements

1) Assignments: Ocwen will promptly review and act reasonably to approve requests by Altisource to assign any contracts between the parties (in whole or in part) to (a) Altisource affiliates and (b) one or more third parties in connection with one or more transactions involving (whether by merger, acquisition of equity, acquisition of assets and/or other similar transactions) one or more lines of business, provided that the assignee is able to satisfy the reasonable and applicable vendor qualifications as generally applied by Ocwen without discrimination. In the event a Detailed Agreement has not been executed at the time of the assignment, the assigned contract will be timely amended to include the relevant terms of this Binding Term Sheet. Except as provided in the immediately preceding sentence, such assignments cannot be conditioned upon modifications or amendments to such contract (or related documents), and Ocwen will reasonably and promptly cooperate in the execution of documents necessary to effectuate such assignments or acquisitions. With respect to mortgage charge-off collection Services, this Section D.1 will be further subject to Section D.3 below.

2) Performance standards.

a) Except to the extent otherwise agreed by the parties in the Detailed Agreement or in a subsequent definitive agreement between the parties:

i) [***]

ii) [***]

iii) [***]

b) [***]

c) The Initial Performance Standards and any performance standards in the Detailed Agreement will be subject to periodic revision, as reasonably agreed by the parties in light of investor, GSE, regulatory, and servicing agreement requirements, changing characteristics of properties within the Portfolios, the macroeconomic environment, and industry practices.

d) Commencing with the first calendar month following execution of this Binding Term Sheet, the following termination rights will override the termination rights pertaining to Performance Standards and Critical Performance Standards within the Services Agreements. To the extent Altisource fails any Initial Performance Standard that is (a) a Critical Performance Standard for a period of [***], and Altisource continues to fail such Initial Performance Standard for [***], or (b) a Performance Standard for a period of [***], and Altisource continues to fail such Initial Performance Standard for [***], then Ocwen will be permitted to terminate Altisource as a provider for only such applicable Service(s) [***]. Notwithstanding the foregoing, to the extent Altisource fails any performance standard in any month due to any actions or inactions by Ocwen, or any breach of any of Ocwen's obligations, such performance standard will be deemed not to have failed in such month. For each Service, Altisource will have [***] to cure each corresponding Critical Performance Standard or Performance Standard failure in any [***] period; provided however, Ocwen will reasonably consider agreeing, on a case-by-case basis, to waive repeat failure(s) of any performance standard which in Ocwen's management opinion is [***].

3) Specifically, with respect to mortgage charge-off collection services:

(a) Upon execution of this Binding Term Sheet, the parties will have agreed upon the terms set forth in the NCI Services Agreement with respect to the contemplated sale of the mortgage charge-off collection services to an unrelated third party attached hereto as Exhibit 6, and Ocwen agrees to sign such NCI Services Agreement promptly following Altisource's request.

(b) Notwithstanding anything to the contrary in Section D.1, to the extent Altisource desires to consummate such a sale or substantially similar transaction with another unrelated third party (an "Other Transaction"), Ocwen will comply with the requirements of Section D.1. Provided that such other unrelated third party is able to satisfy the reasonable and applicable vendor qualifications as generally applied by Ocwen without discrimination referenced in Section D.1. Ocwen agrees to sign an agreement substantially similar to such NCI Services Agreement to facilitate such Other Transaction promptly following Altisource's request.

(c) Notwithstanding the foregoing, Sections 2 and 5 of such NCI Services Agreement will be deemed effective upon execution of this Binding Term Sheet regardless of whether such NCI Services Agreement has been executed. Upon execution of the NCI Services Agreement, the NCI Services Agreement will govern the mortgage charge-off collections Services and this Binding Term Sheet will not apply to such Services. Until such time that the NCI Services Agreement is executed, the terms of this Binding Term Sheet will apply to the mortgage charge-off collections Services. Notwithstanding the foregoing, and for the avoidance of doubt, Section 2 of such NCI Services Agreement will control with respect to any conflict with the terms of Section C of this Binding Term Sheet, and the provisions of Section C.1-C.12 of this Binding Term Sheet will not impact Ocwen's obligations or Altisource's rights as to the mortgage charge-off collection services identified on Exhibit 4.

4) Additional changes to the Services Agreements

a) Section 14 of the Services Agreements is deleted in its entirety and replaced with the attached Exhibit 5, but solely with respect to claims arising from referrals received by Altisource on or after the effective date of this Binding Term Sheet. Notwithstanding the foregoing, nothing in this Binding Term Sheet, including the amendment herein to Section 14 of the Services Agreement, shall be deemed to impact, amend or otherwise modify Section 5.7 of the 16th and 17th Amendments to the Services Letters to the Services Agreements.

b) Ocwen will conduct a benchmarking study of pricing and performance standards prior to Altisource providing any services to the NY PHH Portfolio (as defined below) contemplated herein, which services will be charged to New York borrowers or to investors on New York property, as required by the Conditional Approval dated September 27, 2018 issued by the New York Department of Financial Services to Ocwen. Ocwen will use commercially reasonable efforts to initiate such benchmarking study promptly and to complete such study prior to [***]. As used herein, "NY PHH Portfolio" means loans and REO related to New York borrowers or investors on New York properties in those Portfolios serviced by PHH prior to February 1, 2019.

We very much appreciate the constructive dialogue and resolution of the open items set forth in the Binding Term Sheet.

Best regards,

William B. Shepro

Accepted and agreed to by Ocwen Financial Corporation and Ocwen Mortgage Servicing, Inc.

Ocwen Financial Corporation

By: /s/ Scott W. Anderson (Feb 22, 2019)
Name: Scott W. Anderson
Title: EVP, Chief Servicing Officer

Ocwen Mortgage Servicing, Inc.

By: /s/ John P. Kim
Name: John P. Kim
Title: President and Chief Executive Officer

The exhibits listed below have been omitted pursuant to Item 601(a)(5) of Regulation S-K and the Company agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted exhibit upon request.

Exhibit 1 — REALServicing Technology
Exhibit 2 — Technology Transition Services
Exhibit 2A — Ocwen Structured Data List
Exhibit 2B — Ocwen Shared Drives and Sharepoint Data
Exhibit 3 — [Reserved]
Exhibit 4 — List of Services
Exhibit 6 — Nationwide Credit, Inc. Services Agreement

Exhibit 5 to Binding Term Sheet

14. Warranties; Limitation of Liability; Indemnity.

(a) Other than the statements expressly made by the Providing Party in this Agreement or in any SOW on or after the date of the Binding Term Sheet, the Providing Party makes no representation or warranty, express or implied, with respect to the Services and, except as provided in Section 14(b) hereof, the Customer Party hereby waives, releases and renounces all other representations, warranties, obligations and liabilities of the Providing Party, and any other rights, claims and remedies of the Customer Party against the Providing Party, express or implied, arising by law or otherwise, with respect to any nonconformance, durability, error, omission or defect in any of the Services, including (i) any implied warranty of merchantability, fitness for a particular purpose or non- infringement, (ii) any implied warranty arising from course of performance, course of dealing or usage of trade and (iii) any obligation, liability, right, claim or remedy in tort, whether or not arising from the negligence of the Providing Party.

(b) Indemnity from Providing Party to Customer Party. Providing Party shall indemnify, defend, and hold harmless Customer Party, its affiliated companies, and the officers, directors, agents, employees, authorized personnel, authorized users and assigns of each (individually, an “Ocwen Indemnitee”; collectively, the "Ocwen Indemnitees") from and against any and all losses, damages, claims, suits, judgments or expenses of any nature, including without limitation those arising pursuant to any obligation of an Ocwen Indemnitee to indemnify, defend or hold harmless a third party, whatsoever incurred or suffered directly or indirectly, including reasonable attorneys' fees and costs actually incurred (each, an "Ocwen Loss”) by the Ocwen Indemnitees, to the extent the Ocwen Loss arises directly or indirectly from or out of or relating to: (a) negligence, gross negligence or willful misconduct of Providing Party and/or its employees, vendors, subcontractors and/or agents (individually, an “Altisource Party”; together, the “Altisource Parties”) in the performance of the Services under this Agreement or any SOW; (b) any acts by any Altisource Party beyond the scope of its authority under this Agreement or any SOW; (c) any claims or actions whatsoever brought by a Providing Party employee, subcontractor or vendor (or an employee, subcontractor or vendor of any such Providing Party subcontractor or vendor) involved directly or indirectly in the provision of the Services under this Agreement or any SOW; (d) a breach of any Providing Party’s representations, warranties, or obligations under this Agreement or any SOW in connection with performance of the Services under this Agreement or any SOW; (e) a determination by any court, tribunal or agency that an employment relationship has or will be established by the performance of this Agreement or any SOW; (f) any violation of a law, rule, ordinance, guideline, or regulation, as amended from time to time (a “Legal Violation”), by an Altisource Party in the provision of the obligations of the Altisource Parties under this Agreement or any SOW (but specifically excluding any Legal Violation for which such Altisource Party was not permitted to take or was prevented from taking remediative action related thereto); or (g) in connection with performance of the Services in this Agreement or in any SOW, any infringement or violation of privacy right, or the copyright, trademark, patent, trade secret, or other intellectual property rights of a third party.

Without otherwise limiting the obligations of Providing Party pursuant to this Section 14(b), in the event that the use of any deliverable provided by Providing Party under this Agreement or any SOW is enjoined, Providing Party shall (1) procure for Customer Party, at no cost to Customer Party, the right to continue usage of the deliverable, (2) replace or modify the deliverable to make it non-infringing, at no cost to Customer Party, provided that the functionality of the deliverable remains essentially unchanged, or (3) if the right to continue usage cannot be procured for Customer Party or the deliverable cannot reasonably be modified to make it non-infringing, promptly provide Customer Party with a refund of all applicable fees and costs under this Agreement or any SOW attributable to such deliverable.

(c) In no event shall: (i) the amount of damages or losses for which the Providing Party and the Customer Party may be liable under this Agreement exceed the fees due to the Providing Party for the most recent six (6) month period under the applicable Service or SOW(s); provided that if Services have been performed for less than six (6) months, then the damages or losses will be limited to the value of the actual Services performed during such period; or (ii) the aggregate amount of all such damages or losses for which the Providing Party may be liable under this Agreement exceed one million dollars ($1,000,000); provided that no such cap shall apply to liability for damages or losses arising from or relating to breaches of Section 12 (Confidentiality), Section 15(d) (Protection of Consumer Information), infringement of Intellectual Property, or fraud or criminal acts; provided further that the liability caps in this Section 14(c) will not apply to any Ocwen Loss that any Ocwen Indemnitee suffers, incurs or becomes subject to as a result of third party claims, or to any Altisource Loss that any Altisource Indemnitee suffers, incurs or becomes subject to as a result of third party claims. Except as provided in Section 14(b) hereof, none of the Providing Party or any of its Affiliates or any of its or their respective officers, directors, employees, agents, attorneys-in-fact, contractors, or other representatives shall be liable for any action taken or omitted to be taken by, or the negligence, gross negligence, or willful misconduct of, any third party.

(d) Notwithstanding anything to the contrary herein, neither Party nor any of their Affiliates or any of their respective officers, directors, employees, agents, attorneys-in-fact, contractors or other representatives shall be liable for damages or losses to the extent arising from the negligence, gross negligence or willful misconduct of the other Party or any of the other Party's Affiliates.

(e) Indemnity from Customer Party to Providing Party. Customer Party shall indemnify, defend, and hold harmless Providing Party, its affiliated companies, and the officers, directors, agents, employees, authorized personnel, authorized users and assigns of each (the "Altisource Indemnitees"; together, collectively, with the "Ocwen Indemnitees" as the "Indemnitees", or individually, as an "Indemnitee") from and against any and all losses, damages, claims, suits, judgments or expenses of any nature whatsoever incurred or suffered directly or indirectly, including reasonable attorneys' fees and costs actually incurred (each, an "Altisource Loss"; together, collectively, with the Ocwen Losses, as the "Losses", or, individually, as a "Loss"), by the Altisource Indemnitees, to the extent the Altisource Loss arises directly or indirectly from or out of or relating to: (a) the negligence, gross negligence or willful misconduct of Customer Party and/or its employees, vendors, subcontractors and/or agents (individually, an "Ocwen Party"; together, the "Ocwen Parties"; provided that the "Ocwen Party" shall specifically exclude any Altisource Indemnitee or Altisource Party in the provision of any services to Customer Party) in connection with this Agreement or any SOW; or (b) any violation of a law, rule, ordinance, guideline or regulation by an Ocwen Party in connection with this Agreement or any SOW. For the avoidance of doubt and notwithstanding any other terms in this Section 14(e) to the contrary herein, Customer Party will defend Providing Party in relation to Providing Party's provision of trustee Services (except to the extent such arises from Altisource's negligence, willful misconduct or breach of this Agreement or any SOW).

(f) Limitations. The foregoing indemnities shall not be limited by the insurance requirements set forth in this Agreement or in any SOW and shall extend to Losses relating to any event in time on or after the date of the Binding Term Sheet whenever they may arise, so long as, on and after the date of the Binding Term Sheet, notice is provided in accordance with the indemnification procedures described in Section 14(h) below.

(g) Without limiting Section 14(b) hereof, no Party hereto or any of its Affiliates or any of its or their respective officers, directors, employees, agents, attorneys-in-fact, contractors or other representatives shall in any event have any obligation or liability to the other party hereto or any such other person whether arising in contract (including warranty), tort (including active, passive or imputed negligence) or otherwise for consequential, incidental, indirect, special or punitive damages, whether foreseeable or not, arising out of the performance of the Services or this Agreement, including any loss of revenue or profits, even if a Party hereto has been notified about the possibility of such damages; provided, however, that the provisions of this Section 14(g) shall not limit the indemnification obligations hereunder of either party hereto with respect to any liability that the other party hereto may have to any third party not affiliated with any member of the Providing Party's Group or the Customer Party's Group for any incidental, consequential, indirect, special or punitive damages.

(h) Indemnification Procedure. Each Party agrees to give the other Party prompt written notice of any legal claim, demand, right or cause of action asserted for which the Party is seeking indemnification or defense pursuant to Sections 14(b) or 14(e) (a "Claim"); provided, however, any failure by a Party to provide such notice will not relieve the other Party of its indemnification obligations under this Agreement or any SOW except to the extent the other Party is prejudiced as a result of such failure. The indemnifying Party may thereafter assume control of the defense of such Claim, including but not limited to responsibility for retention, management and payment of outside counsel, provided that the indemnified Party shall have the right to participate in the defense or settlement of such Claim, or to retain counsel to defend the interests of the indemnified Party, at its own cost or expense, and further provided that the indemnifying Party may not settle such Claim or consent to any judgment with respect thereto without the written consent of the indemnified Party (which consent may not be unreasonably withheld or delayed). If the indemnifying Party does not assume control of the defense of such Claim, the indemnified Party may defend and/or settle the Claim in such manner as they deem appropriate, at the cost and expense of the indemnifying Party, including payment of any settlement, fine, assessment, judgment or award and the costs (including but not limited to legal fees) of defending or settling the Claim. Each Party shall fully cooperate with the investigation and defense of all matters which may result in a Loss.

Ocwen Financial Corporation
1661 Worthington Road, Suite 100
West Palm Beach, FL 33409

February 22, 2019

Re: Amendment to April 17, 2018 Offer Letter

Dear Glen:

On behalf of Ocwen Financial Corporation ("the Company" or "Ocwen"), I am writing to confirm our agreement regarding a change in your compensation in connection with the Company's ongoing cost re-engineering efforts.

You and the Company hereby agree to modify your compensation as follows:

1. Your annual cash target incentive shall be $1,125,000 (with actual payout to be determined by the Compensation Committee in its discretion based on your performance and the Company's performance for the relevant year); and

2. Your annual long-term incentive equity grant shall be an equity grant with a grant date fair value of $2,250,000.

These changes will apply for the 2019 calendar year going forward. All other terms of your employment remain unchanged.

Ocwen thanks you for your commitment to the Company.

Sincerely,

/s/ <u>Edward G. Moran</u>
Edward G. Moran
Senior Vice President, Human Resources

<u>Acknowledged and Agreed</u>:

/s/ <u>Glen A. Messina</u>
Glen A. Messina

Ocwen Financial Corporation
1661 Worthington Road, Suite 100
West Palm Beach, FL 33409

January 17, 2019

June C. Campbell

Dear June:

On behalf of Ocwen Financial Corporation, we are very excited to confirm our offer of employment to you as Executive Vice President, Chief Financial Officer reporting to the Chief Executive Officer. You are scheduled to start on March 4, 2019 subject to satisfactory completion of all contingencies outlined in this document. The details of your offer are set forth below.

Your compensation package will include a base salary of $425,000 annually, which will be $16,346 payable bi-weekly. This position includes an incentive compensation component with a target of $425,000 (actual payout based on company, business unit and individual performance). You will be eligible to receive incentive compensation beginning the 2019 service year. As an exempt employee, you are ineligible for overtime. All compensation is subject to applicable withholding taxes and deductions and is contingent upon your continued employment.

If you resign your current position at General Electric prior to the payout of your 2018 annual bonus, you will be eligible for a onetime bonus in the amount of $250,000, payable no later than 45 days following your official start date. In the event you resign from your position within the first twelve months following the bonus payment date, you will be required to reimburse the company for the total amount of that bonus.

In addition, and upon approval of the Compensation Committee of the Ocwen Board of Directors, we anticipate that you will be awarded the following, which shall be subject to the terms of Ocwen's 2017 Performance Incentive Plan and the terms of the applicable award agreements:

- $72,000 in Options to purchase Shares of Common Stock – Quantity and Exercise Price to be based on the closing stock price on Grant Date (employment start date) - One-third (1/3) of the Options shall vest on each of the first three anniversaries of the Grant Date

- $53,000 in Restricted Stock Units (RSUs) - Quantity to be based on the closing stock price on Grant Date (employment start date) - 1/3 of the RSUs shall vest on each of the first three anniversaries of the Grant Date

- $125,000 in Performance Restricted Stock Units (Performance RSUs) – Quantity to be based on the closing stock price on Grant Date (employment start date) - the Performance RSUs subject to the grant will vest in accordance with both a Time-Based Vesting Schedule and a Performance-Based Vesting Date. Under the Time-Based Vesting Schedule, twenty-five percent (25%) of the Performance RSUs will vest on each of the first, second, third and fourth anniversaries of the Grant Date. Notwithstanding the foregoing, however, no portion of the Performance RSUs shall be considered vested prior to the Performance-Based Vesting Date. For these purposes, Performance-Based Vesting Date shall mean the first trading day (if any) on or before the fourth anniversary of the Grant Date on which the average of the closing stock price over a period of twenty (20) consecutive trading days equals or exceeds double the closing stock price on the Grant Date (employment start date).

As previously discussed, this position is contingent upon you relocating to West Palm Beach or another location to be determined. When the location is determined and the relocation occurs, the Company will pay the costs of relocating you in accordance with the Company's relocation policy. In the interim, until the permanent location is determined and to accommodate a transition period of up to six months (the "Relocation Transition Period"), the Company will reimburse you for travel and housing expenses in accordance with the Company's Renter Relocation Policy and the relocation policy Addendum which has been provided to you. The Relocation Transition Period may be extended beyond six months based on business needs and approval from the Senior Vice President of Human Resources.

You will be eligible to participate in the Ocwen Benefits Program on the first day of the month following completion of 30 days of continuous full-time employment. The Benefits Program includes medical, dental, vision, group term life, long term disability and accidental death and dismemberment, as well as other voluntary benefits such as term life and dependent life. Eligibility for the company's 401(k) plan will begin after 30 days of service and company match after one year of service. We have enclosed a current summary of benefits and an insurance benefit booklet will be provided at the time of your enrollment.

Furthermore, to offset the cost of medical benefits from your start until Ocwen Coverage begins, Ocwen will reimburse you the difference between the cost of COBRA and your Ocwen withholdings from the first day of employment until the Ocwen coverage begins.

This offer and your acceptance are not to be construed as creating an employment contract for any definite period of time. In this regard, your employment is at-will. This means that just as you are free to leave your employment at any time, Ocwen reserves the right to terminate your employment at any time and for any reason, with or without cause or notice.

This offer and your acceptance are contingent upon our Company completing a satisfactory formal investigation of your background including a review of your employment history, consumer credit report and criminal record as well as speaking to your references and the executive assessment. This letter will also confirm that we will initiate your background investigation immediately.

You will also receive a Pre-Dispute Agreement and an Employee Intellectual Property Agreement for your execution through Adobe Sign. Please complete at your earliest convenience and prior to your assigned start date. If you have any questions, please contact Jose Sanz at jose.sanz@ocwen.com.

We are looking forward to having you work with us at Ocwen and are confident you will find your role challenging and rewarding.

Sincerely,

/s/ Edward G. Moran
Edward G. Moran
Senior Vice President, Human Resources

EXHIBIT 31.1

CERTIFICATIONS

I, Glen A. Messina, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Ocwen Financial Corporation;

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

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

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

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

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

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

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

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

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

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

.

Date: May 7, 2019	/s/ Glen A. Messina
	Glen A. Messina, President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, June C. Campbell, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Ocwen Financial Corporation;

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

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

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

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

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

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

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

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

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

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

Date: May 7, 2019

/s/ June C. Campbell

June C. Campbell, Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATIONS

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

(1) I am the principal executive officer of Ocwen Financial Corporation (the Registrant).

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

- the Quarterly Report on Form 10-Q of the Registrant for the quarter ended March 31, 2019 (the periodic report) containing financial statements fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

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

Name:	/s/ Glen A. Messina
Title:	President and Chief Executive Officer
Date:	May 7, 2019

EXHIBIT 32.2

CERTIFICATIONS

I, June C. Campbell, state and attest that:

(1) I am the principal financial officer of Ocwen Financial Corporation (the Registrant).

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

- the Quarterly Report on Form 10-Q of the Registrant for the quarter ended March 31, 2019 (the periodic report) containing financial statements fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

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

Name:	/s/ June C. Campbell
Title:	Executive Vice President and Chief Financial Officer
Date:	May 7, 2019