AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 5, 1997

REGISTRATION NO. 333-28895

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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# PRE-EFFECTIVE AMENDMENT NO. 2 TO FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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OCWEN FINANCIAL CORPORATION
(Exact name of registrant as specified in its articles of incorporation)

| FLORIDA | 6035 | 65-0039856 |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

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THE FORUM, SUITE 1000
1675 PALM BEACH LAKES BLVD.
WEST PALM BEACH, FLORIDA 33401
(561) 681-8000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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WILLIAM C. ERBEY
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
OCWEN FINANCIAL CORPORATION
THE FORUM, SUITE 1000
1675 PALM BEACH LAKES BLVD.
WEST PALM BEACH, FLORIDA 33401
(561) 681-8000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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COPIES TO:

| | |
|---|---|
| RAYMOND A. TIERNAN, ESQ. | LEE MEYERSON, ESQ. |
| GERARD L. HAWKINS, ESQ. | SIMPSON THACHER & BARTLETT |
| ELIAS, MATZ, TIERNAN & HERRICK L.L.P. | 425 LEXINGTON AVENUE |
| 734 15TH STREET, N.W. | NEW YORK, NEW YORK 10017-3955 |
| WASHINGTON, D.C. 20005 | (212) 455-2000 |
| (202) 347-0300 | |

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. / /

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

## EXPLANATORY NOTE

This Registration Statement contains two separate prospectuses. The first prospectus relates to a public offering of shares of Common Stock in the United States and Canada (the "U.S. Offering"). The second prospectus relates to a concurrent offering of shares of Common Stock outside the United States and Canada (the "International Offering"). The prospectuses for the U.S. Offering and the International Offering will be identical with the exception of the outside front cover and outside back cover pages of the prospectus for the International Offering. Such alternative pages appear in this Registration Statement immediately following the complete prospectus for the U.S. Offering and are labeled "Alternate Pages for International Offering Prospectus."

SUBJECT TO COMPLETION, DATED AUGUST 5, 1997

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

PROSPECTUS

3,000,000 SHARES

[LOGO]

# OCWEN FINANCIAL CORPORATION
## COMMON STOCK

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The 3,000,000 shares of common stock, par value $0.01 per share (the "Common Stock"), offered hereby are newly-issued shares of Ocwen Financial Corporation (the "Company"). Of the 3,000,000 shares being offered hereby, shares are being offered initially in the United States and Canada by the U.S. Underwriters (the "U.S. Offering") and shares are being offered initially outside the United States and Canada by the International Managers (the "International Offering" and, together with the U.S. Offering, the "Common Stock Offering"). The initial public offering price and underwriting discounts and commissions will be identical for both offerings. See "Underwriting."

The Common Stock is listed on the New York Stock Exchange ("NYSE") under the symbol "OCN." On August 4, 1997, the last reported sales price for the Common Stock on the NYSE was $41.625 per share.

Concurrently with the Common Stock Offering, Ocwen Capital Trust I (the "Trust"), a Delaware business trust and subsidiary of the Company, is offering $125 million of its Capital Securities (the "Capital Securities") in an underwritten public offering (the "Capital Securities Offering" and, together with the Common Stock Offering, the "Offerings"). The shares of Common Stock offered hereby and the Capital Securities offered by the Trust are being offered separately and not as units. The Common Stock Offering is not conditioned upon consummation of the Capital Securities Offering. See "Description of Capital Securities Offering."

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THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 14 HEREOF FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED CAREFULLY BY PROSPECTIVE PURCHASERS OF THE COMMON STOCK OFFERED HEREBY.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY SUCH STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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THE SECURITIES OFFERED HEREBY ARE NOT SAVINGS ACCOUNTS OR SAVINGS DEPOSITS AND ARE NOT INSURED OR GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY.

| | PRICE TO PUBLIC | UNDERWRITING DISCOUNTS AND COMMISSIONS(1) | PROCEEDS TO COMPANY(2) |
|---|---|---|---|
| Per Share........................................ | $ | $ | $ |
| Total(3)......................................... | $ | $ | $ |

(1) The Company has agreed to indemnify the U.S. Underwriters and International Managers (together, the "Common Stock Underwriters") against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(2) Before deducting offering expenses payable by the Company, estimated at $600,000.

(3) The Company has granted the U.S. Underwriters a 30-day option to purchase up to an additional shares of Common Stock on the same terms and conditions set forth above to cover over-allotments, if any. The Company has granted the International Managers a similar option to purchase up to an additional shares of Common Stock to cover over-allotments, if any. If all such shares of Common Stock are purchased, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be $ , $ and $ , respectively. See "Underwriting."

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The shares of Common Stock offered by this Prospectus are offered by the U.S. Underwriters subject to prior sale, to withdrawal or cancellation of the offer without notice, to delivery to and acceptance by the U.S. Underwriters and to certain further conditions. It is expected that delivery of certificates for the shares of Common Stock will be made at the offices of Lehman Brothers Inc., New York, New York, on or about August , 1997.

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LEHMAN BROTHERS

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.

MORGAN STANLEY DEAN WITTER

August , 1997

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK. SUCH TRANSACTIONS MAY INCLUDE THE PURCHASE OF SHARES OF COMMON STOCK FOLLOWING THE PRICING OF THE OFFERING TO COVER A SYNDICATE SHORT POSITION IN THE COMMON STOCK OR FOR THE PURPOSE OF MAINTAINING THE PRICE OF THE COMMON STOCK. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

## AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith, files reports, proxy statements and other information with the Securities and Exchange Commission ("Commission"). Reports, proxy statements and other information concerning the Company can be inspected and copied at prescribed rates at the Commission's Public Reference Room, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, as well as the following Regional Offices of the Commission: 7 World Trade Center, 13th Floor, New York, New York 10048; and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material may be obtained by mail from the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Such reports and other information also may be accessed through the Commission's electronic data gathering, analysis and retrieval system ("EDGAR") via electronic means, including the Commission's web site on the Internet (http:// www.sec.gov). The Common Stock is listed on the NYSE and, as a result, such reports, proxy statements and other information also may be inspected at the offices of the NYSE, 20 Broad Street, New York 10005.

This Prospectus constitutes a part of a Registration Statement on Form S-1 filed by the company with the Commission under the Securities Act of 1933, as amended (the "Securities Act"), in connection with the Common Stock Offering. This Prospectus does not contain all of the information set forth in the Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission, and reference is hereby made to the Registration Statement and to the exhibits thereto for further information with respect to the Company and the Common Stock. The Company also has filed a Registration Statement on Form S-1 with the Commission under the Securities Act in connection with the Capital Securities Offering. Reference is made to such Registration Statement and to the exhibits thereto for further information with respect to the Capital Securities Offering. The foregoing Registration Statements can be inspected and copied at prescribed rates at the Commission, or accessed via EDGAR, in the manner set forth above.

## SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY, AND SHOULD BE READ IN CONJUNCTION WITH, THE MORE DETAILED INFORMATION, RISK FACTORS AND FINANCIAL STATEMENTS, INCLUDING THE RELATED NOTES, APPEARING ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, ALL INFORMATION IN THIS PROSPECTUS ASSUMES (I) NO EXERCISE OF OUTSTANDING EMPLOYEE STOCK OPTIONS TO PURCHASE AN AGGREGATE OF 689,477 SHARES OF COMMON STOCK AS OF MARCH 31, 1997 AND (II) THE OVER-ALLOTMENT OPTIONS GRANTED TO THE COMMON STOCK UNDERWRITERS HAVE NOT BEEN EXERCISED.

## THE COMPANY

### GENERAL

The Company is a specialty financial services company which is engaged, on a nationwide basis, primarily in the business of acquiring, servicing and resolving non-performing and underperforming single and multi-family residential and commercial real estate loans and in selected mortgage lending activities involving servicing-intensive loan products. Since commencing its loan resolution activities in mid-1991, the Company has acquired over $3.81 billion gross principal amount of distressed loans and currently ranks (based on 1996 loan acquisition volume) as the largest purchaser of domestic distressed residential and commercial real estate loan portfolios in the United States. During the past year, the Company also has begun servicing distressed mortgage loans for others on a fee basis. The Company believes that it is currently the leading servicer of distressed mortgage loans in the United States with a servicing portfolio of 38,670 loans aggregating approximately $2.59 billion in gross principal amount at March 31, 1997 (including loans serviced for the Company's joint ventures).

The Company's operations are based on the intensive use of technology and proprietary information systems to acquire, manage and resolve distressed assets and other servicing-intensive mortgage products on the most efficient basis possible. The Company began its focus in this area in the early 1990s through the acquisition and resolution of loan portfolios of troubled financial institutions. The Company believes that its specialized focus and investment in technology infrastructure has enabled it to become one of the most efficient servicers of distressed mortgage assets in the industry. Currently, the Company is one of only five special servicers of commercial mortgage loans to have received a rating of "strong" from Standard & Poor's Ratings Services ("Standard & Poor's"). In addition, the Company is rated a Tier 1 servicer and as a preferred servicer for high-risk mortgages by the Federal Home Loan Mortgage Corporation ("FHLMC"), the highest rating categories.

The Company's business is conducted primarily through its wholly-owned subsidiary, Ocwen Federal Bank FSB (the "Bank"), which operates through a single branch. Through the Bank the Company is able to access a diversified base of funding sources and maintain high levels of available liquidity. The Company's primary funding comes from brokered certificates of deposit obtained through national and regional investment banking firms and, to a lesser extent, from direct solicitations by the Company, as well as from Federal Home Loan Bank ("FHLB") advances, reverse repurchase agreements and asset securitizations (which have totaled over $1 billion since 1993). The Company believes that these non-branch dependent funding sources provide it with effective asset/liability management tools and have an effective cost that is more attractive than deposits obtained through a branch network after the general and administrative costs associated with operating a branch network are taken into account.

### RECENT OPERATING RESULTS

As the Company's specialized businesses have grown in recent years, its profitability has increased substantially. The Company's core earnings (representing income from continuing operations exclusive of the one-time assessment to recapitalize the Savings Association Insurance Fund ("SAIF") in 1996 and gains from the sale of branch offices in 1995 and 1994, net of related income taxes and profit sharing expense) increased from $24.0 million in 1994 to $54.1 million in 1996 and to $17.0 million in the first quarter of 1997. During this period, the Company's return on average assets increased from 1.40% to 2.61% and its return on average equity increased from 20.06% to 32.05% (in each case based on core earnings). The Company's specialized focus, its emphasis on technology and automated systems and the economies of scale it has been able to achieve also have enabled it to operate at a high level of efficiency: the Company's efficiency ratio based on core earnings improved from 64.1% in 1994 to 41.3% and 42.8% during 1996 and the first quarter of 1997, respectively. At March 31, 1997, the Company had total assets of $2.65 billion, total deposits of $2.11 billion and stockholders' equity of $225.2 million.

STRATEGY

The Company believes that the current trend toward the sale or outsourcing of servicing by financial institutions and government agencies of non-performing and underperforming loans will continue to grow, particularly in the event that credit quality for some product lines (such as subprime mortgage loans) deteriorates, and that the Company will be uniquely positioned to take advantage of this growth. The Company's strategy also focuses on leveraging its technology infrastructure and core expertise to expand its activities into related business lines both for itself and on a fee basis for others. Pursuant to this strategy, the Company has, among other things, recently formed a new corporation, Ocwen Asset Investment Corp. ("OAIC"), which is managed by Ocwen Capital Corporation ("OCC"), a newly-formed, wholly-owned subsidiary of the Company, and which elected to be taxed as a real estate investment trust ("REIT") for federal income tax purposes. In May 1997, OAIC successfully completed an initial public offering of its common stock, which resulted in estimated net proceeds of $283.8 million (inclusive of the amount contributed by the Company for its shares). Currently, the Company owns approximately 9.8% of the outstanding common stock of OAIC and has a warrant to purchase an additional 10% of OAIC's common stock.

BUSINESS ACTIVITIES

The Company considers itself to be involved in a single business segment of providing financial services and conducts a wide variety of business within this segment. The Company's primary business activities currently consist of discounted loan acquisition and resolution, multi-family residential and commercial real estate lending, sub-prime single-family residential real estate lending and special servicing of mortgage loans for others.

DISCOUNTED LOAN ACQUISITION AND RESOLUTION. The Company has established a core expertise in the acquisition and resolution of non-performing or underperforming single-family residential, multi-family residential and commercial real estate loans, which generally are purchased at a discount to both the unpaid principal amount of the loan and the estimated value of the security property ("discounted loans"). The Company acquires discounted loans from a wide variety of sources in the private sector and governmental agencies such as the U.S. Department of Housing and Urban Development ("HUD") and, to a lesser extent, the Federal Deposit Insurance Corporation ("FDIC"). The Company believes that its experience in the acquisition and resolution of discounted loans, its investment in a state-of-the-art computer infrastructure and related technology which is utilized in this business and its national reputation and nationwide presence in this area make it one of the leaders in this relatively new and evolving business. Between commencing these activities in mid-1991 and March 31, 1997, the Company has acquired over $3.81 billion of gross principal amount of discounted loans. In addition, in 1996, BCBF, L.L.C. ("LLC"), a joint venture which is 50% owned by the Company, acquired discounted single-family residential loans having an aggregate unpaid principal balance of $741.2 million from the Federal Housing Administration ("FHA"), a division of HUD. At March 31, 1997, the Company's discounted loan acquisition and resolution activities were comprised of its discounted loan portfolio, which amounted to $1.28 billion (net of $264.6 million of unaccreted discount and a $16.8 million allowance for loan losses), $96.4 million of real estate owned related to discounted loans and a $32.3 million net investment in LLC, which in the aggregate amounted to $1.41 billion or 53.2% of the Company's total assets.

MULTI-FAMILY RESIDENTIAL AND COMMERCIAL REAL ESTATE LENDING. The Company's lending activities emphasize loans secured by multi-family residential and commercial real estate located nationwide. Recently, the Company transferred the operations associated with its large multi-family residential and commercial real estate lending activities (which generally involve loans with balances in excess of $3.0 million) from the Bank to OCC. In conducting multi-family residential and commercial real estate lending activities, the Company generally seeks to emphasize types of loans and/or lending in geographic areas which, for various reasons, may not be currently emphasized by other lenders and which thus offer attractive returns to the Company relative to other investments. The loans currently emphasized by the Company include loans secured by existing hotels and office buildings, as well as loans for the construction and rehabilitation of hotels and multi-family residential properties. At March 31, 1997, the Company's multi-family residential and commercial real estate loans aggregated $347.1 million, net, or 13.1% of the Company's total assets. The Company also utilizes its multi-family residential lending and other expertise to make investments in low-income housing tax credit partnerships which own projects which have been allocated tax credits under the Internal Revenue Code of 1986, as amended (the "Code"). Such investments amounted to $99.9 million or 3.8% of the Company's total assets at March 31, 1997.

SUBPRIME SINGLE-FAMILY RESIDENTIAL LENDING. During 1995, the Company established a program which focuses on the origination or purchase on a nationwide basis of single-family residential loans made to borrowers who have substantial equity in the properties which secure the loans but who, because of prior credit problems, the absence of a credit history or other factors, are unable or unwilling to qualify as borrowers under federal agency guidelines ("sub-prime loans"). The Company utilizes the expertise, technology and other resources which it has developed in connection with the acquisition and resolution of discounted loans in conducting these activities, and believes that the higher risk of default generally associated with these loans, as compared to loans which conform to the requirements established by federal agencies in order to acquire loans, is more than offset by the higher yields on these loans and the higher amount of equity which the borrowers have in the properties which secure these loans. Between commencing these activities in late 1994 and March 31, 1997, the Company purchased or originated an aggregate of $598.8 million of sub-prime single-family residential loans. Recently, the Company consolidated its sub-prime single-family residential lending operations within Ocwen Financial Services, Inc. ("OFS"), a newly-formed, 80% owned subsidiary of the Company which acquired substantially all of the assets of Admiral Home Loan ("Admiral"), the Company's primary correspondent mortgage banking firm for sub-prime single-family residential loans, in a transaction which closed on May 1, 1997. See "Business--Subsidiaries." OFS currently maintains 17 loan production offices in six states and plans on opening an additional 10 such offices in 1997. The Company classifies its sub-prime single-family residential loans as available for sale because, subject to market conditions, it generally intends to sell such loans or to securitize such loans and sell substantially all of the securities backed by such loans. The Company realized gains of $2.7 million and $7.8 million from the sale of sub-prime single-family residential loans or securities resulting from the securitization of such loans during the three months ended March 31, 1997 and the year ended December 31, 1996, respectively. At March 31, 1997, the Company's sub-prime single-family residential loans amounted to $76.1 million or 2.9% of the Company's total assets.

SPECIAL SERVICING OF MORTGAGE LOANS FOR OTHERS. The Company has developed a program to provide loan servicing, including asset management and resolution services, to third party owners of non-performing, underperforming and subprime assets. The amount of loans serviced by the Company for others increased from $361.6 million at December 31, 1995 to $1.92 billion at December 31, 1996 and to $2.59 billion at March 31, 1997. These increases have resulted in servicing fees and other charges, which consist primarily of loan servicing and related fees, increasing from $2.9 million during 1995 to $4.7 million during 1996 and to $5.2 million during the three months ended March 31, 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations-Non-interest Income" and "Business--Loan Servicing Activities."

## THE COMMON STOCK OFFERING

| | |
|---|---|
| Common Stock offered................ | 3,000,000 shares (plus up to 450,000 shares pursuant to the Common Stock Underwriters' over-allotment options). See "Underwriting." |
| Common Stock outstanding after the Common Stock Offering............... | 29,802,610 |
| NYSE symbol......................... | OCN |
| Dividend policy..................... | The Company has no current intention to pay cash dividends on the Common Stock. See "Dividend Policy." |
| Use of proceeds..................... | The estimated $ of net proceeds from the Common Stock Offering (as well as the estimated $ of net proceeds from the Capital Securities Offering) will be used by the Company primarily to fund discounted loan acquisition and other lending and investment activities which are currently conducted by the Company through non-banking subsidiaries of the Company and the Bank and to develop related businesses. In addition, a portion of the net proceeds from the Offerings also could be used to acquire other businesses, including other financial institutions, mortgage banking companies, particularly those which are engaged in sub-prime single-family residential lending activities, and companies which have software or other technology which would enhance the Company's ability to conduct loan servicing and other activities. Although the Company evaluates potential acquisition opportunities from time to time, currently there are no agreements, arrangements or understandings with regard to any such transaction. |

## THE CAPITAL SECURITIES OFFERING

Concurrently with the Common Stock Offering, the Trust is offering $125 million of Capital Securities. The Trust exists for the exclusive purposes of issuing the Capital Securities and common securities and investing the proceeds thereof in % Junior Subordinated Debentures (the "Junior Subordinated Debentures") to be issued by the Company and certain limited related activities. The Junior Subordinated Debentures will mature on , 2027. Holders of the Capital Securities will be entitled to receive cumulative cash distributions arising from the payment of interest on the Junior Subordinated Debentures, accruing from the date of original issuance and payable semi-annually in arrears on and of each year, commencing , 1997, at the annual rate of % of the liquidation amount of $1,000 per Capital Security. The shares of Common Stock offered hereby and the Capital Securities offered by the Trust are being offered separately and not as units. The Common Stock Offering is not conditioned upon consummation of the Capital Securities Offering (although the latter is conditioned upon consummation of the former). For information regarding the anticipated use of proceeds by the Company from the Capital Securities Offering and the Trust's investment of the proceeds therefrom in Junior Subordinated Debentures, see "Use of Proceeds," and for information regarding the Capital Securities generally, see "Description of Capital Securities Offering."

## RISK FACTORS

See "Risk Factors" for a discussion of certain factors that should be considered carefully by prospective purchasers of shares of Common Stock.

SUMMARY SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The following tables present selected consolidated financial and other data of the Company at the dates and for the periods indicated. The historical operations and balance sheet data at and for the years ended December 31, 1996, 1995, 1994, 1993 and 1992 have been derived from consolidated financial statements audited by Price Waterhouse LLP, independent certified public accountants. The historical operations and balance sheet data at and for the three months ended March 31, 1997 and 1996 have been derived from unaudited consolidated financial statements and include all adjustments, consisting only of normal recurring accruals, which the Company considers necessary for a fair presentation of the Company's results of operations for these periods. Operating results for the three months ended March 31, 1997 are not necessarily indicative of the results that may be expected for any other interim period or the entire year ending December 31, 1997. The selected consolidated financial and other data should be read in conjunction with, and is qualified in its entirety by reference to, the information in the Consolidated Financial Statements and related notes set forth elsewhere herein.

| | THREE MONTHS ENDED MARCH 31, | | YEAR ENDED DECEMBER 31, | | | |
|---|---|---|---|---|---|---|
| | 1997 | 1996 | 1996 | 1995(1) | 1994(1) | 1993(2) |
| OPERATIONS DATA: | | | | | | |
| Interest income | $ 54,527 | $ 47,956 | $ 193,894 | $ 137,275 | $ 131,458 | $ 78,923 |
| Interest expense | 37,164 | 28,132 | 116,160 | 84,060 | 62,598 | 35,306 |
| Net interest income | 17,363 | 19,824 | 77,734 | 53,215 | 68,860 | 43,617 |
| Provision for loan losses (3) | 9,742 | 9,407 | 22,450 | 1,121 | -- | -- |
| Net interest income after provision for loan losses | 7,621 | 10,417 | 55,284 | 52,094 | 68,860 | 43,617 |
| Gains on sales of interest-earning assets, net | 16,778 | 5,017 | 21,682 | 6,955 | 5,727 | 8,386 |
| Gain on sale of branch offices | -- | -- | -- | 5,430 | 62,600 | -- |
| Income (loss) on real estate owned, net | (794) | (1,916) | 3,827 | 9,540 | 5,995 | (1,158) |
| Fees on financing transactions (4) | -- | -- | -- | -- | -- | 15,340 |
| Other non-interest income | 5,367 | 191 | 11,766 | 9,255 | 7,253 | 13,304 |
| Total non-interest income | 21,351 | 3,292 | 37,275 | 31,180 | 81,575 | 35,872 |
| Non-interest expenses | 22,697 | 11,683 | 69,578 | 45,573 | 68,858 | 41,859 |
| Equity in earnings of investment in joint ventures(5) | 14,372 | -- | 38,320 | -- | -- | -- |
| Income from continuing operations before income taxes | 20,647 | 2,026 | 61,301 | 37,701 | 81,577 | 37,630 |
| Income tax expense (benefit) | 3,606 | (1,003) | 11,159 | 4,562 | 29,724 | 10,325 |
| Income from continuing operations | 17,041 | 3,029 | 50,142 | 33,139 | 51,853 | 27,305 |
| Discontinued operations (6) | -- | -- | -- | (7,672) | (4,514) | (2,270) |
| Extraordinary gains | -- | -- | -- | -- | -- | 1,538 |
| Cumulative effect of a change in accounting principle | -- | -- | -- | -- | -- | (1,341) |
| Net income | $ 17,041 | $ 3,029 | $ 50,142 | $ 25,467 | $ 47,339 | $ 25,232 |
| Income per share: | | | | | | |
| Continuing operations | $ 0.63 | $ 0.11 | $ 1.88 | $ 1.19 | $ 1.52 | $ 0.80 |
| Net income | $ 0.63 | $ 0.11 | $ 1.88 | $ 0.91 | $ 1.39 | $ 0.73 |

| | 1992 |
|---|---|
| OPERATIONS DATA: | |
| Interest income | $ 71,723 |
| Interest expense | 28,148 |
| Net interest income | 43,575 |
| Provision for loan losses (3) | -- |
| Net interest income after provision for loan losses | 43,575 |
| Gains on sales of interest-earning assets, net | 8,842 |
| Gain on sale of branch offices | -- |
| Income (loss) on real estate owned, net | 1,050 |
| Fees on financing transactions (4) | 6,760 |
| Other non-interest income | 8,130 |
| Total non-interest income | 24,782 |
| Non-interest expenses | 32,468 |

| | |
|---|---|
| Equity in earnings of investment in joint ventures(5) | -- |
| Income from continuing operations before income taxes | 35,889 |
| Income tax expense (benefit) | 11,552 |
| Income from continuing operations | 24,337 |
| Discontinued operations (6) | (1,946) |
| Extraordinary gains | 2,963 |
| Cumulative effect of a change in accounting principle | -- |
| Net income | $ 25,354 |
| Income per share: | |
| Continuing operations | $ 0.68 |
| Net income | $ 0.71 |

| | MARCH 31, 1997 | DECEMBER 31, 1996 | 1995(1) | 1994(1) | 1993(2) | 1992 |
|---|---|---|---|---|---|---|
| BALANCE SHEET DATA: | | | | | | |
| Total assets | $ 2,649,471 | $ 2,483,685 | $ 1,973,590 | $ 1,226,403 | $ 1,396,677 | $833,117 |
| Securities available for sale (7) | 348,066 | 354,005 | 337,480 | 187,717 | 527,183 | 340,404 |
| Loans available for sale (7)(8) | 88,511 | 126,366 | 251,790 | 102,293 | 101,066 | 754 |
| Investment securities, net | 11,201 | 8,901 | 18,665 | 17,011 | 32,568 | 30,510 |
| Mortgage-related securities held for investment, net | -- | -- | -- | 91,917 | 121,550 | 114,046 |
| Loan portfolio, net (8) | 422,232 | 402,582 | 295,605 | 57,045 | 88,288 | 41,015 |
| Discounted loan portfolio (8) | 1,280,972 | 1,060,953 | 669,771 | 529,460 | 303,634 | 213,038 |
| Investment in low-income housing tax credit interests | 99,924 | 93,309 | 81,362 | 49,442 | 16,203 | -- |
| Real estate owned, net (9) | 98,466 | 103,704 | 166,556 | 96,667 | 33,497 | 4,710 |
| Investment in joint ventures, net (5) | 33,367 | 67,909 | -- | -- | -- | -- |
| Excess of cost over net assets acquired, net | -- | -- | -- | -- | 10,467 | 11,825 |
| Deposits | 2,106,829 | 1,919,742 | 1,501,646 | 1,023,268 | 871,879 | 339,622 |
| Borrowings and other interest-bearing obligations | 265,196 | 300,518 | 272,214 | 25,510 | 373,792 | 361,799 |
| Stockholders' equity | 225,156 | 203,596 | 139,547(10) | 153,383 | 111,831 | 94,396 |

| OTHER DATA (11): | AT OR FOR THE THREE MONTHS ENDED MARCH 31, 1997 | 1996 | AT OR FOR THE YEAR ENDED DECEMBER 31, 1996 | 1995(1) | 1994(1) | 1993(2) | 1992 |
|---|---|---|---|---|---|---|---|
| Average assets(12) | $2,607,854 | $1,956,202 | $2,013,283 | $1,521,368 | $1,714,953 | $1,152,655 | $712,542 |
| Average equity | 212,706 | 141,374 | 161,332 | 121,291 | 119,500 | 97,895 | 82,460 |
| Return on average assets (12)(13): | | | | | | | |
| Income from continuing operations | 2.61% | 0.62% | 2.35% | 2.18% | 3.02% | 2.37% | 3.42% |
| Net income | 2.61 | 0.62 | 2.35 | 1.67 | 2.76 | 2.19 | 3.56 |
| Return on average equity (13): | | | | | | | |
| Income from continuing operations | 32.05 | 8.57 | 31.08 | 27.32 | 43.39 | 27.89 | 29.51 |
| Net income | 32.05 | 8.57 | 31.08 | 21.00 | 39.61 | 25.77 | 30.75 |
| Average equity to average assets(12) | 8.16 | 7.23 | 8.01 | 7.97 | 6.97 | 8.49 | 11.57 |
| Net interest spread | 3.48 | 5.30 | 5.46 | 5.25 | 4.86 | 4.05 | 4.66 |
| Net interest margin | 3.20 | 4.89 | 4.84 | 4.54 | 4.75 | 4.30 | 6.06 |
| Efficiency ratio (14) | 42.76 | 50.54 | 45.38 | 54.00 | 45.77 | 52.66 | 47.50 |
| Non-performing loans to loans at end of period (15) | 2.15 | 1.16 | 0.56 | 1.27 | 4.35 | 3.71 | 8.32 |
| Allowance for losses on loans to loans at end of period | 1.13 | 0.94 | 0.87 | 0.65 | 1.84 | 0.99 | 1.80 |
| Allowance for losses on discounted loans to discounted loans at end of period | 1.30 | 1.26 | 1.08 | -- | -- | -- | -- |
| Bank regulatory capital ratios at end of period: | | | | | | | |
| Tangible | 9.48 | 6.99 | 9.33 | 6.52 | 11.28 | 5.25 | 6.94 |
| Core (Leverage) | 9.48 | 6.99 | 9.33 | 6.52 | 11.28 | 6.00 | 6.94 |
| Risk-based | 13.22 | 11.41 | 12.85 | 11.80 | 14.74 | 13.31 | 21.29 |

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(1) Financial data at December 31, 1995 and 1994 reflects the Company's sale of two and twenty-three branch offices which resulted in the transfer of deposits of $111.7 million and $909.3 million, respectively, and resulted in a gain on sale of $5.4 million and $62.6 million during 1995 and 1994, respectively. Operations data for 1995 and 1994 reflects the gains from these transactions. Exclusive of these gains and related income taxes and profit sharing expense, the Company's income from continuing operations would have been $30.3 million and $24.0 million during 1995 and 1994, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations."

(2) Balance sheet data at December 31, 1993 reflects the merger of Berkeley Federal Savings Bank ("Old Berkeley") into the Bank on June 3, 1993, and operations data for the year ended December 31, 1993 reflects the operations of Old Berkeley from the date of merger. This transaction was accounted for using the purchase method of accounting.

(3) The provision for loan losses in the three months ended March 31, 1997 and 1996 and the year ended December 31, 1996 consists primarily of $8.4 million, $8.7 million and $20.6 million related to the Company's discounted loan portfolio, respectively. Beginning in the first quarter of 1996, the Company began recording general valuation allowances on discounted loans. See "Management Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Provision for Loan Losses."

(4) Represents a portion of the amounts paid to the Company in connection with the Company's acquisition of certain mortgage-related securities which generate taxable income in the first several years of the instrument's life and tax losses of an equal amount thereafter, but have minimal or no cash flows. Commencing in 1994, such amounts are deferred and recognized in interest income on a level yield basis over the expected life of that portion of the deferred tax asset which relates to tax residuals.

(5) Relates primarily to the Company's investment in LLC, a joint venture formed to acquire loans from HUD. At March 31, 1997 and December 31, 1996, the net discounted loans held by such joint venture amounted to $48.6 million and $110.7 million, respectively. All of such loans are classified as available for sale. See "Business--Investment in Joint Ventures."

(6) In September 1995 the Company announced its decision to dispose of its automated banking division, which was substantially complete at December 31, 1995. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Discontinued Operations" and Note 3 to the Consolidated Financial Statements.

(7) Securities available for sale were carried at market value at March 31, 1997 and December 31, 1996, 1995, 1994 and 1993 and amortized cost at December 31, 1992. Loans available for sale are carried at the lower of cost or market value.

(8) The discounted loan portfolio consists of mortgage loans purchased at a discount to the unpaid debt, most of which were non-performing or under-performing at the date of acquisition. The loan portfolio and loans available for sale consist of other loans which were originated or purchased by the Company for investment or for potential sale, respectively. See "Business-- Discounted Loan Acquisition and Resolution Activities" and "--Lending Activities," respectively. Data related to discounted loans does not include discounted loans held by LLC.

(9) Real estate owned consists of properties acquired by foreclosure or by deed-in-lieu thereof on loans and is primarily attributable to the Company's discounted loan acquisition and resolution business.

(10) Reflects the Company's repurchase of 8,815,060 shares of Common Stock during 1995 for an aggregate of $42.0 million.

(11) Ratios for periods subsequent to 1992 are based on average daily balances during the periods and ratios for 1992 are based on month-end balances.

Ratios for the three months ended March 31, 1997 and 1996 are annualized where appropriate.

(12) Includes the Company's pro rata share of the average assets held by LLC.

(13) Exclusive of a one-time assessment to recapitalize the SAIF in 1996 and gains from the sale of branch offices in 1995 and 1994 and related income taxes and profit sharing expense, (i) return on average assets on income from continuing operations amounted to 2.54%, 2.00% and 1.40% during 1996, 1995 and 1994, respectively, and (ii) return on average equity on income from continuing operations amounted to 33.35%, 25.02% and 20.06% during 1996, 1995 and 1994, respectively.

(14) The efficiency ratio represents non-interest expense divided by the sum of net interest income before provision for loan losses, non-interest income and equity in earnings of investment in joint venture. Exclusive of the SAIF assessment in 1996 and gains from the sales of branch offices in 1995 and 1994 and related income taxes and profit sharing expense, the efficiency ratio amounted to 41.33%, 56.34% and 64.14% during 1996, 1995 and 1994, respectively.

(15) Non-performing loans and total loans do not include loans in the Company's discounted loan portfolio or loans available for sale.

## SUMMARY OF RECENT DEVELOPMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The following tables present selected consolidated financial and other data of the Company at the dates and for the periods indicated. The historical operations and balance sheet data at and for the three and six months ended June 30, 1997 and 1996 have been derived from unaudited consolidated financial statements and include all adjustments, consisting only of normal recurring accruals, which the Company considers necessary for a fair presentation of the Company's results of operations for these periods. Operating results for the three and six months ended June 30, 1997 are not necessarily indicative of the results that may be expected for any other interim period or the entire year ending December 31, 1997. The selected consolidated financial and other data should be read in conjunction with, and is qualified in its entirety by reference to, the information in the Consolidated Financial Statements and related notes set forth elsewhere herein.

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| OPERATIONS DATA: | | | | |
| Interest income | $ 66,942 | $ 51,502 | $ 121,469 | $ 99,457 |
| Interest expense | 38,868 | 26,904 | 76,032 | 55,036 |
| Net interest income | 28,074 | 24,598 | 45,437 | 44,421 |
| Provision for loan losses | 7,909 | 4,964 | 17,651 | 14,370 |
| Net interest income after provision for loan losses | 20,165 | 19,634 | 27,786 | 30,051 |
| Gains on sales of interest-earning assets, net | 23,365 | 4,584 | 40,143 | 9,601 |
| Income (loss) on real estate owned, net | 4,629 | 887 | 3,835 | (1,028) |
| Other non-interest income | 5,295 | 2,597 | 10,662 | 2,788 |
| Total non-interest income | 33,289 | 8,068 | 54,640 | 11,361 |
| Non-interest expenses | 31,080 | 13,870 | 53,777 | 25,554 |
| Equity in earnings ofinvestment in joint ventures(1) | 1,301 | 1,078 | 15,674 | 1,078 |
| Income before income taxes | 23,675 | 14,910 | 44,323 | 16,936 |
| Income tax expense | 5,126 | 2,911 | 8,733 | 1,910 |
| Minority interest in net loss of consolidated subsidiary | (243) | -- | (243) | -- |
| Net income | $ 18,792 | $ 11,999 | $ 35,833 | $ 15,026 |
| Income per share(2) | $0.69 | $ 0.45 | $ 1.32 | $ 0.57 |

| | JUNE 30, 1997 | DECEMBER 31, 1996 |
|---|---|---|
| BALANCE SHEET DATA: | | |
| Total assets | $2,786,879 | $2,483,685 |
| Securities available for sale | 263,412 | 354,005 |
| Loans available for sale(3) | 103,627 | 126,366 |
| Investment securities, net | 38,821 | 8,901 |
| Loan portfolio, net(3) | 433,663 | 402,582 |
| Discounted loan portfolio(3) | 1,295,120 | 1,060,953 |
| Investment in low-income housing tax credit interests | 101,204 | 93,309 |
| Real estate owned, net(4) | 117,703 | 103,704 |
| Investment in joint ventures, net(1) | 27,588 | 67,909 |
| Excess of cost over net assets acquired, net | 11,040 | -- |
| Deposits | 2,198,603 | 1,919,742 |
| Borrowings and other interest-bearing obligations | 286,972 | 300,518 |
| Stockholders' equity | 243,864 | 203,596 |

| | AT OR FOR THE THREE MONTHS ENDED JUNE 30, | | AT OR FOR THE SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| OTHER DATA(5): | | | | |
| Average assets(6) | $2,732,315 | $1,896,986 | $2,671,306 | $1,924,701 |
| Average equity | 232,758 | 148,599 | 222,386 | 145,399 |
| Return on average assets(6) | 2.75% | 2.27% | 2.68% | 1.48% |
| Return on average equity | 32.29 | 32.30 | 32.23 | 20.67 |
| Average equity to average assets(6) | 8.52 | 7.83 | 8.32 | 7.55 |
| Net interest spread(7) | 4.84 | 7.05 | 4.18 | 6.13 |
| Net interest margin | 4.81 | 6.48 | 4.04 | 5.65 |
| Efficiency ratio(8) | 49.60 | 41.10 | 46.46 | 44.94 |
| Non-performing loans to loans at end of period(9) | 2.06 | 0.77 | 2.06 | 0.77 |
| Allowance for losses on loans to loans at end of period | 1.13 | 0.91 | 1.13 | 0.91 |
| Allowance for losses on discounted loans to discounted loans at end of period | 1.51 | 1.57 | 1.51 | 1.57 |
| Bank regulatory capital ratios at end of period: | | | | |
| Tangible | 9.40 | 6.74 | 9.40 | 6.74 |
| Core(Leverage) | 9.40 | 6.74 | 9.40 | 6.74 |
| Risk-based | 13.81 | 13.61 | 13.81 | 13.61 |

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(1) Relates primarily to the Company's investment in LLC, a joint venture formed to acquire loans from HUD. At June 30, 1997 and December 31, 1996, the net discounted loans held by such joint venture amounted to $36.9 million and $110.7 million, respectively. All of such loans are classified as available for sale. See "Business--Investment in Joint Ventures."

(2) Based upon weighted average number of shares of Common Stock outstanding of 27,063,761 and 26,398,127 during the three months ended June 30, 1997 and 1996, respectively, and 27,068,563 and 26,397,920 during the six months ended June 30, 1997 and 1996, respectively.

(3) The discounted loan portfolio consists of mortgage loans purchased at a discount to the unpaid debt, most of which were non-performing or under-performing at the date of acquisition. The loan portfolio and loans available for sale consist of other loans which were originated or purchased by the Company for investment or for potential sale, respectively. See "Business-- Discounted Loan Acquisition and Resolution Activities" and "--Lending Activities," respectively. Data related to discounted loans does not include discounted loans held by LLC.

(4) Real estate owned consists of properties acquired by foreclosure or by deed-in-lieu thereof on loans and is primarily attributable to the Company's discounted loan acquisition and resolution business.

(5) Ratios are based on average daily balances during the periods and are annualized where appropriate.

(6) Includes the Company's pro rata share of the average assets held by LLC.

(7) The Company ceased accretion of discount on non-performing discounted single-family residential loans effective January 1, 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations-- Net Interest Income" and "--Recent Regulatory Developments." Discount accretion on non-performing discounted single-family residential loans amounted to $2.0 million or 125 basis points in yield during the three months ended March 31, 1996, $3.0 million or 203 basis points in yield during the three months ended June 30, 1996 and $5.0 million or 162 basis points in yield during the six months ended June 30, 1996.

(8) The efficiency ratio represents non-interest expense divided by the sum of net interest income before provision for loan losses, non-interest income and equity in earnings of investment in joint venture.

(9) Non-performing loans and total loans do not include loans in the Company's discounted loan portfolio or loans available for sale.

RESULTS OF OPERATIONS

NET INTEREST INCOME. Net interest income before provision for loan losses increased by $3.5 million or 14% during the second quarter of 1997 as compared to the second quarter of 1996. The increase was due to a 54% increase in average earning assets (primarily in the discounted loan portfolio), which offset a 221 basis point decrease in the net interest spread. Interest income of $66.9 million for the second quarter of 1997 increased by $15.4 million or 30% over that of the second quarter of 1996 as a result of an $816.5 million or 54% increase in the average balance of interest-earning assets, which was offset in part by a 210 basis point decline in the weighted average yield earned. The weighted average yield on interest-earning assets was 11.47% and 13.57% in the second quarter of 1997 and 1996, respectively, and 10.79% and 12.65% in the first six months of 1997 and 1996, respectively. The decline in yields for these periods in 1997 was primarily attributable to increases in the average balance of discounted single-family residential loans and the Company's decision to cease accretion of discount on non-performing discounted single-family residential loans effective January 1, 1997. As a result of the Company's decision to cease accretion of discount, the Company now recognizes income on such loans at the time cash is received or the loan is sold rather than over the anticipated holding period. Discount accretion on non- performing discounted single-family residential loans amounted to $3.0 million or 162 basis points in yield during the second quarter of 1996.

Interest expense of $38.9 million for the second quarter of 1997 increased by $12.0 million or 44% over the comparable period in the prior year as a result of a $695.9 million or 42% increase in the average balance of interest-bearing liabilities and an 11 basis point increase in the weighted average rate paid. For the first six months of 1997, interest expense amounted to $76.0 million, a $21.0 million or 38% increase over the same period in the prior year.

PROVISION FOR LOAN LOSSES. The Company's provision for loan losses amounted to $7.9 million and $5.0 million for the second quarter of 1997 and 1996, respectively, and $17.7 million and $14.4 million for the first six months of 1997 and 1996, respectively. At June 30, 1997, the Company had allowances for losses of $19.9 million and $5.4 million on its discounted loan and loan portfolios, respectively, which amounted to 1.5% and 1.1% of the respective balances. The Company maintained reserves of 1.1% and 0.9% on its discounted loan and loan portfolios, respectively, at December 31, 1996.

NON-INTEREST INCOME. Non-interest income of $33.3 million for the second quarter of 1997 increased by $25.2 million from that of the second quarter of 1996 primarily due to an $18.8 million increase in gains on sales of interest-earning assets and a $3.4 million increase in servicing fees and other charges. Gains on sales of interest-earning assets for the second quarter of 1997 of $23.4 million were primarily comprised of a $16.8 million net gain recognized in connection with the securitization of 1,783 discounted single-family residential loans acquired from HUD with an aggregate unpaid balance of $170.6 million, a $4.5 million gain recognized in connection with the securitization of 896 sub-prime single-family residential loans with an aggregate unpaid principal balance of $104.8 million and a $2.6 million gain on the sale of mortgage-related securities to OAIC. Gains on sales of interest-earning assets for the first six months of 1997 increased by $30.5 million from the same period in 1996 and included a $9.5 million gain earned during the first quarter in connection with the securitization of discounted single-family residential loans acquired from HUD.

Servicing fees and other charges increased $9.3 million during the first six months of 1997, as compared to the same period in 1996, and included $1.1 million of fees earned during the first quarter in connection with the set up of loans transferred to the Company for servicing. The increase in servicing fees and other charges reflect an increase in loan servicing and related fees as a result of an increase in loans serviced for others. The average unpaid principal balance of loans serviced for others amounted to $2.50 billion and $561.8 million during the second quarter of 1997 and 1996, respectively, and $2.27 billion and $450.3 million during the first six months of 1997 and 1996, respectively. The loans serviced by the

Company for others include the loans which back the mortgage-related securities which resulted from the Company's loan securitization transactions during the second quarter of 1997, as discussed above.

OPERATING EXPENSES. Non-interest expense of $31.1 million for the second quarter of 1997 increased by $17.2 million or 124% as compared to the same period for 1996. Compensation and employee benefits accounted for $11.1 million of this increase, as the average number of employees increased to 823 from 373 and the accrual for employee profit sharing expense increased by $3.3 million over that of the second quarter of 1996. Occupancy and equipment expense increased $1.8 million, primarily due to an increase in data processing costs and general office equipment expenses. Other operating expenses increased $3.6 million, primarily due to $2.5 million of certain one-time charges and a $766,000 increase in loan related expenses. Non-interest expense of $53.8 million for the first six months of 1997 increased $28.2 million or 110% over the comparable period in the prior year, with compensation and employee benefits accounting for $19.9 million of the increase.

EQUITY IN EARNINGS OF INVESTMENT IN JOINT VENTURES. During the second quarter of 1997, the Company recorded $1.3 million of income related to its investment in joint ventures, which consist primarily of LLC, as compared to $1.1 million in the second quarter of 1996. The Company's pro rata share of the income from joint ventures in the second quarter of 1997 consisted primarily of net interest income. Equity in earnings of investment in joint ventures amounted to $15.7 million for the first six months of 1997 and included $9.2 million of net gains in the first quarter related to the securitization of discounted single-family residential loans acquired from HUD. The Company acts as the servicer for the loans previously securitized as well as the remaining loans held by LLC.

INCOME TAX EXPENSE. The Company's effective tax rate amounted to 21.65% and 19.52% during the second quarter of 1997 and 1996, respectively and 19.70% and 11.28% during the first six months of 1997 and 1996, respectively. The Company's income tax expense is reported net of tax credits of $2.9 million and $2.5 million for the second quarter of 1997 and 1996, respectively, and $6.5 million and $4.9 million for the first six months of 1997 and 1996, respectively, resulting from investments in low-income housing tax credit interests. Exclusive of such amounts, the Company's effective tax rate amounted to 34.02% and 36.08% during the second quarter of 1997 and 1996, respectively, and 34.35% and 40.30% for the first six months of 1997 and 1996, respectively.

MINORITY INTEREST. Minority interest in net loss of consolidated subsidiary represents the loss attributable to the 20% interest in OFS not owned by the Company.

OTHER DEVELOPMENTS

In connection with the securitizations of discounted single-family residential loans acquired from HUD and sub-prime single-family residential loans during the second quarter of 1997, the Bank sold the senior classes of securities from these transactions and retained the related subordinate and residual class securities, which had an aggregate book value of $12.9 million at June 30, 1997. In addition, at the same date the Bank held four additional subordinate and residual securities which had an aggregate book value of $25.1 million. Pursuant to discussions with the OTS, the Bank generally has agreed to dividend to the Company such subordinate and residual securities from time to time pursuant to the OTS capital distribution regulation. At June 30, 1997, the Bank could pay an aggregate of $11.5 million in dividends to the Company without violating the regulatory capital requirements committed to be maintained by the Bank as of such date. As a result of the agreement with the OTS to dividend subordinate and residual securities, however, the Bank currently may not be able to pay any cash dividends to the Company without prior OTS approval. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Recent Regulatory Developments" and "Regulation--The Bank--Restrictions on Capital Distributions."

During the second quarter of 1997, the Company consolidated its sub-prime single-family residential lending operations within OFS in connection with its acquisition of substantially all of the assets of Admiral. See "Business--Lending Activities--Single-family Residential Loans." Goodwill related to this transaction amounted to $11.0 million at June 30, 1997 and is being amortized on a straight-line basis over a period of 15 years.

On July 17, 1997, the Company entered into a letter of intent to acquire a small, privately-held firm which is engaged primarily in the development of software for the financial services industry, including loan servicing software. The aggregate purchase price would be $8.0 million, including $3.5 million which would be contingent on the target meeting certain software development performance criteria, and would be payable in cash and/or securities of the Company, as to be agreed by the parties. This acquisition is subject to the completion of due diligence by the Company to its satisfaction, the negotiation and execution of definitive agreements and the satisfaction of other conditions customary in these types of transactions, and, as a result, there can be no assurance that it will be consummated in the near term or at all.

The Company is currently exploring obtaining an approximately $20 million line of credit to the Company and an approximately $500 million line of credit to the Bank. If obtained, these lines of credit will enhance the Company's ability to manage its liquidity and sources of funds to utilize those which are the most cost effective.

The Company has received notice that HUD intends to auction approximately 18,200 single-family residential loans with an aggregate unpaid principal amount of approximately $1.15 billion in early September 1997. The Company currently intends to submit a bid to acquire all or a substantial portion of these loans with one or more co-investors. There can be no assurance that the Company ultimately will submit a bid or as to the terms thereof, or that any bid by the Company will be successful in whole or in part.

# RISK FACTORS

PROSPECTIVE INVESTORS SHOULD CAREFULLY REVIEW THE FOLLOWING FACTORS, AS WELL AS THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS, BEFORE DECIDING TO MAKE AN INVESTMENT IN COMMON STOCK.

THE DISCUSSION IN THIS PROSPECTUS CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES, SUCH AS STATEMENTS OF THE COMPANY'S PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS. THE CAUTIONARY STATEMENTS MADE IN THIS PROSPECTUS, INCLUDING THE RISK FACTORS DISCUSSED BELOW, SHOULD BE READ AS BEING APPLICABLE TO ALL RELATED FORWARD-LOOKING STATEMENTS WHEREVER THEY APPEAR IN THIS PROSPECTUS. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE DISCUSSED HEREIN. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES INCLUDE THOSE DISCUSSED BELOW, AS WELL AS THOSE DISCUSSED ELSEWHERE HEREIN OR IN THE DOCUMENTS INCORPORATED BY REFERENCE HEREIN.

## NO ASSURANCES AS TO CONSISTENCY OF EARNINGS; CHANGING NATURE OF RISKS

GENERAL. The Company's corporate strategy emphasizes the identification, development and management of specialized businesses which the Company believes are not accurately evaluated and priced by the marketplace due to market, economic and competitive conditions. This strategy can result in the entry into or development of businesses and investment in assets which produce substantial initial returns, which generally can be expected to decrease as markets become more efficient in the evaluation and pricing of such businesses and assets. In recent years these businesses have included the Company's discounted loan acquisition and resolution business and investment in various types of mortgage-related securities. The consistency of the operating results of the Company also can be significantly affected by inter-period variations in (i) the amount of assets acquired, particularly discounted loans; (ii) the amount of resolutions of discounted loans, particularly large multi-family residential and commercial real estate loans; (iii) the amount of multi-family residential and commercial real estate loans which mature or are prepaid, particularly loans with terms pursuant to which the Company participates in the profits of the underlying real estate; and (iv) sales by the Company of loans and/or securities acquired from the Company's securitization of loans. In addition, many of the Company's businesses are relatively young and still evolving and involve greater uncertainties and risks of loss than the activities traditionally conducted by savings institutions. As a result, there can be no assurance that there will not be significant inter-period variations in the profitability of the Company's operations.

FLUCTUATIONS IN NON-INTEREST INCOME. In recent years the Company's operating results have been significantly affected by certain non-recurring items of non-interest income. In addition to $5.4 million and $62.6 million of gains from sales of branch offices in 1995 and 1994, respectively, in recent periods the Company has earned significant non-interest income from gains on sales of interest-earning assets and real estate owned and other assets. Gains on sales of interest-earning assets amounted to $16.8 million, $5.0 million, $21.7 million, $7.0 million and $5.7 million during the three months ended March 31, 1997 and 1996 and the years ended December 31, 1996, 1995 and 1994, respectively, and gains on the sale of real estate owned, which are a component of income (loss) on real estate owned, net, amounted to $3.9 million, $3.9 million, $22.8 million, $19.0 million and $21.3 million during the same respective periods. Gains on sales of interest-earning assets and real estate owned generally are dependent on various factors which are not within the control of the Company, including market and economic conditions. As a result, there can be no assurance that the level of gains on sales of interest-earning assets and real estate owned reported by the Company in prior periods will be repeated in future periods or that there will not be substantial inter-period variations in the results from such activities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -Results of Operations--Non-interest Income."

CHANGING NATURE OF RISKS. The nature of the risks associated with the Company's operations have changed and are likely to continue to change over time due to a corporate strategy which emphasizes the entry into and exit from business lines based on market, economic or competitive conditions. As a result, there can be no assurance that the risks associated with an investment in the Company described herein will not materially change in the future or that there will not be additional risks associated with the Company's future operations not described herein.

RISKS RELATED TO NON-TRADITIONAL OPERATING ACTIVITIES

As discussed below, the Company is engaged in a variety of businesses which generally involve more uncertainties and risks than the single-family residential lending activities historically emphasized by savings institutions. In addition, many of the Company's business activities, including its lending activities, are conducted on a nationwide basis, which reduces the risks associated with concentration in any one particular market area but involves other risks because, among other things, the Company may not be as familiar with market conditions and other relevant factors as it would be in the case of activities which are conducted in the market areas in which its executive offices and branch office are located.

DISCOUNTED LOAN ACQUISITION AND RESOLUTION ACTIVITIES. The Company's lending activities include the acquisition and resolution of non-performing or underperforming single-family (one to four units) residential loans, multi-family (over four units) residential loans and commercial real estate loans which are purchased at a discount. At March 31, 1997, the Company's discounted loan portfolio amounted to $1.28 billion or 48.4% of the Company's total assets. The Company acquires discounted loans from governmental agencies, which in the early years of the program consisted primarily of the FDIC and the Resolution Trust Corporation ("RTC"), a federal agency formed to resolve failed savings institutions which has since ceased operations, and in recent years has consisted primarily of HUD. Inclusive of the Company's 50% pro rata interest in discounted loans acquired by LLC, the Company acquired an aggregate of $1.19 billion principal amount of discounted loans, consisting primarily of $961.4 million principal amount of discounted single-family residential loans, from HUD during 1995, 1996 and the three months ended March 31, 1997. In addition to governmental agencies, the Company acquires discounted loans from various private sector sellers, such as banks, savings institutions, mortgage companies and insurance companies, which accounted for 53.8% of the discounted loans in the Company's discounted loan portfolio at March 31, 1997. Although the Company believes that a permanent market for the acquisition of non-performing and underperforming mortgage loans at a discount has emerged in recent years, there can be no assurance that the Company will be able to acquire the desired amount and type of discounted loans in future periods or that there will not be significant inter-period variations in the amount of such acquisitions. There also can be no assurance that the discount on the non-performing and underperforming loans acquired by the Company, which in the aggregate decreased from 31.4% of total discounted loans at December 31, 1992 to 16.9% of total discounted loans at March 31, 1997, will enable the Company to resolve discounted loans in the future as profitably as in prior periods. The yield on the discounted portfolio also is subject to significant inter-period variations as a result of the timing of resolutions of discounted loans, particularly multi-family residential and commercial real estate loans and non-performing single-family residential loans, interest on which is recognized on a cash basis, and the mix of the overall portfolio between performing and non-performing loans. See "Business--Discounted Loan Acquisition and Resolution Activities" and "Business--Investment in Joint Ventures."

MULTI-FAMILY RESIDENTIAL, COMMERCIAL REAL ESTATE AND CONSTRUCTION LENDING ACTIVITIES. The Company's lending activities currently include nationwide loans secured by existing commercial real estate, particularly hotels and office buildings, and, to a lesser extent, existing multi-family residential real estate. In addition, from time to time the Company originates loans for the construction of multi-family residential real estate and land acquisition and development loans. At March 31, 1997, multi-family residential, commercial real estate and construction loans (including land acquisition and development loans) available for sale and held for investment aggregated $347.1 million, net, or 13.1% of the Company's total assets. Multi-family residential, commercial real estate and construction lending generally is considered to involve a higher degree of risk than single-family residential lending due to a variety of factors, including generally larger loan balances, the dependency on successful completion or operation of the project for repayment, the difficulties in estimating construction costs and loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at stated maturity. There can be no assurance that the Company's multi-family residential, commercial real estate and construction lending activities will not be adversely affected by these and the other risks related to such activities. See "Business--Lending Activities--Multi-family Residential and Commercial Real Estate Loans."

SUBPRIME SINGLE-FAMILY RESIDENTIAL LENDING ACTIVITIES. The Company's lending activities also currently emphasize the origination or purchase on a nationwide basis of single-family residential loans made to borrowers who have substantial equity in the properties which secure the loans but who, because of prior credit problems, the absence of a credit history or other factors, are unable or unwilling to qualify as borrowers under federal agency guidelines. At March 31, 1997, the Company's sub-prime loans aggregated $76.1 million or 2.9% of the Company's total assets. These loans are offered pursuant to various programs, including programs which provide for reduced or no documentation for verifying a borrower's income and employment. Sub-prime loans present a higher level of risk of default than conforming loans because of the increased potential for default by borrowers who may have had previous credit problems or who do not have any credit history, and may not be as saleable as loans which conform to the guidelines established by various federal agencies. See "Business--Lending Activities--Single-family Residential Loans."

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. The Company invests in low-income housing tax credit interests (generally limited partnerships) in order to obtain federal income tax credits which are allocated pursuant to Section 42 of the Code. At March 31, 1997, the Company's investments in such interests amounted to $99.9 million or 3.8% of total assets. There are many uncertainties and risks associated with an investment in low-income housing tax credit interests, including the risks involved in the construction, lease-up and operation of multi-family residential real estate, the investor's ability to earn sufficient income to utilize the tax credits resulting from such investments in accordance with the requirements of the Code and the possibility of required recapture of previously-earned tax credits. In addition, there are numerous tax risks associated with tax credits resulting from potential changes to the Code. See "Business--Investment Activities--Investment in Low-Income Housing Tax Credit Interests."

INVESTMENTS IN MORTGAGE-RELATED SECURITIES. From time to time the Company invests in a variety of mortgage-related securities, such as senior and subordinate regular interests and residual interests in collateralized mortgage obligations ("CMOs"), including CMOs which have qualified as Real Estate Mortgage Investment Conduits ("REMICs"). These investments include so-called stripped mortgage-related securities, in which interest coupons may be stripped from a mortgage security to create an interest-only ("IO") strip, where the investor receives all of the interest cash flows and none of the principal, and a principal-only ("PO") strip, where the investor receives all of the principal cash flows and none of the interest. At March 31, 1997, the Company's mortgage-related securities available for sale amounted to $348.1 million or 13.1% of the Company's total assets and included $180.1 million of IO strips, substantially all of which were either issued by FHLMC or the Federal National Mortgage Association ("FNMA") or rated AAA by national rating agencies, as well as $77.6 million of subordinate interests and $21.6 million of residual interests in mortgage-related securities. Some mortgage-related securities, such as IO strips, PO strips and residual interests, exhibit considerably more price volatility than mortgages or ordinary mortgage pass-through securities, due in part to the uncertain cash flows that result from changes in the prepayment rates of the underlying mortgages. Other mortgage-related securities, such as subordinated interests, also involve substantially more credit risk than the senior classes of the mortgage-related securities to which such interests relate and generally are not as liquid as such senior classes. The Company generally acquires subordinated interests primarily in connection with the securitization of its loans, particularly single-family residential loans to non-conforming borrowers and discounted loans, and under circumstances in which it continues to service the loans which back the related securities. The Company has sought to offset the risk of changing interest environments on certain of its mortgage-related securities by selling U.S. Treasury futures contracts and other hedging techniques, and believes that the resulting interest-rate sensitivity profile compliments the Company's overall exposure to changes in interest rates. See "--Economic Conditions" below. Although generally intended to reduce the effects of changing interest rate environments on the Company, investments in certain mortgage-related securities and hedging transactions could cause the Company to recognize losses depending on the terms of the instrument and the interest rate environment. See "Business--Investment Activities."

REGULATION AND REGULATORY CAPITAL REQUIREMENTS

Both the Company, as a savings and loan holding company, and the Bank, as a federally-chartered savings institution, are subject to significant governmental supervision and regulation, which is intended primarily for the protection of depositors. Statutes and regulations affecting the Company and the Bank may be changed at any time, and the interpretation of these statutes and regulations by examining authorities also is subject to change. There can be no assurance that future changes in applicable statutes and regulations or in their interpretation will not adversely affect the business of the Company. The applicable regulatory authorities may, as a result of such regulation and examination, impose regulatory sanctions upon the Company or the Bank, as applicable, as well as various requirements or restrictions which could adversely affect their business activities. A substantial portion of the Bank's operations involves businesses that are not traditionally conducted by savings institutions and, as a result, there can be no assurance that future actions by applicable regulatory authorities, or future changes in applicable statutes or regulations, will not limit or otherwise adversely affect the Bank's ability to engage in such activities.

In connection with a recent examination of the Bank, the staff of the OTS expressed concern about many of the Bank's non-traditional operations (which are discussed under "--Risks Related to Non-Traditional Operating Activities" above), certain of its accounting policies and the adequacy of the Bank's capital in light of the Bank's lending and investment strategies. As a result of such examination, the OTS instructed the Bank to maintain, commencing on June 30, 1997, regulatory capital ratios which significantly exceed the requirements which are generally applicable to federally-chartered savings institutions such as the Bank. Although the Bank strongly disagrees with the level of risk perceived by the OTS in its businesses, the Bank has taken or agreed to take various actions to address OTS concerns with respect to its risk profile, including without limitation transferring certain of its lending operations to non-banking subsidiaries of the Company, and modified certain of its accounting policies. In addition, the Bank also has committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9% and 13%, respectively, commencing on June 30, 1997, which has been agreed to by the OTS. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Recent Regulatory Developments." At March 31, 1997, the Bank's core capital (leverage) ratio and total risk-based capital ratio amounted to 9.48% and 13.22%, respectively, which exceeded both the 3.00% and 8.00% requirements of general applicability, respectively, and the amounts committed to be maintained by the Bank on June 30, 1997. At March 31, 1997, the Bank also qualified as a "well-capitalized" institution under applicable laws and regulations because it had a total risk-based capital ratio of 10.0% or more, a Tier 1 risk-based capital ratio of 6.0% or more and a Tier 1 leverage capital ratio of 5.0% or more and was not subject to a written agreement, order or directive issued by an appropriate agency to meet and maintain a specific capital level for any capital measure.

There can be no assurance that in the future the OTS either will agree to a decrease in the 9% core capital (leverage) ratio and the 13% total risk-based capital ratio committed to be maintained by the Bank or will not seek an increase in such requirements. Unless and until these regulatory capital requirements are decreased, the Bank's ability to leverage its capital through future growth in assets (including its ability to continue growing at historical rates) will be adversely affected, as will the Company's ability to receive dividends from the Bank, which are a primary source of payments on outstanding indebtedness of the Company and for the payment of dividends on the Common Stock in the future. See "--Limited Sources for Dividends on Common Stock" below. Although the Company and its non-banking subsidiaries will not be restricted in their growth by these capital requirements, because they do not have access to the Bank's funding sources their profitability may be different from the Bank's for particular types of business. In addition, there can be no assurance that the Bank will continue to meet the regulatory capital requirements committed to be maintained by it or that the OTS will not formally impose such requirements pursuant to a written agreement, order or directive, which would cause the Bank to cease to be a "well-capitalized" institution under applicable laws and regulations. In the event that the Bank ceased to be a "well-capitalized" institution, the Bank would be prohibited from accepting, renewing or rolling over its brokered and other wholesale deposits, which are its principal source of funding, without the prior approval of the FDIC, and the Bank could become subject to other regulatory restrictions on its operations. For a description of these restrictions and certain other regulatory consequences in the event that the Bank ceases to be a "well-capitalized" institution under OTS regulations, see "Regulation--Regulatory Capital Requirements," "--Prompt Corrective Action," "--Restrictions on Capital Distributions" and "--Brokered Deposits."

RISK OF FUTURE ADJUSTMENTS TO ALLOWANCES FOR LOSSES

The Company believes that it has established adequate allowances for losses for each of its loan portfolio and discounted loan portfolio in accordance with generally accepted accounting principles. Future additions to these allowances, in the form of provisions for losses on loans and discounted loans, may be necessary, however, due to changes in economic conditions, increases in loans and discounted loans and the performance of the Company's loan and discounted loan portfolios. In addition, the OTS, as an integral part of its examination process, periodically reviews the Company's allowances for losses and the carrying value of its assets. As a result of such a review at the end of 1995, the Company changed its methodology for valuing discounted loans and began establishing provisions for loan losses and maintaining an allowance for loan losses in connection with such loans, as well as increased its provision for losses in fair value on real estate owned. In addition, as a result of such a review at the end of 1996, the Company established as of December 31, 1996 $7.2 million of write downs of cost basis against loans and securities resulting from its investment in loans acquired from HUD. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Provisions for Loan Losses" and "--Recent Regulatory Developments." There can be no assurance that the Company will not determine, at the request of the OTS or otherwise, to further increase its allowances for losses on loans and discounted loans or adjust the carrying value of its real estate owned or other assets. Increases in the Company's provisions for losses on loans would adversely affect the Company's results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations."

RISKS RELATED TO REAL ESTATE OWNED

At March 31, 1997, the Company's real estate owned, net amounted to $98.5 million or 3.7% of total assets and consisted almost entirely of single-family residential real estate and multi-family residential and commercial real estate acquired by foreclosure or deed-in-lieu thereof on loans in the Company's discounted loan portfolio. Real estate owned properties generally are non-earning assets, although multi-family residential and commercial real estate owned may provide some operating income to the Company depending on the circumstances. Moreover, the value of real estate owned properties can be significantly affected by the economies and markets for real estate in the areas in which they are located and require the establishment of provisions for losses to ensure that they are carried at the lower of cost or fair value, less estimated costs to dispose of the properties, which adversely affect operations. Real estate owned also require increased allocation of resources and expense to the management and work out of the asset, which also can adversely affect operations. Although the Company's real estate owned at March 31, 1997 represented a $68.1 million or 40.9% decrease from the amount of its real estate owned at December 31, 1995, there can be no assurance that the amount of the Company's real estate owned will not increase in the future as a result of the Company's discounted loan acquisition and resolution activities and the Company's single-family residential, multi-family residential, commercial real estate and construction lending activities. In addition, there can be no assurance that in the future the Company's real estate owned will not have environmental problems which could materially adversely affect the Company's financial condition or operations. See "Business--Asset Quality--Real Estate Owned."

RISKS RELATED TO RELIANCE ON BROKERED AND OTHER WHOLESALE DEPOSITS

The Company currently utilizes as its principal source of funds certificates of deposit obtained through national investment banking firms which obtain funds from their customers for deposit with the Company ("brokered deposits") and, to a lesser extent, certificates of deposit obtained from customers of regional and local investment banking firms and direct solicitation efforts by the Company of institutional investors and high net worth individuals. At March 31, 1997 certificates of deposit obtained through national investment banking firms which solicit deposits for the Company from their customers amounted to $1.34 billion or 63.6% of total deposits, certificates of deposit obtained through regional and local investment banking firms amounted to $388.8 million or 18.4% of total deposits and certificates of deposits obtained from the Company's direct solicitation of institutional investors and high net worth individuals amounted to $218.3 million or 10.4% of total deposits. The Company believes that the effective cost of brokered and other wholesale deposits, as well as other non-branch dependent sources of funds, such as securities sold under agreements to repurchase ("reverse repurchase agreements") and advances from the FHLB of New York, generally is more attractive to the Company than deposits obtained through branch offices after the general and administrative costs associated with operating a branch office network are taken into account. However, such funding sources, when compared to retail deposits attracted through a branch network, are generally more sensitive to changes in interest rates and volatility in the capital markets and are more likely to be subject to competition from competing investments. In addition, such funding sources may be more sensitive to significant changes in the financial condition of the Company. There are also regulatory limitations on an insured institution's ability to solicit and obtain brokered deposits in certain circumstances, which currently are not applicable to the Bank because of its status as a "well capitalized" institution under applicable laws and regulations. See "--Regulation and Regulatory Capital Requirements" above and "Regulation--The Bank--Brokered Deposits." As a result of the Company's reliance on brokered and other wholesale deposits, significant changes in the prevailing interest rate environment, in the availability of alternative investments for individual and institutional investors or in the Company's financial condition, among other factors, could affect the Company's liquidity and results of operations much more significantly than might be the case with an institution that obtained a greater portion of its funds from retail or core deposits attracted through a branch network.

ECONOMIC CONDITIONS

GENERAL. The success of the Company is dependent to a certain extent upon the general economic conditions in the geographic areas in which it conducts substantial business activities. Adverse changes in national economic conditions or in the economic conditions of regions in which the Company conducts substantial business likely would impair the ability of the Company to collect on outstanding loans or dispose of real estate owned and would otherwise have an adverse effect on its business, including the demand for new loans, the ability of customers to repay loans and the value of both the collateral pledged to the Company to secure its loans and its real estate owned. Moreover, earthquakes and other natural disasters could have similar effects. Although such disasters have not significantly adversely affected the Company to date, the availability of insurance for such disasters in California, in which the Company conducts substantial business activities, is severely limited. At March 31, 1997, the Company had loans with an unpaid balance aggregating $475.7 million (including loans available for sale) secured by properties located in California and $67.5 million of the Company's real estate owned was located in California, which collectively represent 20.5% of the Company's total assets at such date.

EFFECTS OF CHANGES IN INTEREST RATES. The Company's operating results depend to a large extent on its net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with its interest-bearing liabilities. Changes in the general level of interest rates can affect the Company's net interest income by affecting the spread between the Company's interest-earning assets and interest-bearing liabilities, as well as, among other things, the ability of the Company to originate loans; the value of the Company's interest-earning assets and its ability to realize gains from the sale of such assets; the average life of the Company's interest-earning assets; the value of the Company's mortgage servicing rights; and the Company's ability to obtain deposits in competition with other available investment alternatives. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond the control of the Company. The Company actively monitors its assets and liabilities and employs a hedging strategy which seeks to limit the effects of changes in interest rates on its operations. Although management believes that the maturities of the Company's assets currently are well balanced in relation to its liabilities (which involves various estimates as to how changes in the general level of interest rates will impact its assets and liabilities), there can be no assurance that the profitability of the Company would not be adversely affected during any period of changes in interest rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Asset and Liability Management" and Note 20 to the Consolidated Financial Statements.

COMPETITION

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

IMPORTANCE OF THE CHIEF EXECUTIVE OFFICER

William C. Erbey, Chairman, President and Chief Executive Officer of the Company, has had, and will continue to have, a significant role in the development and management of the Company's business. The loss of his services could have an adverse effect on the Company. The Company and Mr. Erbey are not parties to an employment agreement, and the Company currently does not maintain key man life insurance relating to Mr. Erbey or any of its other officers. See "Business--Management."

CONTROL OF CURRENT STOCKHOLDERS

After giving effect to the Common Stock Offering and including currently-exercisable options to acquire Common Stock, the Company's directors and executive officers and their affiliates will in the aggregate beneficially own or control 54.7% of the outstanding Common Stock, including 33.1% owned or controlled by William C. Erbey, Chairman, President and Chief Executive Officer of the Company, and 17.0% owned or controlled by Barry N. Wish, Chairman, Emeritus, of the Company. As a result, these stockholders, acting together, would be able to effectively control virtually all matters requiring approval by the stockholders of the Company, including amendment of the Company's Articles of Incorporation, the approval of mergers or similar transactions and the election of all directors. In addition, Messrs. Erbey and Wish are two of the five current directors of the Company. See "Management" and "Beneficial Ownership of Common Stock."

LIMITED SOURCES FOR DIVIDENDS ON COMMON STOCK, PAYMENT OF INDEBTEDNESS AND FUNDING OF NON-BANKING ACTIVITIES

As a holding company, the ability of the Company to pay dividends on the Common Stock, to pay indebtedness and to conduct lending and investment activities directly or in non-banking subsidiaries (including without limitation activities recently transferred from the Bank to address concerns of the OTS regarding the risk profile of the Bank's operations) will depend significantly on the receipt of dividends or other distributions from the Bank, as well as any cash reserves and other liquid assets held by the Company (including proceeds from the Offerings), any proceeds from any subsequent securities offering or other borrowings and any dividends from non-banking subsidiaries of the Company. The ability of the Bank to pay dividends or make other distributions to the Company generally is dependent on the Bank's compliance with applicable regulatory capital requirements and regulatory restrictions. See "Regulation--The Bank--Restrictions on Capital Distributions" and "--Affiliate Transactions." Moreover, in order to address concerns by the OTS concerning the risk profile of the Bank's operations, the Bank recently agreed, subject to compliance with the foregoing regulatory limitations, to dividend to the Company certain subordinate and residual mortgage-related securities resulting from securitization activities conducted by the Bank. As a result of the foregoing, the Bank currently may not be able to pay any cash dividends to the Company without prior OTS approval. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Recent Regulatory Developments" and "Regulation-- The Bank--Restrictions on Capital Distributions." In addition to the foregoing limitations, there are certain contractual restrictions on the Bank's ability to pay dividends set forth in the Indenture, dated as of June 12, 1995, between the Bank and the Bank of New York, as trustee, relating to the Bank's issuance of $100 million of 12% Subordinated Debentures due 2005 (the "Debentures") in June 1995, and there are certain contractual restrictions on the ability of the Company and the Bank to pay dividends set forth in the Indenture, dated as of September 30, 1996, between the Company and Bank One, Columbus, NA, as trustee, relating to the Company's issuance of $125 million of 11.875% Notes due 2003 (the "Notes") in September 1996.

POTENTIAL CONFLICTS OF INTEREST INVOLVING OAIC

The Company will be subject to various potential conflicts of interest arising from its and OCC's relationship with OAIC, which intends to invest in assets in which the Company also may invest, directly or indirectly through the Bank. OAIC intends to invest primarily in (i) subordinated classes of mortgage-related securities; (ii) multi-family residential and commercial real estate, including properties acquired by a mortgage lender by foreclosure or by deed-in-lieu thereof and underperforming or otherwise distressed real property (collectively, "Distressed Real Estate"); and (iii) single-family residential loans, multi-family residential loans and commercial real estate loans, including in each case loans that are current in accordance with their terms or are non-performing or underperforming. The Company does not intend to invest in subordinated classes of mortgage-related securities which are not created in connection with its securitization activities or Distressed Real Estate and, as a result, the Company, the Bank and OCC generally have agreed to give OAIC an exclusive right to purchase such subordinated classes of mortgage-related securities and Distressed Real Estate. Both the Company and OAIC may engage in the acquisition and resolution of mortgage loans, including non-performing and underperforming mortgage loans, and from time to time each such entity also may invest in various non-subordinated classes of mortgage-related securities. In this regard, OCC, which conducts the large multi-family residential and commercial real estate lending activities of the Company as well as manages OAIC, currently is emphasizing acquiring loans for OAIC (in order to enable OAIC to leverage the proceeds from the initial public offering of OAIC's common stock) and not the Company. As a result of the Company's and OAIC's strategies to invest in certain assets, there can be no assurance that investment opportunities which previously would have been taken by the Company will not be allocated to OAIC. In addition, from time to time the Company may sell loans, securities and real estate owned to OAIC, which also would involve potential conflicts of interest. The only such sale to date was the Company's sale to OAIC on May 19, 1997 of nine subordinate and IO mortgage-related securities with an aggregate carrying value of $42.6 million, which resulted in a $2.6 million gain to the Company. Although the Company and OAIC have established certain policies and procedures in order to ensure that sales and other transactions between the Company, the Bank and/or OCC, on the one hand, and OAIC, on the other hand (including without limitation the base compensation to be paid to OCC by OAIC for managing its day-to-day operations), are conducted on an arms'-length basis on substantially the same terms as would be present in transactions with unaffiliated parties, there can be no assurance that such procedures will be sufficient in all situations to solve potential conflicts of interest. See "Business--Subsidiaries."

SHARES AVAILABLE FOR FUTURE SALE

Sales of a substantial number of shares of Common Stock in the public market following the Common Stock Offering, including shares issued upon exercise of options, as discussed below, could adversely affect the market price of the Common Stock. The 3,000,000 shares of Common Stock offered hereby (plus up to 450,000 shares which may be sold pursuant to the Common Stock Underwriters' over-allotment options) will be freely transferable without restriction or further registration under the Securities Act. Of the 26,799,511 shares of Common Stock outstanding at March 31, 1997, 2,300,000 shares are freely transferable without restriction or registration under the Securities Act and 24,499,511 shares are "restricted securities" as that term is defined in Rule 144 promulgated under the Securities Act and may not be sold except pursuant to the registration requirements of the Securities Act or pursuant to an applicable exemption therefrom, including pursuant to Rule 144. Management of the Company believes that approximately 8,239,751 of those restricted shares of Common Stock may be eligible for resale pursuant to Rule 144 without restriction as to timing or volume. The Company and the directors and executive officers of the Company have generally agreed not to offer, sell or otherwise dispose of any shares of Common Stock for a period of 90 days after the date of this Prospectus without the prior written consent of Lehman Brothers on behalf of the Common Stock Underwriters. After the foregoing restricted period, there will be no restrictions on the sale of these shares by such directors and officers of the Company (other than those imposed by Rule 144) or on the issuance of additional shares of Common Stock by the Company. The Company may file a Registration Statement on Form S-8 under the Securities Act to register the issuance of 6,333,211 shares of Common Stock reserved for issuance as of March 31, 1997 under the Company's 1991 Non-Qualified Stock Option Plan, as amended (the "Stock Option Plan"), and 246,920 shares of Common Stock reserved for issuance as of the same date under the Company's 1996 Stock Plan for Directors (the "Directors Stock Plan"). See "Management--Stock Option Plan" and "--Board of Directors Compensation." As of March 31, 1997, 689,477 shares of Common Stock were subject to outstanding options under the Stock Option Plan at an average exercise price of $18.48 per share. Shares issued under the Stock Option Plan and the Directors Stock Plan after the effective date of such Registration Statement will be eligible for sale in the public market without restriction, subject in the case of shares held by affiliates of the Company to the volume and certain other limitations of Rule 144. See "Shares Available for Future Sale" and "Underwriting."

## THE COMPANY

The Company is a specialty financial services company which conducts business primarily through the Bank and subsidiaries of the Bank. Unless the context otherwise requires, the "Company" refers to the Company and its subsidiaries on a consolidated basis.

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

During the early 1990s, the Company also acquired assets and liabilities of three failed savings institutions and merged Old Berkeley, a troubled financial institution, into the Bank. The Company subsequently sold substantially all of the assets and liabilities acquired in connection with these acquisitions at substantial gains.

The Company is a registered savings and loan holding company subject to regulation by the OTS. The Bank is subject to regulation by the OTS, as its chartering authority, and by the FDIC as a result of its membership in the SAIF, which insures the Bank's deposits up to the maximum extent permitted by law. The Bank also is subject to certain regulation by the Federal Reserve Board and currently is a member of the Federal Home Loan Bank ("FHLB") of New York, one of the 12 regional banks which comprise the FHLB System.

The Company's executive offices are located at 1675 Palm Beach Lakes Boulevard, West Palm Beach, Florida 33401, and the telephone number of its executive offices is (561) 681-8000.

## USE OF PROCEEDS

Net proceeds from the Common Stock Offering currently are estimated to be approximately $          ($          if the Common Stock Underwriters' over-allotment options are exercised in full), after deducting the underwriting discount and estimated offering expenses payable by the Company.

The net proceeds from the Common Stock Offering, as well as the estimated $   of net proceeds from the Capital Securities Offering to be invested by the Trust in Junior Subordinated Debentures, will be used by the Company primarily to fund discounted loan acquisition and other lending and investment activities which are currently conducted by the Company through non-banking subsidiaries of the Company and the Bank and to develop related businesses. In addition, a portion of the net proceeds from the Offerings also could be used to acquire other businesses, including other financial institutions, mortgage banking companies, particularly those which are engaged in sub-prime single-family residential lending activities, and companies which have software or other technology which would enhance the Company's ability to conduct loan servicing and other activities. Although the Company evaluates potential acquisition opportunities from time to time, currently there are no agreements, arrangements or understandings with regard to any such transaction.

## DIVIDEND POLICY

The Company does not currently pay cash dividends on the Common Stock and has no current plans to do so in the future. In the future, the timing and amount of any dividends will be determined by the Board of Directors of the Company and will depend, among other factors, upon the Company's earnings, financial condition, cash requirements, the capital requirements of the Bank and other subsidiaries and investment opportunities at the time any such payment is considered. In addition, the indentures relating to the Notes and the Junior Subordinated Debentures contain certain limitations on the payment of dividends by the Company.

As a holding company, the payment of any dividends by the Company will be significantly dependent on dividends and other payments received by the Company from its subsidiaries, including the Bank. For a description of limitations on the ability of the Company to pay dividends on the Common Stock and on the ability of the Bank to pay dividends on its capital stock to the Company, see "Risk Factors--Limited Sources for Dividends on Common Stock, Payment of Indebtedness and Funding of Non-Banking Activities" and "Regulation--The Bank--Restriction on Capital Distributions."

## MARKET FOR COMMON STOCK

The Common Stock is traded on the NYSE under the symbol "OCN." At July 31, 1997, the Company had 26,802,610 shares of Common Stock outstanding which were held by 1,331 stockholders of record. Such number of stockholders does not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms and others.

The following table sets forth the high and low bid prices of the Common Stock during each quarter since the initial public offering of the Common Stock by certain stockholders of the Company on September 25, 1996. The Common Stock was quoted on the Nasdaq Stock Market's National Market from September 25, 1996 through July 31, 1997 and has been listed on the NYSE since August 1, 1997. There was no established market for the Common Stock prior to September 25, 1996.

| | MARKET PRICE | |
|---|---|---|
| | HIGH | LOW |
| **1996** | | |
| Third quarter (from September 25) | $ 21.00 | $ 19.00 |
| Fourth quarter | 30.50 | 20.25 |
| **1997** | | |
| First quarter | 34.75 | 25.25 |
| Second quarter | 32.88 | 25.50 |
| Third quarter (through August 4) | 45.00 | 31.50 |

The Company has not paid any dividends on the Common Stock in recent years.

## CAPITALIZATION

The following table presents the consolidated capitalization of the Company at March 31, 1997, and as adjusted to give effect to the Common Stock Offering and the Capital Securities Offering. Consummation of the Common Stock Offering is not conditioned upon consummation of the Capital Securities Offering (although consummation of the latter is conditioned upon consummation of the former).

| | MARCH 31, 1997 | |
|---|---|---|
| | ACTUAL | AS ADJUSTED |
| | (DOLLARS IN THOUSANDS) | |
| Deposits | $ 2,106,829 | $ 2,106,829 |
| Borrowings and other interest-bearing obligations: | | |
| The Company: | | |
| 11.875% Notes due 2003 | $ 125,000 | $ 125,000 |
| The Bank: | | |
| FHLB advances | 399 | 399 |
| 12% Subordinated Debentures due 2005 | 100,000 | 100,000 |
| Securities sold under agreements to repurchase | 39,224 | 39,224 |
| Other subsidiaries: | | |
| Other | 573 | 573 |
| Total borrowings and other interest-bearing obligations | $ 265,196 | $ 265,196 |
| Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company(1) | $ -- | $ 125,000 |
| Stockholders' equity: | | |
| Preferred Stock, $0.01 par value: 20,000,000 shares authorized; none outstanding | $ -- | $ -- |
| Common Stock, $0.01 par value: 200,000,000 shares authorized; 26,799,511 shares outstanding; 29,799,511 shares, as adjusted(2) | 268 | 298 |
| Additional paid-in capital | 23,109 | |
| Retained earnings | 197,458 | 197,458 |
| Unrealized gain on securities available for sale, net of taxes | 6,648 | 6,648 |
| Notes receivable on exercise of options to purchase Common Stock(3) | (2,327) | (2,327) |
| Total stockholders' equity | $ 225,156 | $ |

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(1) Reflects the Capital Securities at their issue price. The sole asset of the Trust will be $128,866,000 aggregate principal amount of Junior Subordinated Debentures (including the amount attributable to the issuance of the common securities of the Trust (the "Common Securities") to the Company for $3,866,000), which will mature on , 2027. The Company owns all of the Common Securities issued by the Trust. For financial reporting purposes, (i) the Trust is a subsidiary of the Company and, accordingly, the accounts of the Trust will be included in the consolidated statement of financial condition of the Company, and (ii) the Company will record distributions payable on the Capital Securities as non-interest expense in its consolidated statement of operations. The Capital Securities will be included as a separate line item in the manner set forth above in the consolidated statement of financial condition of the Company. See "Description of Capital Securities Offering."

(2) Does not include 6,333,211 and 246,930 additional shares of Common Stock reserved for issuance as of March 31, 1997 pursuant to the Stock Option Plan and the Directors Stock Plan, respectively. See "Management--Stock Option Plan" and "--Board of Directors Compensation."

(3) See "Management--Certain Relationships and Related Transactions."

## SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA
## (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The following tables present selected consolidated financial and other data of the Company at the dates and for the periods indicated. The historical operations and balance sheet data at and for the years ended December 31, 1996, 1995, 1994, 1993 and 1992 have been derived from consolidated financial statements audited by Price Waterhouse LLP, independent certified public accountants. The historical operations and balance sheet data at and for the three months ended March 31, 1997 and 1996 have been derived from unaudited consolidated financial statements and include all adjustments, consisting only of normal recurring accruals, which the Company considers necessary for a fair presentation of the Company's results of operations for these periods. Operating results for the three months ended March 31, 1997 are not necessarily indicative of the results that may be expected for any other interim period or the entire year ending December 31, 1997. The selected consolidated financial and other data should be read in conjunction with, and is qualified in its entirety by reference to, the information in the Consolidated Financial Statements and related notes set forth elsewhere herein.

| | THREE MONTHS ENDED MARCH 31, | | YEAR ENDED DECEMBER 31, | | | |
|---|---|---|---|---|---|---|
| | 1997 | 1996 | 1996 | 1995(1) | 1994(1) | 1993(2) |
| OPERATIONS DATA: | | | | | | |
| Interest income | $ 54,527 | $ 47,956 | $ 193,894 | $ 137,275 | $ 131,458 | $ 78,923 |
| Interest expense | 37,164 | 28,132 | 116,160 | 84,060 | 62,598 | 35,306 |
| Net interest income | 17,363 | 19,824 | 77,734 | 53,215 | 68,860 | 43,617 |
| Provision for loan losses (3) | 9,742 | 9,407 | 22,450 | 1,121 | -- | -- |
| Net interest income after provision for loan losses | 7,621 | 10,417 | 55,284 | 52,094 | 68,860 | 43,617 |
| Gains on sales of interest-earning assets, net | 16,778 | 5,017 | 21,682 | 6,955 | 5,727 | 8,386 |
| Gain on sale of branch offices | -- | -- | -- | 5,430 | 62,600 | -- |
| Income (loss) on real estate owned, net | (794) | (1,916) | 3,827 | 9,540 | 5,995 | (1,158) |
| Fees on financing transactions (4) | -- | -- | -- | -- | -- | 15,340 |
| Other non-interest income | 5,367 | 191 | 11,766 | 9,255 | 7,253 | 13,304 |
| Total non-interest income | 21,351 | 3,292 | 37,275 | 31,180 | 81,575 | 35,872 |
| Non-interest expenses | 22,697 | 11,683 | 69,578 | 45,573 | 68,858 | 41,859 |
| Equity in earnings of investment in joint ventures(5) | 14,372 | -- | 38,320 | -- | -- | -- |
| Income from continuing operations before income taxes | 20,647 | 2,026 | 61,301 | 37,701 | 81,577 | 37,630 |
| Income tax expense (benefit) | 3,606 | (1,003) | 11,159 | 4,562 | 29,724 | 10,325 |
| Income from continuing operations | 17,041 | 3,029 | 50,142 | 33,139 | 51,853 | 27,305 |
| Discontinued operations (6) | -- | -- | -- | (7,672) | (4,514) | (2,270) |
| Extraordinary gains | -- | -- | -- | -- | -- | 1,538 |
| Cumulative effect of a change in accounting principle | -- | -- | -- | -- | -- | (1,341) |
| Net income | $ 17,041 | $ 3,029 | $ 50,142 | $ 25,467 | $ 47,339 | $ 25,232 |
| Income per share: | | | | | | |
| Continuing operations | $ 0.63 | $ 0.11 | $ 1.88 | $ 1.19 | $ 1.52 | $ 0.80 |
| Net income | $ 0.63 | $ 0.11 | $ 1.88 | $ 0.91 | $ 1.39 | $ 0.73 |

| | 1992 |
|---|---|
| OPERATIONS DATA: | |
| Interest income | $ 71,723 |
| Interest expense | 28,148 |
| Net interest income | 43,575 |
| Provision for loan losses (3) | -- |
| Net interest income after provision for loan losses | 43,575 |
| Gains on sales of interest-earning assets, net | 8,842 |
| Gain on sale of branch offices | -- |
| Income (loss) on real estate owned, net | 1,050 |
| Fees on financing transactions (4) | 6,760 |
| Other non-interest income | 8,130 |
| Total non-interest income | 24,782 |
| Non-interest expenses | 32,468 |

| | |
|---|---|
| Equity in earnings of investment in joint ventures(5) | -- |
| Income from continuing operations before income taxes | 35,889 |
| Income tax expense (benefit) | 11,552 |
| Income from continuing operations | 24,337 |
| Discontinued operations (6) | (1,946) |
| Extraordinary gains | 2,963 |
| Cumulative effect of a change in accounting principle | -- |
| Net income | $ 25,354 |
| Income per share: | |
| Continuing operations | $ 0.68 |
| Net income | $ 0.71 |

| | MARCH 31, | DECEMBER 31, | | | | |
|---|---|---|---|---|---|---|
| | 1997 | 1996 | 1995(1) | 1994(1) | 1993(2) | 1992 |
| BALANCE SHEET DATA: | | | | | | |
| Total assets | $ 2,649,471 | $ 2,483,685 | $ 1,973,590 | $ 1,226,403 | $ 1,396,677 | $833,117 |
| Securities available for sale (7) | 348,066 | 354,005 | 337,480 | 187,717 | 527,183 | 340,404 |
| Loans available for sale (7)(8) | 88,511 | 126,366 | 251,790 | 102,293 | 101,066 | 754 |
| Investment securities, net | 11,201 | 8,901 | 18,665 | 17,011 | 32,568 | 30,510 |
| Mortgage-related securities held for investment, net | -- | -- | -- | 91,917 | 121,550 | 114,046 |
| Loan portfolio, net (8) | 422,232 | 402,582 | 295,605 | 57,045 | 88,288 | 41,015 |
| Discounted loan portfolio (8) | 1,280,972 | 1,060,953 | 669,771 | 529,460 | 303,634 | 213,038 |
| Investment in low-income housing tax credit interests | 99,924 | 93,309 | 81,362 | 49,442 | 16,203 | -- |
| Real estate owned, net (9) | 98,466 | 103,704 | 166,556 | 96,667 | 33,497 | 4,710 |
| Investment in joint ventures, net (5) | 33,367 | 67,909 | -- | -- | -- | -- |
| Excess of cost over net assets acquired, net | -- | -- | -- | -- | 10,467 | 11,825 |
| Deposits | 2,106,829 | 1,919,742 | 1,501,646 | 1,023,268 | 871,879 | 339,622 |
| Borrowings and other interest-bearing obligations | 265,196 | 300,518 | 272,214 | 25,510 | 373,792 | 361,799 |
| Stockholders' equity | 225,156 | 203,596 | 139,547(10) | 153,383 | 111,831 | 94,396 |

| | AT OR FOR THE THREE MONTHS ENDED MARCH 31, | | AT OR FOR THE YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|---|---|
| | 1997 | 1996 | 1996 | 1995(1) | 1994(1) | 1993(2) | 1992 |
| OTHER DATA (11): | | | | | | | |
| Average assets(12) | $2,607,854 | $1,956,202 | $2,013,283 | $1,521,368 | $1,714,953 | $1,152,655 | $712,542 |
| Average equity | 212,706 | 141,374 | 161,332 | 121,291 | 119,500 | 97,895 | 82,460 |
| Return on average assets (12)(13): | | | | | | | |
| Income from continuing operations | 2.61% | 0.62% | 2.35% | 2.18% | 3.02% | 2.37% | 3.42% |
| Net income | 2.61 | 0.62 | 2.35 | 1.67 | 2.76 | 2.19 | 3.56 |
| Return on average equity (13): | | | | | | | |
| Income from continuing operations | 32.05 | 8.57 | 31.08 | 27.32 | 43.39 | 27.89 | 29.51 |
| Net income | 32.05 | 8.57 | 31.08 | 21.00 | 39.61 | 25.77 | 30.75 |
| Average equity to average assets(12) | 8.16 | 7.23 | 8.01 | 7.97 | 6.97 | 8.49 | 11.57 |
| Net interest spread | 3.48 | 5.30 | 5.46 | 5.25 | 4.86 | 4.05 | 4.66 |
| Net interest margin | 3.20 | 4.89 | 4.84 | 4.54 | 4.75 | 4.30 | 6.06 |
| Efficiency ratio (14) | 42.76 | 50.54 | 45.38 | 54.00 | 45.77 | 52.66 | 47.50 |
| Non-performing loans to loans at end of period (15) | 2.15 | 1.16 | 0.56 | 1.27 | 4.35 | 3.71 | 8.32 |
| Allowance for losses on loans to loans at end of period | 1.13 | 0.94 | 0.87 | 0.65 | 1.84 | 0.99 | 1.80 |
| Allowance for losses on discounted loans to discounted loans at end of period | 1.30 | 1.26 | 1.08 | -- | -- | -- | -- |
| Bank regulatory capital ratios at end of period: | | | | | | | |
| Tangible | 9.48 | 6.99 | 9.33 | 6.52 | 11.28 | 5.25 | 6.94 |
| Core (Leverage) | 9.48 | 6.99 | 9.33 | 6.52 | 11.28 | 6.00 | 6.94 |
| Risk-based | 13.22 | 11.41 | 12.85 | 11.80 | 14.74 | 13.31 | 21.29 |

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(1) Financial data at December 31, 1995 and 1994 reflects the Company's sale of two and twenty-three branch offices which resulted in the transfer of deposits of $111.7 million and $909.3 million, respectively, and resulted in a gain on sale of $5.4 million and $62.6 million during 1995 and 1994, respectively. Operations data for 1995 and 1994 reflects the gains from these transactions. Exclusive of these gains and related income taxes and profit sharing expense, the Company's income from continuing operations would have been $30.3 million and $24.0 million during 1995 and 1994, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations."

(2) Balance sheet data at December 31, 1993 reflects the merger of Berkeley Federal Savings Bank ("Old Berkeley") into the Bank on June 3, 1993, and operations data for the year ended December 31, 1993 reflects the operations of Old Berkeley from the date of merger. This transaction was accounted for using the purchase method of accounting.

(3) The provision for loan losses in the three months ended March 31, 1997 and 1996 and the year ended December 31, 1996 consists primarily of $8.4 million, $8.7 million and $20.6 million related to the Company's discounted loan portfolio, respectively. Beginning in the first quarter of 1996, the Company began recording general valuation allowances on discounted loans. See "Management Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Provision for Loan Losses."

(4) Represents a portion of the amounts paid to the Company in connection with the Company's acquisition of certain mortgage-related securities which generate taxable income in the first several years of the instrument's life and tax losses of an equal amount thereafter, but have minimal or no cash flows. Commencing in 1994, such amounts are deferred and recognized in interest income on a level yield basis over the expected life of that portion of the deferred tax asset which relates to tax residuals.

(5) Relates primarily to the Company's investment in LLC, a joint venture formed to acquire loans from HUD. At March 31, 1997 and December 31, 1996, the net discounted loans held by such joint venture amounted to $48.6 million and $110.7 million, respectively. All of such loans are classified as available for sale. See "Business--Investment in Joint Ventures."

(6) In September 1995 the Company announced its decision to dispose of its automated banking division, which was substantially complete at December 31, 1995. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Discontinued Operations" and Note 3 to the Consolidated Financial Statements.

(7) Securities available for sale were carried at market value at March 31, 1997 and December 31, 1996, 1995, 1994 and 1993 and amortized cost at December 31, 1992. Loans available for sale are carried at the lower of cost or market value.

(8) The discounted loan portfolio consists of mortgage loans purchased at a discount to the unpaid debt, most of which were non-performing or under-performing at the date of acquisition. The loan portfolio and loans available for sale consist of other loans which were originated or purchased by the Company for investment or for potential sale, respectively. See "Business-- Discounted Loan Acquisition and Resolution Activities" and "--Lending Activities," respectively. Data related to discounted loans does not include discounted loans held by LLC.

(9) Real estate owned consists of properties acquired by foreclosure or by deed-in-lieu thereof on loans and is primarily attributable to the Company's discounted loan acquisition and resolution business.

(10) Reflects the Company's repurchase of 8,815,060 shares of Common Stock during 1995 for an aggregate of $42.0 million.

(11) Ratios for periods subsequent to 1992 are based on average daily balances during the periods and ratios for 1992 are based on month-end balances.

Ratios for the three months ended March 31, 1997 and 1996 are annualized where appropriate.

(12) Includes the Company's pro rata share of the average assets held by LLC.

(13) Exclusive of a one-time assessment to recapitalize the SAIF in 1996 and gains from the sale of branch offices in 1995 and 1994 and related income taxes and profit sharing expense, (i) return on average assets on income from continuing operations amounted to 2.54%, 2.00% and 1.40% during 1996, 1995 and 1994, respectively, and (ii) return on average equity on income from continuing operations amounted to 33.35%, 25.02% and 20.06% during 1996, 1995 and 1994, respectively.

(14) The efficiency ratio represents non-interest expense divided by the sum of net interest income before provision for loan losses, non-interest income and equity in earnings of investment in joint venture. Exclusive of the SAIF assessment in 1996 and gains from the sales of branch offices in 1995 and 1994 and related income taxes and profit sharing expense, the efficiency ratio amounted to 41.33%, 56.34% and 64.14% during 1996, 1995 and 1994, respectively.

(15) Non-performing loans and total loans do not include loans in the Company's discounted loan portfolio or loans available for sale.

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

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

RESULTS OF OPERATIONS

GENERAL. The Company recorded net income of $17.0 million or $0.63 per share for the three months ended March 31, 1997, as compared to $3.0 million or $0.11 per share in the same period in the prior year, and net income of $50.1 million or $1.88 per share for 1996, as compared with $25.5 million or $0.91 per share for 1995 and $47.3 million or $1.39 per share for 1994. Included in net income for 1996 is a net charge of $0.15 per share related to the FDIC's assessment to recapitalize the SAIF.

The following table sets forth the Company's income from continuing operations during the periods indicated, exclusive of the one-time assessment for the recapitalization of SAIF in 1996 and gains from the sale of branch offices in 1995 and 1994, net of related income taxes and profit sharing expense, and certain performance ratios during such periods based on such income from continuing operations.

| | THREE MONTHS ENDED MARCH 31, | | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1996 | 1995 | 1994 |
| | (DOLLARS IN THOUSANDS) | | | | |
| Income from continuing operations, as adjusted | $ 17,041 | $ 3,029 | $ 54,127 | $ 30,352 | $ 23,967 |
| Return on average assets(1) | 2.61% | 0.62% | 2.54% | 2.00% | 1.40% |
| Return on average equity | 32.05% | 8.57% | 33.35% | 25.02% | 20.06% |

- ------------------------

(1) Includes the Company's pro rata share of the average assets held by LLC

In recent years, the Company has emphasized discounted loan acquisition and resolution activities and a variety of other mortgage lending activities, which generally reflect the Company's focus on business lines which offer the potential for above average returns without increased risk of loss. As a result of the Company's business strategy, the average balance of the Company's discounted loan portfolio (which does not include the Company's pro rata share of discounted loans held by LLC) increased 217.1% from $352.6 million (20.6% of total average assets) during 1994 to $675.3 million (33.5% of total average assets) during 1996 to $1.11 billion (42.9% of total average assets) during the three months ended March 31, 1997, and the average balance of the Company's other loans, including loans available for sale, increased 107.6% from $261.0 million (15.2% of total average assets) to $503.5 million (25.0% of total average assets) to $541.9 million (20.8% of total average assets) during the same respective periods. This growth in the Company's lending activities, particularly its discounted loan activities, has substantially contributed to the Company's profitability in recent periods. In this regard, the Company estimates that its discounted loan acquisition and resolution activities and its other lending activities accounted for approximately 80%, 58%, 97%, 73% and 27% of its income from continuing operations before income taxes during the three months ended March 31, 1997 and 1996 and the years ended December 31, 1996, 1995 and 1994, respectively.

The Company's discounted loan activities also include investments in joint ventures to acquire discounted loans, which to date have consisted primarily of the Company's 50% interest in LLC, a joint venture which was formed by the Company and BlackRock Capital Finance L.P. ("BlackRock") to acquire discounted loans from HUD in April 1996. Equity in earnings of investment in joint ventures amounted to $14.4 million and $38.3 million during the three months ended March 31, 1997 and the year ended

December 31, 1996, respectively, and were primarily comprised of $9.2 million and $28.5 million of gains related to the securitization of discounted single-family residential loans acquired from HUD, respectively.

The Company's lending activities and increasing use of securitizations has resulted in gains on the sale of interest-earning assets becoming a significant part of the Company's operating results. Gains from the sale of interest-earning assets amounted to $16.8 million and $5.0 million during the three months ended March 31, 1997 and 1996, respectively, and $21.7 million, $7.0 million and $5.7 million during the years ended December 31, 1996, 1995 and 1994, respectively. A significant component of these gains in 1997 and 1996 were gains from the direct sale of discounted loans and single-family residential loans to non-conforming borrowers, as well as gains from the sale of senior classes in mortgage-related securities backed by such loans.

The Company's operating results in 1995 and 1994 also were significantly affected by the effects of the sale of branch offices at the end of 1995 and 1994, which resulted in $5.4 million and $62.6 million of gains before profit sharing expense and income taxes during these respective periods. As a result of these sales, the Company's average assets decreased during 1995 and the Company's principal source of deposits shifted to brokered and other wholesale deposits.

The Company's operating results during 1995 and 1994 also were affected by losses from discontinued operations of its automated banking division and related activities, which, net of applicable tax effect, amounted to $7.7 million and $4.5 million during these periods, respectively.

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

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

| | THREE MONTHS ENDED MARCH 31, | | | | | | YEAR ENDED DECEMBER 31, | |
|---|---|---|---|---|---|---|---|---|
| | 1997 | | | 1996 | | | 1996 | |
| | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ RATE(1) | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ RATE(1) | AVERAGE BALANCE | INTEREST |
| | | | | (DOLLARS IN THOUSANDS) | | | | |
| AVERAGE ASSETS: | | | | | | | | |
| Federal funds sold and repurchase agreements | $ 132,337 | $ 1,658 | 5.01% | $ 57,191 | $ 769 | 5.38% | $ 84,997 | $ 4,681 |
| Securities held for trading | 13,179 | 248 | 7.53 | -- | -- | -- | 21,291 | 1,216 |
| Securities available for sale(2) | 338,956 | 8,173 | 9.64 | 322,322 | 7,781 | 9.66 | 284,433 | 26,932 |
| Loans available for sale(3) | 118,729 | 2,851 | 9.61 | 261,351 | 6,597 | 10.10 | 175,078 | 17,092 |
| Investment securities and other(4) | 23,032 | 681 | 11.83 | 37,912 | 644 | 6.79 | 36,264 | 3,990 |
| Mortgage-related securities held for investment | -- | -- | -- | -- | -- | -- | -- | -- |
| Loan portfolio (3) | 423,135 | 10,692 | 10.11 | 298,502 | 10,010 | 13.41 | 328,378 | 36,818 |
| Discounted loan portfolio | 1,118,233 | 30,224 | 10.81 | 645,482 | 22,155 | 13.73 | 675,345 | 103,165 |
| Total interest earning assets, interest income | 2,167,601 | 54,527 | 10.06 | 1,622,760 | 47,956 | 11.82 | 1,605,786 | 193,894 |
| Non-interest earning cash | 11,350 | | | 6,029 | | | 6,372 | |
| Investment in low-income housing tax credit interests | 90,398 | | | 85,428 | | | 83,110 | |
| Investment in joint ventures | 63,637 | | | -- | | | 46,193 | |
| Real estate owned, net | 112,227 | | | 162,988 | | | 137,250 | |
| Allowance for loan losses | (16,515) | | | (2,849) | | | (11,250) | |
| Other assets | 179,156 | | | 81,846 | | | 145,822 | |
| Total assets | $2,607,854 | | | $1,956,202 | | | $2,013,283 | |
| AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY: | | | | | | | | |
| Interest-bearing demand deposits | $ 24,699 | 227 | 3.68 | $ 26,302 | 229 | 3.48 | $ 33,167 | 620 |
| Savings deposits | 2,620 | 15 | 2.29 | 3,446 | 21 | 2.44 | 3,394 | 78 |
| Certificates of deposit | 1,964,020 | 29,652 | 6.04 | 1,465,587 | 22,751 | 6.21 | 1,481,197 | 93,075 |
| Total interest-bearing deposits | 1,991,339 | 29,894 | 6.00 | 1,495,335 | 23,001 | 6.15 | 1,517,758 | 93,773 |
| Reverse repurchase agreements | 20,934 | 272 | 5.20 | 44,985 | 653 | 5.81 | 19,581 | 1,101 |
| Securities sold but not yet purchased | -- | -- | -- | -- | -- | -- | -- | -- |
| FHLB advances | 21,521 | 283 | 5.26 | 70,399 | 1,039 | 5.90 | 71,221 | 4,053 |
| Notes, debentures and other interest bearing obligations | 225,573 | 6,715 | 11.91 | 116,335 | 3,439 | 11.82 | 148,282 | 17,233 |
| Total interest -bearing liabilities, interest expense | 2,259,367 | 37,164 | 6.58 | 1,727,054 | 28,132 | 6.52 | 1,756,842 | 116,160 |
| Non-interest bearing deposits | 15,543 | | | 4,323 | | | 10,938 | |
| Escrow deposits | 71,713 | | | 37,167 | | | 41,306 | |
| Other liabilities | 48,525 | | | 46,284 | | | 42,865 | |
| Total liabilities | 2,395,148 | | | 1,814,828 | | | 1,851,951 | |
| Stockholders' equity | 212,706 | | | 141,374 | | | 161,332 | |
| Total liabilities and stockholders' equity | $2,607,854 | | | $1,956,202 | | | $2,013,283 | |
| Net interest income | | $ 17,363 | | | $ 19,824 | | | $ 77,734 |
| Net interest spread | | | 3.48% | | | 5.30% | | |
| Net interest margin | | | 3.20% | | | 4.89% | | |
| Ratio of interest-earning assets to interest-bearing liabilities | 96% | | | 94% | | | 91% | |

| | | 1995 | | | 1994 | | |
|---|---|---|---|---|---|---|---|
| | AVERAGE YIELD/ RATE | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ RATE | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ RATE |
| AVERAGE ASSETS: | | | | | | | |
| Federal funds sold and repurchase agreements | 5.51% | $ 55,256 | $ 3,502 | 6.34% | $ 166,592 | $ 8,861 | 5.32% |
| Securities held for trading | 5.71 | -- | -- | -- | -- | -- | -- |
| Securities available for sale(2) | 9.47 | 211,559 | 18,391 | 8.69 | 449,654 | 27,988 | 6.22 |
| Loans available for sale(3) | 9.76 | 167,011 | 15,608 | 9.35 | 179,962 | 19,353 | 10.75 |
| Investment securities and other(4) | 11.00 | 46,440 | 4,033 | 8.68 | 79,895 | 9,842 | 12.32 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Mortgage-related securities held for investment | -- | 77,257 | 4,313 | 5.58 | 140,321 | 6,930 | 4.94 |
| Loan portfolio (3) | 11.21 | 130,901 | 15,430 | 11.79 | 81,070 | 5,924 | 7.31 |
| Discounted loan portfolio | 15.28 | 483,204 | 75,998 | 15.73 | 352,633 | 52,560 | 14.91 |
| Total interest earning assets, interest income | 12.07 | 1,171,628 | 137,275 | 11.72 | 1,450,127 | 131,458 | 9.07 |
| Non-interest earning cash | | 17,715 | | | 27,717 | | |
| Investment in low-income housing tax credit interests | | 63,925 | | | 39,135 | | |
| Investment in joint ventures | | -- | | | -- | | |
| Real estate owned, net | | 144,348 | | | 51,314 | | |
| Allowance for loan losses | | (1,180) | | | (2,689) | | |
| Other assets | | 124,932 | | | 149,349 | | |
| Total assets | | $1,521,368 | | | $1,714,953 | | |
| AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY: | | | | | | | |
| Interest-bearing demand deposits | 1.87 | $ 31,373 | 1,031 | 3.29 | $ 77,433 | 1,396 | 1.80 |
| Savings deposits | 2.30 | 20,370 | 451 | 2.21 | 138,434 | 2,602 | 1.88 |
| Certificates of deposit | 6.28 | 1,119,836 | 70,371 | 6.28 | 928,209 | 40,963 | 4.41 |
| Total interest-bearing deposits | 6.18 | 1,171,579 | 71,853 | 6.13 | 1,144,076 | 44,961 | 3.93 |
| Reverse repurchase agreements | 5.62 | 16,754 | 951 | 5.68 | 254,457 | 10,416 | 4.09 |
| Securities sold but not yet purchased | -- | 17,149 | 1,142 | 6.66 | 39,526 | 2,780 | 7.03 |
| FHLB advances | 5.69 | 14,866 | 1,126 | 7.57 | 26,476 | 1,232 | 4.65 |
| Notes, debentures and other interest bearing obligations | 11.62 | 78,718 | 8,988 | 11.42 | 25,041 | 3,209 | 12.81 |
| Total interest -bearing liabilities, interest expense | 6.61 | 1,299,066 | 84,060 | 6.47 | 1,489,576 | 62,598 | 4.20 |
| Non-interest bearing deposits | | 19,960 | | | 69,276 | | |
| Escrow deposits | | 4,073 | | | 2,430 | | |
| Other liabilities | | 76,978 | | | 34,171 | | |
| Total liabilities | | 1,400,077 | | | 1,595,453 | | |
| Stockholders' equity | | 121,291 | | | 119,500 | | |
| Total liabilities and stockholders' equity | | $1,521,368 | | | $1,714,953 | | |
| Net interest income | | | $ 53,215 | | | $ 68,860 | |
| Net interest spread | 5.46% | | | 5.25% | | | 4.86% |
| Net interest margin | 4.84% | | | 4.54% | | | 4.75% |
| Ratio of interest-earning assets to interest-bearing liabilities | | 90% | | | 97% | | |

- ------------------------

(1) Annualized.

(2) Excludes effect of unrealized gains or losses on securities available for sale, net of taxes.

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

(4) Interest income from investment securities and other includes interest income attributable to that portion of the Company's deferred tax asset which relates to tax residuals. See "Taxation-Federal Taxation-Tax Residuals" and Note 21 to the Consolidated Financial Statements. If the average balance of the deferred tax asset related to tax residuals was included in the average balance of investment securities and other, the weighted average yield would have been 11.82% and 4.47% during the three months ended March 31, 1997 and 1996, respectively, and 7.34%, 5.93% and 11.48% during the years ended December 31, 1996, 1995 and 1994, respectively.

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

| | THREE MONTHS ENDED MARCH 31, | | | YEAR ENDED DECEMBER 31, | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1997 VS. 1996 | | | 1996 VS. 1995 | | | 1995 VS. 1994 | | |
| | INCREASE (DECREASE) DUE TO | | | INCREASE (DECREASE) DUE TO | | | INCREASE (DECREASE) DUE TO | | |
| | RATE | VOLUME | TOTAL | RATE | VOLUME | TOTAL | RATE | VOLUME | TOTAL |
| | (DOLLARS IN THOUSANDS) | | | | | | | | |
| INTEREST-EARNING ASSETS: | | | | | | | | | |
| Federal funds sold and repurchase agreements | $ (56) | $ 945 | $ 889 | $ (507) | $ 1,686 | $ 1,179 | $ 1,445 | $ (6,804) | $ (5,359) |
| Securities held for trading | 248 | -- | 248 | 608 | 608 | 1,216 | -- | -- | -- |
| Securities available for sale | (9) | 401 | 392 | 1,757 | 6,784 | 8,541 | 8,584 | (18,181) | (9,597) |
| Loans available for sale | (307) | (3,439) | (3,746) | 713 | 771 | 1,484 | (2,417) | (1,328) | (3,745) |
| Investment securities and other | 355 | (318) | 37 | 947 | (990) | (43) | (2,401) | (3,408) | (5,809) |
| Mortgage-related securities held for investment | -- | -- | -- | -- | (4,313) | (4,313) | 812 | (3,429) | (2,617) |
| Loan portfolio | (2,850) | 3,532 | 682 | (788) | 22,176 | 21,388 | 4,747 | 4,759 | 9,506 |
| Discounted loan portfolio | (5,484) | 13,553 | 8,069 | (2,235) | 29,402 | 27,167 | 3,041 | 20,397 | 23,438 |
| Total interest-earning assets | (8,103) | 14,674 | 6,571 | 495 | 56,124 | 56,619 | 13,811 | (7,994) | 5,817 |
| INTEREST-BEARING LIABILITIES: | | | | | | | | | |
| Interest-bearing demand deposits | 12 | (14) | (2) | (467) | 56 | (411) | 752 | (1,117) | (365) |
| Savings deposits | (1) | (5) | (6) | 17 | (390) | (373) | 395 | (2,546) | (2,151) |
| Certificates of deposit | (640) | 7,541 | 6,901 | (3) | 22,707 | 22,704 | 19,777 | 9,631 | 29,408 |
| Total interest-bearing deposits | (629) | 7,522 | 6,893 | (453) | 22,373 | 21,920 | 20,924 | 5,968 | 26,892 |
| Reverse repurchase agreements | (62) | (319) | (381) | (9) | 159 | 150 | 2,926 | (12,391) | (9,465) |
| Securities sold but not yet purchased | -- | -- | -- | -- | (1,142) | (1,142) | (141) | (1,497) | (1,638) |
| FHLB advances | (103) | (653) | (756) | (345) | 3,272 | 2,927 | 574 | (680) | (106) |
| Notes, debentures and other | 24 | 3,252 | 3,276 | 163 | 8,082 | 8,245 | (386) | 6,165 | 5,779 |
| Total interest-bearing liabilities | (770) | 9,802 | 9,032 | (644) | 32,744 | 32,100 | 23,897 | (2,435) | 21,462 |
| Increase (decrease) in net interest income | $ (7,333) | $ 4,872 | $ (2,461) | $ 1,139 | $ 23,380 | $ 24,519 | $ (10,086) | $ (5,559) | $ (15,645) |

THREE MONTHS ENDED MARCH 31, 1997 VERSUS THREE MONTHS ENDED MARCH 31, 1996

Net interest income before provision for loan losses decreased $2.5 million or 12.4% during the three months ended March 31, 1997, as compared to the same period in the prior year. This decrease was attributable to a 182 basis point decrease in the net interest spread from 5.30% to 3.48% during the three months ended March 31, 1996 and 1997, respectively, which more than offset a $544.8 million or 33.6% increase in average interest-earning assets from period to period. Both the decrease in the net interest spread and the increase in average interest-earning assets were primarily attributable to the discounted loan portfolio.

Interest income on the discounted loan portfolio increased $8.1 million or 36.4% during the three months ended March 31, 1997, as compared to the same period in the prior year, as a result of a $472.8 million or 73.2% increase in the average balance of the discounted loan portfolio, which was offset in part by a 292 basis point decrease in the weighted average yield earned. The decrease in the yield was partly attributable to a 138% increase in the average balance of discounted single-family residential loans as a result of acquisitions from HUD. A majority of the $425.6 million of discounted single-family residential loans acquired by the Company from HUD in the first quarter of 1997 is currently under a HUD forbearance plan, which generally results in a lower effective yield than the contract rate. The decrease in the weighted average yield on the discounted loan portfolio also reflects a change in the Company's strategy to resolve discounted loans through placing the borrowers on payment plans or other forms of loan modification. In prior periods, the Company emphasized pre-foreclosure resolutions through pre-approved sales of the underlying collateral or loan payoffs, which results in a higher interest yield because the amount by which the payoff proceeds exceed book value is included in interest income. As a result of this change in strategy and other factors, the Company decided to cease accretion of discount on non-performing discounted single-family residential loans effective January 1, 1997. See "--Recent Regulatory Developments" below. Discount accretion on the non-performing discounted single-family residential loan portfolio amounted to $2.0 million or 125 basis points in yield during the three months ended March 31, 1996. As a result of these factors, the Company believes that for the remainder of 1997 the yield earned on its discounted loan portfolio will remain below the yield earned in prior years but that the change in strategy should improve the ultimate value of the discounted loan portfolio.

Interest income on the loan portfolio increased $682,000 or 6.8% during the three months ended March 31, 1997, as compared to the same period in the prior year, primarily due to a $124.6 million or 41.8% increase in the average balance of the loan portfolio during this period, as compared to the same period in 1996, which was offset in part by a 330 basis point decrease in the weighted average yield earned. The decrease in the yield was primarily due to $2.1 million of fees earned during the first quarter of 1996 in connection with the repayment of hotel loans.

Interest income on loans available for sale decreased $3.7 million or 56.8% in the first quarter of 1997, as compared to the same period in 1996, due to a decrease in the average balance of loans available for sale of $142.6 million or 54.6% and a 49 basis point decrease in the weighted average yield earned.

The increase in interest expense during the three months ended March 31, 1997, as compared to the same period in the prior year, reflects the Company's continued use of certificates of deposit to fund its asset growth and the issuance of $125.0 million of 11.875% Notes in September 1996. The average amount of the Company's certificates of deposit increased from $1.47 billion during the three months ended March 31, 1996 to $1.96 billion during the three months ended March 31, 1997.

1996 VERSUS 1995

The Company's net interest income increased $24.5 million or 46.1% during 1996, as compared to the prior year. This increase resulted from a $56.6 million or 41.2% increase in interest income due to a $434.2 million or 37.1% increase in average interest-earning assets during 1996 and, to a lesser extent, a 35 basis point increase in the weighted average yield on such assets. The increase in interest income was offset in part by a $32.1 million or 38.2% increase in interest expense due to a $457.8 million or 35.2% increase in average interest-bearing liabilities, primarily certificates of deposit, FHLB advances, notes and debentures, and to a lesser extent, a 14 basis point increase in the weighted average rate paid on interest-bearing liabilities. The Company's net interest margin increased to 4.84% in 1996 from 4.54% in 1995.

The increase in interest income during 1996, as compared to the prior year, reflects substantial increases in the average balances on the discounted loan portfolio and the loan portfolio as a result of the Company's increased emphasis on multi-family residential and commercial real estate loans, as well as an increase in the average balance of loans available for sale as a result of the Company's emphasis on single-family residential loans to non-conforming borrowers. Beginning in 1996, adjustments to reduce the carrying value of discounted loans to the fair value of the property securing the loan are charged against the allowance for loan losses on the discounted loan portfolio and not against interest income on discounted loans. Had charge-offs on discounted loans been included as a reduction of interest income in 1996, the weighted average yield on the discounted loan portfolio would have been 13.9%.

The average balance of the Company's interest-bearing liabilities increased substantially during 1996, as compared to the prior year, as a result of a $361.4 million or 32.3% increase in the average balance of certificates of deposit, a $56.4 million or 379.1% increase in the average balance of FHLB advances and a $69.6 million or 88.4% increase in the average balance of notes and debentures, which reflect the Company's continued reliance on brokered and other wholesale certificates of deposit and advances from the FHLB as a source of funds and the Company's issuance of the Notes in September 1996 and the Bank's issuance of the Debentures in June 1995, respectively.

1995 VERSUS 1994

The Company's net interest income decreased $15.6 million or 22.7% during 1995 as a result of a $21.5 million or 34.3% increase in interest expense, which was primarily attributable to the Company's use of brokered and other wholesale deposits as a principal source of funds following the branch sale in 1994. The Company believes that the increase in interest expense in 1995 was substantially offset by the decrease in non-interest expense during this period as a result of the branch sales at the end of 1995 and 1994. The Company's interest income increased by $5.8 million or 4.4% during 1995, but was adversely affected by a decrease in the average balance of interest-earning assets during the period as a result of the branch sales. The Company's net interest margin decreased from 4.75% during 1994 to 4.54% during 1995.

The weighted average yield on interest-earning assets increased from 9.07% in 1994 to 11.72% in 1995 primarily as a result of increases in the weighted average yields on the Company's loan portfolio and discounted loan portfolio. The weighted average yield on the Company's loan portfolios increased during 1995 because commercial real estate loans, which have higher interest rates than single-family residential loans, comprised a significantly larger proportion of such portfolios during this period. Average interest-earning assets decreased by $278.5 million or 19.2% during 1995 as increases in the outstanding balances of the Company's loan portfolios were more than offset by decreases in the average balances of all other categories of interest-earning assets as a result of the sales of branch offices at the end of 1995 and 1994.

The weighted average rate paid on interest-bearing liabilities increased from 4.20% in 1994 to 6.47% in 1995 as a result of the Company's increased utilization of brokered and other wholesale deposits, as noted above, and an increase in market interest rates generally. Average interest bearing liabilities decreased by $190.5 million or 12.8% in 1995 as increases in the average balances of certificates of deposits and subordinated debentures and other interest-bearing obligations, due primarily to the Bank's issuance of the Debentures in June 1995, were more than offset by decreases in the average balances of all other categories of interest-bearing liabilities.

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

Provisions for loan losses amounted to $9.7 million and $9.4 million during the three months ended March 31, 1997 and 1996, respectively, and $22.5 million, $1.1 million and $0 during the years ended December 31, 1996, 1995 and 1994, respectively. The provisions for losses in the three months ended March 31, 1997 and 1996 and the year ended December 31, 1996 were primarily attributable to a change in methodology for valuing discounted loans, which was adopted by the Company effective January 1, 1996 at the request of the OTS. Pursuant to this change in methodology, the Company establishes provisions for losses on discounted loans as necessary to maintain an allowance for losses at a level which management believes reflects the inherent losses which may have occurred but have not yet been specifically identified, and records all charge-offs on the discounted loan portfolio, net of recoveries, against the allowance for losses on discounted loans. Prior to 1996, provisions for losses on loans were not established in connection with the discounted loan portfolio because adjustments to reduce the carrying value of discounted loans to the lower of amortized cost or the fair market value of the properties securing the loans discounted at the effective interest rate, which amounted to $5.0 million in 1995, were recorded in interest income on discounted loans.

Provision for losses on the discounted loan portfolio amounted to $8.4 million, $8.7 million and $20.6 million during the three months ended March 31, 1997 and 1996 and the year ended December 31, 1996, respectively, and net charge-offs on the discounted loan portfolio amounted to $3.2 million, $525,000 and $9.2 million during the same respective periods.

Provisions for losses on the loan portfolio amounted to $1.3 million and $699,000 during the three months ended March 31, 1997 and 1996, respectively, and $1.9 million, $1.1 million and $0 during the years ended December 31, 1996, 1995 and 1994, respectively. Net charge-offs on the loan portfolio amounted to $34,000 and $15,000 during the three months ended March 31, 1997 and 1996, respectively, and $296,000 and $245,000 during the years ended December 31, 1996 and 1995, respectively. The Company had net recoveries of $187,000 on the loan portfolio in 1994. The increases in the provisions for losses on the loan portfolio in recent periods were primarily the result of increases in the amount of loans outstanding, particularly commercial real estate loans.

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

NON-INTEREST INCOME. Non-interest income increased $18.1 million or 549% in the three months ended March 31, 1997, as compared to the same period in the prior year, and, exclusive of $5.4 million and $62.6 million of gains from the sale of branch offices in 1995 and 1994, respectively, non-interest income increased $11.5 million or 44.8% in 1996 and $6.8 million or 35.7% in 1995. The increases in non-interest income during the three months ended March 31, 1997 and the year ended December 31, 1996 were primarily attributable to gains on the sale of interest-earning assets, and the increase in non-interest income during the year ended December 31, 1995 was primarily attributable to such gains, gain on the sale of a hotel and an increase in income from real estate owned.

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

| | THREE MONTHS ENDED MARCH 31, | | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1996 | 1995 | 1994 |
| | (DOLLARS IN THOUSANDS) | | | | |
| Servicing fees and other charges | $ 5,236 | $ (681) | $ 4,682 | $ 2,870 | $ 4,786 |
| Gains on sales of interest-earning assets, net | 16,778 | 5,017 | 21,682 | 6,955 | 5,727 |
| Income (loss) on real estate owned, net | (794) | (1,916) | 3,827 | 9,540 | 5,995 |
| Gain on sale of hotel | -- | -- | -- | 4,658 | -- |
| Other income | 131 | 872 | 7,084 | 1,727 | 2,467 |
| Subtotal | 21,351 | 3,292 | 37,275 | 25,750 | 18,975 |
| Gain from sale of branch offices | -- | -- | -- | 5,430 | 62,600 |
| Total | $ 21,351 | $ 3,292 | $ 37,275 | $ 31,180 | $ 81,575 |

Servicing fees and other charges increased in the three months ended March 31, 1997 and in the year ended December 31, 1996 primarily as a result of increases in loan servicing and related fees, which reflect an increase in the number and amount of loans serviced by the Company for others (including LLC) from 1,366 and $361.6 million at December 31, 1995, respectively, to 38,670 and $2.59 billion at March 31, 1997, respectively. Servicing fees and other charges during the three months ended March 31, 1997 include $1.1 million of fees earned in connection with the setup of loans transferred to the Company for servicing during this period, and servicing fees and other charges during the same period in the prior year include a $928,000 valuation adjustment to mortgage servicing rights due to a significant increase in prepayments of the underlying loans serviced, which were primarily attributable to refinancings. See "Business--Loan Servicing Activities." Servicing fees and other charges decreased in 1995, primarily as a result of a $2.3 million decrease in deposit-related fees, which decreased as a result of the branch sales at the end of 1995 and 1994, and a $121,000 decrease in loan fees primarily as a result of a decrease in late charges on loans, which were offset in part by a $783,000 servicing fee received by the Company from the purchaser of the branch offices sold at the end of 1994 for servicing deposits subsequent to the sale but prior to their effective transfer.

Net gains on sales of interest-earning assets during the three months ended March 31, 1997 were primarily attributable to the securitization by the Company, LLC and an affiliate of BlackRock of 2,916 discounted single-family residential loans with an unpaid principal balance of $140.7 million and past due interest of $37.1 million, all of which were acquired from HUD during 1996 and 1995. The Company realized a $9.5 million gain as a result of its direct participation in this transaction. Net gains on sales of interest-earning assets during the three months ended March 31, 1997 also include $2.7 million of gains from sales of sub-prime single-family residential loans and $3.5 million of gains from sales of discounted commercial real estate loans. Net gains on sales of interest-earning assets during the three months ended March 31, 1996 were primarily comprised of a $5.4 million gain from the sale of discounted single-family residential loans which had been brought current in accordance with their terms.

Net gains on sales of interest-earning assets in 1996 were primarily comprised of a $5.4 million gain from the sale of 256 single-family loans in the Company's discounted loan portfolio which had been brought current in accordance with their terms, a $4.5 million gain from the sale of discounted commercial real estate loans, a $7.2 million net gain from the securitization of $219.6 million of sub-prime single-family residential loans and subsequent sale of the senior classes of mortgage-backed securities backed by such loans, and a $7.9 million net gain from the securitization of $136.5 million of large discounted commercial real estate loans and subsequent sale of the mortgage-backed securities backed by such loans. Net gains on sales of interest-earning assets in 1995 were primarily comprised of a $6.0 million gain from the sale of loans in the Company's discounted loan portfolio which had been brought current in accordance with their terms and a $1.6 million gain from the securitization of $83.9 million of multi-family residential loans and subsequent sale of the mortgage-backed securities backed by such loans. Net gains on sales of interest-earning assets in 1994 were primarily comprised of $7.2 million of net gains from the sale of multi-family residential loans and mortgage-backed securities, $1.8 million of gains from trading activities, $890,000 of gains from the sale of loans in the Company's discounted loan portfolio which had been brought current in accordance with their terms and $2.1 million of gains from the sale of timeshare and other consumer loans, which more than offset $6.3 million of net losses from the sale of mortgage-backed and related securities backed by single-family residential loans.

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

The following table sets forth the information regarding the Company's income (loss) on real estate owned during the periods indicated, which were primarily related to the discounted loan portfolio.

| | THREE MONTHS ENDED MARCH 31, | | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1996 | 1995 | 1994 |
| | (DOLLARS IN THOUSANDS) | | | | |
| Gains on sales | $ 3,898 | $ 3,900 | $ 22,835 | $ 19,006 | $ 21,308 |
| Provision for losses in fair value | (2,337) | (6,378) | (18,360) | (10,510) | (9,074) |
| Rental income (carrying costs), net | (2,355) | 562 | (648) | 1,044 | (6,239) |
| Income (loss) on real estate owned, net | $ (794) | $ (1,916) | $ 3,827 | $ 9,540 | $ 5,995 |

Income (loss) on real estate owned primarily relates to real estate owned acquired by foreclosure or deed-in-lieu thereof on loans in the Company's discounted loan portfolio. The increase in the provision for losses in fair value on real estate owned during 1996 was primarily attributable to discussions between the Company and the OTS following an examination of the Bank by the OTS. The Company incurred $2.4 million of carrying costs, net during the three months ended March 31, 1997, as compared to $562,000 of rental income, net during the same period in the prior year, primarily because properties acquired by foreclosure or by deed-in-lieu thereof on loans acquired from HUD generally require more repairs than other properties. In addition, during the first quarter of 1997 the Company accrued $675,000 of expenses related to a bulk sale of real estate owned. For additional information relating to the Company's real estate owned, see "Business--Asset Quality--Real Estate Owned."

In October 1995, the Company sold one of the two hotels owned by the Company for a gain of $4.7 million.

Other income increased during 1996 primarily as a result of a $4.9 million gain on the sale of certain of the Company's investment in low-income housing tax credits. See "Business-Investment Activities-Investments in Low Income Housing Tax Credit Interests." Other income decreased in 1995 primarily because other income in 1994 included $627,000 of servicing fees received in connection with the servicing of the private mortgage insurance business of subsidiaries of Investors Mortgage Insurance Holding Company ("IMI"), which were sold in 1993, and $858,000 of fees received by Ocwen Asset Management, Inc. ("OAM"), a subsidiary of the Company which had managed mortgage-backed and related securities as a discretionary asset manager for an unaffiliated party. These decreases were partially offset by a $1.0 million litigation settlement received in 1995 from a broker-dealer relating to a tax residual transaction.

The Company realized a $5.4 million gain from the sale of two branch offices and $111.7 million of related deposits at the end of 1995 and a $62.6 million gain from the sale of 23 branch offices and $909.3 million of related deposits at the end of 1994. The Company sold these branch offices and the related deposit liabilities because of the premiums which could be obtained for such deposits under existing market and economic conditions and because the Company believed that it could replace these deposits with other sources of funds, such as brokered and other wholesale deposits, FHLB advances and reverse repurchase agreements, which management generally believes have an effective cost to the Company which is more attractive than the deposits obtained from branch offices after the general and administrative expense associated with such offices is taken into account. The Company funded the sale of the deposits transferred in the branch sales with cash and cash equivalents obtained from brokered and other wholesale deposits, proceeds obtained from sales of securities classified as available for sale and other sources of funds. For a breakdown of the components of the gains from the branch sales, see Note 2 to the Consolidated Financial Statements.

NON-INTEREST EXPENSE. Non-interest expense increased $11.0 million or 94.3% during the three months ended March 31, 1997, as compared to the same period in 1996, and by $24.0 million or 52.7% during the year ended December 31, 1996, and decreased by $23.3 million or 33.8% during the year ended December 31, 1995. The increase in non-interest expense during the three months ended March 31, 1997, as compared to the same period in the prior year, was primarily attributable to an $8.8 million or 141.9% increase in compensation and employee benefits. The increase in non-interest expense in 1996 was primarily related to a $14.6 million or 61.3% increase in employee compensation and benefits and the SAIF assessment of $7.1 million. The decrease in non-interest expense in 1995 reflects the sale of 23 of the Company's branch offices at the end of 1994 and, to a lesser extent, the sale of two of the Company's other branch offices at the end of 1995.

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

| | THREE MONTHS ENDED MARCH 31, | | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1996 | 1995 | 1994 |
| | (DOLLARS IN THOUSANDS) | | | | |
| Compensation and employee benefits | $ 14,923 | $ 6,170 | $ 38,357 | $ 23,787 | $ 42,395 |
| Occupancy and equipment | 2,829 | 2,045 | 8,921 | 8,360 | 11,537 |
| Amortization of goodwill | -- | -- | -- | -- | 1,346 |
| Net operating (gains) losses on investments in real estate and certain low-income housing tax credit interests | 1,093 | 461 | (453) | 337 | (723) |
| SAIF assessment | -- | -- | 7,140 | -- | -- |
| Other operating expenses | 3,852 | 3,007 | 15,613 | 13,089 | 14,303 |
| Total | $ 22,697 | $ 11,683 | $ 69,578 | $ 45,573 | $ 68,858 |

The increases in compensation and employee benefits during the three months ended March 31, 1997 and the year ended December 31, 1996 reflect increases in the average number of full-time equivalent employees from 323 to 629 during the three months ended March 31, 1996 and 1997, respectively, and from 344 to 398 during the year ended December 31, 1995 and 1996, respectively. In addition, profit sharing expense increased by $3.6 million during the three months ended March 31, 1997, as compared to the same period in the prior year, and by $8.4 million during the year ended December 31, 1996. The decrease in compensation and employee benefits in 1995 reflected a decrease in the average number of full-time equivalent employees from 548 in 1994 to 344 in 1995 as a result of the sales of branch offices and other reduction in work force measures, as well as a $10.7 million decrease in profit sharing expense.

The increase in occupancy and equipment expense during the three months ended March 31, 1997, as compared to the same period in the prior year, was primarily due to an increase in data processing costs and office equipment expenses. The increase in occupancy and equipment expense in 1996 was related to the increase in leased office space attributable to the increase in the number of full-time equivalent employees discussed above. The decrease in occupancy and equipment expense in 1995 reflected the sale of branch offices at the end of 1994 and lower occupancy costs as a result of the Company's move to new executive offices in 1995.

Net operating losses on investments in real estate and certain low-income housing tax credit interests, which includes hotel operations, increased during the three months ended March 31, 1997, as compared to the same period in 1996, as a result of net operating losses and depreciation expense on low-income housing tax credit interests placed in service since the first quarter of 1996. The changes in this item during 1996, 1995 and 1994 generally reflect the Company's acquisition of two hotels for investment in mid-1993 and the significant renovation and sale of one of these hotels in 1995, as discussed above.

Other operating expenses increased by $845,000 during the three months ended March 31, 1997, as compared to the same period in the prior year, primarily due to a $600,000 increase in loan related expenses and a $200,000 increase in professional fees, which were offset in part by lower FDIC insurance premium expenses of $405,000. Other expenses increased by $2.5 million in 1996, primarily as a result of an $885,000 increase in FDIC insurance premiums and a $1.7 million increase in loan related expenses. Other expenses decreased in 1995 primarily as a result of a $641,000 decrease in travel and lodging expenses, a $337,000 decrease in marketing expenses and a $683,000 decrease in miscellaneous other expenses, which were offset in part by a $1.1 million increase in loan related expenses. See Note 25 to the Consolidated Financial Statements.

EQUITY IN EARNINGS OF INVESTMENT IN JOINT VENTURE. Equity in earnings of investment in joint venture relates primarily to LLC. The Company's $14.4 million of earnings from LLC during the three months ended March 31, 1997 consisted of 50% of the net income of LLC before deduction of the Company's 50% share of loan servicing fees, which are paid 100% to the Company, and the recapture of $2.5 million of valuation allowances established in 1996 by the Company on its equity investment in LLC as a result of the resolution and securitization of loans. The Company's 50% pro rata share of LLC's income during the three months ended March 31, 1997 consisted primarily of $1.7 million of interest income on discounted loans and $9.2 million of gains on the sale of discounted loans, including the securitization of HUD loans in March 1997 as part of a larger transaction involving the Company and an affiliate of BlackRock.

The Company's equity in earnings of LLC amounted to $38.3 million in 1996 and included 50% of the net income of LLC before deduction of the Company's 50% share of loan servicing fees, which are paid 100% to the Company, 50% of the gain on sale of loan servicing rights which the Company acquired from LLC, $7.6 million in provision for losses on the equity investment in LLC and a $460,000 gain on sale of future contracts used to hedge the loans securitized. The Company's 50% pro rata share of LLC's income in 1996 consisted primarily of $10.1 million of net interest income on discounted loans and $35.6 million of gains on sales of discounted loans. The Company has recognized 50% of the loan servicing fees not eliminated in consolidation in servicing fees and other charges. See "Business--Investment in Joint Ventures," Note 3 to the Interim Consolidated Financial Statements and Note 2 to the Consolidated Financial Statements.

INCOME TAX EXPENSE (BENEFIT). Income tax expense (benefit) amounted to $3.6 million and $(1.0) million during the three months ended March 31, 1997 and 1996, respectively. The Company's income tax expense is reported net of tax credits of $3.6 million and $2.4 million during the first quarter of 1997 and 1996, respectively, resulting from the Company's investment in low-income housing tax credit interests.

Exclusive of such amounts, the Company's effective tax rate amounted to 34.7% and 37.0% during the three months ended March 31, 1997 and 1996, respectively.

Income tax expense on the Company's income from continuing operations amounted to $11.2 million, $4.6 million and $29.7 million during 1996, 1995 and 1994, respectively. The Company's effective tax rate amounted to 18.2%, 12.1% and 36.4% during 1996, 1995 and 1994, respectively. The Company's low effective tax rates in 1996 and 1995 were primarily attributable to the tax credits resulting from the Company's investment in low-income housing tax credit interests, which amounted to $9.3 million, $7.7 million and $5.4 million during 1996, 1995 and 1994, respectively. The Company's effective tax rate in 1994 includes the effects of the Company's write-off of the remaining goodwill of $9.1 million in connection with the sale of branch offices which was not deductible for tax purposes, and an increase in state taxes, which more than offset the benefits of tax credits resulting from the Company's investment in low-income housing tax credit interests. Exclusive of the above amounts, the Company's effective tax rate amounted to 33.4%, 32.6% and 38.73% during 1996, 1995 and 1994, respectively. For additional information see " -- Changes in Financial Condition--Investments in Low-Income Tax Credit Interests" below.

DISCONTINUED OPERATIONS. In September 1995, the Company announced its decision to dispose of its automated banking division, which generally emphasized the installation of automated teller machines and automated banking centers in a wide variety of locations which were not associated with branch offices of the Company, as well as the development and installation of an automated multi-application card system for the distribution of financial products and services to members of a college or university population. As a result of this decision, an after-tax loss on disposal of $3.2 million was recorded, which consisted of a net loss of $2.0 million on the sale of assets and a loss of $1.2 million incurred from related operations until the sale and disposition, which was substantially completed at December 31, 1995. Losses from the operations of the discontinued division prior to discontinuance, net of tax, amounted to $4.5 million during 1995 and 1994. See Note 3 to the Consolidated Financial Statements.

CHANGES IN FINANCIAL CONDITION

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

| | MARCH 31, 1997 | DECEMBER 31, 1996 | DECEMBER 31, 1995 |
|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | |
| Assets: | | | |
| Securities held for trading | $ -- | $ 75,606 | $ -- |
| Securities available for sale | 348,066 | 354,005 | 337,480 |
| Loans available for sale | 88,511 | 126,366 | 251,790 |
| Loan portfolio, net | 422,232 | 402,582 | 295,605 |
| Discounted loan portfolio, net | 1,280,972 | 1,060,953 | 669,771 |
| Investment in low-income housing tax credit interests | 99,924 | 93,309 | 81,362 |
| Investment in joint ventures | 33,367 | 67,909 | -- |
| Real estate owned, net | 98,466 | 103,704 | 166,556 |
| Investment in real estate | 46,132 | 41,033 | 11,957 |
| Deferred tax asset | 3,253 | 5,860 | 22,263 |
| Total assets | 2,649,471 | 2,483,685 | 1,973,590 |
| Liabilities: | | | |
| Deposits | 2,106,829 | 1,919,742 | 1,501,646 |
| FHLB advances | 399 | 399 | 70,399 |
| Reverse repurchase agreements | 39,224 | 74,546 | 84,761 |
| Notes, debentures and other | 225,573 | 225,573 | 117,054 |
| Total liabilities | 2,424,315 | 2,280,089 | 1,834,043 |
| Stockholders' equity | 225,156 | 203,596 | 139,547 |

SECURITIES HELD FOR TRADING. The Company held $75.6 million in single-family CMOs for trading at December 31, 1996. This security, which was sold in January 1997, was acquired from LLC in 1996 in connection with LLC's securitization of a portion of the loans acquired by it from HUD. See "Business-- Investment in Joint Ventures-Securitization of HUD Loans by LLC."

SECURITIES AVAILABLE FOR SALE. Securities available for sale decreased $5.9 million or 1.7% during the three months ended March 31, 1997 due primarily to $14.0 million of sales and $14.0 million of principal repayments and net premium amortization, which were offset in part by $21.7 million of purchases, including the acquisition of a $3.8 million subordinate security in connection with the Company's securitization of single-family residential loans acquired from HUD and sale of the senior classes of securities backed by such loans. Securities available for sale increased $16.5 million or 4.9% during 1996 primarily as a result of the purchase of $88.6 million of IOs, the acquisition of two REMIC residual securities with a carrying value of $20.6 million in connection with the Company's securitization of $219.6 million of sub-prime single-family residential loans, the acquisition of a subordinate security with a carrying value of $18.9 million from LLC in connection with LLC's securitization of loans acquired by it from HUD and the acquisition of an additional $32.1 million of subordinate securities, of which $9.2 million were acquired in connection with the Company's securitization of $136.5 million of commercial discounted loans. These acquisitions were offset in part by the sale and repayment of $76.3 million of CMOs, the sale of $46.4 million of subordinate securities and the sale of $16.1 million of IOs. For additional information relating to these investments, see "Business--Investment Activities--Mortgage-Backed and Related Securities" and Note 6 to the Consolidated Financial Statements.

LOANS AVAILABLE FOR SALE. Loans available for sale, which are comprised primarily of sub-prime single-family residential loans, decreased $37.9 million or 30.0% during the three months ended March 31, 1997 and $125.4 million or 49.8% during 1996. During the three months ended March 31, 1997, the Company acquired $64.5 million of sub-prime single-family residential loans and sold $82.1 million of such loans. The decrease in loans available for sale in 1996 occurred primarily as a result of sales of $381.1 million of single-family residential loans, $14.9 million of multi-family residential loans and principal payments of $26.7 million, which substantially offset the purchase and origination of $304.5 million of such loans. Of the single-family residential loans sold during 1996, $219.6 million were due to the Company's securitization of such loans. See "Business--Lending Activities--Single-Family Residential Loans."

At March 31, 1997, non-performing loans available for sale amounted to $13.1 million or 14.8% of total loans available for sale, as compared to $14.4 million or 11.4% at December 31, 1996 and $7.9 million or 3.2% at December 31, 1995. Non-performing loans available for sale consist primarily of sub-prime single-family residential loans, reflecting the higher risks associated with such loans and resolutions of such loans by the Company in recent periods. During 1996, the Company recorded a $1.6 million reduction in the carrying value of these loans to record them at the lower of cost or fair value.

LOAN PORTFOLIO, NET. The Company's net loan portfolio increased $19.7 million or 4.9% during the three months ended March 31, 1997 primarily as a result of loans for the construction or rehabilitation of multi-family residences, which increased $22.9 million during this period. The Company's net loan portfolio increased $107.0 million or 36.2% during 1996 primarily as a result of increased investment in multi-family residential loans, particularly construction loans, and commercial real estate loans secured by hotels and office buildings. From December 31, 1995 to December 31, 1996, multi-family residential loans, including construction loans, increased $18.8 million, and commercial real estate and land loans increased $142.6 million, including a $74.5 million and a $67.5 million increase in loans secured by hotels and office buildings, respectively. See "Business--Lending Activities."

At March 31, 1997, non-performing loans amounted to $9.3 million or 2.2% of total loans, as compared to $2.3 million or 0.6% at December 31, 1996 and $3.9 million or 1.3% at December 31, 1995. At March 31, 1997, non-performing loans consisted primarily of $7.5 million of multi-family residential loans, which represented a $7.4 million increase from December 31, 1996. The Company's allowance for loan losses amounted to 51.9% and 154.2% of non-performing loans at March 31, 1997 and December 31, 1996, respectively. See "Business--Asset Quality" and Note 9 to the Consolidated Financial Statements.

DISCOUNTED LOAN PORTFOLIO, NET. The discounted loan portfolio increased $220.0 million or 20.7% during the three months ended March 31, 1997 and $391.2 million or 58.4% during 1996. During the three months ended March 31, 1997, discounted loan acquisitions having an unpaid principal balance of $442.9 million, which included $425.6 million of single-family residential loans acquired from HUD, more than offset $63.6 million of resolutions and repayments, $51.6 million of loans transferred to real estate owned and $79.8 million of sales of discounted loans. During 1996, discounted loan acquisitions having an unpaid principal balance of $1.11 billion more than offset $371.2 million of resolutions and repayments, $138.5 million of transfers to real estate owned and $230.2 million of sales. Of the discounted loans sold during 1996, $136.5 million were due to the Company's securitization of performing commercial discounted loans. See "Business--Discounted Loan Acquisition and Resolution Activities" and Note 10 to the Consolidated Financial Statements.

At March 31, 1997, discounted loans which were performing in accordance with original or modified terms amounted to $536.0 million or 34.3% of the gross discounted loan portfolio, as compared to $579.6 million or 44.1% at December 31, 1996 and $351.6 million or 37.3% at December 31, 1995. The Company's allowance for losses on its discounted loan portfolio amounted to $16.8 million or 1.3% of discounted loans at March 31, 1997, as compared to $11.5 million or 1.1% at December 31, 1996. The Company did not maintain an allowance for losses on its discounted loan portfolio prior to 1996. See "Business-- Discounted Loan Acquisition and Resolution Activities--Payment Status of Discounted Loans."

INVESTMENTS IN LOW-INCOME HOUSING TAX CREDIT INTERESTS. In 1993, the Company commenced a multi-family residential lending program which includes direct and indirect investments in multi-family residential projects which have been allocated low-income housing tax credits under Section 42 of the Code by a state tax credit allocating agency. At March 31, 1997, the Company had $99.9 million of investments in low-income housing tax credit interests, as compared to $93.3 million and $81.4 million at December 31, 1996 and 1995, respectively.

Investments by the Company in low-income housing tax interests made on or after May 18, 1995 in which the Company invests solely as a limited partner, which amounted to $23.7 million at March 31, 1997, are accounted for using the equity method in accordance with the consensus of the Emerging Issues Task Force through Issue Number 94-1. Limited partnership investments made prior to May 18, 1995, which amounted to $52.2 million at March 31, 1997, are accounted for under the effective yield method as a reduction of income tax expense. Low-income housing tax credit partnerships in which the Company invests as both a limited and, through a subsidiary, a general partner amounted to $24.0 million at March 31, 1997 and are presented on a consolidated basis. See "Business--Investment Activities-- Investment in Low-Income Housing Tax Credit Interests" and Note 14 to the Consolidated Financial Statements.

INVESTMENT IN JOINT VENTURES. From time to time the Company and a co-investor acquire discounted loans by means of a co-owned joint venture. At March 31, 1997, the Company's investment in joint ventures, net consisted of a 50% interest in LLC, a limited liability company formed by the Company and BlackRock, and a 10% interest in BCFL, L.L.C. ("BCFL"), a limited liability company which also was formed by the Company and BlackRock, which amounted to $32.3 million and $1.1 million, respectively. LLC was formed in March 1996 to acquire discounted single-family residential loans auctioned by HUD, and BCFL was formed in January 1997 to acquire discounted multi-family residential loans from HUD. At March 31, 1997, LLC had $70.2 million of assets, which consisted primarily of $48.6 million of discounted single-family residential loans available for sale and $12.1 million of real estate owned. See "Business--Investment in Joint Ventures," Note 3 to the Interim Consolidated Financial Statements and Note 2 to the Consolidated Financial Statements.

REAL ESTATE OWNED, NET. Real estate owned, net consists almost entirely of properties acquired by foreclosure or deed-in-lieu thereof on loans in the Company's discounted loan portfolio. Such properties amounted to $96.4 million or 97.9% of total real estate owned at March 31, 1997 and consisted of $45.8 million, $10.5 million and $40.1 million of properties attributable to single-family residential loans, multi-family residential loans and commercial real estate loans, respectively. Real estate owned decreased $5.2 million or 5.1% during the three months ended March 31, 1997 and $62.9 million or 37.7% during the year ended December 31, 1996 as a result of decreases in single-family and multi-family real estate owned attributable to the discounted loan portfolio. The decrease in real estate owned during the three months ended March 31, 1997 reflected a bulk sale of 288 properties for $21.2 million, which resulted in a gain of $430,000.

The Company actively manages its real estate owned. The Company sold 533 properties with a carrying value of $46.9 million during the three months ended March 31, 1997, 1,175 properties with a carrying value of $160.6 million during 1996, 1,229 properties with a carrying value of $139.2 million during 1995 and 1,410 properties with a carrying value of $116.0 million during 1994. These sales resulted in gains, net of the provision for loss, of $1.6 million, $4.5 million, $8.5 million and $12.2 million during the three months ended March 31, 1997 and the years ended December 31, 1996, 1995 and 1994, respectively, which are included in determining the Company's net income (loss) on real estate owned. See "Business--Asset Quality--Real Estate Owned" and Note 11 to the Consolidated Financial Statements.

INVESTMENT IN REAL ESTATE. In conjunction with its multi-family residential and commercial real estate lending business activities, the Company has made certain acquisition, development and construction loans in which the Company participates in the expected residual profits of the underlying real estate and the borrower has not made an equity contribution substantial to the overall project. As such, the Company accounts for these loans under the equity method of accounting as though it has made an investment in a real estate limited partnership. The Company's investment in such loans amounted to $30.3 million at March 31, 1997, as compared to $24.9 million at December 31, 1996. The Company had no such investments at December 31, 1995.

The Company also has invested indirectly in The Westin Hotel, Columbus, located in Columbus, Ohio. The Company's investment in such property increased to $16.1 million at December 31, 1996 from $12.0 million at December 31, 1995 as a result of capital improvements made to the hotel and decreased to $15.9 million at March 31, 1997 as a result of depreciation. For additional information, see "Business-- Subsidiaries."

DEFERRED TAX ASSET. At March 31, 1997 the deferred tax asset, net of deferred tax liabilities, amounted to $3.3 million, a decrease of $2.6 million from the $5.9 million deferred tax asset at December 31, 1996. At March 31, 1997, the gross deferred tax asset amounted to $16.0 million and consisted primarily of $2.1 million of mark-to-market and reserves on real estate owned, $4.0 million of deferred interest expense on the discount loan portfolio, $3.8 million of valuation allowance reserves and $1.9 million of profit sharing expense, and the gross deferred tax liability amounted to $12.7 million and consisted of primarily of $4.4 million of deferred interest income on the discount loan portfolio, $1.5 million related to hedge transactions and $3.7 million of mark-to-market on securities available for sale. At December 31, 1996, the gross deferred tax asset amounted to $15.1 million and consisted primarily of $3.7 million related to tax residuals, $3.5 million of mark-to-market and reserves on real estate owned and $3.9 million of deferred interest expense on the discount loan portfolio, and the gross deferred tax liability amounted to $9.2 million and consisted primarily of $4.6 million of deferred interest income on the discount loan portfolio and $2.1 million of mark-to-market on certain securities available for sale.

As result of the Company's earnings history, current tax position and taxable income projections, management believes that the Company will generate sufficient taxable income in future years to realize the deferred tax asset which existed at March 31, 1997. In evaluating the expectation of sufficient future taxable income, management considered future reversals of temporary differences and available tax planning strategies that could be implemented, if required. A valuation allowance was not required at March 31, 1997 because it was management's assessment that, based on available information, it is more likely than not that all of the deferred tax asset will be realized. A valuation allowance will be established in the future to the extent of a change in management's assessment of the amount of the net deferred tax asset that is expected to be realized. See Note 21 to the Consolidated Financial Statements.

DEPOSITS. Deposits increased $187.1 million or 9.8% during the three months ended March 31, 1997 and $418.1 million or 27.8% during the year ended December 31, 1996, primarily as a result of brokered deposits obtained through national investment banking firms which solicit deposits from their customers, which amounted to $1.34 billion at March 31, 1997, as compared to $1.22 billion and $1.12 billion at December 31, 1996 and 1995, respectively. The Company's deposits also increased during 1996 as a result of the Company's direct solicitation and marketing efforts to regional and local investment banking firms, institutional investors and high net worth individuals. Deposits obtained in this manner amounted to $607.1 million at March 31, 1997, as compared to $540.6 million and $273.4 million at December 31, 1996 and 1995, respectively. See "Business--Sources of Funds--Deposits" and Note 16 to the Consolidated Financial Statements.

FHLB ADVANCES AND REVERSE REPURCHASE AGREEMENTS. FHLB advances decreased $70.0 million during 1996 as a result of the repayment of a $70.0 million advance which matured during this period. Reverse repurchase agreements decreased by $35.3 million and by $10.2 million during the three months ended March 31, 1997 and the year ended December 31, 1996, respectively. From time to time the Company utilizes such collateralized borrowings as additional sources of liquidity. See Business--Sources of Funds-- Borrowings" and Notes 17 and 18 to the Consolidated Financial Statements.

NOTES, DEBENTURES AND OTHER INTEREST-BEARING OBLIGATIONS. Notes, debentures and other interest-bearing obligations increased $108.5 million during 1996 primarily as a result of the $125.0 million of 11.875% Notes issued by the Company in September 1996. This increase more than offset the repayment of $8.6 million of short-term notes which were privately issued to stockholders of the Company and a $7.8 million decrease in hotel mortgages payable due to the Company's decision in November 1996 to acquire the mortgage payable on the Company's hotel in Columbus, Ohio. See Note 19 to the Consolidated Financial Statements.

STOCKHOLDERS' EQUITY. Stockholders' equity increased $21.6 million or 10.6% during the three months ended March 31, 1997 and $64.0 million or 45.9% during 1996. The increase in stockholders' equity during the three months ended March 31, 1997 was primarily attributable to net income of $17.0 million, an increase of $3.2 million in the unrealized gain on securities available for sale and a $1.5 million decrease in the outstanding balance of loans made to certain officers and directors to fund the exercise of stock options. The increase in stockholders' equity during 1996 was primarily due to $50.1 million of net income, a $4.9 million increase in unrealized gain on securities available for sale and a $13.0 million increase in Common Stock and additional paid-in capital in connection with the issuance of 2,928,830 shares of Common Stock as a result of the exercise of vested stock options by certain of the Company's and the Bank's current and former officers and directors. These increases more than offset the loans made to certain of such officers and directors to fund their exercise of the stock options, which had an unpaid principal balance of $2.3 million at March 31, 1997.

## ASSET AND LIABILITY MANAGEMENT

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

The Asset/Liability Committee is authorized to utilize a wide variety of off-balance sheet financial techniques to assist it in the management of interest rate risk. These techniques include interest rate exchange agreements, pursuant to which the parties exchange the difference between fixed-rate and floating-rate interest payments on a specified principal amount (referred to as the "notional amount") for a specified period without the exchange of the underlying principal amount. Interest rate exchange agreements are utilized by the Company to protect against the decrease in value of a fixed-rate asset or the increase in borrowing cost from a short-term, fixed-rate liability, such as reverse repurchase agreements, in an increasing interest-rate environment. At March 31, 1997, the Company had entered into interest rate exchange agreements with an aggregate notional amount of $44.1 million. Interest rate exchange agreements had the effect of increasing (decreasing) the Company's net interest income by ($74,000) and $0 during the three months ended March 31, 1997 and 1996, respectively, and by ($58,000), $358,000 and $754,000 during the years ended December 31, 1996, 1995 and 1994, respectively.

The Company also enters into interest rate futures contracts, which are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. Eurodollar futures contracts have been sold by the Company to hedge the repricing or maturity risk of certain short duration mortgage-related securities, and U.S. Treasury futures contracts have been sold by the Company to offset declines in the market value of its fixed-rate loans and certain fixed-rate mortgage-backed and related securities available for sale in the event of an increasing interest rate environment. At March 31, 1997, the Company had entered into U.S. Treasury futures (short) contracts with an aggregate notional amount of $264.3 million. The Company had no outstanding Eurodollar futures contracts at March 31, 1997. Futures contracts had the effect of increasing (decreasing) the Company's net interest income by ($904,000) and ($240,000) during the three months ended March 31, 1997 and 1996, respectively, and by ($729,000), $619,000 and $650,000 during the years ended December 31, 1996, 1995 and 1994, respectively. In addition, futures contracts had the effect of decreasing the Company's non-interest income by $56,000 and $0 during the three months ended March 31, 1997 and 1996, respectively, and by $4.1 million, $3.3 million and $0 during the years ended December 31, 1996, 1995, and 1994, respectively. For additional information, see Note 20 to the Consolidated Financial Statements and Note 4 to the Interim Consolidated Financial Statements.

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

The following table sets forth the estimated maturity or repricing of the Company's interest-earning assets and interest-bearing liabilities at March 31, 1997. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, except (i) adjustable-rate loans, performing discount loans, securities and FHLB advances are included in the period in which they are first scheduled to adjust and not in the period in which they mature, (ii) fixed-rate mortgage-related securities reflect estimated prepayments, which were estimated based on analyses of broker estimates, the results of a prepayment model utilized by the Company and empirical data, (iii) non-performing discount loans reflect the estimated timing of resolutions which result in repayment to the Company, (iv) fixed-rate loans reflect scheduled contractual amortization, with no estimated prepayments, (v) NOW and money market checking deposits and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which are based on detailed studies of each such category of deposit by the Bank, and (vi) escrow deposits and other non-interest bearing checking accounts, which amounted to $95.2 million at March 31, 1997, are excluded. Management believes that these assumptions approximate actual experience and considers them reasonable; however, the interest rate sensitivity of the

Company's assets and liabilities in the table could vary substantially if different assumptions were used or actual experience differs from the historical experience on which the assumptions are based.

| | MARCH 31, 1997 | | | | |
|---|---|---|---|---|---|
| | WITHIN 3 MONTHS | 4 TO 12 MONTHS | MORE THAN 1 YEAR TO 3 YEARS | 3 YEARS AND OVER | TOTAL |
| | (DOLLARS IN THOUSANDS) | | | | |
| Rate-Sensitive Assets: | | | | | |
| Interest-earning cash, federal funds sold and repurchase agreements | $ 107,802 | $ -- | $ -- | $ -- | $ 107,802 |
| Securities available for sale | 26,688 | 62,190 | 71,831 | 187,357 | 348,066 |
| Loans available for sale (1) | 13,857 | 33,358 | 12,919 | 28,377 | 88,511 |
| Investment securities, net | 95 | 238 | 19 | 10,849 | 11,201 |
| Loan portfolio, net (1) | 118,372 | 86,726 | 53,522 | 163,612 | 422,232 |
| Discount loan portfolio, net | 201,850 | 446,097 | 291,081 | 341,944 | 1,280,972 |
| Total rate-sensitive assets | 468,664 | 628,609 | 429,372 | 732,139 | 2,258,784 |
| Rate-Sensitive Liabilities: | | | | | |
| NOW and money market checking deposits | 13,784 | 1,292 | 1,431 | 6,145 | 22,652 |
| Savings deposits | 348 | 266 | 292 | 1,167 | 2,073 |
| Certificates of deposit | 326,956 | 642,889 | 444,154 | 572,941 | 1,986,940 |
| Total interest-bearing deposits | 341,088 | 644,447 | 445,877 | 580,253 | 2,011,665 |
| FHLB advances | -- | 399 | -- | -- | 399 |
| Securities sold under agreements to repurchase | 39,224 | -- | -- | -- | 39,224 |
| Subordinated notes, debentures and other interest-bearing obligations | -- | -- | -- | 225,573 | 225,573 |
| Total rate-sensitive liabilities | 380,312 | 644,846 | 445,877 | 805,826 | 2,276,861 |
| Interest rate sensitivity gap before off-balance sheet financial instruments | 88,352 | (16,237) | (16,505) | (73,687) | (18,077) |
| Off-Balance Sheet Financial Instruments: | | | | | |
| Futures contracts and interest rate swap | 286,131 | (39,595) | (46,230) | (200,306) | -- |
| Interest rate sensitivity gap | $ 374,483 | $ (55,832) | $ (62,735) | $ (273,993) | $ (18,077) |
| Cumulative interest rate sensitivity gap | $ 374,483 | $ 318,651 | $ 255,916 | $ (18,077) | |
| Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets | 16.58% | 14.11% | 11.33% | (0.80)% | |

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(1) Balances have not been reduced for non-performing loans.

Although interest rate sensitivity gap is a useful measurement and contributes toward effective asset and liability management, it is difficult to predict the effect of changing interest rates based solely on that measure. As a result, and as required by OTS regulations, the Asset/Liability Committee also regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity ("MVPE"), which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and MVPE that is authorized by the Board of Directors of the Bank.

The following table sets forth at March 31, 1997 the estimated percentage change in the Company's net interest income over a four-quarter period and MVPE based upon the indicated changes in interest rates, assuming an instantaneous and sustained uniform change in interest rates at all maturities.

| CHANGE (IN BASIS POINTS) IN INTEREST RATES | ESTIMATED CHANGE IN NET INTEREST INCOME | ESTIMATED CHANGE IN MVPE |
|---|---|---|
| +400 | 11.99% | (7.09)% |
| +300 | 8.99 | (4.44) |
| +200 | 6.00 | 1.27 |
| +100 | 3.00 | (1.19) |
| 0 | -- | -- |
| -100 | (3.00) | (8.81) |
| -200 | (6.00) | (22.72) |
| -300 | (8.99) | (31.56) |
| -400 | (11.99) | (36.70) |

The negative estimated changes in MVPE for -100 to -400 changes in interest rates is attributable to the Company's investments in IO strips. Increased payments of the underlying mortgages as a result of a decrease in market interest rates or other factors can result in a loss of all or part of the purchase price of IO strips. IO strips also are adversely affected by an increase in interest rates, due primarily to inverse IO strips whose interest rates change inversely with, and often as a multiple of, a specialized index such as the one-month LIBOR rate. An increasing interest rate environment adversely affects the value of inverse IO strips, because the coupons of inverse IO strips decrease in an increasing interest rate environment. IO strips exhibit considerably more price volatility than ordinary mortgage pass-through securities, due in part to the uncertain cash flows that result from changes in the prepayment rates of the underlying mortgages.

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

LIQUIDITY, COMMITMENTS AND OFF-BALANCE SHEET RISKS

Liquidity is a measurement of the Company's ability to meet potential cash requirements, including ongoing commitments to fund deposit withdrawals, repay borrowings, fund investment, loan acquisition and lending activities and for other general business purposes. The primary sources of funds for liquidity consist of deposits, FHLB advances, reverse repurchase agreements and maturities and principal payments on loans and securities and proceeds from sales thereof.

Sources of liquidity include certificates of deposit obtained primarily from wholesale sources. At March 31, 1997 the Company had $1.99 billion of certificates of deposit, including $1.34 billion of brokered certificates of deposit obtained through national investment banking firms, all of which are non-cancelable. At the same date scheduled maturities of certificates of deposit during the 12 months ending March 31, 1998 and 1999 and thereafter amounted to $969.8 million, $444.2 million and $572.9 million, respectively. Brokered and other wholesale deposits generally are more responsive to changes in interest rates than core deposits and, thus, are more likely to be withdrawn from the Company upon maturity as changes in interest rates and other factors are perceived by investors to make other investments more attractive. Management of the Company believes that it can adjust the rates paid on certificates of deposit to retain deposits in changing interest rate environments, and that brokered and other wholesale deposits can be both a relatively cost-effective and stable source of funds. There can be no assurance that this will continue to be the case in the future, however.

Sources of borrowings include FHLB advances, which are required to be secured by single-family and/ or multi-family residential loans or other acceptable collateral, and reverse repurchase agreements. At

March 31, 1997, the Company had $399,000 of FHLB advances outstanding, was eligible to borrow up to an aggregate of $167.1 million from the FHLB of New York (subject to the availability of acceptable collateral) and had $123.4 million of single-family residential loans, $10.5 million of multi-family residential loans and $33.2 million of loans secured by hotel properties which could be pledged as security for such advances. At the same date, the Company had contractual relationships with 12 brokerage firms and the FHLB of New York pursuant to which it could obtain funds from reverse repurchase agreements and had $188.1 million of unencumbered mortgage-related securities which could be used to secure such borrowings.

The liquidity of the Company includes lines of credit obtained by OFS subsequent to its acquisition of substantially all of the assets of Admiral in a transaction which closed on May 1, 1997, as follows: (i) a $200.0 million secured line of credit from Morgan Stanley Mortgage Capital Inc. and (ii) a $50.0 million secured line of credit from Texas Commerce Bank National Association. An aggregate of $46.2 million was outstanding to OFS under these lines of credit at June 30, 1997, which have interest rates which float in accordance with a designated prime rate. In addition, the Company has provided a $30.0 million unsecured, subordinated credit facility to OFS, of which $12.8 million was outstanding at June 30, 1997.

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

The Company's operating activities provided cash flows of $124.2 million, $8.3 million and $101.4 million during the three months ended March 31, 1997 and 1996 and the year ended December 31, 1996, respectively and used cash flows of $189.4 million and $108.8 million during the years ended December 31, 1995 and 1994, respectively. During the foregoing periods cash resources were provided primarily by net income and proceeds from sales of loans available for sale, and cash resources were used primarily to purchase and originate loans available for sale.

The Company's investing activities used cash flows totaling $212.8 million, $558.3 million and $474.5 million during the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995, respectively, and provided cash flows of $104.5 million and $234.5 million during the three months ended March 31, 1996 and the year ended December 31, 1994, respectively. During the foregoing periods, cash flows from investing activities were provided primarily by principal payments on discount loans and loans held for investment, proceeds from sales of securities available for sale and real estate owned, and cash flows from investing activities were primarily utilized to purchase and originate discount loans and loans held for investment and purchase securities available for sale.

The Company's financing activities provided cash flows of $153.2 million, $454.5 million and $681.8 million during the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995, respectively and used cash flows of $89.6 million and $127.9 million during the three months ended March 31, 1996 and the year ended December 31, 1994, respectively. Cash flows from financing activities primarily relate to changes in the Company's deposits, issuance of the Notes in 1996, issuance of the Debentures in 1995 and FHLB advances. Cash flows used by financing activities were primarily utilized to repay FHLB advances and reverse repurchase agreements and include the transfer of deposits in connection with the sale of branch offices in 1995 and 1994.

The Bank is required under applicable federal regulations to maintain specified levels of "liquid" investments in qualifying types of U.S. Government, federal agency and other investments having maturities of five years or less. Current OTS regulations require that a savings association maintain liquid assets of not less than 5% of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less, of which short-term liquid assets must consist of not less than 1%. Monetary penalties may be imposed for failure to meet applicable liquidity requirements. The Bank's liquidity, as measured for regulatory purposes, averaged 6.4%, 8.8%, 12.9% and 14.2% during the three months ended

March 31, 1997 and the years ended December 31, 1996, 1995 and 1994, respectively. The Bank's regulatory liquidity amounted to 6.51% at March 31, 1997.

At March 31, 1997, the Company had $174.0 million of unfunded commitments related to purchases and originations of loans, as well as a $6.8 million commitment to acquire substantially all of the assets of Admiral, which was consummated on May 1, 1997. See "Business--Subsidiaries." Management of the Company believes that the Company has adequate resources to fund all of its commitments to the extent required and that substantially all of such commitments will be funded during 1997. For additional information relating to commitments and contingencies at March 31, 1997, see Note 6 to the Interim Consolidated Financial Statements.

In addition to commitments to extend credit, the Company is party to various off-balance sheet financial instruments in the normal course of business to manage its interest rate risk. See "Asset and Liability Management" above and Note 4 to the Interim Consolidated Financial Statements.

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

## REGULATORY CAPITAL REQUIREMENTS

Federally-insured savings associations such as the Bank are required to maintain minimum levels of regulatory capital. These standards generally must be as stringent as the comparable capital requirements imposed on national banks.

The following table sets forth the Bank's actual and required regulatory capital ratios at March 31, 1997, as well as the amount of capital required to be maintained by the Bank in order for it to be deemed to be "well-capitalized" under the prompt corrective action regulatory framework set forth in applicable laws and regulations of the OTS.

| | TANGIBLE CAPITAL | CORE CAPITAL | TIER 1 RISK-BASED CAPITAL | TOTAL RISK-BASED CAPITAL |
|---|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | | |
| Actual capital: | | | | |
| Amount | $ 242,852 | $ 242,852 | $ 242,852 | $ 364,702(1) |
| Ratio | 9.48% | 9.48% | 8.80% | 13.22% |
| Minimum required capital: | | | | |
| Amount | $ 38,411 | $ 76,822 | n/a | $ 220,769 |
| Ratio | 1.50% | 3.00% | n/a | 8.00% |
| "Well capitalized" required capital (2): | | | | |
| Amount | n/a | $ 128,037 | $ 165,574 | $ 275,956 |
| Ratio | n/a | 5.00% | 6.00% | 10.00% |

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(1) At March 31, 1997, the Bank's supplementary capital included $100.0 million attributable to the Debentures and $21.9 million of general valuation allowances. See Note 5 to the Interim Consolidated Financial Statements.

(2) In order to be "well capitalized," an institution also must not be subject to any written agreement, order or directive issued by the appropriate federal banking agency to meet and maintain a specific capital level for any capital measure. See "Regulation--The Bank--Prompt Corrective Action."

In addition to regulatory capital requirements of general applicability, a federally-chartered savings association such as the Bank may be required to meet individual minimum capital requirements established by the OTS on a case-by-case basis upon a determination that a savings association's capital is or may become inadequate in view of its circumstances. See "Regulation--The Bank--Regulatory Capital Requirements." As discussed under "--Recent Regulatory Developments" below, based upon recent discussions with the OTS, the Bank has committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9% and 13%, respectively, commencing on June 30, 1997. The Bank is currently in compliance with this commitment, as indicated in the above table. Based on discussions with the OTS, the Bank believes that this commitment does not affect its status as a "well-capitalized" institution, assuming the Bank's continued compliance with the regulatory capital requirements required to be maintained by it pursuant to such commitment.

RECENT REGULATORY DEVELOPMENTS

In connection with a recent examination of the Bank, the staff of the OTS expressed concern about many of the Bank's non-traditional operations, which generally are deemed by the OTS to involve higher risk, certain of the Bank's accounting policies and the adequacy of the Bank's capital in light of the Bank's lending and investment strategies. The activities which were of concern to the OTS included the Bank's sub-prime single-family residential lending activities, the Bank's origination of acquisition, development and construction loans with terms which provide for shared participation in the results of the underlying real estate, the Bank's discounted loan activities, which involve significantly higher investment in non-performing and classified assets than the majority of the savings industry, and the Bank's investment in subordinated classes of mortgage-related securities issued in connection with the Bank's asset securitization activities and otherwise.

Following the examination, the OTS instructed the Bank, commencing on June 30, 1997, to maintain a ratio of Tier 1 capital to assets of at least 12% and a total risk-based capital ratio of no less than 18%. The OTS indicated, however, that these amounts may be decreased in the event that the Bank reduced its risk profile in a manner which was satisfactory to the OTS.

Although the Bank strongly disagrees with the level of risk perceived by the OTS in its businesses, the Bank has taken various actions to address OTS concerns with respect to its risk profile, including the following: (i) sold to the Company subordinated, participating interests in a total of 11 acquisition, development and construction loans, which interests had an aggregate principal balance of $16.9 million; (ii) ceased originating mortgage loans with profit participation features in the underlying real estate, with the exception of existing commitments, which consisted of commitments for two loans with an aggregate principal amount of $10.7 million at March 31, 1997; (iii) transferred its sub-prime single-family residential lending operations and its large multi-family residential and commercial real estate lending operations to OFS and OCC, respectively (see "Business--General"); (iv) agreed (a) to discontinue the purchase of subordinate classes of mortgage-related securities created by unaffiliated parties, (b) to sell the five such securities held by it at March 31, 1997 (aggregate book value of $32.0 million), which was completed by a sale to OAIC on May 19, 1997 (at a gain of $2.6 million to the Company), and (c) subject to the requirements of the OTS capital distribution regulation, to dividend to the Company all subordinate mortgage-related securities acquired by the Bank in connection with its securitization activities (see "Business--Investment Activities--Mortgage-Backed and Related Securities"), including two subordinate securities with an aggregate book value of $19.5 million which were dividended to the Company in June 1997; (v) established as of December 31, 1996 requested write downs of cost basis, which amounted to $7.2 million, against loans and securities resulting from its investment in loans acquired from HUD; (vi) agreed to employ a senior officer to head its Credit Management Department and to take other steps to improve the effectiveness of its independent asset review function; and (vii) agreed to provide the OTS with certain reports on a regular basis. In addition to the foregoing, and based on discussions with the OTS, the Company modified certain of its accounting policies in a manner which will result in more conservative recognition of income. Specifically, the Company (i) ceased accreting into interest income discount on non-performing residential loans, effective January 1, 1997; (ii) discontinued the capitalization of period expenses to real estate owned, effective January 1, 1997; and (iii) agreed to classify as doubtful for regulatory purposes all real estate owned which are not generating cash flow and which has been held for more than three years (see "Business--Asset Quality--Classified Assets"). If the new policy on accretion of discount on non-performing residential loans had been applied in 1994, 1995 and 1996, the

Company's income from continuing operations before income taxes, as adjusted for related profit sharing expense, would have increased by approximately $3.2 million in 1994, decreased by approximately $1.1 million in 1995 and decreased by approximately $1.4 million in 1996. If the new policy on capitalization of period expenses on real estate owned had been adopted in 1994, 1995 and 1996, the Company's income from continuing operations before income taxes, as adjusted for related profit sharing expense, would have been reduced by approximately $1.0 million in 1994 and by approximately $2.3 million in 1995 and would have increased by approximately $610,000 during 1996. In light of the foregoing, the Company does not believe that the above-referenced accounting changes had a material affect on the Company's financial condition or results of operations.

In connection with the foregoing actions, the Bank also committed to the OTS to maintain a core capital ratio and a total risk-based capital ratio of at least 9% and 13%, respectively, commencing on June 30, 1997. Although these individual regulatory capital requirements have been agreed to by the OTS in lieu of the higher levels previously specified by the OTS, there can be no assurance that in the future the OTS will agree to a decrease in such requirements, will not seek to increase such requirements or will not impose these or other individual regulatory capital requirements in a manner which affects the Bank's status as a "well-capitalized" institution under applicable laws and regulations.

RECENT ACCOUNTING DEVELOPMENTS

For information relating to the effects on the Company of the adoption of recent accounting standards, see Note 2 to the Interim Consolidated Financial Statements and Note 1 to the Consolidated Financial Statements.

## GENERAL

The Company considers itself to be involved in a single business segment of providing financial services and conducts a wide variety of business within this segment. The Company's primary business activities consist of its discounted loan acquisition and resolution activities, multi-family residential and commercial real estate lending activities, sub-prime single-family residential lending activities and various investment activities, including investments in a wide variety of mortgage-related securities and investments in low-income housing tax credit interests. In addition, the Company formerly operated an automated banking division, the operations of which were discontinued in September 1995. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Discontinued Operations."

The Company conducts business primarily through the Bank, a federally-charted savings bank and a wholly-owned subsidiary of the Company. Recently, in order to address concerns by the OTS regarding the risk profile of the Bank's operations (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Recent Regulatory Developements"), the Company consolidated the sub-prime single-family residential lending operations previously conducted by the Bank, together with substantially all of the assets of Admiral, within OFS and transferred the large multi-family residential and commercial real estate lending operations of the Bank (which generally involve loans with balances in excess of $3.0 million) to OCC. (In both cases, the loans associated with the activities previously conducted by the Bank continue to be held by it.) The Company also intends to conduct certain investment activities previously conducted by the Bank, primarily investment in subordinated and residual securities resulting from the Company's securitization activities, directly or through a non-banking subsidiary. The Bank continues to conduct substantially all of the Company's discounted loan acquisition and resolution activities and loan servicing activities. In addition, the Bank currently engages in certain multi-family residential and commercial real estate lending activities (which generally involve loans with balances of up to $3.0 million and no terms which permit the Bank to participate in the profits of the underlying real estate) and certain investment activities.

## COMPUTER SYSTEMS AND USE OF TECHNOLOGY

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

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

The Company's proprietary systems result in a number of benefits including consistency of service to customers, reduced training periods for employees, resolution decisions which evaluate on an automated basis the optimal means (which may or may not involve proceeding directly with foreclosure) to maximize the net resolution proceeds, the ability to effect foreclosure as quickly as possible within state specific foreclosure timelines and the management of third party service providers to ensure quality of service. The federal mortgage agencies have established a variety of measurements for approved servicers, against which the Company compares favorably. See "Business--Loan Servicing Activities."

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

The Company has invested in a sophisticated computer infrastructure to support its software applications. The Company uses an IBM RISC AS400 and NetFrame and COMPAQ Proliant file servers as its primary hardware platform. The Company uses CISCO Routers, Cabletron Hubs and chassis with fiber optic cabling throughout and between buildings so as to achieve the highest performance. The Company also has deployed a DAVOX predictive dialer which currently has capacity for 120 seats. The Company's document imaging system currently stores 12 million images. The Company's systems have significant capacity for expansion and upgrade.

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

DISCOUNTED LOAN ACQUISITION AND RESOLUTION ACTIVITIES

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

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

COMPOSITION OF THE DISCOUNTED LOAN PORTFOLIO. At March 31, 1997, the Company's net discounted loan portfolio amounted to $1.28 billion or 48.3% of the Company's total assets. Substantially all of the Company's discounted loan portfolio is secured by first mortgage liens on real estate.

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

| | MARCH 31, 1997 | DECEMBER 31, 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | | | | |
| Single-family residential loans......... | $ 835,592(1) | $ 504,049 | $ 376,501 | $ 382,165 | $ 430,355 | $306,401 |
| Multi-family residential loans.......... | 323,553 | 341,796 | 176,259 | 300,220 | -- | -- |
| Commercial real estate loans............ | 401,054(2) | 465,801 | 388,566 | 102,138 | 1,845 | 2,227 |
| Other loans............................. | 2,186 | 2,753 | 2,203 | 911 | 1,316 | 1,836 |
| Total discounted loans.................. | 1,562,385 | 1,314,399 | 943,529 | 785,434 | 433,516 | 310,464 |
| Unaccreted discount..................... | (264,605)(3) | (241,908) | (273,758) | (255,974) | (129,882) | (97,426) |
| Allowance for loan losses............... | (16,808) | (11,538) | -- | -- | -- | -- |
| Discounted loans, net................... | $1,280,972(1) | $1,060,953 | $ 669,771 | $ 529,460 | $ 303,634 | $213,038 |

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(1) Does not include the Company's 50% ownership interest in LLC, which held $48.6 million of discounted single-family residential loans, net at March 31, 1997. See "Business--Investment in Joint Ventures." Inclusive of the Company's pro rata interest in such loans, the Company's discounted loans, net would amount to $1.31 billion at March 31, 1997.

(2) Consists of $169.4 million of loans secured by office buildings, $29.1 million of loans secured by hotels, $131.5 million of loans secured by retail properties or shopping centers and $71.1 million of loans secured by other properties.

(3) Consists of $129.8 million on single-family residential loans, $66.9 million on multi-family residential loans, $67.6 million on commercial real estate loans and $275,000 on other loans, respectively.

The properties which secure the Company's discounted loans are located throughout the United States. At March 31, 1997, the five states with the greatest concentration of properties securing the Company's discounted loans were California, New Jersey, New York, Pennsylvania and Connecticut, which had $376.1 million, $137.9 million, $127.3 million, $122.4 million and $121.3 million principal amount of discounted loans (before unaccreted discount), respectively. The Company believes that the broad geographic distribution of its discounted loan portfolio reduces the risks associated with concentrating such loans in limited geographic areas, and that, due to its expertise, technology and software and procedures, the geographic diversity of its discounted loan portfolio does not place significantly greater burdens on the Company's ability to resolve such loans.

Discounted loans may have net book values up to the Bank's loans-to-one borrower limitation. See "Regulation--The Bank--Loans-to-One Borrower."

ACQUISITION OF DISCOUNTED LOANS. In the early years of the program, the Company acquired discounted loans from the FDIC and the RTC, primarily in auctions of pools of loans acquired by them from the large number of financial institutions which failed during the late 1980s and early 1990s. Although the RTC no longer is in existence and the banking and thrift industries have recovered from the problems experienced during the late 1980s and early 1990s, governmental agencies, particularly HUD, continue to be potential sources of discounted loans. In addition to governmental agencies, the Company obtains a substantial amount of discounted loans from various private sector sellers, such as banks, savings institutions, mortgage companies and insurance companies. Loans from private sector sellers comprised 53.8% of the loans in the Company's discounted loan portfolio at March 31, 1997.

The percentage of discounted loans in the Company's discounted loan portfolio acquired from private sector sellers has decreased in recent periods as a result of the Company's acquisition of a substantial amount of discounted loans from HUD. During the three months ended March 31, 1997, the Company and a co-investor were the successful bidder to purchase from HUD 13,781 single-family residential loans with an aggregate unpaid principal balance of $855.7 million and a purchase price of $757.2 million. The Company acquired $425.6 million of these loans and the right to service all of such loans. In 1996, the Company and a co-investor were the successful bidder to purchase from HUD 4,591 single-family residential loans with an aggregate unpaid principal balance of $258.1 million and a purchase price of $204.0 million. The Company acquired $112.2 million of these loans and the right to service all of such loans. In 1996, the Company also acquired from HUD discounted multi-family residential loans with an unpaid principal balance of $225 million. The foregoing acquisitions were in addition to the acquisition of $741.2 million gross principal amount of single-family residential loans from HUD by LLC. See "Business-Investment in Joint Ventures."

Primarily as a result of acquisitions from HUD, during 1996 the Company (including its pro rata interest in LLC) was the second largest acquiror in the United States (behind Goldman Sachs' Whitehall Street Real Estate Fund) of distressed real estate assets and the largest acquiror of domestic portfolios of such assets, according to statistics published by REAL ESTATE ALERT.

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

A majority of the $425.6 million of loans acquired from HUD during the three months ended March 31, 1997 are subject to forbearance agreements after the servicing transfer date of March 31, 1997. During the forbearance period, borrowers are required to make a monthly payment which is based on their ability to pay and which may be less than the contractual monthly payment. Once the forbearance period is over, the borrower is required to make at least the contractual payment regardless of ability to pay. Virtually all of the foregoing loans acquired from HUD will reach the end of the forbearance period by July 1998. Prior purchases of loans from HUD by the Company (and LLC) primarily included loans that were beyond the forbearance period.

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

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

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

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

RESOLUTION OF DISCOUNTED LOANS. After a discounted loan is acquired, the Company utilizes its computer software system to resolve the loan as expeditiously as possible in accordance with specified procedures. The various resolution alternatives generally include the following: (i) the borrower brings the loan current in accordance with original or modified terms, (ii) the borrower repays the loan or a negotiated amount of the loan, (iii) the borrower agrees to deed the property to the Company in lieu of foreclosure, in which case it is classified as real estate owned and held for sale by the Company, or (iv) the Company forecloses on the loan and the property is acquired at the foreclosure sale either by a third party or by the Company, in which case it is classified as real estate owned and held for sale by the Company. In addition, in the case of single-family residential loans, assistance is, in appropriate cases, provided to borrowers in the form of forbearance agreements under which the borrower either makes a monthly payment less than or equal to the original monthly payment or makes a monthly payment more than the contractual monthly payment to make up for arrearages.

The Company recently has shifted its strategy to emphasize working with borrowers to resolve the loan in advance of foreclosure through forbearance agreements, which generally allow the borrower to pay the contractual monthly payment plus a portion of the arrearage each month, and other means. Although this strategy may result in an initial reduction in the yield on a discounted loan, the Company believes that it is advantageous because it (i) generally results in a higher resolution value than foreclosure; (ii) reduces the amount of real estate owned acquired by foreclosure or by deed-in-lieu thereof and related costs and expenses; (iii) enhances the ability of the Company to sell the loan in the secondary market, either on a whole loan basis or through securitizations (in which case the Company may continue to earn fee income from servicing such loans); and (iv) permits the borrower to retain ownership of the home and, thus, enhances relations between the Company and the borrower. As a result of the Company's current loan resolution strategy of emphasizing forbearance agreements and other resolutions in advance of foreclosure, the Company resolved prior to foreclosure 77% and 71% of the discounted loans which were resolved or transferred to real estate owned during the three months ended March 31, 1997 and the year ended December 31, 1996, respectively.

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

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

SALE OF DISCOUNTED LOANS. From time to time the Company sells performing discounted loans either on a whole loan basis or indirectly through the securitization of such loans and sale of the mortgage-related securities backed by them. During the three months ended March 31, 1997 and the years ended December 31, 1996, 1995 and 1994, respectively, the Company sold $79.8 million, $230.2 million, $51.6 million and $37.9 million of discounted loans, respectively, which resulted in gains of $13.0 million, $15.3

million, $6.0 million and $890,000, respectively, including securitization gains of $9.5 million, $7.9 million, $0 and $0, respectively. Also during the three months ended March 31, 1997, LLC, as part of a larger transaction involving the Company and an affiliate of BlackRock, completed the securitization of 1,196 discounted single-family residential loans acquired from HUD in 1996 and 1995 with an unpaid principal balance of $51.7 million and past due interest of $14.2 million, which resulted in the Company recognizing an indirect gain of $9.2 million as a result of the Company's pro rata interest in LLC. The Company continues to service the loans for a fee and has retained an interest in the related subordinate class of securities. For information concerning the foregoing subordinate securities, see "Business--Investment Activities."

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

| | THREE MONTHS ENDED MARCH 31, 1997 | | YEAR ENDED DECEMBER, 31 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 1996 | | 1995 | | 1994 | |
| | BALANCE | NO. OF LOANS | BALANCE | NO. OF LOANS | BALANCE | NO. OF LOANS | BALANCE | NO. OF LOANS |
| | (DOLLARS IN THOUSANDS) | | | | | | | |
| Balance at beginning of period........ | $1,314,399 | 5,460 | $ 943,529 | 4,543 | $ 785,434 | 3,894 | $ 433,516 | 5,160 |
| Acquisitions(1)....................... | 442,878 | 8,211 | 1,110,887 | 4,812 | 791,195 | 2,972 | 826,391 | 2,781 |
| Resolutions and repayments(2)......... | (63,553) | (194) | (371,228) | (2,355) | (300,161) | (960) | (265,292) | (2,153) |
| Loans transferred to real estate owned.............................. | (51,586) | (392) | (138,543) | (860) | (281,344) | (984) | (171,300) | (1,477) |
| Sales................................ | (79,753) | (883) | (230,246) | (680) | (51,595) | (379) | (37,881) | (417) |
| Balance at end of period............. | $1,562,385 | 12,202 | $1,314,399 | 5,460 | $ 943,529 | 4,543 | $ 785,434 | 3,894 |

| | 1993 | | 1992 | |
|---|---|---|---|---|
| | BALANCE | NO. OF LOANS | BALANCE | NO. OF LOANS |
| Balance at beginning of period........ | $ 310,464 | 5,358 | $ 47,619 | 590 |
| Acquisitions(1)....................... | 294,359 | 2,412 | 297,169 | 5,380 |
| Resolutions and repayments(2)......... | (116,890) | (1,430) | (28,194) | (473) |
| Loans transferred to real estate owned.............................. | (26,887) | (602) | (6,130) | (139) |
| Sales................................ | (27,530) | (578) | -- | -- |
| Balance at end of period............. | $ 433,516 | 5,160 | $ 310,464 | 5,358 |

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(1) In the three months ended March 31, 1997, acquisitions consisted of $436.8 million of single-family residential loans (inclusive of the Company's approximate 50% interest in $855.7 million principal amount of loans acquired from HUD, as discussed above), $5.2 million of multi-family residential loans and $900,000 of commercial real estate loans. In 1996, acquisitions consisted of $365.4 million of single-family residential loans, $310.4 million of multi-family residential loans, $433.5 million of commercial real estate loans and $1.5 million of other loans. The 1996 data does not include the Company's pro rata share of the $741.2 million of discounted loans acquired by the LLC (see "Business-- Investment in Joint Venture"). In 1995, acquisitions consisted of $272.8 million of single-family residential loans, $141.2 million of multi-family residential loans, $374.9 million of commercial real estate loans and $2.3 million of other loans. In 1994, acquisitions consisted of $395.8 million of single-family residential loans, $315.5 million of multi-family residential loans and $115.1 million of commercial real estate loans. In 1993 and 1992, substantially all of the acquisitions were of single-family residential loans.

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

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

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

| | MARCH 31, 1997 | DECEMBER 31, 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | | | | |
| Loan status: | | | | | | |
| Current.................................... | $ 535,999 | $ 579,597 | $ 351,630 | $ 113,794 | $ 23,629 | $ 25,463 |
| Past due 31 days to 89 days................ | 40,365 | 22,161 | 86,838 | 57,023 | 15,175 | 4,063 |
| Past due 90 days or more................... | 975,517(1) | 563,077 | 385,112 | 413,506 | 254,413 | 31,808 |
| Acquired and servicing not yet transferred... | 10,504 | 149,564 | 119,949 | 201,111 | 140,299 | 249,130 |
| | $ 1,562,385 | $ 1,314,399 | $ 943,529 | $ 785,434 | $ 433,516 | $ 310,464 |

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(1) Includes $234.1 million of loans which are less than 90 days past due under forbearance agreements.

The following table sets forth the payment status at March 31, 1997 of the loans in the Company's discounted loan portfolio which were subject to forbearance agreements.

| | AMOUNT | % OF DISCOUNTED LOANS |
|---|---|---|
| | (DOLLARS IN THOUSANDS) | |
| Loans with Forbearance Agreements: | | |
| Current (past due less than 31 days).................................................. | $ 9,002 | 0.6% |
| Past due 31 days to 89 days........................................................... | 8,844 | 0.6 |
| Past due 90 days or more.............................................................. | 378,922(1) | 24.2 |
| Total................................................................. | $ 396,768 | 25.4% |

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(1) Includes $234.1 million of loans which are less than 90 days past due.

ACCOUNTING FOR DISCOUNTED LOANS. The acquisition cost for a pool of discounted loans is allocated to each individual loan within the pool based upon the Company's pricing methodology. Prior to January 1, 1997, the discount associated with all single-family residential loans was recognized as a yield adjustment and was accreted into interest income using the interest method applied on a loan-by-loan basis once foreclosure proceedings are initiated, to the extent the timing and amount of cash flows could be reasonably determined. Effective January 1, 1997, the Company ceased accretion of discount on its nonperforming discounted single-family residential loans. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Net Interest Income' and '-- Recent Regulatory Developments." The discount which is associated with a single-family residential loan and certain multi-family residential and commercial real estate loans which are current or subsequently brought current by the borrower in accordance with the loan terms is accreted into the Company's interest income as a yield adjustment using the interest method over the contractual maturity of the loan. For all other loans interest is earned as cash is received. For additional information, see Note 10 to the Consolidated Financial Statements.

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

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

OTHER DISCOUNTED LOAN ACTIVITIES. The Company believes that the procedures, facilities and systems which it has developed in connection with the acquisition and resolution of discounted loans may be applied in other businesses. The Company commenced a program in 1995 to utilize this experience by financing the acquisition of discounted loans by other institutions. During the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995, the Company originated $0, $25.8 million and $41.7 million, respectively, of portfolio finance loans, which had an aggregate balance of $39.5 million at March 31, 1997. Portfolio finance loans generally have two-year terms, floating interest rates which adjust in accordance with a designated reference rate and a loan-to-value ratio which does not exceed the lesser of 90% of the purchase price or the estimated value of the collateral as determined by the Company, and may include terms which provide the Company with a participation interest in the profits from the resolution of the discounted loan collateral. Portfolio finance loans are included in the Company's non-discounted loan portfolio under the category of loan which is represented by the properties which secure the discounted loans that collateralize the Company's portfolio finance loans. See "Business--Lending Activities."

The Company's discounted loan acquisition and resolution activities and related securitization activities also have contributed significantly to increases in the Company's loan servicing activities. See "Business--Loan Servicing Activities."

INVESTMENT IN JOINT VENTURES

As of March 31, 1997, the Company's investment in joint ventures consisted of investments in LLC and BCFL, the latter of which had not engaged in substantial activities as of such date.

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

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

All of the HUD loans acquired by LLC are secured by first mortgage liens on single-family residences. The properties which secure the HUD loans held by LLC remaining at March 31, 1997 are located throughout 31 states in the U.S., the District of Columbia and Puerto Rico.

At March 31, 1997, LLC held discounted loans with an unpaid principal balance of $73.7 million, of which $24.7 million were subject to forbearance agreements and $66.7 million were past due 90 days or more.

SECURITIZATION OF HUD LOANS BY LLC. At the time of LLC's acquisition of HUD loans the Company and its co-investor intended to have LLC securitize such loans after an approximately six to nine month period during which the Company, as loan servicer, sought to enhance the performance of the HUD loans held by LLC by, among other things, resolving existing delinquencies, documenting verbal forbearance agreements and bringing loans which are subject to forbearance agreements into compliance with such agreements. Securitization generally involves the creation of a REMIC to acquire loans and issuance by the REMIC of securities backed by such loans, which in the case of the senior classes generally are sold to third party investors at the time of securitization and in the case of the subordinate class generally are retained by LLC and other participants, if applicable.

During the three months ended March 31, 1997, LLC, as part of a larger transaction involving the Company and an affiliate of BlackRock, completed a securitization of 1,196 HUD loans held by it with an unpaid principal balance of $51.7 million, past due interest of $14.2 million and a net book value of $40.5 million; and during 1996, LLC completed a securitization of 9,825 HUD loans with an aggregate unpaid principal balance of $419.4 million, past due interest of $86.1 million and a net book value of $394.2 million. LLC recognized gains of $18.4 million and $69.8 million (including a gain of $12.9 million on the sale in 1996 of $79.4 million of securities to the Company) from the sale of the senior classes in the REMICs formed for purposes of these transactions in the three months ended March 31, 1997 and the year ended December 31, 1996, respectively, of which $9.2 million and $34.9 million, respectively, were allocable to the Company as a result of its pro rata interest in LLC and included in equity in earnings of joint venture.

ACCOUNTING FOR INVESTMENT IN JOINT VENTURES. The Company's 50% investment in LLC is accounted for under the equity method of accounting. Under the equity method of accounting, an investment in the shares or other interests of an investee is initially recorded at the cost of the shares or interests acquired and thereafter is periodically increased (decreased) by the investor's proportionate share of the earnings (losses) of the investee and decreased by all dividends received by the investor from the investee. At March 31, 1997, the Company's investment in the LLC amounted to $32.3 million. Because the LLC is a pass-through entity for federal income tax purposes, provisions for income taxes are established by each of the Company and its co-investor and not the LLC. The Company recognized $14.4 million and $38.3 million of pre-tax income from its investment in the LLC during the three months ended March 31, 1997 and the year ended December 31, 1996, respectively. For additional information, see Note 3 to the Interim Consolidated Financial Statements and Note 2 to the Consolidated Financial Statements.

The Company's 10% investment in BCFL is accounted for under the cost method. Such investment amounted to $1.1 million at March 31, 1997.

LENDING ACTIVITIES

COMPOSITION OF LOAN PORTFOLIO. At March 31, 1997, the Company's net loan portfolio amounted to $422.2 million or 15.9% of the Company's total assets. Loans held for investment in the Company's loan portfolio are carried at amortized cost, less an allowance for loan losses, because the Company has the ability and presently intends to hold them to maturity.

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

| | MARCH 31, 1997 | DECEMBER 31, 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | | | | |
| Single-family residential loans | $ 73,118 | $ 73,186 | $ 75,928 | $31,926 | $30,385 | $33,799 |
| Multi-family residential loans | 90,776(1) | 67,842(1) | 49,047(1) | 1,800 | 39,352 | 5,563 |
| Commercial real estate and land loans: | | | | | | |
| Hotels | 196,523(2) | 200,311(2) | 125,791 | 19,659 | 14,237 | -- |
| Office buildings | 119,944 | 128,782 | 61,262 | -- | -- | -- |
| Land | 4,566 | 2,332 | 24,904 | 1,315 | 4,448 | -- |
| Other | 23,415 | 25,623 | 2,494 | 4,936 | 4,059 | 1,908 |
| Total | 344,448 | 357,048 | 214,451 | 25,910 | 22,744 | 1,908 |
| Commercial non-mortgage | 3,750 | 2,614 | -- | -- | -- | -- |
| Consumer | 402 | 424 | 3,223 | 1,558 | 3,639 | 2,395 |
| Total loans | 512,494 | 501,114 | 342,649 | 61,194 | 96,120 | 43,665 |
| Undisbursed loan proceeds | (80,487) | (89,840) | (39,721) | -- | -- | -- |
| Unaccreted discount | (4,941) | (5,169) | (5,376) | (3,078) | (6,948) | (1,898) |
| Allowance for loan losses | (4,834) | (3,523) | (1,947) | (1,071) | (884) | (752) |
| Loans, net | $ 422,232 | $402,582 | $295,605 | $57,045 | $88,288 | $41,015 |

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(1) At March 31, 1997 and December 31, 1996 and 1995, multi-family residential loans included $44.0 million, $36.6 million and $7.7 million of construction loans, respectively.

(2) At March 31, 1997 and December 31, 1996, hotel loans included $24.1 million and $26.4 million of construction loans, respectively.

The Company's lending activities are conducted on a nationwide basis and, as a result, the properties which secure its loan portfolio are geographically located throughout the United States. At March 31, 1997, the five states in which the largest amount of properties securing the loans in the Company's loan portfolio were located were New York, Illinois, California, New Jersey and Georgia, which had $124.2 million, $81.3 million, $74.3 million, $51.4 million and $28.9 million of principal amount of loans, respectively. As noted above, the Company believes that the broad geographic distribution of its loan portfolio reduces the risks associated with concentrating such loans in limited geographic areas.

CONTRACTUAL PRINCIPAL REPAYMENTS. The following table sets forth certain information at December 31, 1996 regarding the dollar amount of loans maturing in the Company's loan portfolio based on scheduled contractual amortization, as well as the dollar amount of loans which have fixed or adjustable interest rates. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as due in one year or less. Loan balances have not been reduced for

(i) undisbursed loan proceeds, unearned discounts and the allowance for loan losses and (ii) non-performing loans.

| | MATURING IN | | | |
|---|---|---|---|---|
| | ONE YEAR OR LESS | AFTER ONE YEAR THROUGH FIVE YEARS | AFTER FIVE YEARS THROUGH TEN YEARS | AFTER TEN YEARS |
| | (DOLLARS IN THOUSANDS) | | | |
| Single-family residential loans | $ 15,314 | $ 6,429 | $ 4,446 | $ 46,997 |
| Multi-family residential loans | 37,341 | 26,921 | 3,513 | 67 |
| Commercial real estate and land loans | 14,484 | 297,698 | 40,850 | 4,016 |
| Consumer and other loans | 2,647 | 323 | 68 | -- |
| Total | $ 69,786 | $ 331,371 | $ 48,877 | $ 51,080 |
| Interest rate terms on amounts due: | | | | |
| Fixed | $ 44,744 | $ 274,078 | $ 47,777 | $ 38,208 |
| Adjustable | 25,042 | 57,293 | 1,100 | 12,872 |
| | $ 69,786 | $ 331,371 | $ 48,877 | $ 51,080 |

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

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

| | THREE MONTHS ENDED MARCH 31, 1997 | YEAR ENDED DECEMBER 31, 1996 | 1995 | 1994 |
|---|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | | |
| Balance at beginning of period | $ 501,114 | $ 342,649 | $ 61,194 | $ 96,120 |
| Originations: | | | | |
| Single-family residential loans | 1,769 | 10,681 | 14,776 | 7,119 |
| Multi-family residential loans | 12,680 | 68,076 | 48,664 | -- |
| Commercial real estate loans | -- | 199,017 | 212,630 | 22,486 |
| Commercial non-mortgage and consumer loans | 1,134 | 3,366 | 207 | -- |
| Total loans originated | 15,583 | 281,140 | 276,277 | 29,605 |
| Purchases: | | | | |
| Single-family residential loans | -- | 305 | 29,833 | -- |
| Commercial real estate loans | -- | -- | 2,245 | -- |
| Consumer loans | -- | -- | 1,966 | -- |
| Total loans purchased | -- | 305 | 34,044 | -- |
| Sales | -- | -- | -- | (1,078) |
| Loans transferred from (to) available for sale | 13,802 | 45 | 4,353 | (24,380) |
| Principal repayments, net of capitalized interest | (17,652) | (121,818) | (33,168) | (39,073) |
| Transfer to real estate owned | (353) | (1,207) | (51) | -- |
| Net increase (decrease) in net loans | 11,380 | 158,465 | 281,455 | (34,926) |
| Balance at end of period | $ 512,494 | $ 501,114 | $ 342,649 | $ 61,194 |

LOANS AVAILABLE FOR SALE. In addition to loans acquired for investment, the Company also originates and purchases loans which it presently does not intend to hold to maturity. Such loans are designated as loans available for sale upon origination or purchase and generally are carried at the lower of cost or aggregate market value. At March 31, 1997, loans available for sale amounted to $88.5 million or 3.3% of the Company's total assets.

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

| | MARCH 31, 1997 | DECEMBER 31, 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|
| | | | | (DOLLARS IN THOUSANDS) | | |
| Single-family residential loans | $ 87,847 | $ 111,980 | $ 221,927 | $ 16,825 | $ 30,217 | $ 754 |
| Multi-family residential loans | -- | 13,657 | 28,694 | 83,845 | 44,919 | -- |
| Consumer loans | 664 | 729 | 1,169 | 1,623 | 25,930 | -- |
| | $ 88,511 | $ 126,366 | $ 251,790 | $ 102,293 | $ 101,066 | $ 754 |

Although the Company's loans available for sale are secured by properties located nationwide, currently a substantial majority of such loans are sub-prime single-family residential loans originated primarily in the western states, particularly California. As a result, $25.3 million or 28.6% of the Company's loans available for sale at March 31, 1997 were secured by properties located in California.

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

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

In order to solidify and expand its sources of sub-prime single-family residential loans, the Company, through OFS, acquired substantially all of the assets of Admiral in a transaction which closed on May 1, 1997. See "Business--Subsidiaries." At the time of acquisition, Admiral engaged in sub-prime lending on a retail and wholesale basis through 11 loan production offices located in California and independent mortgage brokers and correspondent lending institutions located in California and eleven other states. In connection with the Company's acquisition of assets from Admiral, the Bank transferred its retail and wholesale sub-prime single-family residential lending operations to OFS, which included, among other things, transferring its rights under contracts with brokers and correspondent lending institutions and its rights and obligations under leases to six loan production offices recently opened by it, which are located in California, Illinois, Massachusetts, Oregon, Utah and Wisconsin. OFS currently conducts its business on a retail and wholesale basis through 17 loan production offices located in six states and plans on opening an additional 10 such offices in 1997. OFS' principal sources of funds consist of (i) two lines of credit with unaffiliated parties which aggregate $250 million and are secured by the mortgage loans acquired with such lines and (ii) a $30 million unsecured, subordinated credit facility provided by the Company to OFS at the time of the acquisition of substantially all of the assets of Admiral. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity, Commitments and Off-Balance Sheet Risks."

The Company has adopted policies that set forth the specific lending requirements of the Company as they relate to the processing, underwriting, property appraisal, closing, funding and delivery of sub-prime loans. These policies include program descriptions which set forth four classes of loans, designated A, B, C and D. Class A loans generally relate to borrowers who have no or limited adverse incidents in their credit histories, whereas Class B, C and D loans relate to increasing degrees of adverse incidents in the borrower's credit histories. Factors which are considered in evaluating a borrower in this regard are the presence or absence of a credit history, prior delinquencies in the payment of mortgage and consumer credit and personal bankruptcies.

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

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

The Company purchased and originated a total of $64.5 million, $294.0 million and $240.3 million of sub-prime single-family residential loans during the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995, respectively. At March 31, 1997, the Company had $76.1 million of sub-prime single-family residential loans, which had a weighted average yield of 10.4%.

The Company generally intends to sell or securitize its sub-prime single-family residential loans and, as a result, all of such loans were classified as available for sale at March 31, 1997. During the three months ended March 31, 1997, the Company sold $82.1 million of sub-prime single-family residential loans for gains of $2.7 million; during 1996, the Company sold $161.5 million of sub-prime single-family residential loans for gains of $571,000; and during 1995 the Company sold $25.3 million of sub-prime single-family residential loans for gains of $188,000. During 1996, an additional $219.6 million of loans were securitized and sold in two underwritten public offerings managed by unaffiliated investment banking firms, which resulted in gains of $7.2 million upon the Company's sale of the securities. The Company received residual securities in the REMICs which were formed in connection with these two transactions as partial payment for the loans sold by it. See "Business--Investment Activities."

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

In addition to the Company's sub-prime single-family residential loan programs, from time to time the Company purchases pools of single-family residential loans for investment purposes. During 1995, the Company purchased $29.8 million of loans which were primarily secured by properties located in the Company's market area in northern New Jersey.

MULTI-FAMILY RESIDENTIAL AND COMMERCIAL REAL ESTATE LOANS. The Company's lending activities include the acquisition of loans secured by commercial real estate, particularly loans secured by hotels and office buildings, which the Company began originating in late 1994 and late 1995, respectively. Commercial real estate loans currently are made to finance the purchase and refinance of commercial properties, the refurbishment of distressed properties and, recently, the construction of hotels. At March 31, 1997, the Company's loans secured by commercial real estate (and land) amounted to $344.4 million and consisted primarily of $196.5 million and $119.9 million of loans secured by hotels and office buildings, respectively.

From time to time, the Company originates loans for the construction of multi-family residences, as well as bridge loans to finance the acquisition and rehabilitation of distressed multi-family residential properties. At March 31, 1997, the Company's multi-family residential loan portfolio included $44.0 million of multi-family residential construction loans, of which $29.9 million had been funded at such date, and $46.8 million of acquisition and rehabilitation loans, of which $40.7 million had been funded.

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

million and $67.1 million, respectively. The Company subsequently sold substantially all of the securities backed by these loans.

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

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

Multi-family residential and commercial real estate loans are secured by a first priority lien on the real property, all improvements thereon and, in the case of hotel loans, all fixtures and equipment used in connection therewith, as well as a first priority assignment of all revenues and gross receipts generated in connection with the property. The liability of a borrower on a multi-family residential and commercial real estate loan generally is limited to the borrower's interest in the property, except with respect to certain specified circumstances.

In addition to stated interest, the large multi-family residential and commercial real estate loans originated by the Company commonly include provisions pursuant to which the borrower agrees to pay the Company as additional interest on the loan an amount based on specified percentages (generally between 10-37.5%) of the net cash flow from the property during the term of the loan and/or the net proceeds from the sale or refinancing of the property upon maturity of the loan. Participating interests also may be obtained in the form of additional fees which must be paid by the borrower in connection with a prepayment of the loan, generally after an initial lock-out period during which prepayments are prohibited. The fees which could be payable by a borrower during specified periods of the loan consist either of fixed exit fees or yield maintenance payments, which are required to be paid over a specified number of years after the prepayment and are intended to increase the yield of the Company on the proceeds from the loan payoff to a level which is comparable to the yield on the prepaid loan. At March 31, 1997, the Company's loan portfolio included $320.8 million of funded and unfunded loans in which the Company participates in the residual profits of the underlying real estate, of which $243.7 million had been funded. See Notes 1 and 9 to the Consolidated Financial Statements. The Company generally accounts for loans in which it participates in residual profits as loans and not as investments in real estate; however, because of concerns raised by the staff of the OTS in this regard, in December 1996 and the three months ended March 31, 1997 the Bank sold to the Company subordinated, participating interests in a total of 11 acquisition, development and construction loans, which interests had an aggregate principal balance of $16.9 million. On a consolidated basis, eight of these loans, which amounted to $30.3 million at March 31, 1997, were carried by the Company as investments in real estate. The Bank (but not the Company) has agreed with the OTS to cease origination of mortgage loans with profit participation features in the underlying real estate, with the exception of existing commitments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Recent Regulatory Developments."

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

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

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

Multi-family residential, commercial real estate and construction lending generally are considered to involve a higher degree of risk than single-family residential lending because such loans involve larger loan balances to a single borrower or group of related borrowers. In addition, the payment experience on multi-family residential and commercial real estate loans typically is dependent on the successful operation of the project, and thus such loans may be adversely affected to a greater extent by adverse conditions in the real estate markets or in the economy generally. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost (including interest) of construction, as well as the availability of permanent take-out financing. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of value proves to be inaccurate, the Company may be confronted, at or prior to the maturity of the loan, with a project which, when completed, has a value which is insufficient to ensure full repayment. In addition to the foregoing, multi-family residential and commercial real estate loans which are not fully amortizing over their maturity and which have a balloon payment due at their stated maturity, as is generally the case with the Company's multi-family residential and commercial real estate loans, involve a greater degree of risk than fully amortizing loans because the ability of a borrower to make a balloon payment typically will depend on its ability either to timely refinance the loan or to timely sell the security property. The ability of a borrower to accomplish these results will be affected by a number of factors, including the level of available mortgage rates at the time of sale or refinancing, the financial condition and operating history of the borrower and the property which secures the loan, tax laws, prevailing economic conditions and the availability of financing for multi-family residential and commercial real estate generally.

LOAN SERVICING ACTIVITIES

During 1996, the Company developed a program to provide loan servicing and various other asset management and resolution services to third party owners of non-performing assets, underperforming assets and subprime assets such as Class B, C and D single-family residential loans. Servicing contracts entered into by the Company provide for the payment to the Company of specified fees and in some cases may include terms which allow the Company to participate in the profits resulting from the successful resolution of the assets being serviced.

The Bank has been approved as a loan servicer by HUD, FHLMC and FNMA. The Bank is rated a Tier 1 servicer and as a preferred servicer for high-risk mortgages by FHLMC, the highest rating categories, and also is rated as a "strong" special servicer for commercial mortgage loans by Standard & Poor's, which also is the highest rating category. In addition, the Bank is a rated servicer for residential mortgage loans by Standard & Poor's and Fitch Investors Service has rated the Bank as an above-average special servicer for commercial loans.

The following table sets forth the number and amount of loans serviced by the Company for others at the dates indicated.

| | MARCH 31, 1997 | DECEMBER 31, 1996 | DECEMBER 31, 1995 |
|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | |
| Loans serviced for others(1): | | | |
| Number | 38,670 | 30,163 | 1,366 |
| Amount | $ 2,592,000 | $ 1,918,100 | $ 361,600 |

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(1) Includes loans serviced for LLC.

The increases in the number and amount of loans serviced by the Company for others in recent periods were primarily attributable to the Company's acquisition of rights to service discounted loans acquired from HUD by BlackRock, directly and indirectly through LLC, and servicing rights resulting from the securitization of both loans acquired from HUD by the Company and BlackRock, directly and indirectly through LLC, and single-family residential loans to non-conforming borrowers held by the Company, and the sale of the senior classes in the resulting mortgage-related securities backed by such loans.

The Company generally does not purchase rights to service loans for others and, as a result, capitalized mortgage servicing rights amounted to only $2.2 million at March 31, 1997. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 122, "Accounting for Mortgage Servicing Rights," the Company amortizes mortgage servicing rights over the estimated weighted average life of the loans and periodically evaluates its mortgage servicing rights for impairment based on the fair value of those rights, which is recognizable through a valuation allowance.

ASSET QUALITY

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

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

The following table sets forth certain information relating to the Company's non-performing loans in its loan portfolio at the dates indicated. For information relating to the payment status of loans in the Company's discounted loan portfolio, see "Business--Discounted Loan Acquisitions and Resolution Activities," and for information concerning non-performing loans available for sale, see "Management Discussion and Analysis of Financial Condition-Changes in Financial Condition-Loans Available for Sale."

| | MARCH 31, 1997 | DECEMBER 31, 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|
| | | (DOLLARS IN THOUSANDS) | | | | |
| Non-performing loans (1) | | | | | | |
| Single-family residential loans | $1,728 | $2,123 | $2,923 | $2,478 | $2,347 | $2,955 |
| Multi-family residential loans | 7,517(3) | 106 | 731 | 152 | 664 | 269 |
| Consumer and other loans | 62 | 55 | 202 | 29 | 556 | 407 |
| Total | $9,307 | $2,284 | 3,856 | $2,659 | $3,567 | $3,631 |
| Non-performing loans as a percentage of: | | | | | | |
| Total loans (2) | 2.15% | 0.56% | 1.27% | 4.35% | 3.71% | 8.32% |
| Total assets | 0.35% | 0.09% | 0.20% | 0.21% | 0.27% | 0.44% |
| Allowance for loan losses as a percentage of: | | | | | | |
| Total loans(2) | 1.13% | 0.87% | 0.65%(4) | 1.84% | 0.99% | 1.80% |
| Non-performing loans | 51.94% | 154.24% | 50.49% | 40.28% | 24.78% | 20.71% |

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

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

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

(4) The decrease in the allowance for loan losses as a percentage of total loans from 1994 was due to the significant increase in the loan portfolio in 1995 as a result of the purchase of single family residential loans and the origination of multi-family residential and commercial real estate loans.

REAL ESTATE OWNED. Properties acquired through foreclosure or by deed-in-lieu thereof are valued at the lower of amortized cost or fair value. Properties included in the Company's real estate owned portfolio are periodically re-evaluated to determine that they are being carried at the lower of cost or fair value less estimated costs to sell. Holding and maintenance costs related to properties are recorded as expenses in the period incurred. Deficiencies resulting from valuation adjustments to real estate owned subsequent to acquisition are recognized as a valuation allowance. Subsequent increases related to the valuation of real estate owned are reflected as a reduction in the valuation allowance, but not below zero. Increases and decreases in the valuation allowance are charged or credited to income, respectively. Accumulated valuation allowances amounted to $7.6 million at March 31, 1997.

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

| | MARCH 31, 1997 | DECEMBER 31, 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | | | | |
| Discounted loan portfolio: | | | | | | |
| Single-family residential | $ 45,839 | $ 49,728 | $ 75,144 | $ 86,426 | $ 33,369 | $ 4,390 |
| Multi-family residential | 10,468 | 14,046 | 59,932 | -- | -- | -- |
| Commercial real estate | 40,084 | 36,264 | 31,218 | 8,801 | -- | -- |
| Total | 96,391 | 100,038 | 166,294 | 95,227 | 33,369 | 4,390 |
| Loan portfolio | 581 | 592 | 262 | 1,440 | 128 | 320 |
| Loans available for sale | 1,494 | 3,074 | -- | -- | -- | -- |
| Total | $ 98,466 | $ 103,704 | $ 166,556 | $ 96,667 | $ 33,497 | $ 4,710 |

The following table sets forth certain geographical information at the date indicated related to the Company's real estate owned.

| | MARCH 31, 1997 | | | | | |
|---|---|---|---|---|---|---|
| | SINGLE-FAMILY RESIDENTIAL | | MULTI-FAMILY RESIDENTIAL AND COMMERCIAL | | TOTAL | |
| | AMOUNT | NO. OF PROPERTIES | AMOUNT | NO. OF PROPERTIES | AMOUNT | NO. OF PROPERTIES |
| | (DOLLARS IN THOUSANDS) | | | | | |
| California | $26,033 | 258 | $41,470 | 40 | $67,503 | 298 |
| New York | 10,266 | 166 | 2,117 | 13 | 12,383 | 179 |
| New Jersey | 3,175 | 38 | 3,014 | 14 | 6,189 | 52 |
| Florida | 949 | 18 | 2,134 | 3 | 3,083 | 21 |
| Connecticut | 1,704 | 30 | 577 | 8 | 2,281 | 38 |
| Other | 5,786(1) | 105 | 1,241(2) | 9 | 7,027 | 114 |
| Total | $47,913 | 615 | $50,553 | 87 | $98,466 | 702 |

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(1) Consists of properties located in 24 other states, none of which aggregated over $1.0 million in any one state.

(2) Consists of properties located in four other states, none of which aggregated over $1.0 million in any one state.

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

| | THREE MONTHS ENDED MARCH 31, 1997 | | YEAR ENDED DECEMBER 31, 1996 | | 1995 | | 1994 | |
|---|---|---|---|---|---|---|---|---|
| | AMOUNT | NO. OF PROPERTIES | AMOUNT | NO. OF PROPERTIES | AMOUNT | NO. OF PROPERTIES | AMOUNT | NO. OF PROPERTIES |
| | (DOLLARS IN THOUSANDS) | | | | | | | |
| Balance at beginning of period | $ 103,704 | 825 | $ 166,556 | 1,070 | $ 96,667 | 1,018 | $ 33,497 | 541 |
| Properties acquired through foreclosure or deed-in-lieu thereof | 37,653 | 407 | 102,098 | 918 | 185,174 | 970 | 142,536 | 1,489 |
| Acquired in connection with acquisitions of discounted loans | 70 | 3 | 2,529 | 12 | 24,617 | 311 | 38,071 | 398 |
| Sales | (46,863) | (533) | (160,592) | (1,175) | (139,233) | (1,229) | (115,955) | (1,410) |
| Change in allowance | 3,902 | -- | (6,887) | -- | (669) | -- | (1,482) | -- |
| Balance at end of period | $ 98,466 | 702 | $ 103,704 | 825 | $ 166,556 | 1,070 | $ 96,667 | 1,018 |

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

| | MARCH 31, 1997 | DECEMBER 31, 1996 | DECEMBER 31, 1995 |
|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | |
| One to two months | $ 32,539 | $ 17,695 | $ 25,398 |
| Three to four months | 12,572 | 15,291 | 22,672 |
| Five to six months | 7,637 | 14,348 | 25,742 |
| Seven to 12 months | 12,855 | 13,004 | 76,782 |
| Over 12 months | 32,863 | 43,366 | 15,962 |
| | $ 98,466 | $ 103,704 | $ 166,556 |

The average period during which the Company held the $46.9 million, $160.6 million, $139.2 million and $116.0 million of real estate owned which was sold during the three months ended March 31, 1997 and the years ended December 31, 1996, 1995 and 1994, respectively, was 11 months, 11 months, eight months and seven months, respectively.

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

From time to time the Company makes loans to finance the sale of real estate owned. At March 31, 1997, such loans amounted to $12.3 million and consisted of $6.1 million of single-family residential loans, $3.7 million of multi-family residential loans, $2.1 million of land loans and $403,000 of commercial loans. All of the Company's loans to finance the sale of real estate owned were performing in accordance with their terms at March 31, 1997.

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

In 1996, based upon discussions with the OTS and as a result of an OTS bulletin issued on December 13, 1996 entitled "Guidance on the Classification and Regulatory Reporting of Certain Delinquent Loans and Other Credit Impaired Assets," the Company has classified all discounted loans that are 90 or more days contractually past due, not otherwise classified, as special mention and all real state owned, not otherwise classified, as special mention. The Company also modified its policy for classifying non-performing discounted loans and real state owned related to its discounted loan portfolio ("non-performing discounted assets") to take into account both the holding period of such assets from the date of acquisition and the ratio of book value to market value of such assets. All non-performing discounted assets which are held 15 months or more after the date of acquisition are classified substandard; non-performing discounted assets held 12 months to less than 15 months from the date of acquisition are classified as substandard if a ratio of book value to market value is 80% or more; and non-performing discounted assets held less than 12 months from the date of acquisition are classified as substandard if they have a ratio of book value to market value of more than 85%. In addition, non-performing discounted assets which are performing for a period of time subsequent to acquisition by the Company are classified as substandard at the time such loans become non-performing. The Company also has modified its classified assets policy to classify all real state owned which is not cash flowing and which has been held for more than 15 months and three years as substandard and doubtful, respectively. The Company's past experience indicates that the resulting classified discounted assets do not necessarily correlate to probability or severity of loss.

Excluding assets which have been classified loss and fully reserved by the Company, the Company's classified assets at March 31, 1997 under the above policy consisted of $298.0 million of assets classified as substandard and $22,000 of assets classified as doubtful. In addition, at the same date $687.3 million of assets were designated as special mention.

Substandard assets at March 31, 1997 under the above policy consisted primarily of $104.2 million of loans and real estate owned related to the Company's discounted single-family residential loan program, $170.2 million of loans and real estate owned related to the Company's discounted commercial real estate loan program and $15.1 million of sub-prime single-family residential loans. Special mention assets at March 31, 1997 under the policy consisted primarily of $601.6 million and $79.0 million of loans and real estate owned related to the Company's discounted single-family residential and discounted commercial real estate loan programs, respectively.

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

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

| | MARCH 31, 1997 | | DECEMBER 31, 1996 | | 1995 | | 1994 | | 1993 | | 1992 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | AMOUNT | % | AMOUNT | % | AMOUNT | % | AMOUNT | % | AMOUNT | % | AMOUNT | % |
| | (DOLLARS IN THOUSANDS) | | | | | | | | | | | |
| Loan Portfolio: | | | | | | | | | | | | |
| Single-family residential loans | $ 433 | 14.3% | $ 520 | 14.6% | $ 346 | 22.2% | $ 615 | 52.2% | $174 | 31.6% | $ 20 | 77.3% |
| Multi-family residential loans | 1,745 | 17.7 | 673 | 13.5 | 683 | 14.3 | -- | 2.9 | 333 | 40.9 | 281 | 12.7 |
| Commercial real estate loans | 2,610 | 67.2 | 2,299 | 71.3 | 875 | 62.6 | 218 | 42.3 | 218 | 23.7 | 220 | 4.6 |
| Commercial non-mortgage | 28 | 0.7 | 11 | 0.5 | -- | -- | -- | -- | -- | -- | -- | -- |
| Consumer loans | 18 | 0.1 | 20 | 0.1 | 43 | 0.9 | 238 | 2.6 | 159 | 33.8 | 231 | 5.4 |
| Total | $ 4,834 | 100.0% | $ 3,523 | 100.0% | $1,947 | 100.0% | $1,071 | 100.0% | 884 | 100.0% | $752 | 100.0% |
| Discounted loan portfolio(1): | | | | | | | | | | | | |
| Single-family residential loans | $ 8,522 | 53.5% | $ 3,528 | 38.4% | $ -- | --% | $ --% | | $ -- | --% | $ -- | --% |
| Multi-family residential loans | 3,464 | 20.7 | 3,124 | 26.0 | -- | -- | -- | -- | -- | -- | -- | -- |
| Commercial real estate loans | 4,822 | 25.7 | 4,886 | 35.4 | -- | -- | -- | -- | -- | -- | -- | -- |
| Other | -- | 0.1 | -- | 0.2 | -- | -- | -- | -- | -- | -- | -- | -- |
| Total | $16,808 | 100.0% | $11,538 | 100.0% | $ -- | --% | $ -- | --% | $ -- | --% | $ -- | --% |

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

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

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

| | THREE MONTHS ENDED MARCH 31, 1997 | YEAR ENDED DECEMBER 31, 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | | | | |
| Balance, beginning of period | $ 3,523 | $ 1,947 | $ 1,071 | $ 884 | $ 752 | $ 934 |
| Provision for loan losses | 1,345 | 1,872 | 1,121 | -- | -- | -- |
| Charge-offs: | | | | | | |
| Single-family residential loans | (34) | (261) | (131) | (302) | (150) | (138) |
| Multi-family residential loans | -- | (7) | -- | -- | (170) | (3) |
| Commercial real estate loans | -- | -- | (40) | -- | -- | -- |
| Consumer loans | -- | (28) | (92) | (170) | (16) | (88) |
| Total charge-offs | (34) | (296) | (263) | (472) | (336) | (229) |
| Recoveries: | | | | | | |
| Single-family residential loans | -- | -- | 3 | 410 | 346 | 29 |
| Multi-family residential loans | -- | -- | -- | -- | -- | -- |
| Commercial real estate loans | -- | -- | 15 | -- | | -- |
| Consumer loans | -- | -- | -- | 249 | 122 | 18 |
| Total recoveries | -- | -- | 18 | 659 | 468 | 47 |
| Net (charge-offs) recoveries | (34) | (296) | (245) | 187 | 132 | (182) |
| Balance, end of period | $ 4,834 | $ 3,523 | $ 1,947 | $ 1,071 | $ 884 | $ 752 |
| Net charge-offs (recoveries) as a percentage of average loan portfolio, net | 0.01% | 0.09% | 0.19% | (0.28)% | (0.10)% | 0.37% |

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

| | THREE MONTHS ENDED MARCH 31, 1997 | YEAR ENDED DECEMBER 31, 1996 |
|---|---|---|
| | (DOLLARS IN THOUSANDS) | |
| Balance, beginning of period | $ 11,538 | $ -- |
| Provision for loan losses | 8,397 | 20,578 |
| Charge-offs: | | |
| Single-family residential loans | (1,795) | (7,009) |
| Multi-family residential loans | (509) | (704) |
| Commercial real estate loans | (870) | (1,503) |
| Other loans | -- | -- |
| Total charge-offs | (3,174) | (9,216) |
| Recoveries: | | |
| Single-family residential loans | 47 | 176 |
| Multi-family residential loans | -- | -- |
| Commercial real estate loans | -- | -- |
| Consumer loans | -- | -- |
| Total recoveries | 47 | 176 |
| Net (charge-offs) recoveries | (3,127) | (9,040) |
| Balance, end of period | $ 16,808 | $ 11,538 |
| Net charge-offs (recoveries) as a percentage of average discounted loan portfolio, net | 0.28% | 1.34% |

## INVESTMENT ACTIVITIES

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

MORTGAGE-BACKED AND RELATED SECURITIES. From time to time the Company invests in mortgage-backed and mortgage-related securities. Although mortgage-backed and mortgage-related securities generally yield less than the loans that back such securities because of costs associated with their payment guarantees or credit enhancements, such securities are more liquid than individual loans and may be used to collateralize borrowings of the Company. Other mortgage-backed and mortgage-related securities bear the distilled risks of the underlying loans, such as prepayment risk (interest-only securities) and credit risk (subordinated interests), and are generally less liquid than individual loans. See Note 6 to the Consolidated Financial Statements.

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

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

Interest-only and principal-only securities are so-called stripped mortgage-related securities, in which interest coupons may be stripped from a mortgage-related security to create an IO strip, where the investor receives all of the interest cash flows and none of the principal, and a PO strip, where the investor receives all of the principal cash flows and none of the interest. Inverse floating rate interest-only ("Inverse IO") securities also have coupons which are stripped from a mortgage-related security. However, Inverse IOs have coupons whose interest rates change inversely with, and often as a multiple of, a specialized index such as the one-month London Interbank Offered Rate.

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

| | MARCH 31, 1997 | DECEMBER 31, 1996 | 1995 | 1994 |
|---|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | | |
| Mortgage-backed securities: | | | | |
| Single-family residential | $ -- | $ -- | $ -- | $ 19,099 |
| Mortgage-related securities: | | | | |
| Single-family residential: | | | | |
| Privately issued CMOs--AAA-rated | 69,664 | 73,935 | 138,831 | 75,032 |
| Interest only(1) | 98,655 | 98,124 | 11,774 | 1,996 |
| Principal only | -- | -- | 8,218 | 11,490 |
| Subordinates | 23,197 | 19,164 | 27,310 | -- |
| PAC securities | -- | -- | 574 | -- |
| REMIC residuals | 21,566 | 20,560 | 472 | -- |
| Futures contracts and swaps | (1,623) | (1,921) | (1,598) | 1,143 |
| Total | 211,459 | 209,862 | 185,581 | 89,661 |
| Multi-family residential and commercial: | | | | |
| Privately issued CMOs | -- | -- | -- | 53,939 |
| Interest only(2) | 81,435 | 87,389 | 109,193 | -- |
| Subordinates | 54,401 | 57,534 | 42,954 | 22,095 |
| Futures contracts | 771 | (780) | (248) | (609) |
| Total | 136,607 | 144,143 | 151,899 | 75,425 |
| Total | $ 348,066 | $ 354,005 | $ 337,480 | $ 184,185 |

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(1) All of the indicated securities are either issued by FHLMC or FNMA or are rated AAA by national rating agencies.

(2) All of the indicated securities are rated AAA by national rating agencies, except $4.2 million and $3.8 million of securities at March 31, 1997 and December 31, 1996, respectively.

At March 31, 1997, $97.6 million of the Company's securities available for sale were issued by FHLMC or FNMA and $250.2 million of such securities were privately issued. Of the $250.2 million of securities available for sale which were privately issued at March 31, 1997, $164.7 million were rated AAA by national rating agencies, $3.6 million were rated investment grade below this level and $81.6 million (amortized cost of $77.1 million) were unrated or rated below investment grade.

At March 31, 1997, the carrying value of the Company's investment in IO strips amounted to $180.1 million and the Company had no investments in PO strips. The Company invests in IO strips and PO strips from time to time based on its capital position, interest rate risk profile and the market for such securities. IO strips and PO strips exhibit considerably more price volatility than mortgages or ordinary mortgage pass-through securities, due in part to the uncertain cash flows that result from changes in the prepayment rates of the underlying mortgages. In the case of IO strips in particular, increased prepayments of the underlying mortgages as a result of a decrease in market interest rates or other factors can result in a loss of all or part of the purchase price of such security, although IO strips relating to mortgage-related securities backed by multi-family residential and commercial real estate loans (which amounted to $82.5 million of the $180.1 million of IO strips owned by the Company at March 31, 1997) generally have provisions which prohibit and/or provide economic disincentives to prepayments for specified periods. The Company generally attempts to offset the interest rate risk associated with a particular IO strip or PO strip by purchasing other securities. At March 31, 1997, all of the Company's IO strips were either issued by FHLMC or FNMA or rated AAA by national rating agencies, with the exception of six IO securities with an aggregate carrying value of $3.7 million, which were rated investment grade below this level.

At March 31, 1997, the carrying value of the Company's investment in subordinate classes of mortgage-related securities amounted to $77.6 million and included $32.5 million of subordinated classes of mortgage-related securities acquired in connection with the securitization activities of the Company. During the three months ended March 31, 1997, the Company acquired $4.5 million of subordinate mortgage-related securities in connection with the securitization of single-family residential loans acquired from HUD. During 1996, the Company acquired $9.2 million of subordinate mortgage-related securities in connection with the Company's securitization of commercial discounted loans and $18.9 million of subordinate mortgage-related securities in connection with LLC's securitization of HUD loans. For additional information see "Business--Discounted Loan Acquisition and Resolution Activities--Sales of Discounted Loans" and "Business--Investment in Joint Ventures--Securitization of HUD Loans by LLC." At March 31, 1997, the Company's subordinate securities supported senior classes of securities having an outstanding principal balance of $1.14 billion. Because of their subordinate position, subordinate classes of mortgage-related securities involve more risk than the other classes.

During 1996, the Company also retained residual securities in REMICs which were formed in connection with the securitization and sale of $219.6 million of single-family residential loans to non-conforming borrowers in two underwritten public offerings as partial payment for the loans sold by it. These REMIC residual securities had a carrying value of $21.6 million at March 31, 1997 and supported senior classes of securities having an outstanding principal balance of $175.0 million at such date. Cash flows supporting the REMIC residuals, which provide credit support similar to a senior-subordinated structure, are generated by the amount by which the interest collected on the mortgage loan exceeds the interest due on the senior securities. See "Business--Lending Activities--Single-Family Residential Loans."

The Company generally does not intend to purchase subordinate classes of mortgage-related securities created by unaffiliated parties. The Company held five such securities with a carrying value of $32.0 million at March 31, 1997, which subsequently were sold to OAIC. The Company may retain subordinated classes resulting from the securitization of assets held by it directly or indirectly through the Bank and investments in joint ventures, although it is intended that any such securities held by the Bank will be distributed to the Company as a dividend, subject to its ability to declare such dividends under applicable limitations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Recent Regulatory Developments."

Under a regulatory bulletin issued by the OTS, a federally-charted savings institution such as the Bank generally may invest in "high risk" mortgage securities only to reduce its overall interest rate risk and after it has adopted various policies and procedures, although under specified circumstances such securities also may be acquired for trading purposes. A "high risk" mortgage security for this purpose generally is any mortgage-related security which meets one of three tests which are intended to measure the average life or price volatility of the security in relation to a benchmark fixed rate, 30-year mortgage-backed pass-through security. At March 31, 1997, the Bank held mortgage-related securities with a carrying value of $152.1 million (amortized cost of $140.4 million) which were classified as "high-risk" mortgage securities by the OTS.

The expected actual maturity of a mortgage-backed and related security is shorter than its stated maturity due to prepayments of the underlying mortgages. Prepayments that are faster than anticipated may shorten the life of the security and adversely affect its yield to maturity. The yield is based upon the interest income and the amortization of any premium or accretion of any discount related to the mortgage-backed and related security. Prepayments on mortgage-backed and related securities have the effect of accelerating the amortization of premiums and accretion of discounts, which decrease and increase interest income, respectively. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Similarly, during periods of increasing interest rates, refinancing generally decreases, thus lengthening the estimated maturity of mortgage loans.

For additional information relating to the Company's mortgage-related securities, see Note 6 to the Consolidated Financial Statements.

INVESTMENT SECURITIES. Investment securities currently consist primarily of a required investment in FHLB stock. The following table sets forth the Company's investment securities available for sale and held for investment at the dates indicated.

| | MARCH 31, 1997 | DECEMBER 31, 1996 | DECEMBER 31, 1995 | DECEMBER 31, 1994 |
|---|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | | |
| Available for sale: | | | | |
| U.S. Government securities | $ -- | $ -- | $ -- | $ 3,532 |
| Held for investment: | | | | |
| U.S. Government securities | -- | -- | 10,036 | 10,325 |
| FHLB stock(1) | 10,845 | 8,798 | 8,520 | 6,555 |
| Limited partnership interests | 97 | 103 | 109 | 131 |
| Investment in OAIC | 259 | -- | -- | -- |
| Total | 11,201 | 8,901 | 18,665 | 17,011 |
| Total investment securities | $ 11,201 | $ 8,901 | $ 18,665 | $ 20,543 |

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(1) As a member of the FHLB of New York, the Bank is required to purchase and maintain stock in the FHLB of New York in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year or 5% of borrowings, whichever is greater.

TRADING SECURITIES. When securities are purchased with the intent to resell in the near term, they are classified as trading securities and reported on the Company's consolidated statement of financial condition as a separately identified trading account. Securities in this account are carried at current market value. All trading securities are marked-to-market, and any increase or decrease in unrealized appreciation or depreciation is included in the Company's consolidated statements of operations.

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

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

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

At March 31, 1997, the Company's investment in low-income housing tax credit interests amounted to $99.9 million or 3.8% of the Company's total assets. The Company's investments in low-income housing tax credit interests are made by the Company indirectly through subsidiaries of the Company, which may be a general partner and/or a limited partner in the partnership.

In accordance with a 1995 pronouncement of the Emerging Issues Task Force, the Company's accounting for investments in low-income housing tax credit partnerships in which it acts solely as a limited partner, which amounted to $75.9 million in the aggregate at March 31, 1997, depends on whether the investment was made on or after May 18, 1995. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Changes in Financial Condition--Investments in Low-Income Housing Tax Credit Interests."

Low-income housing tax credit partnerships in which the Company, through a subsidiary, acts as a general partner, are presented on a consolidated basis. At March 31, 1997, the Company's investment in low-income housing tax credit interests included $24.0 million of assets related to low-income housing tax credit partnerships in which a subsidiary of the Company acts as a general partner. The Company had commitments to make $16.4 million of additional investments in such partnerships.

The Company also makes loans to low-income housing tax credit partnerships in which it has invested to construct the affordable housing project owned by the partnership. At March 31, 1997, the Company had $35.1 million of construction loans outstanding to low-income housing tax credit partnerships and commitments to fund an additional $12.6 million of such loans. Approximately $13.9 million of such funded construction loans at March 31, 1997 were made to partnerships in which subsidiaries of the Company acted as a general partner and thus were consolidated with the Company for financial reporting purposes. The risks associated with these construction loans generally are the same as those made by the Company to unaffiliated third parties. See "Business--Lending Activities."

The affordable housing projects owned by the low-income housing tax credit partnerships in which the Company had invested at March 31, 1997 are geographically located throughout the United States. At March 31, 1997, the Company's largest funded investment in a low-income housing tax credit interest was a $15.4 million investment in a partnership which owned a 408-unit qualifying project in Fort Lauderdale, Florida, and the Company's largest unfunded investment in such a partnership was a $27.8 million commitment to fund equity and debt investments in a partnership which will construct a 240-unit qualifying project in Greece, New York, of which $1,000 of equity and $14.8 million of debt was funded as of such date.

At March 31, 1997, the Company had invested in or had commitments to invest in 32 low-income housing tax credit partnerships, of which 27 had been allocated tax credits. The Company estimates that its investment in low-income housing tax credit interests at March 31, 1997 will provide approximately $218.0 million of tax credits.

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

The ownership of low-income housing tax credit interests produces two types of tax benefits. The primary tax benefit flows from the low-income housing tax credits under the Code which are generated by the ownership and operation of the real property in the manner required to obtain such tax credits These credits may be used to offset Federal income tax on a dollar for dollar basis but may not offset the alternative minimum tax; tax credits thus may reduce the overall Federal income tax to an effective rate of

20%. At December 31, 1996, the Company could recover $8.7 million and $700,000 of taxes paid in 1994 and 1993, respectively, through the carryback of tax credits realized in the current year. In addition, the operation of the rental properties produces losses for financial statement and tax purposes in the early years and sometimes throughout the anticipated ownership period. These tax losses may be used to offset taxable income from other operations and thereby reduce income tax which would otherwise be paid on such taxable income.

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

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

SOURCES OF FUNDS

GENERAL. Deposits, FHLB advances, reverse repurchase agreements, securities financings, maturities, resolutions and principal repayments on securities and loans and proceeds from the sale of securities, loans and real estate owned held for sale currently are the principal sources of funds for use in the Company's investment and lending activities and for other general business purposes. Management of the Company closely monitors rates and terms of competing sources of funds on a regular basis and generally utilizes the sources which are the most cost effective.

DEPOSITS. The primary source of deposits for the Company currently is brokered certificates of deposit obtained through national investment banking firms which, pursuant to agreements with the Company, solicit funds from their customers for deposit with the Company ("brokered deposits"). Such deposits amounted to $1.34 billion or 63.6% of the Company's total deposits at March 31, 1997. In addition, during 1995 the Company commenced a program to obtain certificates of deposit from customers of regional and local investment banking firms which are made aware of the Company's products by the Company's direct solicitation and marketing efforts. At March 31, 1997, $388.8 million or 18.4% of the Company's deposits were obtained in this manner through over 100 regional and local investment banking firms. The Company also solicits certificates of deposit from institutional investors and high net worth individuals identified by the Company. At March 31, 1997, $218.3 million or 10.4% of the Company's total deposits consisted of deposits obtained by the Company from such efforts.

The Company's brokered deposits at March 31, 1997 were net of $12.3 million of unamortized deferred fees. The amortization of deferred fees is computed using the interest method and is included in interest expense on certificates of deposit.

The Company believes that the effective cost of brokered and other wholesale deposits is more attractive to the Company than deposits obtained on a retail basis from branch offices after the general and administrative expense associated with the maintenance of branch offices is taken into account. Moreover, brokered and other wholesale deposits generally give the Company more flexibility than retail sources of funds in structuring the maturities of its deposits and in matching liabilities with comparably maturing assets. At March 31, 1997, $969.8 million or 48.8% of the Company's certificates of deposits were scheduled to mature within one year.

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

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

In addition to brokered and other wholesale deposits, the Company obtains deposits from its office located in Bergen County, New Jersey. These deposits include non-interest bearing checking accounts, NOW and money market checking accounts, savings accounts and certificates of deposit and are obtained through advertising, walk-ins and other traditional means. At March 31, 1997, the deposits which were allocated to this office amounted to $53.4 million or 2.5% of the Company's deposits.

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

| | MARCH 31, 1997 | | DECEMBER 31, 1996 | | DECEMBER 31, 1995 | | DECEMBER 31, 1994 | |
|---|---|---|---|---|---|---|---|---|
| | AMOUNT | AVG. RATE | AMOUNT | AVG. RATE | AMOUNT | AVG. RATE | AMOUNT | AVG. RATE |
| | (DOLLARS IN THOUSANDS) | | | | | | | |
| Non-interest bearing checking accounts... | $ 95,166 | --% | $ 96,563 | --% | $ 48,482 | --% | $ 35,943 | --% |
| NOW and money market checking accounts... | 22,651 | 4.13 | 22,208 | 2.99 | 17,147 | 3.37 | 18,934 | 2.17 |
| Savings accounts...... | 2,073 | 2.30 | 2,761 | 2.30 | 3,471 | 2.30 | 24,007 | 2.30 |
| | 119,890 | | 121,532 | | 69,100 | | 78,884 | |
| Certificates of deposit(1).......... | 1,999,194 | | 1,809,098 | | 1,440,240 | | 950,817 | |
| Unamortized deferred fees................ | (12,255) | | (10,888) | | (7,694) | | (6,433) | |
| Total certificates of deposit............ | 1,986,939 | 5.85 | 1,798,210 | 5.80 | 1,432,546 | 5.68 | 944,384 | 5.50 |
| Total deposits........ | $ 2,106,829 | 5.56 | $ 1,919,742 | 5.47 | $ 1,501,646 | 5.46 | $ 1,023,268 | 5.17 |

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(1) At March 31, 1997 and December 31, 1996, 1995 and 1994, certificates of deposit issued on an uninsured basis amounted to $267.2 million, $147.5 million, $80.0 million and $21.1 million, respectively. Of the $267.2 million of uninsured deposits at March 31, 1997, $138.4 million were from states and political subdivisions in the United States and secured or collateralized as required under state law.

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

| | MARCH 31, 1997 | DECEMBER 31, 1996 | DECEMBER 31, 1995 | DECEMBER 31, 1994 |
|---|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | | |
| 2.99% or less............................................ | $ 681 | $ 1,442 | $ 222 | $ 3,613 |
| 3.00-3.50%............................................... | 4 | 4 | 39 | 642 |
| 3.51-4.50................................................ | 137 | 1,149 | 42,751 | 221,459 |
| 4.51-5.50................................................ | 522,748 | 595,730 | 454,653 | 242,383 |
| 5.51-6.50................................................ | 1,262,607 | 990,621 | 660,745 | 310,898 |
| 6.51-7.50................................................ | 200,271 | 208,774 | 273,655 | 165,197 |
| 7.51-8.50................................................ | 491 | 490 | 481 | 192 |
| | $ 1,986,939 | $ 1,798,210 | $ 1,432,546 | $ 944,384 |

The following table sets forth the amount and maturities of the certificates of deposit in the Company at March 31, 1997.

| | SIX MONTHS AND LESS | OVER SIX MONTHS AND LESS THAN ONE YEAR | ONE YEAR THROUGH TWO YEARS | OVER TWO YEARS | TOTAL |
|---|---|---|---|---|---|
| | | | (DOLLARS IN THOUSANDS) | | |
| 2.99% or less | $ 652 | $ -- | $ 29 | $ -- | $ 681 |
| 3.00-3.50% | -- | -- | 4 | -- | 4 |
| 3.51-4.50 | 94 | 24 | 13 | 6 | 137 |
| 4.51-5.50 | 231,278 | 173,110 | 68,428 | 49,932 | 522,748 |
| 5.51-6.50 | 322,122 | 183,211 | 324,780 | 432,494 | 1,262,607 |
| 6.51-7.50 | 4,979 | 54,375 | 50,633 | 90,284 | 200,271 |
| 7.51-8.50 | -- | -- | 99 | 392 | 491 |
| | $ 559,125 | $ 410,720 | $ 443,986 | $ 573,108 | $ 1,986,939 |

At March 31, 1997, the Company had $267.2 million of certificates of deposit in amounts of $100,000 or more outstanding maturing as follows: $128.7 million within three months; $39.6 million over three months through six months; $46.4 million over six months through 12 months; and $52.5 million thereafter.

For additional information related to the Company's deposits, see Note 16 to the Consolidated Financial Statements.

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

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

The Company's borrowings also include notes, subordinated debentures and other interest-bearing obligations. At March 31, 1997, this category of borrowings consisted primarily of $100.0 million of the Bank's Debentures and $125.0 million of the Company's Notes. In November 1996, the Company acquired the first mortgage payable on the hotel located in Columbus, Ohio which the Company owns. From time to time, the Company privately raises funds by issuing short-term notes to certain executives and stockholders of the Company. Such notes were repaid during 1996 and amounted to $8.6 million and $1.0 million at December 31, 1995 and 1994, respectively.

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

| | MARCH 31, 1997 | DECEMBER 31, 1996 | 1995 | 1994 |
|---|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | | |
| FHLB advances | $ 399 | $ 399 | $ 70,399 | $ 5,399 |
| Reverse repurchase agreements | 39,224 | 74,546 | 84,761 | -- |
| Notes, debentures and other interest-bearing obligations: | | | | |
| Notes | 125,000 | 125,000 | -- | -- |
| Debentures | 100,000 | 100,000 | 100,000 | -- |
| Hotel mortgage payable | 573 | 573 | 8,427 | 19,099 |
| Short-term notes | -- | -- | 8,627 | 1,012 |
| | 225,573 | 225,573 | 117,054 | 20,111 |
| | $ 265,196 | $ 300,518 | $ 272,214 | $ 25,510 |

The following table sets forth certain information relating to the Company's short term borrowings having average balances during the period of greater than 30% of stockholders' equity at the end of the period. During each reported period, FHLB advances and reverse repurchase agreements are the only categories of borrowings meeting this criteria.

| | THREE MONTHS ENDED MARCH 31, 1997 | DECEMBER 31, 1996 | 1995 | 1994 |
|---|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | | |
| FHLB advances: | | | | |
| Average amount outstanding during the period | $ 21,521 | $ 71,221 | $ 14,866 | $ 26,476 |
| Maximum month-end balance outstanding during the period | $ 86,399 | $ 81,399 | $ 100,399 | $ 57,399 |
| Weighted average rate: | | | | |
| During the period | 5.26% | 5.69% | 7.57% | 4.65% |
| At end of period | 6.95% | 7.02% | 5.84% | 9.59% |
| Reverse repurchase agreements: | | | | |
| Average amount outstanding during the period | $ 20,934 | $ 19,581 | $ 16,754 | $ 254,457 |
| Maximum month-end balance outstanding during the period | $ 39,700 | $ 84,321 | $ 84,761 | $ 537,457 |
| Weighted average rate: | | | | |
| During the period | 5.20% | 5.62% | 5.68% | 4.09% |
| At end of period | 5.60% | 5.46% | 5.70% | --% |

For additional information relating to the Company's borrowings, see Notes 17, 18 and 19 to the Consolidated Financial Statements.

SUBSIDIARIES

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

IMI. Through subsidiaries, IMI owns and manages the Westin Hotel in Columbus, Ohio and residential units in cooperative buildings which were acquired in connection with foreclosure on loans held by the Bank or by deed-in-lieu thereof. Recently, IMI sold a 69% partnership interest in the Westin Hotel for a small gain.

OFS. OFS was formed by the Company under Florida law in October 1996 for the purpose of purchasing substantially all of the assets of Admiral, the Company's primary correspondent mortgage banking firm for sub-prime single-family residential loans, and assuming all of the Bank's sub-prime single-family residential lending operations. In connection with the acquisition of substantially all of the assets of Admiral, in a transaction which closed on May 1, 1997, the Company agreed to pay Admiral $6.8 million and to transfer to Admiral 20% of the voting stock of OFS. In addition, OFS assumed specified liabilities of Admiral in connection with this transaction, including a $3.0 million unsecured loan which was made by the Bank to Admiral at the time OFS entered into an agreement to acquire substantially all of the assets of Admiral, which loan was repaid with the proceeds from a $30.0 million unsecured, subordinated credit facility provided by the Company to OFS at the time of the closing of such acquisition. See "Business-- Lending Activities--Single-Family Residential Loans."

OCC. OCC is a wholly-owned subsidiary of the Company which was recently formed under Florida law to manage the day-to-day operations of OAIC, subject to supervision by OAIC's Board of Directors. The directors and executive officers of OCC consist solely of William C. Erbey, Chairman, President and Chief Executive Officer, and other executive officers of the Company. OAIC is a newly-organized Virginia corporation which will elect to be taxed as a REIT under the Code. In May 1997, OAIC conducted an initial public offering of 17,250,000 shares of its common stock, which resulted in estimated net proceeds of $283.8 million, inclusive of the $27.9 million contributed by the Company for an additional 1,875,000 shares, or 9.8% of the outstanding shares of OAIC common stock. The OAIC common stock is traded on the Nasdaq National Market under the symbol "OAIC."

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

Recently, the Company transferred the lending operations associated with its large multi-family residential and commercial real estate loans to OCC. See "Business-General." Currently, OCC is emphasizing originating loans for OAIC (in order to enable OAIC to leverage the proceeds from the initial public offering of OAIC's common stock) and not the Company.

EMPLOYEES

At March 31, 1997, the Company had 583 full-time equivalent employees, excluding employees of the hotel and certain other real estate owned and operated by the Company. In addition, the Company employed 131 full-time equivalent employees in connection with the acquisition of substantially all of the assets of Admiral on April 30, 1997. See "Business--Subsidiaries."

OFFICES

At March 31, 1997, the Company conducted business from its executive and administrative offices located in West Palm Beach, Florida and a full-service banking office located in northern New Jersey.

The following table sets forth information relating to the Company's executive and main offices at March 31, 1997.

| LOCATION | OWNED/LEASED | NET BOOK VALUE OF PROPERTY OR LEASEHOLD IMPROVEMENTS |
|---|---|---|
| | | (DOLLARS IN THOUSANDS) |
| Executive Offices: | | |
| 1675 Palm Beach Lakes Blvd. | | |
| West Palm Beach, FL | Leased | $ 4,904 |
| Main Office: | | |
| 2400 Lemoine Ave | | |
| Fort Lee, NJ | Leased | $ -- |

In addition to the above offices, OFS maintains 17 loan production offices in six states, including 11 offices in California. These offices are operated pursuant to leases with up to three-year terms.

LEGAL PROCEEDINGS

The Company is involved in various legal proceedings occurring in the ordinary course of business which management of the Company believes will not have a material adverse effect on the financial condition or operations of the Company.

REGULATION

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

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

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

THE COMPANY

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

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

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

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

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

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

THE BANK

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

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

INSURANCE OF ACCOUNTS. Pursuant to legislation enacted in September 1996, a one-time fee was paid by all SAIF-insured institutions at the rate of $0.657 per $100 of deposits held by such institutions at March 31, 1995. The money collected recapitalized the SAIF reserve to the level of 1.25% of insured deposits as required by law. In September 1996, the Bank recorded a pre-tax accrual of $7.1 million for this assessment, which was subsequently paid in November 1996.

The new legislation also provides for the merger, subject to certain conditions, of the SAIF into the Bank Insurance Fund ("BIF") administered by the FDIC by 1999 and also requires BIF-insured institutions to share in the payment of interest on the bonds issued by a specially created government entity ("FICO"), the proceeds of which were applied toward resolution of the thrift industry crisis in the 1980s. Beginning on January 1, 1997, in addition to the insurance premiums that will be paid by SAIF-insured institutions to maintain the SAIF reserve at its required level pursuant to the current risk classification system, SAIF-insured institutions will pay deposit insurance premiums at the annual rate of 6.4 basis points of their insured deposits and BIF-insured institutions will pay deposit insurance premiums at the annual rate of 1.3 basis points of their insured deposits towards the payment of interest on the FICO bonds. Under the current risk classification system, institutions are assigned to one of three capital groups which are based solely on the level of an institution's capital--"well capitalized," "adequately capitalized" and "undercapitalized"--which are defined in the same manner as the regulations establishing the prompt corrective action system under Section 38 of the FDIA, as discussed below. These three groups are then divided into three subgroups which are based on supervisory evaluations by the institution's primary federal regulator, resulting in nine assessment classifications. Assessment rates currently range from 0 basis points for well capitalized, healthy institutions to 27 basis points for undercapitalized institutions with substantial supervisory concerns.

The recapitalization of the SAIF is expected to result in lower deposit insurance premiums in the future for most SAIF-insured financial institutions, including the Bank.

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

REGULATORY CAPITAL REQUIREMENTS. Federally-insured savings associations are subject to three capital requirements of general applicability: a tangible capital requirement, a core or leverage capital requirement and a risk-based capital requirement. All savings associations currently are required to maintain tangible capital of at least 1.5% of adjusted total assets (as defined in the regulations), core capital equal to 3% of adjusted total assets and total capital (a combination of core and supplementary capital) equal to 8% of risk-weighted assets (as defined in the regulations). For purposes of the regulation, tangible capital is core capital less all intangibles other than qualifying purchased mortgage servicing rights, of which the Bank had $2.2 million at March 31, 1997. Core capital includes common stockholders' equity, non-cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries and certain nonwithdrawable accounts and pledged deposits. Core capital generally is reduced by the amount of a savings association's intangible assets, other than qualifying mortgage servicing rights.

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

OTS policy imposes a limitation on the amount of net deferred tax assets under SFAS No. 109 that may be included in regulatory capital. (Net deferred tax assets represent deferred tax assets, reduced by any valuation allowances, in excess of deferred tax liabilities.) Application of the limit depends on the possible sources of taxable income available to an institution to realize deferred tax assets. Deferred tax assets that can be realized from the following generally are not limited: taxes paid in prior carryback years and future reversals of existing taxable temporary differences. To the extent that the realization of deferred tax assets depends on an institution's future taxable income (exclusive of reversing temporary differences and carryforwards), or its tax-planning strategies, such deferred tax assets are limited for regulatory capital purposes to the lesser of the amount that can be realized within one year of the quarter-end report date or 10% of core capital. The foregoing considerations did not affect the calculation of the Bank's regulatory capital at March 31, 1997.

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

In April 1991, the OTS proposed to modify the 3% of adjusted total assets core capital requirement in the same manner as was done by the Comptroller of the Currency for national banks. Under the OTS proposal, only savings associations rated composite 1 under the CAMEL rating system will be permitted to operate at the regulatory minimum core capital ratio of 3%. For all other savings associations, the minimum core capital ratio will be 3% plus at least an additional 100 to 200 basis points, which thus will increase the core capital ratio requirement to 4% to 5% of adjusted total assets or more. In determining the amount of additional capital, the OTS will assess both the quality of risk management systems and the level of overall risk in each individual savings association through the supervisory process on a case-by-case basis.

In addition to regulatory capital requirements of general applicability, a federally-insured savings association may be required to meet increased individual minimum capital requirements established by the OTS on a case-by-case basis upon a determination that a savings association's capital is or may become inadequate in view of its circumstances. Higher capital levels may be imposed by the OTS on a savings association (i) receiving special supervisory attention; (ii) that has or is expected to have losses resulting in capital inadequacy; (iii) that has a high degree of exposure to interest rate risk, prepayment risk, credit risk, concentration of credit risk, certain risks arising from nontraditional activities, or a high proportion of off-balance sheet risk; (iv) that has poor liquidity or cash flows; (v) growing, either internally or through acquisitions, at such a rate that supervisory problems are presented that are not dealt with adequately by other OTS regulations or guidance; (vi) that may be adversely affected by the activities or condition of its holding company or affiliates; (vii) with a portfolio reflecting weak credit quality or a significant likelihood of financial loss, or that has loans in nonperforming status or on which borrowers fail to comply with repayment terms; or (ix) that has a record of operating losses that exceeds the average of other, similarly situated, savings associations; has management deficiencies, including failure to adequately monitor and control financial and operating risks, particularly the risks presented by concentration of credit and nontraditional activities, or has a poor record of supervisory compliance. The appropriate minimum capital level for an individual savings association is necessarily based, in part, on subjective judgment ground in OTS expertise. The factors to be considered in the determinations will vary in each case and may include, for example, (i) the conditions or circumstances leading to the determination that a higher minimum capital requirement is appropriate or necessary for the savings association; (ii) the exigency of those circumstances or potential problems; (iii) the overall condition, management strength and future prospects of the savings association and, if applicable, its holding company, subsidiaries and affiliates; (iv) the savings association's liquidity, capital and other indicators of financial stability, particularly as compared with those of similarly situated savings associations; and (v) the policies and practices of the savings association's directors, officers and senior management, as well as the internal control and internal audit systems for implementation of such adopted policies and practices.

At March 31, 1997, the Bank's regulatory capital substantially exceeded the requirements of general applicability and the Bank was not subject to an individual minimum capital requirement under OTS regulations. Based on discussions with the OTS following a recent examination of the Bank, however, the Bank has committed to the OTS to maintain regulatory capital at levels which exceed those of general applicability, commencing on June 30, 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Recent Regulatory Developments."

PROMPT CORRECTIVE ACTION. Federal law provides the federal banking regulators with broad power to take "prompt corrective action" to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Under regulations adopted by the federal banking regulators, an institution shall be deemed to be (i) "well capitalized" if it has a total risk-based capital ratio of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a Tier 1 leverage capital ratio of 5.0% or more and is not subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more and a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized;" (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio that is less than 4.0% (3.0% under certain circumstances); (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a Tier 1 leverage capital ratio that is less than 3.0%; and (v) "critically undercapitalized" if it has a ratio of tangible equity to adjusted total assets that is equal to or less than 2.0%. The regulations also permit the appropriate Federal banking regulator to downgrade an institution to the next lower category (provided that a significantly undercapitalized institution may not be downgraded to critically undercapitalized) if the regulator determines (i) after notice and opportunity for hearing or response, that the institution is in an unsafe or unsound condition or (ii) that the institution has received (and not corrected) a less-than-satisfactory rating for any of the categories of asset quality, management, earnings or liquidity in its most recent exam. At March 31, 1997, the Bank was a "well capitalized" institution under the prompt corrective action regulations of the OTS.

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

QUALIFIED THRIFT LENDER TEST. All savings associations are required to meet the qualified thrift lender test ("QTL test") set forth in the HOLA and regulations of the OTS thereunder to avoid certain restrictions on their operations. A savings association that does not meet the QTL Test set forth in the HOLA and implementing regulations must either convert to a bank charter or comply with the following restrictions on its operations: (i) the association may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank; (ii) the branching powers of the association shall be restricted to those of a national bank; (iii) the association shall not be eligible to obtain any advances from its FHLB; and (iv) payment of dividends by the association shall be subject to the rules regarding payment of dividends by a national bank. Upon the expiration of three years from the date the association ceases to be a QTL, it must cease any activity and not retain any investment not permissible for a national bank and immediately repay any outstanding FHLB advances (subject to safety and soundness considerations). The Bank met the QTL test throughout 1996 and the first quarter of 1997.

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

Tier 1 associations may make the highest amount of capital distributions, and are defined as savings associations that before and after the proposed distribution meet or exceed their fully phased-in regulatory capital requirements, as set forth in OTS regulations. See "--Regulatory Capital Requirements" above. Tier 1 associations may make capital distributions during any calendar year equal to the greater of (i) 100% of net income for the calendar year-to-date plus 50% of its "surplus capital ratio" at the beginning of the calendar year and (ii) 75% of its net income over the most recent four-quarter period. The "surplus capital ratio" is defined to mean the percentage by which the association's ratio of total capital to assets exceeds the ratio of its fully phased-in capital requirement to assets, and "fully phased-in capital requirement" is defined to mean an association's capital requirement under the statutory and regulatory standards applicable on December 31, 1994, as modified to reflect any applicable individual minimum capital requirement imposed upon the association. At March 31, 1997, management believes that the Bank was a Tier 1 association under the OTS capital distribution regulation. Notwithstanding the foregoing, however, management of the Company believes that the Bank's ability to make capital distributions as a Tier 1 association pursuant to the OTS capital distribution regulation are limited by the regulatory capital levels which it has committed to the OTS it would maintain, commencing on June 30, 1997. Taking into account such commitments and applicable laws and regulations, management estimates that the Bank could dividend to the Company $6.5 million as of March 31, 1997. As a result of an agreement by the Company with the OTS to dividend subordinate and residual mortgage-related securities resulting from securitization activities conducted by the Bank, which had an aggregate book value of $45.9 million at March 31, 1997, the Bank may not be able to pay any cash dividends to the Company without prior OTS approval, however. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Recent Regulatory Developments."

In December 1994, the OTS published a notice of proposed rulemaking to amend its capital distribution regulation. Under the proposal, the three-tiered approach contained in existing regulations would be replaced and institutions would be permitted to make capital distributions that would not result in their capital being reduced below the level required to remain "adequately capitalized," as defined above under "--Prompt Corrective Action" above.

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

At March 31, 1997, the Bank's unimpaired capital and surplus for purposes of the loans-to-one borrower regulation amounted to $364.7 million, resulting in a general loans-to-one borrower limitation of $54.7 million under applicable laws and regulations. At the same date, the Bank (i) was in compliance with the foregoing limitation because it had no loan or groups of loans to one borrower (including related entities) which exceeded $54.7 million and (ii) had $138.3 million, $104.5 million and $159.5 million of loans or groups of loans (including unfunded commitments) to one borrower (including related entities) with principal balances which aggregated $40 million or more but less than $54.7 million, $30 million or more but less than $40 million and $20 million or more but less than $30 million, respectively.

BROKERED DEPOSITS. Under applicable laws and regulations, an insured depository institution may be restricted in obtaining, directly or indirectly, funds by or through any "deposit broker," as defined, for deposit into one or more deposit accounts at the institution. The term "deposit broker" generally includes any person engaged in the business of placing deposits, or facilitating the placement of deposits, of third parties with insured depository institutions or the business of placing deposits with insured depository institutions for the purpose of selling interests in those deposits to third parties. In addition, the term "deposit broker" includes any insured depository institution, and any employee of any insured depository institution, which engages, directly or indirectly , in the solicitation of deposits by offering rates of interest (with respect to such deposits) which are significantly higher than the prevailing rates of interest on deposits offered by other insured depository institutions having the same type of charter in such depository institution's normal market area. As a result of the definition of "deposit broker," all of the Bank's brokered deposits, as well as possibly its deposits obtained through customers of regional and local investment banking firms and the deposits obtained from the Bank's direct solicitation efforts of institutional investors and high net worth individuals, are potentially subject to the restrictions described below. Under FDIC regulations, well-capitalized institutions are subject to no brokered deposit limitations, while adequately-capitalized institutions are able to accept, renew or roll over brokered deposits only (i) with a waiver from the FDIC and (ii) subject to the limitation that they do not pay an effective yield on any such deposit which exceeds by more than (a) 75 basis points the effective yield paid on deposits of comparable size and maturity in such institution's normal market area for deposits accepted in its normal market area or (b) by 120% for retail deposits and 130% for wholesale deposits, respectively, of the current yield on comparable maturity U.S. Treasury obligations for deposits accepted outside the institution's normal market area. Undercapitalized institutions are not permitted to accept brokered deposits and may not solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in the institution's normal market area or in the market area in which such deposits are being solicited. At March 31, 1997, the Bank was a well-capitalized institution which was not subject to restrictions on brokered deposits. See "Business--Sources of Funds-- Deposits."

LIQUIDITY REQUIREMENTS. All savings associations are required to maintain an average daily balance of liquid assets, which include specified short-term assets and certain long-term assets, equal to a certain percentage of the sum of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. The liquidity requirement may vary from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings associations. Currently, the required liquid asset ratio is 5%. In May 1997, however, the OTS proposed to amend its liquidity regulation to, among other things, provide that a savings association shall maintain liquid assets of not less than 4% of the amount of its liquidity base at the end of the preceding calendar quarter, as well as to provide that each savings association must maintain sufficient liquidity to ensure its safe and sound operation. Historically, the Bank has operated in compliance with applicable liquidity requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity, Commitments and Off-Balance Sheet Risks."

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

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

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

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

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

SAFETY AND SOUNDNESS. Other regulations of the OTS which are applicable to the Bank (i) set forth real estate lending standards for insured institutions, which provide guidelines concerning loan-to-value ratios for various types of real estate loans; (ii) require depository institutions to develop and implement internal procedures to evaluate and control credit and settlement exposure to their correspondent banks; and (iii) address various "safety and soundness" issues, including operations and managerial standards, standards for asset quality, earnings and stock valuations, and compensation standards for the officers, directors, employees and principal stockholders of the insured institution.

## TAXATION

### FEDERAL TAXATION

GENERAL. The Company and all of its subsidiaries currently file, and expect to continue to file, a consolidated Federal income tax return based on a calendar year. Consolidated returns have the effect of eliminating inter-company transactions, including dividends, from the computation of taxable income.

For taxable years beginning prior to January 1, 1996, a savings institution such as the Bank that met certain definitional tests relating to the composition of its assets and the sources of its income (a "qualifying savings institution") was permitted to establish reserves for bad debts and to claim annual tax deductions for additions to such reserves. A qualifying savings institution was permitted to make annual additions to such reserves based on the institution's loss experience. Alternatively, a qualifying savings institution could elect, on an annual basis, to use the "percentage of taxable income" method to compute its addition to its bad debt reserve on qualifying real property loans (generally, loans secured by an interest in improved real estate). The percentage of taxable income method permitted the institution to deduct a specified percentage of its taxable income before such deduction, regardless of the institution's actual bad debt experience, subject to certain limitations. From 1988 to 1995, the Bank has claimed bad debt deductions under the percentage of taxable income method because that method produced a greater deduction than did the experience method.

On August 20, 1996, President Clinton signed the Small Business Job Protection Act (the "Act") into law. One provision of the Act repealed the reserve method of accounting for bad debts for savings institutions effective for taxable years beginning after 1995 and provides for recapture of a portion of the reserves existing at the close of the last taxable year beginning before January 1, 1996. See Note 21 to the Consolidated Financial Statements for a discussion of the effect of this legislation on the Bank. For its tax years beginning on or after January 1, 1996, the Bank will be required to account for its bad debts under the specific charge-off method. Under this method, deductions may be claimed only as and to the extent that loans become wholly or partially worthless.

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

TAX RESIDUALS. From time to time the Company acquires tax residuals., which are included in the Company's deferred tax assets. Although a tax residual has little or no future economic cash flows from the REMIC from which it has been issued, the tax residual does bear the income tax liability or benefit resulting from the difference between the interest rate paid on the securities by the REMIC and the interest rate received on the mortgage loans held by the REMIC. This generally results in taxable income for the Company in the first several years of the REMIC and equal amounts of tax deductions thereafter. The Company receives cash payments in connection with the acquisition of tax residuals to compensate the Company for the time value of money associated with the tax payments related to these securities and the costs of modeling, recording, monitoring and reporting the securities.; thus, the Company in effect receives payments in connection with its acquisition of the security and acceptance of the related tax liabilities. The Company defers all fees received and recognizes such fees in interest income on a level yield basis over the expected life of the deferred tax asset related to tax residuals. The Company also adjusts the recognition in interest income of fees deferred based upon the changes in the actual prepayment rates of the underlying mortgages held by the REMIC and periodic reassessments of the expected life of the deferred tax asset related to tax residuals. At December 31, 1996, the Company's gross deferred tax assets included $3.7 million which was attributable to the Company's tax residuals and related deferred income. The Company's current portfolio of tax residuals generally have a negative tax basis and are not expected to generate future taxable income. Because of the manner in which REMIC residuals are treated for tax purposes, at December 31, 1996, the Company had approximately $10.2 million of net operating loss carryforwards for Federal income tax purposes which were attributable to sales of tax residuals. See Note 21 to the Consolidated Financial Statements.

INVESTMENTS IN LOW-INCOME-HOUSING TAX CREDIT INTERESTS. For a discussion of the tax effects of investments in low-income-housing tax credit interests, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Income Tax Expenses" and "Business-Investment Activities-Investment in Low-Income Housing Tax Credit Interests."

EXAMINATIONS. The most recent examination by the Internal Revenue Service of the Company's Federal income tax returns was of the tax returns filed for 1991 and 1992. The statute of limitations has run with respect to all tax years prior to those years. Thus, the Federal income tax returns for the years 1991 and 1992 (due to a waiver of the statute of limitations) and 1993 through 1995 are open for examination. The Internal Revenue Service currently is completing an examination of the Company's Federal income tax returns for 1993 and 1994; management of the Company does not anticipate any material adjustments as a result of these examinations, although there can be no assurances in this regard.

STATE TAXATION

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

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following tables set forth certain information about the directors and executive officers of the Company. Directors are elected annually and hold office until the earlier of the election and qualification of their successors or their resignation or removal. Executive officers of the Company are elected annually by the Board of Directors and generally serve at the discretion of the Board. There are no arrangements or understandings between the Company and any person pursuant to which such person was elected as a director or executive officer of the Company. Other than William C. Erbey and John R. Erbey, who are brothers, no director or executive officer is related to any other director or executive officer of the Company or any of its subsidiaries by blood, marriage or adoption.

DIRECTORS OF THE COMPANY

| NAME | AGE(1) | POSITION | DIRECTOR SINCE |
|---|---|---|---|
| William C. Erbey | 47 | Chairman, President and Chief Executive Officer | 1988 |
| Hon. Thomas F. Lewis | 72 | Director | 1997 |
| W. C. Martin | 48 | Director | 1996 |
| Howard H. Simon | 56 | Director | 1996 |
| Barry N. Wish | 54 | Chairman, Emeritus | 1988 |

EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

| NAME | AGE(1) | POSITION |
|---|---|---|
| John R. Barnes | 54 | Senior Vice President |
| Joseph A. Dlutowski | 32 | Senior Vice President |
| John R. Erbey | 56 | Managing Director and Secretary |
| Robert E. Koe | 51 | Managing Director |
| Christine A. Reich | 35 | Managing Director |
| Mark S. Zeidman | 45 | Senior Vice President and Chief Financial Officer |

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(1) As of March 31, 1997.

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

WILLIAM C. ERBEY. Mr. Erbey has served as President and Chief Executive Officer of the Company since January 1988, as Chief Investment Officer of the Company since January 1992 and as Chairman of the Board of the Company since September 1996. Mr. Erbey has served as Chairman of the Board of the Bank since February 1988 and as President and Chief Executive Officer of the Bank since June 1990. From 1983 to 1995, Mr. Erbey served as a Managing General Partner of The Oxford Financial Group ("Oxford"), a private investment company, in charge of merchant banking. From 1975 to 1983, he served at General Electric Capital Corporation ("GECC") in various capacities, most recently as President and Chief Operating Officer of General Electric Mortgage Insurance Corporation, a subsidiary of the General Electric Company engaged in the mortgage insurance business. Mr. Erbey also served as program general manager of GECC's Commercial Financial Services Department and its subsidiary Acquisition Funding Corporation.

HON. THOMAS F. LEWIS. Mr. Lewis served as a United States Congressman, representing the 12th District of Florida from 1983 to 1995. Prior to 1983, Mr. Lewis served in the House and Senate of the Florida State Legislature at various times. Mr. Lewis is a principal of Lewis Properties, Vice President of Marian V. Lewis Real Estate and Investments and a director of T&M Ranch & Nursery. In addition, Mr. Lewis serves as a United States delegate to the North Atlantic Treaty Organization and as a member of the Presidents Advisory Commission on Global Trade Policies. He also is a member of the Economic Council of Palm Beach County.

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

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

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

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

JOHN R. BARNES. Mr. Barnes has served as Senior Vice President of the Company and the Bank since May 1994 and served as Vice President of the same from October 1989 to May 1994. Mr. Barnes was a Tax Partner in the firm of Deloitte Haskins & Sells from 1986 to 1989 and in the firm of Arthur Young & Co. from 1979 to 1986. Mr. Barnes was the Partner in Charge of the Cleveland Office Tax Department of Arthur Young & Co. from 1979 to 1984.

JOSEPH A. DLUTOWSKI. Mr. Dlutowski was elected a Senior Vice President of the Company and the Bank in March 1997. Mr. Dlutowski joined the Bank in October 1992 and served as a Vice President from May 1993 until March 1997. From 1989 to 1991, Mr. Dlutowski was associated with the law firm of Baker and Hostetler.

JOHN R. ERBEY. Mr. Erbey has served as a Managing Director of the Company since January 1993 and as Secretary of the Company since June 1989, and served as Senior Vice President of the Company from June 1989 until January 1993. Mr. Erbey has served as a director of the Bank since 1990, as a Managing Director of the Bank since May 1993 and as Secretary of the Bank since July 1989. Previously, he served as Senior Vice President of the Bank from June 1989 until May 1993. From 1971 to 1989 he was a member of the Law Department of Westinghouse Electric Corporation and held various management positions, including Associate General Counsel and Assistant Secretary from 1984 to 1989. Previously, he held the positions of Assistant General Counsel of the Industries and International Group and Assistant General Counsel of the Power Systems Group of Westinghouse.

ROBERT E. KOE. Mr. Koe was elected as a Managing Director of the Company and the Bank on July 1, 1996. Mr. Koe has served as a director of the Bank since 1994. Mr. Koe formerly was Chairman, President and Chief Executive Officer of United States Leather, Inc. ("USL"), which includes Pfister & Vogel Leather, Lackawanna Leather, A.L. Gebhardt and Caldwell/Moser Leather. Prior to joining USL in 1990, he was Vice Chairman of Heller Financial Inc., and served as a member of the board of its parent company, Heller International Corp. ("Heller"), as well as Heller Overseas Corp. Mr. Koe came to Heller in 1984 from General Electric Capital Corp. ("GECC"), where he held positions which included Vice President and General Manager of Commercial Financial Services, Vice President and General Manager of Commercial Equipment Financing, and President of Acquisition Funding Corp. Before joining GECC, Mr. Koe held various responsibilities with its parent, the General Electric Company, from 1967 to 1975.

CHRISTINE A. REICH. Ms. Reich has served as a Managing Director of the Company since June 1994. Ms. Reich served as Chief Financial Officer of the Company from January 1990 to May 1997, as Senior Vice President of the Company from January 1993 until June 1994 and as Vice President of the Company from January 1990 until January 1993. Ms. Reich has served as a director of the Bank since 1993, as a Managing Director of the Bank since June 1994 and as Chief Financial Officer of the Bank since May 1990. Ms. Reich served as Senior Vice President of the Bank from May 1993 to June 1994 and Vice President of the Bank from January 1990 to May 1993. From 1987 to 1990, Ms. Reich served as an officer of another subsidiary of the Company. Prior to 1987, Ms. Reich was employed by KPMG Peat Marwick LLP, most recently in the position of Manager.

MARK S. ZEIDMAN. Mr. Zeidman joined the Company in May 1997 as Senior Vice President and Chief Financial Officer. From 1986 until May 1997, Mr. Zeidman was employed by Nomura Securities International, Inc., most recently as Managing Director. Prior to 1986, Mr. Zeidman held positions with Shearson Lehman Brothers and Coopers & Lybrand. Mr. Zeidman is a Certified Public Accountant.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors of the Company held a total of three meetings during 1996. No director of the Company attended fewer than 75% of the aggregate total number of meetings of the Board of Directors held while he was a member of the Board of Directors during 1996 and the total number of meetings held by all committees thereof during the period which he served on such committees during 1996.

The Board of Directors of the Company has established an Executive Committee, an Audit Committee and a Nominating and Compensation Committee. A brief description of these committees is set forth below.

The Executive Committee is generally responsible to act on behalf of the Board of Directors on all matters when the full Board of Directors is not in session. Currently, the members of this committee are Directors William C. Erbey (Chairman) and Barry N. Wish. This committee did not meet during 1996.

The Audit Committee of the Board of Directors reviews and advises the Board of Directors with respect to reports by the Company's independent auditors and monitors the Company's compliance with laws and regulations applicable to the Company's operations. Currently, the members of the Audit Committee are Directors Simon (Chairman) and Martin. This committee met one time during 1996.

The Nominating and Compensation Committee evaluates and makes recommendations to the Board of Directors for the election of directors, as well as handles personnel and compensation matters relating to the executive officers of the Company. Currently, the members of the Nominating and Compensation committee are Directors Martin (Chairman) and Simon. This committee met one time during 1996.

BOARD OF DIRECTORS COMPENSATION

Pursuant to a Directors Stock Plan adopted by the Board of Directors and stockholders of the Company in July 1996, the Company compensates directors by delivering a total annual value of $10,000 payable in shares of Common Stock (which may be prorated for a director serving less than a full one-year term, as in the case of a director joining the Board after an annual meeting of stockholders), subject to review and adjustment by the Board of Directors from time to time. Except for 1996, such payment will be made after the annual organizational meeting of the Board of Directors which follows the annual meeting of stockholders of the Company. An additional annual fee payable in shares of Common Stock, which is $2,000 beginning in 1996, subject to review and adjustment by the Board of Directors from time to time, will be paid to committee chairs after the annual organizational meeting of the Board of Directors. For 1996, four directors of the Company and three committee chairs received shares of Common Stock issuable under the Directors Stock Plan upon consummation of the initial public offering of the Common Stock by certain stockholders of the Company on September 25, 1996.

Shares issued pursuant to the Directors Stock Plan are based on their "fair market value" on the date of grant. The term "fair market value" is defined in the Directors Stock Plan to mean the mean of the high and low prices of the Common Stock as reported by the Nasdaq Stock Market's National Market on the relevant date, or if no sale of Common Stock shall have been reported for that day, the average of such prices on the next preceding day and the next following day for which there are reported sales.

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

Barry N. Wish, who served as Chairman of the Board of Directors of the Company until September 1996, and continues to serve as a director of the Company and the Bank received $150,000 of cash compensation in 1996 for his services to the Company as Chairman. Beginning January 1, 1997, Mr. Wish receives compensation only as a non-employee director of both the Company and the Bank.

REMUNERATION OF EXECUTIVE OFFICERS--SUMMARY COMPENSATION TABLE

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

| | ANNUAL COMPENSATION | | | LONG-TERM COMPENSATION AWARDS | | |
|---|---|---|---|---|---|---|
| NAME AND POSITION | YEAR | SALARY($) | BONUS($)(1) | RESTRICTED STOCK AWARDS($)(2) | NUMBER OF SECURITIES UNDERLYING OPTIONS(#)(3) | ALL OTHER COMPENSATION |
| William C. Erbey, | 1996 | $ 150,000 | $ 650,000 | 12,00$0 | 115,790 | $3,000(4) |
| Chairman of the Board, | 1995 | 150,000 | -- | -- | -- | 3,000(4) |
| Chief Executive | 1994 | 150,000 | 1,171,675 | -- | 269,400 | 3,000(4) |
| Officer and President | | | | | | |
| John R. Erbey, | 1996 | 150,000 | 525,000 | -- | 89,474 | 3,000(4) |
| Managing Director and | 1995 | 150,000 | 50,000 | -- | 44,500 | 3,000(4) |
| Secretary | 1994 | 150,000 | 800,000 | -- | 175,970 | 3,000(4) |
| Robert E. Koe, | 1996 | 75,000(5) | 250,000(5) | -- | 31,579(5) | 7,973(5) |
| Managing Director | | | | | | |
| Christine A. Reich, | 1996 | 150,000 | 487,500 | -- | 81,579 | 3,000(4) |
| Managing Director and | 1995 | 150,000 | 50,000 | -- | 44,500 | 3,000(4) |
| Chief Financial | 1994 | 147,917 | 487,500 | -- | 97,410 | 3,000(4) |
| Officer | | | | | | |
| John R. Barnes | 1996 | 125,000 | 212,500 | -- | 23,684 | 3,000(4) |
| Senior Vice President | 1995 | 125,000 | 100,000 | -- | 22,240 | 3,000(4) |
| | 1994 | 113,542 | 206,250 | -- | 26,720 | 3,000(4) |

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(1) The indicated bonuses were paid in the first quarter of the following year for services rendered in the year indicated.

(2) Reflects the issuance of 801 shares of Common Stock to Mr. Erbey under the Directors Stock Plan.

(3) Consists of options granted pursuant to the Stock Option Plan which, in accordance with their terms, provide recipients with the option to purchase shares of Common Stock.

(4) Consists of contributions by the Company pursuant to the Ocwen Financial Corporation 401(k) Savings Plan.

(5) The indicated compensation amounts are applicable to the period of July 1, 1996 through December 31, 1996, the period during which Mr. Koe served as a Managing Director. Mr. Koe received other compensation of $7,943 related to reimbursement of relocation expenses as well as $7,000 in director fees related to the period from January 1, 1996 through June 30, 1996, during which Mr. Koe served as a director of the Bank but not as an employee of the Company.

ANNUAL INCENTIVE PLAN

Since 1990, the Company has maintained an annual incentive plan for the management and other salaried employees of the Company and its subsidiaries. The plan provides the participants with bonuses each year paid from a pool based upon the Company's consolidated operating income for that year. Accordingly, the plan provides management and other personnel with a significant incentive to contribute to the Company's financial success by allowing them to share in a portion of the consolidated operating income of the Company and its subsidiaries.

The aggregate bonus pool payable under the plan may not exceed 20% of income before taxes and incentive awards of the Company plus pre-tax equivalent income generated by tax advantaged investments. The plan is administered by the President of the Company and may be amended or terminated at any time by the Board of Directors of the Company.

Incentive awards are paid to participants following the end of each fiscal year after the determination of the Company's income. Incentive awards may be paid in cash or in any other form approved by the Company's Board of Directors. Since 1990, certain executive officers and other eligible participants have received a portion of their annual incentive award in the form of options to acquire Common Stock of the Company pursuant to the Stock Option Plan.

STOCK OPTION PLAN

The Company maintains a non-qualified stock option plan which is designed to advance the interests of the Company, its subsidiaries (including the Bank) and the Company's stockholders by affording certain officers and other key employees of the Company, the Bank and other Company subsidiaries an opportunity to acquire or increase their proprietary interests in the Company by granting such persons options to acquire Common Stock. A total of 6,388,550 shares of Common Stock were authorized for issuance at December 31, 1996 under the Stock Option Plan. As of December 31, 1996, options to acquire 260,090 shares of Common Stock were outstanding under the Stock Option Plan. In addition, options to acquire 573,686 shares of Common Stock were granted in January 1997 for services rendered in 1996. Options granted pursuant to the Stock Option Plan frequently have had exercise prices which are at a substantial discount to the book value and market value of the Common Stock. At December 31, 1996, the average exercise price of the outstanding options granted under the Stock Option Plan was $16.89 and the market value per share of Common Stock was $26.75.

The Stock Option Plan currently is administered and interpreted by either the Board of Directors of the Company or, to the extent authority is delegated, the Nominating and Compensation Committee thereof.

OPTION GRANTS FOR 1996

The following table provides information relating to option grants made pursuant to the Stock Option Plan in January 1997 to the individuals named in the Summary Compensation Table for services rendered in 1996.

| NAME | INDIVIDUAL GRANTS: NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED#)(1)(2) | PERCENT OF SECURITIES UNDERLYING TOTAL OPTIONS GRANTED TO EMPLOYEES(2) | EXERCISE PRICE ($/SH) | MARKET VALUE PER SHARE OF THE COMPANY COMMON STOCK AT DECEMBER 31, 1996 | EXPIRATION DATE | POTENTIAL REALIZABLE VALUE AT ASSUMED RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(3): 0%($) | 5%($) | 10%($) |
|---|---|---|---|---|---|---|---|---|
| William C. Erbey......... | 115,790 | 20.2% | $ 22.00 | $ 26.75 | 2007 | $ 550,000 | $2,497,590 | $5,486,130 |
| John R. Erbey............ | 89,474 | 15.6 | 22.00 | 26.75 | 2007 | 425,000 | 1,929,954 | 4,239,278 |
| Robert E. Koe............ | 31,579 | 5.5 | 22.00 | 26.75 | 2007 | 150,000 | 681,159 | 1,496,213 |
| Christine A. Reich....... | 81,579 | 14.2 | 22.00 | 26.75 | 2007 | 387,500 | 1,759,659 | 3,865,213 |
| John R. Barnes........... | 23,684 | 4.1 | 22.00 | 26.75 | 2007 | 112,500 | 510,864 | 1,122,148 |

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(1) All options are to purchase shares of Common Stock and vest and become exercisable in January 1998.

(2) Indicated grants were made in January 1997 for services rendered in 1996. The percentage of securities underlying these options to the total number of securities underlying all options granted to employees of the Company is based on options to purchase a total of 573,686 shares of Common Stock granted to employees of the Company under the Stock Option Plan in January 1997.

(3) Assumes future prices of shares of Common Stock of $26.75, $43.57 and $69.38 at compounded rates of return of 0%, 5% and 10%, respectively.

AGGREGATED OPTION EXERCISES IN 1996 AND YEAR-END OPTION VALUES

The following table provides information relating to option exercises in 1996 by the individuals named in the Summary Compensation Table and the value of each such individual's unexercised options at December 31, 1996.

| NAME | NUMBER OF SHARES ACQUIRED ON EXERCISE | VALUE REALIZED | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1996(1) | | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1996(2) | |
|---|---|---|---|---|---|---|
| | | | EXERCISABLE | UNEXERCISABLE | EXERCISABLE | UNEXERCISABLE |
| William C. Erbey.................. | 924,640 | $ 5,121,525 | -- | 115,790 | $ -- | $ 550,003 |
| John R. Erbey..................... | 747,880 | 4,116,767 | 44,500 | 89,474 | 934,055 | 425,002 |
| Robert E. Koe..................... | -- | -- | -- | 31,579 | -- | 150,000 |
| Christine A. Reich................ | 222,650 | 1,151,863 | 44,500 | 81,579 | 934,055 | 387,500 |
| John R. Barnes.................... | 83,250 | 438,509 | 22,150 | 23,684 | 464,929 | 112,499 |

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(1) All options are to purchase shares of Common Stock and were granted pursuant to the Stock Option Plan. Options listed as "exercisable" include options granted in January 1996 which became exercisable in January 1997, and options listed as "unexercisable" consist of options granted in January 1997 which become exercisable in January 1998.

(2) Based on the $26.75 market value of a share of Common Stock at December 31, 1996.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

At December 31, 1996, the Company held a residential mortgage loan with an interest rate of 8.5% which was made by the Company to Howard H. Simon, a director of the Company. The principal balance of this loan amounted to $116,484 at December 31, 1996, and the highest principal balance of this loan during 1996 was $131,150. The principal balance of this loan amounted to $108,000 at June 30, 1997.

From time to time the Company raises funds by privately issuing short-term notes to its stockholders. In 1996, the Company had a maximum of $7.6 million of such short-term notes outstanding, including $1.0 million and $250,000 which were held by William C. Erbey and John R. Erbey (or their affiliates), respectively. All of such short-term notes had interest rates of 10.5% per annum and were repaid in full in November 1996.

In September 1996, the Company loaned $6.7 million to certain of its and the Bank's current and former officers and directors to fund their exercise of vested stock options to purchase an aggregate of 2,713,660 shares of Common Stock, including 924,640 shares, 175,970 shares, 747,880 shares, 222,650 shares and 83,250 shares acquired by William C. Erbey, Barry N. Wish, John R. Erbey, Christine A. Reich and John R. Barnes, respectively, who issued notes to the Company in the amount $2.2 million, $423,000, $1.8 million, $583,000 and $263,000, respectively. The aggregate amount of the foregoing indebtedness outstanding at December 31, 1996 amounted to $3.8 million, including $1.2 million, $0, $1.6 million, $583,000 and $263,000 in the case of William C. Erbey, Barry N. Wish, John R. Erbey, Christine A. Reich and John R. Barnes, respectively. Such notes bear interest at 10.5% per annum, are payable in two equal installments on March 1, 1998 and March 1, 1999 and are secured by the related shares of Common Stock. At the time of the issuance of the foregoing notes, the Company also agreed to loan the issuers thereof up to an additional $1.7 million to fund the payment of additional taxes owed in connection with the exercise of the above-referenced stock options, including $594,000, $478,000 and $134,000 in the case of William C. Erbey, John R. Erbey and Christine A. Reich, respectively. Notes in these amounts were issued by these persons in April 1997 and have the same terms as the above-referenced notes. At June 30, 1997, the aggregate amount of the indebtedness of William C. Erbey, Barry N. Wish, John R. Erbey, Christine A. Reich and John R. Barnes under the above-discussed notes was $0, $0, $1.7 million, $717,000 and $263,000, respectively.

## BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth certain information regarding the beneficial ownership of the Common Stock as of the date indicated by (i) each director and named executive officer of the Company, (ii) all directors and current executive officers of the Company as a group and (iii) all persons known by the Company to own beneficially 5% or more of the outstanding Common Stock. The table is based upon information supplied to the Company by directors, officers and principal stockholders. Other than Mr. Harold Price, whose address is 2450 Presidential Way, #1806, West Palm Beach, Florida 33401, the address for each of the individuals named below is the same as that of the Company.

| NAME OF BENEFICIAL OWNER | SHARES BENEFICIALLY OWNED AS OF MARCH 31, 1997 AMOUNT(1) | PERCENT(1) |
|---|---|---|
| Harold Price | 1,720,928(2) | 6.4% |
| Directors and executive officers: | | |
| William C. Erbey | 9,853,671(3) | 36.8% |
| Barry N. Wish | 5,054,117(4) | 18.9% |
| Hon. Thomas F. Lewis | -- | * |
| W.C. Martin | 2,501(5) | * |
| Howard H. Simon | 801 | * |
| John R. Barnes | 94,400(6) | * |
| John R. Erbey | 1,020,980(7) | 3.8% |
| Robert E. Koe | 40,350(8) | * |
| Christine A. Reich | 267,150(9) | 1.0% |
| All directors, nominees for director and executive officers as a group (11 persons) | 16,356,940(10) | 60.8% |

- ------------------------

* Less than 1%

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

(2) Includes 1,436,990 shares held by HAP Investment Partnership, the partners of which are Harold Price and his spouse. Mr. and Mrs. Price share voting and dispositive power with respect to the shares owned by HAP Investment Partnership. Also includes 283,938 shares held by Mr. Price as nominee for various trusts for the benefit of members of his family.

(3) Includes 6,848,790 shares held by FF Plaza Partners, a Delaware partnership of which the partners are William C. Erbey, his spouse, E. Elaine Erbey, and Delaware Permanent Corporation, a corporation wholly owned by William C. Erbey. Mr. and Mrs. William C. Erbey share voting and dispositive power with respect to the shares owned by FF Plaza Partners. Also includes 3,004,080 shares held by Erbey Holding Corporation, a corporation wholly owned by William C. Erbey.

(4) Includes 4,807,480 shares held by Wishco, Inc., a corporation controlled by Barry N. Wish pursuant to his ownership of 93.0% of the common stock thereof; 175,970 shares held by B.N.W. Partners, a Delaware partnership of which the partners are Mr. Wish and B.N.W., Inc., a corporation wholly owned by Mr. Wish; and 70,000 shares held by the Barry Wish Family Foundation, Inc., a charitable foundation of which Mr. Wish is a director.

(5) Includes 1,700 shares held by Martin & Associates Management Consultants Inc. Defined Contribution Pension Plan & Trust.

(6) Includes 83,250 shares held by a partnership controlled by Mr. Barnes. Also includes options to acquire 11,150 shares of Common Stock which were exercisable at or within 60 days of March 31, 1997.

(7) Includes 953,665 shares held by John R. Erbey Family Limited Partnership, a Georgia limited partnership whose general partner is a corporation wholly owned by John R. Erbey and whose limited partners consists of John R. Erbey, his spouse and children. Also includes options to acquire 44,500 shares of Common Stock which were exercisable at or within 60 days of March 31, 1997.

(8) Does not include 5,050 shares held by Mr. Koe's son and daughter.

(9) Includes 222,650 shares held by CPR Family Limited Partnership, a Georgia limited partnership whose general partner is a corporation wholly owned by Christine A. Reich and whose limited partners are Christine A. Reich and her spouse. Also includes options to acquire 44,500 shares of Common Stock which were exercisable at or within 60 days of March 31, 1997.

(10) Includes options to acquire 102,690 shares of Common Stock which were exercisable at or within 60 days of March 31, 1997.

## DESCRIPTION OF CAPITAL SECURITIES OFFERING

Concurrently with the Common Stock Offering, the Trust is offering $125 million of Capital Securities. The Capital Securities evidence undivided beneficial ownership interests in the assets of the Trust and the holders thereof will be entitled to a preference in certain circumstances with respect to distributions and amounts payable on redemption or liquidation over the Common Securities, all of which will be held by the Company.

Holders of the Capital Securities will be entitled to receive cumulative cash distributions at an annual rate of % of the liquidation amount of $1,000 per Capital Security, accruing from the date of original issuance and payable semi-annually in arrears on and of each year commencing on , 1997. The distribution rate and the distribution and other payment dates for the Capital Securities will correspond to the interest rate and interest and other payment dates on the Junior Subordinated Debentures.

The Trust will invest the proceeds from the issuance of the Capital Securities and Common Securities in an equivalent amount of % Junior Subordinated Debentures of the Company. The Junior Subordinated Debentures will mature on , 2027. The Junior Subordinated Debentures will rank subordinate and junior in right of payment to all Senior Indebtedness of the Company, as defined in the Indenture relating to the Junior Subordinated Debentures. In addition, the Company's obligations under the Junior Subordinated Debentures will be structurally subordinated to all existing and future liabilities and obligations of its subsidiaries.

Payment of distributions out of moneys held by the Trust, and payments on liquidation of the Trust or the redemption of Capital Securities, are guaranteed by the Company to the extent the Trust has funds available therefor (the "Guarantee"). If the Company does not make principal or interest payments on the Junior Subordinated Debentures, the Trust will not have sufficient funds to make distributions on the Capital Securities, in which event the Guarantee shall not apply to such distributions until the Trust has sufficient funds available therefor. The Company's obligations under the Guarantee, taken together with its obligations under the Junior Subordinated Debentures and the related indenture, including its obligation to pay all costs, expenses and liabilities of the Trust (other than with respect to the Capital Securities), constitute a full and unconditional guarantee of all of the Trust's obligations under the Capital Securities. The obligations of the Company under the Guarantee are subordinate and junior in right of payment to all Senior Indebtedness of the Company.

The Company has the right to defer payment of interest on the Junior Subordinated Debentures by extending the interest payment period on the Junior Subordinated Debentures, from time to time, for up to 10 consecutive semi-annual periods. If interest payments on the Junior Subordinated Debentures are so deferred, distributions on the Capital Securities also will be deferred for an equivalent period and the Company will be subject to certain payment and other restrictions.

The Junior Subordinated Debentures are redeemable by the Company in whole or in part on or after , 2007, or at any time, in whole but not in part, upon the occurrence of a Special Event, in either case, subject to the receipt of any necessary prior regulatory approval. If the Junior Subordinated Debentures are redeemed, the Trust must redeem Trust Securities having an aggregate liquidation amount equal to the aggregate principal amount of the Junior Subordinated Debentures so redeemed. The Trust Securities will be redeemed upon maturity of the Junior Subordinated Debentures.

Upon the occurrence and continuation of a Special Event, the Company will have the right, subject to the receipt of any necessary prior regulatory approval, to terminate the Trust and cause the Junior Subordinated Debentures to be distributed to the holders of the Capital Securities and the Common Securities in liquidation of the Trust. If the Junior Subordinated Debentures are distributed to the holders of Capital Securities upon the liquidation of the Trust, the Company will use its best efforts to list the Junior Subordinated Debentures on such stock exchanges, if any, on which the Capital Securities are then listed.

In the event of the liquidation of the Trust, after satisfaction of the claims of creditors of the Trust, if any, as provided by applicable law, the holders of the Capital Securities will be entitled to receive a liquidation amount of $1,000 per Capital Security plus accumulated and unpaid distributions thereon to the date of payment, which may be in the form of a distribution of such amount in Junior Subordinated Debentures as described above. If such liquidation distribution can be paid only in part because the Trust has insufficient assets available to pay in full the aggregate liquidation distribution, then the amounts payable directly by the Trust on the Capital Securities shall be paid on a pro rata basis. The holder(s) of the Common Securities will be entitled to receive distributions upon any such liquidation pro rata with the holders of the Capital Securities, except that if certain events of default with respect to the Junior Subordinated Debentures have occurred and are continuing, the Capital Securities shall have a priority over the Common Securities.

# DESCRIPTION OF CAPITAL STOCK

## GENERAL

Pursuant to the Articles of Incorporation of the Company, the Company is authorized to issue 200,000,000 shares of Common Stock and 20,000,000 shares of preferred stock, par value $0.01 per share (the "Preferred Stock"). At March 31, 1997, there were 26,799,511 shares of Common Stock outstanding and no shares of Preferred Stock were outstanding.

## COMMON STOCK

GENERAL. Each share of Common Stock has the same relative rights as, and is identical in all respects with, each other share of Common Stock. All shares of Common Stock currently outstanding are fully paid and nonassessable. The Common Stock represents nonwithdrawable capital and is not subject to call for redemption. The Common Stock is not an account of an insurable type and is not insured by the FDIC or any other governmental authority.

DIVIDENDS. The Company can pay dividends if, as and when declared by its Board of Directors, subject to compliance with limitations which are imposed by law. See "Dividend Policy." The holders of Common Stock will be entitled to receive and share equally in such dividends as may be declared by the Board of Directors of the Company out of funds legally available therefor. If the Company issues Preferred Stock, the holders thereof may have a priority over the holders of the Common Stock with respect to dividends.

VOTING RIGHTS. The holders of Common Stock possess exclusive voting rights in the Company. They elect the Company's Board of Directors and act on such other matters as are required to be presented to them under applicable law or the Company's Articles of Incorporation or as are otherwise presented to them by the Board of Directors. Each holder of Common Stock is entitled to one vote per share and does not have any right to cumulate votes in the election of directors. If the Company issues Preferred Stock, holders of the Preferred Stock also may possess voting rights.

LIQUIDATION. In the event of any liquidation, dissolution or winding up of the Company, the holders of the then-outstanding Common Stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities, all of the assets of the Company available for distribution. If Preferred Stock is issued, the holders thereof may have a priority over the holders of the Common Stock in the event of liquidation or dissolution.

PREEMPTIVE RIGHTS. Holders of the Common Stock are not entitled to preemptive rights with respect to any shares which may be issued in the future. Thus, the Company may sell shares of Common Stock without first offering them to the then holders of the Common Stock.

TRANSFER AGENT AND REGISTRAR. The transfer agent and registrar for the Common Stock is The Bank of New York.

## PREFERRED STOCK

The Company's authorized Preferred Stock may be issued with such preferences and designations as the Board of Directors may from time to time determine. The Board of Directors can, without stockholder approval, issue Preferred Stock with voting, dividend, liquidation and conversion rights which could dilute the voting strength of the holders of the Common Stock and may assist management in impeding an unfriendly takeover or attempted change in control.

## SHARES AVAILABLE FOR FUTURE SALE

The 3,000,000 shares of Common Stock offered hereby (plus up to 450,000 shares which may be sold pursuant to the Common Stock Underwriters' overallotment option) will be freely transferable without further restriction or further registration under the Securities Act, except that any shares purchased by an "affiliate" of the Company, as that term is defined by the Securities Act ("affiliate"), will be subject to certain of the resale limitations of Rule 144 under the Securities Act. Of the 26,799,511 shares of Common Stock outstanding at March 31, 1997, 2,300,000 shares are freely transferable without restriction or registration under the Securities Act and 24,499,511 shares are "restricted securities" as that term is defined in Rule 144 and may only be sold pursuant to a registration statement under the Securities Act or an applicable exemption from registration thereunder, including pursuant to Rule 144. Management of the Company believes that approximately 8,239,751 of those restricted shares of Common Stock may be eligible for resale pursuant to Rule 144 without restriction as to timing or volume of sales.

In general, under Rule 144, as currently in effect, any person (or persons whose shares are aggregated) who has beneficially owned restricted securities for at least one year will be entitled to sell, within any three-month period, a number of shares that does not exceed the greater of (i) 1% of the then-outstanding shares of Common Stock (297,995 shares immediately after the offering of Common Stock) or (ii) the average weekly trading volume of the Common Stock in the over-the-counter market during the four calendar weeks preceding the date on which notice of the sale is filed with the Commission. Sales under Rule 144 also are subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. Any person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of the Company at any time during the three months preceding a sale, and who has beneficially owned shares, within the context of Rule 144, for at least two years, is entitled to sell such shares under Rule 144(k) without regard to the volume limitations, manner of sale provisions, public information or notice requirements.

As of March 31, 1997, a total of 6,333,211 shares of Common Stock were reserved for issuance pursuant to the Stock Option Plan, including 689,477 shares pursuant to stock options outstanding on such date, and a total of 246,920 shares of Common Stock were reserved for issuance pursuant to the Directors Stock Plan. See "Management--Stock Option Plan" and "--Board of Directors Compensation." The Company may file a Registration Statement on Form S-8 under the Securities Act to register the issuance of shares of Common Stock issuable under the Stock Option Plan and the Directors Stock Plan. Shares of Common Stock ` issued under the Stock Option Plan and the Directors Stock Plan after the effective date of such Registration Statement, other than shares held by affiliates of the Company, will be eligible for resale in the public market without restriction.

## UNDERWRITING

Under the terms of, and subject to the conditions contained in, the underwriting agreement relating to the offering of shares of Common Stock in the United States and Canada (the "U.S. Underwriting Agreement"), the form of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part, between the Company and each of the underwriters named below (the "U.S. Underwriters"), for whom Lehman Brothers Inc., Friedman, Billings, Ramsey & Co., Inc. and Morgan Stanley & Co. Incorporated are acting as representatives (the "Representatives"), the U.S. Underwriters have severally agreed to purchase from the Company, and the Company has agreed to sell to each U.S. Underwriter, the aggregate number of shares of Common Stock set forth opposite the name of each such U.S. Underwriter below:

| U.S. UNDERWRITERS | NUMBER OF SHARES |
|---|---|
| Lehman Brothers Inc. | |
| Friedman, Billings, Ramsey & Co., Inc. | |
| Morgan, Stanley & Co. Incorporated | |
| Total | |

Under the terms of, and subject to the conditions contained in, the underwriting agreement relating to the offering of shares of Common Stock outside of the United States and Canada (the "International Underwriting Agreement" and together with the U.S. Underwriting Agreement, the "Underwriting Agreements"), the form of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part, between the Company and each of the international managers named below (the "International Managers," and together with the U.S. Underwriters, the "Common Stock Underwriters"), for whom Lehman Brothers International (Europe), Friedman, Billings, Ramsey & Co., Inc. and Morgan Stanley & Co. International Limited are acting as the lead managers (the "Lead Managers"), the International Managers have severally agreed to purchase from the Company, and the Company has agreed to sell to each International Manager, the aggregate number of shares of Common Stock set forth opposite the name of each such International Manager below:

| INTERNATIONAL MANAGERS | NUMBER OF SHARES |
|---|---|
| Lehman Brothers International (Europe) | |
| Friedman, Billings, Ramsey & Co., Inc. | |
| Morgan Stanley & Co. International Limited | |
| Total | |

The Company has been advised by the Representatives and the Lead Managers that the U.S. Underwriters and the International Managers propose to offer the shares to the public at the initial public offering price on the cover page of this Prospectus, and to certain dealers at such price less a selling concession not in excess of $. per share. The U.S. Underwriters and the International Managers may allow, and such dealers may re-allow, a concession not in excess of $. per share to certain other Common Stock Underwriters or to certain other brokers or dealers. After the initial offering to the public, the offering price and other selling terms may be changed by the Representatives and the Lead Managers.

The Underwriting Agreements provide that the obligations of the several U.S. Underwriters and the International Managers, respectively, to pay for and accept delivery of the shares of Common Stock offered hereby are subject to certain conditions and that if any of the above shares of Common Stock are purchased by the U.S. Underwriters pursuant to the U.S. Underwriting Agreement or by the International Managers pursuant to the International Underwriting Agreement, all the shares of Common Stock agreed to be purchased by either the U.S. Underwriters or the International Managers, as the case may be, pursuant to their respective Underwriting Agreements, must be so purchased. The initial public offering price and underwriting discounts and commissions for the U.S. Offering and the International Offering are identical. The closing of the U.S. Offering is a condition to the closing of the International Offering. The closing of the International Offering is a condition to the closing of the U.S. Offering.

The Company has agreed in the Underwriting Agreements to indemnify the U.S. Underwriters and the International Managers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the U.S. Underwriters and the International Managers may be required to make in respect thereof.

The Company has granted to the U.S. Underwriters a 30-day option to purchase up to an additional shares of Common Stock on the same terms and conditions as set forth above to cover over-allotments, if any. The Company has granted the International Managers a similar option to purchase up to an additional shares of Common Stock to cover over-allotments, if any. To the extent that either such option is exercised, each U.S. Underwriter or Lead Manager, as the case may be, will be committed, subject to certain conditions, to purchase a number of the additional shares of Common Stock proportionate to such Common Stock Underwriter's initial commitment as indicated in the preceding tables.

The U.S. Underwriters and the International Managers have entered into an Agreement between U.S. Underwriters and International Managers pursuant to which each U.S. Underwriter has agreed that, as part of the distribution of the shares of Common Stock (plus any of the shares of Common Stock to cover over-allotments) offered in the U.S. Offering, (a) it is not purchasing any of such shares of Common Stock for the account of anyone other than a U.S. or Canadian Person (as defined below) and (b) it has not offered or sold, and will not offer, sell, resell or deliver, directly or indirectly, any of such shares of Common Stock outside the United States or Canada or to anyone other than a U.S. or Canadian Person. In addition, pursuant to the same agreement, each International Manager has agreed that, as part of the distribution of the shares of Common Stock (plus any of the shares of Common Stock to cover over-allotments) offered in the International Offering, (a) it is not purchasing any of such shares of Common Stock for the account of any U.S. or Canadian Person and (b) it has not offered or sold, and will not offer, sell, resell or deliver, directly or indirectly, any of such shares of Common Stock in the United States or Canada or to any U.S. or Canadian Person. Each International Manager also has agreed that it will offer to sell shares of Common Stock only in compliance with all relevant requirements of any applicable laws.

The foregoing limitations do not apply to stabilization transactions or to certain other transactions specified in the Underwriting Agreements and the Agreement Between U.S. Underwriters and International Managers, including (i) certain purchases and sales between the U.S. Underwriters and the International Managers, (ii) certain offers, sales, resales, deliveries or distributions in or through investment advisors or other persons exercising investment discretion, (iii) purchases, offers or sales by a U.S. Underwriter who is also acting as an International Manager or by an International Manager who is also acting as a U.S. Underwriter and (iv) other transactions specifically approved by the Representatives and the Lead Managers. As used herein, (a) the term "United States" means the United States of America (including the District of Columbia) and its territories, its possessions and other areas subject to its jurisdiction, (b) the term "Canada" means Canada, its provinces, territories and possessions and other areas subject to its jurisdiction and (c) the term "U.S. or Canadian Person" means any resident or citizen of the United States or Canada, any corporation, partnership or other entity created or organized in or under the laws of the United States or Canada or any political subdivision thereof or any estate or trust, the income of which is subject to United States federal income taxation or Canadian income taxation regardless of its source (other than a foreign branch of any U.S. or Canadian Person), and includes any United States or Canadian branch of a person who is not otherwise a U.S. or Canadian Person.

Pursuant to the Agreement Between U.S. Underwriters and International Managers, sales may be made between the U.S. Underwriters and the International Managers of such number of shares of Common Stock as may be mutually agreed upon. Unless otherwise agreed, the price of any shares of Common Stock so sold shall be the public offering price as then in effect for the shares of Common Stock being sold by the U.S. Underwriters and the International Managers, less the selling concession allocable to such shares of Common Stock. To the extent that there are sales between the U.S. Underwriters and the International Managers pursuant to the Agreement Between U.S. Underwriters and International Managers, the number of shares of Common Stock initially available for sale by the U.S. Underwriters or by the International Managers may be more or less than the amount appearing on the cover page of this Prospectus.

This Prospectus is not, and under no circumstances is to be construed as, an advertisement or a public offering of shares of Common Stock in Canada or any province or territory thereof. Any offer or sale of shares of Common Stock in Canada may only be made pursuant to an exemption from the prospectus and registration requirements in the province or territory of Canada in which such offer or sale is made.

Each International Manager has represented and agreed that (i) it has not offered or sold and prior to the date six months after the latest closing date will not offer or sell any shares of Common Stock to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 ("1986 Act") with respect to anything done by it in relation to the shares of Common Stock in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on, and will only issue and pass on to any person in the United Kingdom, any investment advertisement (within the meaning of the 1986 Act) relating to the shares of Common Stock if that person falls within Article II(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

No action has been taken or will be taken in any jurisdiction by the Company or the Underwriters that would permit a public offering of shares of Common Stock in any jurisdiction where action for that purpose is required, other than the United States. Persons into whose possession this Prospectus comes are required by the Company and the Common Stock Underwriters to inform themselves about, and to observe any restrictions as to, the offering of shares of Common Stock offered pursuant to the Offering and the distribution of this Prospectus.

Purchasers of shares of Common Stock offered hereby may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page hereof.

The Representatives and the Lead Managers have informed the Company that the U.S. Underwriters and the International Managers do not intend to confirm sales to any accounts over which they exercise discretionary authority.

Except for Common Stock to be sold in the Common Stock Offering and except for the Common Stock that may be issued pursuant to the Directors Stock Plan and the Stock Option Plan (see "Management--Board of Directors Compensation" and "--Stock Option Plan"), the Company and the directors and executive officers of the Company have generally agreed not to offer, sell, contract to sell or otherwise issue any Common Stock or other capital stock prior to the expiration of 90 days from the date of this Prospectus without the prior written consent of Lehman Brothers Inc. on behalf of the Representatives and the Lead Managers. In addition, in connection with the offering of shares of Common Stock by certain stockholders of the Company in September 1996, Messrs. Erbey and Wish agreed not to offer, sell or otherwise dispose of any shares of Common Stock for a period of one year from the closing of such offering on September 30, 1996 without the consent of the representative of the underwriters of such offering.

Until the distribution of the Common Stock is completed, rules of the Commission may limit the ability of the Common Stock Underwriters and certain selling group members to bid for and purchase shares of Common Stock. As an exception to these rules, the Representatives and the Lead Managers are permitted to engage in certain transactions that stabilize the price of the Common Stock. Such transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Common Stock.

If the Underwriters create a short position in the Common Stock in connection with the Common Stock Offering (i.e., if they sell more shares of Common Stock than are set forth on the cover page of this Prospectus), the Representatives and the Lead Managers may reduce that short position by purchasing Common Stock in the open market. The Representatives and the Lead Managers also may elect to reduce any short position by exercising all or part of the over-allotment options described herein.

In general, purchases of a security for the purpose of stabilization or to reduce a syndicate short position could cause the price of the security to be higher than it might otherwise be in the absence of such purchases. The imposition of a penalty bid might have an effect on the price of a security to the extent that it were to discourage resales of the security by purchasers in this Common Stock Offering.

Neither the Company nor any of the Common Stock Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Stock. In addition, neither the Company nor any of the Common Stock Underwriters makes any representation that the Representatives or Lead Managers will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

## LEGAL MATTERS

The legality of the shares of Common Stock offered in the Common Stock Offering will be passed upon for the Company by Elias, Matz, Tiernan & Herrick L.L.P., Washington, D.C. Certain legal matters in connection with the Common Stock Offering will be passed upon for the Common Stock Underwriters by Simpson Thacher & Bartlett (a partnership which includes professional corporations), New York, New York.

## EXPERTS

The consolidated financial statements of Ocwen Financial Corporation as of December 31, 1996 and 1995 and for each of the three years in the period ended December 31, 1996 and the financial statements of BCBF, L.L.C. as of December 31, 1996 and for the period March 13, 1996 through December 31, 1996, included in this Prospectus have been so included in reliance on the reports of Price Waterhouse LLP, independent certified public accountants, given upon the authority of said firm as experts in auditing and accounting.

INDEX TO FINANCIAL STATEMENTS

# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
of Ocwen Financial Corporation

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Ocwen Financial Corporation and its subsidiaries (the "Company") at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PRICE WATERHOUSE LLP

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PRICE WATERHOUSE LLP

Fort Lauderdale, Florida
January 21, 1997

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

| | DECEMBER 31, 1996 | DECEMBER 31, 1995 |
|---|---|---|
| ASSETS | | |
| Cash and amounts due from depository institutions | $ 6,878 | $ 4,200 |
| Interest bearing deposits | 13,341 | 50,432 |
| Federal funds sold and repurchase agreements | 32,000 | -- |
| Securities held for trading | 75,606 | -- |
| Securities available for sale, at market value | 354,005 | 337,480 |
| Loans available for sale, at lower of cost or market | 126,366 | 251,790 |
| Investment securities, net | 8,901 | 18,665 |
| Loan portfolio, net | 402,582 | 295,605 |
| Discounted loan portfolio, net | 1,060,953 | 669,771 |
| Principal, interest and dividends receivable | 16,821 | 12,636 |
| Investments in low income housing tax credit interests | 93,309 | 81,362 |
| Investment in joint venture | 67,909 | -- |
| Real estate owned, net | 103,704 | 166,556 |
| Investment in real estate | 41,033 | 11,957 |
| Premises and equipment, net | 14,619 | 13,402 |
| Income taxes receivable | 15,115 | 1,005 |
| Deferred tax asset | 5,860 | 22,263 |
| Other assets | 44,683 | 36,466 |
| | $ 2,483,685 | $ 1,973,590 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits | $ 1,919,742 | $ 1,501,646 |
| Advances from the Federal Home Loan Bank | 399 | 70,399 |
| Securities sold under agreements to repurchase | 74,546 | 84,761 |
| Notes, debentures and other interest bearing obligations | 225,573 | 117,054 |
| Accrued expenses, payables and other liabilities | 59,829 | 60,183 |
| Total liabilities | 2,280,089 | 1,834,043 |
| COMMITMENTS AND CONTINGENCIES | | |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value; 20,000,000 shares authorized;0 shares issued and outstanding | -- | -- |
| Common stock, $.01 par value; 200,000,000 shares authorized; 26,744,170 and 23,812,270 shares issued and outstanding at December 31, 1996 and 1995, respectively | 267 | 238 |
| Additional paid-in capital | 23,258 | 10,449 |
| Retained earnings | 180,417 | 130,275 |
| Unrealized gain (loss) on securities available for sale, net of taxes | 3,486 | (1,415) |
| Notes receivable on exercise of common stock options | (3,832) | -- |
| Total stockholders' equity | 203,596 | 139,547 |
| | $ 2,483,685 | $ 1,973,590 |

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Interest income: | | | |
| Federal funds sold and repurchase agreements | $ 4,681 | $ 3,502 | $ 8,861 |
| Securities available for sale | 26,932 | 18,391 | 27,988 |
| Securities held for trading | 1,216 | -- | -- |
| Loans available for sale | 17,092 | 15,608 | 19,353 |
| Mortgage-related securities held for investment | -- | 4,313 | 6,930 |
| Loans | 36,818 | 15,430 | 5,924 |
| Discounted loans | 103,165 | 75,998 | 52,560 |
| Investment securities and other | 3,990 | 4,033 | 9,842 |
| | 193,894 | 137,275 | 131,458 |
| Interest expense: | | | |
| Deposits | 93,773 | 71,853 | 44,961 |
| Securities sold under agreements to repurchase | 1,101 | 951 | 10,416 |
| Securities sold but not yet purchased | -- | 1,142 | 2,780 |
| Advances from the Federal Home Loan Bank | 4,053 | 1,126 | 1,232 |
| Notes, debentures and other interest bearing obligations | 17,233 | 8,988 | 3,209 |
| | 116,160 | 84,060 | 62,598 |
| Net interest income before provision for loan losses | 77,734 | 53,215 | 68,860 |
| Provision for loan losses | 22,450 | 1,121 | -- |
| Net interest income after provision for loan losses | 55,284 | 52,094 | 68,860 |
| Non-interest income: | | | |
| Servicing fees and other charges | 4,682 | 2,870 | 4,786 |
| Gains on sales of interest earning assets, net | 21,682 | 6,955 | 5,727 |
| Gains from sale of branch offices | -- | 5,430 | 62,600 |
| Income on real estate owned, net | 3,827 | 9,540 | 5,995 |
| Gain on sale of real estate held for investment | -- | 4,658 | -- |
| Other income | 7,084 | 1,727 | 2,467 |
| | 37,275 | 31,180 | 81,575 |
| Non-interest expense: | | | |
| Compensation and employee benefits | 38,357 | 23,787 | 42,395 |
| Occupancy and equipment | 8,921 | 8,360 | 11,537 |
| Amortization of excess cost over net assets acquired | -- | -- | 1,346 |
| Hotel operations (income) expense, net | (453) | 337 | (723) |
| Savings Association Insurance Fund recapitalization assessment | 7,140 | -- | -- |
| Other operating expenses | 15,613 | 13,089 | 14,303 |
| | 69,578 | 45,573 | 68,858 |
| Equity in earnings of investment in joint venture | 38,320 | -- | -- |
| Income from continuing operations before income taxes | 61,301 | 37,701 | 81,577 |
| Income tax expense | 11,159 | 4,562 | 29,724 |
| Income from continuing operations | 50,142 | 33,139 | 51,853 |
| Discontinued operations: | | | |
| Loss from operations of discontinued divisions to September 30, 1995 net of tax benefits of $2,321 and $2,227 for 1995 and 1994, respectively | -- | (4,468) | (4,514) |
| Loss on disposal of divisions, net of tax benefit of $1,776 | -- | (3,204) | -- |
| Net income | $ 50,142 | $ 25,467 | $ 47,339 |
| Earnings per share: | | | |
| Income from continuing operations | $ 1.88 | $ 1.19 | $ 1.52 |
| Discontinued operations, net of tax benefit | -- | (0.28) | (0.13) |
| Net income | $ 1.88 | $ 0.91 | $ 1.39 |
| Weighted average common shares outstanding | 26,689,441 | 27,769,080 | 34,084,160 |

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)
FOR THE YEARS ENDED DECEMBER 31, 1994, 1995 AND 1996

| | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS | UNREALIZED GAIN (LOSS) ON SECURITIES AVAILABLE FOR SALE, NET OF TAXES | NOTES RECEIVABLE ON EXERCISE OF COMMON STOCK OPTIONS | TOTAL |
|---|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | | | | | |
| Balances at December 31, 1993 | 32,195,040 | $322 | $13,726 | $94,891 | $ 2,892 | $-- | $111,831 |
| Net income | -- | -- | -- | 47,339 | -- | -- | 47,339 |
| Repurchase of common stock options | -- | -- | (73) | -- | -- | -- | (73) |
| Repurchase of common stock | (330) | -- | (1) | -- | -- | -- | (1) |
| Change in unrealized gain (loss) on securities available for sale, net of tax benefit | -- | -- | -- | -- | (5,713) | -- | (5,713) |
| Balances at December 31, 1994 | 32,194,710 | 322 | 13,652 | 142,230 | (2,821) | -- | 153,383 |
| Net income | -- | -- | -- | 25,467 | -- | -- | 25,467 |
| Repurchase of common stock options | -- | -- | (132) | -- | -- | -- | (132) |
| Exercise of common stock options | 432,620 | 4 | 1,416 | -- | -- | -- | 1,420 |
| Repurchase of common stock | (8,815,060) | (88) | (4,487) | (37,422 ) | -- | -- | (41,997) |
| Change in unrealized gain (loss) on securities available for sale, net of taxes | -- | -- | -- | -- | 1,406 | -- | 1,406 |
| Balances at December 31, 1995 | 23,812,270 | 238 | 10,449 | 130,275 | (1,415) | -- | 139,547 |
| Net income | -- | -- | -- | 50,142 | -- | -- | 50,142 |
| Repurchase of common stock options | -- | -- | (177) | -- | -- | -- | (177) |
| Exercise of common stock options | 2,928,830 | 29 | 12,963 | -- | -- | -- | 12,992 |
| Directors compensation payable in common stock | 3,070 | -- | 23 | -- | -- | -- | 23 |
| Notes receivable on exercise of common stock options | -- | -- | -- | -- | -- | (3,832) | (3,832) |
| Change in unrealized gain (loss) on securities available for sale, net of taxes | -- | -- | -- | -- | 4,901 | -- | 4,901 |
| Balances at December 31, 1996 | 26,744,170 | $267 | $23,258 | $180,417 | $ 3,486 | $(3,832) | $203,596 |

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Cash flows from operating activities: | | | |
| Net income | $ 50,142 | $ 25,467 | $ 47,339 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | | |
| Net cash (used) provided from trading activities | (60,881) | 2,949 | 4,118 |
| Proceeds from sales of loans available for sale | 397,606 | 100,104 | 383,673 |
| Purchases of loans available for sale | (295,054) | (271,210) | (510,362) |
| Origination of loans available for sale | (9,447) | (2,829) | (39,546) |
| Principal payments received on loans available for sale | 26,689 | 10,103 | 36,966 |
| Amortization of excess of costs over net assets acquired | -- | -- | 1,346 |
| Premium amortization (discount accretion), net | 11,640 | (2,401) | (8,268) |
| Depreciation and amortization | 7,646 | 3,755 | 4,877 |
| Provision for loan losses | 22,450 | 1,121 | -- |
| Loss on sales of premises and equipment | 97 | 3,002 | -- |
| Gains on sales of interest earning assets, net | (21,682) | (6,955) | (5,727) |
| Gain on sale of low income housing tax credit interests | (4,861) | -- | -- |
| Gain on sale of real estate owned, net | (2,464) | (8,496) | (12,234) |
| Gain on sales of branch offices | -- | (5,430) | (62,600) |
| Gain on sale of hotel | -- | (4,658) | -- |
| (Increase) decrease in principal, interest and dividends receivable | (2,277) | (6,484) | 5,710 |
| (Increase) decrease in income taxes receivable | (14,110) | (11,030) | 16,473 |
| (Increase) decrease in deferred tax asset | 16,403 | (1,568) | (799) |
| (Increase) decrease in other assets | (20,303) | (13,189) | 8,841 |
| (Decrease) increase in accrued expenses, payables and other liabilities | (226) | (1,677) | 21,386 |
| Net cash provided (used) in operating activities | 101,368 | (189,426) | (108,807) |
| Cash flows from investing activities: | | | |
| Proceeds from sales of securities available for sale | 175,857 | 836,247 | 877,911 |
| Purchases of securities available for sale | (233,858) | (934,179) | (511,694) |
| Maturities of and principal payments received on securities available for sale | 28,756 | 21,639 | 115,357 |
| Purchase of securities held for investment | (276) | -- | (4,804) |
| Maturities of and principal payments received on securities held for investments | 10,006 | 17,545 | 44,133 |
| Proceeds from sale of low income housing tax credit interests | 24,667 | -- | -- |
| Proceeds from sale of hotel | -- | 25,193 | -- |
| Purchases of low income housing tax credit interests | (34,240) | (29,280) | (31,821) |
| Proceeds from sales of discounted loans and loans held for investment | 205,499 | 38,942 | 35,161 |
| Purchase of discounted loans | (925,850) | (547,987) | (543,982) |
| Purchase of loans held for investment | (305) | (35,073) | -- |
| Originations of loans held for investment | (237,220) | (235,527) | (29,013) |
| Investment in joint venture | (67,909) | -- | -- |
| Principal payments received on discounted loans and loans held for investment | 364,128 | 251,485 | 188,850 |
| Purchase of and capital improvements to real estate held for investment | (29,946) | -- | -- |

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(DOLLARS IN THOUSANDS)

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Proceeds from sales of real estate owned | 169,084 | 148,225 | 129,671 |
| Purchases of real estate owned in connection with discounted loan purchases | (1,628) | (24,617) | (38,071) |
| Additions to premises and equipment | (5,243) | (12,207) | (7,438) |
| Other, net | 227 | 5,067 | 10,262 |
| Net cash (used) provided by investing activities | (558,251) | (474,527) | 234,522 |
| Cash flows from financing activities: | | | |
| Increase in deposits | 414,728 | 585,335 | 1,065,300 |
| Proceeds from issuance of notes and debentures | 125,000 | 107,615 | -- |
| Payment of debt issuance costs | (5,252) | (3,301) | -- |
| Sales of deposits | -- | (111,686) | (909,315) |
| Premium received on sales of deposits | -- | 5,492 | 66,595 |
| Advances from the Federal Home Loan Bank | 76,000 | 170,000 | 17,000 |
| Payments on advances from the Federal Home Loan Bank | (146,000) | (105,000) | (69,000) |
| Increase (decrease) in securities sold under agreements to repurchase | (10,215) | 84,761 | (276,095) |
| Payments and repurchase of notes and mortgages payable | (8,798) | (10,672) | (22,270) |
| Loans to executive officers, net | (3,832) | -- | -- |
| Exercise of common stock options | 12,993 | 1,420 | -- |
| Repurchase of common stock options and common stock | (177) | (42,129) | (74) |
| Other | 23 | -- | -- |
| Net cash provided (used) by financing activities | 454,470 | 681,835 | (127,859) |
| Net (decrease) increase in cash and cash equivalents | (2,413) | 17,882 | (2,144) |
| Cash and cash equivalents at beginning of year | 54,632 | 36,750 | 38,894 |
| Cash and cash equivalents at end of year | $ 52,219 | $ 54,632 | $ 36,750 |
| Reconciliation of cash and cash equivalents at end of year: | | | |
| Cash and amounts due from depository institutions | $ 6,878 | $ 4,200 | $ 32,954 |
| Interest bearing deposits | 13,341 | 50,432 | 3,796 |
| Federal funds sold and repurchase agreements | 32,000 | -- | -- |
| | $ 52,219 | $ 54,632 | $ 36,750 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | $ 115,015 | $ 72,626 | $ 58,174 |
| Income taxes | $ 4,725 | $ 12,858 | $ 11,170 |
| Supplemental schedule of non-cash investing and financing activities: | | | |
| Exchange of discount loans and loans available for sale for securities | $ 357,628 | $ 83,875 | $ 346,588 |
| Real estate owned acquired through foreclosure | $ 102,140 | $ 185,001 | $ 136,764 |
| Transfer of mortgage-related securities from held for investment to available for sale | $ -- | $ 73,706 | $ -- |

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### PRINCIPLES OF CONSOLIDATION

Ocwen Financial Corporation (the "Company") is a financial services holding company engaged primarily in the acquisition, servicing and resolution of non-performing and underperforming mortgage loans ("Discounted Loans"), multi-family residential and commercial real estate lending activities, single-family residential lending activities involving non-conforming borrowers and various investment activities including mortgage related securities, low income housing tax credit interests and hotels. The Company owns directly and indirectly all of the outstanding common and preferred stock of its primary subsidiaries, Ocwen Federal Bank FSB, formerly Berkeley Federal Bank & Trust FSB (the "Bank") and Investors Mortgage Insurance Holding Company ("IMI"), which are included in the Company's consolidated financial statements. All significant intercompany transactions and balances have been eliminated in consolidation.

The Bank is a federally chartered savings bank regulated by the Office of Thrift Supervision ("OTS"). IMI's primary subsidiaries are engaged in hotel operations and other real estate related ventures.

### RECLASSIFICATION

Certain amounts included in the 1995 and 1994 consolidated financial statements have been reclassified in order to conform to the 1996 presentation.

### CONSOLIDATED STATEMENTS OF CASH FLOWS

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

### TRADING ACTIVITIES

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

### SECURITIES AVAILABLE FOR SALE

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

During December 1995, in conjunction with a transition provision provided by the Financial Accounting Standards Board pertaining to the classification of securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities", the Company transferred all of its mortgage-related securities held for investment, with a book value of $75,194 and a market value of $73,706 to securities available for sale.

INVESTMENTS AND MORTGAGE-RELATED SECURITIES HELD FOR INVESTMENT

Investments and mortgage-related securities held for investment are stated at cost, adjusted for amortization of premiums and accretion of discounts, because the Company has the ability and the intent to hold them to maturity. Unrealized losses on securities that reflect a decline in value which is other than temporary, if any, are charged to earnings. The amortization of premiums and accretion of discounts are computed using the interest method after considering actual and estimated prepayment rates, if applicable. Actual prepayment experience is periodically reviewed and effective yields are recalculated when differences arise between prepayments originally anticipated and amounts actually received plus anticipated future prepayments.

LOAN AVAILABLE FOR SALE AND HELD FOR INVESTMENT

Loans originated or purchased by the Company which the Company presently does not intend to hold to maturity are designated as loans available for sale upon origination or purchase and are stated at the lower of cost, after considering deferred loan fees and costs, or aggregate market value. Upon the sale of a loan, any unamortized deferred loan fees, net of costs, are included in the gain or loss on sale of interest earning assets. Gains and losses on disposal of such assets are computed on a specific identification basis.

Loans held for investment are stated at amortized cost, less an allowance for loan losses, because the Company has the ability and the intent to hold them to maturity.

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

Loan origination fees and certain direct loan origination costs are deferred and recognized over the lives of the related loans as a yield adjustment and included in interest income using the interest method applied on a loan-by-loan basis.

ALLOWANCE FOR ESTIMATED LOAN LOSSES ON LOAN PORTFOLIO

The allowance for estimated loan losses is maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for potential losses.

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

DISCOUNTED LOAN PORTFOLIO

Certain mortgage loans, for which the borrower is not current as to principal and interest payments or which there is a reason to believe the borrower will be unable to continue to make its scheduled principal and interest payments are acquired at a discount. The acquisition cost for a pool of loans is allocated to each individual loan within the pool based upon the Company's pricing methodology. The discount associated with single family residential mortgage loans is recognized as a yield adjustment and included in interest income using the interest method applied on a loan-by-loan basis to the extent the timing and amount of cash flows can be reasonably determined. For those single family residential mortgage loans which are brought current by the borrower and certain multi-family and commercial real estate loans which are current and the Company believes will remain current, the remaining unamortized discount is accreted to income as a yield adjustment using the interest method over the contractual maturity of the loan. For all other loans, interest is reported as cash is received. Gains on the repayment and discharging of loans are reported as interest income. In situations where the collateral is foreclosed upon, the loans are transferred to real estate owned upon receipt of title to the property and accretion of the related discount is discontinued.

REAL ESTATE OWNED

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

VALUATION ALLOWANCES ON DISCOUNTED LOANS AND REAL ESTATE OWNED

Beginning in the first quarter of 1996 the Company, as requested by the OTS, began recording general valuation allowances on discounted loans and real estate owned to reflect the inherent losses which may have occurred but have yet to be specifically identified. Management has established the valuation allowances based upon historical loss experience, economic conditions and trends, collateral values and other relevant factors. Also beginning in 1996, the Company began recording losses and charge-offs on discounted loans against the allowance for loan losses. Previously these amounts were deducted from interest income.

INVESTMENT IN REAL ESTATE

In conjunction with its multi-family and commercial lending business activity, the Company has made certain acquisition, development and construction loans in which the Company participates in the residual profits of the underlying real estate and the borrower has not made an equity contribution substantial to the overall project. As such, the Company accounts for these loans under the equity method of accounting as though it has made an investment in a real estate limited partnership.

The Company also has invested indirectly, through its IMI subsidiaries, in certain hotel properties. Net operating income from the hotel properties including depreciation expense is recorded as part of non-interest income.

INVESTMENTS IN LOW INCOME HOUSING TAX CREDIT INTERESTS

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

EXCESS OF COST OVER NET ASSETS ACQUIRED

On February 17, 1988, the Company acquired 100% of the common stock of First Federal Savings Bank (of Delaware). Through 1994 the excess of cost over net assets acquired was being amortized over the estimated periods benefited. As of December 31, 1994, the remaining depository branches acquired in 1988, along with certain other branches subsequently acquired, were sold, and the unamortized excess of cost over net assets acquired of $9,135 was retired and charged against the gain recorded on the sale of branch offices.

PREMISES AND EQUIPMENT

Premises and equipment are carried at cost and, except for land, are depreciated over their estimated useful lives on the straight-line method. The estimated useful lives of the related assets range from 3 to 10 years.

INTEREST RATE RISK MANAGEMENT ACTIVITIES

The Company manages its exposure to interest rate movements by seeking to match asset and liability balances within maturity categories, both directly and through the use of derivative financial instruments. These derivative instruments include interest rate swaps ("swaps") and interest rate futures contracts that are designated and effective as hedges, as well as swaps that are designated and effective in modifying the interest rate and/or maturity characteristics of specified assets or liabilities.

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

Interest rate contracts used in connection with the securities portfolio designated as available for sale are carried at fair value with gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity, consistent with the reporting of unrealized gains and losses on such securities.

INCOME TAXES

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

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

INVESTMENT IN JOINT VENTURE

In March 1996, the Company and BlackRock Capital Finance L.P. ("BlackRock") formed BCBF, L.L.C. (the "LLC"), a limited liability corporation, to acquire loans from the U.S. Department of Housing and Urban Development ("HUD"). The Company and BlackRock each own 50% of the LLC.

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

The Company services all loans on behalf of the LLC for a fee, and all intercompany transactions between the Company and the LLC are eliminated for financial reporting purposes to the extent of the Company's ownership in the LLC.

INVESTMENT MANAGEMENT AND TRUST ACTIVITIES

At December 31, 1996 and 1995 Ocwen Asset Management Inc. ("OAM"), a subsidiary of the Bank, had under management $1,629 and $48,229, respectively, of mortgage-backed and related securities and mortgage loans for an unaffiliated account. Such amounts are not included in the Company's consolidated statements of financial condition.

At December 31, 1996 and 1995 the Bank held $0 and $2,002, respectively, in investments in trust accounts for customers. Such amounts are not included in the Company's consolidated statements of financial condition.

RISKS AND UNCERTAINTIES

In the normal course of business, the Company encounters two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or different bases, than its interest earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from a borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans held for sale, securities available for sale and purchased mortgage servicing rights due to changes in interest rates or other market factors including the rate of prepayments of principal and the value of the collateral underlying loans and the valuation of real estate held by the Company.

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

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

RECENT ACCOUNTING STANDARDS

On January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which requires that long-lived assets to be held and used by an entity and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Additionally, SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell, except for certain assets. The adoption of SFAS No. 121 did not have a material effect on the Company's financial condition or results of operations in 1996.

On January 1, 1996 the Company adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights", which requires that an institution engaged in mortgage banking activities recognize as a separate asset rights to service mortgage loans for others, regardless of the manner in which those servicing rights are acquired. Upon sale or securitization of loans with servicing rights retained, the Company is required to capitalize the cost associated with the mortgage servicing rights based on their relative fair values. SFAS No. 122 also requires that an institution assess its capitalized mortgage servicing rights for impairment based on the fair value of those rights. Impairment is recognized through a valuation allowance. See Note 13 for disclosures regarding capitalized mortgage servicing rights as required by SFAS No. 122.

On January 1, 1996, the Company also adopted SFAS No. 123, "Accounting for Stock-Based Compensation", which requires that the fair value of employee stock-based compensation plans be recorded as a component of compensation expense in the statement of operations as of the date of grant of awards related to such plans or that the impact of such fair value on net income and earnings per share be disclosed on a pro forma basis in a footnote to financial statements for awards granted after December 15, 1994, if the accounting for such awards continues to be in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). The Company will continue such accounting under the provisions of APB 25 and has disclosed the pro forma information as required in Note 23.

In June 1996, SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", was issued. SFAS No. 125 (i) sets forth the criteria for (a) determining when to recognize financial and servicing assets and liabilities; and (b) accounting for transfers of financial assets as sales or borrowings; and (ii) requires (a) liabilities and derivatives related to a transfer of financial assets to be recorded at fair value; (b) servicing assets and retained interests in transferred assets carrying amounts be determined by allocating carrying amounts based on fair value; (c) amortization of servicing assets and liabilities be in proportion to net servicing income; (d) impairment measurement based on fair value; and (e) pledged financial assets to be classified as collateral.

SFAS No. 125 provides implementation guidance for assessing isolation of transferred assets and for accounting for transfers of partial interests, servicing of financial assets, securitizations, transfers of sales-type and direct financing lease receivables, securities lending transactions, repurchase agreements including "dollar rolls", "wash sales", loan syndications and participations, risk participations in banker's acceptances, factoring arrangements, transfers of receivables with recourse and extinguishments of liabilities. In December 1996, the FASB issued SFAS No 127, "Deferral of the Effective Date of FASB Statement No. 125", which delayed implementation of certain provisions of SFAS 125. SFAS Nos. 125 and 127 are effective for fiscal years ending after December 15, 1996. The Company does not anticipate these Statements to have any material impact on the results of operations, financial position or cash flows as a result of implementing these Statements.

EARNINGS PER SHARE

Earnings per share is calculated based upon the weighted average number of shares of common stock outstanding during the year. The computation of the weighted average number of shares includes the impact of the exercise of the outstanding options to purchase common stock and assumes that the proceeds from such issuance are used to repurchase common shares at fair value.

NOTE 2 ACQUISITION AND DISPOSITION TRANSACTIONS

The LLC is a limited liability company formed in March 1996 between the Company and BlackRock Capital Finance L.P. On March 22, 1996, the LLC was notified by HUD that it was the successful bidder to purchase 16,196 single-family residential loans offered by HUD ("HUD Loans"). On April 10, 1996 the LLC consummated the acquisition of the HUD Loans.

At December 31, 1996, the Company's investment in the LLC amounted to $67,909 and is net of valuations allowances of $5,114. Because the LLC is a pass-through entity for federal income tax purposes, provisions for income taxes are established by each of the Company and its co-investor and not the LLC.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

Set forth below is the statement of financial condition of the LLC at December 31, 1996 and a statement of operations for the period from the date of formation of the LLC through December 31, 1996.

BCBF, L.L.C.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 1996

| | |
|---|---|
| Assets: | |
| Cash | $ 10 |
| Loans held for sale, at lower of cost or market value | 110,702 |
| Real estate owned, net of a valuation allowance of $511 | 25,595 |
| Other assets | 10,526 |
| | $ 146,833 |
| Liabilities and Owners' Equity | |
| Liabilities: | |
| Accrued expenses, payables and other liabilities | $ 787 |
| Total liabilities | 787 |
| Owners' Equity: | |
| Ocwen Federal Bank FSB | 73,023 |
| BlackRock Capital Finance L.P | 73,023 |
| Total owners' equity | 146,046 |
| | $ 146,833 |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

BCBF, L.L.C.
STATEMENT OF OPERATIONS
FOR PERIOD MARCH 13, 1996 THROUGH DECEMBER 31, 1996

| | |
|---|---|
| Interest income | $ 38,647 |
| Interest expense | 18,503 |
| Net interest income | 20,144 |
| Non-interest income: | |
| Gain on sale of discounted loans | 71,156 |
| Gain on sale of loan servicing rights | 1,048 |
| Loss on real estate owned | (130) |
| Loan fees | 50 |
| | 72,124 |
| Operating expenses: | |
| Loan servicing fees | 5,743 |
| Other loan expenses | 273 |
| | $ 6,016 |
| Net income | $ 86,252 |

In October, 1996, the LLC securitized 9,825 loans with an unpaid principal balance of $419,382 and past due interest of $86,131 and a net book value of $394,234. Proceeds from sales of loans by the LLC amounted to $466,806 for the period ending December 31, 1996. The Company continues to service such loans and is paid a servicing fee.

The Company's equity in earnings of the LLC of $38,320 includes 50% of the net income of the LLC before deduction of the Company's 50% share of loan servicing fees which are paid 100% to the Company, 50% of the gain on sale of loan servicing rights which the Company acquired from the LLC, $7,614 in provision for losses on the equity investment in the joint venture and $460 from gain on sale of future contracts used to hedge the loans securitized. The Company has recognized 50% of the loan servicing fees not eliminated in consolidation in servicing fees and other charges.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

DISPOSITIONS

The Company sold two branches with deposit liabilities totaling $111,686 as of November 17, 1995, and twenty-three branches with deposit liabilities totaling $909,315 as of December 31, 1994. The components of the gain recorded on these transactions is summarized below:

| | 1995 | 1994 |
|---|---|---|
| Premium received on deposit liabilities sold | $ 5,492 | $ 66,595 |
| Difference between carrying value and face value of deposits sold | -- | 4,596 |
| Retirement of excess of cost over net assets acquired, net | -- | (9,135) |
| Net gain on sale of land, buildings, furniture, fixtures and equipment | 158 | 2,908 |
| Broker's fee and other costs associated with the sale of the deposits | (220) | (2,364) |
| Gains on sales of branch offices | $ 5,430 | $ 62,600 |

Additionally, on October 4, 1995 the Company sold a hotel which it owned and operated for a gain of $4,658.

NOTE 3 DISCONTINUED OPERATIONS

In September 1995, the Company announced its decisions to dispose of its automated banking division and related activities. As a result of these decisions, a loss of $3,204, net of a tax benefit of $1,776 was recorded consisting of a net loss of $1,954 on the sale of assets and a loss of $1,250, incurred from related operations until the sales and dispositions, both of which were substantially complete at December 31, 1995. The Company's consolidated statements of operations have been restated for all periods presented to reflect the discontinuance of these operations. Losses from operations of the discontinued division, net of tax, amounted to $4,468 and $4,514 for the nine months ended September 30, 1995 and the year ended December 31, 1994, respectively. Gross revenues from the automated banking division and related activities for the years ended December 31, 1995 and 1994 amounted to $1,822 and $1,768, respectively.

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair values reflected below are indicative of the interest rate environments as of December 31, 1996 and 1995 and do not take into consideration the effects of interest rate fluctuations. In different interest rate environments, fair value results can differ significantly, especially for certain fixed-rate financial instruments and non-accrual assets. In addition, the fair values presented do not attempt to estimate the value of the Company's fee generating businesses and anticipated future business activities. In other words, they do not represent the Company's value as a going concern. Furthermore, the differences between the carrying amounts and the fair values presented may not be realized because, except as indicated, the Company generally intends to hold these financial instruments to maturity and realize their recorded values.

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

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS AND MORTGAGE-BACKED AND RELATED SECURITIES

For investments and mortgage-backed and related securities, fair value equals quoted price, if available. For securities for which a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments.

LOANS AND DISCOUNTED LOANS

The fair value of performing whole loans is estimated based upon quoted market prices for similar whole loan pools. The fair value of the discounted loan portfolio is estimated based upon current market yields at which recent pools of similar mortgages have traded taking into consideration the timing and amount of expected cash flows.

LOW INCOME HOUSING TAX CREDIT INTERESTS

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

DEPOSITS

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

BORROWINGS

The fair value of the Company's notes and debentures is based upon quoted market prices. The fair value of the Company's other borrowings is estimated based upon the discounted value of the future cash flows expected to be paid on such borrowings using estimated market discount rates that reflect the borrowings of others with similar terms and maturities.

RISK MANAGEMENT INSTRUMENTS

The fair value of interest rate swap agreements is the estimated amount that the Company would receive or pay to terminate the swap agreements at the reporting date taking into account interest rates and the credit worthiness of the swap counterparties on or about the respective financial statement dates. Market quotes are used to estimate the fair value of interest rate futures contracts.

LOAN COMMITMENTS

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

REAL ESTATE OWNED

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

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

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

| | DECEMBER 31, 1996 | | DECEMBER 31, 1995 | |
|---|---|---|---|---|
| | CARRYING AMOUNT | FAIR VALUE | CARRYING AMOUNT | FAIR VALUE |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 52,219 | $ 52,219 | $ 54,632 | $ 54,632 |
| Securities held for trading | 75,606 | 75,606 | -- | -- |
| Securities available for sale | 354,005 | 354,005 | 337,480 | 337,480 |
| Loans available for sale | 126,366 | 128,784 | 251,790 | 253,854 |
| Investment securities | 8,901 | 8,901 | 18,665 | 18,657 |
| Loan portfolio, net | 402,582 | 410,934 | 295,605 | 300,075 |
| Discounted loan portfolio, net | 1,060,953 | 1,140,686 | 669,771 | 682,241 |
| Investments in low income housing tax credit interest | 93,309 | 113,850 | 81,362 | 94,238 |
| Real estate owned, net | 103,704 | 130,221 | 166,556 | 187,877 |
| Financial liabilities: | | | | |
| Deposits | 1,919,742 | 1,934,717 | 1,501,646 | 1,488,668 |
| Advances from the Federal Home Loan Bank | 399 | 399 | 70,399 | 70,530 |
| Securities sold under agreements to repurchase | 74,546 | 74,546 | 84,761 | 84,761 |
| Notes, debentures and other interest bearing obligations | 225,573 | 246,511 | 117,054 | 120,398 |
| Other: | | | | |
| Loan commitments | 194,128 | 194,128 | 54,405 | 54,405 |

NOTE 5 SECURITIES HELD FOR TRADING

The book and market values and gross unrealized gains and losses for the Company's securities held for trading at December 31, 1996 were as follows:

| | BOOK VALUE | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
|---|---|---|---|---|
| Collateralized mortgage obligations | $ 75,526 | $ -- | $ (140) | $ 75,386 |
| Futures contracts | -- | 220 | -- | 220 |
| | $ 75,526 | $ 220 | $ (140) | $ 75,606 |

The Company traded assets totaling $373,723, $93,942 and $621,991 in aggregate sales proceeds during the years ended December 31, 1996, 1995 and 1994, respectively, resulting in realized net gains of $14,645, $2,949 and $4,118 for the years ended December 31, 1996, 1995 and 1994, respectively. Unrealized gains on securities held for trading and included in gains on sales of interest earning assets amounted to $80, $0 and $0, respectively, in 1996, 1995 and 1994.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

NOTE 6 SECURITIES AND LOANS AVAILABLE FOR SALE

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

| DECEMBER 31, 1996: | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
|---|---|---|---|---|
| Mortgage-related securities: | | | | |
| Single family residential: | | | | |
| AAA-rated collateralized mortgage obligations | $ 74,224 | $ 227 | $ (516) | $ 73,935 |
| FHLMC interest only | 46,735 | 963 | (127) | 47,571 |
| FNMA interest only | 48,573 | 1,315 | (508) | 49,380 |
| AAA-rated interest only | 1,166 | 27 | (20) | 1,173 |
| Subordinates | 15,550 | 3,614 | -- | 19,164 |
| REMIC residuals | 19,211 | 1,349 | -- | 20,560 |
| Futures contracts | -- | 19 | (1,940) | (1,921) |
| | 205,459 | 7,514 | (3,111) | 209,862 |
| Multi-family and commercial: | | | | |
| AAA-rated interest only | 82,996 | 1,353 | (759) | 83,590 |
| Non-investment grade interest only | 3,620 | 205 | (26) | 3,799 |
| Subordinates | 56,500 | 1,856 | (822) | 57,534 |
| Futures contracts | -- | -- | (780) | (780) |
| | 143,116 | 3,414 | (2,387) | 144,143 |
| | $ 348,575 | $ 10,928 | $ (5,498) | $ 354,005 |
| Loans: | | | | |
| Single family residential | $ 111,980 | 2,949 | (970) | $ 113,959 |
| Multi-family | 13,657 | 305 | -- | 13,962 |
| Consumer | 729 | 142 | (8) | 863 |
| | $ 126,366 | $ 3,396 | $ (978) | $ 128,784 |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

| DECEMBER 31, 1995: | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
|---|---|---|---|---|
| Mortgage-related securities: | | | | |
| Single family residential: | | | | |
| AAA-rated collateralized mortgage obligations | $ 140,304 | $ 9 | $ (1,482) | $ 138,831 |
| FHLMC interest only | 2,217 | -- | (35) | 2,182 |
| FNMA interest only | 10,080 | -- | (488) | 9,592 |
| FNMA principal only | 8,104 | 114 | -- | 8,218 |
| Subordinates | 27,410 | -- | (100) | 27,310 |
| Planned amortization class (PAC) residuals | 759 | -- | (185) | 574 |
| REMIC residuals | 616 | -- | (144) | 472 |
| Futures contracts | -- | 168 | (1,766) | (1,598) |
| | 189,490 | 291 | (4,200) | 185,581 |
| Multi-family and commercial: | | | | |
| AAA-rated interest only | 101,110 | 2,840 | (18) | 103,932 |
| FNMA interest only | 5,520 | 16 | (275) | 5,261 |
| Subordinates | 43,605 | 845 | (1,496) | 42,954 |
| Futures contracts | -- | -- | (248) | (248) |
| | 150,235 | 3,701 | (2,037) | 151,899 |
| | $ 339,725 | $ 3,992 | $ (6,237) | $ 337,480 |
| Loans: | | | | |
| Single family residential | $ 221,927 | $ 1,736 | $ -- | $ 223,663 |
| Multi-family | 28,694 | 314 | -- | 29,008 |
| Consumer | 1,169 | 14 | -- | 1,183 |
| | $ 251,790 | $ 2,064 | $ -- | $ 253,854 |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

A profile of the maturities of securities available for sale at December 31, 1996 follows. Mortgage-backed securities are included based on their weighted-average maturities, reflecting anticipated future prepayments based on a consensus of dealers in the market.

| | AMORTIZED COST | FAIR VALUE |
|---|---|---|
| Due within one year | $ 17,601 | $ 17,735 |
| Due after 1 through 5 years | 211,955 | 209,887 |
| Due after 5 through 10 years | 92,023 | 95,103 |
| Due after 10 years | 26,996 | 31,280 |
| | $ 348,575 | $ 354,005 |

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

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Securities: | | | |
| Gross realized gains | $ 4,323 | $ 1,266 | $ 10,654 |
| Gross realized losses | (3,757) | (2,079) | (7,999) |
| Net realized gains (losses) | $ 566 | $ (813) | $ 2,655 |
| Proceeds on sales | $ 175,857 | $ 836,247 | $ 877,911 |
| Premiums amortized against interest income | $ 23,508 | $ 5,188 | $ 2,782 |
| Discounts accreted to interest income | (3,261) | (3,135) | (553) |
| Net premium amortization | $ 20,247 | $ 2,053 | $ 2,229 |
| Loans: | | | |
| Gross realized gains | $ 2,150 | $ 1,817 | $ 3,399 |
| Gross realized losses | (3,152) | -- | (806) |
| Net realized gains (losses) | $ (1,002) | $ 1,817 | $ 2,593 |
| Proceeds on sales | $ 397,606 | $ 100,104 | $ 383,673 |

One security in the available for sale portfolio, with a market value of $6,570, is pledged as collateral to the State of New Jersey in connection with the Bank's sales of certificates of deposit over $100 to New Jersey municipalities. Additionally, certain mortgage-related securities are pledged as collateral for securities sold under agreements to repurchase (see Note 18).

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

NOTE 7 INVESTMENT SECURITIES

The book and fair values and gross unrealized gains and losses on the Company's investment securities are as follows at December 31:

| | BOOK VALUE | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
|---|---|---|---|---|
| 1996: | | | | |
| Federal Home Loan Bank stock.................. | $ 8,798 | -- | -- | $ 8,798 |
| Limited partnership interests................. | 103 | -- | -- | 103 |
| | 8,901 | -- | -- | 8,901 |
| 1995: | | | | |
| U.S. Treasury securities...................... | $ 10,036 | $ -- | $ (8) | $ 10,028 |
| Federal Home Loan Bank stock.................. | 8,520 | -- | -- | 8,520 |
| Limited partnership interests................. | 109 | -- | -- | 109 |
| | $ 18,665 | $ -- | $ (8) | $ 18,657 |

Premiums amortized against and discounts accreted to income on U.S. Treasury securities held for investment were as follows for the periods ended December 31:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Premiums amortized against interest income............................ | $ 36 | $ 289 | $ 324 |
| Discounts accreted to interest income................................ | -- | -- | (12) |
| Net premium amortization............................................. | $ 36 | $ 289 | $ 312 |

Included in interest income on investment securities and other for the periods ended December 31, 1996, 1995 and 1994 are $1,767, $1,388 and $5,654, respectively, of deferred fees accreted on tax residuals (see Note 21).

As a member of the FHLB system, the Bank is required to maintain an investment in the capital stock of the FHLB in an amount at least equal to the greater of 1% of residential mortgage assets, 5% of outstanding borrowings (advances) from the FHLB, or 0.3% of total assets. FHLB capital stock is generally pledged to secure FHLB advances.

NOTE 8 MORTGAGE-RELATED SECURITIES

In December 1995 the Company transferred all of its mortgage-related securities held for investment to its available for sale portfolio (see Note 1).

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

Premiums amortized against and discounts accreted to interest income on mortgage-related securities were as follows for the periods ended December 31:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Premiums amortized against interest income | $ -- | $ 652 | $ 1,043 |
| Discounts accreted to interest income | -- | (36) | (277) |
| Net premium amortization | $ -- | $ 616 | $ 766 |

NOTE 9 LOAN PORTFOLIO

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

| | 1996 | 1995 |
|---|---|---|
| Carrying value: | | |
| Single family residential | $ 73,186 | $ 75,928 |
| Multi-family residential: | | |
| Permanent | 31,252 | 41,306 |
| Construction | 36,590 | 7,741 |
| Total multi-family residential | 67,842 | 49,047 |
| Commercial real estate: | | |
| Hotel: | | |
| Permanent | 173,947 | 125,791 |
| Construction | 26,364 | -- |
| Office | 128,782 | 61,262 |
| Land | 2,332 | 24,904 |
| Other | 25,623 | 2,494 |
| Total commercial real estate | 357,048 | 214,451 |
| Commercial non-mortgage | 2,614 | -- |
| Consumer | 424 | 3,223 |
| Total loans | 501,114 | 342,649 |
| Undisbursed loan funds | (89,840) | (39,721) |
| Unaccreted discount | (5,169) | (5,376) |
| Allowance for loan losses | (3,523) | (1,947) |
| Loans, net | $ 402,582 | $ 295,605 |

At December 31, 1996 the Company had $6,407 of single family residential loans, $2,310 of land loans and $3,733 of multi-family residential loans outstanding, at market interest rates and terms, which were issued to facilitate the sale of the Company's real estate owned and real estate held for development.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

Included in the loan portfolio at December 31, 1996 and 1995 are $315,871 and $180,223 of loans in which the Company participates in the residual profits of the underlying real estate of which $233,749 and $142,139, respectively, have been funded. The Company records any residual profits as part of interest income when received.

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

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Non-performing loans: | | | |
| Single family residential | $ 2,123 | $ 2,923 | $ 2,478 |
| Multi-family | 106 | 731 | 152 |
| Consumer | 55 | 202 | 29 |
| | $ 2,284 | $ 3,856 | $ 2,659 |
| Allowance for loan losses: | | | |
| Balance, beginning of year | $ 1,947 | $ 1,071 | $ 884 |
| Provision for loan losses | 1,872 | 1,121 | -- |
| Charge-offs | (296) | (263) | (472) |
| Recoveries | -- | 18 | 659 |
| Balance, end of year | $ 3,523 | $ 1,947 | $ 1,071 |

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Significant ratios: | | | |
| Non-performing loans as a percentage of: | | | |
| Loans | 0.56% | 1.27% | 4.35% |
| Total assets | 0.09% | 0.20% | 0.21% |
| Allowance for loan losses as a percentage of: | | | |
| Loans | 0.87% | 0.65% | 1.84% |
| Non-performing loans | 154.24% | 50.49% | 40.28% |
| Net charge-offs (recoveries) as a percentage of average loans | 0.09% | 0.19% | (0.28)% |

If non-accrual loans had been current in accordance with their original terms, interest income for the years ended December 31, 1996, 1995 and 1994 would have been approximately $214, $322 and $207 higher, respectively. No interest has been accrued on loans greater than 89 days past due.

At December 31, 1996, the Company had no investment in impaired loans as defined in accordance with SFAS No. 114, and as amended by SFAS No. 118.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

The loan portfolio is geographically located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing the Company's loans were located at December 31, 1996.

| | SINGLE FAMILY RESIDENTIAL | MULTI-FAMILY RESIDENTIAL | COMMERCIAL REAL ESTATE | COMMERCIAL NON-MORTGAGE | CONSUMER | TOTAL |
|---|---|---|---|---|---|---|
| New York | $ 7,644 | $ 34,115 | $ 76,326 | $ -- | $ -- | $ 118,085 |
| Illinois | 56 | -- | 81,280 | -- | -- | 81,336 |
| California | 18,551 | 15,733 | 39,710 | 2,614 | -- | 76,608 |
| New Jersey | 32,996 | -- | 14,267 | -- | 22 | 47,285 |
| Georgia | -- | -- | 30,114 | -- | -- | 30,114 |
| Other | 13,939 | 17,994 | 115,351 | -- | 402 | 147,686 |
| Total | $ 73,186 | $ 67,842 | $ 357,048 | $ 2,614 | $ 424 | $ 501,114 |

NOTE 10 DISCOUNTED LOAN PORTFOLIO

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

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

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

| | CARRYING VALUE | |
|---|---|---|
| | 1996 | 1995 |
| Loan type: | | |
| Single family residential | $ 504,049 | $ 376,501 |
| Multi-family residential | 341,796 | 176,259 |
| Commercial real estate | 465,801 | 388,566 |
| Other | 2,753 | 2,203 |
| Total discounted loans | 1,314,399 | 943,529 |
| Unaccreted discount | (241,908) | (273,758) |
| Allowance for loan losses | (11,538) | -- |
| Discounted loans, net | $ 1,060,953 | $ 669,771 |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

| | DECEMBER 31, 1996 | DECEMBER 31, 1995 |
|---|---|---|
| Loan status: | | |
| Past due less than 31 days | $ 579,597 | $ 351,630 |
| Past due 31 to 89 days | 22,161 | 86,838 |
| Past due 90 days or more | 563,077 | 385,112 |
| Acquired and servicing not yet transferred | 149,564 | 119,949 |
| | $ 1,314,399 | $ 943,529 |

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

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Interest income: | | | |
| Realized | $ 97,174 | $ 70,807 | $ 48,734 |
| Accreted and unrealized | 5,991 | 5,191 | 3,826 |
| | $ 103,165 | $ 75,998 | $ 52,560 |
| Gains on sales: | | | |
| Realized gains on sales | $ 7,393 | $ 6,008 | $ 890 |
| Proceeds on sales | $ 190,616 | $ 38,942 | $ 32,684 |

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

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Principal balance, beginning of year | $ 943,529 | $ 785,434 | $ 433,516 |
| Acquisitions | 1,110,887 | 791,195 | 826,391 |
| Resolutions and repayments | (371,228) | (300,161) | (265,292) |
| Loans transferred to real estate owned | (138,543) | (281,344) | (171,300) |
| Sales | (230,246) | (51,595) | (37,881) |
| Principal balance, end of year | $ 1,314,399 | $ 943,529 | $ 785,434 |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

The discounted loan portfolio is geographically located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing the Company's discounted loans were located at December 31, 1996:

| | SINGLE FAMILY RESIDENTIAL | MULTI-FAMILY RESIDENTIAL | COMMERCIAL REAL ESTATE AND OTHER | TOTAL |
|---|---|---|---|---|
| California | $ 175,916 | $ 80,326 | $ 114,279 | $ 370,521 |
| New Jersey | 50,551 | 4,794 | 78,698 | 134,043 |
| New York | 76,290 | 12,688 | 40,176 | 129,154 |
| Pennsylvania | 8,856 | 97,062 | 4,430 | 110,348 |
| Connecticut | 39,591 | 62,953 | 2,284 | 104,828 |
| Other | 152,845 | 83,973 | 228,687 | 465,505 |
| Total | $ 504,049 | $ 341,796 | $ 468,554 | $ 1,314,399 |

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

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Allowance for loan losses: | | | |
| Balance, beginning of year | $ -- | $ -- | $ -- |
| Provision for loan losses | 20,578 | -- | -- |
| Charge-offs | (9,216) | -- | -- |
| Recoveries | 176 | -- | -- |
| Balance, end of year | $ 11,538 | $ -- | $ -- |
| Significant ratios: | | | |
| Allowances for loan losses as a percentage of discounted loan portfolio, net | 1.09% | -% | -% |
| Net charge-offs (recoveries) as a percentage of average discounted loans | 1.34% | -% | -% |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

NOTE 11 REAL ESTATE OWNED

Real estate owned, net of allowance for losses, is held for sale and consists of the following at December 31:

| | 1996 | 1995 |
|---|---|---|
| Discounted loan portfolio: | | |
| Single family residential | $ 49,728 | $ 75,144 |
| Multi-family residential | 14,046 | 59,932 |
| Commercial real estate | 36,264 | 31,218 |
| Total discounted loan portfolio | 100,038 | 166,294 |
| Loan portfolio | 592 | 262 |
| Loans available for sale | 3,074 | -- |
| | $ 103,704 | $ 166,556 |

The following schedule presents the activity, in aggregate, in the valuation allowances on real estate owned for the years ended December 31:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Balance, beginning of year | $ 4,606 | $ 3,937 | $ 2,455 |
| Provision for losses | 18,360 | 10,510 | 9,074 |
| Charge-offs and sales | (11,473) | (9,841) | (7,592) |
| Balance, end of year | $ 11,493 | $ 4,606 | $ 3,937 |

The following table sets forth the results of the Company's investment in real estate owned, which were primarily related to the discounted loan portfolio, during the years ended December 31:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Gains on sales | $ 22,835 | $ 19,006 | $ 21,308 |
| Provision for losses | (18,360) | (10,510) | (9,074) |
| Rental income (carrying costs), net | (648) | 1,044 | (6,239) |
| | $ 3,827 | $ 9,540 | $ 5,995 |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

NOTE 12 INVESTMENT IN REAL ESTATE

| | DECEMBER 31, | |
|---|---|---|
| | 1996 | 1995 |
| Loans accounted for as investments in real estate: | | |
| Multi-family residential | $ 24,946 | $ -- |
| Hotels: | | |
| Land | 613 | 613 |
| Building and leasehold improvements | 14,874 | 11,402 |
| Office and computer equipment | 2,248 | 720 |
| Less accumulated depreciation and amortization | (1,648) | (778) |
| | 16,087 | 11,957 |
| | $ 41,033 | $ 11,957 |

During 1995, the Company sold one of the two hotels it owned and operated (see Note 2).

NOTE 13 MORTGAGE SERVICING RIGHTS

The Company services for other investors mortgage loans which it does not own. The total amount of such loans serviced for others was $1,918,098 and $361,608 at December 31, 1996 and 1995, respectively. Servicing fee income on such loans amounted to $2,414, $493 and $231 for the years ended December 31, 1996, 1995 and 1994, respectively.

The unamortized balance of mortgage servicing rights, which are included in other assets, is as follows at December 31:

| | 1996 | 1995 |
|---|---|---|
| Unamortized balance | $ 4,048 | $ 3,433 |
| Valuation allowance | (1,630) | -- |
| | $ 2,418 | $ 3,433 |

Periodically, the Company evaluates the recoverability of mortgage servicing rights based on the projected value of future net servicing income. Future prepayment rates are estimated based on current interest rates and various portfolio characteristics, including loan type, interest rate, and market prepayment estimates. If the estimated recovery is lower than the current amount of mortgage servicing rights, a reduction to mortgage servicing rights is recorded through an increase in the valuation allowance. Valuation allowances were established through charges to servicing fees and other charges during 1996 primarily as a result of higher than projected prepayment rates.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

NOTE 14 INVESTMENTS IN LOW INCOME HOUSING TAX CREDIT INTERESTS

The carrying value of the Company's investments in low income housing tax credit interests are as follows at December 31:

| | 1996 | 1995 |
|---|---|---|
| Investments solely as a limited partner made prior to May 18, 1995 | $ 55,595 | $ 58,911 |
| Investments solely as a limited partner made on or after May 18, 1995 | 12,887 | 4,223 |
| Investments as both a limited and, through subsidiaries, general partner | 24,827 | 18,228 |
| | $ 93,309 | $ 81,362 |

The qualified affordable housing projects underlying the Company's investments in low income housing tax credit interests are geographically located throughout the United States. At December 31, 1996, the Company's largest single investment was $15,402 which is in a project located in Fort Lauderdale, Florida.

Income on the Company's limited partnership investments made prior to May 18, 1995 is recorded under the level yield method as a reduction of income tax expense, and amounted to $9,330, $7,709 and $5,410 for the years ended December 31, 1996, 1995 and 1994, respectively. Had these investments been accounted for under the equity method, net income would have been reduced by $2,223, $2,798 and $2,742 for the years ended December 31, 1996, 1995 and 1994, respectively. For limited partnership investments made after May 18, 1995, and for investments as a limited and, through subsidiaries, general partner, the Company recorded a loss of $636 from operations of the underlying real estate after depreciation, for the year ended December 31, 1996, and no income or expense for the years ended December 31, 1995 and 1994.

Other liabilities include $9,105 and $9,794 at December 31, 1996 and 1995, respectively, representing contractual obligations to fund certain limited partnerships which invest in low income housing tax credit interests.

Included in other income for the year ended December 31 1996 is a gain of $4,861 on the sale of certain investments in low income housing tax credit interests which had a carrying value of $19,806 at time of sale.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

## NOTE 15 PREMISES AND EQUIPMENT

| | DECEMBER 31, | |
|---|---|---|
| | 1996 | 1995 |
| Land | $ 485 | $ 485 |
| Leasehold improvements | 5,999 | 5,672 |
| Office and computer equipment | 15,950 | 12,726 |
| Other | -- | 347 |
| Less accumulated depreciation and amortization | (7,815) | (5,828) |
| | $ 14,619 | $ 13,402 |

## NOTE 16 DEPOSITS

The Company's deposits consist of the following at December 31:

| | 1996 | | 1995 | |
|---|---|---|---|---|
| | WEIGHTED AVERAGE RATE | BOOK VALUE | WEIGHTED AVERAGE RATE | BOOK VALUE |
| Non-interest bearing deposits | -- % | $ 96,563 | -- % | $ 48,482 |
| NOW and money market checking accounts | 2.99 | 22,208 | 3.37 | 17,147 |
| Savings accounts | 2.30 | 2,761 | 2.30 | 3,471 |
| | | 121,532 | | 69,100 |
| Certificates of deposit | 5.80 | 1,809,098 | | 1,440,240 |
| Unamortized deferred fees | 5.47 | (10,888) | | (7,694) |
| | | 1,798,210 | 5.68 | 1,432,546 |
| | | $ 1,919,742 | 5.46 | $ 1,501,646 |

At December 31, 1996 and 1995 certificates of deposit include $1,572,081 and $1,123,196 respectively, of deposits originated through national, regional and local investment banking firms which solicit deposits from their customers, all of which are non-cancelable. Additionally, at December 31, 1996 and 1995, $147,488 and $80,045, respectively, of certificates of deposit were issued on an uninsured basis. Non-interest bearing deposits include $82,885 and $37,686 of advance payments by borrowers for taxes and insurance and principal and interest collected but not yet remitted in accordance with loan servicing agreements at December 31, 1996 and 1995, respectively.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

The contractual maturity of the Company's certificates of deposit at December 31, 1996 follows:

| | |
|---|---|
| Contractual Remaining Maturity: | |
| Within one year | $ 916,056 |
| Within two years | 375,286 |
| Within three years | 222,477 |
| Within four years | 144,978 |
| Within five years | 138,744 |
| Thereafter | 669 |
| | $1,798,210 |

The amortization of the deferred fees of $5,384, $4,729 and $1,606 for the years ended December 31, 1996, 1995 and 1994, respectively, and the accretion of the purchase accounting discount of $0, $0 and $(2,991) for the years ended December 31, 1996, 1995 and 1994, respectively, are computed using the interest method and are included in interest expense on certificates of deposit. The interest expense by type of deposit account is as follows for the years ended December 31:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| NOW accounts and money market checking | $ 620 | $ 1,031 | $ 1,395 |
| Savings | 78 | 451 | 2,602 |
| Certificates of deposit | 93,075 | 70,371 | 40,964 |
| | $ 93,773 | $ 71,853 | $ 44,961 |

Accrued interest payable on deposits in the amount of $18,249 and $18,994 as of December 31, 1996 and 1995, respectively, is included in accrued expenses, payables and other liabilities.

NOTE 17 ADVANCES FROM THE FEDERAL HOME LOAN BANK ("FHLB")

Advances from the FHLB mature as follows:

| | DECEMBER 31, 1996 | | DECEMBER 31, 1995 | |
|---|---|---|---|---|
| DUE DATE | INTEREST RATE | BOOK VALUE | INTEREST RATE | BOOK VALUE |
| 1996 | -- % | $ -- | 5.83% | $ 70,000 |
| 1997 | 7.02% | $ 399 | 7.02% | $ 399 |
| | | $ 399 | | $ 70,399 |

Accrued interest payable on FHLB advances amounted to $2 and $297 as of December 31, 1996 and 1995, respectively, and is included in accrued expenses, payables and other liabilities. All interest rates are fixed by contract. Under the terms of its collateral agreement, the Company is required to maintain otherwise unencumbered qualifying assets with a fair market value ranging from 105% to 125% of FHLB advances depending on the type of collateral. At December 31, 1995 the Company's FHLB stock was pledged as additional collateral for these advances.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

NOTE 18 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company periodically enters into sales of securities under agreements to repurchase the same securities (reverse repurchase agreements). Fixed coupon reverse repurchase agreements with maturities of three months or less are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the accompanying consolidated statements of financial condition. All securities underlying reverse repurchase agreements are reflected as assets in the accompanying consolidated statements of financial condition and are held in safekeeping by broker/dealers. For the years ended December 31, 1996, 1995 and 1994, interest rate swap agreements and Eurodollar futures contracts used for risk management purposes had the effect of increasing interest expense on securities sold under agreements to repurchase and certificates of deposit by $0, $261 and $296, respectively.

| | DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Other information concerning securities sold under agreements to repurchase: | | | |
| Balance, end of year | $ 74,546 | $ 84,761 | $ -- |
| Accrued interest payable, end of year | $ 12 | $ 153 | $ -- |
| Weighted average interest rate, end of year | 5.46% | 5.70% | --% |
| Average balance during the year | $ 19,581 | $ 16,754 | $ 254,457 |
| Weighted average interest rate during the year | 5.62% | 5.68% | 4.09% |
| Maximum month-end balance | $ 84,321 | $ 84,761 | $ 537,629 |

Mortgage-related securities at amortized cost of $75,526 and a market value of $75,386 were posted as collateral for securities sold under agreements to repurchase at December 31, 1996.

NOTE 19 NOTES, DEBENTURES AND OTHER INTEREST BEARING OBLIGATIONS

Notes, debentures and other interest bearing obligations mature as follows:

| | DECEMBER 31, | |
|---|---|---|
| | 1996 | 1995 |
| 1996 | | |
| 12% subordinated notes due January 2 | $ -- | $ 1,012 |
| 10.5% subordinated notes due May 1 | -- | 7,615 |
| | -- | 8,627 |
| 2003: | | |
| 12% mortgage loan due September 1 | -- | 7,817 |
| 11.875% notes due October 1 | 125,000 | -- |
| 2005: | | |
| 12% subordinated debentures due June 15 | 100,000 | 100,000 |
| 2014: | | |
| 0-8.5% mortgage loan due December 1 | 573 | 610 |
| | $ 225,573 | $ 117,054 |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

The notes which matured in 1996 were payable to current or former shareholders and executive officers.

On June 12, 1995 the Bank issued $100,000 of 12% Subordinated Debentures due 2005 (the "Debentures") with interest payable semiannually on June 15 and December 15. The Debentures are unsecured general obligations of the Bank and are subordinated in right of payment to all existing and future senior debt.

The Debentures may not be redeemed prior to June 15, 2000, except as described below. On or after such date, the Debentures may be redeemed at any time at the option of the Bank, in whole or in part, together with accrued and unpaid interest, if any, on not less than 30 nor more than 60 days' notice at the following redemption prices (expressed as a percentage of the principal amount), if redeemed during the twelve month period beginning June 15 of the years indicated below:

| YEAR | REDEMPTION PRICE |
| --- | --- |
| 2000 | 105.333% |
| 2001 | 104.000% |
| 2002 | 102.667% |
| 2003 | 101.333% |
| 2004 and thereafter | 100.000% |

In addition, the Bank may redeem, at its option, up to $35,000 principal amount of the Debentures at any time prior to June 15, 1998 with the net cash proceeds received by the Bank from one or more public equity offerings at a purchase price of 112.000% of the principal amount thereof, plus accrued and unpaid interest.

In connection with the issuance of the Debentures, the Bank incurred certain costs which have been capitalized and are being amortized on a straight-line basis over the expected life of the Debentures. The unamortized balance of these issuance costs amounted to $2,745 and $3,170, at December 31, 1996 and 1995, respectively, and is included in other assets. Accrued interest payable on the Debentures amounted to $500 at December 31, 1996 and 1995 and is included in accrued expenses, payables and other liabilities.

On September 25, 1996 the Company completed the public offering of $125,000 aggregate principal of 11.875% Notes due October 1, 2003 ("the Notes") with interest payable semi-annually on April 1 and October 1. The Notes are unsecured general obligations of the Company and are subordinated in right of payment to the claims of creditors of the Company and the Company's subsidiaries.

The Notes may not be redeemed prior to October 1, 2001 except as described below. On or after such date, the Notes may be redeemed at any time at the option of the Company, in whole or in part, at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest, if redeemed during the twelve-month period beginning October 1 of the years indicated below:

| YEAR | REDEMPTION PRICE |
| --- | --- |
| 2001 | 105.938% |
| 2002 | 102.969% |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

In addition, the Company may redeem, at its option, up to 35% of the original aggregate principal amount of the Notes at any time and from time to time until October 1, 1999 with the net cash proceeds received by the Company from one or more public or private equity offerings at a redemption price of 111.875% of the principal amount thereof, plus accrued and unpaid interest.

The indenture governing the Notes requires the Company to maintain, at all times when the Notes are not rated in an investment grade category by one or more nationally recognized statistical rating organization unencumbered liquid assets with a value equal to 100% of the required interest payments due on the Notes on the next two succeeding semi-annual interest payment dates. The Company maintains a $15,000 investment in repurchase agreements at December 31, 1996 that is restricted for purposes of meeting this liquidity requirement. The indenture further provides that the Company shall not sell, transfer or otherwise dispose of shares of common stock of the Bank or permit the Bank to issue, sell or otherwise dispose of shares of its common stock unless in either case the Bank remains a wholly-owned subsidiary of the Company.

Proceeds from the offering of the Notes amounted to approximately $120,156 (net of underwriting discount). On September 30, 1996, the Company contributed $50,000 of such proceeds to the Bank to support future growth. The remainder of the proceeds retained by the Company are available for general corporate purposes, with the exception of the liquidity maintenance requirement described above.

In connection with the issuance of the Notes, the Company incurred certain costs which have been capitalized and are being amortized on a straight-line basis over the life of the Notes. The unamortized balance of these issuance costs amounted to $5,252 at December 31, 1996 and is included in other assets. Accrued interest payable on the Notes amounted to $3,752 at December 31, 1996 and is included in accrued expenses, payables and other liabilities.

In November 1996, the Company acquired the 12% first mortgage note due September 1, 2003 from an unaffiliated third party. The principal balance and related interest have been eliminated in consolidation at December 31, 1996.

## NOTE 20 INTEREST RATE RISK MANAGEMENT INSTRUMENTS

In managing its interest rate risk, the Company on occasion enters into swaps. Under swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The terms of the swaps provide for the Company to receive a floating rate of interest based on the London Interbank Offered Rate ("LIBOR") and to pay fixed interest rates. The notional amount of the swap outstanding at December 31, 1996 is amortized (i.e., reduced) monthly based on estimated prepayment rates. The Company had no outstanding swaps at December 31, 1995. The terms of the outstanding swap at December 31, 1996 follows:

| MATURITY | NOTIONAL AMOUNT | LIBOR INDEX | FIXED RATE | FLOATING RATE AT END OF YEAR | FAIR VALUE |
|---|---|---|---|---|---|
| 1998.......................... | $ 45,720 | 1-Month | 6.18% | 5.67% | $ (103) |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

The 1-month LIBOR was 5.50% on December 31, 1996. The interest expense or benefit of the swaps had the effect of increasing (decreasing) net interest income by ($58), $358 and ($754) for the years ended December 31, 1996, 1995 and 1994, respectively.

The Company also enters into short sales of Eurodollar and U.S. Treasury interest rate futures contracts as part of its overall interest rate risk management activity. Interest rate futures contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. The Eurodollar futures contracts have been sold by the Company to hedge the maturity risk of certain short duration mortgage-related securities. U.S. Treasury futures have been sold by the Company to hedge the risk of a reduction in the market value of fixed rate mortgage loans and certain fixed rate mortgage-backed and related securities available for sale in a rising interest rate environment.

Terms and other information on interest rate futures contracts sold short are as follows:

| | MATURITY | NOTIONAL PRINCIPAL | FAIR VALUE |
|---|---|---|---|
| December 31, 1996: | | | |
| Eurodollar futures | 1997 | $ 365,000 | $ (558) |
| | 1998 | 40,000 | (87) |
| U.S. Treasury futures | 1997 | 165,100 | 498 |
| December 31, 1995: | | | |
| Eurodollar futures | 1996 | $ 386,000 | $ (1,598) |
| | 1997 | 26,000 | (168) |
| U.S. Treasury futures | 1996 | 11,100 | (80) |

The following table summarizes the Company's use of interest rate risk management instruments.

| | NOTIONAL AMOUNT | | |
|---|---|---|---|
| | SWAPS | SHORT EURODOLLAR FUTURES | SHORT U.S. TREASURY FUTURES |
| Balance, December 31, 1994 | $ 40,000 | $ 493,000 | $ 222,500 |
| Purchases | -- | 336,000 | 708,600 |
| Maturities | (40,000) | -- | -- |
| Terminations | -- | (417,000) | (920,000) |
| Balance, December 31, 1995 | -- | 412,000 | 11,100 |
| Purchases | 47,350 | 564,000 | 3,362,400 |
| Maturities | (1,630) | -- | -- |
| Terminations | -- | (571,000) | (3,208,400) |
| Balance, December 31, 1996 | $ 45,720 | $ 405,000 | $ 165,100 |

Because interest rate futures contracts are exchange traded, holders of these instruments look to the exchange for performance under these contracts and not the entity holding the offsetting futures contract, thereby minimizing the risk of nonperformance under these contracts. The Company is exposed to credit loss in the event of nonperformance by the counterparty to the swap and controls this risk through credit monitoring procedures. The notional principal amount does not represent the Company's exposure to credit loss.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

U.S. Treasury Bills with a carrying value of $3,138 and $1,134 and a fair value of $3,138 and $1,134 were pledged by the Company as security for the obligations under these swaps and interest rate futures contracts at December 31, 1996 and 1995, respectively.

## NOTE 21 INCOME TAXES

Total income tax expense (benefit) was allocated as follows:

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Income from continuing operations | $ 11,159 | $ 4,562 | $ 29,724 |
| Discontinued operations | -- | (4,097) | (2,227) |
| Benefit of tax deduction in excess of amounts recognized for financial reporting purposes related to employee stock options reflected in stockholders' equity | -- | (375) | (39) |
| | $ 11,159 | $ 90 | $ 27,458 |

The components of income tax expense (benefit) attributable to income from continuing operations were as follows:

| | | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|---|
| | | 1996 | 1995 | 1994 |
| Current: | Federal | $ (6,844) | $ 1,673 | $ 26,267 |
| | State | (576) | 5,011 | 2,261 |
| | | (7,420) | 6,684 | 28,528 |
| Deferred: | Federal | 16,616 | 1,762 | 1,022 |
| | State | 1,963 | (3,884) | 174 |
| | | 18,579 | (2,122) | 1,196 |
| Total | | $ 11,159 | $ 4,562 | $ 29,724 |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

Income tax expense differs from the amounts computed by applying the U.S. Federal corporate income tax rate of 35% as follows:

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Expected income tax expense at statutory rate | $ 21,455 | $ 13,196 | $ 28,552 |
| Differences between expected and actual tax: | | | |
| Excess of cost over net assets acquired adjustments | (76) | (76) | 3,592 |
| Tax effect of (utilization) non-utilization of net operating loss | (1,782) | (1,380) | 23 |
| State tax (after Federal tax benefit) | 901 | 733 | 2,054 |
| Low income housing tax credits | (9,330) | (7,709) | (5,410) |
| Other | (9) | (202) | 913 |
| Actual income tax expense | $ 11,159 | $ 4,562 | $ 29,724 |

For taxable years beginning prior to January 1, 1996, a savings institution that met certain definitional tests relating to the composition of its assets and the sources of its income (a "qualifying savings institution") was permitted to establish reserves for bad debts and make annual additions thereto under the experience method. Alternatively, a qualifying savings institution could elect, on an annual basis, to use the percentage of taxable income method to compute its allowable addition to its bad debt reserve on qualifying real property loans (generally loans secured by an interest in improved real estate). The applicable percentage was 8% for tax periods after 1987. The Bank utilized the percentage of taxable income method for these years.

On August 20, 1996, President Clinton signed the Small Business Job Protection Act (the "Act") into law. One provision of the Act repeals the reserve method of accounting for bad debts for savings institutions effective for taxable years beginning after 1995. The Bank, therefore, will be required to use the specific charge-off method on its 1996 and subsequent federal income tax returns. The Bank will be required to recapture its "applicable excess reserves", which are its federal tax bad debt reserves in excess of the base year reserve amount described in the following paragraph. The Bank will include one-sixth of its applicable excess reserves in taxable income in each year from 1996 through 2001. As of December 31, 1995, the Bank had approximately $42.4 million of applicable excess reserves. As of December 31, 1996, the Bank had fully provided for the tax related to this recapture. The base year reserves will continue to be subject to recapture and the Bank could be required to recognize a tax liability if: (1) the Bank fails to qualify as a "bank" for federal income tax purposes, (2) certain distributions are made with respect to the stock of the Bank, (3) the bad debt reserves are used for any purpose other than to absorb bad debt losses, or (4) there is a change in federal tax law. The enactment of this legislation is expected to have no material impact on the Bank's or the Company's operations or financial position.

In accordance with SFAS No. 109 "Accounting for Income Taxes," a deferred tax liability has not been recognized for the tax bad debt base year reserves of the Bank. The base year reserves are generally the balance of reserves as of December 31, 1987 reduced proportionately for reductions in the Bank's loan portfolio between that date and December 31, 1995. At December 31, 1996 and 1995, the amount of those reserves was approximately $5.7 million. This reserve could be recognized in the future under the conditions described in the preceding paragraph.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

The net deferred tax liability was comprised of the following:

| | DECEMBER 31, 1996 | DECEMBER 31, 1995 |
|---|---|---|
| Deferred Tax Assets: | | |
| Tax residuals and deferred income on tax residuals | $ 3,712 | $ 27,648 |
| State taxes | 552 | 2,563 |
| Application of purchase accounting | 1,503 | 1,031 |
| Accrued profit sharing | 1,422 | 2,940 |
| Accrued other liabilities | 420 | 739 |
| Deferred interest expense on discounted loan portfolio | 3,989 | 2,130 |
| Mark to market and reserves on REO properties | 3,513 | 1,059 |
| Other | -- | 105 |
| | 15,111 | 38,215 |
| Deferred Tax Liabilities: | | |
| Bad debt reserves | 810 | 12,356 |
| Deferred interest income on discounted loan portfolio | 4,632 | 4,276 |
| Partnership losses | 1,205 | -- |
| Other | 500 | 553 |
| | 7,147 | 17,185 |
| | 7,964 | 21,030 |
| Mark to market on certain mortgage-backed and related securities available for sale | (2,104) | 1,233 |
| | 5,860 | 22,263 |
| Deferred tax asset valuation allowance | -- | -- |
| Net deferred tax assets | $ 5,860 | $ 22,263 |

Deferred tax assets, net of deferred fees, include tax residuals which result from the ownership of Real Estate Mortgage Investment Conduits ("REMIC"). While a tax residual is anticipated to have little or no future cash flows from the REMIC from which it has been issued, the tax residual does bear the income tax liability and benefit resulting from the annual differences between the interest paid on the debt instruments issued by the REMIC and the interest received on the mortgage loans held by the REMIC. Typically this difference generates taxable income to the Company in the first several years of the REMIC and equal amounts of tax losses thereafter, thus resulting in the deferred tax asset. As a result of the manner in which REMIC residual interests are treated for tax purposes, at December 31, 1996, 1995 and 1994, the Company had approximately $10,228, $55,000 and $12,400, respectively, of net operating loss carryforwards for tax purposes. The net operating loss carryforward of $10,228 will expire, if unused, in the year 2010.

As a result of the Company's earnings history, current tax position and taxable income projections, the Company believes that it will generate sufficient taxable income in future years to realize the net deferred tax asset position as of December 31, 1996. In evaluating the expectation of sufficient future taxable income, the Company considered future reversals of temporary differences and available tax planning strategies that could be implemented, if required.

A valuation allowance was not required as of December 31, 1996 and 1995 as it was the Company's assessment that, based on available information, it is more likely than not that all of the deferred tax asset will be realized. A valuation allowance will be established in the future to the extent of a change in the Company's assessment of the amount of the net deferred tax asset that is expected to be realized.

NOTE 22 RETIREMENT PLAN

The Company maintains a defined contribution 401(k) plan. The Company matches 50% of each employee's contributions, limited to 2% of the employee's compensation.

In connection with its acquisition of Berkeley Federal Savings Bank in June 1993, the Bank assumed the obligations under a noncontributory defined benefit pension plan (the "Plan") covering substantially all employees upon their eligibility under the terms of the Plan. The Plan was frozen for the plan year ended December 31, 1993 and has been fully funded.

The Company's combined contributions to 401(k) plan in the years ended December 31, 1996, 1995, and 1994 were $258, $248 and $163, respectively.

NOTE 23 STOCKHOLDERS' EQUITY

On July 12, 1996 stockholders of the Company approved an amendment to the Company's articles of incorporation to increase the authorized number of common shares from 20,000,000 to 200,000,000 shares, to increase the authorized number of preferred shares from 250,000 to 20,000,000 shares and to decrease the par value of the authorized preferred shares from $1.00 to $0.01 per share. On July 30, 1996, the Company's Board of Directors declared a 10 for 1 stock split for each share of common stock then outstanding in the form of a stock dividend which was paid to holders of record on July 31, 1996. All references in the interim consolidated financial statements to the number of shares and per share amounts have been adjusted retroactively for the recapitalization and stock split.

During September 1996, 2,928,830 shares of common stock were issued in connection with the exercise of vested stock options by certain of the Company's and the Bank's current and former officers and directors. The Company loaned $6,654 to certain of such officers to fund their exercise of the stock options. Such notes, which are presented as a reduction of shareholders' equity, have an unpaid principal balance of $3,832 at December 31, 1996, bear interest at 10.5% per annum, are payable in two equal installments on March 1, 1998 and March 1, 1999 and are secured by the related shares of common stock.

On September 25, 1996, certain stockholders of Ocwen completed an initial public offering of 2,300,000 shares of Ocwen common stock. Prior to this offering, there had been no public trading market for the common stock. The common stock is quoted on The NASDAQ Stock Market under the symbol "OCWN". The Company did not receive any of the proceeds from the common stock offering.

During 1995, the Company repurchased from stockholders and retired 8,815,060 shares of common stock for the aggregate price of $41,997.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

In December 1991, as part of its annual incentive compensation plan, the Company adopted a Non-Qualified Stock Option Plan (the "Stock Plan"). The Stock Plan provides for the issuance of stock options to key employees to purchase shares of common stock at prices less than the fair market value of the stock at the date of grant.

| | OPTIONS GRANTED | EXERCISE PRICE | OPTIONS EXERCISED | OPTIONS FORFEITED OR REPURCHASED | OPTIONS VESTED |
|---|---|---|---|---|---|
| 1994: | 1,149,320 | .79 | 1,059,440 | 89,880 | -- |
| 1995: | 297,380 | 5.76 | -- | 44,400 | 252,980 |
| 1995: | 7,110 | .94 | -- | -- | 7,110 |
| 1996: | 573,686 | 22.00 | -- | -- | -- |

The difference between the fair market value of the stock at the date of grant and the exercise price is treated as compensation expense; included in compensation expense is $2,725, $65, and $4,571 for the years ended December 31, 1996, 1995 and 1994, respectively.

The Company has adopted SFAS No. 123 during 1996. In accordance with the provisions of SFAS No. 123, the Company has retained its current accounting metod for its stock-based employee compensation plans under the provisions of APB 25, "Accounting for Stock Issued to employee" ("APB 25"). However, entities continuing to apply APB 25 are required to disclose pro forma net income and earnings per share as if the fair value method of accounting for stock-based employee compensation plans as prescribed by SFAS No. 123 had been utilized. The following is a summary of the Company's for forma information:

| | |
|---|---|
| Net income (as reported) | $ 50,142 |
| Pro forma net income | $ 47,777 |
| Earnings per share(as reported) | $ 1.88 |
| Pro forma earnings per share | $ 1.79 |

The fair value of the option grants were estimated using the Black-Scholes option-pricing model with the following assumptions:

| | |
|---|---|
| Expected dividend yield | 0.00% |
| Expected stock price volatility | 21.00% |
| Risk-free interest rate | 6.20% |
| Expected life of options | 5 years |

NOTE 24 REGULATORY REQUIREMENTS

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, ("FIRREA") and the regulations promulgated thereunder established certain minimum levels of regulatory capital for savings institution subject to OTS supervision. The Bank must follow specific capital guidelines stipulated by the OTS which involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items. An institution that fails to comply with its regulatory capital requirements must obtain OTS approval of a capital plan and can be subject to a capital directive and certain restrictions on its operations. At December 31, 1996, the minimum regulatory capital requirements were:

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

-- Tangible and core capital of 1.5 percent and 3 percent of total adjusted assets, respectively, consisting principally of stockholders' equity, but excluding most intangible assets, such as goodwill and any net unrealized holding gains or losses on debt securities available for sale.

-- Risk-based capital consisting of core capital plus certain subordinated debt and other capital instruments and, subject to certain limitations, general valuation allowances on loans receivable, equal to 8 percent of the value of risk-weighted assets.

-- At December 31, 1996, the Bank was "well capitalized" under the prompt corrective action ("PCA") regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). To be categorized as "well capitalized", the Bank must maintain minimum core capital, Tier 1 risk-based capital and risk-based capital ratio as set forth in the table below. The Bank's capital amounts and classification are subject to review by federal regulators about components, risk-weightings and other factors. There are no conditions or events since December 31, 1996 that management believes have changed the institution's category.

The following tables summarizes the Bank's actual and required regulatory capital at December 31, 1996 and 1995.

| | DECEMBER 31, 1996 | | | | | |
|---|---|---|---|---|---|---|
| | ACTUAL | | MINIMUM FOR CAPITAL ADEQUACY PURPOSES | | TO BE WELL CAPITALIZED FOR PROMPT CORRECTIVE ACTION PROVISIONS | |
| | RATIO | AMOUNT | RATIO | AMOUNT | RATIO | AMOUNT |
| Stockholders' equity, and ratio to total assets | 9.49% | $ 228,153 | | | | |
| Net unrealized (gain) on certain available for sale securities | | (3,526) | | | | |
| Excess mortgage servicing rights | | (242) | | | | |
| Tangible capital, and ratio to adjusted total assets | 9.33% | $ 224,385 | 1.50% | $ 36,057 | | |
| Tier 1 (core) capital, and ratio to adjusted total assets | 9.33% | $ 224,385 | 3.00% | $ 72,114 | 5.00% | $ 120,190 |
| Tier 1 capital, and ratio to risk-weighted assets | 8.47% | $ 224,385 | | | 6.00% | $ 159,011 |
| Allowance for loan and lease losses | | 16,057 | | | | |
| Subordinated debentures | | 100,000 | | | | |
| Tier 2 Capital | | 116,057 | | | | |
| Total risk-based capital, and ratio to risk-weighted assets | 12.85% | $ 340,442 | 8.00% | $ 212,014 | 10.00% | $ 265,018 |
| Total regulatory assets | | $ 2,405,188 | | | | |
| Adjusted total assets | | $ 2,403,790 | | | | |
| Risk-weighted assets | | $ 2,650,175 | | | | |

(CONTINUED ON NEXT PAGE)

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

| | DECEMBER 31, 1995 | | | | | |
|---|---|---|---|---|---|---|
| | ACTUAL | | MINIMUM FOR CAPITAL ADEQUACY PURPOSES | | TO BE WELL CAPITALIZED FOR PROMPT CORRECTIVE ACTION PROVISIONS | |
| | RATIO | AMOUNT | RATIO | AMOUNT | RATIO | AMOUNT |
| Stockholders' equity, and ratio to total assets | 6.47% | $ 124,725 | | | | |
| Net unrealized loss on certain available for sale securities | | 1,416 | | | | |
| Excess mortgage servicing rights | | (344) | | | | |
| Tangible capital, and ratio to adjusted total assets | 6.52% | $ 125,797 | 1.50% | $ 28,952 | | |
| Tier 1 (core) capital, and ratio to adjusted total assets | 6.52% | $ 125,797 | 3.00% | $ 57,904 | 5.00% | $ 96,506 |
| Tier 1 capital, and ratio to risk-weighted assets | 6.52% | $ 125,797 | | | 6.00% | $ 115,743 |
| Allowance for loan and lease losses | | 1,757 | | | | |
| Subordinated debentures | | 100,000 | | | | |
| Tier 2 Capital | | 101,757 | | | | |
| Total risk-based capital, and ratio to risk-weighted assets | 11.80% | $ 227,554 | 8.00% | $ 154,324 | 10.00% | $ 192,906 |
| Total regulatory assets | | $ 1,929,054 | | | | |
| Adjusted total assets | | $ 1,930,126 | | | | |
| Risk-weighted assets | | $ 1,929,056 | | | | |

The OTS has promulgated a regulation governing capital distributions. The Bank is considered to be a Tier 1 association under this regulation because it met or exceeded its fully phased-in capital requirements at December 31, 1996. A Tier 1 association that before and after a proposed capital distribution meets or exceeds its fully phased-in capital requirements may make capital distributions during any calendar year equal to the greater of (i) 100% of net income for the calendar year to date plus 50% of its "surplus capital ratio" at the beginning of the year or (ii) 75% of its net income over the most recent four-quarter period. In order to make these capital distributions, the Bank must submit written notice to the OTS 30 days in advance of making the distribution.

In addition to these OTS regulations governing capital distributions (see Note 19) the indenture governing the Bank's debentures limits the declaration or payment of dividends and the purchase or redemption of common or preferred stock in the aggregate to the sum of 50% of consolidated net income and 100% of all capital contributions and proceeds from the issuance or sale (other than to a subsidiary) of common stock, since the date the Debentures were issued.

Subsequent to December 31, 1996, in connection with a recent examination of the Bank, the staff of the OTS expressed concern about many of the Bank's non-traditional operations, which generally are deemed by the OTS to involve higher risk, and the adequacy of the Bank's capital in light of the Bank's lending and investment strategies, notwithstanding that it is a "well-capitalized institution" under OTS regulations. The activities which are of concern to the OTS include the Bank's single-family residential lending activities to non-conforming borrowers, the Bank's origination of acquisition, development and construction loans with terms which provide for shared participation in the results of the underlying real estate, the Bank's discounted loan activities, which involve significantly higher investment in non-performing and classified assets than the majority of the savings industry, and the Bank's investment in subordinated classes of mortgage-related securities issued in connection with the Bank's asset securitization activities and otherwise.

In connection with the examination, the OTS instructed the Bank, commencing on June 30, 1997, to maintain a ratio of Tier 1 capital to assets of at least 12% and a total risk-based capital ratio of no less than 18%, which amounts may be decreased in the event that the Bank reduces its risk profile in a manner which is satisfactory to the OTS. Although the Bank strongly disagrees with the level of risk perceived by the OTS in its businesses, the Bank has taken the following actions in response to the OTS concerns: (i) sold to Ocwen subordinated, participating interests in a total of eleven acquisition, development and construction loans, which interests had an aggregate principal balance of $16,949, (ii) modified certain of its accounting practices, including, among other things, ceasing to accrue unaccreted discount on non-performing single-family residential loans commencing as of January 1, 1997, (iii) ceased originating acquisition, development and construction loans with profit participation features in the underlying real estate, with the exception of existing commitments, and (iv) established as of December 31, 1996 requested write downs of cost basis, which amounted to $7.2 million, against loans and securities resulting from its investment in loans acquired from HUD.

The Bank intends to meet with the OTS staff to present recommendations by the Bank to transfer some of its non-traditional assets to Ocwen, one or more affiliates of Ocwen and/or one or more affiliates of the Bank in order to decrease the specified capital ratios the Bank has been instructed to maintain. Based on discussions with the OTS, the Bank does not believe at this time that any requirement to maintain higher levels of capital will be pursuant to a written agreement, order or directive which would cause it to cease to be a "well-capitalized institution" under OTS regulations, assuming compliance with any new capital requirements.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

NOTE 25 OTHER EXPENSES

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Other operating expenses: | | | |
| Professional fees | $ 2,979 | $ 2,786 | $ 2,928 |
| Loan related expenses | 4,111 | 2,433 | 1,332 |
| FDIC insurance | 3,098 | 2,212 | 2,220 |
| Marketing | 701 | 968 | 1,305 |
| Travel and lodging | 1,291 | 925 | 1,566 |
| Corporate insurance | 1,209 | 637 | 501 |
| Investment and treasury services | 438 | 387 | 681 |
| Deposit related expenses | 91 | 303 | 513 |
| OTS assessment | 293 | 257 | 393 |
| Other | 1,402 | 2,181 | 2,864 |
| | $ 15,613 | $ 13,089 | $ 14,303 |

Included in the 1996 results of operations is a non-recurring expense of $7,140 related to the Federal Deposit Corporation's ("FDIC") assessment to recapitalized the Savings Association Insurance Fund ("SAIF") as a result of federal legislation passed into law on September 30, 1996.

NOTE 26 BUSINESS LINE REPORTING

The Company considers itself to be involved in the single business segment of providing financial services and conducts a variety of business activities within this segment. Such activities are as follows:

| | INTEREST INCOME | INCOME FROM CONTINUING OPERATIONS BEFORE TAXES | ASSETS |
|---|---|---|---|
| December 31, 1996: | | | |
| Asset acquisition, servicing and resolution | $ 111,209 | $ 51,711 | $ 1,454,320 |
| Residential finance | 22,609 | 8,600 | 204,880 |
| Commercial finance | 26,433 | 1,038 | 373,316 |
| Investment management | 27,590 | 3,344 | 342,801 |
| Retail banking | 6,006 | (5,983) | 34,873 |
| Hotel operations | -- | 453 | 16,087 |
| Other | 47 | 2,138 | 57,408 |
| | $ 193,894 | $ 61,301 | $ 2,483,685 |

(CONTINUED ON NEXT PAGE)

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

| | | | |
|---|---|---|---|
| December 31, 1995: | | | |
| Asset acquisition and resolution......... | $ 77,143 | $ 28,184 | $ 910,680 |
| Residential finance...................... | 13,323 | 1,338 | 321,350 |
| Commercial finance....................... | 23,708 | (1,686) | 356,690 |
| Investment management.................... | 21,855 | 3,641 | 328,263 |
| Retail banking........................... | 44 | 4,053 | 3,449 |
| Hotel operations......................... | -- | 2,593 | 19,451 |
| Other.................................... | 1,202 | (422) | 33,707 |
| | $ 137,275 | $ 37,701 | $1,973,590 |
| December 31, 1994: | | | |
| Asset acquisition and resolution......... | $ 53,357 | $ 18,008 | $ 656,125 |
| Residential finance...................... | 4,573 | (303) | 59,513 |
| Commercial finance....................... | 21,566 | 4,550 | 175,958 |
| Investment management.................... | 47,906 | 7,504 | 308,530 |
| Retail banking........................... | 121 | 53,214 | 27,282 |
| Hotel operations......................... | -- | (1,808) | 26,149 |
| Other.................................... | 3,935 | 412 | 12,846 |
| | $ 131,458 | $ 81,577 | $1,266,403 |

The asset acquisition, servicing and resolution activity includes the Company's discounted loan activities, including residential and commercial loans and the related real estate owned. Residential finance includes the Company's acquisition of single family residential loans to non-conforming borrowers, which began in late 1994 and which are recorded as available for sale, and the Company's historical loan portfolio of single family residential loans held for investment. The commercial finance activities include the Company's origination of multi-family and commercial real estate loans held for investment, the origination and purchase of multi-family residential loans available for sale, and investments in low income housing tax credit partnerships. Low income housing tax credits and benefits of $9,330, $7,709 and $5,410 were earned as part of the commercial finance activity for the years ended December 31, 1996, 1995 and 1994, respectively, and are not reflected in the above table as they are included as credits against income tax expense. Investment management includes the results of the securities portfolio, whether available for sale, trading or investment, other than REMIC residuals and subordinate interests related to the Company's securitization activities which have been included in the related business activity. Retail banking activities include the results of the Company's retail branch network which consists of one branch at December 31, 1996 and 1995. Included in retail banking income from continuing operations before taxes for 1996 is the SAIF recapitalization assessment of $7,140. In addition, retail banking income from continuing operations before taxes for the years ended December 31, 1995 and 1994 include gains on sales of branches, net of profit sharing expense, of $4,344 and $50,080, respectively.

Interest income and expense has been allocated to each business segment for the investment of funds raised or funding of investments made at an interest rate based upon the treasury yield curve taking into consideration the actual duration of such liabilities or assets. Allocations of non-interest expense generated by corporate support services were made to each business segment based upon management's estimate of time and effort spent in the respective activity. As such, the resulting income from continuing operations is an estimate of the contribution margin of each business activity to the Company.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

NOTE 27 COMMITMENTS AND CONTINGENCIES

Certain premises are leased under various noncancellable operating leases with terms expiring at various times through 2005, exclusive of renewal option periods. The annual aggregate minimum rental commitments under these leases are summarized as follows:

| | |
|---|---|
| 1997 | $ 1,118 |
| 1998 | 1,137 |
| 1999 | 1,194 |
| 2000 | 1,210 |
| 2001 | 1,302 |
| 2002-2005 | 4,083 |
| Minimum lease payments | $ 10,044 |

Rent expense for the years ended December 31, 1996, 1995 and 1994 was $1,563, $1,601 and $2,402, respectively, which are net of sublease rentals of $0, $68, and $339, respectively.

At December 31, 1996 the Company was committed to lend up to $5,744 under outstanding unused lines of credit. The Company also had commitments to (i) originate $105,490 of loans secured by multi-family residential buildings, (ii) originate $19,849 of mortgage loans secured by office buildings and (iii) originate $55,949 of loans secured by hotel properties and (iv) originate $12,840 of loans secured by land. In connection with its 1993 acquisition of Berkeley Federal Savings Bank, the Company has a recourse obligation of $3,486 on single family residential loans sold to the Federal Home Loan Mortgage Corporation ("FHLMC"). The Company, through its investment in subordinated securities and REMIC residuals, which had a carrying value of $76,699 at December 31, 1996, supports senior classes of securities having an outstanding principal balance of $1,453,575.

At December 31, 1995 the Company was committed to lend up to $9,884 under outstanding unused lines of credit. The Company also had commitments to (i) originate multi-family construction loans with aggregate principal balances of $8,907, (ii) purchase $4,800 of residential discounted loans, (iii) originate $5,390 of loans secured by office buildings, and (iv) originate $25,424 of mortgage loans secured by hotel properties. In connection with its acquisition of Berkeley Federal Savings Bank, the Company had a recourse obligation of $4,163 on single family residential loans sold to the Federal Home Loan Mortgage Corporation. The Company, through its investment in subordinated securities which had a carrying value of $70,264 at December 31, 1995, supports senior classes of securities having an outstanding principal balance of $868,835.

On October 29, 1996, Ocwen Financial Services, Inc., a wholly-owned subsidiary of Ocwen, entered into an asset purchase agreement ("Asset Purchase Agreement") to acquire Admiral Home Loan ("Admiral"), a California corporation engaged in the origination of loans to credit-impaired borrowers secured by first mortgage liens on single-family residential real property, both through the wholesale acquisition of such loans originated by mortgage brokers and through its retail offices, and selling of such originated loans, servicing released, to third parties. Under the Asset Purchase Agreement, as amended, Ocwen has agreed to pay $6,750 to acquire an 80% interest in the assets of Admiral. Closing of the acquisition is expected to occur during the second quarter of 1997.

The Company is subject to various pending legal proceedings. Management is of the opinion that the resolution of these claims will not have a material effect on the consolidated financial statements.

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

NOTE 28 PARENT COMPANY ONLY FINANCIAL INFORMATION
CONDENSED STATEMENTS OF FINANCIAL CONDITION:

| | DECEMBER 31, 1996 | DECEMBER 31, 1995 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 32,348 | $ 1,028 |
| Securities available for sale, at market value | 13,062 | -- |
| Investment in bank subsidiary | 221,094 | 117,300 |
| Investments in non-bank subsidiaries | 31,907 | 35,660 |
| Loan portfolio, net | 12,365 | 520 |
| Investment in real estate | 9,680 | -- |
| Income taxes receivable | 10,003 | -- |
| Prepaid expenses and other assets | 5,424 | 4,240 |
| | $ 335,883 | $ 158,748 |
| LIABILITIES | | |
| Notes payable | $ 125,000 | $ 8,627 |
| Other liabilities | 7,287 | 10,574 |
| Total liabilities | 132,287 | 19,201 |
| STOCKHOLDERS' EQUITY | | |
| Total stockholders' equity | 203,596 | 139,547 |
| | $ 335,883 | $ 158,748 |

CONDENSED STATEMENTS OF OPERATIONS:

| | YEARS ENDED DECEMBER 31, 1996 | 1995 | 1994 |
|---|---|---|---|
| Interest income | $ 1,400 | $ 401 | $ 42 |
| Non-interest income | 511 | 8 | 67 |
| | 1,911 | 409 | 109 |
| Interest expense | (4,406) | (654) | (678) |
| Non-interest expense | (1,131) | (277) | (401) |
| Loss before income taxes | (3,626) | (522) | (970) |
| Income tax benefit | 2,925 | 1,533 | 1,197 |
| Income (loss) before equity in net income of subsidiaries | (701) | 1,011 | 227 |
| Equity in net income of bank subsidiary | 49,186 | 24,773 | 51,650 |
| Equity in net income (loss) of non-bank subsidiaries | 1,657 | (317) | (4,538) |
| Net income | $ 50,142 | $ 25,467 | $ 47,339 |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

CONDENSED STATEMENTS OF CASH FLOWS:

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| Cash flows from operating activities: | | | |
| Net income | $ 50,142 | $ 25,467 | $ 47,339 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | | |
| Equity in income of bank subsidiary | (49,186) | (24,773) | (51,650) |
| Equity in (income) loss of non-bank subsidiaries | (1,657) | 317 | 4,538 |
| Increase in other assets | 4,067 | (2,254) | (1,351) |
| Increase in income taxes receivable | (10,003) | -- | (596) |
| Increase (decrease) in accrued expenses, payables and other liabilities | (3,286) | 5,209 | 2,023 |
| Net cash provided (used) by operating activities | (9,923) | 3,966 | 303 |
| Cash flows from investing activities: | | | |
| Purchase of securities available for sale | (13,125) | -- | -- |
| Maturities of and principal payments received on securities available for sale | 63 | -- | -- |
| Net distributions from (investments in) bank subsidiary | (49,707) | 39,216 | 802 |
| Net distributions from (investments in) non-bank subsidiaries | 5,410 | (10,450) | 11,491 |
| Purchase of real estate held for investment | (9,680) | -- | -- |
| Purchase of loans held for investment | (11,845) | (520) | -- |
| Net cash provided (used) by investing activities | (78,884) | 28,246 | 12,293 |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of notes and debentures | 125,000 | 7,615 | -- |
| Payment of debt issuance costs | (5,252) | -- | -- |
| Repayment of notes payable | (8,628) | -- | (13,566) |
| Loans to executive officers, net | (3,832) | -- | -- |
| Exercise of common stock options | 12,993 | 1,420 | -- |
| Repurchase of common stock options and common stock | (177) | (42,129) | (74) |
| Other | 23 | -- | -- |
| Net cash provided (used) by financing activities | 120,127 | (33,094) | (13,640) |
| Net increase (decrease) in cash and cash equivalents | 31,320 | (882) | (1,044) |
| Cash and cash equivalents at beginning of year | 1,028 | 1,910 | 2,954 |
| Cash and cash equivalents at end of year | $ 32,348 | $ 1,028 | $ 1,910 |

(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

NOTE 29 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

| | QUARTERS ENDED | | | |
|---|---|---|---|---|
| | DECEMBER 31, 1996 | SEPTEMBER 30, 1996 | JUNE 30, 1996 | MARCH 31, 1996 |
| Interest income | $ 50,292 | $ 44,145 | $ 51,501 | $ 47,956 |
| Interest expense | (33,907) | (27,217) | (27,131) | (27,905) |
| Provision for loan losses | (3,611) | (4,469) | (4,979) | (9,391) |
| Net interest income after provision for loan losses | 12,774 | 12,459 | 19,391 | 10,660 |
| Non-interest income | 10,815 | 15,104 | 8,378 | 2,978 |
| Non-interest expense | (22,540) | (21,489) | (14,164) | (11,385) |
| Equity in earnings of investment in joint venture | 33,103 | 4,139 | 1,078 | -- |
| Income before income taxes | 34,152 | 10,213 | 14,683 | 2,253 |
| Income taxes (expense) benefit | (9,092) | (157) | (2,686) | 776 |
| Net income | $ 25,060 | $ 10,056 | $ 11,997 | $ 3,029 |
| Earnings per share | $ 0.93 | $ 0.37 | $ 0.45 | $ 0.11 |

| | QUARTERS ENDED | | | |
|---|---|---|---|---|
| | DECEMBER 31, 1995 | SEPTEMBER 30, 1995 | JUNE 30, 1995 | MARCH 31, 1995 |
| Interest income | $ 44,916 | $ 32,489 | $ 33,840 | $ 26,030 |
| Interest expense | (26,692) | (22,688) | (18,110) | (16,570) |
| Provision for loan losses | (1,121) | -- | -- | -- |
| Net interest income after provision for loan losses | 17,103 | 9,801 | 15,730 | 9,460 |
| Gain on sale of branches | 5,430 | -- | -- | -- |
| Gain on sale of hotel | 4,658 | -- | -- | -- |
| Non-interest income | 8,081 | 4,084 | 6,380 | 2,547 |
| Non-interest expense | (13,407) | (10,274) | (13,130) | (8,762) |
| Income before income taxes and discontinued operations | 21,865 | 3,611 | 8,980 | 3,245 |
| Income taxes (expense) benefit | (4,660) | 858 | (1,172) | 412 |
| Discontinued operations, net | -- | (4,536) | (1,586) | (1,550) |
| Net income (loss) | $ 17,205 | $ (67) | $ 6,222 | $ 2,107 |
| Earnings per share: | | | | |
| Earnings before discontinued operations | $ 0.67 | $ 0.17 | $ 0.30 | $ 0.11 |
| Earnings (loss) after discontinued operations | $ 0.67 | $ -- | $ 0.24 | $ 0.06 |

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

| | MARCH 31, 1997 (UNAUDITED) | DECEMBER 31, 1996 |
|---|---|---|
| ASSETS | | |
| Cash and amounts due from depository institutions | $ 8,966 | $ 6,878 |
| Interest bearing deposits | 8,802 | 13,341 |
| Federal funds sold and repurchase agreements | 99,000 | 32,000 |
| Securities held for trading | -- | 75,606 |
| Securities available for sale, at market value | 348,066 | 354,005 |
| Loans available for sale, at lower of cost or market | 88,511 | 126,366 |
| Investment securities, net | 11,201 | 8,901 |
| Loan portfolio, net | 422,232 | 402,582 |
| Discount loan portfolio, net | 1,280,972 | 1,060,953 |
| Principal, interest and dividends receivable | 13,566 | 16,821 |
| Investments in low income housing tax credit interests | 99,924 | 93,309 |
| Investment in joint ventures | 33,367 | 67,909 |
| Real estate owned, net | 98,466 | 103,704 |
| Investment in real estate | 46,132 | 41,033 |
| Premises and equipment, net | 15,518 | 14,619 |
| Income taxes receivable | 14,625 | 15,115 |
| Deferred tax asset | 3,253 | 5,860 |
| Other assets | 56,870 | 44,683 |
| | $ 2,649,471 | $2,483,685 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits | $ 2,106,829 | $1,919,742 |
| Advances from the Federal Home Loan Bank | 399 | 399 |
| Securities sold under agreements to repurchase | 39,224 | 74,546 |
| Notes, debentures and other interest bearing obligations | 225,573 | 225,573 |
| Accrued expenses, payables and other liabilities | 52,290 | 59,829 |
| Total liabilities | 2,424,315 | 2,280,089 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value; 20,000,000 shares authorized; 0 shares issued and outstanding | -- | -- |
| Common stock, $.01 par value; 200,000,000 shares authorized; 26,799,511 and 26,744,170 shares issued and outstanding at March 31, 1997 and December 31, 1996, respectively | 268 | 267 |
| Additional paid-in capital | 23,109 | 23,258 |
| Retained earnings | 197,458 | 180,417 |
| Unrealized gain on securities available for sale, net of taxes | 6,648 | 3,486 |
| Notes receivable on exercise of common stock options | (2,327) | (3,832) |
| Total stockholders' equity | 225,156 | 203,596 |
| | $ 2,649,471 | $2,483,685 |

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

OCWEN FINANCIAL OPERATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

| | FOR THE THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 1997 | 1996 |
| | (UNAUDITED) | |
| Interest income: | | |
| Federal funds sold and repurchase agreements | $ 1,658 | $ 769 |
| Securities available for sale | 8,173 | 7,781 |
| Securities held for trading | 248 | -- |
| Loans available for sale | 2,851 | 6,597 |
| Loans | 10,692 | 10,010 |
| Discount loans | 30,224 | 22,155 |
| Investment securities and other | 681 | 644 |
| | 54,527 | 47,956 |
| Interest expense: | | |
| Deposits | 29,894 | 23,001 |
| Securities sold under agreements to repurchase | 272 | 653 |
| Advances from the Federal Home Loan Bank | 283 | 1,039 |
| Notes, debentures and other interest bearing obligations | 6,715 | 3,439 |
| | 37,164 | 28,132 |
| Net interest income before provision for loan losses | 17,363 | 19,824 |
| Provision for loan losses | 9,742 | 9,407 |
| Net interest income after provision for loan losses | 7,621 | 10,417 |
| Non-interest income: | | |
| Servicing fees and other charges | 5,236 | (681) |
| Gains on sales of interest earning assets, net | 16,778 | 5,017 |
| Loss on real estate owned, net | (794) | (1,916) |
| Other income | 131 | 872 |
| | 21,351 | 3,292 |
| Non-interest expense: | | |
| Compensation and employee benefits | 14,923 | 6,170 |
| Occupancy and equipment | 2,829 | 2,045 |
| Net operating losses on investments in real estate and certain low-income housing tax credit interests | 1,093 | 461 |
| Other operating expenses | 3,852 | 3,007 |
| | 22,697 | 11,683 |
| Equity in earnings of investment in joint venture | 14,372 | -- |
| Income before income taxes | 20,647 | 2,026 |
| Income tax expense (benefit) | 3,606 | (1,003) |
| Net income | $ 17,041 | $ 3,029 |
| Earnings per share: | | |
| Net income | $ 0.63 | $ 0.11 |
| Weighted average common shares outstanding | 27,073,362 | 26,445,370 |

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)
FOR THE THREE MONTHS ENDED MARCH 31, 1997 AND THE YEAR ENDED DECEMBER 31, 1996

| | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS | UNREALIZED GAIN (LOSS) ON SECURITIES AVAILABLE FOR SALE, NET OF TAXES | NOTES RECEIVABLE ON EXERCISE OF COMMON STOCK OPTIONS | TOTAL |
|---|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | | | | | |
| Balances at December 31, 1995 | 23,812,270 | $ 238 | $ 10,449 | $ 130,275 | $ (1,415) | $ -- | $ 139,547 |
| Net income | -- | -- | -- | 50,142 | -- | -- | 50,142 |
| Repurchase of common stock options | -- | -- | (177) | -- | -- | -- | (177) |
| Exercise of common stock options | 2,928,830 | 29 | 12,963 | -- | -- | -- | 12,992 |
| Directors compensation payable in common stock | 3,070 | -- | 23 | -- | -- | -- | 23 |
| Notes receivable on exercise of common stock options | -- | -- | -- | -- | -- | (3,832) | (3,832) |
| Change in unrealized gain on securities available for sale, net of taxes | -- | -- | -- | -- | 4,901 | -- | 4,901 |
| Balances at December 31, 1996 | 26,744,170 | 267 | 23,258 | 180,417 | 3,486 | (3,832) | 203,596 |
| Net income (unaudited) | -- | -- | -- | 17,041 | -- | -- | 17,041 |
| Repurchase of common stock options (unaudited) | -- | -- | (1,870) | -- | -- | -- | (1,870) |
| Exercise of common stock options (unaudited) | 55,341 | 1 | 1,721 | -- | -- | -- | 1,722 |
| Notes receivable on exercise of common stock options (unaudited) | -- | -- | -- | -- | -- | 1,505 | 1,505 |
| Change in unrealized gain (loss) on securities available for sale, net of taxes (unaudited) | -- | -- | -- | -- | 3,162 | -- | 3,162 |
| Balances at March 31, 1997 (unaudited) | 26,799,511 | $ 268 | $ 23,109 | $ 197,458 | $ 6,648 | $ (2,327) | $ 225,156 |

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

| | FOR THE THREE MONTHS ENDED MARCH 31, 1997 | 1996 |
|---|---|---|
| | (UNAUDITED) | |
| Cash flows from operating activities: | | |
| Net income | $ 17,041 | $ 3,029 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Net cash provided from trading activities | 85,167 | -- |
| Proceeds from sales of loans available for sale | 88,184 | 62,939 |
| Purchases of loans available for sale | (37,667) | (80,648) |
| Originations of loans available for sale | (28,164) | -- |
| Principal payments received on loans available for sale | 3,010 | 16,481 |
| Premium amortization (discount accretion), net | 11,029 | (917) |
| Depreciation and amortization | 4,579 | 914 |
| Provision for loan losses | 9,742 | 9,407 |
| Gains on sales of interest earning assets, net | (16,778) | (5,017) |
| Gain on sale of real estate owned, net | (3,702) | (3,900) |
| Provision for real estate losses | 2,336 | 6,378 |
| Decrease in principal, interest and dividends receivable | 1,080 | 280 |
| Decrease (increase) in income taxes receivable | 918 | (744) |
| Decrease in deferred tax asset | 2,181 | -- |
| Increase in other assets | (5,360) | (5,180) |
| (Decrease) increase in accrued expenses, payables and other liabilities | (9,400) | 5,247 |
| Net cash provided by operating activities | 124,196 | 8,269 |
| Cash flows from investing activities: | | |
| Proceeds from sales of securities available for sale | 14,631 | 37,309 |
| Purchases of securities available for sale | (21,679) | (5,740) |
| Maturities of and principal payments received on securities available for sale | 3,831 | 12,445 |
| Purchase of securities held for investment | (2,306) | -- |
| Maturities of and principal payments received on securities held for investments | -- | 10,025 |
| Purchase of low income housing tax credit interests | (9,966) | (6,409) |
| Proceeds from sales of discount loans and loans held for investment | 87,253 | 22,095 |
| Purchase and originations of discount loans and loans held for investment | (432,494) | (58,832) |
| Decrease (increase) in investment in joint ventures | 34,542 | (32,000) |
| Principal payments received on discount loans and loans held for investment | 67,420 | 100,633 |
| Proceeds from sales of real estate owned | 48,768 | 29,144 |
| Other, net | (2,826) | (4,179) |
| Net cash (used) provided by investing activities | (212,826) | 104,491 |

(CONTINUED ON NEXT PAGE)

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(DOLLARS IN THOUSANDS)

| | FOR THE THREE MONTHS ENDED MARCH 31, 1997 | 1996 |
|---|---|---|
| | (UNAUDITED) | |
| Cash flows from financing activities: | | |
| Increase (decrease) in deposits | 187,180 | (4,047) |
| Decrease in securities sold under agreements to repurchase | (35,322) | (84,761) |
| Payments and repurchase of notes and mortgages payable | -- | (1,055) |
| Repayment of notes by executive officers | 1,505 | -- |
| Exercise of common stock options | 1,722 | -- |
| Repurchase of common stock options | (1,870) | -- |
| Other, net | (36) | 238 |
| Net cash provided (used) by financing activities | 153,179 | (89,625) |
| Net increase in cash and cash equivalents | 64,549 | 23,135 |
| Cash and cash equivalents at beginning of period | 52,219 | 54,632 |
| Cash and cash equivalents at end of period | $ 116,768 | $ 77,767 |
| Reconciliation of cash and cash equivalents at end of period: | | |
| Cash and amounts due from depository institutions | $ 8,966 | $ 6,322 |
| Interest bearing deposits | 8,802 | 26,445 |
| Federal funds sold and repurchase agreements | 99,000 | 45,000 |
| | $ 116,768 | $ 77,767 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 36,206 | $ 23,606 |
| Income taxes | $ 509 | $ 1,869 |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Exchange of discount loans and loans available for sale for securities | $ 38,062 | $ -- |
| Real estate owned acquired through foreclosure | $ 42,095 | $ 15,125 |

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

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. The consolidated financial statements include the accounts of Ocwen Financial Corporation ("Ocwen" or the "Company") and its subsidiaries. Ocwen owns directly and indirectly all of the outstanding common and preferred stock of its primary subsidiaries, Ocwen Federal Bank FSB (the "Bank") and Investors Mortgage Insurance Holding Company ("IMI").

In the opinion of management, the accompanying financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the Company's financial condition at March 31, 1997 and December 31, 1996, the results of its operations for the three months ended March 31, 1997 and 1996, its cash flows for the three months ended March 31, 1997 and 1996, and the changes in stockholders' equity for the year ended December 31, 1996 and the three months ended March 31, 1997. The results of operations and other data for the three month period ended March 31, 1997 are not necessarily indicative of the results that may be expected for any other interim periods or the entire year ending December 31, 1997. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company's Form 10-K for the year ended December 31, 1996. Certain reclassifications have been made to prior years' consolidated financial statements to conform to the March 31, 1997 presentation.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the statements of financial condition and revenues and expenses for the periods covered. Actual results could differ from those estimates and assumptions.

NOTE 2 ADOPTION OF RECENTLY ISSUED ACCOUNTING STANDARDS

On January 1, 1997, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 125 (i) sets forth the criteria for (a) determining when to recognize financial and servicing assets and liabilities, and (b) accounting for transfers of financial assets as sales or borrowings; and (ii) requires (a) liabilities and derivatives related to a transfer of financial assets to be recorded at fair value, (b) servicing assets and retained interests in transferred assets carrying amounts be determined by allocating carrying amounts based on fair value, (c) amortization of servicing assets and liabilities be in proportion to net servicing income, (d) impairment measurement based on fair value, and (e) pledged financial assets to be classified as collateral.

SFAS No. 125 provides implementation guidance for assessing isolation of transferred assets and for accounting for transfers of partial interests, servicing of financial assets, securitizations, transfers of sales-type and direct financing lease receivables, securities lending transactions, repurchase agreements including "dollar rolls", "wash sales", loan syndications and participations, risk participations in banker's acceptances, factoring arrangements, transfers of receivables with recourse and extinguishments of liabilities. In December 1996, SFAS No. 127, "Deferral of the Effective Date of FASB Statement No. 125", was issued and delayed implementation for one year certain provisions of SFAS 125. The adoption of SFAS No. 125 did not have any material impact on the results of operations, financial position or cash flows as a result of implementing these Statements.

In February 1997, SFAS No. 128, "Earnings per Share", and SFAS No. 129, "Disclosure of Information about Capital Structure were issued. SFAS No. 128 established standards for computing and presenting earnings per share and applies to entities with publicly held common stock or potential common stock. SFAS No. 128 simplifies the standards previously found in Accounting Principles Board Opinion No. 15. SFAS No. 128 is effective for financial statements for periods ending after December 15, 1997, including interim periods. Early adoption is not permitted. SFAS No. 129 is effective for financial statements for periods ending after December 15, 1997. The Company does not anticipate a material impact on its earnings per share calculation as a result of implementing these statements.

NOTE 3 INVESTMENT IN JOINT VENTURES

The Company's investment in joint ventures include investments in BCFL, L.L.C ("BCFL"), a limited liability company formed in January, 1997 between the Company and BlackRock Capital Finance L.P. ("BlackRock"), and BCBF, L.L.C, (the "LLC"), a limited liability company formed in March 1996 between the Company and BlackRock. The Company owns a 10% interest in BCFL and a 50% interest in the LLC. BCFL was formed to acquire multifamily loans. At March 31, 1997, the Company's 10% investment, which is accounted for under the cost method, amounted to $1,056.

The Company's 50% investment in the LLC, which was formed to acquire single-family residential loans offered by the Department of Housing and Urban Development ("HUD"), amounted to $32,311 and $67,909 at March 31, 1997 and December 31, 1996, respectively, and is net of valuation allowances of $2,473 and $5,114, respectively. Because the LLC is a pass-through entity for federal income tax purposes, provisions for income taxes are established by each of the Company and its co-investor and not the LLC.

The Company's equity in earnings of the LLC of $14,372 includes 50% of the net income of the LLC before deduction of the Bank's 50% share of loan servicing fees which are paid 100% to the Company, and the recapture of $2,641 of valuation allowances established in 1996 by the Company on its equity investment in the joint venture as a result of the resolution and securitization of loans during the first quarter of 1997. The Company has recognized 50% of the loan servicing fees not eliminated in consolidation in servicing fees and other charges.

Set forth below is the statement of financial condition of the LLC at the dates indicated and a statement of operations for the three months ended March 31, 1997.

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

BCBF, L.L.C.
STATEMENT OF FINANCIAL CONDITION

| | MARCH 31, 1997 (UNAUDITED) | DECEMBER 31, 1996 |
|---|---|---|
| ASSETS: | | |
| Cash | $ 10 | $ 10 |
| Loans held for sale, at lower of cost or market value | 48,586 | 110,702 |
| Real estate owned, net of valuation allowance of $150 and $511 at March 31, 1997 and December 31, 1996, respectively | 12,120 | 25,595 |
| Other assets | 9,487 | 10,526 |
| | $ 70,203 | $ 146,833 |
| LIABILITIES AND OWNERS' EQUITY | | |
| LIABILITIES: | | |
| Accrued expenses, payables and other liabilities | $ 635 | $ 787 |
| Total liabilities | 635 | 787 |
| OWNERS' EQUITY: | | |
| Ocwen Federal Bank FSB | 34,784 | 73,023 |
| BlackRock Capital Finance L.P | 34,784 | 73,023 |
| Total owners' equity | 69,568 | 146,046 |
| | $ 70,203 | $ 146,833 |

BCBF, L.L.C.
STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 1997

| | |
|---|---|
| Interest income | $ 3,485 |
| Non-interest income: | |
| Gain on sale of loans held for sale | 18,412 |
| Gain on real estate owned, net | 1,543 |
| Loan fees | 22 |
| | 19,977 |
| Operating expenses: | |
| Loan servicing fees | 676 |
| Net income | $ 22,786 |

In March, 1997, as part of a larger transaction involving the Company and an affiliate of BlackRock, the LLC securitized 1,196 loans with an unpaid principal balance of $51,714 and past due interest of $14,209, and a net book value of $40,454. Proceeds from sales of such securities by the LLC amounted to $58,866. The Company continues to service such loans and is paid a servicing fee. For further discussion regarding this transaction, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Summary."

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 4 INTEREST RATE RISK MANAGEMENT INSTRUMENTS

In managing its interest rate risk, the Company on occasion enters into swaps. Under swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional amount. The terms of the swaps provide for the Company to receive a floating rate of interest based on the London Interbank Offered Rate ("LIBOR") and to pay fixed interest rates. The notional amount of the outstanding swap is amortized (i.e. reduced) monthly based upon estimated prepayment rates of the mortgages underlying the securities being hedged. The terms of the outstanding swap at March 31, 1997 and December 31, 1996 follows:

| | MATURITY | NOTIONAL AMOUNT | LIBOR INDEX | FIXED RATE | FLOATING RATE AT END OF PERIOD | FAIR VALUE |
|---|---|---|---|---|---|---|
| March 31, 1997............................ | 1998 | $ 44,070 | 1-Month | 6.18% | 5.38% | $ (135) |
| December 31, 1996......................... | 1998 | $ 45,720 | 1-Month | 6.18% | 5.67% | $ (103) |

The 1-month LIBOR was 5.69% and 5.50% on March 31, 1997 and December 31, 1996, respectively.

The Company also enters into short sales of Eurodollar and U.S. Treasury interest rate futures contracts as part of its overall interest rate risk management activity. Interest rate futures contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may be settled in cash or through delivery. U.S. Treasury futures have been sold by the Company to hedge the risk of a reduction in the market value of fixed-rate mortgage loans and certain fixed-rate mortgage-backed and related securities available for sale in a rising interest rate environment.

Terms and other information on interest rate futures contracts sold short are as follows:

| | MATURITY | NOTIONAL PRINCIPAL | FAIR VALUE |
|---|---|---|---|
| March 31, 1997 | | | |
| U.S. Treasury futures.................................................... | 1997 | $ 264,300 | $ 2,976 |
| December 31, 1996: | | | |
| Eurodollar futures....................................................... | 1997 | $ 365,000 | $ (558) |
| | 1998 | 40,000 | (87) |
| U.S. Treasury futures.................................................... | 1997 | 165,100 | 498 |

Because interest rate futures contracts are exchange traded, holders of these instruments look to the exchange for performance under these contracts and not the entity holding the offsetting futures contract, thereby minimizing the risk of nonperformance under these contracts. The Company is exposed to credit loss in the event of nonperformance by the counterparty to the swap and controls this risk through credit monitoring procedures. The notional principal amount does not represent the Company's exposure to credit loss.

NOTE 5 REGULATORY REQUIREMENTS

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and the regulations promulgated thereunder established certain minimum levels of regulatory capital for savings institutions subject to Office of Thrift Supervision ("OTS") supervision. The Bank must follow specific capital guidelines stipulated by the OTS which involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items. An institution that fails to comply with its regulatory capital requirements must obtain OTS approval of a capital plan and can be subject to a capital directive and certain restrictions on its operations. At March 31, 1997, the minimum regulatory capital requirements were:

-- Tangible and core capital of 1.5 percent and 3 percent of total adjusted assets, respectively, consisting principally of stockholders' equity, but excluding most intangible assets, such as goodwill and any net unrealized holding gains or losses on debt securities available for sale.

-- Risk-based capital consisting of core capital plus certain subordinated debt and other capital instruments and, subject to certain limitations, general valuation allowances on loans receivable, equal to 8 percent of the value of risk-weighted assets.

At March 31, 1997, the Bank was "well-capitalized" under the prompt corrective action ("PCA") regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). To be categorized as "well capitalized", the Bank must maintain minimum core capital, Tier 1 risk-based capital and risk-based capital ratios as set forth in the table below. The Bank's capital amounts and classification are subject to review by federal regulators about components, risk-weightings and other factors. There are no conditions or events since March 31, 1997 that management believes have changed the institution's category.

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

The following tables summarize the Bank's actual and required regulatory capital at March 31, 1997

| | ACTUAL | | MINIMUM FOR CAPITAL ADEQUACY PURPOSES | | TO BE WELL CAPITALIZED FOR PROMPT CORRECTIVE ACTION PROVISIONS | |
|---|---|---|---|---|---|---|
| | RATIO | AMOUNT | RATIO | AMOUNT | RATIO | AMOUNT |
| Stockholders' equity, and ratio to total assets | 9.73% | $ 249,860 | | | | |
| Net unrealized gain on certain available for sale securities | | (6,786) | | | | |
| Excess mortgage servicing rights | | (222) | | | | |
| Tangible capital, and ratio to adjusted total assets | 9.48% | $ 242,852 | 1.50% | $ 38,411 | | |
| Tier 1 (core) capital, and ratio to adjusted total assets | 9.48% | $ 242,852 | 3.00% | $ 76,822 | 5.00% | $ 128,037 |
| Tier 1 capital, and ratio to risk-weighted assets | 8.80% | $ 242,852 | | | 6.00% | $ 165,574 |
| Allowance for loan and lease losses | | $ 21,850 | | | | |
| Subordinated debentures | | 100,000 | | | | |
| Tier 2 Capital | | 121,850 | | | | |
| Total risk-based capital, and ratio to risk-weighted assets | 13.22% | $ 364,702 | 8.00% | $ 220,765 | 10.00% | $ 275,956 |
| Total regulatory assets | | $ 2,567,743 | | | | |
| Adjusted total assets | | $ 2,560,735 | | | | |
| Risk-weighted assets | | $ 2,759,563 | | | | |

The OTS has promulgated a regulation governing capital distributions.The Bank is considered to be a Tier 1 association under this regulation because it met or exceeded its fully phased-in capital requirements at March 31, 1997. A Tier 1 association that before and after a proposed capital distribution meets or exceeds its fully phased-in capital requirements may make capital distributions during any calendar year equal to the greater of (i) 100% of net income for the calendar year to date plus 50% of its "surplus capital ratio" at the beginning of the year or (ii) 75% of its net income over the most recent four-quarter period. In order to make these capital distributions, the Bank must submit written notice to the OTS 30 days in advance of making the distribution.

In addition to these OTS regulations governing capital distributions, the indenture governing the $100,000 of 12% subordinated debentures (the "Debentures") due 2005 and issued by the Bank on June 12, 1995 limits the declaration or payment of dividends and the purchase or redemption of common or preferred stock in the aggregate to the sum of 50% of consolidated net income and 100% of all capital contributions and proceeds from the issuance or sale (other than to a subsidiary) of common stock, since the date the Debentures were issued.

Based upon recent discussions with the OTS, the Bank has determined to maintain a core capital ratio of at least 9% and a total risk-based capital ratio of no less than 13%. The Bank also determined to transfer its single-family residential lending activities to non-conforming borrowers to a non-bank subsidiary of Ocwen. The Bank believes at this time that it will continue to be a "well-capitalized institution" under OTS regulations.

NOTE 6 COMMITMENTS AND CONTINGENCIES

At March 31, 1997 the Company had commitments to fund (i) $65,413 of loans secured by multi-family residential buildings, (ii) $62,948 of loans secured by office buildings and (iii) $44,303 of loans secured by hotel properties. Additionally, the Company had commitments of $1,292 to purchase residential discount loans. The Company, through its investment in subordinated securities and REMIC residuals which had a book value of $78,116 at March 31, 1997, supports senior classes of mortgage-related securities having an outstanding balance of $1,317,804.

On October 29, 1996, Ocwen Financial Services, Inc., a wholly-owned subsidiary of Ocwen, entered into an asset purchase agreement ("Asset Purchase Agreement") to acquire Admiral Home Loan ("Admiral"), a California corporation engaged in the origination of loans to credit-impaired borrowers secured by first mortgage liens on single-family residential real property, both through the wholesale acquisition of such loans originated by mortgage brokers and through its retail offices, and selling of such originated loans, servicing released, to third parties. Under the Asset Purchase Agreement, as amended, Ocwen has agreed to pay $6,750 to acquire an 80% interest in the assets of Admiral. Closing of the acquisition occurred on May 1, 1997.

The Company is subject to various pending legal proceedings. Management, after reviewing these claims with legal counsel, is of the opinion that the resolution of these claims will not have a material effect on the Company's financial position, results of operations, cash flows or liquidity.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Partners of
BCBF, L.L.C.

In our opinion, the accompanying statement of financial condition and the related statements of operations, of changes in owners' equity and of cash flows present fairly, in all material respects, the financial position of BCBF. L.L.C. (the "Company") at December 31, 1996, and the results of its operations and its cash flows for the period from March 13, 1996 through December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

/s/ Price Waterhouse LLP

- ----------------------------------------------

PRICE WATERHOUSE LLP
Fort Lauderdale, Florida
January 24, 1997

BCBF, L.L.C.

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 1996
(DOLLARS IN THOUSANDS)

ASSETS

| | |
|---|---|
| Cash | $ 10 |
| Loans held for sale, at lower of cost or market value | 110,702 |
| Real estate owned, net of a valuation allowance of $511 | 25,595 |
| Other assets | 10,526 |
| | $ 146,833 |

LIABILITIES AND OWNERS' EQUITY

| | |
|---|---|
| Liabilities: | |
| Accrued expenses, payables and other liabilities | $ 787 |
| Total liabilities | 787 |
| Owners' Equity: | |
| Ocwen Federal Bank FSB | 73,023 |
| BlackRock Capital Finance L.P | 73,023 |
| Total owners' equity | 146,046 |
| | $ 146,833 |

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

BCBF, L.L.C.

STATEMENT OF OPERATIONS

FOR THE PERIOD MARCH 13, 1996 THROUGH DECEMBER 31, 1996
(DOLLARS IN THOUSANDS)

| | |
|---|---|
| Interest income | $ 38,647 |
| Interest expense | 18,503 |
| Net interest income | 20,144 |
| Non-interest income: | |
| Gain on sale of loans held for sale | 71,156 |
| Gain on sale of loan servicing rights | 1,048 |
| Loss on real estate owned, net | (130) |
| Loan fees | 50 |
| | 72,124 |
| Non-interest expense: | |
| Loan servicing fees | 5,743 |
| Other loan expenses | 273 |
| | 6,016 |
| Net income | $ 86,252 |

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

BCBF, L.L.C

STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE PERIOD MARCH 13, 1996 THROUGH DECEMBER 31, 1996

(DOLLARS IN THOUSANDS)

| | OCWEN FEDERAL BANK FSB | BLACKROCK CAPITAL FINANCE L.P. | TOTAL |
|---|---|---|---|
| Contributions of capital | $ 66,204 | $ 66,204 | $ 132,408 |
| Net income | 43,126 | 43,126 | 86,252 |
| Distributions of cash | (16,534) | (16,534) | (33,068) |
| Distributions of securities | (19,773) | (19,773) | (39,546) |
| Balances at December 31, 1996 | $ 73,023 | $ 73,023 | $ 146,046 |

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

BCBF, L.L.C.

STATEMENT OF CASH FLOWS

FOR THE PERIOD MARCH 13, 1996 THROUGH DECEMBER 31, 1996
(DOLLARS IN THOUSANDS)

| | |
|---|---|
| Cash flows from operating activities: | |
| Net income | $ 86,252 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | |
| Provision for losses on real estate owned | 636 |
| Gain on sale of loans held for sale | (71,156) |
| Gain on sale of real estate owned | (775) |
| Gain on sale of loan servicing rights | (1,048) |
| Purchase of loans held for sale | (626,400) |
| Proceeds from sale of loans held for sale | 466,806 |
| Principal repayments on loans held for sale | 42,210 |
| Proceeds from sale of real estate owned | 4,364 |
| Proceeds from sale of loan servicing rights | 1,048 |
| Increase in other assets | (2,054) |
| Increase in accrued expenses, payables and other liabilities | 787 |
| Net cash used in operating activities | (99,330) |
| Cash flows from financing activities: | |
| Proceeds from note payable | 473,042 |
| Repayment of note payable | (473,042) |
| Proceeds from capital contributions | 132,408 |
| Distributions of capital | (33,068) |
| Net cash provided by financing activities | 99,340 |
| Net increase in cash and cash equivalents | 10 |
| Cash and cash equivalents at beginning of period | -- |
| Cash and cash equivalents at end of period | $ 10 |
| Supplemental disclosure of cash flow information: | |
| Cash paid during the period for: | |
| Interest | $ (18,503) |
| Supplemental schedule of non-cash investing and financing activities: | |
| Exchange of loans for mortgage-backed securities | $ 394,234 |
| Real estate owned acquired through foreclosure | $ 29,820 |
| Distribution of securities to Partners | $ (39,546) |

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

## NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### ORGANIZATION

BCBF, L.L.C. (the "LLC") is a limited liability company formed on March 13, 1996 between Ocwen Federal Bank FSB ("Ocwen"), formerly known as Berkeley Federal Bank and Trust FSB, and BlackRock Capital Finance L.P. ("BlackRock"), or collectively, the "Partners". The Partners each have a 50% interest in the LLC and share equally in net income or loss.

On March 22, 1996, the LLC was notified by the Department of Housing and Urban Development ("HUD") that it was the successful bidder to purchase 16,196 single-family residential loans offered by HUD at an auction (the "HUD Loans"). On April 10, 1996 the LLC consummated the acquisition of the HUD Loans, which had an aggregate unpaid principal balance of $741,176 for a purchase price of $626,400. The purchase was financed by $117,647 in equity contributions, $35,711 of proceeds from the LLC's concurrent sale of 1,631 HUD Loans and the proceeds from a $473,042 note payable from an unaffiliated party. No significant activity occurred prior to April 10, 1996.

### STATEMENT OF CASH FLOWS

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, interest and non-interest bearing deposits and all highly liquid debt instruments purchased with an original maturity of three months or less.

### LOANS HELD FOR SALE

The HUD Loans purchased by the LLC have been designated as held for sale because it is the LLC's intent to securitize and sell the majority of these loans. Loans held for sale are carried at the lower of aggregate cost or market value. Market value is determined based upon current market yields at which recent pools of similar mortgages have been traded. There was no allowance for market value losses on loans held for sale at December 31, 1996.

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

The HUD Loans were purchased by the LLC at a substantial discount to the unpaid principal balance of the loans as many of the loans were not performing in accordance with the original terms of the loans or an applicable forbearance agreement. The cost of acquiring the pool of loans was allocated to each individual loan within the pool based on the LLCs' pricing methodology. Loans are considered performing if they are less than 90 days past due based on the original terms of the mortgage loan. Interest income on performing loans is recognized on the accrual method. Interest income on all other loans is recognized on a cash basis due to the uncertainty of collection. Gains and losses on the repayment and the discharging of loans are also reported as part of interest income. In situations where the collateral is foreclosed upon, the loans are transferred to real estate owned upon receipt of title to the property.

REAL ESTATE OWNED

Properties acquired through foreclosure or deed-in-lieu of foreclosure are valued at the lower of the adjusted basis of the loan or fair value less estimated costs of disposal of the property at the date of foreclosure. Properties held are periodically re-evaluated to determine that they are being carried at the lower of cost or fair value less estimated costs to dispose. All of the LLC's real estate owned is held for sale. Gains and losses on the sale of REO are recognized with the passage of title and all risks of ownership to the buyer. Rental income related to properties is reported as income as earned. Holding and maintenance costs related to properties are reported as period costs as incurred. No depreciation expense related to foreclosed real estate held for sale is recorded. Decreases in market value of foreclosed real estate subsequent to foreclosure are recognized as a valuation allowance on a property specific basis. Subsequent increases in market value of the foreclosed real estate are reflected as reductions in the valuation allowance, but not below zero. Such changes in the valuation allowance are charged or credited to income. Additional valuation allowances are also established for the inherent risks in the real estate owned portfolio which have yet to be specifically identified.

INCOME TAXES

Because the LLC is a pass-through entity for federal income tax purposes, provisions for income taxes are established by each of the Partners and not the LLC.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2--ADOPTION OF RECENTLY ISSUED ACCOUNTING STANDARDS

SFAS No. 122, "Accounting for Mortgage Servicing Rights", requires an institution engaged in mortgage banking activities to recognize as a separate asset rights to service mortgage loans for others, regardless of the manner in which those servicing rights are acquired. Upon sale or securitization of loans with servicing rights retained, an entity is required to capitalize the cost associated with the mortgage servicing rights based on their relative fair values. SFAS No. 122 also requires that an institution assess its capitalized mortgage servicing rights for impairment based on the fair value of those rights. Impairment is recognized through a valuation allowance. Provisions of SFAS No. 122 are effective for fiscal years beginning after December 15, 1995. No assets related to mortgage servicing rights were recognized by the LLC at December 31, 1996.

In June 1996, SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", was issued. SFAS No. 125 (i) sets forth the criteria for (a) determining when to recognize financial and servicing assets and liabilities; and (b) accounting for transfers of financial assets as sales or borrowings; and (ii) requires (a) liabilities and derivatives related to a transfer of financial assets to be recorded at fair value; (b) servicing assets and retained interests in transferred assets carrying amounts be determined by allocating carrying amounts based on fair value; (c) amortization of servicing assets and liabilities be in proportion to net servicing income; (d) impairment measurement based on fair value; and (e) pledged financial assets to be classified as collateral.

SFAS No. 125 provides implementation guidance for assessing isolation of transferred assets and for accounting for transfers of partial interests, servicing of financial assets, securitizations, transfers of sales-type and direct financing lease receivables, securities lending transactions, repurchase agreements including "dollar rolls", "wash sales", loan syndications and participations, risk participations in banker's acceptances, factoring arrangements, transfers of receivables with recourse and extinguishments of liabilities. SFAS No. 125 is effective for transfers of servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and is to be applied prospectively. Management does not believe the adoption of SFAS No. 125 will have a material impact on the statement of financial condition or results of operations of the LLC.

NOTE 3--FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all of the LLC's assets are considered financial instruments. For discounted loans, fair values are not readily available since there are no available trading markets as characterized by current exchanges between willing parties. Accordingly, fair values can only be derived or estimated using various valuation techniques, such as computing the present value of the estimated cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise.

The fair values reflected below are indicative of the interest rate environments as of December 31, 1996 and do not take into consideration the effects of interest rate fluctuations. In different interest rate environments, fair value results can differ significantly, especially for certain fixed-rate financial instruments and non-accrual assets. In addition, the fair values presented do not attempt to estimate the value of the LLC's future business activities. In other words, they do not represent the LLC's value as a going concern. Furthermore, the differences between the carrying amounts and the fair values presented may not be realized.

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

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

CASH AND CASH EQUIVALENTS

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

(DOLLARS IN THOUSANDS)

LOANS HELD FOR SALE

The HUD Loans, which are designated held for sale, have been valued at their carrying amount which approximates fair value given that the assumptions used to value such loans at their date of purchase have remained relatively constant.

REAL ESTATE OWNED

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

The carrying amounts and the estimated fair values of the LLC's financial instruments and real estate owned at December 31, 1996 are as follows:

| | CARRYING AMOUNT | FAIR VALUE |
|---|---|---|
| Financial Assets: | | |
| Cash and cash equivalents | $ 10 | $ 10 |
| Loans held for sale | 110,702 | 110,702 |
| Real estate owned, net | 25,595 | 31,738 |

NOTE 4 HUD LOAN PORTFOLIO

The LLC acquired the HUD Loans through an auction at a discount with the intent of securitizing and selling the majority of the loans. Because many of the mortgage loan borrowers are either not current as to principal and interest payments or there is doubt as to their ability to pay in full the contractual principal and interest, the LLC estimated the amounts expected to be realized through foreclosure, collection efforts or other resolution of each HUD loan and the length of time required to complete the collection process in determining the amount it bid to acquire the HUD Loans.

The LLC's HUD Loan portfolio, which has been designated held for sale, consists of the following at December 31, 1996 :

| | |
|---|---|
| Unpaid principal balance | $ 159,405 |
| Discount | (48,703) |
| | $ 110,702 |

(DOLLARS IN THOUSANDS)

The following table sets forth information relating to the payment status of the HUD Loans at December 31, 1996:

| | AMOUNT | % OF HUD LOANS |
|---|---|---|
| Loans without Forbearance Agreements: | | |
| Past due less than 31 days | $ 6,709 | 4.21% |
| Past due 31 to 90 days | 3,011 | 1.89 |
| Past due 90 days or more | 84,509 | 53.02 |
| | 94,229 | 59.12 |
| Loans with Forbearance Agreements: | | |
| Past due less than 31 days | 4,867 | 3.05 |
| Past due 31 to 90 days | 5,168 | 3.24 |
| Past due 90 days or more | 55,141 | 34.59 |
| | 65,176 | 40.88 |
| Total | $ 159,405 | 100.00% |

Forbearance agreements are agreements entered into by HUD or the LLC with the borrower for the repayment of delinquent payments over a period and for forbearance from foreclosure during the term for such agreement. HUD forbearance agreements are generally twelve months in duration and the borrower may be granted up to a maximum of three consecutive twelve month plans. Under the terms of the contract governing the sale of the HUD Loans, the LLC and Ocwen, as the servicer of the loans, are obligated to comply with the terms of the HUD forbearance agreements, which may be written or oral in nature, until the term of the forbearance agreement expires or there is a default under the forbearance agreement.

The HUD loans are geographically located throughout the United Sates and Puerto Rico. The following table sets forth the five states in which the largest amount of properties securing the LLC's discounted loans were located at December 31, 1996:

| | |
|---|---|
| Texas | $ 30,382 |
| California | 26,596 |
| Connecticut | 11,729 |
| Maryland | 9,487 |
| Colorado | 9,018 |
| Other | 72,193 |
| Total | $ 159,405 |

NOTE 5 MORTGAGE LOAN SALES AND SECURITIZATION OF MORTGAGE LOANS

In April 1996, the LLC sold 1,631 loans with an unpaid principal balance of $61,885 and a net book value of $34,388 for $35,711 resulting in a gain on sale of loans of $1,323.

In October 1996, the LLC securitized 9,825 loans with a unpaid principal balance of $419,382 and a net book value of $394,234. Certain of the mortgage related securities created from the securitization were sold in October 1996 for $431,095, resulting in a gain of $69,833 which includes a gain of $12,863 on the sale of $79,411 of securities directly to Ocwen. Certain other mortgage related securities created from the securitization were distributed to the Partners at their allocated book values which amounted to $39,546.

(DOLLARS IN THOUSANDS)

NOTE 6 REAL ESTATE OWNED

Real estate owned, net of valuation allowances, is held for sale. The LLC's real estate owned portfolio, acquired through foreclosure or deed-in-lieu of foreclosure, consists of the following at December 31, 1996:

| | |
|---|---|
| Single-family residential | $ 26,106 |
| Valuation allowance | (511) |
| Real estate owned, net | $ 25,595 |

The following schedule presents the activity in the valuation allowance on real estate owned for the period from March 13, 1996 to December 31, 1996:

| | |
|---|---|
| Balance, beginning of period | $ -- |
| Provision for losses | 636 |
| Charge-offs and sales | (125) |
| Balance, end of period | $ 511 |

Real estate owned is geographically located throughout the United Sates and Puerto Rico. The following table sets forth the five states with the largest amount of properties owned by the LLC at December 31, 1996:

| | |
|---|---|
| Texas | $ 7,782 |
| California | 6,992 |
| Maryland | 2,692 |
| Virginia | 1,318 |
| Georgia | 1,274 |
| Other | 5,537 |
| Total | $ 25,595 |

The following table sets forth the results of the LLC's investment in real estate owned during the period from March 13, 1996 to December 31, 1996:

| | |
|---|---|
| Description: | |
| Gains on sales | $ 775 |
| Provision for losses | (636) |
| Carrying costs, net of rental income | (269) |
| Loss on real estate owned, net | $ (130) |

NOTE 7 NOTE PAYABLE

In April 1996, the LLC financed the acquisition of the HUD Loans with the proceeds from a $473,042 note payable from an unaffiliated party. Interest on the note payable was payable monthly and accrued at a rate equal to LIBOR plus 2.25%. The note payable, which was scheduled to mature in January 1997, was secured by a first position lien on the HUD Loans purchased. Proceeds from the sale of securities resulting from the securitization of 9,825 HUD Loans in October, 1996 and additional capital contributions by the Partners were used to fully repay the note payable in 1996.

NOTE 8 RELATED PARTY TRANSACTIONS

In connection with the LLC's acquisition of the HUD Loans, Ocwen entered into an agreement with the LLC to service the HUD Loans in accordance with its loan servicing and loan default resolution procedures. In return for such servicing, Ocwen receives specified fees which are payable on a monthly basis. For the period from March 13, 1996 to December 31, 1996, Ocwen earned $5,743 in such servicing fees.

As the servicer for the HUD Loans, Ocwen is responsible for the collection of the payments due from borrowers and the payment of certain costs incurred in connection with the operation and maintenance of real estate owned properties. A cash settlement is made monthly between Ocwen and the LLC for the net of such collections and payments. At December 31, 1996, $5,447 was due from Ocwen and is included in other assets. Such amount was paid by Ocwen to the LLC in January, 1997.

In connection with the securitization transaction (see Note 5), the LLC sold $79,411 of securities to Ocwen for a gain of $12,863. Additionally, the LLC sold certain rights to service the securitized loans to Ocwen for $1,048.

BCBF, L.L.C.

STATEMENT OF FINANCIAL CONDITION

(DOLLARS IN THOUSANDS)

| | MARCH 31, 1997 (UNAUDITED) | DECEMBER 31, 1996 |
|---|---|---|
| Assets: | | |
| Cash | $ 10 | $ 10 |
| Loans held for sale, at lower of cost or market value | 48,586 | 110,702 |
| Real estate owned, net of valuation allowance of $150 and $511 at March 31, 1997 and December 31, 1996, respectively | 12,120 | 25,595 |
| Other assets | 9,487 | 10,526 |
| | $ 70,203 | $ 146,833 |
| Liabilities and Owners' Equity | | |
| Liabilities: | | |
| Accrued expenses, payables and other liabilities | $ 635 | $ 787 |
| Total liabilities | 635 | 787 |
| Owners' Equity: | | |
| Ocwen Federal Bank FSB | 34,784 | 73,023 |
| BlackRock Capital Finance L.P | 34,784 | 73,023 |
| Total owners' equity | 69,568 | 146,046 |
| | $ 70,203 | $ 146,833 |

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

BCBF, L.L.C.

STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 1997

(DOLLARS IN THOUSANDS)
(UNAUDITED)

| | |
|---|---|
| Interest income | $ 3,485 |
| Non-interest income: | |
| Gain on sale of loans held for sale | 18,412 |
| Gain on real estate owned, net | 1,543 |
| Loan fees | 22 |
| | 19,977 |
| Operating expenses: | |
| Loan servicing fees | 676 |
| Net income | $ 22,786 |

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

BCBF, L.L.C.

STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE PERIOD MARCH 13, 1996 THROUGH DECEMBER 31, 1996 AND

FOR THREE MONTHS ENDED MARCH 31, 1997

(DOLLARS IN THOUSANDS)

| | OCWEN FEDERAL BANK FSB | BLACKROCK CAPITAL FINANCE L.P. | TOTAL |
|---|---|---|---|
| Contributions of capital | $ 66,204 | $ 66,204 | $ 132,408 |
| Net income | 43,126 | 43,126 | 86,252 |
| Distributions of cash | (16,534) | (16,534) | (33,068) |
| Distributions of securities | (19,773) | (19,773) | (39,546) |
| Balances at December 31, 1996 | 73,023 | 73,023 | 146,046 |
| Net income (unaudited) | 11,393 | 11,393 | 22,786 |
| Distributions of cash (unaudited) | (48,293) | (48,293) | (96,586) |
| Distributions of securities (unaudited) | (1,339) | (1,339) | (2,678) |
| Balances at March 31, 1997 (unaudited) | $ 34,784 | $ 34,784 | $ 69,568 |

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

BCBF, L.L.C.

STATEMENT OF CASH FLOWS

FOR THREE MONTHS ENDED MARCH 31, 1997

(DOLLARS IN THOUSANDS)
(UNAUDITED)

| | |
|---|---|
| Cash flows from operating activities: | |
| Net income | $ 22,786 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | |
| Provision for losses on real estate owned | 484 |
| Gain on sale of loans held for sale | (18,412) |
| Gain on sale of real estate owned | (4,277) |
| Proceeds from sale of loans held for sale | 58,866 |
| Principal repayments on loans held for sale | 608 |
| Proceeds from sale of real estate owned | 38,271 |
| Decrease in other assets | 1,090 |
| Decrease in accrued expenses, payables and other liabilities | (152) |
| Net cash used in operating activities | 99,264 |
| Cash flows from financing activities: | |
| Proceeds from capital contributions | (96,586) |
| Distributions of capital | (2,678) |
| Net cash provided by financing activities | (99,264) |
| Net increase in cash and cash equivalents | -- |
| Cash and cash equivalents at beginning of period | 10 |
| Cash and cash equivalents at end of period | $ 10 |
| Supplemental disclosure of cash flow information: | |
| Cash paid during the period for: | |
| Interest | $ -- |
| Supplemental schedule of non-cash investing and financing activities: | |
| Real estate owned acquired through foreclosure | $ 21,004 |
| Distributions of securities to Partners | $ 2,678 |

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

# NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1997
(DOLLARS IN THOUSANDS)

## NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited financial statements include the accounts of BCBF, L.L.C. (the "LLC"), a limited liability company formed on March 13, 1996 between Ocwen Financial Corporation ("Ocwen") and BlackRock Capital Finance L.P. ("BlackRock") each having a 50% interest. The financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements.

In the opinion of management, the accompanying financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the LLC's results for the interim periods. The result of operations and other data for the three months ended March 31, 1997 are not necessarily indicative of the results that may be expected for the entire year. The unaudited financial statements presented herein should be read in conjunction with the audited financial statements and related notes thereto included elsewhere in this Offering Circular.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the statement of financial condition and the revenues and expenses for the period covered. Actual results could differ significantly from those estimates and assumptions.

## NOTE 2 ADOPTION OF RECENTLY ISSUED ACCOUNTING STANDARDS

On January 1, 1997, the LLC adopted Statement of Financial Accounting Standard ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 125 (i) sets forth the criteria for (a) determining when to recognize financial and servicing assets and liabilities, and (b) accounting for transfers of financial assets as sales or borrowings; and (ii) requires (a) liabilities and derivatives related to a transfer of financial assets to be recorded at fair value, (b) servicing assets and retained interests in transferred assets carrying amounts be determined by allocating carrying amounts based on fair value, (c) amortization of servicing assets and liabilities be in proportion to net servicing income, (d) impairment measurement based on fair value, and (e) pledged financial assets to be classified as collateral.

SFAS No. 125 provides implementation guidance for assessing isolation of transferred assets and for accounting for transfers of partial interests, servicing of financial assets, securitizations, transfers of sales-type and direct financing lease receivables, securities lending transactions, repurchase agreements including "dollar rolls", "wash sales", loan syndications and participations, risk participations in banker's acceptances, factoring arrangements, transfers of receivables with recourse and extinguishments of liabilities. In December 1996, SFAS No. 127, "Deferral of the Effective Date of FASB Statement No. 125", was issued and delayed implementation for one year certain provisions of SFAS 125. The adoption of SFAS No. 125 did not have any material impact on the results of operations, financial position or cash flows as a result of implementing these Statements.

NOTE 3 SECURITIZATION OF MORTGAGE LOANS

In March, 1997, as part of a larger transaction involving Ocwen and an affiliate of BlackRock, the LLC securitized 1,196 loans with an unpaid principal balance of $51,714 and past due interest of $14,209, and a net book value of $40,454. Proceeds from sales of such securities by the LLC amounted to $58,866. Ocwen continues to service such loans and is paid a servicing fee.

NO PERSON IS AUTHORIZED IN CONNECTION WITH ANY OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED IN THIS PROSPECTUS, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR BY ANY U.S. UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY ANY SECURITY OTHER THAN THE SHARES OF COMMON STOCK OFFERED HEREBY, NOR DOES IT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY TO ANY PERSONS IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION TO SUCH PERSON. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCE CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

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3,000,000 SHARES

[LOGO]

OCWEN FINANCIAL CORPORATION

COMMON STOCK

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PROSPECTUS

AUGUST , 1997

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LEHMAN BROTHERS
FRIEDMAN, BILLINGS, RAMSEY & CO., INC.
MORGAN STANLEY DEAN WITTER

ALTERNATIVE PAGES FOR INTERNATIONAL OFFERING PROSPECTUS

SUBJECT TO COMPLETION, DATED AUGUST 5, 1997

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

PROSPECTUS

3,000,000 SHARES

OCWEN FINANCIAL CORPORATION

COMMON STOCK

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The 3,000,000 shares of common stock, par value $0.01 per share (the "Common Stock"), offered hereby are newly-issued shares of Ocwen Financial Corporation (the "Company"). Of the 3,000,000 shares being offered hereby, shares are being offered initially outside the United States and Canada by the International Managers (the "International Offering") and shares are being offered initially in the United States and Canada by the U.S. Underwriters (the "U.S. Offering" and, together with the International Offering, the "Common Stock Offering"). The initial public offering price and underwriting discounts and commissions will be identical for both offerings. See "Underwriting."

The Common Stock is listed on the New York Stock Exchange ("NYSE") under the symbol "OCN." On August 4, 1997, the last reported sales price for the Common Stock on the NYSE was $41.625 per share.

Concurrently with the Common Stock Offering, Ocwen Capital Trust I (the "Trust"), a Delaware business trust and a subsidiary of the Company, is offering $125 million of % Capital Securities (the "Capital Securities") in an underwritten public offering (the "Capital Securities Offering" and together with the Common Stock Offering, the "Offerings"). The shares of Common Stock offered hereby and the Capital Securities offered by the Trust are being offered separately and not as units. The Common Stock Offering is not conditioned upon consummation of the Capital Securities Offering. See "Description of Capital Securities Offering."

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THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 14 HEREOF FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED CAREFULLY BY PROSPECTIVE PURCHASERS OF THE COMMON STOCK OFFERED HEREBY.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY SUCH STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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THE SECURITIES OFFERED HEREBY ARE NOT SAVINGS ACCOUNTS OR SAVINGS DEPOSITS AND ARE NOT INSURED OR GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY.

| | PRICE TO PUBLIC | UNDERWRITING DISCOUNTS AND COMMISSIONS(1) | PROCEEDS TO COMPANY(2) |
|---|---|---|---|
| Per Share........................................ | $ | $ | $ |
| Total(3)......................................... | $ | $ | $ |

(1) The Company has agreed to indemnify the U.S. Underwriters and International Managers (together, the "Common Stock Underwriters") against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(2) Before deducting offering expenses payable by the Company, estimated at $600,000.

(3) The Company has granted the International Managers a 30-day option to purchase up to an additional shares of Common Stock on the same terms and conditions set forth above to cover over-allotments, if any. The Company has granted the U.S. Underwriters a similar option to purchase up to an additional shares of Common Stock to cover over-allotments, if any. If all such shares of Common Stock are purchased, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be $ , $ and $ , respectively. See "Underwriting."

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The shares of Common Stock offered by this Prospectus are offered by the International Managers subject to prior sale, to withdrawal or cancellation of the offer without notice, to delivery to and acceptance by the International Managers and to certain further conditions. It is expected that delivery of certificates for the shares of Common Stock will be made at the offices of Lehman Brothers Inc., New York, New York, on or about August , 1997.

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LEHMAN BROTHERS

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.

MORGAN STANLEY DEAN WITTER

August , 1997

NO PERSON IS AUTHORIZED IN CONNECTION WITH ANY OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED IN THIS PROSPECTUS, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR BY ANY INTERNATIONAL MANAGER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY ANY SECURITY OTHER THAN THE SHARES OF COMMON STOCK OFFERED HEREBY, NOR DOES IT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY TO ANY PERSONS IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION TO SUCH PERSON. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCE CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

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MORGAN STANLEY DEAN WITTER

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

Set forth below is an estimate of the expenses to be incurred in connection with the offering of securities described herein.

| | |
|---|---|
| SEC registration fee | $ 31,233 |
| NASD fee | 10,807 |
| NYSE listing fee | 189,075 |
| Legal fees and expenses | 125,000 |
| Accounting fees and expenses | 50,000 |
| Printing, postage and delivery expenses | 175,000 |
| Blue Sky fees and expenses | 7,500 |
| Miscellaneous expenses | 11,385 |
| Total | $ 600,000 |

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* To be included by amendment.

In addition to the foregoing, the Underwriting Agreement provides for underwriting discounts, certain dealer concessions and the reimbursement of certain expenses. See "Underwriting" in the Prospectus.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Article V of the Company's Articles of Incorporation provides as follows:

INDEMNIFICATION

This corporation shall, to the fullest extent permitted by the provisions of Fla. Stat. Section607.0850, as the same may be amended and supplemented, indemnify any and all persons whom it shall have power to indemnify under said section from and against any and all of the expenses, liabilities, or other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any Bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

Section 607.0850 of the Florida Business Corporation Act provides as follows:

607.0850 INDEMNIFICATION OF OFFICERS, DIRECTORS, EMPLOYEES, AND AGENTS.--(1) A corporation shall have the power to indemnify any person who was or is a party to any proceeding (other than an action by, or in the right of, the corporation), by reason of the fact that he is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against liability incurred in connection with such proceeding, including any appeal thereof, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any proceeding by judgment, order, settlement, or conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the corporation or, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(2) A corporation shall have power to indemnify any person, who was or is a party to any proceeding by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated expense of litigating the proceeding to conclusion, actually and reasonably incurred in connection with the defense or settlement of such proceeding, including any appeal thereof. Such indemnification shall be authorized if such person acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation, except that no indemnification shall be made under this subsection in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable unless, and only to the extent that, the court in which such proceeding was brought, or any other court of competent jurisdiction, shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(3) To the extent that a director, officer, employee, or agent of a corporation has been successful on the merits or otherwise in defense of any proceeding referred to in subsection (1) or subsection (2), or in defense of any claim, issue, or matter therein, he shall be indemnified against expenses actually and reasonably incurred by him in connection therewith.

(4) Any indemnification under subsection (1) or subsection (2), unless pursuant to a determination by a court, shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee, or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in subsection (1) or subsection (2). Such determination shall be made:

(a) By the board of directors by a majority vote of a quorum consisting of directors who were not parties to such proceeding;

(b) If such a quorum is not obtainable or, even if obtainable, by majority vote of a committee duly designated by the board of directors (in which directors who are parties may participate) consisting solely of two or more directors not at the time parties to the proceeding;

(c) By independent legal counsel:

(1) Selected by the board of directors prescribed in paragraph (a) or the committee prescribed in paragraph (b); or

(2) If a quorum of the directors cannot be obtained for paragraph (a) and the committee cannot be designated under paragraph (b), selected by majority vote of the full board of directors (in which directors who are parties may participate); or

(d) By the shareholders by a majority vote of a quorum consisting of shareholders who were not parties to such proceeding or, if no such quorum is obtainable, by a majority vote of shareholders who were not parties to such proceeding.

(5) Evaluation of the reasonableness of expenses and authorization of indemnification shall be made in the same manner as the determination that indemnification is permissible. However, if the determination of permissibility is made by independent legal counsel, persons specified by paragraph (4)(c) shall evaluate the reasonableness of expenses and may authorize indemnification.

(6) Expenses incurred by an officer or director in defending a civil or criminal proceeding may be paid by the corporation in advance of the final disposition of such proceeding upon receipt of an undertaking by

or on behalf of such director or officer to repay such amount if he is ultimately found not to be entitled to indemnification by the corporation pursuant to this section. Expenses incurred by other employees and agents may be paid in advance upon such terms or conditions that the board of directors deems appropriate.

(7) The indemnification and advancement of expenses provided pursuant to this section are not exclusive, and a corporation may make any other or further indemnification or advancement of expenses of any of its directors, officers, employees, or agents, under any bylaw, agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office. However, indemnification or advancement of expenses shall not be made to or on behalf of any director, officer, employee, or agent if a judgment or other final adjudication establishes that his actions, or omissions to act, were material to the cause of action so adjudicated and constitute:

(a) A violation of the criminal law, unless the director, officer, employee, or agent had reasonable cause to believe his conduct was lawful or had no reasonable cause to believe his conduct was unlawful;

(b) A transaction from which the director, officer, employee, or agent derived an improper personal benefit;

(c) In the case of a director, a circumstance under which the liability provisions of s.607.0834 are applicable; or

(d) Willful misconduct or a conscious disregard for the best interests of the corporation in a proceeding by or in the right of the corporation to procure a judgment in its favor or in a proceeding by or in the right of a shareholder.

(8) Indemnification and advancement of expenses as provided in this section shall continue as, unless otherwise provided when authorized or ratified, to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person, unless otherwise provided when authorized or ratified.

(9) Unless the corporation's articles of incorporation provide otherwise, notwithstanding the failure of a corporation to provide indemnification, and despite any contrary determination of the board or of the shareholders in the specific case, a director, officer, employee, or agent of the corporation who is or was a party to a proceeding may apply for indemnification or advancement of expenses, or both, to the court conducting the proceeding, to the circuit court, or to another court of competent jurisdiction. On receipt of an application, the court, after giving notice that it considers necessary, may order indemnification and advancement of expenses, including expenses incurred in seeking court-ordered indemnification or advancement of expenses, if it determines that:

(a) The director, officer, employee, or agent is entitled to mandatory indemnification under subsection (3), in which case the court shall also order the corporation to pay the director reasonable expenses incurred in obtaining court-ordered indemnification or advancement of expenses;

(b) The director, officer, employee or agent is entitled to indemnification or advancement of expenses, or both, by virtue of the exercise by the corporation of its power pursuant to subsection (7); or

(c) The director, officer, employee, or agent is fairly and reasonably entitled to indemnification or advancement of expenses, or both, in view of all the relevant circumstances, regardless of whether such person met the standard of conduct set forth in subsection (1), subsection (2), or subsection (7).

(10) For purposes of this section, the term "corporation" includes, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a

consolidation or merger, so that any person who is or was a director, officer, employee, or agent of a constituent corporation, or is or was serving at the request of a constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, or other enterprise, is in the same position under this section with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(11) For purposes of this section:

(a) The term "other enterprises" includes employee benefit plans;

(b) The term "expenses" includes counsel fees, including those for appeal;

(c) The term "liability" includes obligations to pay for a judgment, settlement, penalty, find (including an excise tax assessed with respect to any employee benefit plan), and expenses actually and reasonably incurred with respect to a proceeding;

(d) The term "proceeding" includes any threatened, pending, or completed action, suit, or other type of proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal;

(e) The term "agent" includes a volunteer;

(f) The term "serving at the request of the corporation" includes any service as a director, officer, employee, or agent of the corporation that imposes duties on such persons, including duties relating to an employee benefit plan and its participants or beneficiaries; and

(g) The term "not opposed to the best interest of the corporation" describes the actions of a person who acts in good faith and in a manner he reasonably believes to be in the best interests of the participants and beneficiaries of an employee benefit plan.

(12) A corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this section.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

During the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995, the Company issued 55,329 shares, 2,928,200 shares and 432,620 shares of Common Stock, respectively, upon the exercise of stock options granted to employees of the Company or its subsidiaries pursuant to the Company's 1991 Non-Qualified Stock Option Plan, as amended. See "Management--Stock Option Plan" and "--Certain Relationships and Related Transactions." These shares were issued for cash and in reliance on the private offering exemption from registration set forth in Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). During October 1996 and July 1997, the Company issued 3,070 shares and 1,876 shares of Common Stock, respectively, to directors of the Company as compensation pursuant to the Directors Stock Plan. See "Management--Board of Directors Compensation." These shares were issued in reliance on the private offering exemption from registration set forth in Section 4(2) of the Securities Act. In addition to the foregoing, the Company issued (i) 12 shares of Common Stock as holiday gifts during the first quarter of 1997 and (ii) 1,223 shares of Common Stock as gifts to employees of the Company and their spouses on July 29, 1997 in order to satisfy a minimum shareholder requirement in order for the Common Stock to be listed on the NYSE.

During 1995, the Company issued $7.6 million of 10.5% notes due May 1, 1996 to 14 stockholders of the Company, and on May 1, 1996 the Company reissued $7.4 million of 10.5% notes due May 1, 1997 to

11 stockholders of the Company. These notes were issued for cash and in reliance on the private offering exemption from registration set forth in Section 4(2) of the Securities Act.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits:

| | |
|---|---|
| 1.0 | Form of U.S. Underwriting Agreement relating to the Common Stock Offering |
| 1.1 | Form of International Underwriting Agreement relating to the Common Stock Offering |
| 3.1 | Amended and Restated Articles of Incorporation of the Company (1) |
| 3.2 | Bylaws of the Company(1) |
| 4.0 | Form of certificate of Common Stock(1) |
| 4.1 | Form of Indenture relating to the 11.875% Notes due 2003(1) |
| 4.2 | Form of 11.875% Notes due 2003 (included in Exhibit 4.1) (1) |
| 4.3 | Certificate of Trust of the Trust(2) |
| 4.4 | Declaration of Trust of the Trust(2) |
| 4.5 | Form of Capital Security of the Trust (included as Exhibit A to Exhibit 4.4) |
| 4.6 | Form of Indenture relating to the Junior Subordinated Debentures(2) |
| 4.7 | Form of Junior Subordinated Debenture (included as Exhibit A to Exhibit 4.6) |
| 4.8 | Form of Guarantee of the Company relating to the Capital Securities(2) |
| 4.9 | Form of Indenture relating to the 12% Subordinated Debentures due 2005 of Ocwen Federal Bank F.S.B.(4) |
| 4.10 | Form of 12% Subordinated Debentures due 2005 of Ocwen Federal Bank F.S.B.(4) |
| 5.0 | Opinion of Elias, Matz, Tiernan & Herrick L.L.P. as to legality of the Common Stock |
| 10.1 | Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, as amended(1) |
| 10.2 | Ocwen Financial Corporation Annual Incentive Plan(1) |
| 10.3 | Ocwen Financial Corporation 1996 Stock Plan for Directors, as amended (3) |
| 21.0 | Subsidiaries (see "Business--Subsidiaries" in the Prospectus) |
| 23.1 | Consent of Elias, Matz, Tiernan & Herrick L.L.P. (to be contained in the opinion included as Exhibit 5.0) |
| 23.2 | Consent of Price Waterhouse LLP |

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* To be filed by amendment.

(1) Incorporated by reference to the similarly described exhibit filed in connection with the Company's Registration Statement on Form S-1, File No. 333-5153, declared effective by the Commission on September 25, 1996.

(2) Incorporated by reference to the Registration Statement on Form S-1 filed by the Company and the Trust with the Commission on June 10, 1997, as amended.

(3) Incorporated by reference to the similarly described exhibit included with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.

(4) To be provided to the Commission upon request.

The Company's management contracts or compensatory plans or arrangements consist of Exhibits No. 10.1, 10.2 and 10.3.

(b) Financial Statements and Schedules:

The Financial Statements listed in the Index to Financial Statements contained in the Prospectus are hereby incorporated herein by reference.

Schedules to the Financial Statements are not required under the related instructions or are inapplicable, and therefore have been omitted.

ITEM 17. UNDERTAKINGS

The undersigned Registrant hereby undertakes to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective.

For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of West Palm Beach, State of Florida, on July 30, 1997.

OCWEN FINANCIAL CORPORATION

By:

/s/ WILLIAM C. ERBEY

----------------------------------------

William C. Erbey

Chairman, President and Chief Executive Officer

(duly authorized representative)

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

| | |
|---|---|
| /s/ WILLIAM C. ERBEY<br>- ------------------------------------<br>William C. Erbey<br>Chairman, President and Chief Executive Officer (principal executive officer) | July 30, 1997 |
| /s/ HON. THOMAS F. LEWIS<br>- ------------------------------------<br>Hon. Thomas F. Lewis<br>Director | July 30, 1997 |
| /s/ W.C. MARTIN<br>- ------------------------------------<br>W. C. Martin<br>Director | July 25, 1997 |
| /s/ HOWARD H. SIMON<br>- ------------------------------------<br>Howard H. Simon<br>Director | July 30, 1997 |
| /s/ BARRY N. WISH<br>- ------------------------------------<br>Barry N. Wish<br>Director | July 30, 1997 |
| /s/ MARK S. ZEIDMAN<br>- ------------------------------------<br>Mark S. Zeidman<br>Senior Vice President and Chief Financial Officer (principal financial and accounting officer) | July 30, 1997 |

Exhibit 1.0

[________]

Ocwen Financial Corporation

Common Stock

U.S. UNDERWRITING AGREEMENT

August __, 1997

Lehman Brothers Inc.
Friedman, Billings, Ramsey & Co., Inc.
Morgan, Stanley & Co. Incorporated
As Representatives of the several
Underwriters named in Schedule 1,
c/o Lehman Brothers Inc.
Three World Financial Center
New York, New York 10285

Dear Sirs:

Ocwen Financial Corporation, a Florida corporation (the "Company"), proposes to sell ___________ shares (the "Firm Stock") of the Company's common stock, par value $0.01 per share (the "Common Stock"). In addition, the Company proposes to grant to the Underwriters named in Schedule 1 hereto (the "U.S. Underwriters") an option to purchase up to an additional _________ shares of the Common Stock on the terms and for the purposes set forth in Section 4 (the "Option Stock"). The Firm Stock and the Option Stock, if purchased, are hereinafter collectively called the "Stock". This is to confirm the agreement concerning the purchase of the Stock from the Company by the U.S. Underwriters named in Schedule 1 hereto.

It is understood by all parties that the Company is concurrently entering into an agreement dated the date hereof (the "International Underwriting Agreement") providing for the sale by the Company of ___________ shares of Common Stock (including the over-allotment option thereunder) (the "International Stock") through arrangements with certain underwriters outside the United States (the "International Managers"), for whom Lehman Brothers International (Europe), Friedman, Billings, Ramsey & Co., Inc. and Morgan Stanley & Co. International Limited are acting as lead managers. The U.S. Underwriters and the International Managers simultaneously are entering into an agreement between the U.S. and international underwriting syndicates (the "Agreement Between U.S. Underwriters and International Managers") which provides for, among other things, the transfer of shares of Common Stock between the two syndicates.

Two forms of prospectus are to be used in connection with the offering and sale of shares of Common Stock contemplated by the foregoing, one relating to the Stock and the other relating to the International Stock. The latter form of prospectus will be identical to the former except for certain substitute pages as included in the registration statement and amendments thereto referred to below. Except as used in Sections 2, 3, 4, 9 and 10 herein, and except as the context may otherwise require, references herein to the Stock shall include all the shares of the Common Stock which may be sold pursuant to either this Agreement or the International Underwriting Agreement, and references herein to any prospectus whether in preliminary or final form, and whether as amended or supplemented, shall include both the U.S. and the international versions thereof.

1. Representations, Warranties and Agreements of the Company. The Company represents, warrants and agrees that:

(a) A registration statement on Form S-1, and amendments thereto, with respect to the Stock has (i) been prepared by the Company in conformity with the requirements of the United States Securities Act of 1933 (the "Securities Act") and the rules and regulations (the "Rules and Regulations") of the United States Securities and Exchange Commission (the "Commission") thereunder, (ii) been filed with the Commission under the Securities Act and (iii) become effective under the Securities Act; and a second registration statement on Form S-1 with respect to the Stock (i) may also be prepared by the Company in conformity with the requirements of the Securities Act and the Rules and Regulations and (ii) if to be so prepared, will be filed with the Commission under the Securities Act pursuant to Rule 462(b) of the Rules and Regulations on the date hereof. Copies of the first such registration statement and the amendments to such registration statement, together with the form of any such second registration statement, have been delivered by the Company to you as the representatives (the "Representatives") of the U.S. Underwriters. As used in this Agreement, "Effective Time" means (i) with respect to the first such registration statement, the date and the time as of which such registration statement, or the most recent post-effective amendment thereto, if any, was declared effective by the Commission and (ii) with respect to any second registration statement, the date and time as of which such second registration statement is filed with the Commission, and "Effective Times" is the collective reference to both Effective Times; "Effective Date" means (i) with respect to the first such registration statement, the date of the Effective Time of such registration statement and (ii) with respect to any second registration statement, the date of the Effective Time of such second registration statement, and "Effective Dates" is the collective reference to both Effective Dates; "Preliminary Prospectus" means each prospectus included in any such registration statement, or amendments thereof, before it became effective under the Securities Act and any prospectus filed with the Commission by the Company with the consent of the Representatives pursuant to Rule 424(a) of the Rules and Regulations; "Primary Registration Statement" means the first registration statement referred to in this Section 1(a), as amended, at its Effective Time, "Rule 462(b) Registration Statement" means the second registration statement, if any, referred to in this Section 1(a), as filed with the Commission, and "Registration Statements" means both the Primary Registration Statement and any Rule 462(b) Registration Statement, including in each case all information contained in the final prospectus filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations in accordance with Section 5(a) hereof and deemed to be a part of the Registration Statements as of the Effective Time of the Primary Registration Statement pursuant to paragraph (b) of Rule 430A of the Rules and Regulations; and "Prospectus" means such final prospectus, as first filed with the Commission pursuant to paragraph (1) or (4) of Rule 424(b) of the Rules and Regulations. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

(b) The Primary Registration Statement conforms (and the Rule 462(b) Registration Statement, if any, the Prospectus and any further amendments or supplements to the Registration Statements or the Prospectus, when they become effective or are filed with the Commission, as the case may be, will conform) in all material respects to the requirements of the Securities Act and the Rules and Regulations and do not and will not, as of the applicable Effective Date (as to the Registration Statements and any amendment thereto) and as of the applicable filing date (as to the Prospectus and any amendment or supplement thereto) contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading; provided that no representation or warranty is made as to information contained in or omitted from the Registration Statements or the Prospectus in reliance upon and in conformity with written information furnished to the Company through the Representatives by or on behalf of any U.S. Underwriter specifically for inclusion therein.

(c) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description thereof contained in the Prospectus; and all of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued and are fully paid and non-assessable and, except for directors' qualifying shares and as set forth in the Registration Statements and the Prospectus, are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims; the Company is a savings and loan holding company duly registered under the Home Owners' Loan Act, as amended ("HOLA"), and duly organized and validly existing under the laws of the state of Florida, with full power and authority to own its properties and conduct its business as described in the Registration Statement and the Prospectus, and to execute and deliver this Agreement; the Company owns, directly or indirectly, beneficially and of record 100% of the outstanding shares of capital stock of Ocwen Federal Bank FSB (the "Bank"); the Bank is a federal savings bank duly organized and validly existing under the laws of the United States with full power and authority to own its properties and conduct its business as described in the Registration Statement and the Prospectus; the Bank is a member in good standing of the Federal Home Loan Bank System; the savings accounts of depositors in the Bank are insured by the Federal Deposit Insurance Corporation (the "FDIC") to the fullest extent permitted by law and the rules and regulations of the FDIC, and no proceedings for the termination of such insurance are pending, or to the best of the Company's knowledge, threatened.

(d) Each of the Company's subsidiaries (as defined in Section 15) have been duly formed and are validly existing and in good standing under the laws of their respective jurisdictions of incorporation; the Company and each of its subsidiaries are duly qualified to do business and are in good standing as foreign corporations in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification and in which the failure singularly or in the aggregate, to be so qualified could have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries, and have all power and authority necessary to own or hold their respective properties and to conduct the businesses in which they are engaged; and none of the subsidiaries (other than the Bank and BCBF, L.L.C. ("BCBF"), each a "Significant Subsidiary" and together the "Significant Subsidiaries") is a "significant subsidiary", as such term is defined in Rule 405 of the Rules and Regulations.

(e) The unissued shares of the Stock to be issued and sold by the Company to the U.S. Underwriters hereunder and under the International Underwriting Agreement have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein and in the International Underwriting Agreement, will be duly and validly issued, fully paid and non-assessable; and the Common Stock will conform to the description thereof contained in the Prospectus.

(f) The execution, delivery and performance of this Agreement and the International Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the properties or assets of the Company or any of its subsidiaries is subject, except for such breaches or violations which would not, singularly or in the aggregate, have a material adverse effect on the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, nor will such actions result in any violation of the provisions of the charter (or other organizational document) or by-laws of the Company or any of its subsidiaries or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties or assets; and except for (i) the registration of the Stock under the Securities Act, (ii) such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act and applicable state or foreign securities laws in connection with the purchase and distribution of the Stock by the U.S. Underwriters and the International Managers and (iii) the approval of the listing of the Stock on the New York Stock Exchange ("NYSE"), no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement, or the International Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby.

(g) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statements or in any securities being registered pursuant to any other registration statement filed by the Company under the Securities Act.

(h) Except as described in the Registration Statements, the Company has not sold or issued any shares of Common Stock during the six-month period preceding the date of the Prospectus, including any sales pursuant to Rule 144A or Regulations D or S under the Securities Act, other than shares issued pursuant to director or employee benefit plans, qualified stock options plans or other employee compensation plans or pursuant to outstanding options, rights or warrants.

(i) Neither the Company nor any of its subsidiaries has sustained, since the date of the latest audited financial statements included in the Prospectus, any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus; and, since such date, there has not been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any material adverse change, or any development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Registration Statements.

(j) The financial statements (including the related notes and supporting schedules) filed as part of the Registration Statements or included in the Prospectus present fairly the financial condition and results of operations of the entities purported to be shown thereby, at the dates and for the periods indicated, and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved, except as otherwise stated therein.

(k) Price Waterhouse LLP, who have certified certain financial statements of the Company and BCBF, whose reports appear in the Prospectus and who have delivered the initial letter referred to in Section 7(f) hereof, are independent public accountants as required by the Securities Act and the Rules and Regulations.

(l) There are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property or asset of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, are reasonably likely to have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries; and to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or by others.

(m) There are no contracts or other documents which are required to be described in the Prospectus or filed as exhibits to either of the Registration Statements by the Securities Act or by the Rules and Regulations which have not been described in the Prospectus or filed as exhibits to either of the Registration Statements or incorporated therein by reference as permitted by the Rules and Regulations.

(n) No relationship, direct or indirect, exists between or among the Company on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company on the other hand, which is required to be described in the Prospectus which is not so described.

(o) The Company has filed all federal, state and local income and franchise tax returns required to be filed through the date hereof and has paid all taxes due thereon, and no tax deficiency has been determined adversely to the Company or any of its subsidiaries which has had (nor does the Company have any knowledge of any tax deficiency which, if determined adversely to the Company or any of its subsidiaries, is reasonably likely to have) a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries.

(p) Since the date as of which information is given in the Prospectus through the date hereof, and except as may otherwise be disclosed in the Registration Statements, the Company has not (i) issued or granted any securities,(ii) incurred any liability or obligation, direct or contingent, other than liabilities and obligations which were incurred in the ordinary course of business,(iii) entered into any transaction not in the ordinary course of business or (iv) declared or paid any dividend on its capital stock.

(q) The Company (i) makes and keeps accurate books and records and (ii) maintains internal accounting controls which provide reasonable assurance that (A) transactions are executed in accordance with management's authorization,(B) transactions are recorded as necessary to permit preparation of its financial statements and to maintain accountability for its assets,(C) access to its assets is permitted only in accordance with management's authorization and (D) the reported accountability for its assets is compared with existing assets at reasonable intervals.

(r) Neither the Company nor any of its subsidiaries (i) is in violation of its charter (or other organizational document) or by-laws,(ii) is in default in any material respect, and no event has occurred which, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any material indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets is subject or (iii) is in violation in any material respect of any law, ordinance, governmental rule, regulation or court decree to which it or its properties or assets may be subject or has failed to obtain any material license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its properties or assets or to the conduct of its business.

(s) Neither the Company nor any subsidiary is an "investment company" within the meaning of such term under the Investment Company Act of 1940 and the rules and regulations of the Commission thereunder.

2. Purchase of the Stock by the U.S. Underwriters. On the basis of the representations and warranties contained in, and subject to the terms and conditions of, this Agreement, the Company agrees to sell __________ shares of the Firm Stock to the several U.S. Underwriters and each of the U.S. Underwriters, severally and not jointly, agrees to purchase the number of shares of the Firm Stock set opposite that U.S. Underwriter's name in Schedule 1 hereto. The respective purchase obligations of the U.S. Underwriters with respect to the Firm Stock shall be rounded among the U.S. Underwriters to avoid fractional shares, as the Representatives may determine.

In addition, the Company grants to the U.S. Underwriters an option to purchase up to ___________ shares of Option Stock. Such option is granted solely for the purpose of covering over-allotments in the sale of Common Stock and is exercisable as provided in Section 4 hereof. Shares of Option Stock shall be purchased severally for the account of the U.S. Underwriters in proportion to the number of shares of Common Stock set opposite the name of such U.S. Underwriters in Schedule 1 hereto. The respective purchase obligations of each U.S. Underwriter with respect to the Option Stock shall be adjusted by the Representatives so that no U.S. Underwriter shall be obligated to purchase Option Stock other than in 100 share amounts.

The price of any Option Stock shall be $________ per share.

The Company shall not be obligated to deliver any of the Stock to be delivered on the First Delivery Date or the Second Delivery Date (as hereinafter defined), as the case may be, except upon payment for all the Stock to be purchased on such Delivery Date as provided herein and in the International Underwriting Agreement.

3. Offering of Stock by the U.S. Underwriters. Upon authorization by the Representatives of the release of the Firm Stock, the several U.S. Underwriters propose to offer the Firm Stock for sale upon the terms and conditions set forth in the Prospectus; provided, however, that no Stock registered pursuant to the Rule 462(b) Registration Statement, if any, shall be offered prior to the Effective Time thereof.

Each U.S. Underwriter agrees that, except to the extent permitted by the Agreement Between U.S. Underwriters and International Managers, it will not offer or sell any of the Stock outside of the United States.

4. Delivery of and Payment for the Stock. Delivery of and payment for the Firm Stock shall be made at the office of Simpson Thacher & Bartlett at 425 Lexington Avenue, New York, New York, 10017, at 10:00 A.M., New York City time, on the third (fourth, if pricing occurs after 4:30 p.m. New York City time) full business day following the date of this Agreement or at such other date or place as shall be determined by agreement between the Representatives and the Company. This date and time are sometimes referred to as the "First Delivery Date." On the First Delivery Date, the Company shall deliver or cause to be delivered certificates representing the Firm Stock to the Representatives for the account of each U.S. Underwriter against payment to or upon the order of the Company of the purchase price by wire transfer. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each U.S. Underwriter hereunder. Upon delivery, the Firm Stock shall be registered in such names and in such denominations as the Representatives shall request in writing not less than two full business days prior to the First Delivery Date. For the purpose of expediting the checking and packaging of the certificates for the Firm Stock, the Company shall make the certificates representing the Firm Stock available for inspection by the Representatives in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the First Delivery Date.

At any time on or before the thirtieth day after the date of this Agreement, the option granted in Section 2 may be exercised by written notice being given to the Company by the Representatives. Such notice shall set forth the aggregate number of shares of Option Stock as to which the option is being exercised, the names in which the shares of Option Stock are to be registered, the denominations in which the shares of Option Stock are to be issued and the date and time, as determined by the Representatives, when the shares of the Option Stock are to be delivered; provided, however, that this date and time shall not be earlier than the First Delivery Date nor earlier than the second business day after the date on which the option shall have been exercised nor later than the fifth business day after the date on which the option shall have been exercised. The date and time the shares of Option Stock are delivered are sometimes referred to as the "Second Delivery Date" and the First Delivery Date and the Second Delivery Date are sometimes each referred to as a "Delivery Date".

Delivery of and payment for the Option Stock shall be made at the place specified in the first sentence of the first paragraph of this Section 4 (or at such other place as shall be determined by agreement between the Representatives and the Company) at 10:00 A.M., New York City time, on the Second Delivery Date. On the Second Delivery Date, the Company shall deliver or cause to be delivered the certificates representing the Option Stock to the Representatives for the account of each U.S. Underwriter against payment to or upon the order of the Company of the purchase price by wire transfer. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each U.S. Underwriter hereunder. Upon delivery, the Option Stock shall be registered in such names and in such denominations as the Representatives shall request in the aforesaid written notice. For the purpose of expediting the checking and packaging of the certificates for the Option Stock, the Company shall make the certificates representing the Option Stock available for inspection by the Representatives in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the Second Delivery Date.

5. Further Agreements of the Company. The Company agrees:

(a) To prepare the Rule 462(b) Registration Statement, if necessary, in a form approved by the Representatives and to file such Rule 462(b) Registration Statement with the Commission not later than the day following the execution and delivery of this Agreement; to prepare the Prospectus in a form approved by the Representatives and to file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than 10:00 A.M., New York City time, on the day following the execution and delivery of this Agreement; to make no further amendment or any supplement to the Registration Statements or to the Prospectus except as permitted herein; to advise the Representatives, promptly after it receives notice thereof of the time when any amendment to either Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to provide the Representatives with copies thereof; to advise the Representatives, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, of the suspension of the qualification of the Stock for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statements or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspending any such qualification, to use promptly its best efforts to obtain its withdrawal;

(b) To furnish promptly to Lehman Brothers Inc. a signed copy of each of the Registration Statements as originally filed with the Commission, and each amendment thereto filed with the Commission, including all consents and exhibits filed therewith;

(c) To deliver promptly to the Representatives in New York City such number of the following documents as the Representatives shall reasonably request: (i)conformed copies of the Registration Statements as originally filed with the Commission and each amendment thereto (in each case excluding exhibits other than this Agreement and the computation of per share earnings) and (ii) each Preliminary Prospectus, the Prospectus (not later than 10:00 A.M., New York City time, of the day following the execution and delivery of this Agreement) and any amended or supplemented Prospectus (not later than 10:00 A.M., New York City time, on the day following the date of such amendment or supplement); and, if the delivery of a prospectus is required at any time after the Effective Time of the Primary Registration Statement in connection with the offering or sale of the Stock (or any other securities relating thereto) and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary to amend or supplement the Prospectus in order to comply with the Securities Act, to notify the Representatives and, upon their request, to prepare and furnish without charge to each U.S. Underwriter and to any dealer in securities as many copies as the Representatives may from time to time reasonably request of an amended or supplemented Prospectus which will correct such statement or omission or effect such compliance;

(d) To file promptly with the Commission any amendment to the Registration Statements or the Prospectus or any supplement to the Prospectus that may, in the judgment of the Company or the Representatives, be required by the Securities Act or requested by the Commission;

(e) Prior to filing with the Commission (i) any amendment to either of the Registration Statements or supplement to the Prospectus or (ii) any Prospectus pursuant to Rule 424 of the Rules and Regulations, to furnish a copy thereof to the Representatives and counsel for the U.S. Underwriters and obtain the consent of the Representatives to the filing;

(f) As soon as practicable after the Effective Date of the Primary Registration Statement, to make generally available to the Company's security holders and to deliver to the Representatives an earnings statement of the Company and its subsidiaries (which need not be audited) complying with Section 11(a) of the Securities Act and the Rules and Regulations (including, at the option of the Company, Rule 158);

(g) For a period of five years following the Effective Date of the Primary Registration Statement, to furnish to the Representatives (i) copies of all materials furnished by the Company to its shareholders generally, (ii) copies of all public reports and all reports and financial statements furnished by the Company to the principal national securities exchange or automated quotation system upon which the Common Stock may be listed or quoted pursuant to requirements of or agreements with such exchange or system, (iii) copies of all reports filed by the Company with the Commission pursuant to the Exchange Act or any rule or regulation of the Commission thereunder and (iv) copies of the publicly available reports filed by the Bank with the OTS;

(h) Promptly from time to time to take such action as the Representatives may reasonably request to qualify the Stock for offering and sale under the securities laws of such jurisdictions as the Representatives may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Stock; provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction; and

(i) For a period of 90 days from the date of the Prospectus, not to, directly or indirectly, offer for sale, sell or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition or purchase by any person at any time in the future of) any shares of Common Stock (other than the Stock issued pursuant to employee benefit plans, qualified stock option plans or other employee compensation plans existing on the date hereof or pursuant to currently outstanding options, warrants or rights), or sell or grant options, rights or warrants with respect to any shares of Common Stock (other than the grant of options pursuant to option plans existing on the date hereof), without the prior written consent Lehman Brothers Inc. on behalf of the Representatives; and to cause each executive officer and director of the Company to furnish to the Representatives, prior to the First Delivery Date, a letter or letters, in form and substance satisfactory to counsel for the Underwriters, pursuant to which each such person shall agree not to, directly or indirectly, offer for sale, sell or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition or purchase by any person at any time in the future of) any shares of Common Stock for a period of 180 days from the date of the Prospectus, without the prior written consent of Lehman Brothers Inc. on behalf of the Representatives;

6. Expenses. The Company agrees to pay (a) the costs incident to the authorization, issuance, sale and delivery of the Stock and any taxes payable in that connection;(b) the costs incident to the preparation, printing and filing under the Securities Act of the Registration Statements and any amendments and exhibits thereto;(c) the costs of distributing the Registration Statements as originally filed and each amendment thereto and any post-effective amendments thereof (including, in each case, exhibits), any Preliminary Prospectus, the Prospectus and any amendment or supplement to the Prospectus, all as provided in this Agreement;(d) the costs of reproducing and distributing this Agreement, the Agreement Between

U.S. Underwriters and International Managers and the Supplemental Agreement Among U.S. Underwriters; (e) the costs of distributing the terms of agreement relating to the organization of the domestic underwriting syndicate and selling group to the members thereof by mail, telex or other means of communication; (f) the filing fees incident to securing any required review by the National Association of Securities Dealers, Inc. of the terms of sale of the Stock; (g) any applicable listing or other fees; (h) the fees and expenses of qualifying the Stock under the securities laws of the several jurisdictions as provided in Section 5(h) and of preparing, printing and distributing a Blue Sky Memorandum (including related fees and expenses of counsel to the U.S. Underwriters); and (i) all other costs and expenses incident to the performance of the obligations of the Company under this Agreement; provided that, except as provided in this Section 6 and in Section 11, the U.S. Underwriters shall pay their own costs and expenses, including the costs and expenses of their counsel, any transfer taxes on the Stock which they may sell and the expenses of advertising any offering of the Stock made by the U.S. Underwriters.

7. Conditions of U.S. Underwriters' Obligations. The respective obligations of the U.S. Underwriters hereunder are subject to the accuracy, when made and on each Delivery Date, of the representations and warranties of the Company contained herein, to the performance by the Company of its obligations hereunder, and to each of the following additional terms and conditions:

(a) The Rule 462(b) Registration Statement, if any, and the Prospectus shall have been timely filed with the Commission in accordance with Section 5(a); no stop order suspending the effectiveness of either of the Registration Statements or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and any request of the Commission for inclusion of additional information in either of the Registration Statements or the Prospectus or otherwise shall have been complied with.

(b) No U.S. Underwriter or International Manager shall have discovered and disclosed to the Company on or prior to such Delivery Date that either of the Registration Statements or the Prospectus or any amendment or supplement thereto contains any untrue statement of a fact which, in the opinion of Simpson Thacher & Bartlett, counsel for the U.S. Underwriters, is material or omits to state any fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement, the International Underwriting Agreement, the Stock, the Registration Statements and the Prospectus, and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be satisfactory in all respects to counsel for the U.S. Underwriters, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(d) Elias, Matz, Tiernan & Herrick L.L.P. shall have furnished to the Representatives its written opinion, as counsel to the Company, addressed to the U.S. Underwriters and dated such Delivery Date, in form and substance satisfactory to the Representatives, to the effect that:

(i) The Company is a savings and loan holding company duly registered under HOLA;

(ii) The Bank has been duly organized and is validly existing as a federal savings bank under the laws of the United States of America, with full corporate power and authority to own its properties and conduct its business as described in the Registration Statements and the Prospectus, and is a member of the Federal Home Loan Bank of New York;

(iii) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company (including the shares of Stock being delivered on such Delivery Date) have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description thereof contained in the Prospectus; and all of the issued shares of capital stock of the Bank have been duly and validly authorized and issued and are fully paid, non-assessable and are directly or indirectly owned of record and, to such counsel's knowledge, beneficially by the Company, free and clear of all liens, encumbrances, equities or claims;

(iv) There are no preemptive or other rights to subscribe for or to purchase, nor any restriction upon the voting or transfer of, any shares of the Stock pursuant to the Company's articles of incorporation or by-laws or any agreement or other instrument known to such counsel;

(v) To such counsel's knowledge, and other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property or asset of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, reasonably could be expected to have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries; and, to such counsel's knowledge, no such proceedings are threatened or contemplated by governmental authorities or by others;

(vi) The Primary Registration Statement was declared effective under the Securities Act as of the date and time specified in such opinion, the Rule 462(b) Registration Statement, if any, was filed with the Commission on the date specified therein, the Prospectus was filed with the Commission pursuant to the subparagraph of Rule 424(b) of the Rules and Regulations specified in such opinion on the date specified therein and no stop order suspending the effectiveness of either of the Registration Statements has been issued and, to the knowledge of such counsel, no proceeding for that purpose is pending or threatened by the Commission;

(vii) The Registration Statements, as of their respective Effective Dates, and the Prospectus, as of its date, and any further amendments or supplements thereto, as of their respective dates, made by the Company prior to such Delivery Date (other than the financial statements and other financial and statistical data contained therein, as to which such counsel need express no opinion) complied as to form in all material respects with the requirements of the Securities Act and the Rules and Regulations;

(viii) The statements contained in the Prospectus under the captions "Regulation", "Taxation-Federal Taxation" and "Description of Capital Stock", insofar as they describe federal statutes, rules and regulations, constitute a fair summary thereof;

(ix) To the best of such counsel's knowledge, there are no contracts or other documents which are required to be described in the Prospectus or filed as exhibits to the Registration Statements by the Securities Act or by the Rules and Regulations which have not been described or filed as exhibits to the Registration Statements or incorporated therein by reference as permitted by the Rules and Regulations;

(x) This Agreement and the International Underwriting Agreement have each been duly authorized, executed and delivered by the Company;

(xi) The issue and sale of the shares of Stock being delivered on such Delivery Date by the Company and the compliance by the Company with all of the provisions of this Agreement and the International Underwriting Agreement and the consummation of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the properties or assets of the Company or any of its subsidiaries is subject, except for such conflicts, breaches, violations or defaults which individually or in the aggregate would not have a material adverse effect on the operations, business or condition of the Company and its subsidiaries taken as a whole, nor will such actions result in any violation of the provisions of the charter or by-laws of the Company or any of its subsidiaries or any statute or any order, rule or regulation known to such counsel of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties or assets; and, except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act and applicable state or foreign securities laws in connection with the purchase and distribution of the Stock by the U.S. Underwriters and the International Managers, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement or the International Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby.

(xii) To such counsel's knowledge, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statements or in any securities being registered pursuant to any other registration statement filed by the Company under the Securities Act;

(xiii) The savings accounts of depositors in the Bank are insured by the FDIC to the fullest extent permitted by law and the rules and regulations of the FDIC, and no proceedings for the termination of such insurance are pending, or to such counsel's knowledge, threatened; and

(xiv) To such counsel's knowledge, neither the Company nor any of its subsidiaries is party to or otherwise the subject of any consent decree, memorandum of understanding, written agreement or similar supervisory or enforcement agreement or understanding with the OTS, the FDIC or any other government authority or agency responsible for the supervision, regulation or insurance of depository institutions or their holding companies.

In rendering such opinion, such counsel may (i) state that its opinion is limited to matters governed by the Federal laws of the United States of America and the laws of Florida. Such counsel shall also have furnished to the Representatives a written statement, addressed to the U.S. Underwriters and dated such Delivery Date, in form and substance satisfactory to the Representatives, to the effect that (x) such counsel has, in its capacity as special counsel to the Company, participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants of the Company and representatives of the Representatives at which the contents of the Registration Statements and the Prospectus have been discussed, and (y) based on the foregoing, no facts have come to the attention of such counsel which lead it to believe that the Registration Statements, as of their respective Effective Dates, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Prospectus contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The foregoing opinion and statement may be qualified by a statement to the effect that such counsel does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statements or the Prospectus, except for the statements made in the Prospectus under the captions "Regulation", "Taxation-Federal Taxation" and "Description of Capital Stock", insofar as such statements relate to the Stock and concern legal matters.

(e) John R. Erbey, Managing Director, General Counsel and Secretary of the Company, shall have furnished to the Representatives its written opinion addressed to the U.S. Underwriters and dated such Delivery Date, in form and substance satisfactory to the Representatives, to the effect that:

(i) All of the issued shares of capital stock of each Significant Subsidiary of the Company have been duly and validly authorized and issued and are fully paid, non-assessable and are directly or indirectly owned of record and beneficially by the Company, free and clear of all liens, encumbrances, equities or claims;

(ii) Each of the Company's Significant Subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation; the Company and each of its subsidiaries are duly qualified to do business and are in good standing as foreign corporations in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification (other than those jurisdictions in which the failure to so qualify would not have a materially adverse effect on the Company or the Company and its subsidiaries taken as a whole), and have all the power and authority necessary to own or hold their respective properties and conduct the businesses in which they are engaged;

(iii) There are no preemptive or other rights to subscribe for or to purchase, nor any restriction upon the voting or transfer of, any shares of the Common Stock pursuant to the Company's articles of incorporation or by-laws or any agreement or other instrument known to such counsel;

(iv) Other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property or asset of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, reasonably could be expected to have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries; and, to the best of such counsel's knowledge, no such proceedings are threatened or contemplated by governmental authorities or by others; and

(v) The issue and sale of the shares of Stock being delivered on such Delivery Date by the Company and the compliance by the Company with all of the provisions of this Agreement and the International Underwriting Agreement and the consummation of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the properties or assets of the Company or any of its subsidiaries is subject, except for such conflicts, breaches, violations or defaults which individually or in the aggregate would not have a material adverse effect on the operations, business or condition of the Company and its subsidiaries taken as a whole, nor will such actions result in any violation of the provisions of the charter (or other organization document) or by-laws of the Company or any of its subsidiaries or any decree, judgment or order of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties or assets; and, except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act, applicable state or foreign securities laws and the NYSE in connection with the purchase and distribution of the Stock by the U.S. Underwriters and the International Managers, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement or the International Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby.

In rendering such opinion, such counsel may (i) state that its opinion is limited to matters governed by the Federal laws of the United States of America and the laws of Florida. Such counsel shall also have furnished to the Representatives a written statement, addressed to the U.S. Underwriters and dated such Delivery Date, in form and substance satisfactory to the Representatives, to the effect that (x) such counsel has acted as counsel to the Company in connection with the preparation of the Registration Statements, and (y) based on the foregoing, no facts have come to the attention of such counsel which lead it to believe that the Registration Statements, as of their respective Effective Dates, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Prospectus contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The foregoing opinion and statement may be qualified by a statement to the effect that such counsel does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statements or the Prospectus.

(f) With respect to the letter of Price Waterhouse LLP delivered to the Representatives concurrently with the execution of this Agreement (the "initial letter"), the Company shall have furnished to the Representatives a letter (the "bring-down letter") of such accountants, addressed to the U.S. Underwriters and dated such Delivery Date (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring-down letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than three days prior to the date of the bring-down letter), the conclusions and findings of such firm with respect to the financial information and other matters covered by the initial letter and (iii) confirming in all material respects the conclusions and findings set forth in the initial letter.

(g) The Company shall have furnished to the Representatives a certificate, dated such Delivery Date, of its Chairman of the Board, its President, a Managing Director or a Vice President and its chief financial officer stating that, to the best of his or her knowledge,

(i) the representations, warranties and agreements of the Company in Section 1 are true and correct as of such Delivery Date; the Company has complied in all material respects with all its agreements contained herein; and the conditions set forth in Section 7(a) have been fulfilled;

(ii) (A) neither the Company nor any of its subsidiaries has sustained since the date of the latest audited financial statements included in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus or (B) since such date there has not been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Registration Statements; and

(iii) they have carefully examined the Registration Statements and the Prospectus and, in their opinion (A) the Registration Statements, as of their respective Effective Dates, and the Prospectus, as of each of the Effective Dates, did not include any untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and (B) since the Effective Date of the Primary Registration Statement, no event has occurred which should have been set forth in a supplement or amendment to either of the Registration Statements or the Prospectus.

(h)(i) Neither the Company nor any of its subsidiaries shall have sustained since the date of the latest audited financial statements included in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus or (ii) since such date there shall not have been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Registration Statements, the effect of which, in any such case described in clause (i) or (ii), is, in the judgment of the Representatives, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Stock being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(i) Subsequent to the execution and delivery of this Agreement (i) no downgrading shall have occurred in the rating accorded the Company's debt securities by any "nationally recognized statistical rating organization", as that term is defined by the Commission for purposes of Rule 436(g)(2) of the Rules and Regulations and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities.

(j) Subsequent to the execution and delivery of this Agreement there shall not have occurred any of the following:(i) trading in securities generally on the NYSE or the American Stock Exchange or in the over-the-counter market, or trading in any securities of the Company on any exchange or in the over-the-counter market, shall have been suspended or minimum prices shall have been established on any such exchange or such market by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction,(ii) a banking moratorium shall have been declared by Federal or state authorities,(iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions (or the effect of international conditions on the financial markets in the United States shall be such) as to make it, in the judgment of a majority in interest of the several U.S. Underwriters, impracticable or inadvisable to proceed with the public offering or delivery of the Stock being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(k) The NYSE shall have approved the Stock for listing.

(l) The Representatives shall have received the letters to be provided pursuant to Section 5(i) of this Agreement.

(m) The closing under the International Underwriting Agreement shall have occurred concurrently with the closing hereunder.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance satisfactory to counsel for the U.S. Underwriters.

8. Indemnification and Contribution.

(a) The Company shall indemnify and hold harmless each U.S. Underwriter, its officers and employees and each person, if any, who controls any U.S. Underwriter within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to purchases and sales of Stock), to which that U.S. Underwriter, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon,(i) any untrue statement or alleged untrue statement of a material fact contained (A) in any Preliminary Prospectus, either of the Registration Statements or the Prospectus, or in any amendment or supplement thereto, or (B) in any blue sky application or other document prepared or executed by the Company (or based upon any written information furnished by the Company) specifically for the purpose of qualifying any or all of the Stock under the securities laws of any state or other jurisdiction (any such application, document or information being hereinafter called a "Blue Sky Application"), or (ii) the omission or alleged omission to state in any Preliminary Prospectus, either of the Registration Statements or the Prospectus, or in any amendment or supplement thereto, or in any Blue Sky Application any material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any act or failure to act, or any alleged act or failure to act, by any Underwriter in connection with, or relating in any manner to, the Stock or the offering contemplated hereby, and which is included as part of or referred to in any loss, claim, damage, liability or action arising out of or based upon matters covered by clause (i) or (ii) above (provided that the Company shall not be liable in the case of any matter covered by this clause (iii) to the extent that it is determined in a final judgement by a court of competent jurisdiction that such loss, claim, damage, liability or action resulted directly from any such act or failure to act undertaken or omitted to be taken by such Underwriter through its gross negligence or wilful misconduct), and shall reimburse each U.S. Underwriter and each such officer, employee and controlling person promptly upon demand for any legal or other expenses reasonably incurred by that U.S. Underwriter, officer, employee or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, either of the Registration Statements or the Prospectus, or in any such amendment or supplement, or in any Blue Sky Application in reliance upon and in conformity with the written information furnished to the Company through the Representatives by or on behalf of any U.S. Underwriter specifically for inclusion therein and described in Section 8(e); and provided further that as to any Preliminary Prospectus this indemnity agreement shall not inure to the benefit of any U.S. Underwriter, its officers or employees or any person controlling that U.S. Underwriter on account of any loss, claim, damage, liability or action arising from the sale of Stock to any person by that U.S. Underwriter if that U.S. Underwriter failed to send or give a copy of the Prospectus, as the same may be amended or supplemented, to that person within the time required by the Securities Act, and the untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact in such Preliminary Prospectus was corrected in the Prospectus, unless such failure resulted from non-compliance by the Company with Section 5(c). The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to any U.S. Underwriter or to any officer, employee or controlling person of that U.S. Underwriter.

(b) Each U.S. Underwriter, severally and not jointly, shall indemnify and hold harmless the Company, its officers and employees, each of its directors and each person, if any, who controls the Company within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company or any such director, officer or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon,(i) any untrue statement or alleged untrue statement of a material fact contained (A) in any Preliminary Prospectus, either of the Registration Statements or the Prospectus, or in any amendment or supplement thereto, or (B) in any Blue Sky Application or (ii) the omission or alleged omission to state in any Preliminary Prospectus, either of the Registration Statements or the Prospectus, or in any amendment or supplement thereto, or in any Blue Sky Application any material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with the written information furnished to the Company through the Representatives by or on behalf of that U.S. Underwriter specifically for inclusion therein and described in Section 8(e), and shall reimburse the Company and any such director, officer or controlling person for any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred. The foregoing indemnity agreement is in addition to any liability which any U.S. Underwriter may otherwise have to the Company or any such director, officer or controlling person.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the claim or the commencement of that action; provided, however, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent it has been materially prejudiced by such failure and, provided further, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 8. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that any indemnified party shall have the right to employ separate counsel in any such action and to participate in the defense thereof but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment thereof has been specifically authorized by the indemnifying party in writing, (ii) such indemnified party shall have been advised by such counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the indemnifying party and in the reasonable judgment of such counsel it is advisable for such indemnified party to employ separate counsel or (iii) the indemnifying party has failed to assume the defense of such action and employ counsel reasonably satisfactory to the indemnified party, in which case, if such indemnified party notifies the indemnifying party in writing that it elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such action on behalf of such indemnified party, it being understood, however, that the indemnifying party shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys at any time for all such indemnified parties, which firm shall be designated in writing by the Representatives, if the indemnified parties under this Section 8 consist of any Underwriter or any of their respective officers, employees or controlling persons, or by the Company, if the indemnified parties under this Section consist of the Company or any of the Company's directors, officers, employees or controlling persons. No indemnifying party shall (i) without the prior written consent of the indemnified parties (which consent shall not be unreasonably withheld), settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding, or (ii) be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with its written consent or if there be a final judgment of the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss of liability by reason of such settlement or judgment.

(d) If the indemnification provided for in this Section 8 shall for any reason be unavailable to or insufficient to hold harmless an indemnified party under Section 8(a) or 8(b) in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof,(i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company on the one hand and the U.S. Underwriters on the other from the offering of the Stock or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the U.S. Underwriters on the other with respect to the statements or omissions which resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the U.S. Underwriters on the other with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Stock purchased under this Agreement (before deducting expenses) received by the Company, on the one hand, and the total underwriting discounts and commissions received by the U.S. Underwriters with respect to the shares of the Stock purchased under this Agreement, on the other hand, bear to the total gross proceeds from the offering of the shares of the Stock under this Agreement, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or the U.S. Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the U.S. Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were to be determined by pro rata allocation (even if the U.S. Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 8(d) shall be deemed to include, for purposes of this Section 8(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8(d), no U.S. Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Stock underwritten by it and distributed to the public was offered to the public exceeds the amount of any damages which such U.S. Underwriter has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The U.S. Underwriters' obligations to contribute as provided in this Section 8(d) are several in proportion to their respective underwriting obligations and not joint.

(e) The U.S. Underwriters severally confirm that the statements with respect to the public offering of the Stock set forth on the cover page of, and under the caption "Underwriting" in, the Prospectus are correct and constitute the only information furnished in writing to the Company by or on behalf of the U.S. Underwriters specifically for inclusion in the Registration Statements and the Prospectus.

9. Defaulting U.S. Underwriters.

If, on either Delivery Date, any U.S. Underwriter defaults in the performance of its obligations under this Agreement, the remaining non-defaulting U.S. Underwriters shall be obligated to purchase the Stock which the defaulting U.S. Underwriter agreed but failed to purchase on such Delivery Date in the respective proportions which the number of shares of the Firm Stock set opposite the name of each remaining non-defaulting U.S. Underwriter in Schedule 1 hereto bears to the total number of shares of the Firm Stock set opposite the names of all the remaining non-defaulting U.S. Underwriters in Schedule 1 hereto; provided, however, that the remaining non-defaulting U.S. Underwriters shall not be obligated to purchase any of the Stock on such Delivery Date if the total number of shares of the Stock which the defaulting U.S. Underwriter or U.S. Underwriters agreed but failed to purchase on such date exceeds 9.09% of the total number of shares of the Stock to be purchased on such Delivery Date, and any remaining non-defaulting U.S. Underwriter shall not be obligated to purchase more than 110% of the number of shares of the Stock which it agreed to purchase on such Delivery Date pursuant to the terms of Section 2. If the foregoing maximums are exceeded, the remaining non-defaulting U.S. Underwriters, or those other underwriters satisfactory to the Representatives who so agree, shall have the right, but shall not be obligated, to purchase, in such proportion as may be agreed upon among them, all the Stock to be purchased on such Delivery Date. If the remaining U.S. Underwriters or other underwriters satisfactory to the Representatives do not elect to purchase the shares which the defaulting U.S. Underwriter or U.S. Underwriters agreed but failed to purchase on such Delivery Date, this Agreement (or, with respect to the Second Delivery Date, the obligation of the U.S. Underwriters to purchase, and of the Company to sell, the Option Stock) shall terminate without liability on the part of any non-defaulting U.S. Underwriter or the Company, except that the Company will continue to be liable for the payment of expenses to the extent set forth in Sections 6 and 11. As used in this Agreement, the term "U.S. Underwriter" includes, for all purposes of this Agreement unless the context requires otherwise, any party not listed in Schedule 1 hereto who, pursuant to this Section 9, purchases Firm Stock which a defaulting U.S. Underwriter agreed but failed to purchase.

Nothing contained herein shall relieve a defaulting U.S. Underwriter of any liability it may have to the Company for damages caused by its default. If other underwriters are obligated or agree to purchase the Stock of a defaulting or withdrawing U.S. Underwriter, either the Representatives or the Company may postpone the First Delivery Date for up to seven full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the U.S. Underwriters may be necessary in the Registration Statement, the Prospectus or in any other document or arrangement.

10. Termination. The obligations of the U.S. Underwriters hereunder may be terminated by the Representatives by notice given to and received by the Company prior to delivery of and payment for the Firm Stock if, prior to that time, any of the events described in Sections 7(h), 7(i) or 7(j) shall have occurred or if the U.S. Underwriters shall decline to purchase the Stock for any reason permitted under this Agreement.

11. Reimbursement of U.S. Underwriters' Expenses. If (a) the Company shall fail to tender the Stock for delivery to the U.S. Underwriters for any reason permitted under this Agreement, or (b) the U.S. Underwriters shall decline to purchase the Stock for any reason permitted under this Agreement (including the termination of this Agreement pursuant to Section 10), the Company shall reimburse the U.S. Underwriters for the reasonable fees and expenses of their counsel and for such other out-of-pocket expenses as shall have been incurred by them in connection with this Agreement and the proposed purchase of the Stock, and upon demand the Company shall pay the full amount thereof to the Representatives. If this Agreement is terminated pursuant to Section 9 by reason of the default of one or more U.S. Underwriters, the Company shall not be obligated to reimburse any defaulting U.S. Underwriter on account of those expenses.

12. Notices, etc. All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the U.S. Underwriters, shall be delivered or sent by mail, telex or facsimile transmission to Lehman Brothers Inc., Three World Financial Center, New York, New York 10285, Attention: Syndicate Department (Fax: 212-528-8822);

(b) if to the Company, shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Primary Registration Statement, Attention: Secretary (Fax: 561-681-8177).

provided, however, that any notice to an U.S. Underwriter pursuant to Section 8(c) shall be delivered or sent by mail, telex or facsimile transmission to such U.S. Underwriter at its address set forth in its acceptance telex to the Representatives, which address will be supplied to any other party hereto by the Representatives upon request. Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof. The Company shall be entitled to act and rely upon any request, consent, notice or agreement given or made on behalf of the Underwriters by Lehman Brothers Inc. on behalf of the Representatives.

13. Persons Entitled to Benefit of Agreement. This Agreement shall inure to the benefit of and be binding upon the U.S. Underwriters, the Company and their respective successors. This Agreement and the terms and provisions hereof are for the sole benefit of only those persons, except that (A) the representations, warranties, indemnities and agreements of the Company contained in this Agreement shall also be deemed to be for the benefit of the officers and employees of each U.S. Underwriter and the person or persons, if any, who control each U.S. Underwriter within the meaning of Section 15 of the Securities Act and for the benefit of each International Manager (and controlling persons thereof) who offers or sells any shares of Common Stock in accordance with the terms of the Agreement Between U.S. Underwriters and International Managers and (B) the indemnity agreement of the U.S. Underwriters contained in Section 8(b) of this Agreement shall be deemed to be for the benefit of directors, officers and employees of the Company and any person controlling the Company within the meaning of Section 15 of the Securities Act. Nothing in this Agreement is intended or shall be construed to give any person, other than the persons referred to in this Section 13, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

14. Survival. The respective indemnities, representations, warranties and agreements of the Company and the U.S. Underwriters contained in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall survive the delivery of and payment for the Stock and shall remain in full force and effect, regardless of any investigation made by or on behalf of any of them or any person controlling any of them.

15. Definition of the Terms "Business Day" and "Subsidiary". For purposes of this Agreement,(a) "business day" means any day on which the NYSE is open for trading and (b) "subsidiary" has the meaning set forth in Rule 405 of the Rules and Regulations and shall be deemed to include BCBF.

16. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of New York.

17. Counterparts. This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

18. Headings. The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

If the foregoing correctly sets forth the agreement among the Company and the U.S. Underwriters, please indicate your acceptance in the space provided for that purpose below.

Very truly yours,

Ocwen Financial Corporation

By________________________________________
William C. Erbey
Chairman, President and
Chief Executive Officer

Accepted:

Lehman Brothers Inc.
Friedman, Billings, Ramsey & Co., Inc.
Morgan, Stanley & Co. Incorporated

For themselves and as Representatives
of the several U.S. Underwriters named
in Schedule 1 hereto

By Lehman Brothers Inc.

By________________________________
Authorized Representative

SCHEDULE 1

| U.S. Underwriters | Number of Shares |
| --- | --- |
| Lehman Brothers Inc.................................. | |
| Friedman, Billings, Ramsey & Co., Inc................ | |
| Morgan, Stanley & Co. Incorporated................... | |
| | --------- |
| Total .......................................... | |
| | --------- |
| | --------- |

Exhibit 1.1

[________]

Ocwen Financial Corporation

Common Stock

INTERNATIONAL UNDERWRITING AGREEMENT

August __, 1997

Lehman Brothers International (Europe)
Friedman, Billings, Ramsey & Co., Inc.
Morgan, Stanley & Co. International Limited
As Representatives of the several
Underwriters named in Schedule 1,
c/o Lehman Brothers International (Europe)
Three World Financial Center
New York, New York 10285

Dear Sirs:

Ocwen Financial Corporation, a Florida corporation (the "Company"), proposes to sell ___________ shares (the "Firm Stock") of the Company's common stock, par value $0.01 per share (the "Common Stock"). In addition, the Company proposes to grant to the underwriters named in Schedule 1 hereto (the "International Managers") an option to purchase up to an additional _________ shares of the Common Stock on the terms and for the purposes set forth in Section 4 (the "Option Stock"). The Firm Stock and the Option Stock, if purchased, are hereinafter collectively called the "Stock". This is to confirm the agreement concerning the purchase of the Stock from the Company by the International Managers named in Schedule 1 hereto.

It is understood by all parties that the Company is concurrently entering into an agreement dated the date hereof (the "U.S. Underwriting Agreement") providing for the sale by the Company of ___________ shares of Common Stock (including the over-allotment option thereunder) (the "U.S. Stock") through arrangements with certain underwriters in the United States and in Canada (the "U.S. Underwriters"), for whom Lehman Brothers Inc., Friedman, Billings, Ramsey & Co., Inc. and Morgan Stanley & Co. Incorporated are acting as representatives. The International Managers and the U.S. Underwriters simultaneously are entering into an agreement between the international and U.S. underwriting syndicates (the "Agreement Between U.S. Underwriters and International Managers") which provides for, among other things, the transfer of shares of Common Stock between the two syndicates. Two forms of prospectus are to be used in connection with the offering and sale of shares of Common Stock contemplated by the foregoing, one relating to the Stock and the other relating to the U.S. Stock. The latter form of prospectus will be identical to the former except for certain substitute pages as included in the registration statement and amendments thereto referred to below. Except as used in Sections 2, 3, 4, 9 and 10 herein, and except as the context may otherwise require, references herein to the Stock shall include all the shares of the Common Stock which may be sold pursuant to either this Agreement or the U.S. Underwriting Agreement, and references herein to any prospectus whether in preliminary or final form, and whether as amended or supplemented, shall include both the international and the U.S. versions thereof.

1. Representations, Warranties and Agreements of the Company. The Company represents, warrants and agrees that:

(a) A registration statement on Form S-1, and amendments thereto, with respect to the Stock has (i) been prepared by the Company in conformity with the requirements of the United States Securities Act of 1933 (the "Securities Act") and the rules and regulations (the "Rules and Regulations") of the United States Securities and Exchange Commission (the "Commission") thereunder, (ii) been filed with the Commission under the Securities Act and (iii) become effective under the Securities Act; and a second registration statement on Form S-1 with respect to the Stock (i) may also be prepared by the Company in conformity with the requirements of the Securities Act and the Rules and Regulations and (ii) if to be so prepared, will be filed with the Commission under the Securities Act pursuant to Rule 462(b) of the Rules and Regulations on the date hereof. Copies of the first such registration statement and the amendments to such registration statement, together with the form of any such second registration statement, have been delivered by the Company to you as the lead managers (the "Lead Managers") of the International Managers. As used in this Agreement, "Effective Time" means (i) with respect to the first such registration statement, the date and the time as of which such registration statement, or the most recent post-effective amendment thereto, if any, was declared effective by the Commission and (ii) with respect to any second registration statement, the date and time as of which such second registration statement is filed with the Commission, and "Effective Times" is the collective reference to both Effective Times; "Effective Date" means (i) with respect to the first such registration statement, the date of the Effective Time of such registration statement and (ii) with respect to any second registration statement, the date of the Effective Time of such second registration statement, and "Effective Dates" is the collective reference to both Effective Dates; "Preliminary Prospectus" means each prospectus included in any such registration statement, or amendments thereof, before it became effective under the Securities Act and any prospectus filed with the Commission by the Company with the consent of the Lead Managers pursuant to Rule 424(a) of the Rules and Regulations; "Primary Registration Statement" means the first registration statement referred to in this Section 1(a), as amended, at its Effective Time, "Rule 462(b) Registration Statement" means the second registration statement, if any, referred to in this Section 1(a), as filed with the Commission, and "Registration Statements" means both the Primary Registration Statement and any Rule 462(b) Registration Statement, including in each case all information contained in the final prospectus filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations in accordance with Section 5(a) hereof and deemed to be a part of the Registration Statements as of the Effective Time of the Primary Registration

Statement pursuant to paragraph (b) of Rule 430A of the Rules and Regulations; and "Prospectus" means such final prospectus, as first filed with the Commission pursuant to paragraph (1) or (4) of Rule 424(b) of the Rules and Regulations. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

(b) The Primary Registration Statement conforms (and the Rule 462(b) Registration Statement, if any, the Prospectus and any further amendments or supplements to the Registration Statements or the Prospectus, when they become effective or are filed with the Commission, as the case may be, will conform) in all material respects to the requirements of the Securities Act and the Rules and Regulations and do not and will not, as of the applicable Effective Date (as to the Registration Statements and any amendment thereto) and as of the applicable filing date (as to the Prospectus and any amendment or supplement thereto) contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading; provided that no representation or warranty is made as to information contained in or omitted from the Registration Statements or the Prospectus in reliance upon and in conformity with written information furnished to the Company through the Lead Managers by or on behalf of any International Manager specifically for inclusion therein.

(c) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description thereof contained in the Prospectus; and all of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued and are fully paid and non-assessable and except for directors' qualifying shares and as set forth in the Registration Statements and the Prospectus, are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims; the Company is a savings and loan holding company duly registered under the Home Owners' Loan Act, as amended ("HOLA"), and duly organized and validly existing under the laws of the state of Florida, with full power and authority to own its properties and conduct its business as described in the Registration Statement and the Prospectus, and to execute and deliver this Agreement; the Company owns, directly or indirectly, beneficially and of record 100% of the outstanding shares of capital stock of Ocwen Federal Bank FSB (the "Bank"); the Bank is a federal savings bank duly organized and validly existing under the laws of the United States with full power and authority to own its properties and conduct its business as described in the Registration Statement and the Prospectus; the Bank is a member in good standing of the Federal Home Loan Bank System; the savings accounts of depositors in the Bank are insured by the Federal Deposit Insurance Corporation (the "FDIC") to the fullest extent permitted by law and the rules and regulations of the FDIC, and no proceedings for the termination of such insurance are pending, or to the best of the Company's knowledge, threatened.

(d) Each of the Company's subsidiaries (as defined in Section 15) have been duly formed and are validly existing and in good standing under the laws of their respective jurisdictions of incorporation; the Company and each of its subsidiaries are duly qualified to do business and are in good standing as foreign corporations in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification and in which the failure singularly or in the aggregate, to be so qualified could have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries, and have all power and authority necessary to own or hold their respective properties and to conduct the businesses in which they are engaged; and none of the subsidiaries (other than the Bank and BCBF, L.L.C. ("BCBF"), each a "Significant Subsidiary" and together the "Significant Subsidiaries") is a "significant subsidiary", as such term is defined in Rule 405 of the Rules and Regulations.

(e) The unissued shares of the Stock to be issued and sold by the Company to the International Managers hereunder and under the U.S. Underwriting Agreement have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein and in the U.S. Underwriting Agreement, will be duly and validly issued, fully paid and non-assessable; and the Common Stock will conform to the description thereof contained in the Prospectus.

(f) The execution, delivery and performance of this Agreement and the U.S. Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the properties or assets of the Company or any of its subsidiaries is subject, except for such breaches or violations which would not, singularly or in the aggregate, have a material adverse effect on the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, nor will such actions result in any violation of the provisions of the charter (or other organizational document) or by-laws of the Company or any of its subsidiaries or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties or assets; and except for (i) the registration of the Stock under the Securities Act, (ii) such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act and applicable state or foreign securities laws in connection with the purchase and distribution of the Stock by the International Managers and the U.S. Underwriters and (iii) the approval of the listing of the Stock on the New York Stock Exchange ("NYSE"), no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement, or the U.S. Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby.

(g) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statements or in any securities being registered pursuant to any other registration statement filed by the Company under the Securities Act.

(h) Except as described in the Registration Statements, the Company has not sold or issued any shares of Common Stock during the six-month period preceding the date of the Prospectus, including any sales pursuant to Rule 144A or Regulations D or S under the Securities Act, other than shares issued pursuant to director or employee benefit plans, qualified stock options plans or other employee compensation plans or pursuant to outstanding options, rights or warrants.

(i) Neither the Company nor any of its subsidiaries has sustained, since the date of the latest audited financial statements included in the Prospectus, any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus; and, since such date, there has not been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any material adverse change, or any development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Registration Statements.

(j) The financial statements (including the related notes and supporting schedules) filed as part of the Registration Statements or included in the Prospectus present fairly the financial condition and results of operations of the entities purported to be shown thereby, at the dates and for the periods indicated, and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved, except as otherwise stated therein.

(k) Price Waterhouse LLP, who have certified certain financial statements of the Company and BCBF, whose reports appear in the Prospectus and who have delivered the initial letter referred to in Section 7(f) hereof, are independent public accountants as required by the Securities Act and the Rules and Regulations.

(l) There are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property or asset of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, are reasonably likely to have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries; and to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or by others.

(m) There are no contracts or other documents which are required to be described in the Prospectus or filed as exhibits to either of the Registration Statements by the Securities Act or by the Rules and Regulations which have not been described in the Prospectus or filed as exhibits to either of the Registration Statements or incorporated therein by reference as permitted by the Rules and Regulations.

(n) No relationship, direct or indirect, exists between or among the Company on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company on the other hand, which is required to be described in the Prospectus which is not so described.

(o) The Company has filed all federal, state and local income and franchise tax returns required to be filed through the date hereof and has paid all taxes due thereon, and no tax deficiency has been determined adversely to the Company or any of its subsidiaries which has had (nor does the Company have any knowledge of any tax deficiency which, if determined adversely to the Company or any of its subsidiaries, is reasonably likely to have a material) adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries.

(p) Since the date as of which information is given in the Prospectus through the date hereof, and except as may otherwise be disclosed in the Registration Statements, the Company has not (i) issued or granted any securities,(ii) incurred any liability or obligation, direct or contingent, other than liabilities and obligations which were incurred in the ordinary course of business,(iii) entered into any transaction not in the ordinary course of business or (iv) declared or paid any dividend on its capital stock.

(q) The Company (i) makes and keeps accurate books and records and (ii) maintains internal accounting controls which provide reasonable assurance that (A) transactions are executed in accordance with management's authorization,(B) transactions are recorded as necessary to permit preparation of its financial statements and to maintain accountability for its assets,(C) access to its assets is permitted only in accordance with management's authorization and (D) the reported accountability for its assets is compared with existing assets at reasonable intervals.

(r) Neither the Company nor any of its subsidiaries (i) is in violation of its charter (or other organizational document) or by-laws,(ii) is in default in any material respect, and no event has occurred which, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any material indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets is subject or (iii) is in violation in any material respect of any law, ordinance, governmental rule, regulation or court decree to which it or its properties or assets may be subject or has failed to obtain any material license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its properties or assets or to the conduct of its business.

(s) Neither the Company nor any subsidiary is an "investment company" within the meaning of such term under the Investment Company Act of 1940 and the rules and regulations of the Commission thereunder.

2. Purchase of the Stock by the International Managers. On the basis of the representations and warranties contained in, and subject to the terms and conditions of, this Agreement, the Company agrees to sell __________ shares of the Firm Stock to the several International Managers and each of the International Managers, severally and not jointly, agrees to purchase the number of shares of the Firm Stock set opposite that International Manager's name in Schedule 1 hereto. The respective purchase obligations of the International Managers with respect to the Firm Stock shall be rounded among the International Managers to avoid fractional shares, as the Lead Managers may determine.

In addition, the Company grants to the International Managers an option to purchase up to ___________ shares of Option Stock. Such option is granted solely for the purpose of covering over-allotments in the sale of Common Stock and is exercisable as provided in Section 4 hereof. Shares of Option Stock shall be purchased severally for the account of the International Managers in proportion to the number of shares of Common Stock set opposite the name of such International Managers in Schedule 1 hereto. The respective purchase obligations of each International Manager with respect to the Option Stock shall be adjusted by the Lead Managers so that no International Manager shall be obligated to purchase Option Stock other than in 100 share amounts.

The price of any Option Stock shall be $________ per share.

The Company shall not be obligated to deliver any of the Stock to be delivered on the First Delivery Date or the Second Delivery Date (as hereinafter defined), as the case may be, except upon payment for all the Stock to be purchased on such Delivery Date as provided herein and in the U.S. Underwriting Agreement.

3. Offering of Stock by the International Managers. Upon authorization by the Lead Managers of the release of the Firm Stock, the several International Managers propose to offer the Firm Stock for sale upon the terms and conditions set forth in the Prospectus; provided, however, that no Stock registered pursuant to the Rule 462(b) Registration Statement, if any, shall be offered prior to the Effective Time thereof.

Each International Manager agrees that, except to the extent permitted by the Agreement Between U.S. Underwriters and International Managers, it will not offer or sell any of the Stock in the United States or in Canada.

4. Delivery of and Payment for the Stock. Delivery of and payment for the Firm Stock shall be made at the office of Simpson Thacher & Bartlett at 425 Lexington Avenue, New York, New York, 10017, at 10:00 A.M., New York City time, on the third (fourth, if pricing occurs after 4:30 p.m. New York City time) full business day following the date of this Agreement or at such other date or place as shall be determined by agreement between the Lead Managers and the Company. This date and time are sometimes referred to as the "First Delivery Date." On the First Delivery Date, the Company shall deliver or cause to be delivered certificates representing the Firm Stock to the Lead Managers for the account of each International Manager against payment to or upon the order of the Company of the purchase price by wire transfer. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each International Manager hereunder. Upon delivery, the Firm Stock shall be registered in such names and in such denominations as the Lead Managers shall request in writing not less than two full business days prior to the First Delivery Date. For the purpose of expediting the checking and packaging of the certificates for the Firm Stock, the Company shall make the certificates representing the Firm Stock available for inspection by the Lead Managers in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the First Delivery Date.

At any time on or before the thirtieth day after the date of this Agreement, the option granted in Section 2 may be exercised by written notice being given to the Company by the Lead Managers. Such notice shall set forth the aggregate number of shares of Option Stock as to which the option is being exercised, the names in which the shares of Option Stock are to be registered, the denominations in which the shares of Option Stock are to be issued and the date and time, as determined by the Lead Managers, when the shares of the Option Stock are to be delivered; provided, however, that this date and time shall not be earlier than the First Delivery Date nor earlier than the second business day after the date on which the option shall have been exercised nor later than the fifth business day after the date on which the option shall have been exercised. The date and time the shares of Option Stock are delivered are sometimes referred to as the "Second Delivery Date" and the First Delivery Date and the Second Delivery Date are sometimes each referred to as a "Delivery Date".

Delivery of and payment for the Option Stock shall be made at the place specified in the first sentence of the first paragraph of this Section 4 (or at such other place as shall be determined by agreement between the Lead Managers and the Company) at 10:00 A.M., New York City time, on the Second Delivery Date. On the Second Delivery Date, the Company shall deliver or cause to be delivered the certificates representing the Option Stock to the Lead Managers for the account of each International Manager against payment to or upon the order of the Company of the purchase price by wire transfer. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each International Manager hereunder. Upon delivery, the Option Stock shall be registered in such names and in such denominations as the Lead Managers shall request in the aforesaid written notice. For the purpose of expediting the checking and packaging of the certificates for the Option Stock, the Company shall make the certificates representing the Option Stock available for inspection by the Lead Managers in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the Second Delivery Date.

5. Further Agreements of the Company. The Company agrees:

(a) To prepare the Rule 462(b) Registration Statement, if necessary, in a form approved by the Lead Managers and to file such Rule 462(b) Registration Statement with the Commission not later than the day following the execution and delivery of this Agreement; to prepare the Prospectus in a form approved by the Lead Managers and to file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than 10:00 A.M., New York City time, on the day following the execution and delivery of this Agreement; to make no further amendment or any supplement to the Registration Statements or to the Prospectus except as permitted herein; to advise the Lead Managers, promptly after it receives notice thereof of the time when any amendment to either Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to provide the Lead Managers with copies thereof; to advise the Lead Managers, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, of the suspension of the qualification of the Stock for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statements or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspending any such qualification, to use promptly its best efforts to obtain its withdrawal;

(b) To furnish promptly to Lehman Brothers International (Europe) a signed copy of each of the Registration Statements as originally filed with the Commission, and each amendment thereto filed with the Commission, including all consents and exhibits filed therewith;

(c) To deliver promptly to the Lead Managers in New York City such number of the following documents as the Lead Managers shall reasonably request: (i)conformed copies of the Registration Statements as originally filed with the Commission and each amendment thereto (in each case excluding exhibits other than this Agreement and the computation of per share earnings) and (ii) each Preliminary Prospectus, the Prospectus (not later than 10:00 A.M., New York City time, of the day following the execution and delivery of this Agreement) and any amended or supplemented Prospectus (not later than 10:00 A.M., New York City time, on the day following the date of such amendment or supplement); and, if the delivery of a prospectus is required at any time after the Effective Time of the Primary Registration Statement in connection with the offering or sale of the Stock (or any other securities relating thereto) and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary to amend or supplement the Prospectus in order to comply with the Securities Act, to notify the Lead Managers and, upon their request, to prepare and furnish without charge to each International Manager and to any dealer in securities as many copies as the Lead Managers may from time to time reasonably request of an amended or supplemented Prospectus which will correct such statement or omission or effect such compliance;

(d) To file promptly with the Commission any amendment to the Registration Statements or the Prospectus or any supplement to the Prospectus that may, in the judgment of the Company or the Lead Managers, be required by the Securities Act or requested by the Commission;

(e) Prior to filing with the Commission (i) any amendment to either of the Registration Statements or supplement to the Prospectus or (ii) any Prospectus pursuant to Rule 424 of the Rules and Regulations, to furnish a copy thereof to the Lead Managers and counsel for the International Managers and obtain the consent of the Lead Managers to the filing;

(f) As soon as practicable after the Effective Date of the Primary Registration Statement, to make generally available to the Company's security holders and to deliver to the Lead Managers an earnings statement of the Company and its subsidiaries (which need not be audited) complying with Section 11(a) of the Securities Act and the Rules and Regulations (including, at the option of the Company, Rule 158);

(g) For a period of five years following the Effective Date of the Primary Registration Statement, to furnish to the Lead Managers (i) copies of all materials furnished by the Company to its shareholders generally, (ii) copies of all public reports and all reports and financial statements furnished by the Company to the principal national securities exchange or automated quotation system upon which the Common Stock may be listed or quoted pursuant to requirements of or agreements with such exchange or system, (iii) copies of all reports filed by the Company with the Commission pursuant to the Exchange Act or any rule or regulation of the Commission thereunder and (iv) copies of the publicly available reports filed by the Bank with the OTS;

(h) Promptly from time to time to take such action as the Lead Managers may reasonably request to qualify the Stock for offering and sale under the securities laws of such jurisdictions as the Lead Managers may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Stock; provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction; and

(i) For a period of 90 days from the date of the Prospectus, not to, directly or indirectly, offer for sale, sell or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition or purchase by any person at any time in the future of) any shares of Common Stock (other than the Stock issued pursuant to employee benefit plans, qualified stock option plans or other employee compensation plans existing on the date hereof or pursuant to currently outstanding options, warrants or rights), or sell or grant options, rights or warrants with respect to any shares of Common Stock (other than the grant of options pursuant to option plans existing on the date hereof), without the prior written consent Lehman Brothers International (Europe) on behalf of the Lead Managers; and to cause each executive officer and director of the Company to furnish to the Lead Managers, prior to the First Delivery Date, a letter or letters, in form and substance satisfactory to counsel for the International Managers, pursuant to which each such person shall agree not to, directly or indirectly, offer for sale, sell or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition or purchase by any person at any time in the future of) any shares of Common Stock for a period of 180 days from the date of the Prospectus, without the prior written consent of Lehman Brothers International (Europe) on behalf of the Lead Managers;

6. Expenses. The Company agrees to pay (a) the costs incident to the authorization, issuance, sale and delivery of the Stock and any taxes payable in that connection; (b) the costs incident to the preparation, printing and filing under the Securities Act of the Registration Statements and any amendments and exhibits thereto; (c) the costs of distributing the Registration Statements as originally filed and each amendment thereto and any post-effective amendments thereof (including, in each case, exhibits), any Preliminary Prospectus, the Prospectus and any amendment or supplement to the Prospectus, all as provided in this

Agreement; (d) the costs of reproducing and distributing this Agreement, the Agreement Between U.S. Underwriters and International Managers and the Supplemental Agreement Among U.S. Underwriters; (e) the costs of distributing the terms of agreement relating to the organization of the domestic underwriting syndicate and selling group to the members thereof by mail, telex or other means of communication; (f) the filing fees incident to securing any required review by the National Association of Securities Dealers, Inc. of the terms of sale of the Stock; (g) any applicable listing or other fees; (h) the fees and expenses of qualifying the Stock under the securities laws of the several jurisdictions as provided in Section 5(h) and of preparing, printing and distributing a Blue Sky Memorandum (including related fees and expenses of counsel to the International Managers); and (i) all other costs and expenses incident to the performance of the obligations of the Company under this Agreement; provided that, except as provided in this Section 6 and in Section 11, the International Managers shall pay their own costs and expenses, including the costs and expenses of their counsel, any transfer taxes on the Stock which they may sell and the expenses of advertising any offering of the Stock made by the International Managers.

7. Conditions of International Managers' Obligations. The respective obligations of the International Managers hereunder are subject to the accuracy, when made and on each Delivery Date, of the representations and warranties of the Company contained herein, to the performance by the Company of its obligations hereunder, and to each of the following additional terms and conditions:

(a) The Rule 462(b) Registration Statement, if any, and the Prospectus shall have been timely filed with the Commission in accordance with Section 5(a); no stop order suspending the effectiveness of either of the Registration Statements or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and any request of the Commission for inclusion of additional information in either of the Registration Statements or the Prospectus or otherwise shall have been complied with.

(b) No International Manager or U.S. Underwriter shall have discovered and disclosed to the Company on or prior to such Delivery Date that either of the Registration Statements or the Prospectus or any amendment or supplement thereto contains any untrue statement of a fact which, in the opinion of Simpson Thacher & Bartlett, counsel for the International Managers, is material or omits to state any fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement, the U.S. Underwriting Agreement, the Stock, the Registration Statements and the Prospectus, and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be satisfactory in all respects to counsel for the International Managers, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(d) Elias, Matz, Tiernan & Herrick L.L.P. shall have furnished to the Lead Managers its written opinion, as counsel to the Company, addressed to the International Managers and dated such Delivery Date, in form and substance satisfactory to the Lead Managers, to the effect that:

(i) The Company is a savings and loan holding company duly registered under HOLA;

(ii) The Bank has been duly organized and is validly existing as a federal savings bank under the laws of the United States of America, with full corporate power and authority to own its properties and conduct its business as described in the Registration Statements and the Prospectus, and is a member of the Federal Home Loan Bank of New York;

(iii) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company (including the shares of Stock being delivered on such Delivery Date) have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description thereof contained in the Prospectus; and all of the issued shares of capital stock of the Bank have been duly and validly authorized and issued and are fully paid, non-assessable and are directly or indirectly owned of record and, to such counsel's knowledge, beneficially by the Company, free and clear of all liens, encumbrances, equities or claims;

(iv) There are no preemptive or other rights to subscribe for or to purchase, nor any restriction upon the voting or transfer of, any shares of the Stock pursuant to the Company's articles of incorporation or by-laws or any agreement or other instrument known to such counsel;

(v) To such counsel's knowledge and other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property or asset of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, reasonably could be expected to have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries; and, to such counsel's knowledge, no such proceedings are threatened or contemplated by governmental authorities or by others;

(vi) The Primary Registration Statement was declared effective under the Securities Act as of the date and time specified in such opinion, the Rule 462(b) Registration Statement, if any, was filed with the Commission on the date specified therein, the Prospectus was filed with the Commission pursuant to the subparagraph of Rule 424(b) of the Rules and Regulations specified in such opinion on the date specified therein and no stop order suspending the effectiveness of either of the Registration Statements has been issued and, to the knowledge of such counsel, no proceeding for that purpose is pending or threatened by the Commission;

(vii) The Registration Statements, as of their respective Effective Dates, and the Prospectus, as of its date, and any further amendments or supplements thereto, as of their respective dates, made by the Company prior to such Delivery Date (other than the financial statements and other financial and statistical data contained therein, as to which such counsel need express no opinion) complied as to form in all material respects with the requirements of the Securities Act and the Rules and Regulations;

(viii) The statements contained in the Prospectus under the captions "Regulation", "Taxation-Federal Taxation" and "Description of Capital Stock", insofar as they describe federal statutes, rules and regulations, constitute a fair summary thereof;

(ix) To the best of such counsel's knowledge, there are no contracts or other documents which are required to be described in the Prospectus or filed as exhibits to the Registration Statements by the Securities Act or by the Rules and Regulations which have not been described or filed as exhibits to the Registration Statements or incorporated therein by reference as permitted by the Rules and Regulations;

(x) This Agreement and the U.S. Underwriting Agreement have each been duly authorized, executed and delivered by the Company;

(xi) The issue and sale of the shares of Stock being delivered on such Delivery Date by the Company and the compliance by the Company with all of the provisions of this Agreement and the U.S. Underwriting Agreement and the consummation of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the properties or assets of the Company or any of its subsidiaries is subject, except for such conflicts, breaches, violations or defaults which individually or in the aggregate would not have a material adverse effect on the operations, business or condition of the Company and its subsidiaries taken as a whole, nor will such actions result in any violation of the provisions of the charter or by-laws of the Company or any of its subsidiaries or any statute or any order, rule or regulation known to such counsel of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties or assets; and, except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act and applicable state or foreign securities laws in connection with the purchase and distribution of the Stock by the International Managers and the U.S. Underwriters, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement or the U.S. Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby.

(xii) To such counsel's knowledge, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statements or in any securities being registered pursuant to any other registration statement filed by the Company under the Securities Act;

(xiii) The savings accounts of depositors in the Bank are insured by the FDIC to the fullest extent permitted by law and the rules and regulations of the FDIC, and no proceedings for the termination of such insurance are pending, or to such counsel's knowledge, threatened; and

(xiv) To such counsel's knowledge, neither the Company nor any of its subsidiaries is party to or otherwise the subject of any consent decree, memorandum of understanding, written agreement or similar supervisory or enforcement agreement or understanding with the OTS, the FDIC or any other government authority or agency responsible for the supervision, regulation or insurance of depository institutions or their holding companies.

In rendering such opinion, such counsel may (i) state that its opinion is limited to matters governed by the Federal laws of the United States of America and the laws of Florida. Such counsel shall also have furnished to the Lead Managers a written statement, addressed to the International Managers and dated such Delivery Date, in form and substance satisfactory to the Lead Managers, to the effect that

(x) such counsel has, in its capacity as special counsel to the Company, participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants of the Company and representatives of the Representatives at which the contents of the Registration Statements and the Prospectus have been discussed, and (y) based on the foregoing, no facts have come to the attention of such counsel which lead it to believe that the Registration Statements, as of their respective Effective Dates, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Prospectus contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The foregoing opinion and statement may be qualified by a statement to the effect that such counsel does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statements or the Prospectus except for the statements made in the Prospectus under the captions "Regulation", "Taxation-Federal Taxation" and "Description of Capital Stock", insofar as such statements relate to the Stock and concern legal matters.

(e) John R. Erbey, Managing Director, General Counsel and Secretary of the Company, shall have furnished to the Lead Managers its written opinion addressed to the International Managers and dated such Delivery Date, in form and substance satisfactory to the Lead Managers, to the effect that:

(i) All of the issued shares of capital stock of each Significant Subsidiary of the Company have been duly and validly authorized and issued and are fully paid, non-assessable and are directly or indirectly owned of record and beneficially by the Company, free and clear of all liens, encumbrances, equities or claims;

(ii) Each of the Company's Significant Subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation; the Company and each of its subsidiaries are duly qualified to do business and are in good standing as foreign corporations in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification (other than those jurisdictions in which the failure to so qualify would not have a materially adverse effect on the Company or the Company and its subsidiaries taken as a whole), and have all the power and authority necessary to own or hold their respective properties and conduct the businesses in which they are engaged;

(iii) There are no preemptive or other rights to subscribe for or to purchase, nor any restriction upon the voting or transfer of, any shares of the Common Stock pursuant to the Company's articles of incorporation or by-laws or any agreement or other instrument known to such counsel;

(iv) Other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property or asset of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, reasonably could be expected to have a material adverse effect on the consolidated financial position, stockholders' equity, results of operations, business or prospects of the Company and its subsidiaries; and, to the best of such counsel's knowledge, no such proceedings are threatened or contemplated by governmental authorities or by others; and

(v) The issue and sale of the shares of Stock being delivered on such Delivery Date by the Company and the compliance by the Company with all of the provisions of this Agreement and the U.S. Underwriting Agreement and the consummation of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the properties or assets of the Company or any of its subsidiaries is subject, except for such conflicts, breaches, violations or defaults which individually or in the aggregate would not have a material adverse effect on the operations, business or condition of the Company and its subsidiaries taken as a whole, nor will such actions result in any violation of the provisions of the charter (or other organizational document) or by-laws of the Company or any of its subsidiaries or any statute or any decree, judgment or order of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties or assets; and, except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act, applicable state or foreign securities laws and the NYSE in connection with the purchase and distribution of the Stock by the International Managers and the U.S. Underwriters, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement or the U.S. Underwriting Agreement by the Company and the consummation of the transactions contemplated hereby and thereby.

In rendering such opinion, such counsel may (i) state that its opinion is limited to matters governed by the Federal laws of the United States of America and the laws of Florida. Such counsel shall also have furnished to the Lead Managers a written statement, addressed to the International Managers and dated such Delivery Date, in form and substance satisfactory to the Lead Managers, to the effect that (x) such counsel has acted as counsel to the Company in connection with the preparation of the Registration Statements, and (y) based on the foregoing, no facts have come to the attention of such counsel which lead it to believe that the Registration Statements, as of their respective Effective Dates, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Prospectus contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The foregoing opinion and statement may be qualified by a statement to the effect that such counsel does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statements or the Prospectus.

(f) With respect to the letter of Price Waterhouse LLP delivered to the Lead Managers concurrently with the execution of this Agreement (the "initial letter"), the Company shall have furnished to the Lead Managers a letter (the "bring-down letter") of such accountants, addressed to the International Managers and dated such Delivery Date (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring-down letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than three days prior to the date of the bring-down letter), the conclusions and findings of such firm with respect to the financial information and other matters covered by the initial letter and (iii) confirming in all material respects the conclusions and findings set forth in the initial letter.

(g) The Company shall have furnished to the Lead Managers a certificate, dated such Delivery Date, of its Chairman of the Board, its President, a Managing Director or a Vice President and its chief financial officer stating that, to the best of his or her knowledge,

(i) the representations, warranties and agreements of the Company in Section 1 are true and correct as of such Delivery Date; the Company has complied in all material respects with all its agreements contained herein; and the conditions set forth in Section 7(a) have been fulfilled;

(ii) (A) neither the Company nor any of its subsidiaries has sustained since the date of the latest audited financial statements included in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus or (B) since such date there has not been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Registration Statements; and

(iii) they have carefully examined the Registration Statements and the Prospectus and, in their opinion (A) the Registration Statements, as of their respective Effective Dates, and the Prospectus, as of each of the Effective Dates, did not include any untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and (B) since the Effective Date of the Primary Registration Statement, no event has occurred which should have been set forth in a supplement or amendment to either of the Registration Statements or the Prospectus.

(h)(i) Neither the Company nor any of its subsidiaries shall have sustained since the date of the latest audited financial statements included in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus or (ii) since such date there shall not have been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Registration Statements, the effect of which, in any such case described in clause (i) or (ii), is, in the judgment of the Lead Managers, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Stock being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(i) Subsequent to the execution and delivery of this Agreement (i) no downgrading shall have occurred in the rating accorded the Company's debt securities by any "nationally recognized statistical rating organization", as that term is defined by the Commission for purposes of Rule 436(g)(2) of the Rules and Regulations and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities.

(j) Subsequent to the execution and delivery of this Agreement there shall not have occurred any of the following:(i) trading in securities generally on the NYSE or the American Stock Exchange or in the over-the-counter market, or trading in any securities of the Company on any exchange or in the over-the-counter market, shall have been suspended or minimum prices shall have been established on any such exchange or such market by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction,(ii) a banking moratorium shall have been declared by Federal or state authorities,(iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions (or the effect of international conditions on the financial markets in the United States shall be such) as to make it, in the judgment of a majority in interest of the several International Managers, impracticable or inadvisable to proceed with the public offering or delivery of the Stock being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(k) The NYSE shall have approved the Stock for listing.

(l) The Lead Managers shall have received the letters to be provided pursuant to Section 5(i) of this Agreement.

(m) The closing under the U.S. Underwriting Agreement shall have occurred concurrently with the closing hereunder.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance satisfactory to counsel for the International Managers.

8. Indemnification and Contribution.

(a) The Company shall indemnify and hold harmless each International Manager, its officers and employees and each person, if any, who controls any International Manager within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to purchases and sales of Stock), to which that International Manager, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon,(i) any untrue statement or alleged untrue statement of a material fact contained (A) in any Preliminary Prospectus, either of the Registration Statements or the Prospectus, or in any amendment or supplement thereto, or (B) in any blue sky application or other document prepared or executed by the Company (or based upon any written information furnished by the Company) specifically for the purpose of qualifying any or all of the Stock under the securities laws of any state or other jurisdiction (any such application, document or information being hereinafter called a "Blue Sky Application"), or (ii) the omission or alleged omission to state in any Preliminary Prospectus, either of the Registration Statements or the Prospectus, or in any amendment or supplement thereto, or in any Blue Sky Application any material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any act or failure to act, or any alleged act or failure to act, by any International Manager in connection with, or relating in any manner to, the Stock or the offering contemplated hereby, and which is included as part of or referred to in any loss, claim, damage, liability or action arising out of or based upon matters covered by clause (i) or (ii) above (provided that the Company shall not be liable in the case of any matter covered by this clause (iii) to the extent that it is determined in a final judgement by a court of competent jurisdiction that such loss, claim, damage, liability or action resulted directly from any such act or failure to act undertaken or omitted to be taken by such International Manager through its gross negligence or wilful misconduct), and shall reimburse each International Manager and each such officer, employee and controlling person promptly upon demand for any legal or other expenses reasonably incurred by that International Manager, officer, employee or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, either of the Registration Statements or the Prospectus, or in any such amendment or supplement, or in any Blue Sky Application in reliance upon and in conformity with the written information furnished to the Company through the Lead Managers by or on behalf of any International Manager specifically for inclusion therein and described in Section 8(e); and provided further that as to any Preliminary Prospectus this indemnity agreement shall not inure to the benefit of any International Manager, its officers or employees or any person controlling that International Manager on account of any loss, claim, damage, liability or action arising from the sale of Stock to any person by that International Manager if that International Manager failed to send or give a copy of the Prospectus, as the same may be amended or supplemented, to that person within the time required by the Securities Act, and the untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact in such Preliminary Prospectus was corrected in the Prospectus, unless such failure resulted from non-compliance by the Company with Section 5(c). The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to any International Manager or to any officer, employee or controlling person of that International Manager.

(b) Each International Manager, severally and not jointly, shall indemnify and hold harmless the Company, its officers and employees, each of its directors and each person, if any, who controls the Company within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company or any such director, officer or controlling person may become subject, under the

Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon,(i) any untrue statement or alleged untrue statement of a material fact contained (A) in any Preliminary Prospectus, either of the Registration Statements or the Prospectus, or in any amendment or supplement thereto, or (B) in any Blue Sky Application or (ii) the omission or alleged omission to state in any Preliminary Prospectus, either of the Registration Statements or the Prospectus, or in any amendment or supplement thereto, or in any Blue Sky Application any material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with the written information furnished to the Company through the Lead Managers by or on behalf of that International Manager specifically for inclusion therein and described in Section 8(e), and shall reimburse the Company and any such director, officer or controlling person for any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred. The foregoing indemnity agreement is in addition to any liability which any International Manager may otherwise have to the Company or any such director, officer or controlling person.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the claim or the commencement of that action; provided, however, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent it has been materially prejudiced by such failure and, provided further, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 8. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that any indemnified party shall have the right to employ separate counsel in any such action and to participate in the defense thereof but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment thereof has been specifically authorized by the indemnifying party in writing, (ii) such indemnified party shall have been advised by such counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the indemnifying party and in the reasonable judgment of such counsel it is advisable for such indemnified party to employ separate counsel or (iii) the indemnifying party has failed to assume the defense of such action and employ counsel reasonably satisfactory to the indemnified party, in which case, if such indemnified party notifies the indemnifying party in writing that it elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such action on behalf of such indemnified party, it being understood, however, that the indemnifying party shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys at any time for all such indemnified parties, which firm shall be designated in writing by the Lead Managers, if the indemnified parties under this Section 8 consist of any International Manager or any of their respective officers, employees or controlling persons, or by the Company, if the indemnified parties under this Section consist of the Company or any of the Company's directors, officers, employees or controlling persons. No indemnifying party shall (i) without the prior written consent of the indemnified parties (which consent shall not be unreasonably withheld), settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding, or (ii) be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with its written consent or if there be a final judgment of the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss of liability by reason of such settlement or judgment.

(d) If the indemnification provided for in this Section 8 shall for any reason be unavailable to or insufficient to hold harmless an indemnified party under Section 8(a) or 8(b) in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof,(i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company on the one hand and the International Managers on the other from the offering of the Stock or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the International Managers on the other with respect to the statements or omissions which resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the International Managers on the other with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Stock purchased under this Agreement (before deducting expenses) received by the Company, on the one hand, and the total underwriting discounts and commissions received by the International Managers with respect to the shares of the Stock purchased under this Agreement, on the other hand, bear to the total gross proceeds from the offering of the shares of the Stock under this Agreement, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or the International Managers, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the International Managers agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were to be determined by pro rata allocation (even if the International Managers were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 8(d) shall be deemed to include, for purposes of this Section 8(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8(d), no International Manager shall be required to contribute any amount in excess of the amount by which the total price at which the Stock underwritten by it and distributed to the public was offered to the public exceeds the amount of any damages which such International Manager has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The International Managers' obligations to contribute as provided in this Section 8(d) are several in proportion to their respective underwriting obligations and not joint.

(e) The International Managers severally confirm that the statements with respect to the public offering of the Stock set forth on the cover page of, and under the caption "Underwriting" in, the Prospectus are correct and constitute the only information furnished in writing to the Company by or on behalf of the International Managers specifically for inclusion in the Registration Statements and the Prospectus.

9. Defaulting International Managers.

If, on either Delivery Date, any International Manager defaults in the performance of its obligations under this Agreement, the remaining non-defaulting International Managers shall be obligated to purchase the Stock which the defaulting International Manager agreed but failed to purchase on such Delivery Date in the respective proportions which the number of shares of the Firm Stock set opposite the name of each remaining non-defaulting International Manager in Schedule 1 hereto bears to the total number of shares of the Firm Stock set opposite the names of all the remaining non-defaulting International Managers in Schedule 1 hereto; provided, however, that the remaining non-defaulting International Managers shall not be obligated to purchase any of the Stock on such Delivery Date if the total number of shares of the Stock which the defaulting International Manager or International Managers agreed but failed to purchase on such date exceeds 9.09% of the total number of shares of the Stock to be purchased on such Delivery Date, and any remaining non-defaulting International Manager shall not be obligated to purchase more than 110% of the number of shares of the Stock which it agreed to purchase on such Delivery Date pursuant to the terms of Section 2. If the foregoing maximums are exceeded, the remaining non-defaulting International Managers, or those other underwriters satisfactory to the Lead Managers who so agree, shall have the right, but shall not be obligated, to purchase, in such proportion as may be agreed upon among them, all the Stock to be purchased on such Delivery Date. If the remaining International Managers or other underwriters satisfactory to the Lead Managers do not elect to purchase the shares which the defaulting International Manager or International Managers agreed but failed to purchase on such Delivery Date, this Agreement (or, with respect to the Second Delivery Date, the obligation of the International Managers to purchase, and of the Company to sell, the Option Stock) shall terminate without liability on the part of any non-defaulting International Manager or the Company, except that the Company will continue to be liable for the payment of expenses to the extent set forth in Sections 6 and 11. As used in this Agreement, the term "International Manager" includes, for all purposes of this Agreement unless the context requires otherwise, any party not listed in Schedule 1 hereto who, pursuant to this Section 9, purchases Firm Stock which a defaulting International Manager agreed but failed to purchase.

Nothing contained herein shall relieve a defaulting International Manager of any liability it may have to the Company for damages caused by its default. If other underwriters are obligated or agree to purchase the Stock of a defaulting or withdrawing International Manager, either the Lead Managers or the Company may postpone the First Delivery Date for up to seven full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the International Managers may be necessary in the Registration Statement, the Prospectus or in any other document or arrangement.

10. Termination. The obligations of the International Managers hereunder may be terminated by the Lead Managers by notice given to and received by the Company prior to delivery of and payment for the Firm Stock if, prior to that time, any of the events described in Sections 7(h), 7(i) or 7(j) shall have occurred or if the International Managers shall decline to purchase the Stock for any reason permitted under this Agreement.

11. Reimbursement of International Managers' Expenses. If (a) the Company shall fail to tender the Stock for delivery to the International Managers for any reason permitted under this Agreement, or (b) the International Managers shall decline to purchase the Stock for any reason permitted under this Agreement (including the termination of this Agreement pursuant to Section 10), the Company shall reimburse the International Managers for the reasonable fees and expenses of their counsel and for such other out-of-pocket expenses as shall have been incurred by them in connection with this Agreement and the proposed purchase of the Stock, and upon demand the Company shall pay the full amount thereof to the Lead Managers. If this Agreement is terminated pursuant to Section 9 by reason of the default of one or more International Managers, the Company shall not be obligated to reimburse any defaulting International Manager on account of those expenses.

12. Notices, etc. All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the International Managers, shall be delivered or sent by mail, telex or facsimile transmission to Lehman Brothers International (Europe), Three World Financial Center, New York, New York 10285, Attention: Syndicate Department (Fax: 212-528-8822);

(b) if to the Company, shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Primary Registration Statement, Attention: Secretary (Fax: 561-681-8177);

provided, however, that any notice to an International Manager pursuant to Section 8(c) shall be delivered or sent by mail, telex or facsimile transmission to such International Manager at its address set forth in its acceptance telex to the Lead Managers, which address will be supplied to any other party hereto by the Lead Managers upon request. Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof. The Company shall be entitled to act and rely upon any request, consent, notice or agreement given or made on behalf of the International Managers by Lehman Brothers International (Europe) on behalf of the Lead Managers.

13. Persons Entitled to Benefit of Agreement. This Agreement shall inure to the benefit of and be binding upon the International Managers, the Company and their respective successors. This Agreement and the terms and provisions hereof are for the sole benefit of only those persons, except that (A) the representations, warranties, indemnities and agreements of the Company contained in this Agreement shall also be deemed to be for the benefit of the officers and employees of each International Manager and the person or persons, if any, who control each International Manager within the meaning of Section 15 of the Securities Act and for the benefit of each International Manager (and controlling persons thereof) who offers or sells any shares of Common Stock in accordance with the terms of the Agreement Between U.S. Underwriters and International Managers and (B) the indemnity agreement of the International Managers contained in Section 8(b) of this Agreement shall be deemed to be for the benefit of directors, officers and employees of the Company and any person controlling the Company within the meaning of Section 15 of the Securities Act. Nothing in this Agreement is intended or shall be construed to give any person, other than the persons referred to in this Section 13, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

14. Survival. The respective indemnities, representations, warranties and agreements of the Company and the International Managers contained in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall survive the delivery of and payment for the Stock and shall remain in full force and effect, regardless of any investigation made by or on behalf of any of them or any person controlling any of them.

15. Definition of the Terms "Business Day" and "Subsidiary". For purposes of this Agreement,(a) "business day" means any day on which the NYSE is open for trading and (b) "subsidiary" has the meaning set forth in Rule 405 of the Rules and Regulations and shall be deemed to include BCBF.

16. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of New York.

17. Counterparts. This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

18. Headings. The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

If the foregoing correctly sets forth the agreement among the Company and the International Managers, please indicate your acceptance in the space provided for that purpose below.

Very truly yours,

Ocwen Financial Corporation

By______________________________________
William C. Erbey
Chairman, President and
Chief Executive Officer

Accepted:

Lehman Brothers International (Europe)
Friedman, Billings, Ramsey & Co., Inc.
Morgan, Stanley & Co. International Limited

For themselves and as Lead Managers
of the several International Managers named
in Schedule 1 hereto

By Lehman Brothers International (Europe)

By_______________________________________
Authorized Lead Manager

SCHEDULE 1

| | Number of Shares |
| --- | --- |
| International Managers | |
| Lehman Brothers International (Europe)............... | |
| Friedman, Billings, Ramsey & Co., Inc................ | |
| Morgan, Stanley & Co. International Limited.......... | |
| | -------- |
| Total........................................... | -------- |
| | -------- |

EXHIBIT 5.0

Law Offices
ELIAS, MATZ, TIERNAN & HERRICK L.L.P.
12th Floor
734 15th Street, N.W.
Washington, D.C. 20005
Telephone (202) 347-0300

August 5, 1997

Board of Directors

Ocwen Financial Corporation

The Forum, Suite 1000

1675 West Palm Beach Boulevard

West Palm Beach, Florida 33401

Re: Registration Statement on Form S-1;

File No. 333-28895

Ladies and Gentlemen:

We have acted as special counsel to Ocwen Financial Corporation (the "Company") in connection with the preparation and filing with the Securities and Exchange Commission of a Registration Statement on Form S-1 (No. 333-28895)(the "Registration Statement") relating to the registration under the Securities Act of 1933, as amended (the "Act"), of up to 3,450,000 shares of common stock, par value $0.01 per share ("Common Stock"), of the Company to be issued and sold in an underwritten public offering (including up to 450,000 shares of Common Stock which the Underwriters have the option to purchase to cover any over-allotments) (the "Offering"). Capitalized terms defined in the Registration Statement and not otherwise defined herein are used herein with the meanings as so defined.

In so acting, we have examined originals or copies, certified or otherwise identified to our satisfaction, of the Registration Statement and such corporate records, agreements, documents and other instruments, including the forms of the U.S. Underwriting Agreement and the International Underwriting Agreement (the "Underwriting Agreements") and such certificates or comparable documents of public officials, of officers and representatives of the Company as we have deemed relevant or necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed without independent verification the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents. As to all questions of fact material to this opinion that have not been independently established, we have relied upon certificates or comparable documents of officers of the Company, and we have examined the representations and warranties of the Company contained in the Underwriting Agreements and have relied upon the accuracy and completeness of the relevant facts stated therein without independent verification.

Based on the foregoing, and subject to the qualifications stated herein, we are of the opinion that the up to 3,450,000 shares of Common Stock to be issued in the Offering have been duly authorized and, when issued and sold pursuant to the provisions of the Underwriting Agreements and the Prospectus and upon receipt of the consideration required thereby, will be validly issued and fully paid and non-assessable shares of Common Stock of the Company.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the references to us under the heading "Legal Matters" in the Prospectus. In giving such consent, we do not thereby admit that we are in the category of persons whose consent is required under Section 7 of the Act.

ELIAS, MATZ, TIERNAN & HERRICK L.L.P.

BY: /S/ GERARD L. HAWKINS

Gerard L. Hawkins, A PARTNER

EXHIBIT 23.2

# CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of Pre-Effective Amendment No. 2 to this Registration Statement on Form S-1 of (i) our report dated January 21, 1997 relating to the consolidated financial statements of Ocwen Financial Corporation and (ii) our report dated January 24, 1997 relating to the financial statements of BCBF, L.L.C., each of which appears in the Registration Statement. We also consent to the references to us under the headings "Experts" and "Selected Consolidated Financial and Other Data" in such Prospectus. However, it should be noted that Price Waterhouse LLP has not prepared or certified such "Selected Consolidated Financial and Other Data."

Price Waterhouse LLP
Fort Lauderdale, Florida
August 1, 1997