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

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2001

OR

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

For the transition period from: ____________ to ____________

Commission File No. 0-21341

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

Florida	65-0039856
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1675 Palm Beach Lakes Boulevard West Palm Beach, Florida	33401
(Address of principal executive office)	(Zip Code)

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

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

Common Stock, $.01 par value	New York Stock Exchange (NYSE)
(Title of each class)	(Name of each exchange on which registered)

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

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

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

Aggregate market value of the Common Stock, $.01 par value, held by nonaffiliates of the registrant, computed by reference to the closing price as reported on the NYSE as of the close of business on March 8, 2002: $260,831,633 (for purposes of this calculation affiliates include only directors and executive officers of the registrant).

Number of shares of Common Stock, $.01 par value, outstanding as of March 8, 2002: 67,308,819 shares

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Annual Report to Shareholders for fiscal year ended December 31, 2001 are incorporated by reference into Part I, Items 1 and 3, and Part II, Items 5-8, and portions of our definitive Proxy Statement with respect to our Annual Meeting of Shareholders to be held on May 16, 2002, and as filed with the Commission on or about March 29, 2002, are incorporated by reference into Part III, Items 10-13.

OCWEN FINANCIAL CORPORATION

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FORWARD-LOOKING STATEMENTS

Certain statements contained herein are not, and certain statements contained in future filings by us with the Securities and Exchange Commission (the "Commission"), in our press releases or in the our other public or shareholder communications may not be, based on historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements, which are based on various assumptions (some of which are beyond our control), may be identified by reference to a future period(s) or by the use of forward-looking terminology such as "anticipate," "believe," "commitment," "consider," "continue," "could," "estimate," "expect," "foresee," "intend," "in the event of," "may," "plan," "propose," "prospect," "whether," "will," "would," future or conditional verb tenses, similar terms, variations on such terms or negatives of such terms. Although we believe the anticipated results or other expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that those results or expectations will be attained. Actual results could differ materially from those indicated in such statements due to risks, uncertainties and changes with respect to a variety of factors, including, but not limited to, international, national, regional or local economic environments (particularly in the market areas where we operate), government fiscal and monetary policies (particularly in the market areas where we operate), prevailing interest or currency exchange rates, effectiveness of interest rate, currency and other hedging strategies, laws and regulations affecting financial institutions, investment companies and real estate (including regulatory fees, capital requirements, access for disabled persons and environmental compliance), uncertainty of foreign laws and potential political issues related to operations outside of the USA, competitive products, pricing and conditions (including from competitors that have significantly greater resources than our Company), credit, prepayment, basis, default, subordination and asset/liability risks, loan servicing effectiveness, ability to identify acquisitions and investment opportunities meeting our investment strategy, the course of negotiations and the ability to reach agreement with respect to the material terms of any particular transaction, satisfactory due diligence results, satisfaction or fulfillment of agreed upon terms and conditions of closing or performance, the timing of transaction closings, software integration, development and licensing, damage to our computer equipment and the information stored our data centers, availability of and costs associated with obtaining adequate and timely sources of liquidity, ability to repay or refinance indebtedness (at maturity or upon acceleration), to meet collateral calls by lenders (upon re-valuation of the underlying assets or otherwise), to generate revenues sufficient to meet debt service payments and other operating expenses, availability of discount loans and servicing rights for purchase, size of, nature of and yields available with respect to the secondary market for mortgage loans, financial, securities and securitization markets in general, adequacy of allowances for loan losses, changes in real estate conditions (including liquidity, valuation, revenues, rental rates, occupancy levels and competing properties), adequacy of insurance coverage in the event of a loss, other factors generally understood to affect the real estate acquisition, mortgage, servicing and leasing markets, securities investments and the software and technology industry, and other risks detailed from time to time in our reports and filings with the Commission, including our Registration Statements on Forms S-1 and S-3 and our periodic reports on Forms 10-Q, 8-K and 10-K and Exhibit 99.1, Risk Factors (filed herewith) 10-K for the year ended December 31, 2001. Given these uncertainties, readers are cautioned not to place undue reliance on such. We do not undertake, and specifically disclaim any obligation, to release publicly the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

PART I

ITEM 1. BUSINESS (Dollars in thousands)

GENERAL

Ocwen Financial Corporation ("OCN") is a financial services company headquartered in West Palm Beach, Florida. OCN is a Florida corporation that was organized in February 1988 in connection with the acquisition of Ocwen Federal Bank FSB (the "Bank"). OCN is a registered savings and loan holding company subject to regulation by the Office of Thrift Supervision (the "OTS"). The Bank is a wholly owned subsidiary of OCN and is also subject to regulation by the OTS, as our chartering authority, and by the Federal Deposit Insurance Corporation ("FDIC"), as a result of its membership in the Savings Association Insurance Fund ("SAIF"), which insures the Bank's deposits to the maximum extent permitted by law. The Bank is also subject to regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Board") and currently is a member of the Federal Home Loan Bank ("FHLB") of New York, one of the 12 regional banks that comprise the FHLB System.

Our primary businesses are the servicing and resolution of subperforming and nonperforming residential and commercial mortgage loans, as well as the related development of loan servicing technology and business-to-business e-commerce technology solutions for the mortgage and real estate industries. Our business activities in recent years reflect a change in strategic direction from capital-intensive lines of business to fee-based lines of business: primarily mortgage loan servicing and developing technology solutions for the mortgage and real estate industries. See "Segments" below.

RECENT BUSINESS ACQUISITIONS AND DISPOSITIONS

On November 22, 2000, we sold our minority investment in Kensington Group plc ("Kensington"), an originator of subprime residential mortgages in the United Kingdom ("UK"), for the pound sterling equivalent of approximately $48,600, net of stamp duty and other fees. We originally purchased 36.07% of the total outstanding common stock of Kensington in February 1998.

On October 7, 1999, Ocwen Acquisition Company, an indirect wholly-owned subsidiary of OCN, merged with (the "Merger") and into Ocwen Asset Investment Corp. ("OAC"). OAC was a real estate investment company that invested in several categories of real estate and real estate related assets. Prior to the Merger, OCN, through Investors Mortgage Insurance Holding Company, owned 8.12% of the outstanding common stock of OAC and 8.71% of the outstanding partnership units of Ocwen Partnership L.P. ("OPLP"). OPLP is the operating partnership subsidiary of OAC. In accordance with the terms of the Merger, OAC shareholders (except for OCN or its subsidiaries) received 0.71 shares of OCN stock for each outstanding share of OAC common stock, and a total of 12,371,750 shares of OCN stock at a value of $96,809 was issued to OAC shareholders. The Merger, which resulted in OCN acquiring the remaining interest in OAC, reflected an aggregate purchase price of $101,271, including direct costs of the acquisition. We accounted for the Merger as a purchase and allocated the purchase price to OAC's assets and liabilities based on their fair market values, resulting in $60,042 of excess of net assets acquired over the purchase price.

On September 30, 1999, we sold all the shares of our wholly-owned subsidiary, Ocwen UK plc ("Ocwen UK"), to Malvern House Acquisition Limited for the pound sterling equivalent of $122,101 in cash. We originally formed Ocwen UK to acquire the UK mortgage loan portfolio and residential subprime mortgage loan origination and servicing operations of Cityscape Financial Corp. ("Cityscape UK") in April 1998.

SEGMENTS

Our business segments consist of the following:

- Residential Loan Servicing
- OTX (technology solutions)
- Ocwen Realty Advisors
- Unsecured Collections
- Residential Discount Loans
- Commercial Loans
- Affordable Housing
- Commercial Real Estate
- Subprime Residential Lending
- Corporate Items and Other

Segment activity in recent years reflects growth in our residential loan servicing segment, continued investment in the development and marketing of our technology solutions at OTX, an exit from the subprime loan origination business, both in the US and the UK, our acquisition of OAC, the cessation of loan acquisitions and origination activity and our continuing resolution or disposition of those assets not associated with our loan servicing or technology businesses. This activity reflects our ongoing transition in business strategy from capital-intensive businesses to fee-based businesses.

Residential Loan Servicing

In connection with the securitization and sale of loans during 1999 and prior years, we generally retained the rights to service such loans for investors. More recently, we have purchased servicing rights directly from third parties. Purchased servicing rights are initially recorded at cost.

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

The U.S. Department of Housing and Urban Development ("HUD"), Freddie Mac and Fannie Mae have approved the Bank as a loan servicer. Standard & Poor's has rated the Bank as "Strong" as a Residential Subprime Servicer, Residential Special Servicer and Commercial Special Servicer. "Strong" represents Standard & Poor's highest ratings category. Moody's Investors Service has rated the Bank as "SQ1" as a Residential Subprime Servicer and as a Residential Special Servicer. "SQ1" represents Moody's Investors Services highest ratings category. Fitch Ratings has rated the Bank "RPS2" for Residential Subprime Servicing, "RSS2" for Residential Special Servicing and "CSS2" for Commercial Special Servicing.

In 1997, we also developed the concept of residential special servicing. In 1998, we began entering into special servicing arrangements wherein we act as a special servicer for third parties, typically as part of a securitization. We service loans that become greater than 90 days past due and receive incentive fees to the extent that we achieve certain loss mitigation parameters.

We continue to grow and develop our residential servicing business as part of our change in strategic focus from capital intensive to fee-based businesses. As a result, we have seen steady growth in the average unpaid principal balance of residential loans we service for others from $8,802,444 during 1999 to $15,727,659 during 2001.

Our loan servicing operations are primarily conducted out of our 125,000 square foot national servicing center in Orlando, Florida. The service center has capacity to house 900 employees per shift handling customer contact on up to one million loans.

In December 1999, we announced a joint venture with an independent Italian loan servicer, FBS SpA, to service mortgage loans in Italy. OCN holds a 50% ownership interest in a newly formed company, Ocwen.FBS SpA.

Additional financial information regarding this segment appears under the captions "Segment Profitability" on pages 15 to 17 and "Note 29: Business Segment Reporting" on pages 110 to 112 of our 2001 Annual Report to Shareholders and is incorporated herein by reference.

OTX

OTX, which was formed in 1998, designs software solutions for mortgage and real estate transactions, provides business-to-business e-commerce solutions via the Internet for the mortgage and real estate industries, and also provides implementation, integration and consulting services related to our software and internet products. OTX's principal products are REALTransSM, REALServicing(TM) and REALSynergy(TM).

On January 20, 1998, we acquired DTS Communications, Inc. ("DTS"), a real estate technology company located in San Diego, California. The acquisition was accounted for as a purchase. DTS was merged into OTX in 2000. DTS developed technology tools to automate real estate. Our acquisition of DTS and its product served as the basis for the REALTrans system, an Internet-based mortgage loan processing application and vendor management system that facilitates the electronic ordering, tracking and fulfillment of mortgage and real estate products and services. REALTrans automates the mortgage process, eliminating duplicate manual data entry, reducing errors and speeding delivery time. It also provides a task-based workflow management system, allowing users to track the progress of all tasks and vendor requests required to fulfill an order from any location, at any time. REALTrans also provides for bulk order management that allows customers to order real estate documents and services for an entire portfolio of loans.

On November 6, 1997, we acquired AMOS, Inc. ("AMOS"), a Connecticut-based company engaged primarily in the development of residential mortgage loan servicing software. The acquisition was accounted for as a purchase. AMOS is a wholly-owned subsidiary of OTX. Our acquisition of AMOS and its products became the basis for the REALServicing software, a Microsoft(R) Windows(R)-based, residential loan-servicing platform that manages the entire servicing life cycle of single family loans. We developed the REALServicing software through years of experience in the loan servicing industry. REALServicing provides powerful workflow management capability, leading to increased effectiveness and lower operational costs, and it integrates with the Internet, call center telephony and data warehouse technology. It can be implemented in its entirety or as a series of modules, including Loan Servicing, Collections, Loss Mitigation, Default Loan Management, REO Management, Construction Loan Servicing and Single Family Bond Series Tracking. The table-driven architecture of REALServicing permits workflow customization by users without requiring support from their information technology staffs. We fully implemented REALServicing at the Bank on January 1, 2001. The Bank has used REALServicing since that time as the platform for managing both its own portfolio of single family residential mortgage loans and the loans that it services for third parties.

On June 2, 1999, we acquired the assets of Synergy Software, LLC ("Synergy"), a developer of commercial and multifamily mortgage servicing systems and a wholly-owned subsidiary of OTX. The acquisition of Synergy's product was the basis for the REALSynergy software, an advanced, Windows-based full-service commercial and multi-family loan servicing platform. REALSynergy handles virtually any loan structure, including complex remittance requirements, monitors multiple properties for each loan, tracks building and site information reports, details extensive appraisal summaries, and includes dynamic, easy-to-use contact management, call tracking and task management capabilities. REALSynergy and its MS-DOS(R)-based predecessor, AMICUS, represent one of the most widely used commercial and multi-family loan servicing systems in the country.

The losses incurred by OTX to date reflect our continuing efforts to develop and market our suite of technology solutions.

Additional financial information regarding this segment appears under the captions "Segment Profitability" on pages 15 to 17 and "Note 29: Business Segment Reporting" on pages 110 to 112 of our 2001 Annual Report to Shareholders and is incorporated herein by reference.

Ocwen Realty Advisors

As part of our strategic focus on fee-based businesses, we established Ocwen Realty Advisors ("ORA") in 1999 as a new division. ORA provides valuation services to external customers in the wholesale lending community as well as due diligence and research analysis for our own commercial and residential real estate transactions.

An important part of the process of acquiring and managing mortgage loans portfolios is the accurate review and analysis of the collateral offered as security for the loans. ORA not only provides traditional valuation products such as appraisals and broker price opinions, it also employs proprietary Internet-based valuation models and other alternative valuation products that can more precisely meet the specific risk management needs of our customers.

ORA also monitors the state of the economy in 60 of the largest U.S real estate markets. The resulting data enable ORA to assist customers in making loan decisions in riskier markets and in timing loan and asset dispositions. Ocwen Realty Advisors can customize reports down to the specific property level to fit the needs of a customer.

Additional financial information regarding this segment appears under the captions "Segment Profitability" on pages 15 to 17 and "Note 29: Business Segment Reporting" on pages 110 to 112 of our 2001 Annual Report to Shareholders and is incorporated herein by reference.

Unsecured Collections

In 1998, we began acquiring charged-off unsecured credit card receivables at a discount. We account for collections of unsecured credit card receivables under the cost recovery method, whereby revenue is recognized only to the extent that collections have exceeded original cost. Our contractual obligations to acquire these receivables expired in June 2000. We made no purchases during 2001 or during the third and fourth quarters of 2000 and plan no future purchases at this time. This business segment also provides collection services for third party mortgage investors as well as for our own portfolio of loans.

Additional financial information regarding this segment appears under the captions "Segment Profitability" on pages 15 to 17 and "Note 29: Business Segment Reporting" on pages 110 to 112 of our 2001 Annual Report to Shareholders and is incorporated herein by reference.

Residential Discount Loans

Prior to 2001, we acquired at a discount certain mortgage loans for which the borrowers were not current as to principal and interest payments or for which there was reason to believe borrowers would be unable to continue to make their scheduled principal and interest payments. Discount loans generally have collateral coverage that is sufficiently in excess of the purchase price of the loan, such that successful resolutions can produce total returns that are in excess of an equivalent investment in performing mortgage loans.

We began our discount loan operations in 1991 and initially focused on the acquisition of single family residential loans. In 1994 we expanded this business to include the acquisition and resolution of discount multi-family residential and commercial real estate loans (together, unless the context otherwise requires, "commercial real estate loans"). Prior to entering the discount loan business, our management had substantial loan resolution experience through former subsidiaries that had been engaged in the business of providing private mortgage insurance for residential loans. This experience assisted us in developing the procedures, facilities and systems to evaluate, acquire and resolve such loans.

The volume of discount loan acquisitions has declined in recent years, primarily because of two factors: a decline in the volume of nonperforming loans available for purchase; and, more recently, our change in strategic direction from capital intensive lines of business to fee-based businesses. We have not acquired any discount loans since 2000.

Acquisition of Discount Loans. Historically, we generally acquired discount real estate loans in pools, although we also acquired discount commercial real estate loans individually. We generally acquired these pools at auction or in other competitive bid circumstances. We obtained a substantial amount of discount loans from various private sector sellers, such as banks, savings institutions, mortgage companies, subprime lenders and insurance companies. In addition, governmental agencies, including the Department of Housing and Urban Development ("HUD"), were potential sources of discount loans.

Prior to making an offer to purchase a portfolio of discount loans, we conducted an investigation and evaluation of the loans in the portfolio. Our employees, who specialize in the analysis of nonperforming loans, often with further specialization based on geographic or collateral-specific factors, had primary responsibility for conducting evaluations of potential discount loan acquisitions. Our employees regularly used third parties, such as brokers, who were familiar with a property's type and location, to assist them in conducting an evaluation of the value of collateral property, and depending on the circumstances, particularly in the case of commercial real estate loans, used subcontractors, such as local counsel and engineering and environmental experts, to assist in the evaluation and verification of information and the gathering of other information not previously made available by a potential seller.

We determined the purchase offer by using a proprietary modeling system and loan information database that focused on the anticipated recovery amount and the timing and cost of the resolution of the loans. The amount offered by us generally was at a discount from both the stated value of the loan and the value of the underlying collateral, which we estimated was sufficient to generate an acceptable return on our investment.

Resolution of Discount Loans. We utilize our information technology software systems, including OTX's residential loan servicing system REALServicing(TM), to resolve discount loans as expeditiously as possible in accordance with specified procedures. The various resolution alternatives generally include the following:

- The borrower brings the loan current in accordance with original or modified terms;
- The borrower repays the loan or a negotiated amount of the loan;
- The borrower agrees to deed the property to us in lieu of foreclosure, in which case it is classified as real estate owned and held for sale; or
- We foreclose on the loan and the property is acquired at the foreclosure sale either by a third party or by us, in which case it is classified as real estate owned and held by us for sale.

In appropriate cases, we work with borrowers to resolve the loan in advance of foreclosure. One method is through forbearance agreements, which generally allow the borrower to pay the contractual monthly payment plus a portion of the arrearage each month, and other means. Although this strategy may result in an initial reduction in the yield on a discount loan, we believe that it is advantageous because it:

- Generally results in a higher resolution value than foreclosure;
- Reduces the amount of real estate owned acquired by foreclosure or by deed-in-lieu thereof and related risks, costs and expenses;
- Enhances our ability to sell the loan in the secondary market; and
- Permits the borrower to retain ownership of the home and, thus, enhances relations with the borrower.

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

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

Sale of Discount Loans. From time to time we have sold discount loans either on a whole loan basis or indirectly through the securitization of such loans and sale of the mortgage-related securities backed by them. During the third quarter of 1999, we made a strategic decision to structure future securitizations as financing transactions, which precludes the use of gain-on-sale accounting. We executed no securitizations of loans during 2001, 2000 or the second half of 1999.

Additional financial information regarding this segment appears under the captions "Segment Profitability" on pages 15 to 17 and "Note 29: Business Segment Reporting" on pages 110 to 112 of our 2001 Annual Report to Shareholders and is incorporated herein by reference.

Commercial Loans

Commercial loan activities include both discount loans and originated loans. See "Single Family Residential Discount Loans" above for a discussion regarding discount loan acquisition, resolution and sale activities, including commercial. A discussion follows regarding commercial loans that we originated.

Our investment in multi-family residential and commercial real estate loans declined significantly during 1999, 2000 and 2001, reflecting our decision in 1999 to cease the origination of such loans. Our lending activities previously included the acquisition of loans secured by commercial real estate, particularly loans secured by hotels and office buildings, which we began originating in late 1994 and late 1995, respectively. We have also made commercial real estate loans to finance the purchase and refinance of commercial properties, the refurbishment of distressed properties and the construction of hotels. Additionally, we have originated 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.

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

In addition to stated interest, certain of the multi-family residential and commercial real estate loans that we originated include provisions pursuant to which the borrower agrees to pay us, as additional interest on the loan, an amount based on specified percentages 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. We have also obtained participating interests in the form of additional fees that 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 that could be payable by a borrower during specified periods of the loan consist of either fixed exit fees or yield maintenance payments, which are required to be paid over a specified number of years after the prepayment and are intended to increase the yield to us on the proceeds from the loan payoff to a level that is comparable to the yield on the prepaid loan.

Construction loans generally have terms of three to four years and interest rates that float on a monthly basis in accordance with designated reference rates. Payments during the term of the loan may be made to us monthly on an interest-only basis. The loan amount may include an interest reserve that is maintained by us 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. We made construction loans 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 we make them only after evidence that available funds have been utilized by the borrower, available funds are sufficient to pay for all construction costs through the date of the construction advance and funds remain in the construction budget and from sources other than the loan to complete construction of the project.

We generally have required the general contractor selected by the borrower, which along with the general construction contract is subject to our review and approval, to provide payment and performance bonds issued by a surety approved by us 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, we generally conduct site inspections of projects under construction at least bi-monthly and of completed projects at least semi-annually.

Additional financial information regarding this segment appears under the captions "Segment Profitability" on pages 15 to 17 and "Note 29: Business Segment Reporting" on pages 110 to 112 of our 2001 Annual Report to Shareholders and is incorporated herein by reference.

Affordable Housing

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

During 2000, we began reducing our investment in affordable housing both as part of our change in strategic focus away from capital intensive lines of business and because the volume of tax credits being generated was exceeding our ability to utilize them effectively. As a result, we have sold or have entered into agreements to sell the majority of the properties that represent our investment in such interests. We will continue to develop those projects that are currently under construction, which may also be sold in the future.

We made our investments in affordable housing indirectly through our subsidiaries, which may be a general partner and/or a limited partner in the partnership. Low-income housing tax credit partnerships in which we, through a subsidiary, act as a general partner are presented in the financial statements on a consolidated basis.

The affordable housing projects owned by the low-income housing tax credit partnerships in which we have invested are located throughout the United States.

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

Tax credits may be claimed over a ten-year period on a straight-line basis once the underlying multi-family residential properties are placed in service. Tax credits claimed reduce the tax payments computed based upon taxable income to not less than the alternative minimum tax computed for that year or any year not more than three years before or 15 years after the year the tax credit is earned. The Taxpayer Relief Act of 1997 changed the tax credit carryback period from 3 years to 1 year and the carry forward period from 15 years to 20 years for credits that become available for use in years beginning after December 31, 1997. Tax credits are realized even if units in the project do not continue to be occupied once the units in the project have been initially rented to qualifying tenants, 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. We have established specific investment criteria for investment in multi-family residential projects that 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 our efforts, there can be no assurance that the multi-family residential projects owned by the low-income housing tax credit partnerships in which we have 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.

Additional financial information regarding this segment appears under the captions "Segment Profitability" on pages 15 to 17 and "Note 29: Business Segment Reporting" on pages 110 to 112 of our 2001 Annual Report to Shareholders and is incorporated herein by reference.

Commercial Real Estate

We entered the commercial real estate business largely as a result of our acquisition of OAC in 1999. OAC had followed a strategy that sought to capitalize on inefficiencies in the real estate markets by investing in distressed commercial and multi-family real properties, including properties acquired by a mortgage lender at foreclosure (or through deed in lieu of foreclosure), as well as in properties that were environmentally distressed or located outside the United States. Most of the properties purchased as part of this strategy were in markets, such as San Francisco, that were characterized by limited new supply and barriers to entry as a result of government regulation of development and lack of developable land.

The properties acquired were substantially renovated, including tenant improvements and improvements to lobbies and other public areas. We also upgraded mechanical, HVAC, electrical, fire and life/safety systems and made other improvements necessary to comply with the Americans with Disabilities Act of 1990. As a result of these improvements, we were able to increase occupancy rates while at the same time increasing average rents.

The enhanced cash flow and improved physical condition of the properties increased the market values and marketability for most of the properties. As a result, we have been able to successfully market and sell several of the properties at gains. At December 31, 2001, only three properties remain: two shopping centers and one office building.

Additional financial information regarding this segment appears under the captions "Segment Profitability" on pages 15 to 17 and "Note 29: Business Segment Reporting" on pages 110 to 112 of our 2001 Annual Report to Shareholders and is incorporated herein by reference.

Subprime Residential Lending

In August 1999, we closed our subprime residential loan origination offices and reassigned or terminated employees who were involved in loan origination and related management and support functions. Since late 1994, our lending activities had included the origination and purchase of domestic 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 the FHLMC ("conforming loans") and who have substantial equity in the properties that secure the loans.

Through 1996, the Bank acquired subprime single family residential loans primarily through a correspondent relationship with Admiral Home Loan ("Admiral") and, to a lesser extent, correspondent relationships with three other financial services companies. Correspondent institutions originated loans based on guidelines provided by us and promptly sold the loans to us on a servicing-released basis. Through Ocwen Financial Services, Inc. ("OFS"), we acquired substantially all of the assets of Admiral in a transaction that closed on May 1, 1997. In connection with our acquisition of assets from Admiral, the Bank transferred its retail and wholesale subprime single family residential lending operations to OFS.

The terms of the loan products offered by us directly or through our correspondents emphasized real estate loans which generally were underwritten with significant reliance on a borrower's level of equity in the property securing the loan.

Assets remaining in this segment at December 31, 2001 are primarily comprised of subprime residual trading securities that we originally retained in connection with our securitizations of loans during 1999 and prior years.

Additional financial information regarding this segment appears under the captions "Segment Profitability" on pages 15 to 17 and "Note 29: Business Segment Reporting" on pages 110 to 112 of our 2001 Annual Report to Shareholders and is incorporated herein by reference.

Corporate Items and Other

Corporate items and other consists primarily of amortization of the excess of net assets acquired over purchase price, UK operations, extraordinary gains on repurchases of debt, business activities that are individually insignificant, amounts that we have not allocated to the operating segments, distributions on our 10-7/8% Capital Trust Securities, transfer pricing mismatches and other general corporate expenses.

Corporate items and other also includes the results of our collateralized mortgage obligation ("CMO") securities portfolio. Residual and subordinate securities have been included in the related business activity. On July 27, 1998, we sold at book value our entire portfolio of AAA-rated agency interest-only securities ("IOs"), the results of which had been included in this segment. As a result of an increase in prepayment speeds due to declining interest rates, we recorded significant impairment charges on the IOs in 1998 prior to the sale, which led to our decision to discontinue this investment activity and write down the book value. Our investment policy, 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.

Additional financial information regarding this segment appears under the captions "Segment Profitability" on pages 15 to 17 and "Note 29: Business Segment Reporting" on pages 110 to 112 of our 2001 Annual Report to Shareholders and is incorporated herein by reference.

SOURCES OF FUNDS

General. The principal sources of funds that support our business activities are:

- Deposits
- FHLB advances
- Securities sold under agreements to repurchase
- Lines of credit
- Match funded debt
- Maturities of and payments received on loans, securities and advances
- Proceeds from sales of assets
- Servicing fees

We closely monitor rates and terms of competing sources of funds on a regular basis and generally utilize the sources that are the most cost effective.

Deposits. Historically, a significant source of deposits for us has been brokered certificates of deposit obtained primarily through national investment banking firms that, pursuant to agreements with us, solicit funds from their customers for deposit with the Bank ("brokered deposits"). In addition, during 1995, we commenced a program to obtain certificates of deposit from customers of regional and local investment banking firms that were made aware of our products by our direct solicitation and marketing efforts. We also solicited certificates of deposit from institutional investors and high net worth individuals. Our brokered deposits are reported net of unamortized deferred fees, which have been paid to investment banking firms.

Although we believe that brokered and other wholesale deposits are advantageous in certain cost 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 our financial condition. There are also various regulatory limitations on the ability of insured financial institutions to obtain brokered deposits. See "Regulation - The Bank - Brokered Deposits." During 2001, we did not issue any new brokered certificates of deposit and do not intend to utilize such deposits as a source of new funds in the foreseeable future.

In addition to brokered and other wholesale deposits, we obtain deposits from our office located in New Jersey through advertising, walk-ins and other traditional means. These deposits include non-interest bearing checking accounts, NOW and money market checking accounts and savings accounts, but are primarily comprised of certificates of deposit. At December 31, 2001, the deposits that were allocated to this office comprised approximately 23% of our total deposits.

Borrowings. Through the Bank, we can obtain advances from the FHLB of New York upon the security of certain of our 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 our own interest rate, which may be fixed or adjustable, and range of maturities.

We also obtain funds pursuant to securities sold under reverse repurchase agreements. Under these agreements, we sell 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 our consolidated financial statements and are held in safekeeping by broker-dealers.

Our borrowings also include lines of credit, notes, subordinated debentures, bonds-match funded agreements and other interest-bearing obligations. During 2001 we began utilizing lines of credit and match funded debt as sources of funding for advances related to loans we service for others. Under a match funding agreement that we entered into on December 20, 2001, we are eligible to sell advances on loans serviced for others up to a maximum debt balance of $200,000 at any one time. At December 31, 2001, we had $91,766 of bonds-match funded agreements outstanding under this facility, which is expected to mature in December 2003.

Other. Additional information on our sources of funds appears under the captions "Liquidity, Commitments and Off-Balance Sheet Risks" on pages 59 to 60, "Deposits" on pages 50 to 51, "Note 14: Deposits" on page 94, "Note 16: Bonds - Match Funded Agreements" on page 95, "Note 17: Lines of Credit and Other Short-Term Borrowings" on pages 95 to 96 and "Note 18: Notes, Debentures and Other Interest-Bearing Obligations" on pages 96 to 97 of the 2001 Annual Report to Shareholders and is incorporated herein by reference.

RISK FACTORS

Information related to risk factors which could directly or indirectly affect our results of operations and financial condition is set forth in Exhibit 99.1 and incorporated herein by reference.

COMPETITION

The information under the caption "Competition" set forth in Exhibit 99.1 is incorporated herein by reference.

SUBSIDIARIES

A list of our significant subsidiaries is set forth in Exhibit 21.0 and is incorporated herein by reference.

EMPLOYEES

At December 31, 2001 we had 1,663 full time employees, including 258 in our Bangalore, India office. Our employees are not represented by a collective bargaining agreement. We consider our employee relations to be satisfactory.

REGULATION

Financial institutions and their holding companies are extensively regulated under federal and state laws. As a result, our business, financial condition and prospects 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 us and the Bank, such as the OTS and the FDIC, which insures up to legal limits deposits placed at the Bank. 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 that is not insured by the FDIC.

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

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

The Holding Company

General. Ocwen Financial Corporation is a registered savings and loan holding company under the Home Owners' Loan Act (the "HOLA"). As such, it is subject to regulation, supervision and examination by the OTS.

Activities Restrictions. There are generally no restrictions on the activities of a savings and loan holding company, such as OCN, that held only one savings institution subsidiary as of May 4, 1999. However, if the Director of the OTS determines that there is reasonable cause to believe that the continuation by a savings and loan holding company of an activity constitutes a serious risk to the financial safety, soundness or stability of its subsidiary savings institution, the Director may impose such restrictions as are deemed necessary to address such risk, including limiting:

- Payment of dividends by the savings institution;
- Transactions between the savings institution and its affiliates; and
- Any activities of the savings institution that might create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings institution.

Notwithstanding the above rules as to permissible business activities of unitary savings and loan holding companies, if the savings institution subsidiary of such a holding company fails to meet the qualified thrift lender ("QTL") test set forth in OTS regulations, then such unitary holding company shall after one year be subject to the restrictions applicable to, a bank holding company. See "The Bank-Qualified Thrift Lender Test."

If we were to acquire control of another savings institution, other than through merger or other business combination with the Bank, OCN would thereupon become a multiple savings and loan holding company. Except where such acquisition is pursuant to the authority to approve emergency thrift acquisition and where each subsidiary savings institution meets the QTL test, as set forth below, the activities of OCN 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:

- Furnishing or performing management services for a subsidiary savings institution;
- Conducting an insurance agency or escrow business;
- Holding, managing, or liquidating assets owned by or acquired from a subsidiary savings institution;
- Holding or managing properties used or occupied by a subsidiary savings institution;
- Acting as trustee under deeds of trust;
- Those activities authorized by regulation as of March 5, 1987 to be engaged in by multiple savings and loan holding companies; or
- 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. These activities also must be approved by the Director of the OTS prior to being engaged in by a multiple savings and loan holding company.

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

The Director of the OTS may approve acquisitions resulting in the formation of a multiple savings and loan holding company which controls savings institutions in more than one state only if: (i) the multiple savings and loan holding company involved controls a savings institution which operated a home or branch office located in the state of the institution to be acquired as of March 5, 1987; (ii) the 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 OCN 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, changes in control of the Bank as well as subsidiaries established by the Bank.

Insurance of Accounts. Pursuant to legislation enacted in September 1996, a fee was required to be paid by all SAIF-insured institutions at the rate of $0.657 per $100 of deposits held by such institutions at March 31, 1995. The money collected recapitalized the

SAIF reserve to the level of 1.25% of insured deposits as required by law. The recapitalization of the SAIF resulted in lower deposit insurance premiums for most SAIF-insured financial institutions, including the Bank.

Insured institutions also are required to share in the payment of interest on the bonds issued by a specially created government entity, the Finance Corporation ("FICO"), the proceeds of which were applied toward resolution of the thrift industry crisis in the 1980s. Beginning on January 1, 1997, in addition to the insurance premiums paid by SAIF-insured institutions to maintain the SAIF reserve at the required level pursuant to the current risk classification system, SAIF-insured institutions pay deposit insurance premiums towards the payment of interest on the FICO bonds. The FICO assessment rate is adjusted quarterly.

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

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

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

The OTS minimum core capital ratio provides that only those institutions with Uniform Financial Institution Rating System ("UFIRS") rating of "1" are subject to a 3% minimum core capital ratio. All other institutions are subject to a 4% minimum core capital ratio.

The OTS and other banking regulators proposed revisions to their capital rules concerning the treatment of residual interests in asset securitizations and other transfers of financial assets. Generally, the proposed rule would require that risk-based capital be held in an amount equal to the amount of residual interests retained on an institution's balance sheet and would limit the amount of residual interests that may be included in Tier 1 capital.

In January 2001, the four federal banking agencies jointly issued expanded examination and supervision guidance relating to subprime lending activities. In the guidance, "subprime" lending generally refers to programs that target borrowers with weakened credit histories or lower repayment capacity. The guidance principally applies to institutions with subprime lending programs with an aggregate credit exposure equal to or greater than 25 percent of an institution's Tier 1 capital. Such institutions would be subject to more stringent risk management standards and, in many cases, additional capital requirements. As a starting point, the guidance generally expects that such an institution would hold capital against subprime portfolios in an amount that is one and one half to three times greater than the amount appropriate for similar types of non-subprime assets. The guidance is primarily directed at insured depository institutions.

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

On February 10, 1999, the Federal Financial Institutions Examination Council ("FFIEC") issued the Uniform Retail Credit Classification and Account Management Policy. As a result of this policy, we have classified all residential loans as substandard if they are past due 90 days, or more, and the ratio of book value to market value is 60%, or more. We classify as substandard all residential loans that are in foreclosure or bankruptcy and have a ratio of book value to market value of 85%, or more, and we classify as loss and charge off the portion of the book value of such loans that exceeds 85% of market value. In 2001, we modified our policies so that we now classify as substandard all residential real estate owned held for less than three years and as doubtful all held for three years or more. Our past experience indicates that classified discount assets do not necessarily correlate to probability or severity of loss.

Excluding assets that have been classified loss and fully reserved, the Bank's classified assets at December 31, 2001 under the above policy consisted of $205,038 of assets classified as substandard and $497 of assets classified as doubtful. In addition, at the same date, $96,225 of assets were designated as special mention.

Substandard assets at December 31, 2001 under the above policy consisted primarily of $45,993 of loans and real estate owned related to our discount single family residential loans and $87,618 of loans and real estate owned related to our discount commercial real estate loans. Special mention assets at December 31, 2001 under the policy consisted primarily of $95,938 of loans and real estate owned related to discount commercial real estate loans.

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:

- "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 or directive to meet and maintain a specific capital level for any capital measure;
- "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";
- "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);
- "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;
- "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 our most recent exam. At December 31, 2001, 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:

- Prohibiting capital distributions;
- Prohibiting payment of management fees to controlling persons;
- Requiring the submission of a capital restoration plan;
- Placing limits on asset growth;
- Limiting acquisitions, branching or new lines of business;
- Requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired;
- Restricting transactions with affiliates;
- Restricting the interest rates that the institution may pay on deposits;
- Ordering a new election of directors of the institution;
- Requiring that senior executive officers or directors be dismissed;
- Prohibiting the institution from accepting deposits from correspondent banks;
- Requiring the institution to divest certain subsidiaries;
- Prohibiting the payment of principal or interest on subordinated debt; and, ultimately,
- Appointing a receiver for the institution.

Qualified Thrift Lender Test. All savings associations are required to meet the QTL test set forth in the HOLA to avoid certain restrictions on their operations. Under the QTL test provisions, a savings institution must maintain at least 65% of portfolio assets in qualified thrift investments. In general, qualified thrift investments include loans, securities and other investments that are related to housing, small business and credit card lending, and to a more limited extent, consumer lending and community service purposes. Portfolio assets are defined as an institution's total assets less goodwill and other intangible assets, the institution's business property and a limited amount of the institution's liquid assets. A savings association that does not meet the QTL test set forth in the HOLA and implementing regulations must either convert to a bank charter or comply with the following restrictions on its operations:

- 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;
- The branching powers of the association shall be restricted to those of a national bank; and
- 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 unless that activity or investment would be permissible if the association were a national bank and for the association as a savings association. The Bank met the QTL test throughout 2001, and our qualified thrift investments comprised 75.29% of our portfolio assets at December 31, 2001.

Restrictions on Capital Distributions. Effective April 1, 1999, the Bank is required to file a notice with the OTS at least 30 days prior to making any payment to repurchase, redeem, retire or otherwise acquire debt instruments included in total risk-based capital (each a "capital distribution") unless (a) it is not eligible for expedited treatment under the OTS application processing regulations, (b) the total amount of the Bank's capital distributions (including the proposed distribution) for the calendar year exceeds the Bank's net income for the year to date plus retained net income for the previous two years, (c) the Bank would not be "adequately capitalized" following the proposed distribution or (d) the proposed distribution would violate any applicable statute, regulation, or an agreement between the Bank and the OTS, or a condition imposed upon the Bank by an OTS-approved application or notice. If one of these four criteria is present, the Bank is required to file an application with the OTS at least 30 days prior to making the proposed capital distribution. The OTS may deny the Bank's application or disapprove our notice if the OTS determines that (a) the Bank will be "undercapitalized," "significantly undercapitalized" or "critically under capitalized," as defined in the OTS capital regulations, following the capital distribution, (b) the proposed capital distribution raises safety and soundness concerns or (c) the proposed capital distribution violates a prohibition contained in any statute, regulation or agreement between the Bank and the OTS or a condition imposed on the Bank in an application or notice approved by the OTS.

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

At December 31, 2001, the Bank's unimpaired capital and surplus amounted to $239,305, resulting in a general loan-to-one borrower limitation of $35,896 under applicable laws and regulations.

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) that 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 our deposits obtained through customers of regional and local investment banking firms and the deposits obtained from the Bank's direct solicitation efforts of institutional investors and high net worth individuals, are potentially subject to the restrictions described below. Under FDIC regulations, well-capitalized institutions are not subject to the brokered deposit limitations, while adequately capitalized institutions are able to accept, renew or roll over brokered deposits only: (i) with a waiver from the FDIC; and (ii) subject to the limitation that they do not pay an effective yield on any such deposit which exceeds by more than 75 basis points (a) the effective yield paid on deposits of comparable size and maturity in such institution's normal market area for deposits accepted in our normal market area or (b) 120% (130% for deposits at least half of which is uninsured) 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. See "Sources of Funds - Deposits."

Liquidity Requirements. All savings associations were previously 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 their average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. The liquidity requirement varied from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings associations. In November 1997, the OTS amended its liquidity regulations to, among other things, provide that a savings association shall maintain liquid assets of not less than 4% of the amount of its liquidity base at the end of the preceding calendar quarter as well as to provide that each savings association must maintain sufficient liquidity to ensure its safe and sound operation. Prior to November 1997, the required liquid asset ratio was 5%. Historically, the Bank has operated in compliance with these requirements. In December 2000, Congress passed the Financial Regulatory Relief and Economic Efficiency Act of 2000 (Pub. L. 106-569) which repealed the statutory liquidity requirement for savings associations formerly found in HOLA. Accordingly, effective July 18, 2001, the OTS issued a Final Rule that eliminated the 4% liquidity requirement. The Final Rule requires savings associations to maintain sufficient liquidity to ensure their safe and sound operation.

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, Ocwen Financial Corporation, OAC, OTX and their non-bank subsidiaries are affiliates of the Bank.

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

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

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

Community Investment and Consumer Protections Laws. The Bank is subject to a variety of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. Included among these are the Federal Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, Truth-in-Lending Act, Equal Credit Opportunity Act, Fair Credit Reporting Act and the Community Reinvestment Act.

Gramm-Leach-Bliley Act. The Bank is also subject to the Gramm-Leach-Bliley Act ("GLB Act"), which was signed into law at the end of 1999. The GLB Act contains comprehensive consumer financial privacy restrictions. Various federal enforcement agencies, including the Federal Trade Commission, have issued final regulations to implement the GLB Act; however, compliance with the new regulations was voluntary until July 1, 2001. The restrictions fall into two basic categories. First, a financial institution must provide various notices to consumers about an institution's privacy policies and practices. Second, the GLB Act gives consumers the right to prevent the financial institution from disclosing non-public personal information about the consumer to non-affiliated third parties, with exceptions.

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

Federal Reserve Regulation. Under Federal Reserve Board regulations, the Bank is required to maintain a reserve against its transaction accounts (primarily interest-bearing and noninterest-bearing checking accounts). Because reserves must generally be maintained in cash or in noninterest-bearing accounts, the effect of the reserve requirements is to increase an institution's cost of funds. These regulations generally require that the Bank maintain reserves against net transaction accounts. Institutions may designate and exempt $5,000 of certain reservable liabilities from these reserve requirements. This amount is subject to adjustment by the Federal Reserve Board. The Bank, like other depository institutions maintaining reservable accounts, may borrow from the Federal Reserve Bank discount window, but the Federal Reserve Board's regulations require the Bank to exhaust other reasonable alternative sources before borrowing from the Federal Reserve Bank. Numerous other regulations promulgated by the Federal Reserve Board affect the business operations of the Bank. These include regulations relating to equal credit opportunity, electronic fund transfers, collection of checks, truth in lending, truth in savings and availability of funds.

Federal Home Loan Bank System. The FHLB System was created in 1932 and consists of twelve regional FHLBs. The FHLBs are federally chartered but privately owned institutions created by Congress. The Federal Housing Finance Board ("Finance Board") is an agency of the federal government and is generally responsible for regulating the FHLB System. Each FHLB is owned by its member institutions. The primary purpose of the FHLBs is to provide funding to their members for making housing loans as well as for affordable housing and community development lending. FHLBs are generally able to make advances to their member institutions at interest rates that are lower than could otherwise be obtained by such institutions. Under current rules, an FHLB member is generally required to purchase FHLB stock in an amount equal to at least 5% of the aggregate outstanding advances made by the FHLB to the member. The GLB Act and new regulations adopted by the Finance Board that became effective January 31, 2001 require a new capital structure for the FHLBs. The new capital structure will contain risk-based and leverage capital requirements similar to those currently in place for depository institutions. Each FHLB was required to submit a capital structure plan to the Finance Board for approval within 270 days of the publication of the new regulations. Generally, an institution is eligible to be a member of the FHLB for the district where the member's principal place of business is located. The Bank, whose home office is in Ft. Lee, New Jersey, is a member of the New York FHLB.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires financial institutions regulated by the federal financial supervisory agencies to ascertain and help meet the credit needs of their delineated communities, including low- to moderate-income neighborhoods within those communities, while maintaining safe and sound banking practices. The regulatory agency assigns one of four possible ratings to an institution's CRA performance and is required to make public an institution's rating and written evaluation. The four possible ratings of meeting community credit needs are outstanding, satisfactory, needs to improve, and substantial noncompliance. In 1999, the Bank received a "satisfactory" CRA rating from the OTS. This rating reflects our commitment to meeting the credit needs of the communities we serve. Under regulations that apply to all CRA performance evaluations after July 1, 1997, many factors play a role in assessing a financial institution's CRA performance. The institution's regulator must consider its financial capacity and size, legal impediments, local economic conditions and demographics, including the competitive environment in which it operates. The evaluation does not rely on absolute standards, and the institutions are not required to perform specific activities or to provide specific amounts or types of credit. We maintain a CRA file available for public viewing.

The Bank filed an application with the OTS to be designated a Wholesale Bank for CRA purposes beginning in May 2001. The bank was designated as a Wholesale Bank as of June 15, 2001. The Wholesale Bank designation is available to institutions that are not in the business of extending home mortgage, small business, small farm or consumer loans to retail customers. Wholesale Banks are subject to a separate CRA test that measures their community development loans, investments and services.

FEDERAL TAXATION

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

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

Tax Residuals. From time to time, we acquire Real Estate Mortgage Investment Conduit ("REMIC") residuals or retain residual securities in REMICs which were formed by us in connection with the securitization and sale of loans. Although a tax residual may have little or no future economic cash flows from the REMIC from which it has been issued, the tax residual does bear the income tax liability or benefit resulting from the difference between the interest rate paid on the securities by the REMIC and the interest rate received on the mortgage loans held by the REMIC. This generally results in taxable income for us in the first several years of the REMIC and equal amounts of tax deductions thereafter. We receive cash payments in connection with the acquisition of tax residuals to compensate us 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. We defer all fees received and recognize such fees in interest income on a level yield basis over the expected life of the deferred tax asset related to tax residuals. We also adjust 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, 2001, our gross deferred tax assets included $3,176, which was attributable to our tax residuals and related deferred income.

Investments in Low-Income Housing Tax Credit Interests. For a discussion of the tax effects of investments in low-income housing tax credit interests, see "Segments-Affordable Housing Properties."

Examinations. The most recent examination by the IRS of our Federal income tax return was of the tax return filed for 1996. The statute of limitations has run with respect to 1997 and all prior tax years. Thus, the Federal income tax returns for the years 1998 through 2000 are open for examination. We do not anticipate any material adjustments as a result of any examination, although there can be no assurances in this regard.

STATE TAXATION

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

ITEM 2. PROPERTIES

The following table sets forth information relating to our facilities at December 31, 2001:

Location	Owned/Leased	Net Book Value of Property or Leasehold Improvements	
		(Dollars in Thousands)	
Executive offices:			
1675 Palm Beach Lakes Boulevard			
West Palm Beach, FL....................................	Leased	$	3,135
Bank main office:			
2400 Lemoine Ave			
Fort Lee, NJ...	Leased	$	11
Servicing center:			
12650 Ingenuity Drive			
Orlando, FL..	Owned	$	22,239
Software development and servicing operations center:			
Information Technology Park			
Bangalore, India.......................................	Leased	$	184
OTX offices:			
California office:			
5050 Avenida Encinas, Suite 200			
Carlsbad, CA...	Leased	$	128
Amos, Inc.:			
10 Research Parkway			
Wallingford, CT..	Leased	$	51
Synergy Software, LLC:			
Two Creekside Crossing			
10 Cadillac Drive, Suite 350	Leased		
Brentwood, TN..		$	131

OTX's main offices are located in facilities provided by OCN. OAC does not maintain an office, but rather relies on the facilities provided by OCN.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various pending legal proceedings. Management is of the opinion that the resolution of these claims will not have a material adverse effect on the results of operations or financial condition of us. See "Note 30: Commitments and Contingencies" on page 112 of our 2001 Annual Report to Shareholders which is incorporated herein by reference.

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

None.

PART II

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

Information required by this Item appears under the caption "Shareholder Information" on page 117 of our Annual Report to Shareholders and is incorporated herein by reference.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Information required by this Item appears under the caption "Selected Consolidated Financial Information" on pages 10 to 12 of our Annual Report to Shareholders and is incorporated herein by reference.

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

Information required by this Item appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 13 to 60 of our 2001 Annual Report to Shareholders and is incorporated herein by reference. In addition, please also note the information below, which is not discussed in our 2001 Annual Report to Shareholders.

Recent Developments

On March 27, 2002, OCN announced the formation of Global Servicing Solutions, LLC, a joint venture with Merrill Lynch. The joint venture will be responsible for establishing, licensing and operating distressed asset management servicing companies in countries around the world to service Merrill Lynch assets as well as assets owned by third parties.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item appears under the captions "Asset and Liability Management" on pages 53 to 58, "Note 1: Summary of Significant Accounting Policies" on pages 71 to 77 and "Note 21: Derivative Financial Instruments" on pages 99 to 101 of our Annual Report to Shareholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this Item appears on pages 63 to 116 in our Annual Report to Shareholders and is incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in our definitive Proxy Statement with respect to our Annual Meeting of Shareholders to be held on May 16, 2002, and as filed with the Commission on or about March 29, 2002 (the "2002 Proxy Statement") under the captions "Election of Directors - Nominees for Director," "Executive Officers Who Are Not Directors," and "Security Ownership of Certain Beneficial Owners - Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in our 2002 Proxy Statement under the captions "Executive Compensation," "Board of Directors Compensation" and "Comparison of Cumulative Total Return" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained in our 2002 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners - Beneficial Ownership of Common Stock" is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

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

(a) 1 & 2 Financial Statements and Schedules. The following Consolidated Financial Statements of Ocwen Financial Corporation and Report of PricewaterhouseCoopers LLP, Independent Certified Public Accountants, are incorporated herein by reference from pages 63 to 116 of our Annual Report to Shareholders:

Report of Independent Certified Public Accountants

Consolidated Statements of Financial Condition at December 31, 2001 and 2000

Consolidated Statements of Operations for each of the three years in the period ended December 31, 2001

Consolidated Statements of Changes in Shareholders' Equity for each of the three years in the period ended December 31, 2001

Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2001

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2001

Notes to Consolidated Financial Statements

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

(a) 3 Exhibits.

2.1 Agreement of Merger dated as of July 25, 1999 among Ocwen Financial Corporation, Ocwen Asset Investment Corp. and Ocwen Acquisition Company (1)

3.1 Amended and Restated Articles of Incorporation (2)

3.2	Amended and Restated Bylaws (3)
4.0	Form of Certificate of Common Stock (2)
4.1	Form of Indenture between OCN and Bank One, Columbus, NA as Trustee (2)
4.2	Form of Note due 2003 (included in Exhibit 4.1) (2)
4.3	Certificate of Trust of Ocwen Capital Trust I (4)
4.4	Amended and Restated Declaration of Trust of Ocwen Capital Trust I (4)
4.5	Form of Capital Security of Ocwen Capital Trust I (included in Exhibit 4.4) (4)
4.6	Form of Indenture relating to 10.875% Junior Subordinated Debentures due 2027 of OCN (4)
4.7	Form of 10.875% Junior Subordinated Debentures due 2027 of OCN (included in Exhibit 4.6) (4)
4.8	Form of Guarantee of OCN relating to the Capital Securities of Ocwen Capital Trust I (4)
4.9	Form of Indenture between Ocwen Federal Bank FSB and The Bank of New York as Trustee (5)
4.10	Form of Subordinated Debentures due 2005 (5)
4.11	Form of Indenture between OAC and Norwest Bank Minnesota, National Association, as Trustee thereunder for the 11.5% Redeemable Notes due 2005 (6)
4.12	Form of 11.5% Redeemable Note due 2005 (7)
4.13	Form of Second Supplemental Indenture between OAC and Wells Fargo Bank Minnesota, National Association as successor to Norwest Bank Minnesota, National Association, as trustee thereunder for the 11.5% Redeemable Notes due 2005 (8)
10.1	Ocwen Financial Corporation 1996 Stock Plan for Directors, as amended (9)
10.2	Ocwen Financial Corporation 1998 Annual Incentive Plan (10)
10.3	Amended and Restated Loan Agreement, dated as of June 10, 1998, by and among, inter alia, OAIC California Partnership, L.P., OAIC California Partnership II, L.P., Salomon Brothers Realty Corp. and LaSalle National Bank (11)
10.4	Compensation and Indemnification Agreement, dated as of May 6, 1999, between OAC and the independent committee of the Board of Directors (12)
10.5	Second Amendment to Guarantee of Payment, dated as of July 9, 1999, made by and between Salomon Brothers Realty Corp. and Ocwen Partnership, L.P. (12)
10.6	Indemnity agreement, dated August 24, 1999, among OCN, and OAC's directors (13)
10.7	Amended Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, dated October 26, 1999 (13)
10.8	First Amendment to Agreement, dated March 30, 2000 between HCT Investments, Inc. and OAIC Partnership I, L.P. (13)
10.9	Form of Separation Agreement and Full Release, dated as of February 28, 2001, by and among Christine A. Reich, Ocwen Federal Bank FSB and Ocwen Financial Corporation (14)
10.10	Form of Employment Agreement, dated as of April 1, 2001, by and between Ocwen Financial Corporation and Arthur D. Ringwald (filed herewith)
10.11	Form of Employment Agreement, dated August 1, 2001, by and between Ocwen Technology Xchange and Jack Timpe (filed herewith)
11.1	Computation of earnings per share (15)
12.1	Ratio of earnings to fixed charges (filed herewith)
13.1	Excerpts from the Annual Report to Shareholders for the year ended December 31, 2001 (filed herewith)
21.0	Subsidiaries (filed herewith)
23.0	Consent of PricewaterhouseCoopers LLP (filed herewith)
99.1	Risk factors (filed herewith)

(1) Incorporated by reference from a similarly described exhibit included with the Registrant's Current Report on Form 8-K filed with the Commission on July 26, 1999.

(2) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-1 (File No. 333-5153) as amended, declared effective by the commission on September 25, 1996.

(3) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998.

(4) Incorporated by reference from the similarly described exhibit filed in connection with our Registration Statement on Form S-1 (File No. 333-28889), as amended, declared effective by the Commission on August 6, 1997.

(5) Incorporated by reference from the similarly described exhibit filed in connection with Amendment No. 2 to Offering Circular on Form OC (on Form S-1) filed on June 7, 1995.

(6) Incorporated by reference from OAC's Current Report on Form 8-K filed with the Commission on July 11, 1998.

(7) Incorporated by reference from OAC's Registration Statement on Form S-4 (File No. 333-64047), as amended, as declared effective by the Commission on February 12, 1999.

(8) Pursuant to Item 601 of Regulation S-K, Instruction (4)(iii), the Registrant agrees to furnish a copy to the Commission upon request.

(9) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-8 (File No. 333-44999), effective when filed with the Commission on January 28, 1998.

(10) Incorporated by reference from the similarly described exhibit to our definitive Proxy Statement with respect to our 1998 Annual Meeting of Shareholders as filed with the Commission on March 31, 1998.

(11) Incorporated by reference from OAC's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998.

(12) Incorporated by reference from OAC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.

(13) Incorporated by reference from the similarly described exhibit included with the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.

(14) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.

(15) Incorporated by reference from "Note 20: Basic and Diluted Earnings per Share" on page 99 of our Annual Report to Shareholders.

(b) Reports on Form 8-K Filed During the Quarter Ended December 31, 2001

(1) A Form 8-K was filed by OCN on November 8, 2001 which contained a news release announcing our 2001 third quarter results and certain other information.

SIGNATURES

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

OCWEN FINANCIAL CORPORATION

By: /s/ WILLIAM C. ERBEY

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

Date: March 29, 2002

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

/s/ WILLIAM C. ERBEY William C. Erbey, Chairman of the Board and Chief Executive Officer (principal executive officer)	Date: March 29, 2002
/s/ BARRY N. WISH Barry N. Wish, Director	Date: March 29, 2002
/s/ W. C. MARTIN W.C. Martin, Director	Date: March 29, 2002
/s/ HON. THOMAS F. LEWIS Hon. Thomas F. Lewis, Director	Date: March 29, 2002
/s/ Mark S. Zeidman Mark S. Zeidman, Senior Vice President and Chief Financial Officer (principal financial officer)	Date: March 29, 2002
/s/ ROBERT J. LEIST, JR. Robert J. Leist, Jr., Vice President and Chief Accounting Officer (principal accounting officer)	Date: March 29, 2002

EXHIBIT 10.10

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of April 1, 2001, by and between Ocwen Financial Corporation, a Florida corporation, with its principal office at 1675 Palm Beach Lakes Blvd. West Palm Beach, Florida 33401 (the "Company"), and Arthur D. Ringwald, residing at 151 Camino Don Miguel, Orinda, California 94563 ("Executive").

WITNESSETH:

WHEREAS, the Company desires to employ Executive as Chief Executive Officer of Ocwen Technology Xchange ("OTX");

WHEREAS, the Company and Executive desire to enter into this agreement (the "Agreement") as to the terms of his employment by the Company;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the parties agree as follows:

1. Term of Employment. Except for earlier termination as provided in Section 8 hereof, Executive's employment under this Agreement shall be for a five (5) year term (the "Initial Employment Term") commencing on April 1, 2001 (the "Commencement Date") and ending on March 31, 2006. Subject to Section 8 hereof, the Initial Employment Term shall be automatically extended for additional terms of successive one (1) year periods (the "Additional Employment Term") unless the Company or Executive gives written notice to the other at least six (6) months prior to the expiration of the then Initial Employment Term or Additional Employment Term of the termination of Executive's employment hereunder at the end of such Initial Employment Term or Additional Employment Term. The Initial Employment Term and the Additional Employment Term shall be referred to herein as the "Employment Term."

2. Position and Duties. (a) Commencing April 1, 2001 and throughout the Employment Term, Executive shall serve as the Chief Executive Officer of OTX and all subsidiaries of OTX. In addition, OTX will elect Executive during the Employment Term as a member of the Board of Directors of OTX.

(b) Executive shall report directly to the Chairman of the Board of Directors of the Company (the "Board") and shall have such duties and authority consistent with his position as Chief Executive Officer and a Director of OTX as shall be assigned to him from time to time by the Chairman of the Board. Such duties shall include using diligent efforts to: (i) formulate and achieve long-term goals and objectives; (ii) prepare, present and achieve the OTX forecast and budget; (iii) lead and manage all personnel and direct all operating activities and operations; (iv) establish, implement and upgrade major strategic relationships, alliances, partnerships, and acquisitions; (v) establish and formulate the overall vision, mission, product planning and direction for OTX, jointly with the Chairman of the Board; and (vi) hire and terminate all employees of OTX. Executive agrees that at all times he will be bound by and comply with the provisions of the Company's Employee Guidebook. In the event of a conflict between the terms of this Agreement and the terms of the Employee Guidebook, this Agreement shall control.

(c) During the Employment Term, Executive shall devote his business time and efforts to the performance of his duties hereunder; provided, however, that Executive shall be allowed, to the extent that such activities do not interfere with the performance of his duties and responsibilities hereunder, to manage his personal financial and legal affairs and to serve on corporate, civic, charitable and industry boards or committees. Notwithstanding the foregoing, during the Employment Term, Executive shall only serve on boards of directors of entities as may be approved by the Board of Directors of OTX from time to time.

3. Base Salary. During the Employment Term, in exchange for Executive's ongoing performance of his duties and obligations under this Agreement, the Company shall pay Executive a base salary at the annual rate of not less than $300,000. Base salary shall be payable in accordance with the usual payroll practices of the Company. Beginning on the third anniversary of this Agreement, the base salary shall be adjusted by multiplying the base salary by a fraction, the numerator of which shall be the Consumer Price Index-All Urban Consumers excluding food and energy issued by the U.S. Department of Labor, Bureau of Labor Statistics as published on a monthly basis in the Wall Street Journal (Eastern Edition) (the "Index") for January of the then-current year, and the denominator of which shall be the Index for January of the prior year. Notwithstanding the foregoing, in no event shall the base salary be

reduced below $300,000 during the term of this Agreement. The base salary as determined as aforesaid from time to time shall constitute "Base Salary" for purposes of this Agreement.

4. Incentive Compensation. (a) Bonus. The Board shall establish a performance-based annual bonus plan with targets and objectives approved by the Board in consultation with Executive (the "Performance Bonus Plan"), with a target bonus of $450,000 and a maximum bonus of $675,000. In any event, the compensation to Executive under the Performance Bonus Plan shall not be less than $150,000 in cash annually (the "Guaranteed Bonus"), payable in equal monthly installments. Bonus payments above the Guaranteed Bonus shall be paid in accordance with the payment structure specified in the 1998 Annual Incentive Plan of the Company. In addition, Executive shall be eligible to

participate in any other annual bonus plan the Company may implement at any time during Executive's Employment Term for senior executives at a level commensurate with his position.

(b) Equity.

(i) Initial Public Offering. Executive and OTX will enter into an agreement by which OTX grants to Executive options (the "Options") to purchase shares of the commonstock of OTX, on and after the date of the Initial Public Offering ("IPO") of OTX, in an amount equal to 3 % of the common stock shares of OTX outstanding on the date of the IPO. The purchase price for each share subject to the Option will be equal to 50% ofthe initial per share offering price under the IPO. The term of the Option will begin on the date of the IPO and will continue for a period of ten (10) years unless earlier- terminated under this Agreement or as provided in the standard Option agreement to purchase shares in OTX. Executive must be employed by the Company on such date in orderfor the relevant portion of the Option to vest. One-half of the Options will be exercisable in whole or in part on the date of the IPO, and one quarter of the Options will be exercisable on each of the first and second anniversaries of the relevant IPO. Upon termination of Executive by Company with Cause or termination by Executive without Good Reason, Executive will have sixty (60) days from the date of termination to exercise Options that had vested on the date of termination. On a termination of employment by Company without Cause or by Executive with Good Reason or as a result of the expiration of the Employment Term, Executive will have 180 days to exercise all Options that had vested on the date of termination. Vesting shall be accelerated such that upon a termination of Executive's employment without Cause or a termination by Executive for Good Reason, or in the event of a Change in Control of OTX, all Options will immediately vest to the extent not then vested. The Options will be subject to such other standard terms and conditions placed on Options to purchase shares in OTX as determined by the Board of Directors in its sole discretion.

(ii) Sale of OTX. In the event that, during the period in which Executive is employed by Company pursuant to this Agreement and prior to the IPO, the Company sells all of its interest in OTX or all or substantially all of the assets of OTX to an unaffiliated third party (a "Sale"), Executive shall be entitled to receive compensation (the "Sale Compensation") in an amount equal to 1.5 % of the Aggregate Consideration received by OTX or the Company in the Sale. For purposes of this Section 4(b), "Aggregate Consideration" shall mean the total, net of expenses of sale, of all cash and other property paid or payable, directly or indirectly, to OTX or the Company, and any indebtedness assumed or repaid by a buyer. In the event the Aggregate Compensation for the Sale is cash, then Executive shall receive the Sale Compensation in cash. In the event the Aggregate Consideration for the Sale is in the form of shares of stock in the acquiring company or other property, then Executive shall receive the Sale Compensation in the form of shares in the acquiring company or other property. In the event the Aggregate Consideration for the Sale is a combination of both cash and shares of stock in the acquiring company or other property, then Executive shall receive the Sale Compensation in cash and shares of stock in the acquiring company or other , property, in the same proportion as was paid to the Company for the purchase of OTX. Executive shall receive the Sale Compensation at the same time the Aggregate Consideration or portions thereof are paid to the Company. If Executive is entitled to receive Sale Compensation pursuant to this Section 4(b)(ii) and Executive's employment pursuant to this Agreement is terminated for any reason subsequent to a Sale, Executive shall continue to receive his Sale Compensation for portions of the Aggregate Consideration associated with such sale that are paid to the Company after the date of Executive's termination.

(iii) Other. If, at the time Executive's employment under this Agreement terminates (unless such termination is by the Company for Cause or by Executive during the Employment Term without Good Reason) there has been no IPO of the shares of OTX and the Company has not sold its interest in OTX such that Executive is entitled to receive compensation under Section 4(b)(ii), Executive will be entitled to receive additional compensation under this Section 4(b)(iii) if, and only if, the net income after taxes ("IAT") for OTX for the twelve month period ending the last day of the month immediately preceding the termination of Executive's employment under this Agreement (the "Base Year") exceeds the sum of $20,000,000 plus (A) 10 % of the amount contributed by the Company to OTX as capital contributions from January 1, 2002 until the date of expiration or termination of Executive's employment under this Agreement, less (B) 10 %a of the Aggregate Proceeds received by the Company for any sale of less than its entire interest in OTX and less (C) 10% of any amounts withdrawn from OTX by the Company in the form of a dividend or in any other manner (the "Threshold"). If the IAT of OTX in the Base Year meets or exceeds the Threshold, then Executive will be entitled to receive additional compensation equal to 1.5 % of the product of (x) the Base Year IAT multiplied by (y) 10. Such compensation may be paid to Executive in the form of cash and/or shares of stock in the Company or options for shares of stock of the Company, at the sole discretion of the Company. Such shares shall be immediately saleable in the public market and shall have a fair market value equal to the amount of such compensation, or, in the case of options, the options shall be immediately exercisable into shares of stock of the Company, such shares of stock shall be immediately saleable in the public market and the net proceeds to Executive of payment of any exercise price and sale of such shares shall be equal to the amount of such compensation (assuming the immediate exercise of such options and the immediate sale of such shares upon the receipt of the options by Executive).

(iv) The provisions of Sections 4(b)(i), 4(b)(ii) and 4(b)(iii) are mutually exclusive. The payment to Executive of additional compensation under one of Sections 4(b)(i), 4(b)(ii)or 4(b)(iii) shall terminate the right of Executive to receive additional compensation pursuant to this Section 4(b).

5. Employee Benefits and Vacation. During the Employment Term, Executive shall be entitled to participate in all benefit plans and arrangements and fringe benefits and perquisite programs generally provided to comparable senior executives of the Company, including, without limitation, participation in a 401(k) plan, participation in a deferred compensation option plan, life, health, and disability insurance, and retiree health coverage. Executive shall be entitled to vacation, sick days and personal days in accordance with Company policy as such may be in effect from time to time; provided that in no event shall Executive be entitled to less than four (4) weeks paid vacation per calendar year, regardless of Company policy concerning vacation.

6. Business Expenses. The Company shall reimburse Executive for the travel, entertainment and other business expenses incurred by Executive in the performance of his duties hereunder, in accordance with the Company's policies as in effect from time to time. Such reimbursement by the Company shall include, without limiting the generality of the foregoing, the expenses for business class or first class airfare on all business flights involving four hours or more of air travel by Executive in a single day.

7. Moving Expenses. (a) The Company shall reimburse Executive for all reasonable expenses and costs associated with relocating his family from Orinda, California to the West Palm Beach area ("Relocation Expenses") in accordance with the Company's Corporate Relocation Guide (the "Guide"), subject to the adjustments in this Section 7. All Relocation Expenses shall be paid on a fully grossed up basis such that on an after tax basis Executive shall have no after tax cost for the relocation. In addition to the expenses described in the Guide, "Relocation Expenses" shall include all costs of the following: (i) 2 points on a mortgage for the acquisition of a West Palm Beach area home; (ii) all appraisal fees, credit report fees, lenders application and inspection fees, recording fees, tax stamps, survey fees, title insurance and/or search fees, attorney and notary fees and any other normal and customary fees associated with the acquisition of a home in the West Palm Beach area; (iii) the packing, partial unpacking and transportation of all household goods, automobiles, pets and paintings and payment of appropriate insurance for same; and (iv) for a cumulative period not to exceed 120 days, (x) the establishment and maintenance of temporary housing for Executive and his family in the West Palm Beach area and/or (y) in the event that Executive closes on a home in the West Palm Beach area before closing on the sale of his home in Orinda, the lesser of all costs associated with owning one of the two residences. In addition to Relocation Expenses, in the event that Executive closes on a home in the West Palm Beach area before closing on the sale of his home in Orinda, the Company shall provide an interest-free loan for a maximum of 120 days equal to the contract sale price

for the home in Orinda less the outstanding mortgage less $200,000 if the Orinda home is subject to a sale contract, or, if there is no sale contract, the sum of $1,800,000 shall be used as the contract sale price in the foregoing clause.

(b) In the event that Executive terminates his employment hereunder without Good Reason (as hereinafter defined) on or prior to the second anniversary of the date hereof, Executive shall repay a portion of the expenses incurred by the Company under Section 7(a) in an amount equal to the total expenses incurred by the Company under Section 7(a) multiplied by a fraction, the numerator of which is twenty-four (24) less the number of months Executive has been employed by the Company, and the denominator of which is twenty-four (24).

8. Termination. (a) The employment of Executive under this Agreement shall terminate upon the earliest to occur of any of the following events:

(i) the death of Executive;

(ii) the termination of Executive's employment by the Company due to Executive's Disability pursuant to Section 8(b) hereof;

(iii) the termination of Executive's employment by Executive for Good Reason pursuant to Section 8(c) hereof;

(iv) the termination of Executive's employment by the Company without Cause;

(v) the termination of Executive's employment by the Company for Cause pursuant to Section 8(e), the voluntary resignation of Executive without Good Reason or the retirement of Executive; or

(vi) the expiration of the Employment Term.

(b) Disability. If by reason of the same or related physical or mental illness or incapacity, Executive is unable to carry out his material duties pursuant to this Agreement for more than six (6) consecutive months, the Company may terminate Executive's employment for Disability. Such termination shall be upon thirty (30) days written notice by a Notice of Disability Termination, at any time thereafter while Executive consecutively continues to be unable to carry out his duties as a result of the same or related physical or mental illness or incapacity. A termination for Disability hereunder shall not be effective if Executive returns to the full time performance of his material duties within such thirty (30) day period.

(c) Termination for Good Reason. A termination for Good Reason means a termination by Executive by written notice given within ninety (90) days after the occurrence of the Good Reason event, unless such circumstances are fully corrected prior to the date of termination specified in the Notice of Termination for Good Reason (as defined in Section 8(d) hereof). For purposes of this Agreement, "Good Reason" shall mean the occurrence or failure to cause the occurrence, as the case may be, without Executive's express written consent, of any of the following circumstances: (i) any material diminution of Executive's positions, duties or responsibilities hereunder (except in each case in connection with the termination of Executive's employment for Cause or Disability or as a result of Executive's death, or temporarily as a result of Executive's illness or other absence), or, the assignment to Executive of duties or responsibilities that are inconsistent with Executive's position; (ii) removal of, or the nonreelection of, Executive from officer positions with OTX or its subsidiaries as specified herein without election to a higher position or removal of Executive from any of his then officer positions; (iii) a relocation of the OTX executive office in West Palm Beach, Florida to a location more than fifty (50) miles from its current location prior to April 1, 2003 or to any location outside of the United States; (iv) a failure by the Company (A) to continue any bonus plan, program or arrangement in which Executive is entitled to participate (the "Bonus Plans"), provided that any such Bonus Plans may be modified at the Company's discretion from time to time but shall be deemed terminated if plans providing Executive with substantially similar benefits are not substituted therefor ("Substitute Plans") and any such Bonus Plan shall include the Guaranteed Bonus described in Section 4(a), or (B) to continue Executive as a participant in the Bonus Plans and Substitute Plans on at least the same basis as to potential amount of the bonus as Executive participated in prior to any change in such plans or awards, in accordance with the Bonus Plans and the Substitute Plans; (v) any material breach by the Company of any provision of this Agreement, including, without limitation, Section 12 hereof; (vi) Executive's removal from or failure to be elected or reelected to the Board of Directors of OTX; or (vii) failure of any successor to the Company (whether direct or indirect and whether by merger, acquisition, consolidation or otherwise) to assume in a writing delivered to Executive upon the assignee becoming such, the obligations of the Company hereunder.

(d) Notice of Termination for Good Reason. A Notice of Termination for Good Reason shall mean a notice that shall indicate the specific termination provision in Section 8(c) relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination for Good Reason. The Notice of Termination for Good Reason shall provide for a date of termination not less than ten (10) nor more than sixty (60) days after the date such Notice of Termination for Good Reason is given, provided that in the case of the events set forth in Sections 8(c)(i) or (ii) the date may be five (5) days after the giving of such notice.

(e) Cause. Subject to the notification provisions of Section 8(f) below, Executive's employment hereunder may be terminated by the Company for Cause. For purposes of this Agreement, the term "Cause" shall be limited to (i) willful misconduct by Executive with regard to the Company or OTX which has a material adverse effect on the Company or OTX and which is not cured within thirty (30) days of receipt of a written notice from the Board or the Chairman of the Board which specifically identifies such purported misconduct by Executive; (ii) the willful refusal of Executive to attempt to follow the proper direction of the Board or the Chairman of the Board which is not cured within thirty (30) days of receipt of a written notice from the Board or the Chairman of the Board which specifically identifies such purported failure by Executive, provided that the foregoing refusal by Executive shall not be "Cause" if such direction is illegal, unethical or immoral and Executive promptly so notifies the Board or the Chairman of the Board (whichever is applicable); (iii) material and continuing willful failure by Executive to perform the duties required of him hereunder (other than any such failure resulting from incapacity due to physical or mental illness) which is not cured within thirty (30) days of receipt of a written demand for substantial performance from the Board or the Chairman of the Board which specifically identifies the manner in which it is believed that Executive has substantially and continually refused to attempt to perform his duties hereunder; (iv) Executive being convicted of a felony; (v) a material breach of this Agreement, which breach is not cured within thirty (30) days of receipt of a written notice of such breach from the Board or the Chairman of the Board which specifically identifies the manner in which it is believed that Executive has materially breached this Agreement, or (vi) drunkenness or the possession of narcotics on Company's property, willful and material damage to Company property or repeated and material violations of Company's policies, provided that such violations have not been cured within thirty (30) days of receipt of written notice which specifically identifies the policies at issue. For purposes of this paragraph, no act, or failure to act, on Executive's part shall be considered "willful" unless done or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interests of the Company or OTX.

(f) Notice of Termination for Cause. A Notice of Termination for Cause shall mean a notice that shall indicate the specific termination provision in Section 8(e) relied upon and shall set forth in reasonable detail the facts and circumstances which provide for a basis for termination for Cause. Further, a Notification for Cause shall be required to include a copy of a resolution duly adopted by the Board at a meeting of the Board which was called for the purpose of considering such termination and which Executive and his representative had the right to attend and address the Board, finding that, in the good faith judgment of the Board, Executive engaged in conduct set forth in the definition of Cause herein and specifying the particulars thereof in reasonable detail. The date of termination for a termination for Cause shall be the date indicated in the Notice of Termination. Any purported termination for Cause which is held not to have been based on the grounds set forth in this Agreement or not to have followed the procedures set forth in this Agreement shall be deemed a termination by the Company without Cause.

9. Consequences of Termination of Employment.

(a) Death. If, Executive's employment is terminated by reason of Executive's death, the employment period under this Agreement shall terminate without further obligations to Executive's legal representatives under this Agreement except for: (i) any compensation earned but not yet paid, including and without limitation, any bonus if declared or earned but not yet paid for a completed fiscal year, any amount of Base Salary earned but unpaid, any accrued vacation pay payable pursuant to the Company's policies, and any unreimbursed business expenses payable pursuant to Section 6 (collectively "Accrued Amounts"), which amounts shall be promptly paid in a lump sum to Executive's estate; (ii) any other amounts or benefits owing to Executive under the then applicable employee benefit plans, long term incentive plans or equity plans and programs of the Company in accordance with the terms of such plans and programs; and (iii) continuation of Executive's health benefits for Executive's spouse and dependent children for twelve (12) months at the same level and cost as if Executive was an employee of the Company.

(b) Disability. If Executive's employment is terminated by reason of Executive's Disability, Executive shall be entitled to receive the payments and benefits to which his representatives would be entitled in the event of a termination of employment by reason of his death plus, to the extent not duplicative of the foregoing, Executive shall be entitled to continuation of the benefits (including without limitation to health, life, disability and pension) for twelve (12) months as if Executive had been an employee of the Company.

(c) Termination by Executive for Good Reason or Termination by the Company without Cause. If (i) Executive terminates his employment for Good Reason or (ii) Executive's employment with the Company is terminated by the Company without Cause, Executive shall be entitled, provided that Executive delivers to the Company a full release, on the Company's standard separation and release form for executives, of the Company and its officers and directors of all obligations under this Agreement, to receive a lump sum cash payment of $750,000 and any amounts payable to Executive as of the date of termination under Section 4(b); provided that, if such termination is after a Change in Control of the Company, Executive shall receive (A) payment in a lump sum of the greater of (x) $750,000 or (y) Base Salary and Guaranteed Bonus until the end of the Employment Term; (B) any Accrued Amounts at the date of termination; (C) any amounts payable to Executive as of the date of termination under Section 4(b); (D) any other amounts or benefits payable to Executive under the then applicable employee benefit, bonus, long term incentive or equity plans and programs of the Company, which shall be paid or treated as if Executive were an employee of the Company reaching the maximum performance targets until the end of the Employment Term with regard to the such employee benefit, bonus, long term incentive or equity plans and programs of the Company; and (E) continuation of the benefits (including without limitation to health, life, disability and pension) for a period of twelve (12) months from the Termination Date as if Executive were an employee of the Company.

(d) Termination with Cause or Voluntary Resignation without Good Reason or Retirement. If Executive's employment hereunder is terminated (i) by the Company for Cause or (ii) by Executive without Good Reason, Executive shall be entitled to receive only his Base Salary through the date of termination, any unreimbursed business expenses payable pursuant to Section 6, any pro-rated bonus amounts that were paid prior to the termination and any amounts earned by Executive pursuant to Section 4(b)(ii) hereof but unpaid as of the date of termination. Executive's rights under all benefits plans and equity grants shall be determined in accordance with the Company's plans, programs and grants.

(e) Expiration of Employment Term. If Executive's employment hereunder comes to an end because of the expiration of the Employment Term, Executive shall be entitled to receive (A) any Accrued Amounts at the date of termination; (B) any amounts payable to Executive pursuant to Section 4(b)(iii) hereof; and (C) any other amounts or benefits payable to Executive under the then applicable employee benefit, bonus, long term incentive or equity plans and programs of the Company, which shall be paid or treated in accordance with the Company's plans, programs and grants.

10. No Mitigation; No Set-Off. In the event of any termination of employment hereunder, Executive shall be under no obligation to seek other employment and there shall be no offset against any amounts due Executive under this Agreement on account of any remuneration attributable to any subsequent employment that Executive may obtain; provided that Executive delivers to the Company a full release, on the Company's standard separation and release form for executives, of the Company and its officers and directors of all obligations under this Agreement. The amounts payable hereunder shall not be subject to setoff, counterclaim, recoupment, defense or other right which the Company may have against Executive or others, except upon obtaining by the Company of a final unappealable judgment against Executive.

11. Change in Control. (a) For purposes of this Agreement, the term "Change in Control" shall mean, with respect to the Company or OTX, the occurrence of any one of the following events:

(i) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company or OTX, as applicable, representing fifty percent (50%) or more of the combined voting power of such entity's then outstanding voting securities;

(ii) there is a consummated merger or consolidation of the Company or OTX, as applicable, with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of such entity outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or parent entity) more than fifty percent (50%) of the combined voting power of the voting securities of such entity or such surviving or parent equity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of such entity (or similar transaction) in which no Person, directly or indirectly, acquired twenty-five percent (25%) or more of the combined voting power of such entity's then outstanding securities; or

(iii) the stockholders of the Company or OTX, as applicable, approve a plan of complete liquidation of such entity or there is consummated an agreement for the sale or disposition by such entity of all or substantially all of such entity's assets (or any transaction having a similar effect), other than a sale or disposition by such entity of all or substantially all of such entity's assets to an entity, at least fifty percent (50%) of the combined voting power of the voting securities of which are owned by stockholders of the Company or OTX, as applicable, in substantially the same proportions as their ownership of the Company or OTX, as applicable, immediately prior to such sale.

(b) For purposes of this Section 11, the following terms shall have the following meanings:

(i) "Affiliate" shall mean an affiliate of the Company, as defined in Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act");

(ii) "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act;

(iii) "Person" shall have the meaning set forth in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (1) the Company, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or OTX, (3) an underwriter temporarily holding securities pursuant to an offering of such securities or (4) a corporation owned, directly or indirectly, by the stockholders of the Company or OTX in substantially the same proportions as their ownership of shares of Common Stock of the Company or OTX.

12. Indemnification. The Company shall indemnify and hold harmless Executive to the fullest extent permitted by Florida law for any action or inaction of Executive while serving as an officer and director of the Company or, at the Company's request, as an officer or director of any other entity or as a fiduciary of any benefit plan. The Company shall cover Executive under directors and officers liability insurance both during and, while potential liability exists, after the Employment Term in the same amount and to the same extent as the Company covers its other officers and directors.

13. Legal Fees.

(a) The Company shall pay one-half of Executive's reasonable legal and financial counseling fees and costs associated with this Agreement in an amount not to exceed $6,000.

(b) All disputes and controversies arising under or in connection with this Agreement shall be settled by arbitration conducted before a single arbitrator sitting in West Palm Beach, Florida, or such other location agreed by the parties hereto, in accordance with the rules for expedited resolution of employment disputes of the American Arbitration Association then in effect. The determination of the arbitrator shall be final and binding on the parties. Judgment may be entered on the award of the arbitrator in any court having proper jurisdiction. The arbitrator in such proceeding may award reasonable attorney's fees and out-of-pocket costs to the prevailing party.

14. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Florida without reference to principles of conflict of laws.

(b) Entire Agreement/Amendments. This Agreement and the instruments contemplated herein, contain the entire understanding of the parties with respect to the employment of Executive by the Company from and after the Commencement Date and supersedes any prior agreements between the Company and Executive. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein and therein. This Agreement may not be altered, modified, or amended except by written instrument signed by the parties hereto.

(c) No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement. Any such waiver must be in writing and signed by Executive or an authorized officer of the Company, as the case may be.

(d) Assignment. This Agreement shall not be assignable by Executive. This Agreement shall be assignable by the Company only to an acquirer of all or substantially all of the assets of the Company, provided such acquirer promptly assumes all of the obligations hereunder of the Company in a writing delivered to Executive and otherwise complies with the provisions hereof with regard to such assumption.

(e) Successors; Binding Agreement; Third Party Beneficiaries. This Agreement shall inure to the benefit of and be binding upon the personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees legatees and permitted assignees of the parties hereto.

(f) [intentionally omitted]

(g) Withholding Taxes. The Company may withhold from any and all amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

(h) Survivorship. The respective rights and obligations of the parties hereunder, including without limitation Section 12 hereof, shall survive any termination of Executive's employment to the extent necessary to the agreed preservation of such rights and obligations.

(i) Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

(j) Headings. The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

15. Company Information. All information, materials or documents in any way regarding or relating to Company or the Company's Affiliates or their respective businesses including, without limitation, all Developments (as defined below), all information requested by or provided to Executive and all information learned or obtained by Executive (i) will be and at all times remain the sole and exclusive property of Company, (ii) will not be used by Executive for any reason or purpose except in direct connection with Executive's performance of his duties and obligations under this Agreement and (iii) will not, without the express prior written consent and approval of Company, be disclosed in whole or in part to any person or entity except in direct connection with Executive's performance of his duties and obligations under this Agreement. Executive acknowledges that money damages would be an inadequate remedy for the injuries and damage that would be suffered by Company in the case of Executive's breach of this Section. The breach or threatened breach by Executive of the provisions of this Section shall entitle Company, besides any other remedies it may have at law or in equity, to injunctive relief to enforce the provisions of this Section. Executive's duties and obligations under this Section will survive the termination or expiration of this Agreement. In recognition of the foregoing obligations, Executive agrees that upon his separation from the Company, he will turn over to Company all records, files, drawings, documents, specifications, blueprints, letters, notes, reports and computer software, and all transcriptions thereof relating to Company or the Company's Affiliates which are in his possession or under his control. At the time of termination, Executive will have an exit interview with Company wherein Executive will certify that Executive has returned to Company all tangible Confidential Information disclosed to him, and disclose all Developments, as defined below, conceived or developed by him during the Term. Executive's liability for any breach of this Section will not be subject to any limitation of liability provision contained elsewhere in this Agreement.

Executive has carefully read and considered the provisions of this Section, and having done so, agrees that the restrictions set forth in this section are fair and reasonably required for the protection of the interests of the Company.

16. Rights in Data. Executive hereby expressly assigns to Company all of Executive's right, title and interest in and to all work product produced by Executive during the Term including, without limitation, all systems, reports, data, materials, ideas, concepts, methodologies, know-how, information, knowledge, software, designs, specifications, plans, programs, studies, techniques, procedures, methods, processes, formulae, inventions, improvements, sketches, reports, diagrams, graphs, charts, notes, writings, discoveries, models, flow charts and research, including without limitation all patent, copyright, trademark, trade secret, design and other proprietary rights that may now or in the future exist therein or be appurtenant thereto, whether in oral, written, graphic, electronic, machine readable or any other form and in whatsoever medium now known or hereafter developed, and all copies of the foregoing and all information, data and knowledge incorporating, based upon or derived from the foregoing (collectively, "Developments"). All Developments will be and at all times remain the sole and exclusive property of Company. In the event that Executive is ever deemed, by operation of law or otherwise, to retain any rights in or to any Developments, Executive will assign all of Executive's right, title and interest in and to such Developments to Company. Executive will execute any documents of assignment or registration of proprietary or other

rights requested by Company and will perform any and all further acts deemed necessary or desirable by Company in order to confirm, exploit, or enforce the rights herein granted and assigned by Executive to Company. Executive's duties and obligations under this Section will survive the termination or expiration of this Agreement. Executive's liability for any breach of this Section will not be subject to any limitation of liability provision contained elsewhere in this Agreement. Executive has signed an Intellectual Property Agreement in favor of Ocwen Financial Corporation and its affiliates in consideration for Executive's employment by Company.

Section 17. Covenant Not to Compete.

(a) Executive acknowledges that, in consideration of his employment, and to induce Company to allow Executive access to confidential information and Company's and OTX's clients, customers and other with whom Company and OTX have formed valuable business arrangements, he will not, during such time as Executive is employed by Company and for a period of one (1) year after expiration or termination of Executive's employment, or, if later, termination or expiration of a subsequent consulting arrangement, regardless of whether Executive caused said termination:

(i) In the event of voluntary termination by Executive, directly or indirectly, perform any services similar to his duties and obligations under this Agreement, own an interest in, operate, join, control, or participate in, or be connected as an officer, employee, agent, independent contractor, partner, shareholder or principal of any corporation, partnership, proprietorship, firm, association, person, or other entity producing, designing, providing, soliciting orders for, selling, distributing, or marketing products, goods, equipment, or services that compete directly or indirectly with -OTX's products and services or OTX's business, without first obtaining the written approval of OTX;

(ii) Take any action that would interfere with, diminish or impair the valuable relationships that OTX and/or OTX's Affiliates have with its or their customers and clients and others with which OTX and/or OTX's Affiliates have business relationships or to which its services are rendered;

(iii) Directly or indirectly, for his own benefit or for the benefit of any other person (whether as an officer, director, owner, partner, investor, consultant, employee, agent, manager, or other participant in any business or venture) divert, solicit or attempt to divert or solicit any of OTX's customers or patrons with respect to products or services offered by OTX;

(iv) Recruit or otherwise solicit, induce or influence any person (natural or otherwise) who is or becomes an employee or consultant of the Company or the Company's Affiliates to terminate his or her employment with, or otherwise cease his relationship with, Company or the Company's Affiliates or hire any such employee or consultant who has left the employ of Company or the Company's Affiliates within two (2) years after the termination or expiration of such employee's or consultant's employment with Company or the Company's Affiliates, as the case may be; or

(v) Assist with others in engaging in any of the foregoing.

(b) It is acknowledged and agreed by Executive that Company, OTX and their respective affiliates have a legitimate business interest justifying the restrictions contained herein and that such restrictions are reasonably necessary to protect such legitimate business interests, which interests, including, without limitation, trade secrets; other valuable confidential business information, including but not limited to the information set forth in Sections 15 and 16, that may not qualify as trade secrets, but as to which Company, OTX and their Affiliates have expended time and money in developing and as to which they hold confidential and proprietary; substantial business relationships with existing and prospective customers, clients and others with whom Company, OTX and their Affiliates have formed valuable relationships; customer and client goodwill associated with the ongoing business of Company, OTX and their Affiliates and evidenced by the various trademarks, trade names, service marks and trade dress used by Company, OTX and their Affiliates in connection with their businesses, and an expectation of continuing patronage from their existing customers, clients and others with whom Company, OTX and their Affiliates have formed valuable business relationships.

(c) Executive acknowledges and agrees that, in the event of a breach or threatened breach of any of the terms of this Section, Company and/or the Company's Affiliates, as the case may be, would suffer irreparable harm for which monetary damages would be inadequate. Accordingly, in addition to any other remedies available, at law or in equity, in the event of a breach or threatened breach by the Executive of the provisions of this Section, Company and/or the Company's Affiliates shall be entitled to seek an injunction restraining Executive from such breach or to seek specific performance of the terms hereof. The 1-year period mentioned above shall be tolled for any period(s) of violation or period(s) of time required for litigation to enforce the covenants herein. In addition, any breach or threatened breach of any of the terms of this Section which is not curedwithin thirty (30) days of receipt of a written notice from the Board or the Chairman of the Board which specifically identifies such purported breach or threatened breach by Executive shall constitute cause for the termination of Executive's employment hereunder notwithstanding any other term, provision or definition contained in this Agreement.

(d) The provisions of this Section shall survive any termination or expiration of this Agreement.

Executive has carefully read and considered the provisions of this Section, and having done so, agrees that the restrictions set forth in this Section (including, but not limited to, the time period of the restrictions) are fair and reasonable and are reasonably required for the protection of the interests of Company.

Section 18. Representations. Executive represents and warrants to Company that (i) the execution, delivery and performance of this Agreement by Executive does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgement or decree to which Executive is a party or by which he is bound, (ii) Executive is not a party to or bound by any employment agreement, noncompetition agreement or confidentiality agreement with any other person or entity that has not been previously disclosed in writing to Company and (iii) upon the execution and delivery of this Agreement by Company, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms.

Section 19. Notices. No notice or other communication will be deemed given unless sent in any of the manners, and to the persons, specified in this Section. All notices and other communications hereunder will be in writing and will be deemed given (a) upon receipt if delivered personally (unless subject to clause (b)) or if mailed by registered or certified mail, (b) at noon on the date after dispatch if sent by overnight courier or (c) upon the completion of transmission (which is confirmed by telephone or by a statement generated by the transmitting machine) if transmitted by telecopy or other means of facsimile which provides immediate or near immediate transmission to compatible equipment in the possession of the recipient, in any case to the parties at the following addresses or telecopy numbers (or at such other address or telecopy number for a party as will be specified by like notice):

If to Company:

Ocwen Financial Corporation
1675 Palm Beach Lakes Boulevard Suite 1000
West Palm Beach, FL 33401
Attention: Secretary

TelecopyNumber: (561)682-8177
Confirmation Number: (561) 682-8000

If to Executive:

25 Bridgetown Road
Hilton Head Island, SC 29928

Telecopy Number: (843) 341-5980
Confirmation Number: (843) 341-5982

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

OCWEN FINANCIAL CORPORATION

By: /s/ JOHN R. ERBEY

John R.Erbey
Senior Managing Director

/s/ ARTHUR D. RINGWALD

ARTHUR D. RINGWALD

EXHIBIT 10.11

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT by and between Ocwen Technology Xchange, a Florida corporation, with its principal office at 1675 Palm Beach Lakes Blvd., West Palm Beach, Florida 33401 (the "Company"), and Jack Timpe, residing at 2259 Beachcomber Trail; Atlantic Beach, Florida 32233 ("Executive").

WITNESSETH:

WHEREAS, Executive is to be employed by the Company;

WHEREAS, the Company is engaged in the development and marketing of advanced software and integrated technology solutions for the mortgage and real estate industries; and

WHEREAS, Executive desires to perform services for the Company and the Company desires to engage Executive to perform services in accordance with the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the parties agree as follows:

Section 1. Employment. Company hereby agrees to employ the Executive's exclusive services subject to the terms and provisions of this Agreement and subject to the terms and provisions of the Company's Management Directives and Policies and Procedures set forth in Company's Employee Guidebook, as the same may be modified or amended by Company from time to time in Company's sole discretion (the "Guidebook"). Executive will occupy the position of Executive Vice President and National Sales Manager.

Section 2. Duties.

(a) Executive will have such duties as are incumbent in his position and as otherwise specified from time to time by Company, all subject to the direction and supervision of the CEO of Company, to whom the Executive shall report, and the Board of Directors of Company. Executive will devote his full business time and effort to performing his duties and obligations hereunder. Executive agrees that he will at all times be bound by and comply with the terms and provisions of the Guidebook.

(b) Executive acknowledges that he owes Company a fiduciary duty pursuant to the terms of this Agreement. Therefore, Executive agrees that he will perform his duties and obligations hereunder in a diligent, careful, thorough and professional manner consistent with good business practice and will at all times (i) endeavor to provide to Company the most sound and reasonable recommendations and advice and (ii) fully promote the business and interests of Company. Executive agrees that Executive will promptly disclose to Company the existence of any activities or other circumstances which result in or may hereunder, and Executive will make such other disclosures relating to Executive's business activities as Company may reasonably request from time to time. Except as is otherwise provided herein, Executive shall not render any services of a commercial or professional nature to any other person or organization, whether for compensation or otherwise, without the prior written consent of the CEO of Company.

(c) All fiends and/or property received by Executive on behalf of Company or any parent or affiliated corporation, subsidiary or division (collectively, the "Affiliates" or "Company's Affiliates") will be received and held by Executive in trust, and Executive will promptly account for and remit all such fiends and/or property to Company.

Section 3. Compensation. During the tern of this Agreement as defined in Section 4, the Company agrees to pay Executive compensation for the services of Executive as follows:

(a) Base Salary. In exchange for Executive's ongoing performance of his duties and obligations under this Agreement, Company will pay to Executive a salary (the "Base Salary") at the rate of Two Hundred Fifty Thousand Dollars ($250,000) per calendar year, less applicable payroll taxes and authorized deductions. The Base Salary will increase to Two Hundred Sixty Two Thousand Five Hundred Dollars ($262,500) on the first anniversary of the Effective Date, and will further increase to Two Hundred Seventy Five Thousand Six Hundred Twenty Five Dollars

($275,625) on the second anniversary of the Effective Date. The Base Salary will be payable biweekly on the regularly recurring pay dates established from time to time by Company and in accordance with Company's customary practices, as the same may be changed by Company from time to time.

(b) Bonus. The Board shall establish a performance-based annual bonus plan with targets and objectives approved by the Board (the "Performance Bonus Plan") with a target bonus of $350,000. Bonus payments shall be paid in accordance with the payment structure specified in the 1998 Annual Incentive Plan of Ocwen Financial Corporation, as amended from time to time. In any event, the compensation to Executive under the Performance Bonus Plan for the first twelve months of this Agreement shall be payable in equal monthly installments not less than (i) $29,166 per month for the first six months of this Agreement and (ii) $14,583 per month for the second six months of this Agreement, payable at Executives option in either cash or options to purchase shares of Common Stock in Ocwen Financial Corporation.

(c) Sign-on Bonus. The Company agrees to pay Executive a sign-on bonus of $75,000, payable by check on the closing of the purchase of Executive's permanent residence in Palm Beach County, Florida by Executive.

(d) COBRA Reimbursement. Beginning on the Effective Date, the Company agrees to reimburse Executive for up to ninety (90) days of health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA).

(e) Stock Options. Subject to the approval by the Board of Directors of Company and its subsidiaries, Executive and Company will enter into an agreement by which Company grants to Executive an option to purchase up to one percent 1 % of the outstanding shares of the common stock of Company on the date of their initial public offering ("IPO") for a purchase price per share equal to (i) $1.00 if the TPO price per share is $12 or more or (ii) $0.10 if the IPO price per share is less than $12. The term of the option WILL begin on the date of the IPO and will continue for a period of ten (10) years unless earlier terminated as provided in the Option Agreement between OTX and Executive. The option will vest and become exercisable in four pro-rata increments beginning on the date of the IPO and ending on the fourth anniversary of the date of the 1P0. Vesting shall be accelerated in the event that Executive retires after 5 or more years of service to the Company such that all options will vest on the date of retirement, and Executive will have sixty (60) days thereafter to exercise. The Options WILL be subject to such other standard terms and conditions placed on Options to purchase shares in OTX as determined by the Board of Directors in its sole discretion.

(f) Sale of OTX. In the event that, during the period in which Executive is employed by Company pursuant to this Agreement and prior to the IPO, Ocwen Financial Corporation ("Ocwen") sells all of its interest in OTX or all of the assets of OTX to an unaffiliated third party (a "Sale"), Executive shall be entitled to receive compensation (the "Sale Compensation") in an amount equal to one percent (1%) of the Aggregate Consideration received by the Company in the Sale minus the sum of (i) $200 million and (ii) any consideration paid by the Company or Ocwen in connection with the acquisition of stock or assets of another entity for the benefit of the Company. For purposes of this Section 3(f), "Aggregate Consideration" shall mean the total, net of expenses, of all cash and other property paid and any indebtedness assumed or repaid by a buyer. In the event the Aggregate Compensation for the Sale is cash, then Executive shall receive the Sale Compensation in cash. In the event the Aggregate Consideration for the Sale is in the form of shares of stock in the acquiring company or other property, then Executive shall receive the Sale Compensation in the form of shares in the acquiring company or other property. In the event the Aggregate Consideration for the Sale is a combination of both cash and shares of stock in the acquiring company or other property, then Executive shall receive the Sale Compensation in cash and shares of stock in the acquiring company or other property, in the same proportion as was paid for the purchase of OTX.

(g) The provisions of Sections 3(e) and 3(f) are mutually exclusive. The payment to Executive of additional compensation under one of Sections 3(e) and 3(f) shall terminate the right of Executive to receive additional compensation pursuant to this Section 3.

Section 4. Term and Termination. The term of this Agreement (the "Term") shall be for three years commencing on August 1, 2001 (the "Effective Date") and ending on August 1, 2004 (the "Expiration Date") unless earlier terminated upon the occurrence of any of the following events:

(a) Company may terminate this Agreement effective upon written notice to Executive prior to its expiration date for Just Cause or due to Executive's death or substantial physical or mental impairment which Company has determined prevents Executive from performing his duties and responsibilities as set forth herein. For purposes of this Section, "Just Cause" is defined as a violation of Section(s) 2, 7, 8, 9, 10 or 11 of this Agreement, fraud, misappropriation of funds, embezzlement, theft, physical assault on another person, drunkenness on the job, possession or use of narcotics on Company's property, willful and material damage to Company's property, conviction of a felony, or repeated or material violations of Company's policies.

(b) In the event Company terminates this Agreement without just cause, Company shall pay Executive twelve (12) months of Base Salary and, in the event the termination occurs after any person or entity acquires through purchase, merger or otherwise fifty percent (50%) or more of the combined voting power of the Company's then outstanding voting securities, all stock options issued to Executive pursuant to this Agreement shall be automatically vested also.

(c) Executive may terminate this Agreement without Good Reason upon ninety (90) days prior written notice of his intention to terminate.

(d) Executive shall be entitled to terminate this Agreement for Good Reason by written notice given within ninety (90) days after the occurrence of the Good Reason event, unless such circumstances are fully corrected prior to the date of termination specified in the written notice of termination for Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence, without Executive's express written consent, of any of the following circumstances: (i) any material diminution of Executive's positions, duties or responsibilities hereunder (except in each case in connection with the termination of Executive's employment for Just Cause or as a result of Executive's death or disability, or temporarily as a result of Executive's illness or other absence); (ii) removal of, or the non-reelection of, Executive from officer positions with OTX or its subsidiaries as specified herein without election to a higher position or removal of Executive from any of his then officer positions; or (iii) any material breach by the Company of any provision of this Agreement.

(e) Except as specifically provided in this Section 4, (i) upon termination of this Agreement, Company will have no further obligation to Executive, except with respect to compensation accrued hereunder and unpaid at the date of such termination and (ii) the terms and provisions of Sections 4, 8, 9, 10, and 13 of this Agreement shall indefinitely survive the expiration or termination of this Agreement.

Section 5. Employee Benefits and Vacation. During the Term, Executive shall be entitled to participate in all benefit plans and arrangements and fringe benefits and perquisite programs generally provided to comparable senior executives of the Company, including, without limitation, participation in a 401 (k) plan, participation in a deferred compensation option plan, life, health, and disability insurance, and retiree health coverage. Executive shall be entitled to vacation, sick days and personal days in accordance with Company policy as such may be in effect from time to time; provided that in no event shall Executive be entitled to less than four (4) weeks paid vacation per calendar year:

Section 6. Relocation. The Company shall reimburse Executive for all reasonable expenses and costs associated with relocating his family to the West Palm Beach area in accordance with the Company's Corporate Relocation Guide. In addition, the Company shall provide Executive with up to six (6) months of temporary housing at a location to be approved by Ocwen.

Section 7. Exclusive Representation. Executive hereby agrees that during the Term, Executive shall not, directly or indirectly, perform any services similar to his duties and obligations under this Agreement, own an interest in (except for Alltel common stock owned prior to the date of this Agreement or acquired pursuant to options granted prior to the date of this Agreement), operate, join, control, or participate in, or be connected as an officer, employee, agent, independent contractor, partner, shareholder or principal of any corporation, partnership, proprietorship, firm, association, person, or other entity producing, designing, providing, soliciting orders for, selling, distributing, or marketing products, goods, equipment, or services that compete directly or indirectly with Company's products and services or Company's business, without first obtaining the written approval of Company. Such approval may be rescinded by Company if and when, in the opinion of Company, such activities materially inhibit Executive's performance under this Agreement or place Company at risk. Any breach or threatened breach of the terms of this Section shall constitute cause for the termination of Executive's employment hereunder notwithstanding any other term, provision or definition contained in this Agreement, and Company will have no further obligation to Executive. The terms and provisions of Sections 4, 8, 9, 10 and 13 of this Agreement shall survive the expiration or termination of this Agreement.

Section 8. Company Information. All information, materials or documents in any way regarding or relating to Company or the Company's Affiliates or their respective businesses including, without limitation, all Developments (as defined below), all information requested by or provided to Executive and all information learned or obtained by Executive (i) will be and at all times remain the sole and exclusive property of Company, (ii) will not be used by Executive for any reason or purpose except in direct connection with Executive's performance of his duties and obligations under this Agreement and (iii) will not, without the express prior written consent and approval of Company, be disclosed in whole or in part to any person or entity except in direct connection with Executive's performance of his duties and obligations under this Agreement. Executive acknowledges that money damages would be an inadequate remedy for the injuries and damage that would be suffered by Company in the case of Executive's breach of this Section. The breach or threatened breach by Executive of the provisions of this Section shall entitle Company, besides any other remedies it may have at law or in equity, to injunctive relief to enforce the provisions of this Section. Executive's duties and obligations under this Section will survive the termination or expiration of this Agreement. In recognition of the foregoing obligations, Executive agrees that upon his separation from the Company, he will turn over to Company all records, files, drawings, documents, specifications, blueprints, letters, notes, reports and computer software, and all transcriptions thereof relating to Company or the Company's Affiliates which are in his possession or under his control. At the time of termination, Executive will have an exit interview with Company wherein Executive will certify that Executive has returned to Company all tangible Confidential Information disclosed to him, and disclose all Developments, as defined below, conceived or developed by him during the Term. Executive's liability for any breach of this Section will not be subject to any limitation of liability provision contained elsewhere in this Agreement.

Executive has carefully read and considered the provisions of this Section, and having done so, agrees that the restrictions set forth in this section are fair and reasonably required for the protection of the interests of the Company.

Section 9. Rights in Data. Executive hereby expressly assigns to Company all of Executive's right, title and interest in and to all work product produced by Executive during the Term including, without limitation, all systems, reports, data, materials, ideas, concepts, methodologies, know-how, information, knowledge, software, designs, specifications, plans, programs, studies, techniques, procedures, methods, processes, formulae, inventions, improvements, sketches, reports, diagrams, graphs, charts, notes, writings, discoveries, models, flow charts and research, including without limitation all patent, copyright, trademark, trade secret, design and other proprietary rights that may now or in the future exist therein or be appurtenant thereto, whether in oral, written, graphic, electronic, machine readable or any other form and in whatsoever medium now known or hereafter developed, and all copies of the foregoing and all information, data and knowledge, incorporating, based upon or derived from the foregoing (collectively, "Developments"). All Developments will be and at all times remain the sole and exclusive property of Company. In the event that Executive is ever deemed, by operation of law or otherwise, to retain any rights in or to any Developments, Executive will assign all of Executive's right, title and interest in and to such Developments to Company. Executive will execute any documents of assignment or registration of proprietary or other rights requested by Company and will perform any and all further acts deemed necessary or desirable by Company in order to confirm, exploit, or enforce the rights herein granted and assigned by Executive to Company. Executive's duties and obligations under this Section will survive the termination or expiration of this Agreement. Executive's liability for any breach of this Section will not be subject to any limitation of liability provision contained elsewhere in this Agreement. Executive has signed an Intellectual Property Agreement in favor of Ocwen Financial Corporation and its affiliates in consideration for Executive's employment by Company.

Section 10. Covenant Not to Compete.

(a) Executive acknowledges that, in consideration of his employment, and to induce Company to allow Executive access to confidential information and Company's clients, customers and others with whom Company has formed valuable business arrangements, he will not, during such time as Executive is employed by Company and for a period of one (1) year after expiration or termination of Executive's employment, or, if later, termination or expiration of a subsequent consulting arrangement, regardless of whether Executive caused said termination; (provided, however, this Section 10 shall apply only if the provisions of Section 4 above are applicable):

(i) In the event of voluntary termination by Executive, directly or indirectly, perform any services similar to his duties and obligations under this Agreement, own an interest in, operate, join, control, or participate in, or be connected as an officer, employee, agent, independent contractor, partner, shareholder or principal of any corporation, partnership, proprietorship, firm, association, person, or other entity producing, designing, providing, soliciting orders for, selling, distributing, or marketing products, goods, equipment, or services that compete directly or indirectly with Company's products and services or Company's business, without first obtaining the written approval of the Company;

(ii) Take any action that would interfere with, diminish or impair the valuable relationships that Company and/or Company's Affiliates have with its or their customers and clients and others with which Company and/or Company's Affiliates have business relationships or to which its services are rendered;

(iii) Directly or indirectly, for his own benefit or for the benefit of any other person (whether as an officer, director, owner, partner, investor, consultant, employee, agent, manager, or other participant in any business or venture) divert, solicit or attempt to divert or solicit any of Company's customers or patrons with respect to products or services offered by Company.

(iv) Recruit or otherwise solicit, induce or influence any person (natural or otherwise) who is or becomes an employee or consultant of the Company or the Company's Affiliates to terminate his or her employment with, or otherwise cease his relationship with, Company or the Company's Affiliates or hire any such employee or consultant who has left the employ of Company or the Company's Affiliates within two (2) years after the termination or expiration of such employee's or consultant's employment with Company or the Company's Affiliates, as the case may be; or

(v) Assist with others in engaging in any of the foregoing.

(b) It is acknowledged and agreed by Executive that Company and its Affiliates have a legitimate business interest justifying the restrictions contained herein and that such restrictions are reasonably necessary to protect such

legitimate business interests, which interests, including, without limitation, trade secrets; other valuable confidential business information, including but not limited to the information set forth in Sections 6 and 7, that may not qualify as trade secrets, but as to which Company and its Affiliates have expended time and money in developing and as to which they hold confidential and proprietary; substantial business relationships with existing and prospective customers, clients and others with whom Company and its Affiliates have formed valuable relationships; customer and client goodwill associated with the ongoing business of Company and its Affiliates and evidenced by the various trademarks, trade names, service marks and trade dress used by Company and its Affiliates in connection with their businesses, and an expectation of continuing patronage from their existing customers, clients and others with whom Company and its Affiliates have formed valuable business relationships.

(c) Executive acknowledges and agrees that, in the event of a breach or threatened breach of any of the terms of this Section, Company and/or the Company's Affiliates, as the case may be, would suffer irreparable harm for which monetary damages would be inadequate. Accordingly, in addition to any other remedies available, at law or in equity, in the event of a breach or threatened breach by the Executive of the provisions of this Section, Company and/or the Company's Affiliates shall be entitled to seek an injunction restraining Executive from such breach or to seek specific performance of the terms hereof. The 1-year period mentioned above shall be tolled for any period(s) of violation or period(s) of time required for litigation to enforce the covenants herein. In addition, any breach or threatened breach of any of the terns of this Section which is not cured within thirty (30) days of receipt of a written notice from the Board or the Chairman of the Board which specifically identifies such purported breach or threatened breach by Executive shall constitute cause for the termination of Executive's employment hereunder notwithstanding any other term, provision or definition contained in this Agreement.

(d) The provisions of this Section shall survive any termination or expiration of this Agreement.

(e) Executive has carefully read and considered the provisions of this Section, and having done so, agrees that the restrictions set forth in this Section (including, but not limited to, the time period of the restrictions) are fair and reasonable and are reasonably required for the protection of the interests of Company.

Section 11. Representations. Executive represents and warrants to Company that (i) the execution, delivery and performance of this Agreement by Executive does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order judgement or decree to which Executive is a party or by which he is bound, (ii) Executive is not a party to or bound by any employment agreement, noncompetition agreement or confidentiality agreement with any other person or entity that has not been previously disclosed in writing to Company and (iii) Executive is not in possession of any property of his former employer, Alltel, including but not limited to any of Alltel's confidential, proprietary and trade secrets (iv) upon the execution and delivery of this Agreement by Company, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms. Executive acknowledges that in the event any of the representations made by him in this Agreement are determined to be false, such false representation shall constitute Just Cause for his termination. In the event Alltel should bring legal action against Executive contending a breach of a covenant not to compete or other basis why Company should not employ him, so long as the above representations of Executive are true, Company agrees to pay all reasonable legal fees and costs associated with Executive's defense of such legal action. Counsel utilized for such defense of Executive shall be subject to approval of Company.

Section 12. Notices. No notice or other communication will be deemed given unless sent in any of the manners, and to the persons, specified in this Section. All notices and other communications hereunder will be in writing and will be deemed given (a) upon receipt if delivered personally (unless subject to clause (b)) or if mailed by registered or certified mail, (b) at noon on the date after dispatch if sent by overnight courier or (c) upon the completion of transmission (which is confirmed by telephone or by a statement generated by the transmitting machine) if transmitted by telecopy or other means of facsimile which provides immediate or near immediate transmission to compatible equipment in the possession of the recipient, in any case to the parties at the following addresses or telecopy numbers (or at such other address or telecopy number for a party as will be specified by like notice):

If to Company:

Ocwen Technology Xchange, Inc.
1675 Palm Beach Lakes Boulevard
West Palm Beach, FL 33401
Attention: Secretary

Telecopy Number: (561) 682-8177
Confirmation Number: (561) 682-8000

If to Executive:

Jack Timpe
2259 Beachcomber Trail
Atlantic Beach, FL 32233
Telecopy Number:
Confirmation Number:

Section 13. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Florida without reference to principles of conflict of laws.

(b) Entire Agreement/Amendments. This Agreement and the instruments contemplated herein contain the entire understanding of the parties with respect to the employment of Executive by the Company from and after the Commencement Date and supersedes any prior agreements between the Company and Executive. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein and therein. This Agreement may not be altered, modified, or amended except by written instrument signed by the parties hereto.

(c) No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other tern of this Agreement. Any such waiver must be in writing and signed by Executive or an authorized officer of the Company, as the case may be.

(d) Assignment. This Agreement shall not be assignable by Executive. This Agreement shall be assignable by the Company only to an acquirer of all or substantially all of the assets of the Company, provided such acquirer promptly assumes all of the obligations hereunder of the Company in a writing delivered to Executive and otherwise complies with the provisions hereof with regard to such assumption.

(e) Successors; Binding Agreement; Third Party Beneficiaries This Agreement shall inure to the benefit of and be binding upon the personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees legatees and permitted assignees of the parties hereto.

(f) Withholding Taxes. The Company may withhold from any and all amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

(g) Counterparts This Agreement may be signed in counterparts, each of which -shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

(h) Heading. The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

(i) Consequential Damages. EXCEPT WITH RESPECT TO EXECUTIVE'S OBLIGATIONS SET FORTH IN SECTIONS 8, 9 and 10 OF THIS AGREEMENT, UNDER NO CIRCUMSTANCES WILL EITHER PARTY TO THIS AGREEMENT BE LIABLE TO THE OTHER PARTY FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL OR PUNITIVE DAMAGES, WHETHER OR NOT SUCH DAMAGES ARE CAUSED BY THE FAULT OR NEGLIGENCE OF SUCH PARTY AND WHETHER OR NOT SUCH PARTY IS NOTIFIED OF THE POSSIBILITY OF SUCH LOSSES OR DAMAGES.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

OCWEN TECHNOLOGY XCHANGE, INC.

By: /s/ ARTHUR D. RINGWALD

Arthur D. Ringwald
President and Chief Executive Officer

/s/ JACK TIMPE
- -----------------------------------
Jack Timpe

Exhibit 12.1

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
COMPUTATION OF EARNINGS TO FIXED CHARGES
(DOLLARS IN THOUSANDS)

	2001	2000	1999	1998	1997
Earnings:					
(Loss) income from continuing operations before income taxes and extraordinary gain (1)	$ (45,557)	$ (8,564)	$ 23,973	$ (32,805)	$ 99,538
Add:					
Interest expensed and capitalized, except interest on deposits, and amortization of capitalized debt expenses	42,738	84,897	72,765	84,596	44,137
Interest on deposits	59,967	98,224	98,370	116,584	122,070
Interest component of rental expense	1,176	1,124	2,032	2,135	958
Total fixed charges (2)	103,881	184,245	173,167	203,315	167,165
Earnings for computation purposes	$ 58,324	$ 175,681	$ 197,140	$ 170,510	$ 266,703
Ratio of earnings to fixed charges:					
Including interest on deposits (3)	(4)	(4)	1.13	(4)	1.58
Excluding interest on deposits (3)	(5)	(5)	1.33	(5)	3.39

(1) Earnings represents pre-tax income from continuing operations before extraordinary gain, adjusted for losses and undistributed income of equity investees.

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

(3) The ratios of earnings to fixed charges were computed by dividing (x) income from continuing operations before income taxes and extraordinary gains, adjusted for losses and undistributed income of equity investees plus fixed charges by (y) fixed charges.

(4) Due to our losses in 2001, 2000 and 1998, the ratio of earnings to fixed charges was less than 1:1. We would have had to have generated additional earnings of $46,342, $9,305 and $34,117, respectively, to achieve a coverage of 1:1.

(5) Due to our loss in 2001, 2000 and 1998, the ratio of earnings to fixed charges was less than 1:1. We would have had to have generated additional earnings of $45,557, $8,564 and $32,805, respectively, to achieve a coverage of 1:1.

Exhibit 13.1

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information of Ocwen Financial Corporation and its subsidiaries at the dates and for the years indicated. Our historical operations and balance sheet data at and for the years ended December 31, 2001, 2000, 1999, 1998 and 1997 have been derived from our financial statements audited by PricewaterhouseCoopers LLP, independent certified public accountants. We have classified certain amounts included in the 2000, 1999, 1998 and 1997 selected consolidated financial information to conform to the 2001 presentation. The selected consolidated financial information should be read in conjunction with, and is qualified in its entirety by reference to, the information we have provided in our Consolidated Financial Statements and the Notes to Consolidated Financial Statements on pages 64 to 116.

	For the Year Ended December 31,				
	2001	2000	1999(1)	1998(1)	1997
	(Dollars in thousands, except per share data)				
Operations Data:					
Interest income	$ 83,371	$ 184,816	$ 253,224	$ 307,694	$ 272,531
Interest expense	93,329	169,090	155,542	184,893	156,289
Net interest income (expense) before provision for loan losses	(9,958)	15,726	97,682	122,801	116,242
Provision for loan losses	15,666	15,177	6,710	18,509	32,218
Net interest income (expense) after provision for loan losses	(25,624)	549	90,972	104,292	84,024
Servicing and other fees	134,597	97,080	76,018	59,163	25,962
Gain (loss) on interest-earning assets, net (2)	(3,949)	17,625	44,298	129,988	82,212
Gain (loss) on trading and match funded securities, net (3)	16,330	(3,971)	--	--	--
Impairment charges on securities available for sale (3)	--	(11,597)	(58,777)	(129,714)	--
Gain (loss) on real estate owned, net	(9,256)	(14,904)	(3,957)	13,429	7,276
Gain (loss) on other non-interest earning assets, net (4)	(1,054)	45,517	58,693	17,702	6,052
Net operating gains (losses) on investments in real estate (5)	5,581	27,579	820	(1,112)	144
Amortization of excess of net assets acquired over purchase price (1)	18,333	14,112	3,201	--	--
Other income	8,759	6,084	24,346	21,994	2,446
Total non-interest income	169,341	177,525	144,642	111,450	124,092
Non-interest expense	182,446	170,009	195,068	226,529	127,017
Distributions on Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company	7,132	11,380	13,111	13,594	5,249
Equity in income (losses) of investments in unconsolidated entities (6)	304	(5,249)	(12,616)	(7,985)	23,688
Income (loss) before income taxes and extraordinary gain	(45,557)	(8,564)	14,819	(32,366)	99,538
Income tax expense (benefit) (7)	81,587	7,957	2,608	(30,699)	21,309
Minority interest in net loss of consolidated subsidiary	--	--	(638)	(467)	(703)
Income (loss) before extraordinary gain	(127,144)	(16,521)	12,849	(1,200)	78,932
Extraordinary gain on repurchase of debt, net of taxes	2,362	18,713	6,983	--	--
Net income (loss)	$(124,782)	$ 2,192	$ 19,832	$ (1,200)	$ 78,932
Income (loss) before extraordinary gain per share:					
Basic	$ (1.89)	$ (0.25)	$ 0.20	$ (0.02)	$ 1.40
Diluted	$ (1.89)	$ (0.25)	$ 0.20	$ (0.02)	$ 1.39
Net income (loss) per share:					
Basic	$ (1.86)	$ 0.03	$ 0.31	$ (0.02)	$ 1.40
Diluted	$ (1.86)	$ 0.03	$ 0.31	$ (0.02)	$ 1.39

	At or For the Year Ended December 31,				
	2001	2000	1999(1)	1998	1997
	(Dollars in thousands)				
Balance Sheet Data:					
Total assets	$ 1,711,150	$ 2,249,420	$ 3,281,674	$ 3,301,083	$ 3,048,149
Trading securities, at fair value (3)	226,249	390,242	--	--	--
Securities available for sale, at fair value (3)	--	--	587,518	593,347	441,638
Loans available for sale, at lower of cost or market (8)	1,040	10,610	45,213	177,847	177,041
Affordable housing properties (9)	102,069	142,812	150,989	144,164	128,614
Loan portfolio, net	64,925	93,414	157,408	230,312	266,299
Discount loan portfolio	119,327	536,028	913,229	1,026,511	1,434,176
Match funded assets, net (10)	174,351	116,987	157,794	--	--
Investments in unconsolidated entities	1,067	430	37,118	86,893	38,684
Real estate owned, net	110,465	146,419	167,506	201,551	167,265
Investments in real estate and real estate held for sale (11)	130,314	145,431	268,241	36,860	76,340
Advances on loans and loans serviced for others	283,183	277,055	162,548	108,078	51,061
Mortgage servicing rights	101,107	51,426	11,683	7,060	5,739
Deposits	730,443	1,258,360	1,814,647	2,168,791	1,965,844
Bonds-match funded agreements (12)	156,908	107,050	141,515	--	--
Borrowings and other interest-bearing obligations (13)	324,014	206,263	552,804	476,336	453,529
Company-obligated mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company	61,159	79,530	110,000	125,000	125,000
Stockholders' equity (14)	379,109	503,426	509,442	436,376	419,692
Other Data:					
Average assets	$ 1,988,321	$ 3,095,021	$ 3,187,683	$ 3,574,780	$ 2,835,514
Average equity	448,752	495,430	462,216	427,512	290,030
Return on average assets:					
Income (loss) before extraordinary gain	(6.39)%	(0.53)%	0.40%	(0.03)%	2.78%
Net income (loss)	(6.28)	0.07	0.62	(0.03)	2.78
Return on average equity:					
Income (loss) before extraordinary gain	(28.33)	(3.33)	2.78	(0.28)	27.22
Net income (loss)	(27.81)	0.44	4.29	(0.28)	27.22
Average equity to average assets	22.52	16.01	14.50	11.96	10.23
Net interest spread	1.25	2.06	4.57	3.90	4.81
Net interest margin	(1.01)	0.81	4.39	4.30	4.91
Efficiency ratio (15)	69.93	90.43	84.92	100.12	48.11
Bank regulatory capital ratios at end of period:					
Tangible	13.43	13.83	10.67	9.07	10.66
Core (Leverage)	13.64	13.83	10.67	9.07	10.66
Risk-based	23.33	21.83	19.12	17.26	14.83
Number of full-service offices at end of period	1	1	1	1	1

Notes to Selected Consolidated Financial Information

(1) Financial data we have presented for 1999 and 1998 included our wholly-owned UK subsidiary, Ocwen UK Limited, formerly known as Ocwen UK plc ("Ocwen UK"). Ocwen UK was engaged in the subprime mortgage loan origination and servicing business, began operations on April 24, 1998 and was sold on September 30, 1999. Beginning in 1999, the financial data presented also included Ocwen Asset Investment Corp. ("OAC"), which was acquired on October 7, 1999 for a total purchase price of $101,271. Our acquisition of OAC resulted in an excess of net assets acquired over the purchase price of $60,042, which we have amortized to earnings on a straight-line basis. Previously, we accounted for our investment in OAC and its operating partnership subsidiary, Ocwen Partnership L.P. ("OPLP"), under the equity method.

(2) We recognized $36,804, $109,601, and $71,933 of net gains in connection with the securitization of loans during 1999, 1998, and 1997, respectively. During the third quarter of 1999, we decided to structure future securitizations as financing transactions, thereby precluding our use of gain-on-sale accounting.

(3) On September 30, 2000 we changed our policy for securities available for sale and match funded securities to account for these securities as trading. For these securities, changes in fair value are reported in income in the period of change. Previously, we accounted for our securities as available for sale, and the unrealized gains and losses for these securities were reported as a separate component of accumulated other comprehensive income in stockholders' equity.

(4) Net gains earned in 1999 included a $50,371 gain from the sale of Ocwen UK. Net gains for 2000 included a gain of $20,025 from the sale of our unconsolidated investment in Kensington Group plc ("Kensington") on November 22, 2000. Kensington was engaged in the subprime mortgage loan origination business in the UK.

(5) Gains for 2001 and 2000, and to a lesser extent 1999, included operating income from real estate properties acquired as a result of our acquisition of OAC. Gains for 2001 and 2000 also included equity in earnings related to certain loans acquired during the first quarter of 2000 which we account for as investments in real estate under the equity method.

(6) Losses we incurred for 2000 related primarily to our investment in Kensington. Losses for 1999 and 1998 related primarily to our investment in Kensington and our equity investments in OAC and OPLP, before their acquisition on October 7, 1999. Income earned for 1997 resulted from our investment in BCBF, L.L.C. (the "LLC"), a joint venture formed to acquire loans from the Department of Housing and Urban Development in April 1996. The LLC distributed all of its assets on December 12, 1997.

(7) Income tax expense we recorded for 2001, 2000 and 1999 included $83,000, $17,500 and $2,500, respectively, of net provisions to increase the valuation allowance on our deferred tax asset.

(8) Loans available for sale at December 31, 1998 included $87,644 of subprime loans held by Ocwen UK. The decline in our investment in loans available for sale also reflects our closing of our subprime origination business in August 1999.

(9) Balance at December 31, 2001 and 2000 included $54,688 and $93,210, respectively, of affordable housing properties that we have entered into agreements to sell. Although these agreements resulted in the transfer of tax credits and operating results for these properties to the purchaser, they did not qualify as sales for accounting purposes.

(10) Match funded assets at December 31, 1999 and 2000 were comprised of securitized loans and securities. Match funded assets at December 31, 2001 also included $101,963 of loan servicing advances which were sold but did not qualify as a sale for accounting purposes. We have accounted for these transactions as secured borrowings with pledges of collateral. We acquired the match funded loans as a result of our acquisition of OAC.

(11) Balance at December 31, 2001, 2000 and 1999 included $78,544, $75,080 and $252,604, respectively, of properties that we acquired as a result of our acquisition of OAC.

(12) Balances included bonds-match funded agreements we assumed as a result of our acquisition of OAC and at December 31, 2001 also included $91,766 collateralized by loan servicing advances. See (10) above.

(13) Balance at December 31, 1999 included $140,487 of 11.5% Notes and $159,170 of lines of credit we acquired in connection with our acquisition of OAC. During 2000, we repurchased our 11.5% Notes and paid down lines of credit significantly as a result of real estate sales.

(14) Reflects our issuance of 12,371,750 shares of common stock in the amount of $96,809 in connection with our acquisition of OAC. We repurchased 1,388,300 shares of common stock for an aggregate of $8,996 and 4,611,700 of common stock shares for an aggregate of $30,691 during 2000 and 1999, respectively. Additionally, we completed a secondary stock offering to the public of 6,900,000 shares of our common stock in 1997.

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

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

Overview of Risks and Related Critical Accounting Policies

For the past several years, we have been undergoing a fundamental transition in the nature of our business. We are exiting our capital-intensive businesses and growing our fee-based revenue sources. Both of these strategies are affected by risks in the marketplace, and our ability to measure and report our operating results and financial position is heavily impacted by the need to estimate the impact or outcome of these risks or other future events. Our critical accounting policies are those that relate to the estimation and measurement of these risks; an understanding of these policies is fundamental to understanding Management's Discussion and Analysis of Results of Operations and Financial Condition. Our significant accounting policies are discussed in detail in Note 1 of our Consolidated Financial Statements (which are incorporated herein by reference). The following is a summary of our more subjective and complex accounting policies, as they relate to our overall business strategy.

Our exit from our capital intensive discount loan, real estate and affordable housing businesses is largely focused on the orderly disposition or resolution of the assets associated with these lines of business. The critical accounting policies that affect the measurement of these businesses are those that determine the valuation of real estate and affordable housing assets as well as the determination of the allowance for loan losses.

Real estate-related assets include real estate owned, investments in real estate, and investments in affordable housing properties. These assets are carried at different bases by asset class and at different amounts within each asset class, depending on whether the assets are classified as held for investment or held for sale. In addition, all of these assets are subject to ongoing impairment tests using various impairment methodologies that differ by asset class. In general, none of the assets have readily determinable fair values based on quoted market prices. In certain cases, we utilize appraisals or other market value estimates, in conjunction with estimates of completion costs or costs of disposition, to determine asset values. In other cases, we value these assets based on future cash flow analyses. These cash flow analyses involve assumptions such as discount rates, anticipated rents received, etc. that are highly subject to management judgment and estimation. Our task of estimation is even more challenging given the current risks in the economic environment, which can result in material and sometimes rapid changes in valuation estimates. Individual assumptions between and within asset classes can vary significantly, with variances in assumptions resulting in substantially different asset values.

The allowance for loan losses is established and maintained at levels we deem adequate to cover losses resulting from the inability of borrowers to make contractually required loan payments. Estimates for loan losses are developed by analyzing historical loan losses, current trends in delinquencies and charge offs, plans for problem loan administration and resolution, the views of our regulators, changes in the size and composition of the loan portfolio, and peer group information. Where there is a question as to the impairment of specific loans, we obtain valuations of the property or other collateral securing the loan, and, if applicable, the borrower's current financial information. We also include in our estimates of inherent probable loan losses the impact of economic events, the outcome of which are uncertain. These events may include, but are not limited to, deterioration in general economic conditions, increases or decreases in overall lending rates, political conditions, legislation that directly and indirectly affects the banking industry, and regional economic conditions affecting specific geographical areas in which we conduct business.

Our most significant area of growth during the past year has been our residential loan servicing business, which virtually doubled the transaction volumes processed during the course of 2001. Inherent in our growth of this business has been an increase in purchased mortgage servicing rights, an intangible asset representing the present value of the right to service loans in a portfolio. Therefore, the most critical accounting policy for this business line is the methodology we use to determine the valuation of mortgage servicing rights. Application of this methodology requires the development of a number of estimates, including anticipated amortization and periodic revaluation. Both our initial and ongoing valuations and the rate of amortization of mortgage servicing rights are significantly affected by interest rates, prepayment speeds and the payment performance of the underlying loans. In general, during periods of declining interest rates, the value of mortgage servicing assets declines due to increasing prepayments attributable to increased mortgage refinance activity. We amortize mortgage servicing rights over the period of estimated net servicing income based on our projections of the amount and timing of future cash flows. The amount and timing of servicing asset amortization is adjusted periodically based on actual results and updated projections.

Our other core business line is Ocwen Technology Xchange ("OTX"), our technology solutions business. At December 31, 2001 we had goodwill and intellectual property recorded as a result of the acquisitions of three predecessor technology companies, as well as capitalized software development costs for the period of early development, which ended in 1999. These assets are subject to periodic impairment tests, under which the determination of realization is dependent upon projected future income. The realizability of these assets is based primarily on product-by-product projections of future income, which involve a comparison of the projected undiscounted cash flows of the underlying software products to the carrying amounts of the assets. Effective January 1, 2002 we adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangibles. SFAS 142 prescribes a new methodology for performing the impairment analyses for goodwill and other intangibles, which changes to an approach based on fair value of the assets rather than undiscounted cash flows as used prior to adoption. We are in the process of performing this analysis using our previously developed projections of future income discounted at a market rate. The determination of market discount rates is also subjective and may vary by product based on the type of product, stage of development and sales to date. We have not yet completed this impairment analysis.

Another risk factor affecting all of our business lines is the determination of our overall tax provision. This is a complex task and requires extensive judgment, particularly in evaluating the realizability of the gross deferred tax assets in the near term. During 2001 we recorded a substantial increase to our valuation allowance, and as of December 31, 2001 our remaining net deferred tax asset amounted to $8,411. The evaluation of the need for a valuation allowance takes into consideration our recent earnings history, current tax position, and estimates of taxable income in the near term. The tax character (ordinary versus capital) and the carryforward periods of certain tax attributes (e.g., capital losses and tax credits) must also be considered. Significant judgment is required in considering the relative impact of negative and positive evidence related to realizability of the deferred tax assets. The determination of the amount of the aggregate valuation allowance is based on scenario analyses of the projected results of operations by line of business resulting in a range of potential valuation allowances, within which a final amount is determined.

Results of Operations

General. We recorded a net loss of $(124,782) for 2001, as compared to net income of $2,192 and $19,832 for 2000 and 1999, respectively. Our loss per share was $(1.86) for 2001, as compared with earnings per share of $0.03 and $0.31 for 2000 and 1999, respectively. During 2001, we continued our transition in business strategy from capital-intensive businesses to fee-based businesses: loan servicing and technology solutions for the mortgage and real estate industries. Our results for 2001, 2000 and 1999, reflect growth in our residential loan servicing businesses, continued investment in the development of our technology products, cessation of loan origination and acquisition activities, continuing sales of those assets not associated with our loan servicing and technology businesses, our acquisition of OAC in 1999 and our exit from the UK subprime loan business in 1999 and 2000. Key factors contributing to our annual results for 2001, 2000 and 1999 include:

- Pre-tax income we earned from our residential loan servicing business improved to $34,591 for 2001 as compared to $19,609 for 2000 and $20,515 for 1999, reflecting our continued growth of this fee-based business. We serviced residential loans for others with an unpaid principal balance of $21,943,417 at December 31, 2001 as compared to $10,494,684 at December 31, 2000.

- We incurred pre-tax losses of $(36,392) in our OTX segment for 2001 as compared to $(33,951) for 2000 and $(18,343) for 1999, reflecting our continuing investment in the development of our technology fee-based businesses.

- During 2001, we recorded provisions for losses on our loans and real estate owned of $15,666 and $17,766, respectively, significantly strengthening our reserves on those assets as a percent of asset value at December 31, 2001.

- Net losses of $(3,949) were incurred in 2001 on sales of our interest-earning assets as compared to gains of $17,625 in 2000 and $44,298 in 1999. This trend primarily reflects our decision in the third quarter of 1999 to discontinue our practice of structuring securitizations as sales transactions, thus precluding our recognition of gain-on-sale accounting.

- We recorded gains on our trading securities of $16,330 in 2001 as compared to losses of $(3,971) in 2000. These amounts include both realized and unrealized gains and losses. Previously, we accounted for our securities as available for sale, and we reported the unrealized gains and losses for those securities as a separate component of accumulated other comprehensive income in stockholders' equity. See "Results of Operations - Non-Interest Income, Gain (Loss) on Trading and Match Funded Securities." Primarily as a result of sales, the value of our subordinate and residual securities has declined to $65,058 at December 31, 2001.

- We recorded impairment charges on our available for sale securities portfolio of $11,597 and $58,777 during 2000 and 1999, respectively, prior to the change in our policy on September 30, 2000 noted above.

- We realized a gain of $50,371 from the sale of Ocwen UK on September 30, 1999.

- We realized a gain of $20,025 from the sale of our investment in Kensington on November 22, 2000.

- We realized gains on our sale of investments in real estate of $45 in 2001 as compared to $22,949 in 2000 and $1,753 in 1999. These results reflect significant sales during 2000 of real estate we acquired in connection with our acquisition of OAC in October 1999.

Management's Discussion and Analysis of Financial Condition and Results of Operations. (Dollars in thousands, except share data)

- We recorded impairment charges on affordable housing properties of $15,587, $6,448 and $700 during 2001, 2000 and 1999, respectively, to provide for estimated losses from the sale of these assets. Of the $102,069 of properties remaining, $54,688 are subject to sales contracts although they have not yet satisfied all of the accounting criteria for sales treatment.

- We recorded net provisions of $83,000, $17,500 and $2,500 during 2001, 2000 and 1999, respectively, to increase the valuation allowance on our deferred tax asset based on our evaluation of the realizability of the deferred tax asset in the near future. Our net deferred tax asset had been reduced to $8,411 at December 31, 2001.

- Extraordinary gains on our debt repurchases amounted to $2,362 in 2001 as compared to $18,713 in 2000 and $6,983 in 1999. The decline in gains we earned during 2001 reflects a reduction in the volume of these transactions in light of available pricing levels. We continue to evaluate additional debt repurchases.

Segment Profitability.

The following table presents the pre-tax income (loss) and total assets for each of our reportable segments at and for the dates indicated:

	Pre-Tax Income (Loss) For the Years Ended December 31,			Total Assets December 31,	
	2001	2000	1999	2001	2000
Residential Loan Servicing	$ 34,591	$ 19,609	$ 20,515	$ 420,134	$ 218,981
OTX	(36,392)	(33,951)	(18,343)	13,231	20,462
Ocwen Realty Advisors	944	(86)	--	1,351	1,625
Unsecured Collections	(5,020)	(14,398)	(6,750)	--	8,417
Residential Discount Loans	(4,396)	21,154	(20,451)	115,691	396,305
Commercial Loans	(22,236)	648	28,404	280,220	555,040
Affordable Housing	(29,917)	(23,664)	(17,934)	132,724	171,070
Commercial Real Estate	1,222	16,530	(3,336)	83,794	80,561
Subprime Residential Lending	13,549	(24,532)	(30,103)	83,599	135,617
Corporate Items and Others	2,098	30,126	62,817	580,406	661,342
	$ (45,557)	$ (8,564)	$ 14,819	$1,711,150	$2,249,420

The following is a discussion of the pre-tax income (loss) for each of our reportable business segments.

- Residential Loan Servicing. Total non-interest income for this segment increased by $35,366 during 2001 and by $24,261 during 2000. Included in non-interest income were residential servicing and other fees amounting to $117,583, $82,020 and $59,900 during 2001, 2000 and 1999, respectively, reflecting continued growth in residential loans we service for others. The average balance of residential loans we service for others grew to $15,727,659 during 2001 from $9,835,132 during 2000 and $8,802,444 during 1999. Net interest income decreased by $10,773 during 2001 and by $11,386 during 2000 primarily as a result of an increase in the average balance of advances and servicing rights, which do not earn interest. Non-interest expense increased to $68,383 in 2001 as compared to $58,773 for 2000 and $44,990 for 1999. See "Results of Operations - Non-Interest Income."

- OTX. The increase in net losses incurred by this segment, which began in 1998, is a result of our continuing investment in the development and marketing of our technology businesses. Our losses for 2001 included $4,620 of one-time expenses, including $3,185 for a payment due in connection with an acquisition of a subsidiary in 1997. Through this segment we provide technology solutions for the mortgage and real estate industries. OTX products include both a residential and commercial loan servicing software platform and an internet-based mortgage loan processing application and vendor management system. Our losses for 1999 included a $3,367 charge reflecting the impact of a reduction in the estimated useful life of the goodwill associated with the acquisitions previously made by OTX. See Note 2 to our Consolidated Financial Statements (which is incorporated herein by reference).

- Ocwen Realty Advisors. Through this segment we provide property valuation services and real estate research for residential and commercial properties, including those that we own or service for others.

- Unsecured Collections. This segment is primarily comprised of activities related to our charged-off unsecured credit card receivables, which we acquired at a discount, as well as collections we make on behalf of others. We account for our collections of unsecured credit card receivables under the cost recovery method. At December 31, 2001, the net book value of our unsecured receivables had been reduced to zero as a result of collections and additional reserves. We recorded provisions for losses of $1,176, $6,867 and $870 during 2001, 2000 and 1999, respectively. Our servicing fees for this segment amounted to $2,500, $1,485 and $18 during 2001, 2000 and 1999, respectively.

- Residential Discount Loans. The decline in profitability for this segment in 2001 as compared to 2000 was primarily due to a decline in gains we earned from sales of loans, a decline in net interest income and an increase in the provision for loan losses, offset in part by a decline in losses from our real estate owned. Gains (losses) from the sale of loans amounted to $(545) and $15,720 during 2001 and 2000, respectively. This compares to securitization gains during 1999 of $22,763. We have not securitized loans since 1999 and have not acquired any discount loans since 2000. Provision for loan losses was $6,060, $(637) and $8,435 in 2001, 2000 and 1999 respectively. Losses from the sale and operation of our real estate owned declined to $(6,623) in 2001 from $(11,164) and $(9,071) in 2000 and 1999, respectively. Net realized and unrealized trading gains on subordinate securities amounted to $1,868 and $3,352 during 2001 and 2000, respectively. The loss for 1999 included impairment charges of $27,342 on our portfolio of residential subordinate securities. See "Results of Operations - Non-Interest Income - Gain (Loss) on Trading and Match Funded Securities."

- Commercial Loans. Profitability declined for this segment in 2001 as compared to 2000 primarily as a result of a decline in gains on our investments in real estate and a decline in net interest income. Equity in earnings related to certain loans, which we acquired in 2000 and which we account for as investments in real estate, declined to $3,338 in 2001 from $12,427 in 2000. The decline in equity in earnings is primarily due to repayments we received on loans during 2000, which generated significant gains. Gains on the repayment of discount loans, which we report as interest income, have also declined and amounted to $2,257, $9,369 and $16,919 for 2001, 2000 and 1999, respectively. The decline in profitability during 2000 as compared to 1999 was primarily due to declines in net interest income, gains from sales of loans, gains from our real estate owned and an increase in the provision for loan losses, offset in part by equity in earnings from our investments in real estate (see above) and a decline in operating expenses. Gains (losses) we earned from sales of loans were $(3,487), $(1,559) and $4,746 during 2001, 2000 and 1999, respectively. Gains (losses) we earned from the sale and operation of our real estate owned amounted to $(2,143), $(1,869) and $3,769 during 2001, 2000 and 1999, respectively. The provision for loan losses amounted to $7,223, $9,195 and $4,610, during 2001, 2000 and 1999, respectively. The increase in the provision in 2000 was principally related to our commercial discount loans.

- Affordable Housing. Losses have increased during 2001 and 2000 primarily due to a decline in gains from sales of our properties and an increase in impairment charges, offset in part by a decline in operating losses as a result of sales. The net book value of our remaining properties amounted to $102,069 at December 31, 2001, of which $54,688 are subject to sales contracts although they have not yet qualified as sales for accounting purposes. Gains (losses) from the sales were $(956), $497 and $6,591 for 2001, 2000 and 1999, respectively. Net operating losses from properties in service amounted to $16,580, $9,931 and $6,291 during 2001, 2000 and 1999, respectively. Net operating losses included impairment charges of $15,587, $6,448 and $700 for estimated losses on the sale of the properties. During 2000, we began reducing our investment in affordable housing properties both as part of our shift in strategy to fee-based businesses and because the volume of tax credits being generated was exceeding our ability to utilize them effectively. See "Changes in Financial Condition - Affordable Housing Properties." On February 4, 2002 we were notified by the California Tax Credit Allocation Committee of a challenge to our receipt of previously allocated federal low-income housing tax credits for a recently constructed affordable housing development in which we invested. We intend to contest this challenge, which stems from an issue regarding a determination of the date the development was made available for occupancy. If the Committee prevails in its challenge, we could incur a loss of up to $7,500.

- Commercial Real Estate. The results of this segment principally represent the activities of our commercial real estate investments acquired in connection with our acquisition of OAC in October 1999. The decline in income for 2001 as compared to 2000 is primarily the result of $21,024 of gains from our sales of real estate during 2000 and a decline in operating income from our real estate, partially offset by a decline in interest expense on our lines of credit. Net operating gains we earned on our investments in real estate amounted to 4,775, $13,415 and $1,881 for 2001, 2000 and 1999, respectively. The decline in operating income for 2001 is the result of the sales of our real estate properties during 2000. Interest expense on lines of credit used to fund our real estate investments declined to $1,997 for 2001 as compared to $11,046 and $2,789 incurred for 2000 and 1999, respectively. Income for 2000 also included $2,768 of gains from the sale of securities available for sale.

- Subprime Residential Lending. In August 1999, we closed our domestic subprime origination business, which we had previously conducted primarily through our subsidiary Ocwen Financial Services, Inc. ("OFS"). Assets remaining in this segment at December 31, 2001 are primarily comprised of subprime residual trading securities with a fair value of $60,051 and match funded securities with a fair value of $19,435. We recorded net realized and unrealized trading gains of $14,247 in 2001 on our subprime residual and match funded securities as compared to losses of $(8,483) for 2000. Losses for 2000 and 1999 included $10,930 and $31,216, respectively, of impairment charges on subprime subordinate and residual securities available for sale. Also, we recorded gains of $3,834 during 1999 in connection with our securitization of loans.

- Corporate Items and Other. Pre-tax results for this segment consists of amortization of the excess of net assets we acquired over purchase price, UK operations, our business activities that are individually insignificant, amounts we do not allocate to our operating segments, distributions on our Capital Securities, transfer pricing mismatches, other general corporate expenses and the results of our collateralized mortgage obligation ("CMO") trading portfolio. Our UK operations generated pre-tax income of $13,467 and $59,450 for 2000 and 1999, respectively. On September 30, 1999, we sold all of the shares of our wholly-owned subsidiary, Ocwen UK, for a gain of $50,371. Ocwen UK had commenced operations on April 24, 1998. Ocwen UK securitization gains during 1999 totaled $10,207. On November 22, 2000, we sold our equity investment in Kensington for a gain of $20,025. Equity in losses of Kensington of $(5,280) and $(9,154) were recognized for 2000 and 1999, respectively.

See Note 29 to our Consolidated Financial Statements (which is incorporated herein by reference) for additional information related to our operating segments.

Net Interest Income: 2001 versus 2000 and 2000 versus 1999. Net interest income (expense) is the difference between the interest income earned from our interest-earning assets and interest expense incurred on our interest-bearing liabilities. Net interest income (expense) is determined by net interest spread (i.e., the difference between the yield earned on our interest-earning assets and the rates incurred on our 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 our interest-earning assets and interest-bearing liabilities.

The following table sets forth, for the years indicated, information regarding the total amount of income from our interest-earning assets and the resultant average yields, the interest expense associated with our 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 years:

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	Year Ended December 31,								
	2001			2000			1999		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Average Assets:									
Federal funds sold and repurchase agreements	$ 200,329	$ 7,328	3.66%	$ 128,079	$ 8,700	6.79%	$ 174,495	$ 8,847	5.07%
Trading Securities (1):									
CMOs (AAA-rated)	125,640	7,465	5.94	83,543	5,568	6.66	--	--	--
Subordinates, residuals and other	97,217	11,400	11.73	24,177	2,631	10.88	--	--	--
Securities available for sale (1):									
CMOs (AAA-rated)	--	--	--	427,821	27,693	6.47	366,343	20,914	5.71
Subordinates, residuals and other	--	--	--	113,833	14,815	13.01	227,056	41,784	18.40
Loans available for sale (2)	7,138	526	7.37	31,050	2,474	7.97	238,747	25,724	10.77
Investment securities and other	11,008	743	6.75	23,677	1,501	6.34	29,340	2,181	7.43
Loan portfolio (2)	82,125	6,807	8.29	143,906	20,586	14.31	181,445	28,683	15.81
Discount loan portfolio (2)	358,246	38,757	10.82	819,262	89,826	10.96	975,436	121,854	12.49
Match funded loans and securities (2)	103,594	10,345	9.99	143,452	11,022	7.68	30,483	3,237	10.62
Total interest earning assets	985,297	83,371	8.46	1,938,800	184,816	9.53	2,223,345	253,224	11.39
Non-interest earning cash	69,029			44,517			80,335		
Allowance for loan losses	(22,235)			(27,695)			(26,597)		
Real estate held for sale	22,457			114,891			--		
Affordable housing properties	123,793			147,054			166,600		
Investment in unconsolidated entities	408			28,832			76,146		
Real estate owned, net	128,371			176,828			191,694		
Investment in real estate	113,883			204,288			90,494		
Advances on loans and loans serviced for others	303,382			191,642			133,408		
Mortgage servicing rights	76,145			18,337			8,462		
Other assets	187,791			257,527			243,796		
Total assets	$1,988,321			$3,095,021			$3,187,683		
Average Liabilities and Stockholders' Equity:									
Interest-bearing demand deposits	$ 14,655	393	2.68%	$ 12,169	532	4.37%	$ 37,247	1,313	3.53%
Savings deposits	1,388	29	2.09	1,527	37	2.42	1,588	38	2.39
Certificates of deposit	920,668	59,545	6.47	1,520,493	97,655	6.42	1,590,553	97,019	6.10
Total interest-bearing deposits	936,711	59,967	6.40	1,534,189	98,224	6.40	1,629,388	98,370	6.04
Securities sold under agreements to repurchase	19,500	529	2.71	167,337	10,729	6.41	107,622	7,456	6.93
Bonds-match funded agreements	85,924	7,315	8.51	123,856	11,484	9.27	28,904	2,101	7.27
Obligations outstanding under lines of credit	82,604	5,511	6.67	152,424	13,881	9.11	256,300	16,319	6.37
Notes, debentures and other	170,123	20,007	11.76	284,634	34,772	12.22	257,219	31,296	12.17
Total interest-bearing liabilities	1,294,862	93,329	7.21	2,262,440	169,090	7.47	2,279,433	155,542	6.82
Non-interest bearing deposits	12,813			7,118			15,594		
Escrow deposits	73,326			114,254			218,607		
Excess of net assets acquired over purchase price	28,866			51,486			13,720		
Other liabilities	64,726			60,584			76,016		
Total liabilities	1,474,593			2,495,882			2,603,370		
Capital securities	64,976			103,709			122,097		
Stockholders' equity	448,752			495,430			462,216		
Total liabilities and stockholders' equity	$1,988,321			$3,095,021			$3,187,683		
Net interest income (expense)		$ (9,958)			$ 15,726			$ 97,682	
Net interest spread			1.25%			2.06%			4.57%
Net interest margin			(1.01)%			0.81%			4.39%
Ratio of interest-earning assets to interest-bearing liabilities	76%			86%			98%		

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

(2) The average balances include non-performing loans, interest on which we recognize on a cash basis.

The following table describes the extent to which changes in interest rates and changes in volume of our interest-earning assets and interest-bearing liabilities have affected our interest income and expense during the periods indicated. For each category of our interest-earning assets and interest-bearing liabilities, we have provided information 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. We have allocated changes attributable to both volume and rate proportionately to the change due to volume and the change due to rate.

	Year Ended December 31,					
	2001 vs. 2000			2000 vs. 1999		
	Increase (Decrease) Due To			Increase (Decrease) Due To		
	Rate	Volume	Total	Rate	Volume	Total
Interest-Earning Assets:						
Federal funds sold and repurchase agreements	$ (5,034)	$ 3,662	$ (1,372)	$ 2,557	$ (2,704)	$ (147)
Trading securities:						
CMOs (AAA-rated)	(498)	2,395	1,897	2,358	3,210	5,568
Subordinates, residuals and other	(324)	9,093	8,769	(4,972)	7,603	2,631
Securities available for sale:						
CMOs (AAA-rated)	(2,101)	(25,592)	(27,693)	3,386	3,393	6,779
Subordinates, residuals and other	(1,335)	(13,480)	(14,815)	(12,147)	(14,822)	(26,969)
Loans available for sale	(173)	(1,775)	(1,948)	(5,358)	(17,892)	(23,250)
Investment securities and other	91	(849)	(758)	(294)	(386)	(680)
Loan portfolio	(6,819)	(6,960)	(13,779)	(2,549)	(5,548)	(8,097)
Discount loan portfolio	(1,178)	(49,891)	(51,069)	(13,871)	(18,157)	(32,028)
Match funded loans and securities	2,827	(3,504)	(677)	(1,125)	8,910	7,785
Total interest-earning assets	(14,544)	(86,901)	(101,445)	(32,015)	(36,393)	(68,408)
Interest-Bearing Liabilities:						
Interest-bearing demand deposits	(233)	94	(139)	259	(1,040)	(781)
Savings deposits	(5)	(3)	(8)	--	(1)	(1)
Certificates of deposit	679	(38,789)	(38,110)	5,012	(4,376)	636
Total interest-bearing deposits	441	(38,698)	(38,257)	5,271	(5,417)	(146)
Securities sold under agreements to repurchase	(4,029)	(6,171)	(10,200)	(592)	3,865	3,273
Bonds-match funded agreements	(879)	(3,290)	(4,169)	726	8,657	9,383
Obligations outstanding under lines of credit	(3,085)	(5,285)	(8,370)	5,556	(7,994)	(2,438)
Notes, debentures and other interest-bearing obligations	(1,254)	(13,511)	(14,765)	127	3,349	3,476
Total interest-bearing liabilities	(8,806)	(66,955)	(75,761)	11,088	2,460	13,548
(Decrease) increase in net interest income	$ (5,738)	$ (19,946)	$ (25,684)	$ (43,103)	$ (38,853)	$ (81,956)

2001 versus 2000:

We incurred net interest expense before provision for loan losses of $(9,958) for the year ended December 31, 2001 as compared to net interest income of $15,726 earned for the year ended December 31, 2000, a decline of $25,684 or 163%. The decrease was due to a decrease in the balance of our average interest-earning assets and a decrease in the net interest spread, offset by a decrease in the balance of our average interest-bearing liabilities. The average balance of our interest-earning assets decreased by $953,503 or 49% during 2001 and reduced interest income by $86,901. The average balance of our interest-bearing liabilities decreased by $967,578 or 43% during 2001 and decreased interest expense by $66,955. The net impact of these volume changes resulted in a $19,946 decrease in net interest income. The net interest spread decreased 81 basis points as a result of a 107 basis-point decrease in the weighted average rate on our interest-earning assets, offset by a 26 basis-point decrease in the weighted average rate on our interest-bearing liabilities. The net impact of these rate changes resulted in a $5,738 decrease in net interest income. The increases in the average balance of our non-interest earning assets, primarily our servicing advances and servicing rights, that we fund with interest-bearing liabilities, have contributed to the decline in the net interest spread.

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The following table presents the change in average balances and yields for 2001 as compared to 2000 for each of our interest-earning asset categories:

	Average Balance		Increase (Decrease)	Average Yield		Increase (Decrease)
For the Year Ended December 31,	2001	2000	$	2001	2000	Basis Points
Federal funds sold and repurchase agreements	$ 200,329	$ 128,079	$ 72,250	3.66%	6.79%	(313)
Trading securities:						
CMOs (AAA-rated)	125,640	83,543	42,097	5.94	6.66	(72)
Subordinates and residuals	97,217	24,177	73,040	11.73	10.88	85
Securities available for sale:						
CMOs (AAA-rated)	--	427,821	(427,821)	--	6.47	(647)
Subordinates and residuals	--	113,833	(113,833)	--	13.01	(1,301)
Loans available for sale	7,138	31,050	(23,912)	7.37	7.97	(60)
Investment securities and other	11,008	23,677	(12,669)	6.75	6.34	41
Loan portfolio	82,125	143,906	(61,781)	8.29	14.31	(602)
Discount loan portfolio	358,246	819,262	(461,016)	10.82	10.96	(14)
Match funded loans and securities	103,594	143,452	(39,858)	9.99	7.68	231
	$ 985,297	$ 1,938,800	$ (953,503)	8.46%	9.53%	(107)

We earned interest income on our trading securities of $18,865 during 2001 as compared to $8,199 during 2000. Interest income we earned on securities available for sale amounted to $0 during 2001 as compared to $42,508 for 2000. On September 30, 2000 we changed our policy for securities available for sale and transferred those securities to the trading category. We believe that this treatment more appropriately reflects the impact on our results of operations arising from changes in the fair value of securities. The following presents the results of our securities portfolio, both trading and available for sale, on a combined basis for 2001 and 2000:

	CMOs			Subordinates and Residuals			Total		
	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield
2001:									
Trading securities	$125,640	$7,465	5.94%	$ 97,217	$11,400	11.73%	$222,857	$18,865	8.47%
2000:									
Trading securities	$ 83,543	5,568	6.66%	$ 24,177	$ 2,631	10.88%	$107,720	$ 8,199	7.61%
Securities available for sale	427,821	27,693	6.47	113,833	14,815	13.01	541,654	42,508	7.85
	$511,364	33,261	6.50%	$138,010	$17,446	12.64%	$649,374	$50,707	7.81%

As presented in the table above, interest income we earned from our securities portfolio on a combined basis declined from $50,707 in 2000 to $18,865 in 2001, a $31,842 or 63% decline. The decline in interest income is primarily due to a $385,724 or 75% decline in our average investment in CMOs and a $40,793 or 30% decline in our average investment in subordinates and residuals. The decline in the average balance of our CMOs during 2001 reflects our planned reduction in the use of these securities to meet the Qualified Thrift Lender requirements. The decline in the average balance of our subordinate and residuals during 2001 was primarily due to sales of subprime residuals and amortization. Because CMOs have less cash flow variability, their average lives and yields to maturity are more stable, and therefore, CMOs are priced to yield less than classes of mortgage-related securities such as subordinates and residuals that are less stable. Yield on the total portfolio of trading securities increased in 2001 as compared to 2000 because lower-yielding CMOs comprised a greater proportion of the portfolio in 2000.

Interest income we earned on our loan portfolio decreased by $13,779 or 67% during 2001 as compared to 2000 due to a $61,781 or 43% decrease in the average balance of our portfolio and a 602 basis-point decrease in the average yield. The decline in the average balance of our portfolio is primarily due to sales and repayments. During 1999, we ceased origination of multifamily and commercial loans. See "Changes in Financial Condition - Loan Portfolio, Net."

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Interest income we earned on our discount loans decreased by $51,069 or 57% during 2001 as compared to 2000 as a result of a $461,016 or 56% decline in the average balance of our investment and a 14 basis-point decrease in the average yield. Sales, foreclosures, resolutions and the absence of acquisitions have resulted in the declines in the average balance of our discount loans during 2001. The yield on our discount loan portfolio is likely to fluctuate from period to period as a result of the timing of resolutions, particularly the resolution of large multi-family residential and commercial real estate loans, and the mix of the overall portfolio between performing and non-performing loans. See "Changes in Financial Condition - Discount Loan Portfolio, Net."

The following table presents the change in average balances and rates for 2001 as compared to 2000 for each of our interest-bearing liability categories:

	Average Balance		Increase (Decrease)	Average Rate		Increase (Decrease)
For the Year Ended December 31,	2001	2000	$	2001	2000	Basis Points
Interest-bearing deposits........................	$ 936,711	$ 1,534,189	$ (597,478)	6.40%	6.40%	--
Securities sold under agreements to repurchase...	19,500	167,337	(147,837)	2.71	6.41	(370)
Bonds-match funded agreements....................	85,924	123,856	(37,932)	8.51	9.27	(76)
Obligations outstanding under lines of credit....	82,604	152,424	(69,820)	6.67	9.11	(244)
Notes, debentures and other......................	170,123	284,634	(114,511)	11.76	12.22	(46)
	$ 1,294,862	$ 2,262,440	$ (967,578)	7.21%	7.47%	(26)

Interest expense we incurred on our interest-bearing deposits decreased $38,257 or 39% during 2001 as compared to 2000 due to a $597,478 or 39% decrease in the average balance. The decline in the average balance resulted primarily from maturing brokered certificates of deposit. We did not issue any new brokered certificates of deposit during 2001 and, at this time, do not intend to issue any such deposits in the foreseeable future. The decline in average deposits is consistent with the 36% decline in average total assets as we continue our transition in business strategy from capital-intensive businesses to fee-based businesses. See "Changes in Financial Condition - Deposits."

Interest expense we incurred on securities we sold under agreements to repurchase declined $10,200 or 95% during 2001 as a result of a $147,837 or 88% decrease in the average balance and a 370 basis-point decline in the average rate. We have used securities sold under agreements to repurchase primarily to fund our purchases of CMOs, the average balance of which has declined significantly during 2001.

Interest expense we incurred on bonds-match funded agreements declined $4,169 or 36% during 2001 as compared to 2000 primarily as a result of a $37,932 or 31% decline in the average balance outstanding. Interest expense on our bonds-match funded agreements is primarily comprised of interest we incurred on bonds-match funded agreements acquired as a result of our acquisition of OAC in October 1999 and on non-recourse notes, which resulted from our transfer of four unrated residual securities in December 1999 in exchange for non-recourse notes. We have accounted for these transactions, which did not qualify as sales for accounting purposes, as secured borrowings with pledges of collateral. See "Changes in Financial Condition - Bonds - Match Funded Agreements."

Interest expense we incurred on obligations outstanding under our lines of credit decreased $8,370 or 60% during 2001 as compared to 2000 due to a $69,820 or 46% decrease in the average balance and a 244 basis-point decline in the average rate. During 2001, we used lines of credit to fund real estate investments and commercial construction loans and, beginning in the second quarter of 2001, to fund servicing advances that were purchased in connection with the acquisition of loans serviced for others. Average balances outstanding under our lines of credit decreased during 2001 primarily because of sales of our real estate properties and commercial loans, offset in part by the funding of our residential loan servicing advances under new lines. See "Changes in Financial Condition - Obligations Outstanding Under Lines of Credit."

Interest expense we incurred on notes, debentures and other interest bearing obligations decreased $14,765 or 42% during 2001 as compared to 2000 primarily due to a $114,511 or 40% decrease in the average balance. The decrease in the average balance is primarily due to repurchases of debt we made during 2001 and 2000. See "Changes in Financial Condition - Notes, Debentures and Other Interest-Bearing Obligations."

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2000 versus 1999:

Our net interest income before provision for loan losses of $15,726 decreased $81,956 or 84% during 2000 as compared to the prior year. The decline was primarily due to a decrease in the average balance of our interest-earning assets and a decrease in the net interest spread. Our average interest-earning assets decreased by $284,545 or 13% during 2000 and reduced interest income by $36,393. The net impact of volume changes resulted in a $38,853 decrease in net interest income. The net interest spread decreased 251 basis points during 2000 as a result of a 186 basis-point decrease in the weighted average yield on interest-earning assets and a 65 basis-point increase in the weighted average rate on interest-bearing liabilities. The impact of these rate changes resulted in a $43,103 decrease in net interest income. The sale of Ocwen UK, which generated a high net interest spread in 1999, contributed to the overall decline in the net interest spread. Additionally, the average balance of our non-interest earning assets, which are largely funded by interest bearing liabilities, increased during 2000, primarily due to an increase in real estate assets resulting from our acquisition of OAC and an increase in our servicing advances and servicing rights.

The following table presents the change in average balances and yields for 2000 as compared to 1999 for each of our interest-earning asset categories:

	Average Balance		Increase (Decrease)	Average Yield		Increase (Decrease)
For the Year Ended December 31,	2000	1999	$	2000	1999	Basis Points
Federal funds sold and repurchase agreements	$ 128,079	$ 174,495	$ (46,416)	6.79%	5.07%	172
Trading Securities:						
CMOs (AAA-rated)	83,543	--	83,543	6.66	--	666
Subordinates, residuals and other	24,177	--	24,177	10.88	--	1,088
Securities available for sale:						
CMOs (AAA-rated)	427,821	366,343	61,478	6.47	5.71	76
Subordinates, residuals and other	113,833	227,056	(113,223)	13.01	18.40	(539)
Loans available for sale (1)	31,050	238,747	(207,697)	7.97	10.77	(280)
Investment securities and other	23,677	29,340	(5,663)	6.34	7.43	(109)
Loan portfolio	143,906	181,445	(37,539)	14.31	15.81	(150)
Discount loan portfolio	819,262	975,436	(156,174)	10.96	12.49	(153)
Match funded loans and securities	143,452	30,483	112,969	7.68	10.62	(294)
	$ 1,938,800	$ 2,223,345	$ (284,545)	9.53%	11.39%	(186)

(1) Included subprime loans with an average balance of $132,066 and an average yield earned of 12.28% held by Ocwen UK during 1999 prior to its sale.

Interest income we earned on our trading securities amounted to $8,199 as compared to $0 for 1999. Interest income on our securities available for sale amounted to $42,508 during 2000 as compared to $62,698 during 1999. On September 30, 2000, we changed our policy for securities available for sale and transferred those securities to the trading category. Our sale of Ocwen UK and its subprime residuals contributed to the decline in the average balance and average yield. The following presents the results of our securities portfolio, both trading and available for sale, on a combined basis for 2000 and 1999:

	CMOs			Subordinates and Residuals(1)			Total		
	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield
2000:									
Trading securities	$ 83,543	$ 5,568	6.66%	$ 24,177	$ 2,631	10.88%	$107,720	$ 8,199	7.61%
Securities available for sale	427,821	27,693	6.47	113,833	14,815	13.01	541,654	42,508	7.85
	$511,364	$ 33,261	6.50%	$138,010	$ 17,446	12.64%	$649,374	$ 50,707	7.81%
1999:									
Securities available for sale	$366,343	$ 20,914	5.71%	$227,056	$ 41,784	18.40%	$593,399	$ 62,698	10.57%

(1) Included subprime residuals with an average balance of $60,736 and an average yield earned of 24.45% held by Ocwen UK during 1999 prior to its sale.

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Interest income we earned on our loans available for sale decreased $23,250 or 90% during 2000 as compared to 1999 as a result of a $207,697 or 87% decrease in the average balance and a 280 basis-point decline in weighted average yield earned. The decrease in the average balance reflects the closure of our domestic subprime origination business and our sale of Ocwen UK. The decline in the average yield is also largely due to our sale of Ocwen UK. See "Changes in Financial Condition - Loans Available for Sale."

Interest income we earned on our loan portfolio decreased by $8,097 or 28% in 2000 versus 1999 due to a $37,539 or 21% decrease in the average balance and a 150 basis-point decrease in the average yield. The decrease in the average yield is due in part to a decline in the amount of additional interest we received in connection with the repayment of loans. Such additional interest amounted to $96 and $8,121 during 2000 and 1999, respectively. During 1999, we ceased origination of multi-family and commercial loans. See "Changes in Financial Condition - Loan Portfolio, Net."

Interest income we earned on our discount loans decreased by $32,028 or 26% during 2000 as a result of a $156,174 or 16% decrease in the average balance and a 153 basis-point decline in the average yield. Sales, resolutions, foreclosures and a decline in acquisition volume have contributed significantly to the decline in the average balance. See "Changes in Financial Condition - Discount Loan Portfolio, Net." The yield on the discount loan portfolio is likely to fluctuate from period to period as a result of the timing of resolutions, particularly the resolution of large multi-family residential and commercial real estate loans, and the mix of the overall portfolio between performing and non-performing loans.

Interest income we earned on our match funded loans and securities is comprised of income earned on loans we acquired in connection with our acquisition of OAC in October 1999 and on four unrated residual securities transferred by us in December 1999 in exchange for non-recourse notes. OAC previously securitized the loans under a securitization we accounted for as a secured borrowing with pledge of collateral. See "Changes in Financial Condition - - Match Funded Assets."

The following table presents the change in average balances and rates for 2000 as compared to 1999 for each of our interest-bearing liability categories:

For the Year Ended December 31,	Average Balance 2000	Average Balance 1999	Increase (Decrease) $	Average Rate 2000	Average Rate 1999	Increase (Decrease) Basis Points
Interest-bearing deposits........................	$ 1,534,189	$ 1,629,388	$ (95,199)	6.40%	6.04%	36
Securities sold under agreements to repurchase (1)................................	167,337	107,622	59,715	6.41	6.93	(52)
Bonds-match funded agreements....................	123,856	28,904	94,952	9.27	7.27	200
Obligations outstanding under lines of credit (2)	152,424	256,300	(103,876)	9.11	6.37	274
Notes, debentures and other......................	284,634	257,219	27,415	12.22	12.17	5
	$ 2,262,440	$ 2,279,433	$ (16,993)	7.47%	6.82%	65

(1) Included an average balance of $22,908 with an average yield of 7.64% for 1999 related to Ocwen UK.

(2) Included an average balance of $130,437 with an average yield of 6.16% for 1999 related to Ocwen UK.

Interest expense we incurred on our securities sold under agreements to repurchase increased $3,273 or 44% primarily due to a $59,715 or 55% increase in the average balance.

Interest expense we incurred on our bonds-match funded agreements is comprised of interest incurred on bonds-match funded agreements acquired as a result of our acquisition of OAC in October 1999 and on non-recourse notes which resulted from our transfer of four unrated residual securities in December 1999 in exchange for non-recourse notes. See "Changes in Financial Condition - Bonds Match Funded Agreements."

Interest expense we incurred on our obligations outstanding under lines of credit decreased $2,438 or 15% during 2000 as compared to 1999 due to a $103,876 or 41% decrease in the average balance, which was partially offset by a 274 basis-point increase in the weighted average interest rate. During 1999, we used our lines of credit primarily to fund the acquisition and origination of subprime single family loans at OFS and Ocwen UK. The net decrease in the average balance reflects our closure of the domestic subprime origination business and our sale of Ocwen UK, offset by our assumption of lines as a result of our acquisition of OAC. The average balance of the OAC lines, which are collateralized by our investments in real estate and commercial loans, declined during 2000 as a result of collateral sales. See "Changes in Financial Condition - Obligations Outstanding Under Lines of Credit."

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Interest expense we incurred on our notes, debentures and other increased $3,476 or 11% during 2000 primarily due to a $27,415 or 11% increase in the average balance. The increase in the average balance is primarily due to our assumption of $140,487 of 11.5% Redeemable Notes as a result of our acquisition of OAC in October 1999, offset in part by our repurchase of substantially all of this debt in December 2000. See "Changes in Financial Condition - Notes, Debentures and Other Interest-Bearing Obligations."

Provisions for Loan Losses. Provisions we record for losses on our loans are charged to operations to maintain an allowance for losses on the loan portfolio, the discount loan portfolio and the match funded loans at a level which we consider adequate based upon an evaluation of known and inherent risks in such portfolios. Our ongoing evaluation is based on an analysis of our discount loan portfolio, loan portfolio and match funded loans, historical loss experience, current economic conditions and trends, collateral values and other relevant factors.

The following table presents the provisions for loan losses for our discount loan portfolio, loan portfolio and the match funded loans for the years indicated:

	2001	2000	1999
Discount loan portfolio.................	$12,960	$15,266	$ 5,434
Loan portfolio..........................	2,518	4	1,636
Match funded loans......................	188	(93)	(360)
	$15,666	$15,177	$ 6,710

The provision for losses on our discount loans included $1,567, $7,503 and $1,267 related to our unsecured credit card receivables during 2001, 2000 and 1999, respectively, which we had fully reserved at December 31, 2001. As indicated in the table below, our allowances as a percentage of loan value have been increased for both our loan and discount loan portfolios at December 31, 2001. Those increases are primarily in response to increases in our non-performing loans as a percentage of loan value See "Changes in Financial Condition - Loan Portfolio, Net," "Match Funded Assets" and "Discount Loan Portfolio, Net."

The following table sets forth the allowance for loan losses as a percentage of our respective loan balances at the dates indicated:

	Allowance	Loan Balance	Allowance as a % of Loan Balance
December 31, 2001:			
Discount loan portfolio (1)............	$ 17,554	$ 136,881	12.82%
Loan portfolio.........................	3,197	68,122	4.69%
Match funded loans.....................	170	53,123	0.32%
	$ 20,921	$ 258,126	8.11%
December 31, 2000:			
Discount loan portfolio................	$ 20,871	$ 556,899	3.75%
Loan portfolio.........................	2,408	95,822	2.51%
Match funded loans.....................	285	80,834	0.35%
	$ 23,564	$ 733,555	3.21%
December 31, 1999:			
Discount loan portfolio................	$ 19,181	$ 932,410	2.06%
Loan portfolio.........................	7,259	164,667	4.41%
Match funded loans.....................	495	105,596	0.47%
	$ 26,935	$1,202,673	2.24%

(1) Included unsecured credit card receivables with a loan balance of $10,337 and allowance of $10,337, or 100%, at December 31, 2001. Excluding these receivables, the allowance as a percentage of total discount loans was 5.70%, 2.24% and 1.96% at December 31, 2001, 2000 and 1999, respectively.

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For additional information regarding our allowance for loan losses on the above portfolios, see "Changes in Financial Condition - Allowances for Loan Losses." For information relating to our valuation allowance on real estate owned, see "Changes in Financial Condition - Real Estate Owned, Net."

Non-Interest Income. The following table sets forth the principal components of our non-interest income during the years indicated:

	2001	2000	1999
Servicing and other fees	$ 134,597	$ 97,080	$ 76,018
Gain (loss) on interest-earning assets, net	(3,949)	17,625	44,298
Gain (loss) on trading and match funded securities, net	16,330	(3,971)	--
Impairment charges on securities available for sale	--	(11,597)	(58,777)
Gain (loss) on real estate owned, net	(9,256)	(14,904)	(3,957)
Gain (loss)on other non-interest earning assets, net	(1,054)	45,517	58,693
Net operating gains (losses) on investments in real estate	5,581	27,579	820
Amortization of excess of net assets acquired over purchase price	18,333	14,112	3,201
Other income	8,759	6,084	24,346
	$ 169,341	$ 177,525	$ 144,642

Servicing and Other Fees. Our servicing and other fees are primarily comprised of fees we earned from investors for servicing residential mortgage loans on their behalf. The increase in servicing fees is largely due to the growth in residential loans we service for others. Excluding Ocwen UK from 1999, the average unpaid principal balance of loans we service for others amounted to $16,738,3377, $10,798,857 and $10,060,673 during 2001, 2000 and 1999, respectively. The following table sets forth the principal components of our servicing and other fees for the years indicated:

	2001	2000	1999 (1)
Loan servicing and related fees:			
Loan servicing fees	$ 95,569	$ 47,334	$ 49,304
Late charges	21,326	14,890	10,076
Interest on custodial accounts (2)	8,530	6,523	68
Special servicing fees (3)	8,494	10,420	12,164
Other	8,924	9,554	6,207
Amortization of servicing rights	(29,841)	(10,036)	(4,595)
	113,002	78,685	73,224
Other fees:			
Property valuation fees (ORA)	11,789	10,630	582
Default servicing fees	3,917	3,040	782
Retail banking fees	2,689	1,526	1,044
Other	3,200	3,199	386
	$134,597	$ 97,080	$ 76,018

(1) Loan servicing fees earned by Ocwen UK amounted to $9,691 during 1999 prior to its sale.

(2) Interest we earned on custodial accounts during the holding period between collection of borrower payments and remittance to investors.

(3) Fees we earned under special servicing arrangements wherein we act as a special servicer for third parties, typically as part of a securitization. Under these arrangements, we service loans that become greater than 90 days past due and receive base special servicing fees plus incentive fees to the extent we achieve certain loss mitigation parameters.

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The following table sets forth our loans serviced for others at the dates indicated:

	Subprime Loans (1)		Other Loans		Total	
	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans
December 31, 2001:						
Performing:						
Residential loans	$18,068,542	242,664	$ 919,639	18,074	$18,988,181	260,738
Commercial loans and other	--	--	1,062,345	1,962	1,062,345	1,962
	$18,068,542	242,664	$ 1,981,984	20,036	$20,050,526	262,700
Non-performing:						
Residential loans (3)	$ 2,638,235	35,585	$ 317,001	5,021	$ 2,955,236	40,606
Commercial loans (3)	--	--	158,250	247	158,250	247
	$ 2,638,235	35,585	$ 475,251	5,268	$ 3,113,486	40,853
Total loans serviced for others:						
Residential loans	$20,706,777	278,249	$ 1,236,640	23,095	$21,943,417	301,344
Commercial loans and other	--	--	1,220,595	2,209	1,220,595	2,209
	$20,706,777	278,249	$ 2,457,235	25,304	$23,164,012	303,553
December 31, 2000 (2):						
Performing:						
Residential loans	$ 7,499,361	118,174	$ 1,170,782	22,162	$ 8,670,143	140,336
Commercial loans and other	--	--	798,873	278	798,873	278
	$ 7,499,361	118,174	$ 1,969,655	22,440	$ 9,469,016	140,614
Non-performing:						
Residential loans (3)	$ 1,430,528	18,246	$ 394,013	5,869	$ 1,824,541	24,115
Commercial loans and other (3)	--	--	66,967	24	66,967	24
	$ 1,430,528	18,246	$ 460,980	5,893	$ 1,891,508	24,139
Total loans serviced for others:						
Residential loans	$ 8,929,889	136,420	$ 1,564,795	28,031	$10,494,684	164,451
Commercial loans	--	--	865,840	302	865,840	302
	$ 8,929,889	136,420	$ 2,430,635	28,333	$11,360,524	164,753
December 31, 1999:						
Performing:						
Residential loans	$ 6,830,385	82,612	$ 1,446,836	26,707	$ 8,277,221	109,319
Commercial loans and other	--	--	939,422	218	939,422	218
	$ 6,830,385	82,612	$ 2,386,258	26,925	$ 9,216,643	109,537
Non-performing:						
Residential loans (3)	$ 1,341,009	16,147	$ 481,556	6,863	$ 1,822,565	23,010
Commercial loans and other	--	--	66,075	123	66,075	123
	$ 1,341,009	16,147	$ 547,631	6,986	$ 1,888,640	23,133
Total loans serviced for others:						
Residential loans	$ 8,171,394	98,759	$ 1,928,392	33,570	$10,099,786	132,329
Commercial loans and other	--	--	1,005,497	341	1,005,497	341
	$ 8,171,394	98,759	$ 2,933,889	33,911	$11,105,283	132,670

(1) Subprime loans represent loans we service which were made by others to borrowers who did not qualify under guidelines of the FNMA and FHLMC ("nonconforming loans").

(2) Does not include approximately 38,500 loans with an unpaid principal balance of approximately $1,027,600 that we acquired on December 31, 2000 but which we did not board in our loan servicing system until 2001.

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(3) The following table presents loans which we service under special servicing agreements, included in the table above, and the total pool of loans for which we are designated as special servicer should those loans become greater than 90 days past due:

	Loans Special Serviced by OCN		Designated Special Servicing Loan Pools	
	Amount	No. of Loans	Amount	No. of Loans
December 31, 2001:				
Residential loans	$ 1,647,837	19,469	$ 4,894,376	53,098
Commercial loans	34,703	169	814,820	295
	$ 1,682,540	19,638	$ 5,709,196	53,393
December 31, 2000:				
Residential loans	$ 2,399,842	26,755	$12,795,282	126,065
Commercial loans	84,155	118	952,070	336
	$ 2,483,997	26,873	$13,747,352	126,401
December 31, 1999				
Residential loans	$ 878,284	9,319	$ 8,057,768	82,630
Commercial loans	123,924	151	994,230	422
	$ 1,002,208	9,470	$ 9,051,998	83,052

Gain (Loss) on Interest Earning Assets. The following table sets for the principal components of net gains (losses) we earned on our interest earning assets for the years indicated:

	2001	2000	1999
Gain (loss) on loan sales (1)............	$ (4,380)	$ 12,084	$ 40,380
Gain on security sales (2)................	--	4,983	4,968
Other....................................	431	558	(1,050)
	$ (3,949)	$ 17,625	$ 44,298

(1) During the third quarter of 1999, we made a strategic decision to structure future securitizations as financing transactions which precluded our use of gain-on-sale accounting. Gains we earned for 1999 include $36,804 from securitizations as detailed in the table below. See "Changes in Financial Condition - Match Funded Assets."

(2) Prior to the transfer of our securities from available for sale to trading on September 30, 2000.

The following table sets forth details of our net gains recognized in connection with the securitization of loans during 1999:

Loans Securitized					
Types of Loans	Principal	No. of Loans	Net Gain	Book Value of Securities Retained (Non-Cash Gain)	Cash Gain
1999:					
Single family discount...............	$ 227,303	3,137	$ 22,763	$ 4,040	$ 18,723
Single family subprime:					
Domestic.........................	235,572	2,192	3,834	12,091	--
Foreign (Ocwen UK)..............	295,157	8,983	10,207	34,452	--
	530,729	11,175	14,041	46,543	--
	$ 758,032	14,312	$ 36,804	$ 50,583	$ 18,723

Gain (Loss) on Trading and Match Funded Securities. The gain (loss) recorded on trading and match funded securities during 2001 and 2000 resulted from our change in our policy for securities available for sale and match-funded securities to account for them as trading securities effective September 30, 2000. See Notes 1 and 4 to our Consolidated Financial Statements (which are incorporated herein by reference).

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Impairment Charges on Securities Available for Sale. Prior to our transfer of securities available for sale to trading on September 30, 2000, we recorded impairment charges on securities available as a result of declines in fair value that we deemed to be other-than-temporary. See "Changes in Financial Condition - Trading Securities" and Note 1 to our Consolidated Financial Statements (which is incorporated herein by reference).

Gain (Loss) on Real Estate Owned, Net. The following table sets forth the results of our real estate owned (which does not include investments in real estate, as discussed below) during the years indicated:

	2001	2000	1999
Gains on sales	$ 14,111	$ 22,515	$ 36,265
Provision for losses in fair value	(17,766)	(26,674)	(28,008)
Carrying costs, net	(5,601)	(10,745)	(12,214)
(Loss) gain on real estate owned, net	$ (9,256)	$ (14,904)	$ (3,957)

See "Changes in Financial Condition - Real Estate Owned, Net" for additional information regarding real estate owned and the related provision for losses in fair value.

Gain (Loss) on Other Non-Interest Earning Assets. The following table sets forth the principal components of net gains (losses) we recorded on other non-interest earning assets for the years indicated:

	2001	2000	1999
Gain on sale of investments in real estate (1)	$ 45	$ 22,949	$ 1,753
Gain (loss) on sale of affordable housing properties	(956)	497	6,591
Gain on sale of Kensington	--	20,025	--
Gain on sale of Ocwen UK	--	--	50,371
Other	(143)	2,046	(22)
	$ (1,054)	$ 45,517	$ 58,693

(1) Gains earned for 2000 resulted primarily from sales of real estate we acquired in connection with our acquisition of OAC in October 1999.

Net Operating Gains on Investments in Real Estate. The following table sets forth the results of our investments in real estate during the years indicated:

	2001	2000	1999
Operating income, net (1)	$ 6,758	$ 15,856	$ 3,637
Equity in earnings of loans accounted for as investments in real estate (2)	3,338	12,427	--
Impairment write-down (3)	(4,515)	(704)	(2,817)
	$ 5,581	$ 27,579	$ 820

(1) The decrease in operating income from our investments in real estate during 2001 is primarily due to sales of properties during 2000, most of which we acquired in connection with our acquisition of OAC in October 1999.

(2) The decline in equity in earnings related to certain loans we account for as investments in real estate during 2001 is primarily due to the repayment of loans during 2000, which generated significant resolution gains, and an increase in our non-performing loans in 2001.

(3) Write-downs we recorded during 2001 consisted of $1,471 on our investment in a shopping center in Bradenton, and $2,225 on our investment in three assisted living facilities. See "Changes in Financial Condition - Investments in Real Estate" and "Changes in Financial Condition - Real Estate Held for Sale."

Amortization of Excess of Net Assets Acquired over Purchase Price. The amortization of excess of net assets acquired over purchase price resulted from our acquisition of OAC on October 7, 1999. Our acquisition resulted in an excess of net assets acquired over the purchase price of $60,042, which we amortize on a straight-line basis. Effective October 1, 2000, we reduced the amortization period from 60 months to 39 months as a result of an acceleration of projected sale dates for the acquired assets. This reduction in amortization period accounts for the increase in amortization during 2001 as compared to 2000. The unamortized balance of the excess of net assets acquired over purchase price at December 31, 2001 was $18,133, as compared to $36,665 at December 31, 2000. On January 1, 2002, upon adoption of Statement of Financial Accounting Standard ("SFAS") No. 141 and No. 142, we reversed the unamortized balance to income as the effect of a change in accounting principle as required by these statements. See Note 1 and Note 2 to our Consolidated Financial Statements (which is incorporated herein by reference).

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Other Income. See Note 27 to our Consolidated Financial Statements (which is incorporated herein by reference) for a disclosure of the components of other income for 2001, 2000 and 1999. The increase in other income during 2001 as compared to 2000 was primarily due to consulting revenues generated by our joint venture in Jamaica and real estate commission income generated from the sale of our real estate owned properties during 2001. Other income for 1999 included $12,896 of brokerage commissions earned by Ocwen UK prior to its sale on September 30, 1999.

Non-Interest Expense. The following table sets forth the principal components of our non-interest expense during the years indicated:

	2001	2000	1999
Compensation and employee benefits	$ 84,914	$ 83,086	$102,173
Occupancy and equipment	11,577	12,005	18,501
Technology and communication costs	26,768	23,876	20,957
Loan expenses	15,811	13,051	12,618
Net operating losses on certain affordable housing properties	16,580	9,931	6,291
Amortization of excess of purchase price over net assets acquired	3,112	3,124	4,448
Professional services and regulatory fees	14,749	12,829	13,992
Other operating expenses	8,935	12,107	16,088
	$182,446	$170,009	$195,068

Compensation and Employee Benefits. The following table presents the principal components of compensation and benefits we incurred for the years indicated:

	2001	2000	1999
Salaries (1)	$ 58,012	$ 58,580	$ 73,713
Bonuses (2)	9,544	8,876	4,104
Payroll taxes	4,763	4,834	4,789
Commissions	3,541	3,957	4,739
Insurance	2,682	2,736	2,338
Severance	1,701	778	689
Contract programmers	1,539	4,772	5,239
Relocation	1,049	1,165	1,875
Long-term incentive plan (3)	--	(6,012)	3,645
Other	2,083	3,400	1,042
	84,914	83,086	102,173
Adjusted for:			
Exclusion of Ocwen UK	--	--	(16,520)
Exclusion of OFS	--	--	(6,174)
Suspension of long-term incentive plan (3)	--	6,012	(3,645)
Reversal of stock option accrual (4)	--	--	2,248
	$ 84,914	$ 89,098	$ 78,082

(1) Salaries includes fees paid for the services of temporary employees.

(2) Bonus expense for 2001 and 2000 included $568 and $572, respectively, related to stock options we granted to employees at an exercise price below fair market value.

(3) We suspended our long-term incentive plan in the first quarter of 2000 and reversed the related accrual at that time.

(4) In 1999 we decided to grant stock options for services provided in 1999 and 1998 at an exercise price equal to fair market value, thereby not recognizing any bonus expense attributable to stock options for those years. We reversed the accrual related to 1998 in 1999 at the time of our decision.

The average number of our full-time employees increased to 1,536 during 2001 as compared to 1,288 during 2000. At December 31, 2001 we had 258 employees in our Bangalore, India office as we continue our globalization initiative to reduce labor costs while maintaining the highly skilled level of our employees. Our plans for 2002 call for a significant increase in the number of our India employees. As indicated in the table above, excluding the reversal of our long-term incentive plan accrual in 2000, our compensation and employee benefits expense declined in 2001. This decline in compensation and employee benefits expense resulted primarily from a reduction in contract programmers assisting with the implementation of our residential loan servicing system, which was completed in January 2001.

The decline in compensation and employee benefits for 2000 as compared to 1999 was largely a result of our sale of Ocwen UK and our closing of our domestic subprime lending operations at OFS. As indicated in the table above, excluding Ocwen UK, OFS and the long-term incentive plan, our compensation and employee benefits increased during 2000. This increase reflects an increase in the average number of our full-time employees (excluding Ocwen UK and OFS) from 1,155 to 1,288 between 1999 and 2000, respectively, and reductions in the stock option component of bonus expense during 1999 as indicated in the table above.

Occupancy and Equipment. Occupancy and equipment costs consist principally of rents, depreciation, mail and delivery expense and other costs of our office operations. Excluding Ocwen UK and OFS, occupancy and equipment expense decreased $793 during 2000.

Technology and Communication Costs. Technology and communication costs consist primarily of depreciation on our computer hardware and software, technology-related consulting fees (primarily OTX), imaging and telephone expense. Technology costs for 2001 included $4,620 of one-time expenses comprised primarily of a $3,185 payment related to the acquisition of an OTX subsidiary in 1997. Excluding Ocwen UK and OFS, technology and communication costs increased by $4,907 in 2000. These increases were primarily due to increased consulting fees incurred at OTX. Additionally, OTX capitalized $2,645 of consulting fees as software development costs during 1999.

Net Operating Losses on Certain Affordable Housing Properties. Net operating losses we recorded on investments in certain affordable housing properties have increased during 2001 and 2000 principally because of impairment charges we recorded in the amount of $15,587 and $6,448, respectively, for expected losses on the sale of properties. Partially offsetting the increase in impairment charges were declines in operating losses as a result of sales. See "Changes in Financial Condition - Affordable Housing Properties."

Amortization of Excess of Purchase Price Over Net Assets Acquired ("Goodwill"). Goodwill amortization we recognized during 2001, 2000 and 1999 related entirely to OTX. Amortization in 1999 included a charge of $3,367 reflecting the impact of our reduction in the estimated useful life of the goodwill. In accordance with the provisions of SFAS No. 142, which we adopted on January 1, 2002, the remaining balance of our goodwill will no longer be amortized beginning in 2002. However, our goodwill will be tested annually for impairment. See Note 1 to our consolidated financial statements (which is incorporated herein by reference).

Loan Expenses. Excluding Ocwen UK and OFS, loan expenses increased $5,110 during 2000. The increase in loan expenses during 2000 was due primarily to an increase in appraisal fees in connection with property valuation services we provided through ORA.

Professional Services and Regulatory Fees. Professional services and regulatory fees are primarily comprised of non-technology related consulting fees, legal and audit fees and FDIC insurance. The increase in 2001 is primarily due to a $1,651 increase in FDIC insurance. The decline in professional services and regulatory fees during 2000 is principally related to Ocwen UK and OFS. Excluding Ocwen UK and OFS, professional services and regulatory fees increased by $254 in 2000 as compared to 1999.

Other Operating Expenses. Other operating expenses include travel costs, acquisition expenses, marketing costs, and amortization of deferred costs. Excluding Ocwen UK and OFS, other operating expenses increased $4,328 during 2000. The increase in 2000 was largely due to increased marketing costs we incurred at OTX and our recognition of $1,355 of previously deferred expenses related to the sale of affordable housing properties. See Note 28 to our Consolidated Financial Statements (which is incorporated herein by reference) for a disclosure of the components of other operating expenses for 2001, 2000 and 1999.

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Distributions on Company Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company. Cash distributions on our Capital Securities are payable semi-annually in arrears on February 1 and August 1 of each year at an annual rate of 10.875%. We recorded $7,132, $11,380, and $13,111 of distributions to holders of the Capital Securities during 2001, 2000 and 1999, respectively. The decline in distributions is the result of repurchases we made during 2000 and 1999. See Note 19 to our Consolidated Financial Statements (which is incorporated herein by reference) and "Changes in Financial Condition - Company-Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company."

Equity in Earnings (Losses) of Investments in Unconsolidated Entities. The following table sets forth earnings (losses) earned from our investments in unconsolidated entities for the years indicated:

	2001	2000	1999
Kensington (1)	$ --	$ (5,280)	$ (9,154)
OAC (2)	--	--	(1,809)
OPLP (2)	--	--	(1,797)
Other	304	31	144
	$ 304	$ (5,249)	$(12,616)

(1) We sold our 38.7% investment in Kensington on November 22, 2000.

(2) Before our acquisition of OAC in October 1999, we accounted for our investments in OAC and OPLP using the equity method.

Income Tax Expense (Benefit). The following table provides details of our income tax expense (benefit) and effective tax rates for the years indicated:

	2001	2000	1999
Income tax expense (benefit) on loss before taxes and extraordinary gain (1)	$ (24,761)	$ (9,543)	$ 108
Provision for valuation allowance on current year's deferred tax asset (1)	23,348	--	--
Provision for valuation allowance on prior year's deferred tax asset	83,000	17,500	2,500
Income tax expense	81,587	7,957	2,608
Income tax expense on extraordinary gain (1)	1,413	10,990	1,491
Total income tax expense	$ 83,000	$ 18,947	$ 4,099

(1) Net of the provision to increase the valuation allowance on current year's deferred tax asset, we did not record income tax expense or benefit for 2001. The income tax benefit we recorded on the loss before income taxes and extraordinary gain was entirely offset by the provision to increase the current year's valuation allowance and the income tax expense on extraordinary gains.

For 2001, 2000 and 1999 our effective tax rate before the provision for the deferred tax valuation allowance was 54.9%, 6.8% and 6.9%, respectively, and reflected tax credits of $2,078, $2,577 and $18,242, respectively, resulting from our investment in affordable housing properties.

The provision for deferred tax asset valuation allowance is a non-cash charge we recorded to increase the aggregate valuation allowance to $165,221 at December 31, 2001 based on our estimate under the applicable accounting rules of the amount of the deferred tax asset that we are more likely than not to realize.

See Note 22 to our Consolidated Financial Statements (which is incorporated herein by reference) and "Changes in Financial Condition - Affordable Housing Properties."

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Extraordinary Gain on Repurchase of Debt, Net of Taxes. The following table sets forth the components of the extraordinary gains resulting from our repurchase of our debt securities during the years indicated:

	2001	2000	1999
10.875% Capital Securities due August 1, 2027:			
Face amount repurchased	$ 18,371	$ 30,470	$ 15,000
Extraordinary gain	3,723	11,739	5,547
Income taxes	(1,378)	(4,343)	(977)
Net extraordinary gain	$ 2,345	$ 7,396	$ 4,570
11.875% Notes due October 1, 2003:			
Face amount repurchased	$ 13,025	$ 3,800	$ 21,150
Extraordinary gain	52	439	1,322
Income taxes	(35)	(163)	(232)
Net extraordinary gain	$ 17	$ 276	$ 1,090
11.5% Redeemable Notes due July 1, 2005:			
Face amount repurchased	$ --	$142,955	$ --
Extraordinary gain	--	17,525	--
Income taxes	--	(6,484)	--
Net extraordinary gain	$ --	$ 11,041	$ --
12.00% Subordinated Debentures due June 15, 2005:			
Face amount repurchased	$ --	$ --	$ 33,000
Extraordinary gain	--	--	1,605
Income taxes	--	--	(282)
Net extraordinary gain	$ --	$ --	$ 1,323
Total debt repurchases:			
Face amount repurchased	$ 31,396	$177,225	$ 69,150
Extraordinary gain	3,775	29,703	8,474
Income taxes	(1,413)	(10,990)	(1,491)
Net extraordinary gain	$ 2,362	$ 18,713	$ 6,983

See "Changes in Financial Condition - Notes, Debentures and Other Interest-Bearing Obligations" and "Company Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company" and Note 18 and Note 19 to our Consolidated Financial Statements (which are incorporated herein by reference).

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Changes in Financial Condition

Trading Securities. The following table sets forth the fair value of our trading securities at the dates indicated:

	December 31, 2001	December 31, 2000
Mortgage-related securities:		
Collateralized mortgage obligations (AAA-rated) (1).......	$ 161,191	$ 277,595
Subordinates and residuals (2):		
Single family residential:		
BB-rated subordinates	$ 625	$ 4,563
B-rated subordinates	799	2,911
Unrated subordinates	1,008	9,361
Unrated subprime residuals	60,049	93,176
	62,481	110,011
Multi-family residential and commercial unrated subordinates	2,577	2,636
	$ 65,058	$ 112,647

(1) During the year ended December 31, 2001, our CMO trading securities declined $116,404. This decline was primarily due to $187,113 of maturities and principal repayments and $116,715 of sales, offset in part by purchases of $188,432.

(2) During the year ended December 31, 2001, our subordinate, residual and other trading securities declined by $47,589. This decline was primarily due to $10,721 of maturities and principal repayments, $31,683 of sales and $7,416 of net premium amortization.

On September 30, 2000, we reclassified our portfolio of securities available for sale to trading.

CMOs are like traditional debt instruments because they have stated principal amounts and traditionally defined interest-rate terms. During 1999 and prior years, we generally retained subordinate and residual securities related to our securitizations of loans. Subordinate and residual interests in mortgage-related securities provide credit support to the more senior classes of the mortgage-related securities. Principal from the underlying mortgage loans generally is allocated first to the senior classes, with the most senior class having a priority right to the cash flow from the mortgage loans until its payment requirements are satisfied. To the extent that there are defaults and unrecoverable losses on the underlying mortgage loans, resulting in reduced cash flows, the most subordinate security will be the first to bear this loss. Because subordinate and residual interests generally have no credit support, to the extent there are realized losses on the mortgage loans comprising the mortgage collateral for such securities, we may not recover the full amount or, indeed, any of our initial investment in such subordinate and residual interests. Historically, we generally retained the most subordinate classes of the securities from the securitization and therefore will be the first to bear any credit losses.

Subordinate and residual and securities at December 31, 2001 and 2000 included retained interests with a fair value of $25,274 and $43,016, respectively, from securitizations of loans completed by us during 1999 and prior years. We determine the present value of estimated cash flows utilizing valuation assumptions appropriate for each particular transaction. The significant valuation assumptions have included the estimated prepayment speeds and the estimated credit losses related to the underlying mortgages. In order to determine the present value of this estimated excess cash flow, we currently apply a discount rate of 9.78% to 25.00% to the projected cash flows on the unrated classes of securities. The annual prepayment rate of the securitized loans is a function of full and partial prepayments and defaults. We make assumptions as to the prepayment rates of the underlying loans, which we believe are reasonable, in estimating fair values of the subordinate securities and residual securities retained. During 2001, we utilized proprietary prepayment curves (reaching an approximate range of annualized rates of 14.55% - 40.22%). During 2001, we estimated annual losses of between 0.76% and 5.26% of the unpaid principal balance of the underlying loans. See Note 4 to our Consolidated Financial Statements (which is incorporated herein by reference) for additional disclosures regarding retained interests.

Subordinate and residual interests are affected by the rate and timing of payments of principal (including prepayments, repurchase, defaults and liquidations) on the mortgage loans underlying a series of mortgage-related securities. The rate of principal payments may vary significantly over time depending on a variety of factors, such as the level of prevailing mortgage loan interest rates and economic, demographic, tax, legal and other factors. Prepayments on the mortgage loans underlying a series of mortgage-related

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securities are generally allocated to the more senior classes of mortgage-related securities. Although in the absence of defaults or interest shortfalls all subordinates receive interest, amounts otherwise allocable to residuals generally are used to make payments on more senior classes or to fund a reserve account for the protection of senior classes until overcollateralization or the balance in the reserve account reaches a specified level. For residual interests in residential mortgage-backed securities, over-collaterization is the amount by which the collateral balance exceeds the sum of the bond principal amounts. Over-collaterization is achieved by applying monthly a portion of the interest payments of the underlying mortgages toward the reduction of the class certificate principal amounts, causing them to amortize more rapidly than the aggregate loan balance. Over-collaterization represents the first tier of loss protection afforded to the non-residual holders. To the extent not consumed by losses on more highly rated bonds, over-collaterization is remitted to the residual holders. In periods of declining interest rates, rates of prepayments on mortgage loans generally increase, and if the rate of prepayments is faster than anticipated, then the yield on subordinates will be positively affected and the yield on residuals will be negatively affected.

We periodically assess the carrying value of our subordinate securities and residual securities retained. There can be no assurance that our estimates used to determine the value of subordinate securities and residual securities retained will remain appropriate for the life of each securitization. If actual loan prepayments or defaults exceed our estimates, the carrying value of our subordinate securities and residual securities retained may be decreased during the period in which we recognized the disparity. During 2000, and before our transfer of securities available for sale to trading, we recorded $11,597 of impairment charges on our portfolio of subordinate and residual securities as a result of declines in value that we deemed to be "other- than- temporary."

The following table presents information regarding our trading subordinate and residual securities summarized by classification and rating at December 31, 2001:

Rating/Description (1)	Fair Value	Percent Owned by Ocwen	Anticipated Yield to Maturity at Purchase (2)	Anticipated Yield to Maturity at 12/31/01 (3)	Coupon	Anticipated Weighted Average Remaining Life (4)	Prospective Yield at 12/31/01 (5)
Single-family residential:							
BB-rated subordinates............	$ 625	100.00%	16.87%	5.54%	6.93%	2.53	70.47%
B-rated subordinates.............	799	100.00	17.49	28.22	7.31	1.95	66.53
Unrated subordinates.............	1,008	97.50	15.50	15.82	7.97	0.39	49.42
Unrated subprime residuals.......	60,049	100.00	18.66	6.41	N/A	5.35	21.85
	62,481						
Commercial:							
Unrated subordinates............	2,577	25.00	22.15	12.10	N/A	1.35	14.06
	$ 65,058						

(1) Refers to the credit rating designated by the rating agency for each securitization transaction. Classes designated "A" have a superior claim on payment to those rated "B", which are superior to those rated "C." Additionally, multiple letters have a superior claim to designations with fewer letters. Thus, for example, "BBB" is superior to "BB," which in turn is superior to "B." The lower class designations in any securitization will receive interest payments after senior classes and will experience losses before any senior class. The lowest potential class designation is unrated which, if included in a securitization, will always receive interest last and experience losses first.

(2) Represents the effective yield from inception to maturity based on the purchase price and anticipated future cash flows under pricing assumptions.

(3) Represents the effective yield based on the purchase price, actual cash flows received from inception until the respective date, and the then current estimate of future cash flows under the assumptions at the respective date. Changes in the December 31, 2001 anticipated yield to maturity from that originally anticipated are primarily the result of changes in prepayment assumptions and loss assumptions.

(4) Represents the weighted average life based on the December 31, 2001 book value.

(5) Represents the effective yield based on the book value of the investment and the then current estimate of the future cash flows under assumptions at the respective date. Prospective yields are considerably higher than the anticipated yield to maturity because book values include impairments recorded on the securities when they were classified as available for sale.

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The following table sets forth the principal amount of mortgage loans by the geographic location of the property securing the mortgages that underlie our trading subordinate and residual securities at December 31, 2001:

Description	California	U.K.	Florida	New York	New Jersey	Other (1)	Total
Single family residential	$ 211,099	$ 112,052	$ 107,561	$ 67,478	$ 61,631	$ 599,058	$1,158,879
Commercial	18,842	--	--	--	--	43,714	62,556
Multi-family	450	--	21	4,029	930	2,685	8,115
Total	$ 230,391	$ 112,052	$ 107,582	$ 71,507	$ 62,561	$ 645,457	$1,229,550
Percentage (2)	18.74%	9.11%	8.75%	5.82%	5.09%	52.49%	100.00%

(1) Consists of properties located in 46 other states, none of which aggregated over $46,844 in any one state.

(2) Based on a percentage of the total unpaid principal balance of the underlying loans.

See Note 1 and Note 4 to our Consolidated Financial Statements (which is incorporated herein by reference).

Loans Available for Sale. Our loans available for sale are comprised primarily of subprime single family residential loans and are carried at the lower of cost or aggregate market value. The decline in our loans available for sale during 2001, 2000 and 1999 primarily reflects our closure of the domestic subprime origination business in 1999 and our sale of Ocwen UK, also in 1999.

Activity in Loans Available for Sale. The following table sets forth the activity in our net loans available for sale during the periods indicated:

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Balance at beginning of period..............	$ 10,610	$ 45,213	$ 177,847	$ 177,041	$ 126,366
Purchases (1)...............................	--	--	47,129	795,053	278,081
Originations (2)............................	--	--	728,509	959,105	316,101
Sales (3) (4)...............................	(7,702)	(24,774)	(865,959)	(1,658,773)	(501,079)
Decrease (increase) in lower of cost or market valuation allowance................	478	1,625	1,282	(4,064)	(1,034)
Loans transferred (to)/from loan portfolio...		--	--	--	(13,674)
Principal repayments, net of capitalized interest..................................	(2,076)	(6,785)	(30,314)	(82,728)	(22,151)
Transfer to real estate owned...............	(270)	(4,669)	(13,281)	(7,787)	(5,569)
Net (decrease) increase in loans............	(9,570)	(34,603)	(132,634)	806	50,675
Balance at end of period....................	$ 1,040	$ 10,610	$ 45,213	$ 177,847	$ 177,041

(1) Included $292,848 we purchased during 1998 from the U.S. operations of Cityscape Financial Corp. and $421,188 we purchased from the UK operations of Cityscape Financial Corp.

(2) Included approximately $509,800 and $254,300 originated by Ocwen UK during 1999 and 1998, respectively.

(3) Included $297,469 related to our sale of Ocwen UK on September 30, 1999.

(4) Included securitizations of domestic and foreign subprime single family residential loans by us during 1999 and prior years. See "Results of Operations - Non-Interest Income."

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Real Estate Held for Sale. Our real estate held for sale consisted of the following at the dates indicated:

	December 31,		
	2001	2000	1999
Shopping centers (1)	$ --	$ 22,670	$ --
Assisted living facilities (2)	13,418	--	--
	$ 13,418	$ 22,670	$ --

(1) During the fourth quarter of 2001, we transferred our shopping center in Bradenton, Florida to held for investment after the contract to sell the property was terminated. We recorded impairment charges of $1,471 on this property during the second quarter of 2001. During the first quarter of 2001, we sold another shopping center located in Havre, Montana, which had a carrying value of $1,034, for no gain.

(2) We transferred three assisted living facilities from held for investment during the third quarter of 2001. We recorded impairment charges of $2,225 on these properties at the time of transfer based on anticipated sales proceeds.

See "Changes in Financial Condition - Investments in Real Estate" and Note 9 to our Consolidated Financial Statements (which is incorporated herein by reference).

Investment in Real Estate. Our investment in real estate consisted of the following at the dates indicated:

	December 31,		
	2001	2000	1999
Properties held for investment:			
Office buildings	$ 32,132	$ 32,112	$202,607
Retail	29,637	9,515	33,224
Building improvements	17,513	11,346	17,590
Tenant improvements and lease commissions	4,537	1,744	8,150
Furniture and fixtures	52	52	44
	83,871	54,769	261,615
Accumulated depreciation	(5,327)	(2,359)	(9,011)
	78,544	52,410	252,604
Loans accounted for as investments in real estate:			
Multi-family residential	--	97	--
Nonresidential	30,436	45,689	--
	30,436	45,786	--
Properties held for lease:			
Land and land improvements	--	1,256	1,256
Building	--	15,641	14,629
Accumulated depreciation	--	(855)	(248)
	--	16,042	15,637
Investment in real estate partnerships	7,916	8,523	--
	$116,896	$122,761	$268,241

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Properties Held for Investment. These properties were acquired by us as a result of our acquisition of OAC. The increase in our investment during 2001 was due primarily to capitalized improvements and the transfer of our shopping center in Bradenton, Florida from held for sale. The decline in our investment during 2000 was due to sales and the transfer of properties from held for investment to held for sale. Our properties held for investment at December 31, 2001 were comprised of the following:

Date Acquired	Property	Location	Square Feet	Property Type	% Leased	Carrying Value
07/22/98	841 Prudential Drive (1)	Jacksonville, FL	550,000	Office Bldg.	95.6%	$ 41,937
04/09/98	7075 Bayers Road (2)	Halifax, Nova Scotia	402,529	Shopping Ctr.	66.9	20,675
11/10/97	905-1205 Cortez Road (3)	Bradenton, FL	290,673	Shopping Ctr.	93.9	21,259
			Accumulated depreciation			(5,327)
						$ 78,544

(1) In July 1998, OAC purchased the Prudential Building, a 22-story office building located in the central business district of Jacksonville, Florida. OAC funded the purchase with cash on hand and advances from a line of credit. Simultaneously with this closing, OAC also leased 98% of the building back to the Prudential Insurance Co. of America for a term expiring July 31, 2002 and sold two adjacent parking areas to a neighboring hospital. Aetna U.S. Healthcare has executed a 7-year lease, commencing on August 1, 2002, for approximately 297,000 square feet. This lease is contingent upon, among other factors, the construction and completion of an 1,100 space parking garage before the commencement date.

(2) In April 1998, OAC acquired the Bayers Road Shopping Centre. OAC acquired the property by foreclosure on the loans secured by the property, which OAC acquired at a discount in September 1997. The property consists primarily of retail space but also includes some office space and storage space. The original buildings were built in 1956 and were enclosed and expanded in several phases between 1971 and 1987. We currently are implementing a renovation plan to establish the second level as a community shopping center anchored by value-oriented retailers while filling the lower level with service providers, discount retailers and entertainment uses. The third level will remain office space.

(3) In November 1997, OAC purchased Cortez Plaza, a shopping center located in a suburb of Tampa, Florida. This property was built in 1956 and renovated in 1988. In a separate transaction, OAC simultaneously purchased the fee simple title to a large portion of the shopping center that had been subject to a ground lease.

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The following table sets forth a summary schedule of the total lease expirations for our investments in real estate for leases in place as of December 31, 2001, assuming that none of our tenants exercise renewal options or termination rights, if any, at or before the scheduled expirations.

Year of Lease Expiration (1)	Number of Leases Expiring	Square Footage of Expiring Leases	Percentage of Aggregate Portfolio Leased Square Feet	Annualized Base Rent of Expiring Leases (2)	Average Base Rent per Square Foot of Expiring Leases (3)	Percentage of Aggregate Portfolio Annualized Base Rent
2002	14	504,409	51.06	4,422	8.77	63.14
2003	9	17,361	1.76	98	5.66	1.40
2004	9	28,920	2.93	332	11.48	4.74
2005	18	61,843	6.26	226	3.66	3.23
2006	9	106,627	10.79	473	4.43	6.75
2007	4	32,540	3.29	211	6.48	3.01
2008	6	67,868	6.87	326	4.80	4.65
2009	1	3,409	0.35	40	11.65	0.57
2010	9	51,845	5.25	175	3.37	2.49
2011	1	11,791	1.19	19	1.67	0.28
Thereafter	4	101,257	10.25	682	6.74	9.74
	84	987,870	100.00%	$ 7,004		100.00%

(1) Lease year runs from January 1 to December 31 for all years.

(2) Annualized base rent is calculated based on the amount of rent scheduled from January 1 of the listed year to the lease expiration.

(3) Average base rent per square foot is calculated using the annualized base rent divided by the square footage.

We regularly engage in negotiations with existing tenants to extend leases due to expire as well as to enter into new leases with other interested parties. Square footage involved in such negotiations may vary from a small sub-tenancy to substantially all the available space at any given property.

Non-cancellable operating leases with our tenants expire on various dates through 2012. The future minimum rental income (base rent) we expect to receive under leases existing as of December 31, 2001, is as follows:

2002	$ 8,528
2003	4,313
2004	3,799
2005	3,211
2006	3,577
Thereafter	8,756
	$32,184

Loans Accounted for as Investments in Real Estate. We acquired certain acquisition, development and construction loans in January 2000 in which we participate in the expected residual profits of the underlying real estate, and where the borrower has not contributed substantial equity to the project. As such, we account for these loans under the equity method of accounting as though we have an investment in a real estate limited partnership. The decline in our investment during 2001 is due primarily to repayments of loans.

Properties Held for Lease. During the third quarter of 2001, we recorded an impairment charge of $2,225 on our three assisted living facilities based on anticipated sales proceeds and transferred our investment to real estate held for sale.

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Investment in Real Estate Partnerships. Consists of interests in four limited partnerships operating as real estate ventures, consisting of multi-family type properties. During 1999, we recognized an impairment charge of $2,817 on our investment in a nonresidential real estate venture, which reduced the carrying value to $0.

See "Changes in Financial Condition - Real Estate Held for Sale" and Note 10 to our Consolidated Financial Statements (which is incorporated herein by reference).

Affordable Housing Properties. We have invested in multi-family residential projects which have been allocated low-income housing tax credits under Section 42 of the Internal Revenue Code of 1986, as amended, by a state tax credit allocating agency. The carrying values of our affordable housing investments are as follows at the dates indicated:

	December 31,		
	2001	2000	1999
Investments solely as a limited partner made prior to May 18, 1995	$ 21,768	$ 53,399	$ 17,327
Investments solely as a limited partner made on or after May 18, 1995	6,838	15,185	59,541
Investments both as a limited and, through subsidiaries, as a general partner	73,463	74,228	74,121
Total	$ 102,069	$ 142,812	$ 150,989

The decline in the balances during 2001 and 2000 was due to sales of projects with a book value of approximately $38,000 and impairment charges of $15,587, offset by additional investments in projects under construction of approximately $18,000. During 2000, we entered into agreements to sell twenty-five of our affordable housing properties, together with the related tax credits. Although these agreements resulted in the transfer of tax credits and operating results for these properties to the purchaser, they did not qualify as sales for accounting purposes due to insufficient cash received and contingencies with respect to potential repurchase requirements. As a result, we have valued them at the lower of cost or fair value less disposal costs. At December 31, 2001 and 2000, our investments in affordable housing properties included $54,688 and $93,210, respectively, of properties subject to sales agreements that had not yet qualified as sales for accounting purposes. We recorded a charge to earnings during 2000 of $6,448 reflecting the expected net loss to be incurred upon completion of these transactions. During 2001, we recorded impairment charges of $15,587 on properties not subject to sales contracts to reflect their estimated net realizable values.

We account for investments made on or after May 18, 1995, in which we invest solely as a limited partner, using the equity method in accordance with the consensus of the Emerging Issues Task Force as recorded in Issue Number 94-1. We account for limited partnership investments made prior to May 18, 1995, under the effective yield method as a reduction of income tax expense. We present investments both as a limited and, through a subsidiary, as general partner on a consolidated basis.

See Note 12 to our Consolidated Financial Statements (which is incorporated herein by reference).

Loan Portfolio, Net. Our net loan portfolio decreased during 2001, 2000 and 1999 reflecting the continuing payoff of multi-family and commercial loans following our decision in 1999 to cease origination of such loans, offset in part by our acquisition of loans acquired in 1999 in connection with our acquisition of OAC.

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Composition of Loan Portfolio. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated:

	December 31,				
	2001	2000	1999	1998	1997
Single family residential loans	$ 400	$ 848	$ 4,334	$ 30,361	$ 46,226
Multi-family residential loans:					
Permanent	277	6,083	23,430	53,311	38,105
Construction	19,714	39,123	57,526	22,288	33,277
Total multi-family residential...	19,991	45,206	80,956	75,599	71,382
Commercial real estate:					
Hotels:					
Permanent	--	--	--	29,735	64,040
Construction	30,115	38,153	38,349	6,896	25,322
Office buildings	20,350	20,817	64,745	93,068	68,759
Land	--	1	2,238	2,266	2,858
Other	--	--	--	6,762	16,094
Total commercial real estate.....	50,465	58,971	105,332	138,727	177,073
Consumer	9	48	82	132	244
Unsecured	200	--	--	--	--
	71,065	105,073	190,704	244,819	294,925
Undisbursed loan funds	(2,914)	(8,879)	(24,654)	(7,099)	(22,210)
Unamortized deferred fees	(29)	(372)	(1,383)	(2,480)	(2,721)
Allowance for loan losses	(3,197)	(2,408)	(7,259)	(4,928)	(3,695)
	$ 64,925	$ 93,414	$ 157,408	$ 230,312	$ 266,299

Contractual Principal Repayments. The following table sets forth certain information at December 31, 2001 regarding the dollar amount of loans maturing in our loan portfolio based on scheduled contractual amortization, as well as the dollar amount of loans which have fixed or adjustable interest rates. We report demand loans (loans having no stated schedule of repayments and no stated maturity) and overdrafts as due in one year or less. We have not reduced loan balances for (i) undisbursed loan proceeds, unearned fees and the allowance for loan losses or (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	Total
Single family residential loans..........	$ 91	$ --	$ 24	$ 285	$ 400
Multi-family residential loans...........	19,131	--	860	--	19,991
Commercial real estate and land loans....	50,465	--	--	--	50,465
Consumer and other loans.................	9	--	--	200	209
	$ 69,696	$ --	$ 884	$ 485	$ 71,065
Interest rate terms on amounts due:					
Fixed................................	$ 20,719	$ --	$ 884	$ 395	$ 21,998
Adjustable...........................	48,977	--	--	90	49,067
	$ 69,696	$ --	$ 884	$ 485	$ 71,065

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

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Activity in the Loan Portfolio. The following table sets forth the activity in our net loan portfolio during the periods indicated:

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Balance at beginning of period	$ 93,414	$ 157,408	$ 230,312	$ 266,299	$ 402,582
Originations and funded commitments:					
Single family residential loans	--	--	--	--	1,987
Multi-family residential loans	5,109	36,165	3,692	56,657	16,799
Commercial real estate loans	12,835	3,627	17,258	116,452	69,948
Commercial non-mortgage and consumer loans	200	--	--	--	1,140
Total loans originated (1)	18,144	39,792	20,950	173,109	89,874
Purchases:					
Single family residential loans	--	--	6,209	--	78
Multi-family residential loans	--	--	45,285	--	--
Commercial real estate loans	--	--	69,619	--	--
Total loans purchased (2)	--	--	121,113	--	78
Sales	(23,288)	(32,959)	(53,197)	--	(2,346)
Loans transferred from available for sale	--	--	--	--	13,782
Principal repayments and other	(28,618)	(89,591)	(138,530)	(222,668)	(306,916)
Transfer to real estate owned	(246)	(2,872)	(4,451)	(547)	(661)
Decrease (increase) in undisbursed loan funds	5,965	15,774	(17,555)	15,111	67,630
Decrease in unamortized deferred fees	343	1,011	1,097	241	2,448
Decrease (increase) in allowance for loan losses	(789)	4,851	(2,331)	(1,233)	(172)
Net (decrease) increase in loans	(28,489)	(63,994)	(72,904)	(35,987)	(136,283)
Balance at end of period	$ 64,925	$ 93,414	$ 157,408	$ 230,312	$ 266,299

(1) Originations in 2001 and 2000 represent loans made to facilitate sales of our own assets and fundings of construction loans we originated in prior years.

(2) Purchases during 1999 represent loans, including undisbursed loans, we acquired as a result of our acquisition of OAC.

The following table sets forth certain information relating to our non-performing loans in our loan portfolio at the dates indicated:

	December 31,				
	2001	2000	1999	1998	1997
Non-performing loans:					
Single family residential loans	$ --	$ 316	$ 982	$ 1,169	$ 1,575
Multi-family residential loans (1)	17,201	13,373	11,037	7,392	7,583
Commercial real estate and other	5	4,581	19,360	488	--
Total	$ 17,206	$ 18,270	$ 31,379	$ 9,049	$ 9,158
Non-performing loans as a percentage of:					
Total loans (2)	25.26%	19.07%	19.06%	3.85%	3.39%
Total assets	1.01%	0.81%	0.96%	0.27%	0.30%
Allowance for loan losses as a percentage of:					
Total loans (2)	4.69%	2.51%	4.41%	2.09%	1.37%
Non-performing loans	18.58%	13.18%	23.13%	54.46%	40.35%

(1) Non-performing multi-family residential loans at December 31, 2001 were comprised of 3 loans, all of which management believes are adequately collateralized and reserved.

(2) Total loans is net of undisbursed loan proceeds and unamortized deferred fees.

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See Note 5 to our Consolidated Financial Statements (which is incorporated herein for reference).

Discount Loan Portfolio, Net. Our discount loan portfolio has decreased during 2001, 2000 and 1999. Resolutions and repayments, loans transferred to real estate owned and sales more than offset acquisitions during those years. We have not acquired any discount loans since 2000. Substantially all of our discount loan portfolio is secured by first mortgage liens on real estate.

Composition of the Discount Loan Portfolio. The following table sets forth the composition of our discount loan portfolio by type of loan at the dates indicated:

	December 31,				
	2001	2000	1999	1998	1997
Principal balance:					
Single family residential loans....	$ 56,699	$ 289,883	$ 597,719	$ 597,100	$ 900,817
Multi-family residential loans.....	13,328	105,591	191,971	244,172	191,302
Commercial real estate loans:					
Office buildings.................	43,913	77,608	97,784	154,063	363,681
Hotels...........................	911	63,967	75,095	100,407	98,907
Retail properties................	47,492	85,924	105,247	21,230	106,755
Other properties.................	607	36,511	87,148	173,310	131,692
	92,923	264,010	365,274	449,010	701,035
Other loans (1)....................	10,337	17,188	21,615	10,144	1,865
	173,287	676,672	1,176,579	1,300,426	1,795,019
Unaccreted discount:					
Single family residential loans....	(16,460)	(74,184)	(147,630)	(161,650)	(170,743)
Multi-family residential loans.....	(650)	(5,176)	(37,981)	(20,795)	(45,944)
Commercial real estate loans.......	(19,296)	(40,413)	(57,604)	(69,747)	(120,457)
Other loans........................	--	--	(954)	(321)	(206)
	(36,406)	(119,773)	(244,169)	(252,513)	(337,350)
	136,881	556,899	932,410	1,047,913	1,457,669
Allowance for loan losses............	(17,554)	(20,871)	(19,181)	(21,402)	(23,493)
	$ 119,327	$ 536,028	$ 913,229	$ 1,026,511	$ 1,434,176

(1) Included $10,337, $17,188, $16,397 and $8,248 at December 31, 2001, 2000, 1999 and 1998, respectively, of charged-off unsecured credit card receivables which were acquired at a discount. Collections are accounted for under the cost recovery method. These receivables were fully reserved at December 31, 2001.

Activity in the Discount Loan Portfolio. The following table sets forth the activity in our net discount loan portfolio during the periods indicated:

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Amount					
Balance at beginning of period..............	$ 536,028	$ 913,229	$ 1,026,511	$ 1,434,176	$ 1,060,953
Acquisitions (1)(2)(3):					
Single family residential loans............	--	164,920	516,744	613,201	1,061,967
Multi-family residential loans.............	--	21,378	78,244	231,130	57,707
Commercial real estate loans...............	--	25,612	157,258	264,697	656,904
Other......................................	--	10,030	17,414	14,699	195
	--	221,940	769,660	1,123,727	1,776,773
Resolutions and repayments (4)..............	(98,679)	(216,480)	(372,442)	(539,353)	(484,869)
Loans transferred to real estate owned.......	(92,433)	(193,469)	(203,043)	(382,904)	(292,412)
Sales (5)...................................	(312,273)	(311,897)	(318,022)	(696,063)	(518,872)
Decrease (increase) in discount.............	83,367	124,395	8,344	84,837	(95,442)
Decrease (increase) in allowance............	3,317	(1,690)	2,221	2,091	(11,955)
Balance at end of period....................	$ 119,327	$ 536,028	$ 913,229	$ 1,026,511	$ 1,434,176

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	Year Ended December 31,				
	2001	2000	1999	1998	1997
Number of Loans					
Balance at beginning of period..............	4,021	8,064	8,100	12,980	5,460
Acquisitions (1)(2)(3):					
Single family residential loans............	--	2,208	6,606	7,779	17,154
Multi-family residential loans..............	--	9	34	92	173
Commercial real estate loans................	--	12	202	205	354
Other.......................................	--	2	6	8	22
	--	2,231	6,848	8,084	17,703
Resolutions and repayments (4)..............	(585)	(1,467)	(1,241)	(1,918)	(1,978)
Loans transferred to real estate owned.......	(739)	(2,400)	(2,367)	(3,193)	(1,596)
Sales (5)...................................	(1,827)	(2,407)	(3,276)	(7,853)	(6,609)
Balance at end of period....................	870	4,021	8,064	8,100	12,980

(1) Acquisitions exclude certain commercial and multi-family loans which we account for as investments in real estate. See "Changes in Financial Condition - Investment in Real Estate."

(2) The decline in acquisitions reflect our strategic decision to move from reliance on capital-intensive businesses toward more fee-based businesses.

(3) Acquisitions of other discount loans during 2000, 1999 and 1998 consisted primarily of charged-off unsecured credit card receivables we acquired at a discount.

(4) Resolutions and repayments consists of loans which we resolved in a manner which resulted in partial or full repayment of the loan to us, 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.

(5) Included securitizations of performing single family discount loans in 1999, 1998, and 1997. See "Results of Operations - Non-Interest Income."

Payment Status of Discount Loans. The following table sets forth certain information relating to the contractual payment status of loans in our discount loan portfolio at the dates indicated:

	December 31,				
	2001	2000	1999	1998	1997
Loans without Forbearance Agreements:					
Current..................................	$ 46,887	$ 270,106	$ 432,603	$ 533,904	$ 589,119
Past due 31 days to 89 days..............	2,071	5,027	18,860	30,652	18,271
Past due 90 days or more.................	72,070	222,216	329,477	354,436	474,466
Acquired and servicing not yet transferred	--	--	67,740	39,726	6,557
	121,028	497,349	848,680	958,718	1,088,413
Loans with Forbearance Agreements:					
Current..................................	1,815	3,273	2,308	1,049	2,905
Past due 31 days to 89 days..............	453	1,622	7,951	3,267	1,452
Past due 90 days or more (1).............	13,585	54,655	73,471	84,879	364,899
	15,853	59,550	83,730	89,195	369,256
	$ 136,881	$ 556,899	$ 932,410	$ 1,047,913	$ 1,457,669

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(1) For our loans with forbearance agreements that are contractually past due 90 days or more, the following table indicates the payment status of the loans under the terms of their forbearance agreements:

	December 31, 2001	2000	1999	1998	1997
Current	$ 6,071	$ 33,776	$ 52,005	$ 57,919	$ 216,155
Past due 31 to 89 days	2,064	1,698	21,204	23,438	46,576
Past due 90 days or more	5,450	19,181	262	3,522	102,168
	$ 13,585	$ 54,655	$ 73,471	$ 84,879	$ 364,899

	December 31, 2001	2000	1999	1998	1997
Percentage of Loans					
Loans without Forbearance Agreements:					
Current	34.25%	48.50%	46.40%	50.95%	40.42%
Past due 31 days to 89 days	1.51	0.90	2.02	2.93	1.25
Past due 90 days or more	52.66	39.91	35.33	33.82	32.55
Acquired and servicing not yet transferred	--	--	7.27	3.79	0.45
	88.42	89.31	91.02	91.49	74.67
Loans with Forbearance Agreements:					
Current	1.33	0.59	0.25	0.10	0.20
Past due 31 days to 89 days	0.33	0.29	0.85	0.31	0.10
Past due 90 days or more	9.92	9.81	7.88	8.10	25.03
	11.58	10.69	8.98	8.51	25.33
	100.00%	100.00%	100.00%	100.00%	100.00%

The following table sets forth certain information relating to our non-performing discount loans and allowance for loan losses at the dates indicated:

	December 31, 2001	2000	1999	1998	1997
Non-performing loans (1):					
Single family	$ 31,828	$ 179,276	$ 328,582	$ 352,390	$ 572,290
Multi-family	5,251	4,381	20,098	23,975	71,749
Commercial real estate and other	48,576	93,214	54,268	62,950	95,326
Total	$ 85,655	$ 276,871	$ 402,948	$ 439,315	$ 739,365
Non-performing loans as a percentage of (1):					
Total loans (2)	62.58%	49.44%	43.22%	41.92%	50.72%
Total assets	5.01%	12.27%	12.28%	13.31%	24.26%
Allowance for loan losses as a percentage of:					
Total loans (2)	12.82%	3.75%	2.06%	2.04%	1.61%
Non-performing loans (1)	20.49%	7.56%	4.76%	4.87%	3.18%

(1) Loans which are contractually past due 90 days or more in accordance with the original terms of the loan agreement.

(2) Total loans are net of unaccreted discount.

See Note 6 to our Consolidated Financial Statements (which is incorporated herein by reference).

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Match Funded Assets. Our match funded assets were comprised of the following at the dates indicated:

	December 31, 2001	2000	1999
Single family residential loans	$ 53,123	$ 80,834	$105,596
Allowance for loan losses	(170)	(285)	(495)
Match funded loans, net	52,953	80,549	105,101
Match funded securities	19,435	36,438	52,693
Match funded advances on loans serviced for others:			
Principal and interest	65,705	--	--
Taxes and insurance	21,900	--	--
Other	14,358	--	--
	101,963	--	--
	$174,351	$116,987	$157,794

We acquired single family residential match funded loans in connection with our acquisition of OAC. OAC had previously securitized these loans and transferred them to a real estate mortgage investment conduit on November 13, 1998. The transfer did not qualify as a sale for accounting purposes. Accordingly, we report the proceeds we received from the transfer as a secured borrowing with pledge of collateral (bonds-match funded agreements). Non-performing loans amounted to $4,405, $2,831 and $1,127 at December 31, 2001, 2000 and 1999, respectively. The declines in the balance during 2001 and 2000 were due to repayment of loan principal.

Match funded securities resulted from our transfer of four unrated residual securities to a trust on December 16, 1999 in exchange for non-recourse notes. The transfer did not qualify as a sale for accounting purposes. Accordingly, we reported the amount of proceeds we received from the transfer as a secured borrowing with pledge of collateral (bonds-match funded agreements). The declines in the balance during 2001 and 2000 were primarily due to principal repayments. The following table presents information regarding our match funded securities summarized by classification and rating:

	Fair Value	Percent Owned	Original Anticipated Yield to Maturity	Anticipated Yield to Maturity at 12/31/01 (1)	Coupon	Anticipated Weighted Average Remaining Life(2)	Prospective Yield at 12/31/01
Unrated residuals	$ 19,435	100.00%	17.47%	3.89%	N/A	8.36 years	142.27%

(1) Changes in the December 31, 2001 anticipated yield to maturity from that originally anticipated are primarily the result of changes in prepayment assumptions and, to a lesser extent, loss assumptions.

(2) Equals the weighted average duration based on the December 31, 2001 book value.

The following table sets forth the principal amount of mortgage loans by the geographic location of the property securing the mortgages that underlie our match-funded securities at December 31, 2001:

Description	California	Florida	Illinois	New York	Washington	Other (1)	Total
Single family residential	$ 44,929	$ 33,310	$ 14,397	$ 11,954	$ 12,027	$ 172,107	$ 288,724
Multi-family	1,635	599	695	793	--	4,783	8,505
	$ 46,564	$ 33,909	$ 15,092	$ 12,747	$ 12,027	$ 176,890	$ 297,229
Percentage (2)	15.67%	11.41%	5.08%	4.29%	4.05%	59.50%	100.00%

(1) Consists of properties located in 44 other states, none of which aggregated over $11,259 in any one state.

(2) Based on a percentage of the total unpaid principal balance of the underlying loans.

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Match funded advances on loans serviced for others resulted from our transfer of certain residential loan servicing related advances to a third party in exchange for cash on December 20 and 21, 2001. The transfer did not qualify as a sale for accounting purposes. Accordingly, we report the amount of proceeds we received from the sale as a secured borrowing with pledge of collateral (bonds-match funded agreements.) See "Bonds-Match Funded Agreements" and Note 7 to our Consolidated Financial Statements, (which is incorporated herein by reference).

Allowances for Loan Losses. We maintain an allowance for loan losses for each of our loan, discount loan and match funded loan portfolios at a level which we consider adequate to provide for probable losses in each portfolio based upon an evaluation of known and inherent risks in such portfolios. The following tables set forth (a) the breakdown of the allowance for loan losses on our loan portfolio, discount loan portfolio and match funded loan portfolios by loan category and (b) the percentage of loans in each category to total loans in the respective portfolios at the dates indicated:

	December 31,				
	2001	2000	1999	1998	1997
Amount					
Loan portfolio:					
Single family residential loans...........	$ 5	$ 10	$ 87	$ 215	$ 512
Multi-family residential loans............	1,275	993	1,722	2,714	2,163
Commercial real estate loans..............	1,917	1,405	5,450	1,999	1,009
Other.....................................	--	--	--	--	11
	$ 3,197	$ 2,408	$ 7,259	$ 4,928	$ 3,695
Discount loan portfolio:					
Single family residential loans...........	$ 3,396	$ 3,483	$ 11,081	$ 10,307	$ 15,017
Multi-family residential loans............	911	1,805	1,681	2,457	2,616
Commercial real estate loans..............	2,910	6,813	5,152	8,607	5,860
Other loans (1)...........................	10,337	8,770	1,267	31	--
	$ 17,554	$ 20,871	$ 19,181	$ 21,402	$ 23,493
Match funded loans:					
Single family residential loans...........	$ 170	$ 285	$ 495	$ --	$ --

(1) Allowance for loan losses on other discount loans pertains to our charged-off unsecured credit card receivables acquired at a discount.

	December 31,				
	2001	2000	1999	1998	1997
Percentage of Loans to Total Loans					
Loan portfolio:					
Single family residential loans...........	0.6%	0.8%	2.3%	12.4%	15.7%
Multi-family residential loans............	27.2	42.5	42.5	30.9	24.2
Commercial real estate loans..............	72.2	56.7	55.2	56.7	60.0
Other.....................................	--	--	--	--	0.1
	100.0%	100.0%	100.0%	100.0%	100.0%
Discount loan portfolio:					
Single family residential loans...........	29.4%	42.8%	48.3%	41.6%	50.1%
Multi-family residential loans............	9.3	15.6	16.5	21.3	10.0
Commercial real estate loans..............	53.8	39.0	33.0	36.2	39.8
Other loans...............................	7.5	2.6	2.2	0.9	0.1
	100.0%	100.0%	100.0%	100.0%	100.0%

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

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

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Balance at beginning of period	$ 2,408	$ 7,259	$ 4,928	$ 3,695	$ 3,523
Provision for loan losses	2,518	4	1,636	891	325
Charge-offs:					
Single family residential loans	(173)	--	(8)	(212)	(100)
Multi-family residential loans	(872)	(1,662)	--	--	--
Commercial real estate loans	(684)	(3,193)	--	--	--
Consumer loans	--	--	--	(7)	(53)
Total charge-offs	(1,729)	(4,855)	(8)	(219)	(153)
Recoveries:					
Commercial real estate loans	--	--	--	561	--
Net (charge-offs) recoveries	(1,729)	(4,855)	(8)	342	(153)
Acquired allowance (OAC acquisition)	--	--	703	--	--
Balance at end of period	$ 3,197	$ 2,408	$ 7,259	$ 4,928	$ 3,695
Net (charge-offs) recoveries as a percentage of average loan portfolio	(2.11)%	(3.37%)	--%	0.13%	(0.04%)

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

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Balance at beginning of period	$ 20,871	$ 19,181	$ 21,402	$ 23,493	$ 11,538
Provision for loan losses	12,960	15,266	5,434	17,618	31,894
Charge-offs:					
Single family residential loans	(5,791)	(7,132)	(4,409)	(14,574)	(13,281)
Multi-family residential loans	--	(888)	(912)	(2,648)	(2,056)
Commercial real estate loans	(10,970)	(6,193)	(2,687)	(2,888)	(5,012)
Other loans	--	--	(44)	(20)	--
Total charge-offs	(16,761)	(14,213)	(8,052)	(20,130)	(20,349)
Recoveries:					
Single family residential loans	391	616	397	421	410
Commercial real estate loans	93	21	--	--	--
Total recoveries	484	637	397	421	410
Net charge-offs	(16,277)	(13,576)	(7,655)	(19,709)	(19,939)
Balance at end of period	$ 17,554	$ 20,871	$ 19,181	$ 21,402	$ 23,493
Net charge-offs as a percentage of average discount loan portfolio	(4.54%)	(1.66%)	(0.80%)	(1.52%)	(1.55%)

Real Estate Owned, Net. Real estate owned, net, has decreased during 2001, 2000 and 1999. Sales of real estate owned more than offset loan foreclosures during those years. Declines in our acquisitions of discount loans have contributed to the decline in foreclosures. Our real estate owned consists almost entirely of properties we acquired by foreclosure or deed-in-lieu thereof on loans in our discount loan portfolio.

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The following table sets forth the composition of our real estate owned by loan portfolio at the dates indicated:

	December 31, 2001	2000	1999	1998	1997
Discount loan portfolio:					
Single family residential	$ 16,150	$ 55,751	$ 72,193	$ 94,641	$ 76,409
Multi-family residential	--	149	2,601	20,130	16,741
Commercial real estate	93,664	88,214	85,233	82,591	71,339
Total	109,814	144,114	160,027	197,362	164,489
Loan portfolio	377	1,384	2,183	227	357
Loans available for sale	274	921	5,296	3,962	2,419
	$ 110,465	$ 146,419	$ 167,506	$ 201,551	$ 167,265

The following tables set forth the activity in our real estate owned during the years indicated:

	2001	2000	1999	1998	1997
Amount					
Balance at beginning of period	$ 146,419	$ 167,506	$ 201,551	$ 167,265	$ 103,704
Properties acquired through foreclosure or deed-in-lieu thereof:					
Discount loans	92,433	193,469	203,043	382,904	292,412
Loans available for sale	270	4,669	13,281	7,787	5,569
Loan portfolio	246	2,872	4,451	547	661
Less discount transferred	(35,698)	(60,246)	(63,664)	(110,716)	(93,021)
Add advances transferred	6,790	11,741	13,308	16,551	10,962
	64,041	152,505	170,419	297,073	216,583
Capital improvements	12,737	6,775	37	808	598
Acquired in connection with acquisitions of discount loans	--	9,059	47,808	19,949	38,486
Sales	(111,776)	(188,465)	(250,453)	(280,565)	(191,253)
Increase in valuation allowance	(956)	(961)	(1,856)	(2,979)	(853)
Balance at end of period	$ 110,465	$ 146,419	$ 167,506	$ 201,551	$ 167,265

	Year Ended December 31, 2001	2000	1999	1998	1997
Number of Properties					
Balance at beginning of period	1,298	1,672	1,999	1,505	825
Properties acquired through foreclosure or deed-in-lieu thereof:					
Discount loans	739	2,400	2,367	3,193	1,596
Loans available for sale	7	47	157	82	54
Loan portfolio	1	8	10	3	6
	747	2,455	2,534	3,278	1,656
Acquired in connection with acquisitions of discount loans	--	171	931	303	545
Sales	(1,656)	(3,000)	(3,792)	(3,087)	(1,521)
Balance at end of period	389	1,298	1,672	1,999	1,505

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The following table sets forth the amount of time that we have held our real estate owned at the dates indicated:

	December 31,				
	2001	2000	1999	1998	1997
One to two months	$ 2,251	$ 17,832	$ 30,695	$ 38,444	$ 83,144
Three to four months	1,655	11,450	26,532	79,264	28,912
Five to six months	2,244	9,494	11,263	27,115	20,929
Seven to 12 months	27,422	18,426	28,606	26,122	23,621
Over 12 months	76,893	89,217	70,410	30,606	10,659
	$ 110,465	$ 146,419	$ 167,506	$ 201,551	$ 167,265

We actively manage our real estate owned. Our sales of real estate owned resulted in gains (losses), net of the provision for loss, of $(3,655), $(4,159) and $8,257 during 2001, 2000 and 1999, respectively, which are included in determining our gain (loss) on real estate owned. Real estate owned that we have held in excess of one year include a large retail property with a carrying value of $49,275 at December 31, 2001 which, as anticipated, migrated into the over 12 month category in 1999, because it was being repositioned for sale. The balance of real estate owned we have held in excess of one year at December 31, 2000 also included an office building with a carrying value of $12,386 which was subsequently sold in January 2001. The average period during which we held the real estate owned, which was sold during the years ended December 31, 2001, 2000 and 1999, was 8 months, 7 months and 6 months, respectively.

We value properties acquired through foreclosure or by deed-in-lieu thereof at the lower of amortized cost or fair value after foreclosure. We periodically reevaluate properties included in the our real estate owned portfolio to determine that we are carrying them at the lower of cost or fair value less estimated costs to sell. We record holding and maintenance costs we incur related to properties as expenses in the period incurred. We recognize decreases in value resulting from valuation adjustments to real estate owned after acquisition as a valuation allowance. We reflect subsequent increases related to the valuation of real estate owned as a reduction in the valuation allowance, but not below zero. We charge or credit to income, respectively, increases and decreases in the valuation allowance.

The following table sets forth the activity, in aggregate, in the valuation allowance on our real estate owned during the years indicated:

	2001	2000	1999	1998	1997
Balance at beginning of year	$ 18,142	$ 17,181	$ 15,325	$ 12,346	$ 11,493
Provisions for losses	17,766	26,674	28,008	18,626	13,450
Charge-offs and sales	(16,810)	(25,713)	(26,152)	(15,647)	(12,597)
Balance at end of year	$ 19,098	$ 18,142	$ 17,181	$ 15,325	$ 12,346
Valuation allowance as a percentage of total gross real estate owned (1)	14.74%	11.02%	9.30%	7.07%	6.87%

(1) The increase in this ratio since 1998 reflects an increasing valuation allowance and a declining balance of gross real estate owned. The valuation allowance has not declined proportionately primarily because of the large retail property we are repositioning for sale, as discussed above.

See Note 8 to our Consolidated Financial Statements (which is incorporated herein by reference).

Deferred Tax Asset. The following table provides details of our net deferred tax assets as of the dates indicated:

	December 31,		
	2001	2000	1999
Deferred tax asset, net of deferred tax liabilities	$ 173,632	$ 154,864	$ 178,293
Valuation allowance:			
OAC purchase accounting adjustment	38,873	38,873	38,873
Allowance on deferred tax asset	126,348	20,000	2,500

	165,221	58,873	41,373
Deferred tax asset, net	$ 8,411	$ 95,991	$ 136,920

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The decreases in our net deferred tax asset during 2001 and 2000 were due in large part to an increase in our valuation allowance resulting from our evaluation of the future realizability of the deferred tax asset in the near future. Depending on the results of operations in future periods, additional provisions may be required, although considered unlikely, or the valuation allowance may be reversed to income. See Note 22 to our Consolidated Financial Statements (which is incorporated herein by reference) for a disclosure of the components of our gross deferred tax assets and liabilities.

Advances on Loans and Loans Serviced for Others. Advances related to our loan portfolios and loans we serviced for others consisted of the following at the dates indicated:

	December 31,		
	2001	2000	1999
Loan Portfolios:			
Taxes and insurance	$ 2,214	$ 11,168	$ 19,967
Other	4,135	11,840	11,594
	6,349	23,008	31,561
Loans Serviced for Others:			
Principal and interest	107,319	95,191	58,497
Taxes and insurance	99,972	64,159	41,569
Other	69,543	44,697	30,921
	276,834	204,047	130,987
	$ 283,183	$ 227,055	$ 162,548

The increase in advances on loans serviced for others reflects the growth in our residential loan servicing business. The balances at December 31, 2001 do not include advances transferred to a third party in exchange for cash, a transaction which did not qualify as a sale for accounting purposes and which we accounted for as a secured borrowing with pledge of collateral. We reclassified those transferred advances to match funded assets at the time of the transfer in December 2001. See "Changes in Financial Condition - Match Funded Assets" and Note 11 to our Consolidated Financial Statements (which is incorporated herein by reference).

Mortgage Servicing Rights. Our unamortized balance of mortgage servicing rights amounted to $101,107, $51,426 and $11,683 at December 31, 2001, 2000 and 1999, respectively. The increase in our investment during 2001 and 2000 reflects the growth of our residential loan servicing business through purchases of rights to service loans for others. Our purchases of new servicing rights amounted to $79,522 and $49,779 during 2001 and 2000, respectively. Our purchases were offset in part by amortization of $29,841 and $10,036 during 2001 and 2000, respectively. See Note 11 to our Consolidated Financial Statements (which is incorporated herein by reference).

Deposits. Our deposits decreased during 2001 and 2000 primarily as a result of maturing brokered certificates of deposits. We did not issue any new brokered certificates of deposit during 2001 and, at this time, do no intend to issue any such deposits in the foreseeable future.

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The following table sets forth information related to our deposits at the dates indicated:

	Year Ended December 31,								
	2001			2000			1999		
	Amount	Weighted Average Rate	% of Total Deposits	Amount	Weighted Average Rate	% of Total Deposits	Amount	Weighted Average Rate	% of Total Deposits
Non-interest bearing checking accounts	$ 5,624	--%	0.8%	$ 13,523	--%	1.1%	$ 9,215	--%	0.6%
NOW and money market checking accounts	15,479	1.44%	2.4	14,670	5.18%	1.2	30,342	4.28%	1.9
Savings accounts	1,287	1.25%	0.2	1,274	2.38%	0.1	1,361	2.38%	0.1
	22,390		3.4	29,467		2.4	40,918		2.6
Certificates of deposit (1)(2)	636,037			1,176,566			1,536,997		
Unamortized deferred fees	(1,549)			(3,989)			(6,688)		
Total certificates of deposit	634,488	6.06%	96.6	1,172,577	6.34%	97.6	1,530,309	5.92%	97.4
	$ 656,878		100.0%	1,202,044		100.0%	$1,571,227		100.0%

(1) Included $499,710, $964,443 and $1,379,262 at December 31, 2001, 2000 and 1999, respectively, of brokered deposits originated through national, regional and local investment banking firms which solicit deposits from their customers, all of which are non-cancellable.

(2) At December 31, 2001, 2000 and 1999, certificates of deposit issued on an uninsured basis (greater than $100) amounted to $60,804, $75,417 and $155,205, respectively. Of the $60,804 of uninsured deposits at December 31, 2001, $2,149 were from political subdivisions in New Jersey and were secured or collateralized as required under state law.

The following table sets forth remaining maturities for our term deposits in amounts of $100 or more at December 31, 2001:

Three months or less	$ 56,095
Over three months through six months	41,920
Over six months through twelve months	15,874
Thereafter	42,674
	$156,563

Escrow Deposits on Loans and Loans Serviced for Others. Escrow deposits on our loans and loans we serviced for others amounted to $73,565, $56,316 and $243,420 at December 31, 2001, 2000 and 1999, respectively. The balance at December 31, 2001 and 2000, consisted principally of custodial deposit balances representing collections we made from borrowers for the payment of taxes and insurance premiums on mortgage properties underlying loans we serviced for others. The balance increased during 2001 principally because of an increase in loans we serviced for others. The balance at December 31, 1999 also included custodial deposit balances related to taxes and insurance, but was primarily comprised of custodial deposit balances representing collections of principal and interest we received from borrowers which we had yet to remit to investors under loan servicing agreements. We transferred these custodial balances to a correspondent bank during 2000. See "Results of Operations - Non-Interest Income - - Servicing and Other Fees."

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Bonds-Match Funded Agreements. Bonds-match funded agreements represent proceeds received from transfers of loans, residual securities and advances on our loans serviced for others. These transfers did not qualify as sales for accounting purposes and therefore, we report them as secured borrowings with pledges of collateral. Our bonds-match funded agreements were comprised of the following at the dates indicated:

	December 31,		
Collateral	2001	2000	1999
Single family residential loans (1)...............	$ 46,145	$ 72,101	$ 100,968
Unrated residual securities (1)...................	18,997	34,949	40,547
Advances on loans serviced for others (2).........	91,766	--	--
	$ 156,908	$ 107,050	$ 141,515

(1) The decline in the balance outstanding during 2001 and 2000 was due to principal repayments, offset by amortization of discount.

(2) Under the terms of the agreement, we are eligible to sell additional advances on loans serviced for others up to a maximum balance of $200,000.

See "Changes in Financial Condition - Bonds-Match Funded Assets" and Notes 7 and 16 to our Consolidated Financial Statements (which are incorporated herein by reference).

Notes, Debentures and Other Interest-Bearing Obligations. Notes, debentures and other interest-bearing obligations mature as follows:

	December 31,		
	2001	2000	1999
2003:			
11.875% Notes due October 1.......................	$ 87,025	$ 100,050	$ 103,850
2004:			
Loan due May 24 (LIBOR plus 250 basis points).....	6,235	6,235	6,236
2005:			
12% Subordinated Debentures due June 15...........	67,000	67,000	67,000
11.5% Redeemable Notes due July 1.................	45	45	140,487
	$ 160,305	$ 173,330	$ 317,573

The decrease in outstanding balances during 2001 and 2000 is due to repurchases. These repurchases resulted in extraordinary gains. See "Results of Operations - Extraordinary Gain on Repurchase of Debt, Net of Taxes" and Note 18 to our Consolidated Financial Statements (which is incorporated herein by reference).

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Obligations Outstanding Under Lines of Credit. We have obtained secured line of credit arrangements from unaffiliated financial institutions as follows at the dates indicated:

Collateral	Balance Outstanding	Amount of Facility	Committed Amount	Maturity Date	Interest Rate(1)
December 31, 2001:					
Real estate investments and commercial loans............	$ 32,463	$ 200,000	$ 115,580	June 2002	LIBOR + 240 basis points
Advances on loans serviced for others......................	51,841	100,000	51,841	October 2002	LIBOR + 200 basis points
	$ 84,304				
December 31, 2000:					
Real estate investments and commercial loans............	$ 32,933	$ 200,000	$ 115,580	June 2001	LIBOR + 240 basis points
December 31, 1999:					
Subprime single family residential loans...........	$ 2,041	$ 200,000	$ 100,000	July 2001	LIBOR + 75 basis points
	3,770	115,000	100,000	May 2000	LIBOR + 95 - 150 basis points
	15,227	50,000	50,000	May 2000	LIBOR + 137.5 basis points
	7,658	25,000	--	May 2000	LIBOR + 175 basis points
Real estate investments and commercial loans............	84,170	200,000	200,000	June 2001	LIBOR + 175 basis points
	75,000	75,000	75,000	April 2001	LIBOR + 175 basis points
	$ 187,866				

(1) 1-month LIBOR was 1.87%, 6.57% and 5.82% at December 31, 2001, 2000 and 1999, respectively.

Lines of credit secured by advances on loans serviced for others were entered into during April 2001 to fund advances purchased in connection with our acquisition of rights to services loans for others. The decrease in outstanding balances during 2000 was primarily the result of repayments of lines secured by loans and real estate properties held for sale which were sold during 2000. See Note 17 to our Consolidated Financial Statements (which is incorporated herein by reference).

Company Obligated, Mandatorily Redeemable Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Company ("Capital Securities"). The outstanding balance of the 10.875% Capital Securities amounted to $61,159, $79,530 and $110,000 at December 31, 2001, 2000 and 1999, respectively. During 2001 and 2000, we repurchased $18,371 and $30,470, respectively, of our Capital Securities in the open market, resulting in extraordinary gains. See "Results of Operations - Extraordinary Gain on Repurchase of Debt, Net of Taxes" and Note 19 to our Consolidated Financial Statements (which is incorporated herein by reference).

Stockholders' Equity. Stockholders' equity amounted to $379,106 at December 31, 2001 as compared to $503,426 at December 31, 2000 and $509,442 at December 31, 1999. The $124,320 decrease in equity during 2001 was primarily due to the $124,782 net loss we incurred for the year. The decrease in equity during 2000 was primarily due to our repurchase of 1,388,300 shares of common stock in the aggregate amount of $8,996, offset in part by net income we earned of $2,192. On September 30, 2000, we changed our policy for securities available for sale and match funded securities to account for these securities as trading. As a result, we now include net unrealized holding gains and losses on trading securities in earnings. Previously, we reported unrealized holding gains and losses for these securities as a separate component of accumulated other comprehensive income in stockholders' equity. See Consolidated Statements of Changes in Stockholders' Equity and Notes 1 and 24 to our Consolidated Financial Statements (which are incorporated herein by reference).

Asset and Liability Management

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

The Committee's methods for evaluating interest rate risk include an analysis of the our 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 our interest-earning assets and interest-bearing liabilities at December 31, 2001. We determined the amounts of our assets and liabilities shown within a particular period in accordance with the contractual terms of the assets and liabilities, with the following exceptions:

- We include adjustable-rate loans, performing discount loans, securities and FHLB advances in the period in which they are first scheduled to adjust and not in the period in which they mature.

- Fixed-rate mortgage-related securities reflect estimated prepayments, which we estimated based on analyses of broker estimates, the results of a prepayment model utilized and empirical data.

- Non-performing discount loans reflect the estimated timing of resolutions that result in repayment to us.

- NOW and money market checking deposits and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which we based on detailed studies of each such category of deposit.

- We exclude escrow deposits on loans and loans serviced for others and other non-interest bearing checking accounts, which amounted to $79,189 at December 31, 2001.

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We believe that these assumptions approximate actual experience and consider them reasonable; however, the interest rate sensitivity of our assets and liabilities in the table could vary substantially if we were to use different assumptions or actual experience differs from the historical experience on which we based the assumptions.

	December 31, 2001				
	Within Three Months	Four to Twelve Months	More Than One Year to Three Years	Three Years and Over	Total
Rate-Sensitive Assets:					
Interest-earning deposits	$ 111,579	$ --	$ --	$ --	$ 111,579
Federal funds sold	126,000	--	--	--	126,000
Trading securities	85,448	73,140	24,096	43,565	226,249
Loans available for sale (1)	61	643	201	135	1,040
Investment securities, net	4,659	--	--	--	4,659
Loan portfolio, net (1)	25,282	39,458	42	143	64,925
Discount loan portfolio, net (1)	26,385	35,171	49,740	8,031	119,327
Match funded assets, net (1)(2)	12,989	22,947	14,037	22,415	72,388
Total rate-sensitive assets	392,403	171,359	88,116	74,289	726,167
Rate-Sensitive Liabilities:					
NOW and money market checking deposits	13,804	192	412	1,071	15,479
Savings deposits	98	183	362	644	1,287
Certificates of deposit	167,656	249,018	171,063	46,751	634,488
Total interest-bearing deposits	181,558	249,393	171,837	48,466	651,254
Securities sold under agreements to repurchase	79,405	--	--	--	79,405
Bonds-match funded agreements	143,021	6,353	7,534	--	156,908
Obligations outstanding under lines of credit	84,304	--	--	--	84,304
Notes, debentures and other	6,235	--	87,025	67,045	160,305
Total rate-sensitive liabilities	494,523	255,746	266,396	115,511	1,132,176
Interest rate sensitivity gap excluding financial instruments	(102,120)	(84,387)	(178,280)	(41,222)	(406,009)
Financial Instruments:					
Interest rate caps	--	--	104	--	104
Interest rate floors	--	--	300	--	300
Total rate-sensitive financial instruments	--	--	404	--	404
Interest rate sensitivity gap including financial instruments	$ (102,120)	$ (84,387)	$ (177,876)	$ (41,222)	$ (405,605)
Cumulative interest rate sensitivity gap (3)	$ (102,120)	$ (186,507)	$ (364,383)	$ (405,605)	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets	(14.06)%	(25.68)%	(50.18)%	(55.86)%	

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

(2) Excludes match funded advances on loans serviced for others, which do not earn interest, of $101,963 at December 31, 2001.

(3) We have experienced an increasingly large negative interest rate sensitivity gap in recent years. This change has been the result of both our acquisition of OAC and our change in strategic focus away from capital-intensive businesses and into fee-based sources of income. The result has been an increase in the relative amount of our noninterest-bearing assets, such as real estate assets and loan servicing assets that are funded by interest-bearing liabilities. Consequently, the amount of the negative interest rate sensitivity gap may continue to increase as we continue our transition to fee-based businesses.

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The OTS has established specific minimum guidelines for thrift institutions to observe in the area of interest rate risk as described in Thrift Bulletin No. 13a, "Management of Interest Rate Risk, Investment Securities, and Derivative Activities" ("TB 13a"). Under TB 13a, institutions are required to establish and demonstrate quarterly compliance with board-approved limits on interest rate risk that are defined in terms of net portfolio value ("NPV"), which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments. These limits specify the minimum net portfolio value ratio ("NPV Ratio") allowable under current interest rates and hypothetical interest rate scenarios. An institution's NPV Ratio for a given interest rate scenario is calculated by dividing the NPV that would result in that scenario by the present value of the institution's assets in that same scenario. The hypothetical scenarios are represented by immediate, permanent, parallel movements (shocks) in the term structure of interest rates of plus and minus 100, 200 and 300 basis points from the actual term structure observed at quarter end. The current NPV Ratio for each of the seven rate scenarios and the corresponding limits approved by the Board of Directors, as applied to Ocwen Financial Corporation and its subsidiaries, are as follows at December 31, 2001:

Rate Shock in basis points	Board Limits (minimum NPV Ratios)	Current NPV Ratios
+300	5.00%	24.42%
+200	6.00%	24.38%
+100	7.00%	24.38%
0	8.00%	24.36%
-100	7.00%	24.40%
-200	6.00%	24.50%
-300	5.00%	24.66%

The Committee also regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income or expense and NPV and evaluating such impacts against the maximum potential changes in net interest income and NPV that is authorized by the Board of Directors, as applied to Ocwen Financial Corporation and its subsidiaries. The following table quantifies the potential changes in net interest expense and net portfolio value should interest rates go up or down (shocked) 300 basis points, assuming the yield curves of the rate shocks will be parallel to each other. We calculate the cash flows associated with the loan portfolios and securities available for sale based on prepayment and default rates that vary by asset. We generate projected losses, as well as prepayments, based upon the actual experience with the subject pool, as well as similar, more seasoned pools. To the extent available, we use loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty terms and product types to produce the projected loss and prepayment assumptions that are included in the cash flow projections of the securities. When we shock interest rates we further adjust these projected loss and prepayment assumptions. The base interest rate scenario assumes interest rates at December 31, 2001. Actual results of Ocwen Financial Corporation and its subsidiaries could differ significantly from the results estimated in the following table:

	Estimated Changes in	
Rate Shock in basis points	Net Interest Expense	NPV
+300	88.45%	(1.97)%
+200	58.97%	(1.45)%
+100	29.48%	(0.64)%
0	0.00%	0.00%
-100	(29.48)%	0.97%
-200	(58.97)%	2.25%
-300	(88.45)%	3.73%

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The following table shows our financial instruments that are sensitive to changes in interest rates, categorized by expected maturity or repricing characteristics, and the fair values of those instruments at December 31, 2001:

	Expected Maturity Date At December 31, 2001 (1)							
	2002	2003	2004	2005	2006	Thereafter	Total Balance	Fair Value
Rate-Sensitive Assets:								
Interest-earning deposits	$ 111,579	$ --	$ --	$ --	$ --	$ --	$ 111,579	$ 111,579
Average interest rate	1.64%	--	--	--	--	--	1.64%	
Federal funds	126,000	--	--	--	--	--	126,000	126,000
Average interest rate	1.46%	--	--	--	--	--	1.46%	
Trading securities	158,587	16,482	7,615	7,678	7,095	28,792	226,249	226,249
Average interest rate	8.67%	21.39%	28.30%	24.37%	31.40%	28.80%	14.07%	
Loans available for sale (2)	704	180	21	16	14	105	1,040	1,040
Average interest rate	12.23%	10.87%	12.42%	12.12%	12.12%	12.14%	11.98%	
Investment securities	4,659	--	--	--	--	--	4,659	4,659
Average interest rate	--	--	--	--	--	--	--	
Loan portfolio, (2)	64,739	23	20	26	16	101	64,925	64,925
Average interest rate	7.10%	10.53%	10.52%	9.98%	10.48%	10.39%	7.11%	
Discount loan portfolio (2)	61,557	40,048	9,691	1,098	975	5,958	119,327	127,133
Average interest rate	10.18%	10.46%	10.07%	10.63%	10.64%	10.65%	10.30%	
Match funded assets (2)(3)	35,936	10,541	3,496	2,882	2,487	17,046	72,388	70,344
Average interest rate	9.19%	8.85%	9.63%	9.67%	9.64%	9.70%	9.32%	
Total rate-sensitive assets	$ 563,761	$ 67,274	$ 20,843	$ 11,700	$ 10,587	$ 52,002	$ 726,167	$ 731,929
Rate-Sensitive Liabilities:								
NOW and money market checking deposits	$ 13,996	$ 223	$ 189	$ 160	$ 137	$ 774	$ 15,479	$ 15,070
Average interest rate	1.78%	0.48%	0.48%	0.48%	0.48%	0.48%	1.66%	
Savings deposits	281	201	161	129	103	412	1,287	1,226
Average interest rate	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	
Certificates of deposit	416,674	110,660	60,403	25,701	1,107	19,943	634,488	657,204
Average interest rate	5.94%	6.09%	6.59%	6.91%	5.36%	5.94%	6.06%	
Total interest-bearing deposits	430,951	111,084	60,753	25,990	1,347	21,129	651,254	673,500
Securities sold under agreements to repurchase	79,405	--	--	--	--	--	79,405	79,405
Average interest rate	1.87%	--	--	--	--	--	1.87%	
Bonds-match funded agreements	149,374	6,612	922	--	--	--	156,908	156,996
Average interest rate	3.31%	9.50%	9.50%	--	--	--	3.61%	
Obligations outstanding under lines of credit	84,304	--	--	--	--	--	84,304	84,304
Average interest rate	4.28%	--	--	--	--	--	4.28%	
Notes, debentures and other	6,235	87,025	--	67,045	--	--	160,305	159,590
Average interest rate	7.00%	11.88%	--	12.00%	--	--	11.74%	
Total rate-sensitive liabilities	$ 750,269	$ 204,721	$ 61,675	$ 93,035	$ 1,347	$ 21,129	$1,132,176	$1,153,795

(1) Expected maturities are contractual maturities adjusted for prepayments of principal. We use certain assumptions to estimate fair values and expected maturities. For assets, expected maturities are based upon contractual maturity, projected repayments and prepayments of principal. We base the prepayment experience reflected herein on our historical experience. Our average Constant Prepayment Rate ("CPR") is 29.84% and 22.14% on our fixed-rate and adjustable-rate portfolios, respectively, for interest-earning assets (excluding investment securities, which do not have prepayment features). The actual maturities of these instruments could vary substantially if future prepayments differ from our historical experience.

(2) We have not reduced balances for non-performing loans.

(3) Excludes match funded advances on loans serviced for others, which do not earn interest, of $101,963 at December 31, 2001.

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(4) The expected maturity or repricing dates of interest rate-sensitive assets and liabilities as of December 31, 2001 and 2000 compare as follows:

	1st Year	2nd Year	3rd Year	4th Year	5th Year	Thereafter	Total
Total rate-sensitive assets:							
2001:							
Amount.....................	$ 563,761	$ 67,274	$ 20,843	$ 11,700	$ 10,587	$ 52,002	$ 726,167
% of total.............	77.64%	9.26%	2.87%	1.61%	1.46%	7.16%	100.00%
2000:							
Amount.....................	$ 801,060	$ 206,150	$ 70,041	$ 46,854	$ 26,163	$ 145,257	$1,295,525
% of total.............	61.83%	15.91%	5.41%	3.62%	2.02%	11.21%	100.00%
Total rate-sensitive liabilities:							
2001:							
Amount.....................	$ 750,269	$ 204,721	$ 61,675	$ 93,035	$ 1,347	$ 21,129	$1,132,176
% of total.............	66.27%	18.08%	5.45%	8.22%	0.12%	1.86%	100.00%
2000:							
Amount.....................	$ 785,055	$ 332,126	$ 207,900	$ 57,135	$ 95,692	$ 23,925	$1,501,833
% of total.............	52.27%	22.12%	13.84%	3.81%	6.37%	1.59%	100.00%

We believe that the broad geographic distribution of our loans available for sale, loan portfolio, discount loan portfolio and match-funded loans reduces the risks that would otherwise result from concentrating such loans in limited geographic areas. See Notes 5, 6 and 7 to our Consolidated Financial Statements (which are incorporated herein by reference).

The Committee is authorized to utilize a wide variety of off-balance sheet financial techniques to assist it in the management of interest rate risk and foreign currency exchange rate risk. These techniques include interest rate exchange contracts or "swap" agreements, interest rate caps and floors U.S. Treasury interest rate futures contracts, foreign currency futures contracts, foreign currency forwards and European swaptions and put options.

Interest Rate Risk Management. In managing our interest rate risk, we enter, from time to time, into interest rate swaps. Under interest rate swaps, we agree 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. We utilize interest rate swaps 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 a line of credit, in an increasing interest-rate environment. We had entered into interest rate swaps with an aggregate notional amount of $33,000 at December 31, 2000. Those swaps matured in April 2001 and we have no interest rate swaps outstanding at December 31, 2001.

From time to time, we also enter into swaption contracts, put option contracts and interest rate futures contracts, including Eurodollar and U.S. Treasury contracts. Swaption contracts are options to enter into an interest rate swap agreement at a future date at a specific interest rate. A put option allows us to sell a specified quantity of an asset at a specified price at a specific date. 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. We had no swaptions, put option contracts or interest futures contracts outstanding at either December 31, 2001 or 2000.

Additionally, we purchased amortizing caps and floors to hedge the interest rate exposure relating to our mortgage servicing rights and our match funded loans and securities. An interest rate cap or interest rate floor is designed to provide protection against the interest rate on a floating-rate instrument rising above some level (cap) or falling below some level (floor). We had entered into caps and floors with an aggregate notional amount of $125,933 and $34,101, respectively, at December 31, 2001, as compared to caps and floors with an aggregate notional amount of $141,674 and $37,787, respectively, at December 31, 2000. The floor related to our mortgage servicing rights, which had a notional amount of $11,600, expired during the third quarter of 2001.

See the "Derivative Financial Instruments" section of Note 1 and the "Interest Rate Management" section of Note 21 to our Consolidated Financial Statements (which are incorporated herein by reference).

Foreign Currency Exchange Rate Risk Management. We have entered into foreign currency derivatives to hedge our net investment in foreign subsidiaries which own residual securities backed by residential loans originated in the UK ("UK residuals") and a shopping center located in Halifax, Nova Scotia ("the Nova Scotia shopping center"). Our exposure to foreign currency exchange rates exists with the British Pound versus the U.S. dollar and the Canadian Dollar versus the U.S. dollar. Our policy is to periodically adjust the amount of foreign currency derivative contracts we have entered into in response to changes in our recorded investment in these foreign entities as well as to changes in our assets denominated in a foreign currency.

Management's Discussion and Analysis of Financial Condition and Results of Operations. (Dollars in thousands, except share data)

Our hedges, related investments in foreign subsidiaries and our net exposures at December 31, 2001 and December 31, 2000 were as follows:

	Investment	Hedge	Net Exposure
December 31, 2001:			
UK residuals............................	$ 25,535	$ 24,754	$ (781)
Nova Scotia shopping center.............	21,648	21,691	43
December 31, 2000:			
UK residuals............................	$ 23,239	$ 22,236	$ (1,003)
Nova Scotia shopping center.............	21,913	22,423	510

Our net exposures are subject to gain or loss if foreign currency exchange rates fluctuate. See the "Derivatives Financial Instruments" section of Note 1 and the "Foreign Currency Management" section of Note 21 to our Consolidated Financial Statements (which are incorporated herein by reference).

Liquidity, Commitments and Off-Balance Sheet Risks

Our primary sources of funds for liquidity are:

- Deposits
- FHLB advances
- Securities sold under agreements to repurchase
- Lines of credit
- Match funded debt
- Maturities and payments received on loans, securities and advances
- Proceeds from sales of assets
- Servicing fees

At December 31, 2001, we were eligible to borrow up to an aggregate of $149,398 from the FHLB of New York (based on the availability of acceptable collateral) and had $81,764 of short duration CMOs pledged as security for any such borrowings. At December 31, 2001, we had contractual relationships with eleven brokerage firms and the FHLB of New York pursuant to which we could obtain funds from securities sales under agreements to repurchase. In addition, under a match funding agreement that we entered into on December 20, 2001, we were eligible to sell advances on loans serviced for others up to a maximum debt balance of $200,000 at any one time. At December 31, 2001, we had $91,766 of bonds-match funded agreements outstanding under this facility, which is expected to mature in December 2003. The sales of advances did not qualify as sales for accounting purposes; therefore, we report them as secured borrowings with pledges of collateral. We will account for additional sales under this facility in the same manner. At December 31, 2001, we also had $245,249 of unrestricted cash and cash equivalents and $74,190 of short duration CMOs which we could use to secure additional borrowings. We had no outstanding FHLB advances at December 31, 2001. Securities we sold under agreements to repurchase from the FHLB amounted to $79,405 at December 31, 2001.

We continuously monitor our liquidity position and ongoing funding requirements. Among the risks and challenges associated with our funding activities are the following:

- We do not intend to utilize brokered certificates of deposit, a significant portion of which mature during 2002, as a source of funding in the foreseeable future.
- Expiration of existing collateralized lines of credit at various times through 2002.
- Potential extension of resolution and sale timelines for non-core assets in the current weak economic environment.
- Ongoing cash requirements to fund operations of our holding company and OTX.
- Cash requirements to fund our acquisition of additional servicing rights and related advances, as well as the need to fund the unfinanced portion of our existing servicing advances.

We believe that our existing sources of liquidity, including internally generated funds, will be adequate to fund our planned activities for the foreseeable future, although there can be no assurances in this regard. We continue to evaluate other sources of liquidity, such as lines of credit from unaffiliated parties, match funded debt and other secured borrowings. See the "Short-Term Highly Liquid

Investments," "Securities Sold Under Agreements to Repurchase," and "Derivative Financial Instruments" sections of Note 1 and Notes 14 and 17 to our Consolidated Financial Statements (which are incorporated herein by reference).

As of November 29, 2001, Standard & Poor's and Fitch's rating outlooks for Ocwen Financial Corporation and Ocwen Federal Bank are negative. On November 13, 2001, Standard & Poor's lowered its credit rating on Ocwen Financial Corporation and its subsidiaries, Ocwen Federal Bank and Ocwen Capital Trust I. On November 29, 2001, Fitch lowered its credit ratings on Ocwen Financial Corporation and Ocwen Federal Bank's subordinated debt while affirming its credit ratings on Ocwen Financial Corporation's long-term senior debt and short-term ratings and Ocwen Federal Bank's short-term rating.

Our operating activities provided (used) $53,850, $2,713 and $(248,082) of cash flows during 2001, 2000 and 1999, respectively. During the foregoing years our cash resources were provided primarily by trading securities and proceeds from sales of loans available for sale, and we used cash resources primarily to purchase and fund loan servicing advances and, in 1999, to purchase and originate loans available for sale.

Our investing activities provided cash flows totaling $428,088, $744,663 and $518,466 during 2001, 2000 and 1999, respectively. During the foregoing years, cash flows from our investing activities were provided primarily from principal payments on our discount loans and loans held for investment, maturities of and principal payments received on our securities available for sale and proceeds from sales of discount loans, securities available for sale, real estate held for sale and real estate owned. We used cash flows from our investing activities primarily to purchase discount loans, mortgage servicing rights and securities available for sale. Cash flows from our investing activities for 1999 included $122,101 of proceeds from our sale of Ocwen UK.

Our financing activities used cash flows of $(375,019), $(947,859) and $(335,319) during 2001, 2000 and 1999, respectively. Cash flows related to our financing activities primarily resulted from changes in our deposits and obligations outstanding under lines of credit, as well as repurchases and issuance of debt. Cash flows used in our financing activities decreased during 2001 primarily because we established a new line of credit agreement to fund advances on loans serviced for others that we acquired in connection with a servicing acquisition, and we entered into a new match funding agreement to fund current and future advances on loans serviced for others. We also repurchased less of our outstanding debt and repurchased none of our common stock during 2001.

Applicable federal regulations previously required that Ocwen Federal Bank 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 (not less than 4% of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less). Effective July 18, 2001 the OTS issued a final rule eliminating the 4% liquidity requirement. However, the rule continues to require that savings associations maintain sufficient liquidity to ensure its safe and sound operation.

At December 31, 2001, we had $3,432 of commitments related to the funding of construction loans (including loans accounted for as investments in real estate). We believe that we have adequate resources to fund all such unfunded commitments to the extent required and that substantially all of such unfunded commitments will be funded during 2002. See Note 30 to our Consolidated Financial Statements (which is incorporated herein by reference).

In addition to commitments to extend credit, we are party to various off-balance sheet financial instruments in the normal course of our business to manage our interest rate risk and foreign currency exchange rate risk. See Note 21 to our Consolidated Financial Statements (which is incorporated herein by reference) and "Asset and Liability Management" above.

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

Regulatory Capital and Other Requirements

See Note 25 to our Consolidated Financial Statements (which is incorporated herein by reference).

Recent Accounting Developments

For information relating to the effects of our adoption of recent accounting standards, see Note 1 to our Consolidated Financial Statements (which is incorporated herein by reference).

Forward-Looking Statements

Certain statements contained herein are not, and certain statements contained in future filings by us with the Securities and Exchange Commission (the "Commission"), in our press releases or in the our other public or shareholder communications may not be, based on historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements, which are based on various assumptions (some of which are beyond our control), may be identified by reference to a future period(s) or by the use of forward-looking terminology such as "anticipate," "believe," "commitment," "consider," "continue," "could," "estimate," "expect," "foresee," "intend," "in the event of," "may," "plan," "propose," "prospect," "whether," "will," "would," future or conditional verb tenses, similar terms, variations on such terms or negatives of such terms. Although we believe the anticipated results or other expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that those results or expectations will be attained. Actual results could differ materially from those indicated in such statements due to risks, uncertainties and changes with respect to a variety of factors, including, but not limited to, international, national, regional or local economic environments (particularly in the market areas where we operate), government fiscal and monetary policies (particularly in the market areas where we operate), prevailing interest or currency exchange rates, effectiveness of interest rate, currency and other hedging strategies, laws and regulations affecting financial institutions, investment companies and real estate (including regulatory fees, capital requirements, access for disabled persons and environmental compliance), uncertainty of foreign laws and potential political issues related to operations outside of the USA, competitive products, pricing and conditions (including from competitors that have significantly greater resources than our Company), credit, prepayment, basis, default, subordination and asset/liability risks, loan servicing effectiveness, ability to identify acquisitions and investment opportunities meeting our investment strategy, the course of negotiations and the ability to reach agreement with respect to the material terms of any particular transaction, satisfactory due diligence results, satisfaction or fulfillment of agreed upon terms and conditions of closing or performance, the timing of transaction closings, software integration, development and licensing, damage to our computer equipment and the information stored our data centers, availability of and costs associated with obtaining adequate and timely sources of liquidity, ability to repay or refinance indebtedness (at maturity or upon acceleration), to meet collateral calls by lenders (upon re-valuation of the underlying assets or otherwise), to generate revenues sufficient to meet debt service payments and other operating expenses, availability of discount loans and servicing rights for purchase, size of, nature of and yields available with respect to the secondary market for mortgage loans, financial, securities and securitization markets in general, adequacy of allowances for loan losses, changes in real estate conditions (including liquidity, valuation, revenues, rental rates, occupancy levels and competing properties), adequacy of insurance coverage in the event of a loss, other factors generally understood to affect the real estate acquisition, mortgage, servicing and leasing markets, securities investments and the software and technology industry, and other risks detailed from time to time in our reports and filings with the Commission, including our periodic reports on Forms 10-Q, 8-K and 10-K and Exhibit 99.1, titled Risk Factors, to our Form 10-K for the year ended December 31, 2001. Given these uncertainties, readers are cautioned not to place undue reliance on such statements. We do not undertake, and specifically disclaims any obligation, to release publicly the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

REPORT OF MANAGEMENT

The management of Ocwen Financial Corporation is responsible for the accompanying consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America applied on a consistent basis. In preparing the financial statements, it is necessary for management to make informed judgments and best estimates giving due consideration to materiality. In the opinion of management, the consolidated financial statements fairly reflect our financial position and results of operations. Information, both financial and non-financial, presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

To ensure that the financial statements are reliable, the Company established and maintains an effective system of internal accounting controls and procedures that provide reasonable assurance that assets are safeguarded and transactions are properly recorded and executed in accordance with corporate policy and management authorization. The Company believes its accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or would be detected within a timely period and corrected in the normal course of business.

PricewaterhouseCoopers LLP was engaged to perform an audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. Such standards include the evaluation of our accounting policies and procedures and the effectiveness of the related internal control system. In addition to the use of independent certified public accountants, the Company maintains a professional staff of internal auditors who conduct financial, procedural and special audits and make recommendations on both administrative and accounting controls.

The Audit Committee of the Board of Directors is comprised solely of independent directors and is responsible for overseeing and monitoring the quality of our accounting and auditing practices. The independent accountants and internal auditors have direct access to the Audit Committee and meet periodically with the committee to discuss the scope and results of their work, the adequacy of internal accounting controls and financial reporting matters.

/s/ William C. Erbey	/s/ Mark S. Zeidman
William C. Erbey Chairman and Chief Executive Officer	Mark S. Zeidman Senior Vice President and Chief Financial Officer

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Ocwen Financial Corporation

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, of comprehensive income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Ocwen Financial Corporation (the "Company") and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America, which require that we plan and perform the audits 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 our opinion.

PRICEWATERHOUSECOOPERS LLP
West Palm Beach, Florida
February 12, 2002

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

	December 31, 2001	December 31, 2000
Assets:		
Cash and amounts due from depository institutions	$ 23,076	$ 18,749
Interest earning deposits	111,579	134,987
Federal funds sold	126,000	--
Trading securities, at fair value:		
Collateralized mortgage obligations (AAA-rated)	161,191	277,595
Subordinates, residuals and other securities	65,058	112,647
Loans available for sale, at lower of cost or market	1,040	10,610
Real estate held for sale	13,418	22,670
Investment in real estate	116,896	122,761
Affordable housing properties	102,069	142,812
Investment securities, at cost	4,659	13,257
Loan portfolio, net	64,925	93,414
Discount loan portfolio, net	119,327	536,028
Match funded assets	174,351	116,987
Investments in unconsolidated entities	1,067	430
Real estate owned, net	110,465	146,419
Premises and equipment, net	44,589	43,152
Income taxes receivable	20,842	30,261
Deferred tax asset, net	8,411	95,991
Advances on loans and loans serviced for others	283,183	227,055
Mortgage servicing rights	101,107	51,426
Other assets	57,897	52,169
	$ 1,711,150	$ 2,249,420
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$ 656,878	$ 1,202,044
Escrow deposits on loans and loans serviced for others	73,565	56,316
Securities sold under agreements to repurchase	79,405	--
Bonds - match funded agreements	156,908	107,050
Obligations outstanding under lines of credit	84,304	32,933
Notes, debentures and other interest bearing obligations	160,305	173,330
Accrued interest payable	12,836	22,096
Excess of net assets acquired over purchase price	18,333	36,665
Accrued expenses, payables and other liabilities	28,351	36,030
Total liabilities	1,270,885	1,666,464
Company obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company	61,159	79,530
Commitments and contingencies (Note 30)		
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; 67,289,313 and 67,152,363 shares issued and outstanding at December 31, 2001 and December 31, 2000, respectively	673	672
Additional paid-in capital	224,142	223,163
Retained earnings	154,412	279,194
Accumulated other comprehensive income (loss), net of taxes:		
Net unrealized foreign currency translation gain (loss)	(121)	397
Total stockholders' equity	379,106	503,426
	$ 1,711,150	$ 2,249,420

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,		
	2001	2000	1999
Net interest income:			
Income	$ 83,371	$ 184,816	$ 253,224
Expense	93,329	169,090	155,542
Net interest income (expense) before provision for loan losses	(9,958)	15,726	97,682
Provision for loan losses	15,666	15,177	6,710
Net interest income (expense) after provision for loan losses	(25,624)	549	90,972
Non-interest income:			
Servicing and other fees	134,597	97,080	76,018
Gain (loss) on interest earning assets, net	(3,949)	17,625	44,298
Gain (loss) on trading and match funded securities, net	16,330	(3,971)	--
Impairment charges on securities available for sale	--	(11,597)	(58,777)
Loss on real estate owned, net	(9,256)	(14,904)	(3,957)
Gain (loss) on other non-interest earning assets, net	(1,054)	45,517	58,693
Net operating gains on investments in real estate	5,581	27,579	820
Amortization of excess of net assets acquired over purchase price	18,333	14,112	3,201
Other income	8,759	6,084	24,346
	169,341	177,525	144,642
Non-interest expense:			
Compensation and employee benefits	84,914	83,086	102,173
Occupancy and equipment	11,577	12,005	18,501
Technology and communication costs	26,768	23,876	20,957
Loan expenses	15,811	13,051	12,618
Net operating losses on investments in certain affordable housing properties	16,580	9,931	6,291
Amortization of excess of purchase price over net assets acquired	3,112	3,124	4,448
Professional services and regulatory fees	14,749	12,829	13,992
Other operating expenses	8,935	12,107	16,088
	182,446	170,009	195,068
Distributions on Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the Company	7,132	11,380	13,111
Equity in income (losses) of investments in unconsolidated entities	304	(5,249)	(12,616)
Income (loss) before income taxes and extraordinary gain	(45,557)	(8,564)	14,819
Income tax expense	81,587	7,957	2,608
Minority interest in net loss of consolidated subsidiary	--	--	(638)
Income (loss) before extraordinary gain	(127,144)	(16,521)	12,849
Extraordinary gain on repurchase of debt, net of taxes	2,362	18,713	6,983
Net income (loss)	$ (124,782)	$ 2,192	$ 19,832
Earnings (loss) per share:			
Basic:			
Net income (loss) before extraordinary gain	$ (1.89)	$ (0.25)	$ 0.20
Extraordinary gain	0.03	0.28	0.11
Net income (loss)	$ (1.86)	$ 0.03	$ 0.31
Diluted:			
Net income (loss) before extraordinary gain	$ (1.89)	$ (0.25)	$ 0.20
Extraordinary gain	0.03	0.28	0.11
Net income (loss)	$ (1.86)	$ 0.03	$ 0.31
Weighted average common shares outstanding:			
Basic	67,227,058	67,427,662	63,051,015
Diluted	67,227,058	67,464,043	63,090,282

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

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

	For the Years Ended December 31,		
	2001	2000	1999
Net income (loss)	$ (124,782)	$ 2,192	$ 19,832
Other comprehensive income (loss), net of taxes:			
Change in unrealized loss (gain) on securities available for sale arising during the year	--	--	(9,338)
Less: Reclassification adjustment	--	(163)	(4,556)
Netchange in unrealized (gain) loss on securities available for sale (net of a tax benefit of $122 and $7,771 for 2000 and 1999, respectively)	--	(163)	(13,894)
Change in unrealized foreign currency translation adjustment arising during the year	(518)	389	463
Less: Reclassification adjustment for losses on foreign currency translation adjustment included in net income	--	757	481
Net change in unrealized foreign currency translation loss (net of tax benefit (expense) of $284, $(627) and $(514) for 2001, 2000 and 1999, respectively)	(518)	1,146	944
Other comprehensive income (loss)	(518)	983	(12,950)
Comprehensive income (loss)	$ (125,300)	$ 3,175	$ 6,882
Disclosure of reclassification adjustment:			
Unrealized holding losses (gains) arising during the year on securities sold or impaired	$ --	$ (7,394)	$ (36,671)
Add: Adjustment for realized losses and impairment charges on securities available for sale included in net income (loss)	--	7,231	32,115
Net reclassification adjustment for (gains) losses recognized in other comprehensive income (loss) in prior years (net of tax benefit of $122 and $2,558 for 2000 and 1999, respectively) (1)	$ --	$ (163)	$ (4,556)
Unrealized foreign currency translation adjustment arising during the year	$ --	$ (131)	$ (703)
Add: Adjustment for realized foreign currency losses on the sale of the equity investment in a foreign entity and foreign subsidiary in 2000 and 1999, respectively	--	888	1,184
Net reclassification adjustment for foreign currency losses recognized in other comprehensive income (loss) in prior years (net of tax benefit of $408 and $259 for 2000 and 1999, respectively)	$ --	$ 757	$ 481

(1) In 2000, includes the adjustment related to the reclassification of securities available for sale to trading securities.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 and 1999
(Dollars in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
	Shares	Amount				
Balances at December 31, 1998	60,800,357	$ 608	$ 166,234	$ 257,170	$ 12,364	$ 436,376
Net income	--	--	--	19,832	--	19,832
Repurchase and retirement of common stock	(4,611,700)	(46)	(30,645)	--	--	(30,691)
Exercise of common stock options	5,069	--	23	--	--	23
Directors' compensation	6,099	--	43	--	--	43
Issuance of common stock for acquisition of Ocwen Asset Investment Corp.	12,371,750	124	96,685	--	--	96,809
Other comprehensive income, net of taxes:						
Change in unrealized gain (loss) on securities available for sale	--	--	--	--	(13,894)	(13,894)
Change in unrealized foreign currency translation loss	--	--	--	--	944	944
Balances at December 31, 1999	68,571,575	686	232,340	277,002	(586)	509,442
Net income	--	--	--	2,192	--	2,192
Repurchase and retirement of common stock	(1,427,747)	(14)	(9,233)	--	--	(9,247)
Directors' compensation	8,535	--	56	--	--	56
Other comprehensive income, net of taxes:						
Change in unrealized gain on securities available for sale	--	--	--	--	(163)	(163)
Change in unrealized foreign currency translation loss	--	--	--	--	1,146	1,146
Balances at December 31, 2000	67,152,363	672	223,163	279,194	397	503,426
Net loss	--	--	--	(124,782)	--	(124,782)
Exercise of common stock options	128,155	1	901	--	--	902
Directors' compensation	8,795	--	78	--	--	78
Other comprehensive income, net of taxes:						
Change in accounting principle for derivative financial instruments	--	--	--	--	59	59
Reclassification of gain on derivative financial instruments to earnings	--	--	--	--	(59)	(59)
Change in unrealized foreign currency translation gain	--	--	--	--	(518)	(518)
Balances at December 31, 2001	67,289,313	$ 673	$ 224,142	$ 154,412	$ (121)	$ 379,106

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,		
	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	$(124,782)	$ 2,192	$ 19,832
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Net cash provided by trading activities	192,069	102,091	18,723
Proceeds from sales of loans available for sale	6,996	22,982	568,490
Purchases of loans available for sale	--	--	(47,129)
Origination of loans available for sale	--	--	(728,509)
Principal payments received on loans available for sale	1,596	6,827	25,949
Premium amortization (discount accretion) on securities, net	7,337	8,493	11,074
Depreciation and amortization	26,902	20,360	13,339
Provision for loan losses	15,666	15,177	6,710
Provision for real estate owned	17,766	26,674	28,008
Gain on sale of Ocwen UK	--	--	(50,371)
Gain on sale of investment in Kensington Group plc	--	(20,025)	--
Gain on interest-earning assets, net	3,949	(17,625)	(44,298)
(Gain) loss on trading and match funded securities	(16,330)	3,971	--
Impairment charges on securities available for sale	--	11,597	58,777
Extraordinary gain on repurchase of debt	(3,774)	(29,704)	(8,475)
(Gain) loss on sale of other non-interest earning assets	1,054	(25,492)	(8,322)
Impairment charges on investment in real estate	4,515	704	2,817
Impairment charges on affordable housing properties	15,587	6,448	700
Gain on sale of real estate owned	(14,111)	(22,515)	(36,265)
Equity in (income) losses of investment in unconsolidated entities	(304)	5,249	12,616
(Increase) decrease in income taxes receivable	9,419	(30,261)	34,333
(Decrease) increase in income taxes payable	--	(6,369)	6,369
(Increase) decrease in deferred tax asset	87,580	40,929	(53,273)
Increase in advances and match funded advances on loans and loans serviced for others	(165,123)	(67,638)	(54,507)
(Increase) decrease in other assets, net	4,064	(12,340)	(11,330)
Decrease in accrued expense, interest payable and other liabilities	(16,226)	(39,012)	(13,340)
Net cash provided (used) by operating activities	53,850	2,713	(248,082)

(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 Years Ended December 31,		
	2001	2000	1999
Cash flows from investing activities:			
Proceeds from sales of securities available for sale	--	553,589	43,923
Purchase of securities available for sale	--	(896,470)	(589,985)
Maturities of and principal payments received on securities available for sale	--	416,004	553,136
Proceeds from the sale of Ocwen UK	--	--	122,101
Proceeds from the sale of investment in Kensington Group plc	--	48,556	--
Redemption of Federal Home Loan Bank stock	8,598	--	--
Acquisitions of subsidiaries	--	--	64,450
Principal payments received on match funded loans	30,552	26,595	11,868
Investment in affordable housing properties	(30,496)	(27,213)	(56,874)
Proceeds from sale of affordable housing properties	52,076	27,587	44,233
Purchase of servicing rights	(79,522)	(49,779)	(9,218)
Proceeds from sale of discount loans, net	263,373	262,018	275,935
Principal payments received on discount loans, net	84,282	180,048	301,826
Purchase and funded commitments of discount loans	(1,220)	(175,708)	(584,328)
Proceeds from sale of real estate held for investment	14,360	4,237	23,436
Investment in real estate held for investment	(7,996)	(34,057)	(19,115)
Proceeds from sale of real estate held for sale	1,000	232,811	--
Investment in real estate held for sale	--	(57,737)	--
Proceeds from sales of loans held for investment	18,018	30,709	51,691
Principal payments received on loans held for investment	16,193	90,387	137,199
Purchases, originations and funded commitments of loans held for investment, net	(24,106)	(55,567)	(36,991)
Decrease (increase) in investment in unconsolidated entities	(333)	7,286	10,687
Capital improvements to real estate owned	(12,737)	(6,775)	(37)
Proceeds from sale of real estate owned	108,338	180,473	251,621
Purchase of real estate owned in connection with discount loan purchases	--	(9,059)	(47,807)
Additions to premises and equipment	(12,292)	(3,272)	(29,285)
Net cash provided by investing activities	428,088	744,663	518,466

(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 Years Ended December 31,		
	2001	2000	1999
Cash flows from financing activities:			
Decrease in deposits	(527,917)	(556,287)	(354,144)
Increase (decrease) in securities sold under agreements to repurchase	79,405	(47,365)	(34,059)
(Repayment of) proceeds from obligations under lines of credit, net	51,371	(155,805)	110,413
Proceeds from issuance of other interest bearing obligations	--	--	6,236
Proceeds from issuance of bonds - match funded agreements	91,766	--	40,094
Repayments of bonds - match funded agreements	(43,144)	(33,002)	(12,559)
Repurchase of notes and subordinated debentures	(13,233)	(127,649)	(51,223)
Exercise of common stock options	902	--	23
Issuance of shares of common stock	78	56	43
Repurchase of Capital Securities, net	(14,247)	(18,811)	(9,452)
Repurchase of common stock	--	(8,996)	(30,691)
Net cash used by financing activities	(375,019)	(947,859)	(335,319)
Net increase (decrease) in cash and cash equivalents	106,919	(200,483)	(64,935)
Cash and cash equivalents at beginning of period	153,736	354,219	419,154
Cash and cash equivalents at end of period	$ 260,655	$ 153,736	$ 354,219
Reconciliation of cash and cash equivalents at end of period:			
Cash and amounts due from depository institutions	$ 23,076	$ 18,749	$ 125,799
Interest-earning deposits	111,579	134,987	116,420
Federal funds sold and repurchase agreements	126,000	--	112,000
	$ 260,655	$ 153,736	$ 354,219
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 75,834	$ 179,564	$ 153,891
Income tax refunds (payments)	(14,816)	18,829	633
Supplemental schedule of non-cash investing and financing activities:			
Real estate owned acquired through foreclosure	64,043	140,764	157,111
Reclassification of properties from investment in real estate to real estate held for sale	(7,343)	174,480	--
Reclassification of securities available for sale to trading securities	--	496,295	--
Exchange of discount loans and loans available for sale for securities	--	--	758,032
Exchange of note receivable for real estate held for sale	--	19,000	--
Acquisition of businesses:			
Fair value of assets acquired	$ --	$ --	$ (706,329)
Liabilities assumed	--	--	599,855
Stock issued	--	--	96,809
Cash paid	--	--	(9,665)
Less cash acquired	--	--	74,115
Net cash acquired (paid) for assets acquired	$ --	$ --	$ 64,450
Sale of subsidiary:			
Fair value of assets sold	$ --	$ --	$ 413,121
Liabilities sold	--	--	(345,327)
Cash sold	--	--	3,936
Gain on sale	--	--	50,371
Net cash received for assets sold	$ --	$ --	$ 122,101

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 ("OCN") is a financial services company whose primary business activities consist of the servicing and resolution of subperforming and nonperforming residential and commercial mortgage loans. We also specialize in the related development of loan servicing technology and software for the mortgage and real estate industries. Our consolidated financial statements include the accounts of OCN and its subsidiaries. We own directly and indirectly all of the outstanding common and preferred stock of our primary subsidiaries, Ocwen Federal Bank FSB (the "Bank"), Investors Mortgage Insurance Holding Company ("IMI"), Ocwen Technology Xchange, Inc. ("OTX") and Ocwen Asset Investment Corp. ("OAC"). We acquired OAC on October 7, 1999. Our consolidated financial statements include OAC and its subsidiaries as of that date. We also own 99.6% of Ocwen Financial Services, Inc. ("OFS"), with the remaining 0.4% owned by the shareholders of Admiral Home Loan. In August 1999, we closed our domestic subprime origination business, which we had previously conducted through OFS. We sold our investment in our foreign subsidiary, Ocwen UK, on September 30, 1999. Ocwen UK's results of operations for 1999 are included in our consolidated statements of operations through that date. We have eliminated all significant intercompany transactions and balances in consolidation.

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

Reclassification

Certain amounts included in our 2000 and 1999 consolidated financial statements have been reclassified to conform to the 2001 presentation.

Consolidated Statements of Cash Flows

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

Short-Term Highly Liquid Investments

Our short-term highly liquid investments generally consist of federal funds sold and assets we purchased under agreements to resell. We invest in these assets to maximize the return on liquid funds. At December 31, 2001, such investments amounted to $126,000 of federal funds sold which had an overnight maturity. At December 31, 2000, we had no such investments outstanding. The average balance of our investment in federal funds sold and assets purchased under agreements to resell amounted to $200,329 and $128,079 during 2001 and 2000, respectively.

The Federal Reserve System requires that the Bank maintain non-interest-earning cash reserves against certain of its transaction accounts and time deposit accounts. Such reserves totaled $5,040 and $5,153 at December 31, 2001 and 2000, respectively.

Securities

We report securities in our statement of financial condition at fair value. We determine fair value within a range based on third party dealer quotations, where available, and internal values, subject to an internal review process.

In 1999 and prior years, when we acquired securities resulting from the securitization of loans available for sale and sold the securities shortly thereafter, we accounted for the transaction as the sale of loans and the purchase and sale of trading securities.

On September 30, 2000, we changed our policy for securities available for sale and match funded securities to account for these securities as trading. For these securities, we reported changes in fair value in income in the period of change. Previously, we accounted for the securities as available for sale, for which we reported the unrealized gains and losses as a separate component of accumulated other comprehensive income in stockholders' equity, subject to an evaluation for other-than-temporary impairment. For each security where we concluded that all or part of the decrease in value was other-than-temporary, we charged such amount to earnings, thereby establishing a new cost basis for the security.

Loans Available for Sale and Held for Investment

We designate loans originated or purchased by us that we presently do not intend to hold to maturity as loans available for sale at time of origination or purchase. We report these loans at the lower of cost, after considering deferred loan fees and costs, or aggregate market value. We record unrealized losses as a reduction in earnings and include them under the caption "Gain on interest-earning assets, net" in our consolidated statements of operations. We have deferred loan origination fees and certain direct loan origination costs and included them in the carrying value. Upon the sale of a loan, we include any unamortized deferred loan fees, net of costs, in the gain or loss on sale of interest earning assets. We compute gains and losses on disposal of such loans on a specific identification basis.

We report loans held for investment at amortized cost, less an allowance for loan losses, discounts, deferred loan fees and undisbursed loan funds. To qualify for this treatment, upon origination or purchase we must have both the ability and the intent to hold such loans to maturity. We defer loan origination fees and certain direct loan origination costs and recognize them over the lives of the related loans as a yield adjustment that we include in interest income using the interest method applied on a loan-by-loan basis.

We accrue interest income as it is earned. We place loans 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 we place a loan on non-accrual status, we reverse interest accrued but not received. In addition, we suspend the amortization of deferred loan fees when we place a loan on nonaccrual status. We return loans to accrual status only when we reinstate the loan and have no doubt regarding ultimate collectibility.

Allowance for Loan Losses

We maintain the allowance for loan losses at a level that, based upon our evaluation of known and inherent risks in the portfolio, we consider adequate to provide for losses. We establish specific valuation allowances for impaired loans in the amount by which the carrying value, before allowance for probable 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 we generally evaluate for impairment as homogeneous pools of loans. We consider a loan to be impaired when, based upon current information and events, we believe that we will probably be unable to collect on a timely basis all amounts due according to the contractual terms of the loan agreement. We measure these impaired loans at the fair value of the loans' underlying collateral less estimated disposal costs. We may leave impaired loans on accrual status during the period we are pursuing repayment of the loan. We place these loans on non-accrual status at such time that either: (i) the loans become 90 days delinquent; or (ii) we determine that the borrower is incapable of, or has ceased efforts toward, curing the cause of the non-payment. We recognize impairment losses through an increase in the allowance for loan losses and a corresponding charge to the provision for loan losses. When we either sell, transfer to real estate owned ("REO") or charge-off an impaired loan, we remove valuation allowance from the allowance for loan losses. Charge-offs occur when we consider loans, or a portion thereof, uncollectible and of such little value that we consider unwarranted their continuance as bankable assets. We base our ongoing evaluation of the allowance for loan losses upon an analysis of the portfolio, historical loss experience, economic conditions and trends, collateral values and other relevant factors. We may make subsequent adjustments to the allowance if economic conditions and trends, collateral values and other relevant factors differ substantially from the assumptions used in making the evaluation.

Discount Loan Portfolio

We have acquired at a discount certain mortgage loans for which the borrowers were not current as to principal and interest payments or for which there was a reason to believe borrowers would be unable to continue to make their scheduled principal and interest payments. We accounted for the initial investment in these pools of loans based upon the pricing methodologies used to bid on the pool. We allocated the acquisition cost to each loan within the pool when we determined the bid price; we made these allocations based upon an analysis of the expected future cash flows of each individual loan. We accounted for the acquisition cost in the aggregate when we determined the bid price using assumptions concerning the expected future cash flows from groups of loans within the pool. For those single family residential mortgage loans that are brought current by the borrower and certain multi-family and commercial real estate loans that are current and that we believe will remain current, we accrete the remaining unamortized discount into interest income as a yield adjustment using the interest method over the contractual maturity of the loan. For all other loans, we report interest as cash is received. We report gains on the repayment and discharging of loans as interest income. The resolution alternatives applied to the discount loan portfolio are:

o The borrower brings the loan current in accordance with original or modified terms

o The borrower repays the loan or a negotiated amount

o The borrower agrees to a deed-in-lieu of foreclosure, in which case we classify it as real estate owned and held for sale

- We foreclose on the loan and the property is either acquired at the foreclosure sale by a third-party or by us, in which case it is classified as real estate owned and held for sale.

In situations where we foreclose upon the collateral, we transfer the loans to real estate owned upon receipt of title to the property.

Real Estate Owned

We value properties acquired through foreclosure at the lower of the adjusted cost basis of the loan or fair value less estimated costs of disposal of the property after the date of foreclosure. We periodically re-evaluate properties held to determine that we are carrying them at the lower of cost or fair value less estimated costs to dispose. We recognize sales proceeds and related costs with passage of title to the buyer and, in cases where we finance the sale, receipt of sufficient down payment. We report rental income related to properties as a part of loss on real estate owned, net, as earned. We report holding and maintenance costs related to properties as period costs as incurred. We record no depreciation expense related to the properties. We recognize decreases in the market value of foreclosed real estate after foreclosure as a valuation allowance on a property specific basis. We report subsequent increases in market value of the foreclosed real estate as reductions in the valuation allowance, but only to the extent the valuation allowance reaches zero. We charge or credit to income such changes in the valuation allowance.

Mortgage Servicing Rights

We acquire mortgage servicing rights which we record at cost. In connection with our securitization and sale of loans in 1999 and prior years, we generally retained the rights to service such loans for investors. We recognized the servicing asset or liability and other retained interests as allocations of the carrying amounts of the assets sold between the asset sold and the servicing obligation and other retained interests based on the relative fair value of the assets sold to the interests retained. We amortize mortgage servicing assets in proportion to and over the period of estimated net servicing income. We determine estimated net servicing income using the estimated future balance of the underlying mortgage loan portfolio which, absent new purchases, declines over time from prepayments and scheduled loan amortization. We adjust amortization prospectively in response to changes in estimated projections of future cash flows. We evaluate the mortgage servicing assets for impairment based on the fair value of the servicing assets by strata. We stratify the servicing assets based on legal loan-to-value, seasoning, coupon rate and delinquency rate. We estimate fair value by discounting underlying loan cash flows using discount and prepayment rates that we believe market participants would use. To the extent the carrying value of the servicing assets exceeds their fair value by strata, we establish a valuation allowance, which we may adjust in the future, as the value of the servicing assets increase or decrease.

Mortgage Servicing Fees and Advances on Loans Serviced for Others

We receive fees from investors for servicing mortgage loans. We collect servicing fees, generally expressed as a percent of the unpaid principal balance, from the borrowers' payments. We also include late charge income and other ancillary fees, net of amortization of our servicing assets, in servicing income. During any period in which the borrower is not making payments, we are required under certain servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for certain investors, pay property taxes and insurance premiums and process foreclosures. We generally recover such advances from borrowers for reinstated and performing loans and from investors for foreclosed loans. We record a charge to servicing income to the extent that we estimate that advances are uncollectible under provisions of the servicing contracts, taking into consideration historical loss and delinquency experience, length of delinquency and the amount of the advance.

Investment in Real Estate

We record investment in real estate at cost less accumulated depreciation. We review our investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(Dollars in thousands, except share data)

We compute depreciation on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	39 - 40 years
Tenant improvements	Lesser of lease term or useful life
Land improvements	20 years
Furniture, fixtures and equipment	5 - 10 years

Our investments in real estate partnerships are accounted for under the equity method of accounting. Under the equity method of accounting, we record an investment in the shares or other interests of an investee at cost of the shares or interests acquired and thereafter periodically increase (decrease) the investment by our proportionate share of earnings (losses) of the investee and decrease it by the dividends or distributions that we receive from the investee.

In addition, we acquired certain acquisition, development and construction loans in which we participate in the residual profits of the underlying real estate and the borrower had not contributed substantial equity to the project. As such, we account for these loans under the equity method of accounting as though we had made an investment in a real estate limited partnership.

We charge expenditures for repairs and maintenance to operations as incurred but capitalize significant improvements. We classify our leases as operating. We defer fees and costs incurred in the successful negotiation of leases and amortize them on a straight-line basis over the terms of the respective leases. We report rental income on a straight-line basis over the terms of the respective leases.

Real Estate Held for Sale

We report real estate held for sale at the lower of the carrying amount or fair value less cost to sell. We classify real estate as held for sale when we have committed to a plan to sell the assets, and discontinue recording depreciation. We include gains and losses on the sale of real estate held for sale in gain on other non-interest earning assets, net, in our consolidated statement of operations.

Investments in Affordable Housing Properties

Affordable housing partnerships own multi-family residential properties that have been allocated tax credits under the Internal Revenue Code of 1986, as amended (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. We account for investments in affordable housing partnerships that we made on or after May 18, 1995 and in which we invest solely as a limited partner using the equity method. For our limited partnership investments made before this date, we record our receipt of income tax credits and other tax benefits on a level yield basis over the 15-year obligation period and report the tax credits and tax benefits net of amortization of our investment in the limited partnership as a reduction of income tax expense. We consolidate affordable housing partnerships in which we have invested as a limited partner, and through which a subsidiary acts as the general partner, and include them in our consolidated financial statements. For all investments in affordable housing partnerships made after May 18, 1995, we capitalize interest expense and certain direct costs incurred during the pre-operating period.

We report affordable housing properties for which we have entered into an agreement to sell at the lower of cost or fair value less costs to sell. We report all other affordable housing investments at estimated net realizable value.

Excess of Cost Over Net Assets Acquired

We report the excess of purchase price over net assets of acquired businesses ("goodwill") at cost and amortize it on a straight-line basis over the estimated future periods to be benefited, ranging from 3 to 7 years. We review the carrying value of goodwill for impairment whenever events or changes in circumstances indicate that it may not be recoverable. Additionally, we evaluate the amortization periods to determine whether events or circumstances warrant revised amortization periods. We include the results of operations of acquired companies in our consolidated statements of operations beginning with the acquisition date. Effective January 1, 2002 we will no longer amortize our goodwill, but will review the carrying value annually for impairment in accordance with the provisions of Statement of Financial Accounting Standard ("SFAS") No. 142. See Current Accounting Pronouncements below.

Premises and Equipment

We report premises and equipment at cost and, except for land, depreciate them over their estimated useful lives on the straight-line method as follows:

Buildings	39 years
Land improvements	15 years
Furniture and fixtures	5 years
Computer hardware and software	3 years
Leasehold improvements	Life of the lease, with maximum lease term of 10 years.

Capitalized Software Costs

We currently expense all costs attributable to developing, modifying and enhancing our OTX technology solutions. Prior to 2000, we expensed costs incurred up to the establishment of technological feasibility as research and development costs. Once the products were made available for general release to customers, we began amortization of the capitalized costs using the straight-line method over the estimated economic lives of the individual products. We reduce the unamortized costs by product to an amount not to exceed the future net realizable value by product at each financial statement date.

Securities Sold Under Agreements to Repurchase

We periodically enter into sales of securities under agreements to repurchase the same securities ("reverse repurchase agreements"). We report reverse repurchase agreements as financings and report the obligations to repurchase securities sold as a liability in our consolidated statements of financial condition. We report all securities underlying reverse repurchase agreements as assets in our consolidated statements of financial condition. Custodians hold these securities in safekeeping.

Excess of Net Assets Acquired Over Purchase Price

The effects of our acquisition of OAC resulted in a new basis of accounting reflecting fair values of assets and liabilities at the date of acquisition. We report the excess of assets over the purchase price of acquired net assets resulting from the acquisition at cost and have amortized it on a straight-line basis over the estimated future periods to be benefited. Effective January 1, 2002, we reversed the unamortized balance of the excess of net assets acquired over purchase price to income in accordance with the provisions of SFAS No. 141. See Current Accounting Pronouncements below.

Derivative Financial Instruments

We use derivative financial instruments for the purpose of managing our exposure to adverse fluctuations in interest and foreign currency exchange rates. While these instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged. We do not enter into any derivative financial instruments for trading purposes.

We record all of our derivative instruments in the statement of financial condition at fair value. We record changes in the fair value of derivatives each period in current earnings or other comprehensive (loss) income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction and the effectiveness of the hedge.

For cash-flow hedge transactions in which we hedge the variability of cash flows related to a variable-rate asset, liability or a forecasted transaction, we report the effective portions of the changes in the fair value of the derivative instruments in other comprehensive (loss) income. The gains and losses on the derivative instrument that are reported in other comprehensive (loss) income are reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item.

For hedge transactions of net investments in foreign operations, we record the effective portions of the changes in fair value of the derivative instruments as a cumulative translation adjustment and include as a component of accumulated other comprehensive (loss) income in stockholders' equity.

We recognize the ineffective portions of all hedges in our current period earnings.

We account for all other derivative instruments used for risk management purposes that do not meet the hedge accounting criteria and, therefore, do not qualify for hedge accounting at fair value with changes in fair value recorded in our consolidated statement of operations.

Effective January 1, 2001, we adopted SFAS No. 133. See Current Accounting Pronouncements below.

Foreign Currency Translation

We translate assets and liabilities of foreign entities where the functional currency is not the U.S. dollar into U.S. dollars at the current rate of exchange existing at the statement of financial condition date and revenues and expenses at average monthly rates. We include the resulting translation adjustments as a component of accumulated other comprehensive income in stockholders' equity.

Income Taxes

We file consolidated Federal income tax returns with our subsidiaries. Consolidated income tax is allocated among the subsidiaries participating in the consolidated returns as if each subsidiary that has one or more subsidiaries filed its own consolidated return and those with no subsidiaries filed separate returns.

We account 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 bases of assets and liabilities. Additionally, we adjust deferred taxes for subsequent tax rate changes. We conduct periodic evaluations to determine whether it is more likely than not that some or all of our deferred tax asset will not be realized. Among the factors considered in this evaluation are estimates of future earnings, the future reversal of temporary differences and the impact of tax planning strategies that we can implement if warranted.

Investment in Unconsolidated Entities

We account for our investments in unconsolidated entities under the equity method of accounting. Under the equity method of accounting, we initially record an investment in the shares or other interests of an investee at the cost of the shares or interests acquired and thereafter periodically increase (decrease) the investment by our proportionate share of the earnings (losses) of the investee and decrease it by the dividends or distributions that we receive from the investee.

Basic and Diluted Earnings Per Share

We calculate basic earnings per share based upon the weighted average number of shares of common stock outstanding during the year. We calculate diluted earnings per share based upon the weighted average number of shares of common stock outstanding and all dilutive potential common shares outstanding during the year. The computation of diluted earnings per share includes the impact of the exercise of the outstanding options to purchase common stock and assumes that the proceeds from such issuance are used to repurchase common shares at fair value. We exclude common stock equivalents from the diluted calculation if the Company incurs a net loss for the period since the common stock equivalents would be antidilutive.

Comprehensive Income

Comprehensive income represents the change in equity of a business enterprise during a period from transactions and other events and circumstances excluding those resulting from investments by and distributions to owners. We present comprehensive income beginning with net income and add the elements of comprehensive income not included in the determination of net income to arrive at comprehensive income. We present accumulated other comprehensive income net of income taxes and include unrealized foreign currency translation gains and losses.

Risks and Uncertainties

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

We are also exposed to liquidity risk. Our business requires substantial cash to support the residential loan servicing business, including acquisitions of mortgage servicing rights and the unfinanced portion of servicing advances, and to fund holding company operations including OTX operations. In general, we finance our operations through various sources, including asset specific lines of credit and financing facilities, some of which have 90% advance rates. As we continue to increase our purchase of mortgage servicing contracts and fund OTX operations from other operating cash flows, we must secure additional capital to support our growth. Failure to secure additional financing sources or to achieve profitable operations could result in a significant adverse effect on our financial position and results of operations.

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 that we 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 significant in the near or medium term relate to our determination of the allowance for loan losses and our valuation of securities, real estate, affordable housing properties, servicing rights, intangibles and our deferred tax asset.

Current Accounting Pronouncements

On January 1, 2001, we adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138 (collectively, "SFAS No. 133") and recorded a net of tax, a cumulative effect adjustment in accumulated other comprehensive income to recognize at fair value the interest rate swap that was designated as a cash-flow hedging of an outstanding line of credit. The swap matured in April 2001, and we have reclassified to earnings all of this transition adjustment.

Adoption of SFAS 133 did not have a material impact on our use of futures contracts to hedge the net investments in our foreign subsidiaries, as the SFAS 133 accounting is similar to the pre-existing accounting. In addition, adoption of SFAS 133 did not have an impact on our other risk management instruments that do not meet the hedge criteria as these derivatives were already accounted for at fair value with changes in fair value recognized currently in earnings.

As of December 31, 2000, we adopted the disclosure provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as they relate to recognition and reclassification of collateral and for disclosures relating to securitization transactions, mortgage servicing rights and collateral.

As of April 1, 2001, we adopted the other provisions of SFAS 140 as they relate to transfers and servicing of financial assets and extinguishments of liabilities. Adoption of SFAS 140 did not have a material impact on our results of operations, financial position or cash flows.

The Emerging Issues Task Force issued EITF 99-20 "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Assets" effective for fiscal quarters beginning after March 15, 2001. On April 1, 2001, we adopted the provisions of EITF 99-20. Adoption of EITF 99-20 did not have a material impact on our results of operations, financial position or cash flows.

The Financial Accounting Standards Board ("FASB") has issued SFAS No. 141, "Business Combinations". SFAS No. 141 is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later.

SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations leaving only the purchase method of accounting. In addition, SFAS No. 141 requires that intangible assets be recognized separately from goodwill if they meet one of two criteria - the contractual-legal criterion or the separability criterion. SFAS No. 141 also expands upon disclosure requirements by requiring the disclosure of the primary reasons for the business combination, the allocation of the purchase price to the assets acquired and liabilities assumed and, if significant, the amount of goodwill by segment and the amount of the purchase price assigned to each major class of intangible asset. As of July 1, 2001, we adopted the provisions of SFAS No. 141. The impact of the adoption of SFAS No. 141 on our results of operations, financial position and cash flows results from the reversal, as discussed below, of the unamortized balance of the excess of net assets acquired over purchase price upon the adoption of SFAS No. 142.

The FASB has also issued SFAS No. 142, "Goodwill and Other Intangible Assets." Except for goodwill and intangible assets acquired after June 30, 2001, which are immediately subject to its provisions, SFAS No. 142 is effective starting with fiscal years beginning after December 15, 2001.

Under SFAS No. 142, goodwill and intangible assets that have indefinite useful lives will no longer be amortized. Both goodwill and intangible assets that are not being amortized must be tested annually for impairment. In addition, SFAS No. 142 requires additional disclosures regarding goodwill and other intangible assets, including changes in the carrying amount of goodwill from period to period, the carrying amount of intangible assets by major intangible asset class and the estimated intangible asset amortization for the next five years.

We adopted the provisions of SFAS No. 142 effective January 1, 2002. As a result, we reversed the unamortized balance of the excess of net assets acquired over purchase price. This reversal resulted in a pre-tax credit to income of $18,333 on January 1, 2002 that will be reported as the effect of a change in accounting principle. We expect that the elimination of goodwill amortization after the adoption of SFAS No. 142 will positively impact pretax net income by approximately $3,000 in 2002. We have not yet fully determined the impact that the adoption of other elements of SFAS No. 142, including possible impairment charges on goodwill or other intangible assets, may have on our financial position or results of operations.

On October 3, 2001, the FASB has also issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 is designed to establish a single model for long-lived assets to be disposed of and, as such, supercedes SFAS 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions."

We are required to adopt the provisions of SFAS No. 144 effective January 1, 2002. We have not yet determined the impact that the adoption of SFAS No. 144 will have on our results of operations, financial positions or cash flows.

NOTE 2: ACQUISITION AND DISPOSITION TRANSACTIONS

On November 22, 2000, we sold our minority investment in Kensington Group plc ("Kensington") for proceeds, net of stamp duty and other fees, of approximately (pound)34,500 or $48,600. As a result of the transaction, we recorded a pretax gain on sale of $20,025.

On October 7, 1999, Ocwen Acquisition Company ("Acquisition Sub"), a Virginia corporation and an indirect wholly-owned subsidiary of OCN, merged (the "Merger") with and into OAC, a Virginia corporation, in accordance with the Agreement of Merger (the "Merger Agreement") dated as of July 25, 1999 among OAC, OCN and Acquisition Sub. In accordance with the Merger Agreement, OAC shareholders (except for OCN or its subsidiaries) received 0.71 shares of OCN stock for each outstanding share of OAC common stock. We issued a total of 12,371,750 shares of OCN stock at a value of $96,809 to OAC shareholders. Before the Merger, we owned, through IMI, 1,540,000 or 8.12% of the outstanding common stock of OAC and 1,808,733 units or 8.71% of the outstanding partnership units of Ocwen Partnership L.P. ("OPLP"). OPLP is the operating partnership subsidiary of OAC.

(Dollars in thousands, except share data)

The Merger, which resulted in our acquisition of the remaining interest in OAC, reflected an aggregate purchase price of $101,271, including direct costs of the acquisition. The Merger was accounted for as a purchase, and the purchase price was allocated to OAC's assets and liabilities based on their fair market values as follows:

Purchase price..	$ 101,271
Fair value of net assets......................................	161,313
Excess of net assets acquired over purchase price..............	$ 60,042

We have amortized the excess of net assets acquired over the purchase price on a straight-line basis. Amortization in 2000 includes an additional amount of $2,330 resulting from the reduction in the estimated life of the excess of net assets acquired over the purchase price from 60 months to 39 months, effective October 1, 2000, as a result of our acceleration of projected sale dates for the acquired assets. Effective January 1, 2002, we reversed the unamortized balance of net assets acquired over our purchase price to income in accordance with the provisions FAS 141 (see Note 1, above). Results of operations for OAC are included in our consolidated statement of operations from the date of merger.

On September 30, 1999, we sold all the shares of our wholly-owned subsidiary, Ocwen UK, to Malvern House Acquisition Limited for the pound sterling equivalent of $122,101 in cash. Ocwen UK was originally formed to acquire substantially all of the assets, and certain of the liabilities, of the United Kingdom operations of Cityscape Financial Corp., and commenced operations on April 24, 1998. As a result of the transaction, we recorded a pretax gain on sale of $50,371.

On June 2, 1999, OTX acquired substantially all of the assets of Synergy Software, LLC ("Synergy"), a developer of commercial and multi-family mortgage servicing systems, for $5,000. The acquisition was accounted for as a purchase. The excess of purchase price over net assets acquired related to this transaction amounted to $4,948.

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

A majority of our assets, liabilities and off-balance sheet instruments and commitments are considered financial instruments. For the majority of our 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. 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, 2001 and 2000, 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 our fee generating businesses and anticipated future business activities. In other words, they do not represent our value as a going concern. Furthermore, the differences between the carrying amounts and the fair values presented may not be realized.

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

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

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

Securities

We adjust our securities portfolio to fair value within a range based on third party dealer quotations, where available, and internal values, subject to an internal review process. For those securities which do not have an available market quotation, we will request market values and underlying assumptions from the various securities dealers that underwrote, are currently financing the securities or have had prior experience with the type of security to be valued. When we obtain quotations from two or more dealers, we generally use the average dealer quote.

Loans Available for Sale, Loans, Match Funded Loans and Securities, and Discount Loans

We estimate the fair value of our performing loans based upon quoted market prices for similar whole loan pools. We base the fair value of our non-performing loans on estimated cash flows discounted using a rate commensurate with the risk associated with the estimated cash flows. We estimate the fair value of our match funded loans and our discount loan portfolio 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. We mark our match funded securities to fair value in the same manner as securities.

Investment Securities

Our investment securities represent required holdings of specified levels of common stock issued by the Federal Home Loan Bank. These securities are subject to regulatory restrictions that limit our ability to dispose of them freely and we carry them at cost.

Advances on Loans and Loans Serviced for Others

We value advances we make on our loans and loans we service for others at their carrying amounts because they have no stated maturity, do not bear interest and we believe that there is no substantial risk of uncollectibility.

Deposits

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

Borrowings

We base the fair value of our bond-match funded loan agreements, notes and debentures and Capital Securities on quoted market prices. The fair value of our other borrowings, including securities sold under agreements to repurchase and obligations outstanding under lines of credit, approximates carrying value because these borrowings are either short-term or bear interest at a rate that is adjusted regularly based on a market index.

Derivative Financial Instruments

We base the fair values of our derivative financial instruments on quoted market prices.

(Dollars in thousands, except share data)

Loan Commitments, Letters of Credit and Guarantees

The fair values of loan commitments, letters of credit and guarantees are estimated considering the difference between interest rates on the respective financial statement dates and the committed rates.

The carrying amounts and the estimated fair values of our financial instruments are as follows:

	December 31, 2001		December 31, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Interest earning and non-interest earning cash	$ 134,655	$ 134,655	$ 153,736	$ 153,736
Federal funds sold	126,000	126,000	--	--
Trading securities	226,249	226,249	390,242	390,242
Loans available for sale	1,040	1,040	10,610	10,610
Investment securities	4,659	4,659	13,257	13,257
Loan portfolio, net	64,925	64,925	93,414	93,408
Discount loan portfolio, net	119,327	127,133	536,028	579,909
Match funded assets	174,351	172,306	116,987	109,635
Advances on loans and loans serviced for others	283,183	283,183	227,055	227,055
Financial liabilities:				
Deposits	656,878	679,124	1,202,044	1,219,952
Escrow deposits on loans and loans serviced for others	73,565	73,565	56,316	56,316
Securities sold under agreements to repurchase	79,405	79,405	--	--
Bond-match funded agreements	156,908	156,996	107,050	108,783
Obligations outstanding under lines of credit	84,304	84,304	32,933	32,933
Notes, debentures and other interest-bearing obligations	160,305	159,590	173,330	152,277
Capital Securities	61,159	50,762	79,530	48,911
Derivative financial instruments:				
Interest rate swaps	--	--	--	59
Caps and floors	404	404	271	499
British Pound futures	(235)	(235)	(339)	(339)
Canadian Dollar futures	353	353	(242)	(242)
Other:				
Loan commitments	--	3,432	--	11,259
Letters of credit	--	210	--	6,968
Guarantees	--	7,035	--	7,035

(Dollars in thousands, except share data)

NOTE 4: Trading Securities

As discussed in Note 1, we reclassified our securities available for sale to trading on September 30, 2000. The fair value of our trading securities are as follows at December 31:

	2001	2000
Collateralized mortgage obligations (AAA-rated)	$ 161,191	$ 277,595
Subordinates and residual securities:		
Single family residential:		
BB-rated subordinates	$ 625	$ 4,563
B-rated subordinates	799	2,911
Unrated subordinates	1,008	9,361
Unrated subprime residuals	60,049	93,176
	62,481	110,011
Multi-family and commercial unrated subordinates	2,577	2,636
	$ 65,058	$ 112,647

At December 31, 2001, we had pledged securities from our portfolio of collateralized mortgage obligation (AAA-rated) for the following purposes:

	Fair Value
Securities sold under agreements to repurchase from the FHLB of New York	$ 81,764
Security for certificates of deposit in excess of $100 issued to municipalities in the State of New Jersey	1,005
Overdraft protection with the Federal Reserve Bank of New York	4,231
	$ 87,000

At December 31, 2001, we held securities with an aggregate fair value of $36,181 and $59,634 that were issued by Freddie Mac and Fannie Mae, respectively.

A profile of the maturities of our trading securities at December 31, 2001, follows. Mortgage-backed securities are included based on their weighted-average maturities, reflecting anticipated future prepayments.

	Collateralized Mortgage Obligations		Subordinates and Residuals	
	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value
Due within one year	1.07%	$ 150,002	50.70%	$ 8,585
Due after 1 through 5 years	2.87	11,189	31.98	27,681
Due after 5 through 10 years	--	--	30.52	21,555
Due after 10 years	--	--	24.17	7,237
		$ 161,191		$ 65,058

Realized and unrealized gain (loss) on trading and match funded securities for the year ended December 31, 2001, was comprised of the following:

Unrealized gain (loss):	
Trading securities	$ 3,125
Match funded securities	2,088
	5,213
Realized gain (loss):	
Trading securities	11,117
Match funded securities	--
	11,117
	$ 16,330

(Dollars in thousands, except share data)

Our residual and subordinate securities classified as trading securities at December 31, 2001 include retained interests with a fair value of $25,274 from securitizations of loans completed in prior years. We completed no securitizations of loans during the years ended December 31, 2001 and 2000.

The key economic assumptions we used to estimate the fair value of these retained interests at December 31, 2001 were as follows:

	Weighted Average
Discount rate	18.84%
Projected prepayments	23.21%
Projected average life	3.97 years
Projected annual loss rates	3.07%
Static pool losses	12.74%

At December 31, 2001, the effect on the fair value of our retained interests caused by immediate adverse changes in the assumptions shown above would be as follows:

	Decrease
Discount rate:	
Impact of a +10% change	$ (1,911)
Impact of a +20% change	(3,604)
Prepayments:	
Impact of a -10% change	(258)
Impact of a -20% change	(543)
Loss rates:	
Impact of a +10% change	(1,223)
Impact of a +20% change	(2,315)

These sensitivities are hypothetical and are presented for illustrative purposes only. We applied the changes in the assumptions regarding prepayments and loss rates to the cash flows of the loans underlying the retained securities. We applied changes in assumptions regarding discount rates to the cash flows of the securities. Changes in fair value based upon a change in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. We calculated the changes in assumptions presented in the table above without changing any other assumption. In reality, changes in one assumption may result in changes in another, which may magnify or offset the sensitivities presented. For example, changes in market interest rates may simultaneously impact prepayments, losses and the discount rate.

At and for the year ended December 31, 2001, the following information is provided regarding securitized loans and related financial assets we managed:

Current unpaid principal balance of securitized loans	$ 801,863
Delinquencies of securitized loans (30 days past due)	255,127
Losses, net of recoveries, on securitized loans	50,348

(Dollars in thousands, except share data)

NOTE 5: LOAN PORTFOLIO

Our loan portfolio consisted of the following at December 31:

	Carrying Value	
	2001	2000
Loan type:		
Single family residential	$ 400	$ 848
Multi-family residential:		
Permanent	277	6,083
Construction	19,714	39,123
Total multi-family residential	19,991	45,206
Commercial real estate:		
Hotel construction	30,115	38,153
Office	20,350	20,817
Land	--	1
Total commercial real estate	50,465	58,971
Other	209	48
Total loans	71,065	105,073
Undisbursed loan funds	(2,914)	(8,879)
Unamortized deferred fees	(29)	(372)
Allowance for loan losses	(3,197)	(2,408)
Loans, net	$ 64,925	$ 93,414

Our loan portfolio is secured by mortgages on properties located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing our loans were located at December 31, 2001:

	Single Family Residential	Multi-family Residential	Commercial Real Estate	Consumer	Unsecured	Total
New York	$ --	$ --	$ 15,766	$ 8	$ --	$ 15,774
Delaware	240	--	14,349	--	--	14,589
Connecticut	--	--	12,800	--	--	12,800
New Jersey	35	8,563	--	1	--	8,599
Virginia	--	--	7,550	--	--	7,550
Other (1)	125	11,428	--	--	200	11,753
Total	$ 400	$ 19,991	$ 50,465	$ 9	$ 200	$ 71,065

(1) Consists of properties located in 5 other states, none of which aggregated over $5,645 in any one state.

(Dollars in thousands, except share data)

The following table presents a summary of our non-performing loans, allowance for loan losses and significant ratios for our loan portfolio at and for the years ended December 31:

	2001	2000	1999
Non-performing loans:			
Single family residential	$ --	$ 316	$ 982
Multi-family residential	17,201	13,373	11,037
Commercial real estate and other	5	4,581	19,360
	$ 17,206	$ 18,270	$ 31,379
Allowance for loan losses:			
Balance, beginning of year	$ 2,408	$ 7,259	$ 4,928
Provision for loan losses	2,518	4	1,636
Charge-offs	(1,729)	(4,855)	(8)
Acquired allowance (OAC acquisition)	--	--	703
Balance, end of year	$ 3,197	$ 2,408	$ 7,259
Significant ratios:			
Non-performing loans as a percentage of:			
Total loans	25.26%	19.07%	19.06%
Total assets	1.01	0.81	0.96
Allowance for loan losses as a percentage of:			
Total loans	4.69%	2.51%	4.41%
Non-performing loans	18.58	13.18	23.13

If non-accrual loans had been current in accordance with their original terms, interest income for the years ended December 31, 2001, 2000 and 1999, would have been greater by approximately $1,175, $1,919 and $1,139, respectively. We have accrued no interest on loans greater than 89 days past due.

At December 31, 2001, we had no commercial loans that were impaired. The average carrying value of impaired loans during 2001 was $2,226. At December 31, 2000, we had five commercial loans with an aggregate carrying value of $1,877, net of allowance for loan losses of $361, which were impaired. The average carrying value of impaired loans for the year ended December 31, 2000 was $8,988. At December 31, 1999, we had two commercial loans with an aggregate carrying value of $1,793, net of allowance for loan losses of $1,982, which were impaired.

The following table sets forth the geographic distribution of properties securing our non-accrual loans in the loan portfolio at December 31, 2001:

	Multi-family Residential	Consumer	Total
New Jersey	$ 7,516	$ --	$ 7,516
California	5,519	--	5,519
Tennessee	4,166	--	4,166
New York	--	5	5
Total	$ 17,201	$ 5	$ 17,206

(Dollars in thousands, except share data)

NOTE 6: DISCOUNT LOAN PORTFOLIO

Our discount loan portfolio consisted of the following at December 31:

	2001	2000
Single family residential loans	$ 56,699	$ 289,883
Multi-family residential loans	13,328	105,591
Commercial real estate loans:		
Office buildings	43,913	77,608
Hotels	911	63,967
Retail properties	47,492	85,924
Other properties	607	36,511
	92,923	264,010
Other loans	10,337	17,188
Total discount loans	173,287	676,672
Unaccreted discount:		
Single family residential loans	(16,460)	(74,184)
Multi-family residential loans	(650)	(5,176)
Commercial real estate loans	(19,296)	(40,413)
	(36,406)	(119,773)
	136,881	556,899
Allowance for loan losses	(17,554)	(20,871)
Discount loans, net	$ 119,327	$ 536,028

Our discount loan portfolio is secured by mortgages on properties located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing our discount loans were located at December 31, 2001:

	Single Family Residential	Multi-Family Residential	Commercial Real Estate and Other	Total
Wisconsin	$ 84	$ --	$ 34,414	$ 34,498
New York	2,088	--	26,631	28,719
Texas	2,497	4,127	948	7,572
Oklahoma	188	6,270	1,033	7,491
California	2,483	--	4,400	6,883
Other (1)	32,899	2,281	16,538	51,718
	$ 40,239	$ 12,678	$ 83,964	$ 136,881

(1) Consists of properties located in 39 other states, none of which aggregated over $3,856 in any one state.

(Dollars in thousands, except share data)

The following table sets forth the contractual payment status at December 31 of the loans in our discount loan portfolio:

	2001	2000
Loans without Forbearance Agreements:		
Current	$ 46,887	$ 270,106
Past due 31 days to 89 days	2,071	5,027
Past due 90 days or more	72,070	222,216
Subtotal	121,028	497,349
Loans with Forbearance Agreements:		
Current	1,815	3,273
Past due 31 days to 89 days	453	1,622
Past due 90 days or more (1)(2)	13,585	54,655
Subtotal	15,853	59,550
	$ 136,881	$ 556,899

(1) Included $8,135 of loans which were less than 90 days past due under the terms of the forbearance agreements at December 31, 2001, of which $6,071 were current and $2,064 were past due 31 to 89 days.

(2) Included $35,474 of loans which were less than 90 days past due under the terms of the forbearance agreements at December 31, 2000, of which $33,776 were current and $1,698 were past due 31 to 89 days.

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

	2001	2000	1999
Allowance for loan losses:			
Balance at beginning of year	$ 20,871	$ 19,181	$ 21,402
Provision for loan losses	12,960	15,266	5,434
Charge-offs	(16,761)	(14,213)	(8,052)
Recoveries	484	637	397
Balance at end of year	$ 17,554	$ 20,871	$ 19,181
Significant ratios:			
Allowances for loan losses as a percentage of:			
Total loans (1)	12.82%	3.75%	2.06%
Total assets	1.03%	0.93%	0.58%
Net charge-offs as a percentage of average discount loans	(4.54)%	(1.66)%	(0.80)%

(1) Total loans are net of unaccreted discount.

At December 31, 2001, we had seven commercial discount loans with an aggregate carrying value of $4,771, net of allowance for loan losses of $591, that were impaired. The average carrying value of our impaired loans during 2001 was $21,925. At December 31, 2000, we had six commercial discount loans with an aggregate carrying value of $19,744, net of allowance for loan losses of $1,267, which were impaired. Impaired discount loans at December 31, 2000 were primarily comprised of one loan with a carrying value of $17,896 and secured by a hotel property. The average carrying value of our impaired loans for the year ended December 31, 2000 was $25,572.

(Dollars in thousands, except share data)

NOTE 7: MATCH FUNDED ASSETS

Our match funded assets are comprised of the following at December 31:

	2001	2000
Single family residential loans (1)	$ 53,123	$ 80,834
Allowance for loan losses	(170)	(285)
Match funded loans, net	52,953	80,549
Match funded securities	19,435	36,438
Match funded advances on loans serviced for others:		
Principal and interest	65,705	--
Taxes and insurance	21,900	--
Other	14,358	--
	101,963	--
Balance at end of period	$ 174,351	$ 116,987

(1) Included $4,405 and $2,831 of non-performing loans at December 31, 2001 and 2000, respectively.

Match funded loans were acquired as a result of our acquisition of OAC. These loans were securitized and transferred by OAC to OAC Mortgage Residential Securities, Inc., a real estate mortgage investment conduit (the "Trust") on November 13, 1998. On that date, the Trust issued two classes of notes secured by the related group of mortgage loans. At December 31, 2001, Loan Group I consisted of approximately 383 mortgage loans with original terms of up to 30 years that are secured by first liens on single family residential properties. At that same date, Loan Group II consisted of approximately 239 mortgage loans with original terms of up to 30 years that are secured by first or second liens on single family residential properties. Upon the transfer, OAC received approximately $173,900 of proceeds. The transfer did not qualify as a sale for accounting purposes. Accordingly, the proceeds received from the transfer are reported as a secured borrowing with pledge of collateral (bonds-match funded agreements) in our consolidated statement of financial condition. See Note 16.

Our match funded loans are secured by mortgages on properties located throughout the United States. The following table sets forth the five states in which the largest amount of properties securing our loans were located at December 31, 2001:

Michigan	$ 8,731
California	6,078
Texas	4,201
Florida	3,183
Massachusetts	3,048
Other (1)	27,882
	$ 53,123

(1) Consists of properties located in 40 other states, none of which aggregated over $2,244 in any one state.

Match funded securities, which had a fair value of $19,435, resulted from our transfer of four unrated residual securities to Ocwen NIMs Corp. on December 16, 1999 in exchange for $43,000 in non-recourse notes (Series 1999-OAC1). Upon the transfer, we received approximately $40,100 of proceeds. The transfer did not qualify as a sale for accounting purposes. Accordingly, the amount of proceeds from the transfer is reported as a secured borrowing with pledge of collateral (bonds-match funded agreements) in our consolidated statement of financial condition. See Note 16.

(Dollars in thousands, except share data)

The following table summarizes the maturities of our match-funded securities at December 31, 2001. Maturities are based on weighted-average unpaid principal balance and reflect anticipated future prepayments based on a consensus of dealers in the market.

	Fair Value
Due within one year	$ 4,334
Due after 1 through 5 years	6,319
Due after 5 through 10 years	3,598
Due after 10 years	5,184
	$ 19,435

As disclosed in Note 4, the change in net unrealized holding gains or losses related to match funded securities are included in gain (loss) on trading and match funded securities, net, in our consolidated statement of operations.

Match funded advances on loans serviced for others resulted from the transfer of certain advances on loans serviced for others to a third party in December 2001 in exchange for cash. The transfer did not qualify as a sale for accounting purposes. As a result, the proceeds we received from the transfer are reported as a secured borrowing with pledge of collateral (bonds-match funded agreements) in our consolidated statement of financial condition. See Note 16.

NOTE 8: REAL ESTATE OWNED

Our real estate owned consists almost entirely of properties acquired by foreclosure or deed-in-lieu thereof on loans in our discount loan portfolio. Real estate owned, net of valuation allowance, is held for sale and came from the following loan portfolios:

	2001	2000
Discount loan portfolio:		
Single family residential	$ 16,150	$ 55,751
Multi-family residential	--	149
Commercial real estate	93,664	88,214
Total	109,814	144,114
Loan portfolio	377	1,384
Loans available for sale	274	921
Total	$ 110,465	$ 146,419

The following table sets forth by type of property certain geographical information related to our real estate owned at December 31, 2001:

	Single Family Residential		Multi-family Residential and Commercial		Total	
	Amount	No. of Properties	Amount	No. of Properties	Amount	No. of Properties
Florida	$ 407	10	$ 50,287	4	$ 50,694	14
Michigan	1,320	34	21,606	1	22,926	35
Georgia	689	7	14,361	1	15,050	8
Minnesota	117	2	4,915	1	5,032	3
Washington	231	4	2,447	1	2,678	5
Other (1)	13,660	323	425	1	14,085	324
Total	$ 16,424	380	$ 94,041	9	$ 110,465	389

(1) Consists of properties located in 38 other states, none of which aggregated over $2,059 in any one state.

(Dollars in thousands, except share data)

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

	2001	2000	1999
Balance at beginning of year	$ 18,142	$ 17,181	$ 15,325
Provision for losses	17,766	26,674	28,008
Charge-offs and sales	(16,810)	(25,713)	(26,152)
Balance at end of year	$ 19,098	$ 18,142	$ 17,181

NOTE 9: REAL ESTATE HELD FOR SALE

Our real estate held for sale consisted of the following at December 31:

	2001	2000
Shopping centers (1)	$ --	$ 22,670
Assisted living facilities (2)	13,418	--
	$ 13,418	$ 22,670

(1) During 2001, we transferred our shopping center in Bradenton, Florida to real estate held for investment after the contract to sell the property was terminated. We recorded impairment charges of $1,471 on this property during 2001. Also, during 2001, we sold another shopping center located in Havre, Montana, which had a carrying value of $1,034, for no gain.

(2) Our three assisted living facilities were transferred from real estate held for investment during 2001. Impairment charges of $2,225 were recorded on these properties at the time of transfer based on anticipated sales proceeds.

See Note 10.

(Dollars in thousands, except share data)

NOTE 10: INVESTMENT IN REAL ESTATE

Our investment in real estate consisted of the following at December 31:

	2001	2000
Properties held for investment (1):		
Office buildings	$ 32,132	$ 32,112
Retail	29,637	9,515
Building improvements	17,513	11,346
Tenant improvements and lease commissions	4,537	1,744
Furniture and fixtures	52	52
	83,871	54,769
Accumulated depreciation	(5,327)	(2,359)
	78,544	52,410
Loans accounted for as investments in real estate (2):		
Multi-family residential	--	97
Nonresidential	30,436	45,689
	30,436	45,786
Properties held for lease (3):		
Land and land improvements	--	1,256
Building	--	15,641
Accumulated depreciation	--	(855)
	--	16,042
Investment in real estate partnerships (4)	7,916	8,523
	$ 116,896	$ 122,761

(1) We acquired these properties as a result of our acquisition of OAC. Our properties held for investment at December 31, 2001 are comprised of one commercial office building and two retail shopping centers. During 2001, we transferred our shopping center in Bradenton, Florida from held for sale to held for investment.

(2) We acquired certain acquisition, development and construction loans in January 2000 in which we participate in the expected residual profits of the underlying real estate, and where the borrower has not contributed substantial equity to the project. As such we account for these loans under the equity method of accounting as though we had an investment in a real estate limited partnership.

(3) Consisted of three assisted living facilities which were transferred to real estate held for sale during 2001.

(4) Consists of interests in four limited partnerships operating as real estate ventures, consisting of multi-family type properties.

NOTE 11: MORTGAGE SERVICING

Under contractual servicing agreements with investors, we service mortgage and non-mortgage loans which we do not own. The total unpaid principal balance of such loans we serviced for others was $23,164,012 and $11,360,523 at December 31, 2001 and 2000, respectively, and is excluded from our consolidated statements of financial condition. We similarly exclude funds representing collections of principal and interest we have received from borrowers which are on deposit with an unaffiliated bank from our statements of financial condition. Those funds amounted to $324,027 and $101,461 at December 31, 2001 and 2000, respectively. Domestic servicing fees and other servicing-related income we earned on loans we serviced for others, included in servicing and other fees, amounted to $113,002, $78,685 and $73,224 for the years ended December 31, 2001, 2000 and 1999, respectively. In general, these servicing agreements include guidelines and procedures for servicing the loans, including servicing, remittance and reporting requirements, among other provisions.

(Dollars in thousands, except share data)

We earn servicing and sub-servicing income primarily on mortgage loans secured by real estate in 50 states. At December 31, 2001, the geographic distribution based on the unpaid principal balance of the loans we serviced was as follows:

	No. of Loans (2)	Amount (2)
California	48,079	$ 5,581,275
New York	19,087	1,685,048
Florida	24,254	1,537,766
Illinois	12,649	1,275,094
Texas	20,417	1,188,924
Other (1)	179,067	11,895,905
	303,553	$ 23,164,012

(1) Consisted of loans in 45 other states, none of which aggregated over $794,206 in any one state.

(2) Included 1,571 non-mortgage loans with an unpaid principal balance of $220,343.

The risk inherent in such concentrations is dependent upon regional and general economic conditions that affect property values.

The unamortized balance of our servicing rights was as follows at December 31:

	2001	2000
Unamortized balance	$ 101,107	$ 53,056
Valuation allowance	--	(1,630)
	$ 101,107	$ 51,426

The following table summarizes the activity in our servicing rights for the years ended December 31:

	2001	2000
Balance at the beginning of year	$ 51,426	$ 11,683
Purchases	79,522	49,779
Amortization	(29,841)	(10,036)
Balance at the end of the year	$ 101,107	$ 51,426

The unamortized balance of $101,107 at December 31, 2001 was comprised of $100,765 of purchased servicing rights and $342 of mortgage servicing rights retained in connection with loan securitizations we completed in prior years. At December 31, 2001, we estimated the fair value of our servicing rights to be $200,528.

Advances related to our loans serviced for others consisted of the following at December 31:

	2001 (1)(2)	2000 (1)
Principal and interest	$ 107,319	$ 95,191
Taxes and insurance	99,972	64,159
Other	69,543	44,697
	$ 276,834	$ 204,047

(1) Does not include advances on our loan portfolios of $6,349 and $23,008 at December 31, 2001 and 2000, respectively.

(2) Does not include $65,706 of principal and interest advances, $21,900 of taxes and insurance advances and $14,358 of other advances that are reported as part of match funded assets. See Note 7.

(Dollars in thousands, except share data)

NOTE 12: AFFORDABLE HOUSING PROPERTIES

Our investments in affordable housing properties were as follows at December 31:

	2001	2000
Investments solely as a limited partner made before May 18, 1995	$ 21,768	$ 53,399
Investments solely as a limited partner made on or after May 18, 1995	6,838	15,185
Investments both as a limited and, through subsidiaries, as a general partner	73,463	74,228
	$ 102,069	$ 142,812

The qualified affordable housing projects underlying our investments in affordable housing properties are geographically located throughout the United States. At December 31, 2001, our largest single investment was $14,028, which related to a project located in Sacramento, California.

We record income on our limited partnership investments made before May 18, 1995 under the level yield method as a reduction of income tax expense. This income amounted to $388, $2,093 and $2,953 for the years ended December 31, 2001, 2000 and 1999, respectively. For 2000, we also recorded additional income tax expense of $6,875 related to certain of our limited partnership investments made before May 18, 1995 resulting from the sale of those investments in advance of their maturity for tax credit purposes. As a result, we could not realize all of the deferred tax benefit that had been previously recorded by us under the level yield method, and we reversed the related accrual for the excess benefits. Had we accounted for our investments under the level yield method under the equity method, income would have been reduced by $88, $337 and $60 for the years ended December 31, 2001, 2000 and 1999, respectively. For limited partnership investments made after May 18, 1995, and for investments as a limited and, through subsidiaries, as a general partner, we recognized tax credits of $1,690, $7,359 and $15,289 for the years ended December 31, 2001, 2000 and 1999, respectively, and recorded a loss after depreciation of $993, $3,483 and $6,291 from operations on the underlying real estate for the years ended December 31, 2001, 2000 and 1999, respectively.

Included in our gains on other non-interest earning assets, net, for the years ended December 31, 2001, 2000 and 1999, are gains (losses) of $(956), $497 and $6,591, respectively, on the sales of certain of our investments in affordable housing properties which had carrying values of $11,469, $27,402 and $41,744, respectively, at time of sale.

During 2001, we recorded impairment charges of $15,587 on properties not subject to sales contracts to reflect their estimated net realizable values. During 2000, we entered into transactions to sell twenty-five of our low-income housing tax credit properties, together with the related tax credits. Although these transactions resulted in the transfer of tax credits and operating results for these properties to the purchasers, they did not qualify as sales for accounting purposes, primarily due to insufficient cash received at signing, as well as certain contingencies with respect to potential repurchase requirements. We recorded a charge to earnings during 2000 of $6,448 reflecting the expected net loss to be incurred upon completion of these transactions. At December 31, 2001 and 2000, our investments in affordable housing properties included $54,688 and $93,210, respectively of properties subject to sales agreements that had not yet qualified as sales for accounting purposes.

NOTE 13: PREMISES AND EQUIPMENT

Our premises and equipment are summarized as follows at December 31:

	2001	2000
Computer hardware and software	$ 53,557	$ 42,759
Buildings	19,270	19,265
Leasehold improvements	9,788	10,056
Land and land improvements	4,041	4,814
Furniture and fixtures	8,810	7,455
Office equipment	1,773	746
Less accumulated depreciation and amortization	(52,650)	(41,943)
	$ 44,589	$ 43,152

(Dollars in thousands, except share data)

Depreciation expense amounted to $11,398, $12,248 and $13,546 for 2001, 2000 and 1999, respectively (of which $2,344, $2,353 and $2,343 for 2001, 2000 and 1999, respectively, related to computer software). Buildings represent our nationwide customer service and collection facility in Orlando, Florida.

NOTE 14: DEPOSITS

Our deposits consisted of the following at December 31:

	2001	2000
Non-interest-bearing deposits	$ 5,624	$ 13,523
NOW and money market checking accounts	15,479	14,670
Savings accounts	1,287	1,274
	22,390	29,467
Certificates of deposit (1)(2)	636,037	1,176,566
Unamortized deferred fees	(1,549)	(3,989)
	634,488	1,172,577
	$ 656,878	$ 1,202,044

(1) At December 31, 2001 and 2000, certificates of deposit, net of unamortized deferred fees, included $499,710 and $964,443, respectively, of brokered deposits originated through national, regional and local investment banking firms which solicit deposits from their customers, all of which are non-cancelable. We did not issue any new brokered certificates of deposit during 2001 and, at this time, do not intend to issue any such deposits in the foreseeable future.

(2) At December 31, 2001 and 2000, certificates of deposit issued on an uninsured basis amounted to $60,804 and $75,417, respectively. Of the $60,804 of uninsured deposits at December 31, 2001, $2,149 were from political subdivisions in New Jersey and are secured or collateralized as required under state law.

The contractual remaining maturity of our certificates of deposit at December 31, 2001 is as follows:

Within one year	$ 416,674
Within two years	110,660
Within three years	60,403
Within four years	25,701
Within five years	1,107
Thereafter	19,943
	$ 634,488

We amortize deferred fees on certificates of deposits on a straight-line basis over the term of the respective certificates of deposit. Such amortization amounted to $2,441, $4,419 and $5,098 for the years ended December 31, 2001, 2000 and 1999, respectively, and is included in interest expense on deposits. Interest expense we incurred by type of deposit account was as follows for the years ended December 31:

	2001	2000	1999
NOW accounts and money market checking	$ 393	$ 532	$ 1,313
Savings	29	37	38
Certificates of deposit	59,545	97,655	97,019
	$ 59,967	$ 98,224	$ 98,370

Accrued interest payable on our deposits amounted to $6,858, $14,955 and $15,078 at December 31, 2001, 2000 and 1999, respectively.

(Dollars in thousands, except share data)

NOTE 15: ESCROW DEPOSITS ON LOANS AND LOANS SERVICED FOR OTHERS

Escrow deposits on loans we own and on loans we serviced for others consisted of the following at December 31:

	2001	2000
Taxes and insurance payments held on loans serviced for others..............	$ 63,235	$ 34,662
Escrow balances on loans held for sale, loan portfolio and discount loan portfolio...	899	6,917
Other escrow deposits...	9,431	14,737
	$ 73,565	$ 56,316

NOTE 16: BONDS-MATCH FUNDED AGREEMENTS

Our bonds-match funded agreements are accounted for as secured borrowings with pledges of collateral and were comprised of the following at December 31:

Collateral	2001	2000
Single family residential loans..	$ 46,145	$ 72,101
Unrated residual securities..	18,997	34,949
Advances on loans serviced for others......................................	91,766	--
	$ 156,908	$ 107,050

At December 31, 2001 and 2000, our bonds-match funded agreements had a weighted average interest rate of 3.97% and 8.07%, respectively. Accrued interest payable on our bonds-match funded agreements amounted to $97 and $143 at December 31, 2001 and 2000, respectively. We incurred interest expense on our bonds-match funded agreements of $7,315, $11,484 and $2,101 during 2001, 2000 and 1999, respectively.

NOTE 17: LINES OF CREDIT AND OTHER SHORT-TERM BORROWINGS

Through our subsidiaries we have obtained secured lines of credit from various unaffiliated financial institutions as follows:

Collateral	Balance Outstanding	Amount of Facility	Committed Amount	Maturity Date	Interest Rate(3)
December 31, 2001:					
Real estate investments and commercial loans (1)........	$ 32,463	$ 200,000	$ 115,580	June 2002	LIBOR + 240 basis points
Advances on loans serviced for others (2)..................	51,841	100,000	51,841	October 2002	LIBOR + 200 basis points
	$ 84,304				
December 31, 2000:					
Real estate investments and commercial loans (1)........	$ 32,933	$ 200,000	$ 115,580	June 2001	LIBOR + 240 basis points

(1) Acquired in connection with our acquisition of OAC.

(2) This line was entered into during 2001 to fund servicing advances we acquired in connection with our acquisition of servicing rights.

(3) LIBOR was 1.87% and 6.57% at December 31, 2001 and 2000, respectively.

(Dollars in thousands, except share data)

The maximum month end amount of our borrowings under lines of credit was $119,648 and $184,750 for the years ended December 31, 2001 and 2000, respectively. The average balance of obligations outstanding under lines of credit was $82,604 and $152,424 during the years ended December 31, 2001 and 2000, respectively, and the weighted average interest rates were 6.67% and 9.11%, respectively.

Accrued interest payable on our obligations outstanding under lines of credit amounted to $171 and $0 at December 31, 2001 and 2000, respectively. Interest expense we incurred on our obligations outstanding under lines of credits amounted to $5,511, $13,881 and $16,318 during 2001, 2000 and 1999, respectively.

In addition to our lines of credit listed above, through the Bank, we have the capacity to borrow from the Federal Home Bank of New York ("FHLB") up to an aggregate of $50,000, at the prevailing market rate. This facility matures in March 2002. We had no advances from the FHLB during the years ended December 31, 2001 and 2000.

We also have contractual relationships with eleven brokerage firms and the FHLB under which we can obtain funds under reverse repurchase agreements. At December 31, 2001, we had $79,405 of such reverse repurchase agreements outstanding as compared to $0 at December 31, 2000. At December 31, 2001 reverse repurchase agreements ranged in maturity from two to seven days and had interest rates ranging from 1.80% to 1.89%. The maximum month end amount of our borrowings through reverse repurchase agreements was $92,095 and $421,050 during the years ended December 31, 2001 and 2000, respectively. The average balance of reverse repurchase agreements outstanding was $19,500 and $167,337 during the years ended December 31, 2001 and 2000, respectively, and the weighted average interest rates were 2.71% and 6.41%, respectively.

As of December 31, the weighted average interest rates of our obligations outstanding under lines of credit and reverse repurchase agreements were as follows:

	2001	2000
Lines of credit....................................	4.02%	8.97%
Reverse repurchase agreements......................	1.87%	--

NOTE 18: NOTES, DEBENTURES AND OTHER INTEREST-BEARING OBLIGATIONS

Our notes, debentures and other interest-bearing obligations mature as follows:

	December 31,	
	2001	2000
2003:		
11.875% Notes due October 1........................	$ 87,025	$ 100,050
2004:		
Loan due May 24 (LIBOR plus 250 basis points).......	6,235	6,235
2005:		
12% Subordinated Debentures due June 15.............	67,000	67,000
11.5% Notes due July 1.............................	45	45
	$ 160,305	$ 173,330

We issued our 11.875% Notes due October 1, 2003, ("the Notes") in the original amount of $125,000 with interest payable semiannually on April 1 and October 1. The Notes are unsecured general obligations and are subordinated in right of payment to the claims of creditors of our subsidiaries.

(Dollars in thousands, except share data)

We may not redeem the Notes before October 1, 2001, except as described below. On or after such date, we may redeem the Notes at any time at our option, 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%

During 2001 and 2000, we repurchased $13,025 and $3,800, respectively, of our Notes in the open market, resulting in extraordinary gains of $52 ($17 net of taxes) and $439 ($276 net of taxes), respectively.

The indenture governing the Notes requires that we maintain, at all times when the Notes are not rated in an investment grade category by one or more nationally recognized statistical rating organizations, unencumbered liquid assets with a value equal to 100% of the required interest payments due on the Notes on the next two succeeding semiannual interest payment dates. We maintained an investment in cash and cash equivalents of $10,366 and $12,057 at December 31, 2001 and 2000, respectively, that is restricted for purposes of meeting this liquidity requirement. The indenture further provides that we 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.

In connection with the issuance of the Notes, we incurred certain costs that we capitalized and are amortizing on a straight-line basis over the life of the Notes. The unamortized balance of these issuance costs amounted to $1,185 and $2,140 at December 31, 2001 and 2000, respectively, and is included in other assets. Accrued interest payable on the Notes amounted to $2,583 and $2,970 at December 31, 2001 and 2000, respectively. We incurred interest expense on the Notes of $11,465, $12,293 and $14,656 during 2001, 2000 and 1999 respectively.

The Bank issued our 12% Subordinated Debentures due 2005 (the "Debentures") in the original amount of $100,000 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 Bank may redeem the Debentures at any time at its option, 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
2001	104.000%
2002	102.667%
2003	101.333%
2004 and thereafter	100.000%

In connection with the issuance of the Debentures, the Bank incurred certain costs that we capitalized and are amortizing on a straight-line basis over the expected life of the Debentures. The unamortized balance of these issuance costs amounted to $617 and $1,043 at December 31, 2001 and 2000, respectively, and is included in other assets. Accrued interest payable on the Debentures amounted to $335 at both December 31, 2001 and 2000. We incurred interest expense on the Debentures of $8,040, $8,040 and $11,412 during 2001, 2000 and 1999, respectively. During 1999, the Bank repurchased $33,000 of its Debentures in the open market, resulting in an extraordinary gain of $1,605 ($1,323 net of taxes). There were no repurchases during 2001 or 2000.

As a result of our acquisition of OAC in October 1999, we assumed the 11.5% Redeemable Notes ("the Redeemable Notes") due 2005, which OAC issued during 1998 in the original amount of $150,000. During 2000, we repurchased in the open market $44,930 of the outstanding balance of its Redeemable Notes. These repurchases resulted in extraordinary gains of $8,073 ($5,086 net of taxes). Additionally, on December 21, 2000, we acquired $98,025 in aggregate principal outstanding of the Redeemable Notes pursuant to our tender offer and consent solicitation dated November 14, 2000. This repurchase resulted in an extraordinary gain of $9,452 ($5,955 net of taxes). We incurred interest expense on the Redeemable Notes of $5, $13,680 and $4,226 during 2001, 2000 and 1999, respectively.

NOTE 19: CAPITAL SECURITIES

In August 1997, Ocwen Capital Trust ("OCT") issued $125,000 of 10-7/8% Capital Securities (the "Capital Securities"). OCT invested the proceeds from issuance of the Capital Securities in 10-7/8% Junior Subordinated Debentures issued by OCN. The Junior Subordinated Debentures, which represent the sole assets of OCT, will mature on August 1, 2027. During 2001 and 2000, we repurchased $18,371 and $30,470, respectively, of our Capital Securities in the open market, resulting in extraordinary gains of $3,723 ($2,345 net of taxes) and $11,739 ($7,396 net of taxes), respectively.

Holders of the Capital Securities are entitled to receive cumulative cash distributions accruing from the date of original issuance and payable semiannually in arrears on February 1 and August 1 of each year, commencing on February 1, 1998, at an annual rate of 10-7/8% of the liquidation amount of $1,000 per Capital Security. OCN guarantees payment of distributions out of moneys held by OCT, and payments on liquidation of OCT or the redemption of Capital Securities, to the extent OCT has funds available. If Ocwen Financial Corporation does not make principal or interest payments on the Junior Subordinated Debentures, OCT will not have sufficient funds to make distributions on the Capital Securities, in which event the guarantee shall not apply to such distributions until OCT has sufficient funds available therefore. Accumulated distributions payable on the Capital Securities amounted to $2,771 and $3,533 at December 31, 2001 and 2000, respectively, and are included in accrued interest payable.

We have the right to defer payment of interest on the Junior Subordinated Debentures at any time or from time to time for a period not exceeding 10 consecutive semiannual periods with respect to each deferral period, provided that no extension period may extend beyond the stated maturity of the Junior Subordinated Debentures. Upon the termination of any such extension period and the payment of all amounts then due on any interest payment date, we may elect to begin a new extension period. Accordingly, there could be multiple extension periods of varying lengths throughout the term of the Junior Subordinated Debentures. If we defer interest payments on the Junior Subordinated Debentures, distributions on the Capital Securities will also be deferred, and the we may not, and may not permit any of our subsidiaries to, (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, their capital stock or (ii) make any payment of principal, interest or premium, if any, on or repay, repurchase or redeem any debt securities that rank pari passu with or junior to the Junior Subordinated Debentures. During an extension period, interest on the Junior Subordinated Debentures will continue to accrue at the rate of 10-7/8% per annum, compounded semiannually.

We may redeem the Junior Subordinated Debentures before maturity at our option, subject to the receipt of any necessary prior regulatory approval, (i) in whole or in part on or after August 1, 2007, at a redemption price equal to 105.438% of the principal amount thereof on August 1, 2007, declining ratably on each August 1 thereafter to 100% on or after August 1, 2017, plus accrued interest thereon, or (ii) at any time, in whole (but not in part), upon the occurrence and continuation of a special event (defined as a tax event, regulatory capital event or an investment company event) at a redemption price equal to the greater of (a) 100% of the principal amount thereof or (b) the sum of the present values of the principal amount and premium payable with respect to an optional redemption of such Junior Subordinated Debentures on August 1, 2007, together with scheduled payments of interest from the prepayment date to August 1, 2007, discounted to the prepayment date on a semiannual basis at the adjusted Treasury rate plus accrued interest thereon to the date of prepayment. The Capital Securities are subject to mandatory redemption, in whole or in part, upon repayment of the Junior Subordinated Debentures at maturity or their earlier redemption, in an amount equal to the amount of the related Junior Subordinated Debentures maturing or being redeemed and at a redemption price equal to the redemption price of the Junior Subordinated Debentures, plus accumulated and unpaid distributions thereon to the date of redemption.

For financial reporting purposes, we treat OCT as a subsidiary and, accordingly, the accounts of OCT are included in our consolidated financial statements. We eliminate intercompany balances and transactions with OCT, including the balance of Junior Subordinated Debentures outstanding, in our consolidated financial statements. We present the Capital Securities in a separate caption between liabilities and stockholders' equity in our consolidated statement of financial condition as "Company-obligated, mandatorily redeemable securities of subsidiary trust holding solely Junior Subordinated Debentures of the Company." We report distributions on the Capital Securities in a separate caption immediately following non-interest expense in our consolidated statement of operations. We intend to continue this method of accounting in the future.

In connection with our issuance of the Capital Securities, we incurred certain costs that we capitalized and are amortizing over the term of the Capital Securities. The unamortized balance of these issuance costs amounted to $2,083 and $2,815 at December 31, 2001 and 2000, respectively, and are included it in other assets.

(Dollars in thousands, except share data)

NOTE 20: BASIC AND DILUTED EARNINGS PER SHARE

We are required to present both basic and diluted EPS on the face of our statement of operations. Basic EPS excludes common stock equivalents and is calculated by dividing net income by the weighted average number of common shares outstanding during the year. We calculate diluted EPS by dividing net income by the weighted average number of common shares outstanding, including the dilutive potential common shares related to outstanding stock options.

The following is a reconciliation of the calculation of basic EPS to diluted EPS for the years ended December 31:

	2001	2000	1999
Net income (loss)	$ (124,782)	$ 2,192	$ 19,832
Basic EPS:			
Weighted average shares of common stock	67,227,058	67,427,662	63,051,015
Basic EPS	$ (1.86)	$ 0.03	$ 0.31
Diluted EPS:			
Weighted average shares of common stock	67,227,058	67,427,662	63,051,015
Effect of dilutive securities:			
Stock options (1)	--	36,381	39,267
	67,227,058	67,464,043	63,090,282
Diluted EPS	$ (1.86)	$ 0.03	$ 0.31

(1) Excludes the effect of 1,718,133 and 1,565,343 of options that are antidilutive for 2000 and 1999, respectively.

NOTE 21: DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative financial instruments for the purpose of managing our exposure to adverse fluctuations in interest and foreign currency exchange rates.

Because interest rate futures, swaptions, put options and foreign currency futures contracts are exchange traded, holders of these instruments look to the exchange for performance under these contracts and not the entity holding the offsetting futures contract, thereby minimizing the risk of nonperformance under these contracts. We are exposed to credit loss in the event of nonperformance by the counterparty to the interest and currency swaps and control this risk through credit monitoring procedures. The notional principal amount does not represent our exposure to credit loss.

Interest Rate Management

In managing our interest rate risk, we enter into interest rate swaps from time to time. Under interest rate swaps, we agree 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 interest rate swaps provided for us to receive a floating rate of interest based on the London Interbank Offered Rate ("LIBOR") and to pay fixed interest rates. We used these interest rate swaps to alter the interest rate on LIBOR rate debt incurred to fund our acquisitions of real estate, subordinate and residual securities and securities sold under agreements to repurchase.

We are exposed to credit loss when we enter into interest rate swaps if: (i) the counterparty to the interest rate swap does not perform and (ii) the floating interest rate that we receive exceeds the fixed interest rate that we pay. All the counterparties had long-term debt ratings of A+ or above by Standard and Poor's and A1 or above by Moody's. Although a swap generally may not be sold or transferred without the consent of the counterparty, management does not believe that this consent would be withheld. Although none of our interest rate swaps were exchange-traded, there are a number of financial institutions which enter into these types of transactions as part of their day-to-day activities.

(Dollars in thousands, except share data)

We had no interest rate swaps outstanding at December 31, 2001. The terms of our outstanding interest swaps at December 31, 2000 are as follows:

Maturity	Notional Amount	LIBOR Index	Fixed Rate	Floating Rate	Fair Value
April 2001...........	$ 33,000	1-Month	6.00%	6.80%	$ 59

Our swaps had the effect of increasing (decreasing) net interest income by $2, $(148) and $(72) for the years ended December 31, 2001, 2000 and 1999, respectively. During 2001 and 2000, we realized gains (losses) of $(9) and $575 on swaps that we included in net operating gains on investments in real estate.

We have purchased amortizing caps and floors to hedge our interest rate exposure relating to our match funded loans and securities. An interest rate cap or interest rate floor is designed to provide protection against the interest rate on a floating-rate instrument rising above some level (cap) or falling below some level (floor). The interest rate representing the cap or the floor is referred to as the "strike rate." We receive payments from the seller on caps when the current interest rate rises above the strike rate and on floors when the current interest rate falls below the strike rate. The amount received represents the difference between the current rate and the strike rate applied to the notional amount. The terms of our outstanding caps and floors at December 31, 2001 and 2000 are as follows:

	Notional Amount	Maturity	Index	Strike Rate	Fair Value
December 31, 2001:					
Caps........................	$ 125,933	October 2003	LIBOR 1-Month	7.00%	$ 104
Floors......................	34,100	October 2003	CMT 2-Year	4.35	300
					$ 404
December 31, 2000:					
Caps........................	$ 141,674	October 2003	LIBOR 1-Month	7.00%	$ 345
Floors......................	37,787	October 2003	CMT 2-Year	4.35	154
					$ 499

During 2001, we determined that our caps and floors no longer qualified for hedge accounting. Unrealized gains included in earnings to record our caps and floors at fair value during 2001 amounted to $404. Amortization of the caps and floors amounted to $1,181and $295 during the years ended December 31, 2000 and 1999, respectively.

We have also managed our interest rate risk by purchasing European swaptions and put options and U.S. Treasury and U.S. Agency futures contracts to hedge anticipated future fundings related to affordable housing properties. During the fourth quarter of 1999, these financial instruments ceased to qualify for hedge accounting and subsequent gains or losses were included in earnings. We closed these financial instruments during the fourth quarter of 2000.

We purchased no swaptions, put options, U.S. Treasury futures contracts or US Agency futures contracts during 2001. The following table summarizes our net realized gains and (losses) on the following financial instruments included in earnings for years ended December 31, 2000 and 1999:

	2000	1999
Swaptions and put options.........................	$ (374)	$ 588
U.S. Treasury and Agency futures..................	(617)	208

(Dollars in thousands, except share data)

The fair value of our interest rate swaps and caps and floors represents the estimated amount that we would receive or pay to terminate these agreements taking into account current interest rates. Market quotes are available for these agreements. The following table summarizes our use of interest rate risk management instruments:

	Notional Amount					
	U.S. Treasury and Agency Futures Sold Short	Interest Rate Swaps	European Treasury Swaptions	European Treasury Put Options	Caps	Floors
Balance, December 31, 1999	$ 19,000	$ 200,780	$ 18,400	$ 2,500	$ 159,211	$ 41,899
Purchases	54,700	--	14,500	--	--	--
Maturities	(15,600)	--	(26,900)	(2,500)	(17,537)	(4,112)
Terminations	(58,100)	(167,780)	(6,000)	--	--	--
Balance, December 31, 2000	--	33,000	--	--	141,674	37,787
Maturities	--	(33,000)	--	--	(15,741)	(3,686)
Balance, December 31, 2001	$ --	$ --	$ --	$ --	$ 125,933	$ 34,101

Foreign Currency Management

We enter into foreign currency derivatives to hedge our investments in our foreign subsidiaries which own residual interests backed by residential loans originated in the UK ("UK residuals") and in our shopping center located in Halifax, Nova Scotia ("the Nova Scotia shopping center"). It is our policy to periodically adjust the amount of foreign currency derivative contracts we have entered into in response to changes in our investments in these assets. Currency futures are commitments to either purchase or sell foreign currency at a future date for a specified price.

We have determined that the local currency of our investment in UK residuals and our investment in the Nova Scotia Shopping Center is the functional currency. Our foreign currency derivative financial instruments qualify for hedge accounting. Accordingly, we include the gains or losses in the net unrealized foreign currency translation in accumulated other comprehensive income in stockholders' equity.

The following table sets forth the terms and values of our foreign currency financial instruments at December 31, 2001 and 2000:

	Position	Maturity	Notional Amount		Strike Rate	Fair Value
December 31, 2001:						
Canadian Dollar currency futures	Short	March 2002	C$	34,000	0.6380	$ 353
British Pound currency futures	Short	March 2002	(pound)	17,250	1.4350	(235)
						$ 118
December 31, 2000:						
Canadian Dollar currency futures	Short	March 2001	C$	33,000	0.6795	$ (242)
British Pound currency futures	Short	March 2001	(pound)	14,688	1.5139	(339)
						$ (581)

Before the sale of our equity investment in Kensington in 2000, we entered into a British Pound currency forward ("currency forward") with a AAA-rated counterparty to hedge our equity investment in Kensington. In connection with the sale of the equity investment in Kensington, the currency forward was closed in November 2000.

(Dollars in thousands, except share data)

NOTE 22: INCOME TAXES

The components of income tax expense (benefit) were as follows:

	Years Ended December 31,		
Current:	2001	2000	1999
Federal	$ --	$ (24,744)	$ 33,930
State	--	261	3,293
	--	(24,483)	37,223
Deferred:			
Federal	(22,752)	14,724	(41,734)
Foreign	--	--	5,987
State	(2,009)	216	(1,368)
Provision for valuation allowance on prior year's deferred tax asset	83,000	17,500	2,500
Provision for valuation allowance on current year's deferred tax asset	23,348	--	--
Income tax expense before extraordinary gains	81,587	7,957	2,608
Income tax expense on extraordinary gains	1,413	10,990	1,491
Total	$ 83,000	$ 18,947	$ 4,099

Income tax expense before extraordinary gains differs from the amounts computed by applying the U.S. Federal corporate income tax rate of 35% as follows:

	Years Ended December 31,		
	2001	2000	1999
Expected income tax expense (benefit) at statutory rate	$ (15,945)	$ (2,997)	$ 5,187
Differences between expected and actual expense (benefit):			
Excess of cost over net assets acquired, net	1,108	1,078	1,249
Excess of net assets acquired over purchase price	(6,416)	(4,939)	--
State tax (after Federal tax benefit)	(1,306)	310	1,251
Low-income housing tax credits	(2,078)	(2,577)	(18,242)
Sale of Ocwen UK	--	--	9,730
OAC loss not included in consolidated tax group	--	--	223
Deferred tax asset valuation allowance current year tax benefit	23,348	--	--
Deferred tax asset valuation allowance prior year	83,000	17,500	2,500
Other	(124)	(418)	710
Actual income tax expense (benefit)	$ 81,587	$ 7,957	$ 2,608

For taxable years beginning before January 1, 1996, a savings institution that met certain definitional tests relating to the composition of its assets and the sources of its income (a "qualifying savings institution") was permitted to establish reserves for bad debts and make annual additions thereto under the experience method. Alternatively, a qualifying savings institution could elect, on an annual basis, to use the percentage of taxable income method to compute its allowable addition to its bad debt reserve on qualifying real property loans (generally loans secured by an interest in improved real estate). The applicable percentage was 8% for tax periods after 1987. The Bank utilized the percentage of taxable income method for these years.

On August 20, 1996, President Clinton signed the Small Business Job Protection Act (the "Act") into law. One provision of the Act repealed the reserve method of accounting for bad debts for savings institutions effective for taxable years beginning after 1995. The Bank, therefore, was required to use the specific charge-off method on its 1996 and subsequent federal income tax returns. The Bank will be required to recapture its "applicable excess reserves," which are its federal tax bad debt reserves in excess of the base year reserve amount described in the following paragraph. The Bank will include one-sixth of its applicable excess reserves in taxable income in each year from 1996 through 2001. As of December 31, 1995, the Bank had approximately $42,400 of applicable excess reserves. As of December 31, 1996, the Bank had fully provided for the tax related to this recapture.

(Dollars in thousands, except share data)

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 has had no material impact on the Bank's or OCN's operations or financial position.

We have not recognized a deferred tax liability 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, 2001 and 2000, the amount of those reserves was approximately $5,700. This reserve could be recognized in the future under the conditions described in the preceding paragraph.

The net deferred tax asset was comprised of the following as of:

	December 31, 2001	December 31, 2000
Deferred Tax Assets:		
Tax residuals and deferred income on tax residuals	$ 3,176	$ 4,374
State taxes	5,685	6,197
OAC purchase accounting adjustments	--	8,117
Accrued profit sharing	2,271	1,972
Accrued other liabilities	206	249
Interest expense related to discount loan portfolio	7,031	9,936
Valuation allowance on real estate owned	6,873	6,360
Gain on loan foreclosure	7,009	12,834
Bad debt and allowance for loan losses	11,021	16,210
Impairment on securities available for sale and unrealized gains and losses on trading securities	71,866	57,951
Mortgage servicing rights amortization	5,971	2,208
Goodwill amortization	451	21
Foreign currency exchange	1,068	1,068
Capital loss carryforward	4,160	4,160
Net operating loss carryforward	15,647	--
Partnership losses and low-income housing tax credits	40,782	30,022
Other	--	2,679
	183,217	164,358
Deferred Tax Liabilities:		
Deferred interest income on discount loan portfolio	6,421	7,047
Research and development costs	1,294	1,719
Foreign currency translation adjustment	--	229
Other	1,870	499
	9,585	9,494
	173,632	154,864
Valuation allowances	(165,221)	(58,873)
Net deferred tax asset	$ 8,411	$ 95,991

As of December 31, 2001, we had a deferred tax asset valuation allowance totaling $165,221. This allowance is comprised of $38,873 relating to built-in loss limitations arising from our acquisition of OAC and $103,000 relating to our evaluation of the future realization of prior years deferred tax asset and $23,348 related to the future realization of our current year tax benefit.

We conduct periodic evaluations to determine whether it is more likely than not that the deferred tax asset can be realized in future periods. Among the factors considered in this evaluation are estimates of future earnings, the future reversal of temporary differences and the impact of tax planning strategies that can be implemented if warranted. As a result of this evaluation, we included in the tax provision an increase of $106,348, $17,500 and $2,500 to the valuation allowance for 2001, 2000 and 1999 respectively.

Before our acquisition of OAC, OAC was a REIT for federal tax purposes and filed a REIT federal income tax return through October 20, 1999. We have included OAC in our consolidated federal income tax return since October 21, 1999. OAC had, at October 6, 1999, approximately $131,567 of net unrealized built-in losses. Any such losses recognized within the five-year period beginning on October 7, 1999 (the "recognition period") are treated as pre-change losses and, as such, are subject to an annual limit as to the amount which may offset the taxable income of Ocwen Financial Corporation and its subsidiaries ("the IRC section 382 limitation"). A net unrealized built-in loss is an amount by which the tax basis of the corporation's assets at the time of the change in ownership exceeds the aggregate fair market value of those assets at that time. The IRC section 382 limitation is determined by multiplying the value of OAC's stock by the federal long-term tax-exempt rate and amounts to approximately $5,700. If a deduction is denied for any recognized built-in loss in any post-change year, the loss is carried forward to subsequent years under rules similar to the standard loss carryforward rules. As a result of these limitations, we established a corresponding deferred tax asset valuation allowance at the acquisition date as part of purchase accounting in the amount of $38,873.

International Hotel Group ("IHG"), a wholly-owned subsidiary of IMI, and IHG's subsidiaries had at December 31, 2001, approximately $1,079 of Separate Return Limitation Year ("SRLY") net operating loss carryforwards. The SRLY net operating loss carryforward can only offset the future taxable income of IHG and its subsidiaries. The $1,079 operating loss carryforward will expire, if unused, in the year 2008. At December 31, 2001 we had net operating loss carryforwards of $44,706, of which $12,898 expire in 2018 and $31,808 expire in 2021. At December 31, 2001, we had tax credit carryforwards of $30,479 related to our low-income housing tax credits, which expire in 2018, 2019, 2020 and 2021.

NOTE 23: EMPLOYEE BENEFIT AND COMPENSATION PLANS

We maintain a defined contribution plan to provide postretirement benefits to our eligible employees. We also adopted a number of compensation plans for certain of our employees. We designed these plans to facilitate a pay-for-performance policy, further align the interests of our officers and key employees with the interests of our shareholders and assist in the attraction and retention of employees vital to our long-term success. These plans are summarized below.

Retirement Plan

We maintain a defined contribution 401(k) plan. We match 50% of each employee's contributions, limited to 2% of the employee's compensation. Our contributions to the 401(k) plan for the years ended December 31, 2001, 2000 and 1999, were $613, $694 and $702, respectively.

In connection with our 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. We froze and fully funded the Plan after the plan year ended December 31, 1993.

Annual Incentive Plan

In May 1998, our shareholders approved the Ocwen Financial Corporate 1998 Annual Incentive Plan (the "AIP") to replace our former annual incentive plan (the "Former Plan"). Participation in the AIP is limited to officers and other key employees and designated subsidiaries that are selected by the AIP Committee. We establish performance targets based on the achievement of specified levels of increases in net earnings, return on equity, average net equity used or growth in assets, as well as individual participant performance targets. We base awards under the AIP on achieving the performance targets, and we pay them in cash or a combination of cash and non-qualified stock options to purchase common stock of Ocwen Financial Corporation. We grant such non-qualified stock options pursuant to the Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan.

(Dollars in thousands, except share data)

The following table provides a summary of our stock option activity for the years ended December 31, 2001, 2000 and 1999, respectively, and stock options exercisable at the end of each of those year:

	2001		2000		1999	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year.......	3,424,594	$ 13.11	2,013,201	$ 14.09	1,918,181	$ 15.64
Granted (1)...........................	1,584,093	7.67	1,617,461	4.09	358,858	6.25
Exercised.............................	(128,156)	4.59	--	--	(5,080)	2.82
Forfeited.............................	(225,262)	4.87	(206,068)	14.74	(258,758)	14.92
Outstanding at end of year............	4,655,269	9.01	3,424,594	9.33	2,013,201	14.09
Exercisable at end of year............	2,483,697	11.29	1,885,048	13.11	1,559,850	15.77

(1) The weighted average grant-date fair value was $7.67 in 2001, $5.84 in 2000 and $6.25 in 1999.

The following table summarizes information about our stock options outstanding at December 31:

	Options Outstanding			Options Exercisable	
Granted For Service In:	Number of Options	Weighted Average Exercise Price	Remaining Contractual Life	Number of Options	Weighted Average Exercise Price
2001...	1,584,093	$ 7.67	10	228,819	$ 7.67
2000...	1,343,601	4.09	9	606,412	4.09
1999...	237,327	6.25	8	158,218	6.25
1998...	122,545	12.31	7	122,545	12.31
1997...	746,071	20.35	6	746,071	20.35
1996...	532,632	11.00	5	532,632	11.00
1995...	89,000	2.88	4	89,000	2.88
	4,655,269	9.01		2,483,697	11.29

After the award of 1,584,093 options in 2002 for service in 2001, 7,359,764 authorized shares remain and are available for future awards of stock options.

Stock options we awarded under the Former Plan have a one-year vesting period. Stock options we awarded under the AIP in 1998 and 1999 vest ratably over a three-year period. Stock options we awarded under the AIP in 2001 and 2000 vest ratably over a five-year period including the award year. The term of all options granted is ten years from the grant date. We treat the difference, if any, between the fair market value of our stock at the date of grant and the exercise price as compensation expense. We record compensation expense ratably over the vesting period of the grant. Included in compensation expense for the years ended December 31, 2001 and 2000 was $568 and $572, respectively, related to options granted. There was no compensation expense recognized for the year ended December 31, 1999 related to options granted.

Long-Term Incentive Plan

In May 1998, our shareholders approved the Ocwen Financial Corporation Long-Term Incentive Plan (the "LIP"). Participation in the LIP was limited to officers and other key employees and designated subsidiaries that were selected by the LIP Administrator. We suspended the LIP in 2000 and reversed the related accrual of $6,012 for 1999 and 1998. We recorded compensation expense of $3,645 and $2,367 in 1999 and 1998, respectively, under the LIP.

(Dollars in thousands, except share data)

Pro Forma Effect of SFAS No. 123

We have retained our current accounting method for our stock-based employee compensation plans under the provisions of APB 25. However, entities such as ours 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, Accounting for Stock-Based Compensation, had been utilized. The following is a summary of our pro forma information for the years ended December 31:

	2001	2000	1999
Net income (loss), as reported	$(124,782)	$ 2,192	$ 19,832
Pro forma net (loss) income	(127,914)	(228)	18,917
Earnings per share, as reported:			
Basic	(1.856)	0.032	0.314
Diluted	(1.856)	0.032	0.314
Pro forma earnings per share:			
Basic	(1.903)	0.003	0.300
Diluted	(1.903)	0.003	0.300

We estimate the fair value of our option grants using the Black-Scholes option-pricing model with the following assumptions:

	Years Ended December 31,		
	2001	2000	1999
Expected dividend yield	0.00%	0.00%	0.00%
Expected stock price volatility	52.00	54.00	47.00
Risk-free interest rate	4.23	4.98	6.34
Expected life of options	5 years	5 years	5 years

NOTE 24: STOCKHOLDERS' EQUITY

On April 16, 1999, we announced that our Board of Directors authorized the repurchase of up to six million of our issued and outstanding shares of common stock. As of December 31, 1999, we had repurchased 4,611,700 shares at an average price of $6.66 per share. During the first quarter of 2000, we repurchased the remaining 1,388,300 authorized shares at an average price of $6.48 per share. On May 9, 2000, we announced that our Board of Directors approved an additional stock repurchase program to repurchase up to an additional six million of our issued and outstanding shares of common stock. As of December 31, 2001, we had not repurchased any additional shares.

On October 7, 1999, as a result of our acquisition of OAC, we issued to OAC shareholders (except for Ocwen Financial Corporation or its subsidiaries) 0.71 shares of Ocwen Financial Corporation stock for each outstanding share of OAC common stock, or a total of 12,371,750 shares. See Note 2.

NOTE 25: REGULATORY REQUIREMENTS

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 and the regulations promulgated thereunder established certain minimum levels of regulatory capital for savings institutions subject to OTS supervision. The Bank must follow specific capital guidelines stipulated by the OTS which involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items. An institution that fails to comply with its regulatory capital requirements must obtain OTS approval of a capital plan and can be subject to a capital directive and certain restrictions on its operations. At December 31, 2001, the minimum regulatory capital requirements were:

- Tangible and core capital of 1.50% and 3.00% of total adjusted assets, respectively, consisting principally of stockholders' equity, but excluding most intangible assets, such as goodwill and any net unrealized gains or losses on debt securities available for sale. Effective April 1, 1999, the OTS minimum core capital ratio provides that only those institutions with a Uniform Financial Institution Rating System rating of "1" are subject to a 3.00% minimum core capital ratio. All other institutions are subject to a 4.00% minimum core capital ratio.

- Risk-based capital consisting of core capital plus certain subordinated debt and other capital instruments and, subject to certain limitations, general valuation allowances on loans receivable, equal to 8.00% of the value of risk-weighted assets.

At December 31, 2001 and 2000, the Bank was "well capitalized" under the prompt corrective action regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991. 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 following table. The Bank's capital amounts and classification are subject to review by federal regulators regarding components, risk-weightings and other factors. There are no conditions or events since December 31, 2001 that we believe have changed the Bank's category.

Following an examination by the OTS in late 1996 and early 1997, the Bank committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9.00% and 13.00%, respectively. The Bank continues to be in compliance with this commitment as well as with the regulatory capital requirements of general applicability (as indicated in the table below). 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.

As a result of an examination in 2000, the Bank was required to submit a written plan to the OTS by October 16, 2000 to address issues raised by the agency under Part 570 of the rules and regulations. Under the plan, the Bank is taking certain actions regarding its operations with respect to asset reviews and the management of interest rate risk exposure and has periodic reporting obligations to the OTS. In addition, as part of the plan, the Bank submitted a business plan and budget outlining the Bank's operations through 2003. The business plan submitted reflects proposed changes in the Bank's deposit gathering strategies and potential future sources of revenue as the Bank continues its shift away from capital-intensive businesses into fee-based sources of income. On November 9, 2000 the OTS requested the Bank to supply additional information regarding the plan. The Bank responded to this request on November 29, 2000, December 28, 2000 and January 10, 2001, and the OTS approved the plan on February 2, 2001.

(Dollars in thousands, except share data)

The following table summarizes the Bank's actual and required regulatory capital at December 31, 2001 and 2000:

	Actual		Minimum For Capital Adequacy Purposes		To Be Well Capitalized For Prompt Corrective Action Provisions		Committed Capital Requirements
	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2001:							
Stockholders' equity, and ratio to total assets	14.62%	$ 204,640					
Non-includable subsidiary......................		(1,233)					
Disallowed deferred tax assets.................		(4,515)					
Disallowed servicing assets....................		(10,077)					
Tier 1 (core) capital, and ratio to adjusted total assets................................	13.64%	188,815	4.00%	$ 55,359	5.00%	$ 69,199	9.00%
Non-mortgage servicing assets..................		(3,447)					
Tangible capital ratio to tangible assets......	13.43%	$ 185,368	1.50%	$ 20,708			
Tier 1 capital, and ratio to risk-weighted assets......................................	18.41%	$ 188,815			6.00%	$ 61,546	
Allowance for loan losses......................		10,290					
Qualifying subordinated debentures.............		40,200					
Tier 2 capital.................................		50,490					
Total risk-based capital, and ratio to risk-weighted assets........................	23.33%	$ 239,305	8.00%	$ 82,062	10.00%	$ 102,577	13.00%
Total regulatory assets........................		$1,399,676					
Adjusted total assets..........................		$1,383,980					
Tangible assets................................		$1,380,533					
Risk-weighted assets...........................		$1,025,775					
December 31, 2000:							
Stockholders' equity, and ratio to total assets	16.09%	$ 267,295					
Non-includable subsidiary......................		(7,801)					
Acquired real estate...........................		(850)					
Disallowed deferred tax assets.................		(29,397)					
Disallowed servicing assets....................		(5,027)					
Tangible capital, and ratio to adjusted total assets..................................	13.83%	$ 224,220	1.50%	$ 24,313			
Tier 1 (core) capital, and ratio to adjusted total assets..............................	13.83%	$ 224,220	4.00%	$ 64,834	5.00%	$ 81,042	9.00%
Tier 1 capital, and ratio to risk-weighted assets...................................	16.70%	$ 224,220			6.00%	$ 80,571	
Allowance for loan losses....................		15,273					
Qualifying subordinated debentures...........		53,600					
Tier 2 capital...............................		68,873					
Total risk-based capital, and ratio to risk-weighted assets......................	21.83%	$ 293,093	8.00%	$ 107,429	10.00%	$ 134,286	13.00%
Total regulatory assets......................		$1,660,767					
Adjusted total assets/tangible assets........		$1,620,846					
Risk-weighted assets.........................		$1,342,858					

The OTS amended its capital distribution regulation effective April 1, 1999. Under the revised regulation, the Bank is required to file a notice with the OTS at least 30 days before making a capital distribution unless (a) it is not eligible for expedited treatment under the OTS application processing regulations, (b) the total amount of the Bank's capital distributions (including the proposed distribution) for the calendar year exceeds the Bank's net income for the year to date plus retained net income for the previous two years, (c) the Bank would not be "adequately capitalized" following the proposed distribution or (d) the proposed distribution would violate any applicable statute, regulation or agreement between the Bank and the OTS, or a condition imposed upon the Bank by an OTS-approved application or notice. If one of these four criteria is present, the Bank is required to file an application with the OTS at least 30 days before making the proposed capital distribution. The OTS may deny the Bank's application or disapprove its notice if the OTS determines that (a) the Bank will be "under capitalized," "significantly under capitalized" or "critically under capitalized," as defined in the OTS capital regulations, following the capital distribution, (b) the proposed capital distribution raises safety and soundness concerns or (c) the proposed capital distribution violates a prohibition contained in any statute, regulation or agreement between the Bank and the OTS or a condition imposed on the Bank in an application or notice approved by the OTS. The revised rule also amended the definition of "capital distribution" to include any payment to repurchase, redeem, retire or otherwise acquire debt instruments included in total risk-based capital.

(Dollars in thousands, except share data)

In addition to these OTS regulations governing capital distributions, the indenture governing the 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.

NOTE 26: NET INTEREST INCOME (EXPENSE) BEFORE PROVISION FOR LOAN LOSSES

The following table presents the components of net interest income (expense) for each category of our interest-earning assets and interest-bearing liabilities for the years ended December 31:

	2001	2000	1999
Interest income:			
Federal funds sold and repurchase agreements	$ 7,328	$ 8,700	$ 8,847
Trading securities	18,865	8,200	--
Securities available for sale	--	42,507	62,698
Loans available for sale	526	2,474	25,724
Investment securities and other	743	1,501	2,181
Loan portfolio	6,807	20,586	28,683
Match funded loans and securities	10,345	11,022	3,237
Discount loan portfolio	38,757	89,826	121,854
	83,371	184,816	253,224
Interest expense:			
Deposits	59,967	98,224	98,370
Securities sold under agreements to repurchase	529	10,729	7,456
Bonds - match funded agreements	7,315	11,484	2,101
Obligations outstanding under lines of credit	5,511	13,881	16,318
Notes, debentures and other interest bearing obligations	20,007	34,772	31,297
	93,329	169,090	155,542
Net interest income (expense) before provision for loan losses	$ (9,958)	$ 15,726	$ 97,682

NOTE 27: OTHER INCOME

The following table presents the principal components of other income we earned during the years ended December 31:

	2001	2000	1999
Software revenue (OTX)	$ 2,181	$ 2,236	$ 2,043
Consulting fees	2,041	78	84
Brokerage commissions (1)	1,386	--	12,896
Management fees (2)	80	--	4,503
Other	3,071	3,770	4,820
	$ 8,759	$ 6,084	$ 24,346

(1) Brokerage commissions for 1999 were earned by Ocwen UK.

(2) Management fees for 1999 were earned for management services we provided to OAC prior to our acquisition of OAC in October 1999.

(Dollars in thousands, except share data)

NOTE 28: OTHER OPERATING EXPENSES

The following table presents the principal components of other operating expenses we incurred during the years ended December 31:

	2001	2000	1999
Travel, lodging, meals and entertainment	$ 2,388	$ 2,864	$ 4,107
Amortization of deferred costs	917	1,878	1,226
Acquisition expenses	330	1,912	441
Marketing	757	1,820	5,556
Deposit related expenses	897	531	406
Conferences and seminars	534	530	773
Investment and treasury services	272	332	448
Other	2,840	2,240	3,131
	$ 8,935	$ 12,107	$ 16,088

NOTE 29: BUSINESS SEGMENT REPORTING

Public enterprises like ours are required to report financial and descriptive information about their reportable operating segments. An operating segment is defined as a component of an enterprise that (a) engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (c) for which discrete financial information is available. We conduct a variety of business activities within the following segments:

	Net Interest Income (Expense)	Provision for Loan Losses	Non-Interest Income	Non-Interest Expense	Pre-Tax Income (Loss)	Total Assets
At or for the year ended December 31, 2001:						
Residential Loan Servicing	$ (16,529)	$ --	$ 119,503	$ 68,383	$ 34,591	$ 420,134
OTX	--	--	2,150	38,542	(36,392)	13,231
Ocwen Realty Advisors	--	--	11,913	10,968	944	1,351
Unsecured Collections	140	1,176	3,058	7,042	(5,020)	--
Residential Discount Loans	15,125	6,060	(4,733)	8,727	(4,396)	115,691
Commercial Loans	(400)	7,223	(1,574)	13,043	(22,236)	280,220
Affordable Housing	(7,917)	1,207	(849)	19,945	(29,917)	132,724
Commercial Real Estate	(2,820)	--	4,941	898	1,222	83,794
Subprime Residential Lending	2,657	--	13,742	2,849	13,549	83,599
Corporate Items and Other	(214)	--	21,190	12,049	2,098	580,406
	$ (9,958)	$ 15,666	$ 169,341	$ 182,446	$ (45,557)	$1,711,150
At or for the year ended December 31, 2000:						
Residential Loan Servicing	(5,756)	--	84,137	58,773	19,609	218,981
OTX	(719)	--	2,424	35,655	(33,951)	20,462
Ocwen Realty Advisors (1)	--	--	12,738	12,824	(86)	1,625
Unsecured Collections	(104)	6,867	1,481	8,908	(14,398)	8,417
Residential Discount Loans	24,549	(637)	7,725	11,757	21,154	396,305
Commercial Loans	9,917	9,195	16,703	16,853	648	555,040
Affordable Housing	(9,912)	(248)	702	14,702	(23,664)	171,070
Commercial Real Estate	(18,121)	--	37,299	2,649	16,530	80,561
Subprime Residential Lending	(180)	--	(22,267)	2,086	(24,532)	135,617
Corporate Items and Other	16,052	--	36,583	5,802	30,126	661,342
	$ 15,726	$ 15,177	$ 177,525	$ 170,009	$ (8,564)	$2,249,420

(Dollars in thousands, except share data)

	Net Interest Income (Expense)	Provision for Loan Losses	Non-Interest Income	Non-Interest Expense	Pre-Tax Income (Loss)	Total Assets
At or for the year ended December 31, 1999:						
Residential Loan Servicing	$ 5,630	$ --	$ 59,876	$ 44,990	$ 20,515	$ 219,048
OTX	--	--	2,056	20,398	(18,343)	4,829
Ocwen Realty Advisors	--	--	--	--	--	--
Unsecured Collections	477	870	17	6,373	(6,750)	16,401
Residential Discount Loans	27,669	8,435	(12,773)	26,912	(20,451)	711,104
Commercial Loans	54,146	4,610	19,633	40,908	28,404	1,016,366
Affordable Housing	(9,360)	(105)	6,605	15,284	(17,934)	169,521
Commercial Real Estate	(1,803)	--	3,443	4,976	(3,336)	301,438
Subprime Residential Lending	14,972	--	(31,102)	13,974	(30,103)	223,403
Corporate Items and Other	5,951	(7,100)	96,887	21,253	62,817	619,564
	$ 97,682	$ 6,710	$ 144,642	$ 195,068	$ 14,819	$3,281,674

(1) Non-interest income for the year ended December 31, 2000 included $975 of intercompany revenues we have eliminated in consolidation.

A brief description of our segments follows:

- Residential Loan Servicing. Includes our fee-for-services business of providing loan servicing, including asset management and resolution services, to third-party owners of non-performing, underperforming and subprime assets.

- OTX. Formed in 1998, develops and markets advanced technology solutions for the mortgage and real estate industries, including residential and commercial mortgage servicing systems.

- Ocwen Realty Advisors. Provides property valuation services and real estate research for residential and commercial properties.

- Unsecured Collections. Primarily comprised of activities related to our charged-off unsecured credit card receivables, which were acquired at a discount.

- Residential Discount Loans. Activities of this segment include asset acquisition and resolution of single family residential loans and the related real estate owned.

- Commercial Loans. Activities of this segment include our resolution of commercial discount loans and related real estate owned. Commercial loan activities previously included our origination of multi-family and commercial real estate loans held for investment, a business which we ceased in 1999.

- Affordable Housing Properties. Includes our investments, primarily through limited partnerships, in qualified low-income rental housing for the purpose of obtaining Federal income tax credits pursuant to Section 42 of the Code.

- Commercial Real Estate. Principally comprised of activities related to our real estate investments acquired in connection with our acquisition of OAC in October 1999.

- Subprime Residential Lending. In August 1999, we closed our domestic subprime origination business, which had been conducted primarily through OFS. Previously, activities of this segment included our acquisition and origination of single family residential loans to non-conforming borrowers.

- Corporate Items and Other. Consists primarily of extraordinary gains on repurchases of debt, individually insignificant business activities, amounts not allocated to our operating segments, distributions on our Capital Securities, transfer pricing mismatches, other general corporate expenses and the results of the securities portfolio other than residuals and subordinates. Residuals and subordinate interests, including those related to our securitization activities have been included in the related business activity. Also includes our UK operations, including our equity investment in Kensington, which was sold during November 2000, as well as the activities of our previously owned subsidiary, Ocwen UK, which was sold on September 30, 1999. Ocwen UK was primarily engaged in the origination and servicing of subprime loans in the United Kingdom.

We allocate interest income and expense to each business segment for the investment of funds raised or funding of investments made taking into consideration the duration of such liabilities or assets. Ocwen Realty Advisors charges other segments based on cost plus a standard mark-up that varies based on the type valuation service being provided. We make allocations of non-interest expense generated by corporate support services to each business segment based upon our estimate of time and effort spent in the respective activity. As such, the resulting amounts represent estimates of the contribution of each business activity to our overall results.

(Dollars in thousands, except share data)

NOTE 30: COMMITMENTS AND CONTINGENCIES

We lease certain premises under various non-cancelable operating leases with terms expiring at various times through 2007, exclusive of renewal option periods. Our annual aggregate minimum rental commitments under these leases are summarized as follows:

2002	$ 4,033
2003	3,914
2004	3,181
2005	966
2006	71
Thereafter	--
Minimum lease payments	$ 12,165

We converted rental commitments for our facilities outside the United States of America to U.S. dollars using exchange rates in effect at December 31, 2001. Rent expense for the years ended December 31, 2001, 2000 and 1999 was $3,533, $3,374 and $6,101, respectively.

At December 31, 2001, we had commitments of $3,432 to fund construction loans (including loans accounted for as investments in real estate) secured by multi-family and commercial properties. In addition, we had commitments under outstanding letters of credit in the amount of $210. Through our investment in subordinated securities and subprime residuals, which had a fair value of $65,058 at December 31, 2001, we support senior classes of securities.

On April 20, 1999, a complaint was filed on behalf of a putative class of public shareholders of the Company in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida against OCN and OAC. On April 23, 1999, a complaint was filed on behalf of a putative class of public shareholders of OAC in the Circuit Court of the Fifteenth Judicial Circuit, Palm Beach County, Florida, against OAC and certain directors of OAC. The plaintiffs in both complaints sought to enjoin consummation of the acquisition of OAC by OCN. The cases were consolidated, and on September 13, 1999 a consolidated amended complaint was filed. The injunction was denied, and on October 14, 1999 OCN was dismissed as a party. Plaintiffs' remaining claims were for damages for alleged breaches of common law fiduciary duties. In October 2001, the parties reached an agreement in principle.

On June 3, 1999, Walton Street Capital, L.L.C. ("Walton") filed suit against OAC and Ocwen Partnership, L.P. in the Circuit Court of Cook County, Illinois. Walton has alleged that OAC committed an anticipatory breach of contract with respect to the proposed sale by OAC of all of its interest in its commercial mortgage-backed securities portfolio to Walton. Walton has claimed damages in an amount in excess of $20,000. As of October 20, 2000, both Walton and OAC filed motions for Summary Judgement. On December 21, 2000, the Circuit Court granted Walton's Limited Motion for Summary Judgement concerning liability. Ocwen filed a Motion for Certification of an Interlocutory Appeal and is seeking an Entry of Stay pending appeal. On February 20, 2001, Ocwen filed a motion for reconsideration requesting the Circuit Court vacate its order granting summary judgment to Walton. On January 29, 2002, after oral argument, the Circuit Court reversed its earlier ruling by vacating the order granting summary judgment. The parties are engaged in discovery.

On February 4, 2002 we were notified by the California Tax Credit Allocation Committee of a challenge to our receipt of previously allocated federal low-income housing tax credits for a recently constructed affordable housing development in which we invested. We intend to contest this challenge, which stems from an issue regarding a determination of the date the development was made available for occupancy. If the Committee prevails in its challenge, we could incur a loss of up to $7,500.

We are subject to various other pending legal proceedings. In management's opinion, the resolution of these other claims will not have a material effect on the consolidated financial statements.

(Dollars in thousands, except share data)

NOTE 31: PARENT COMPANY ONLY FINANCIAL INFORMATION

Condensed Statements of Financial Condition of Ocwen Financial Corporation

	December 31,	
	2001	2000
Assets:		
Cash and cash equivalents	$ 1,114	$ 77,244
Cash held at Bank subsidiary	26,872	13,482
Investments in subsidiaries:		
Bank subsidiary	198,813	256,833
Non-Bank subsidiaries	400,297	399,187
Advance due from Bank subsidiary	3,138	2,808
Investment in unconsolidated entity	113	--
Loan portfolio, net	--	408
Discount loan portfolio, net	--	8,417
Investment in real estate	1,797	3,300
Income taxes receivable	16,824	17,749
Deferred tax asset	--	22,375
Other assets	2,631	2,737
	$ 651,599	$ 804,540
Liabilities and Stockholders' Equity:		
11.875% Note payable	$ 87,025	$ 100,050
Notes and debentures payable to non-Bank subsidiaries	131,251	137,251
Accrued interest payable to non-Bank subsidiaries	7,847	7,537
Advance due to non-Bank subsidiaries	20,515	47,388
Deferred tax liability	16,249	--
Other liabilities	9,606	8,888
Total liabilities	272,493	301,114
Stockholders' equity	379,106	503,426
	$ 651,599	$ 804,540

(Dollars in thousands, except share data)

Condensed Statements of Operations of Ocwen Financial Corporation

	For the Years Ended December 31,		
	2001	2000	1999
Interest income	$ 1,946	$ 907	$ 2,510
Interest income from subsidiaries:			
Bank subsidiary	776	1,438	1,941
Non-Bank subsidiaries	--	2,394	3,669
Interest expense	11,465	12,293	14,656
Interest expense - non-Bank subsidiaries	14,387	14,518	14,372
Net interest expense before provision for loan losses	(23,130)	(22,072)	(20,908)
Provision for loan losses	1,495	7,504	1,176
Net interest expense after provision for loan losses	(24,625)	(29,576)	(22,084)
Non-interest income	527	22,499	51,464
Non-interest expense	--	3,783	5,721
Servicing fee expense - Bank subsidiary	5,907	7,173	3,074
Equity in earnings (losses) in unconsolidated entities	--	(5,280)	(9,154)
Income (loss) before income taxes and extraordinary gain	(30,005)	(23,313)	11,431
Income tax expense (benefit)	37,175	(16,271)	(3,990)
Income (loss) before equity in net income (losses) of subsidiaries and extraordinary gain	(67,180)	(7,042)	15,421
Equity in net income (losses) of subsidiaries:			
Bank subsidiary	(57,590)	6,043	45,166
Non-bank subsidiaries	(45)	2,915	(41,182)
Extraordinary gain on repurchase of debt, net of tax	33	276	427
Net income (loss)	$ (124,782)	$ 2,192	$ 19,832

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2001, 2000, AND 1999
(Dollars in thousands, except share data)

Condensed Statements of Cash Flows of Ocwen Financial Corporation

	For the Years Ended December 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	$ (124,782)	$ 2,192	$ 19,832
Adjustments to reconcile net income to net cash (used) provided by operating activities:			
Equity in income of Bank subsidiary	57,590	(6,043)	(45,166)
Equity in (income) loss of non-Bank subsidiaries	45	(2,915)	41,182
Equity in loss (income) of unconsolidated entity, net	--	5,280	9,154
Premium amortization, net	408	(3)	(5,913)
Provision for loan losses	1,495	7,503	1,176
Loss on interest-earning assets	--	--	(81)
Extraordinary gain on repurchase of long-term debt	(53)	(439)	(1,322)
Gain on sale of real estate held for investment	--	(1,155)	(297)
Gain on sale of Ocwen UK	--	--	(50,371)
Gain on sale of investment in Kensington Group plc	--	(20,025)	--
Decrease (increase) in deferred tax assets	38,624	21,988	(22,581)
Increase (decrease) in deferred tax liability	--	(50)	(1,952)
Decrease (increase) in other assets	(152)	(70)	21,483
Decrease (increase) in income taxes receivable	925	(2,556)	21,718
Increase (decrease) in income taxes payable	--	(637)	(953)
Increase (decrease) in accrued expenses and other liabilities	719	(5,305)	(2,962)
Net cash provided (used) by operating activities	(25,181)	(2,235)	(17,053)
Cash flows from investing activities:			
Net investments in and advances to subsidiaries	(33,731)	(21,967)	(21,603)
Proceeds from sale of Ocwen UK	--	--	122,101
Proceeds from sale of investment in Kensington Group plc	--	48,556	--
Distributions from (investment in) unconsolidated entity	--	3,143	--
Principal payments received on loans held for investment	--	--	2,119
Principal payments received on discount loans	6,922	10,207	17,596
Purchase of discount loans	--	(9,730)	(8,788)
Increase in investment in real estate	1,503	(2,145)	--
Net cash provided (used) by financing activities	(25,306)	28,064	111,425
Cash flows from financing activities:			
Repurchase of notes	(13,233)	(3,361)	(19,828)
Repayments of loans to executive officers, net	--	--	763
Exercise of common stock options	902	--	23
Issuance of shares of common stock	78	56	43
Repurchase of common stock	--	(8,996)	(30,691)
Net cash provided (used) by investing activities	(12,253)	(12,301)	(49,690)
Net increase (decrease) in cash and cash equivalents	(62,740)	13,528	44,682
Cash and cash equivalents at beginning of year	90,726	77,198	32,516
Cash and cash equivalents at end of year	$ 27,986	$ 90,726	$ 77,198

(Dollars in thousands, except share data)

NOTE 32: QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Quarters Ended			
	December 31, 2001	September 30, 2001	June 30, 2001	March 31, 2001
Interest income	$ 14,742	$ 18,594	$ 25,218	$ 24,817
Interest expense	19,414	22,307	24,728	26,880
Provision for loan losses	(2,363)	(388)	10,297	8,120
Net interest income (expense) after provision for loan losses	(2,309)	(3,325)	(9,807)	(10,183)
Non-interest income	41,107	41,742	43,362	43,130
Non-interest expense	44,132	44,602	42,856	50,856
Distributions on Capital Securities	1,719	1,663	1,697	2,053
Equity in income (losses) of investments in unconsolidated entities	204	(84)	139	45
Income (loss) before income taxes and extraordinary gain	(6,849)	(7,932)	(10,859)	(19,917)
Income taxes expense (benefit)	--	65,000	10,825	5,762
Income (loss) before extraordinary gain	(6,849)	(72,932)	(21,684)	(25,679)
Extraordinary gain (loss) on repurchase of debt, net of tax	(44)	--	243	2,163
Net income (loss)	$ (6,893)	$ (72,932)	$ (21,441)	$ (23,516)
Earnings (loss) per share:				
Basic	$ (0.10)	$ (1.08)	$ (0.32)	$ (0.35)
Diluted	$ (0.10)	$ (1.08)	$ (0.32)	$ (0.35)

	Quarters Ended			
	December 31, 2000	September 30, 2000	June 30, 2000	March 31, 2000
Interest income	$ 40,984	$ 45,287	$ 50,455	$ 48,090
Interest expense	35,599	44,433	45,662	43,396
Provision for loan losses	2,573	6,861	3,134	2,609
Net interest income (expense) after provision for loan losses	2,812	(6,007)	1,659	2,085
Non-interest income	59,810	49,536	37,234	30,945
Non-interest expense	45,391	44,700	41,844	38,074
Distributions on Capital Securities	2,538	2,730	2,918	3,194
Equity in income (losses) of investments in unconsolidated entities	(284)	(893)	(1,812)	(2,260)
Income (loss) before income taxes and extraordinary gain	14,409	(4,794)	(7,681)	(10,498)
Income taxes expense (benefit)	15,079	(1,486)	(2,381)	(3,255)
Income (loss) before extraordinary gain	(670)	(3,308)	(5,300)	(7,243)
Extraordinary gain (loss) on repurchase of debt, net of tax	10,039	2,628	3,901	2,145
Net income (loss)	$ 9,369	$ (680)	(1,399)	$ (5,098)
Earnings (loss) per share:				
Basic	$ 0.14	$ (0.01)	$ (0.02)	$ 0.07
Diluted	$ 0.14	$ (0.01)	$ (0.02)	$ 0.07

SHAREHOLDER INFORMATION

Price Range of the Company's Common Stock

Our common stock is traded under the symbol "OCN" on the New York Stock Exchange ("NYSE"). The following table sets forth the high and low sales prices for our common stock, as traded on the NYSE:

	High	Low
2001:		
First quarter	$ 9.80	$ 6.38
Second quarter	10.44	8.54
Third quarter	11.20	6.40
Fourth quarter	9.01	6.75
2000:		
First quarter	$ 9.25	$ 5.25
Second quarter	8.63	5.44
Third quarter	6.88	5.44
Fourth quarter	6.44	4.50

At the close of business on March 8, 2002, our common stock price was $6.90.

We do not currently pay cash dividends on common stock and have no current plans to do so in the future. The timing and amount of future dividends, if any, will be determined by our Board of Directors and will depend, among other factors, upon our 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 us.

As a holding company, the payment of any dividends by us will be significantly dependent on dividends and other payments received from our subsidiaries, including the Bank. For a description of limitations on our ability to pay dividends on our common stock and on the ability of the Bank to pay dividends, see Notes 18, 19 and 25 to our Consolidated Financial Statements.

Number of Holders of Common Stock

At March 8, 2002, 67,308,819 shares of our common stock were outstanding and held by approximately 1,255 holders of record. Such number of stockholders does not reflect the number of individuals or institutional investors holding our stock in nominee name through banks, brokerage firms and others.

Exhibit 21.0

Subsidiaries of Ocwen Financial Corporation

Name	State of Organization
Ocwen Federal Bank FSB	New Jersey
Ocwen Partnership, L.P.	Virginia
Ocwen Asset Investment Corp.	Florida
Ocwen General, Inc.	Virginia
Investors Mortgage Insurance Holding Company	Delaware
Ocwen Properties, Inc.	New York
Ocwen Capital Trust I	Delaware
Ocwen Asset Investment - UK, LLC	Delaware
NHP Affordable Housing Partners, L.P.	Pennsylvania
First Service Corporation	Delaware
Ocwen Technology Xchange, Inc.	Florida
REALTrans.com, Inc.	Florida
Rocaille Acquisition Subsidiary, Inc.	Florida

Exhibit 23.0

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 filed on January 27, 1998 (Registration No. 333-44999), Registration Statement on Form S-8 filed on August 25, 1998 (Registration No. 333-62217) and Registration Statement on Form S-3 filed on November 5, 1998 (Registration No. 333-64915) of Ocwen Financial Corporation of our report dated February 12, 2002 relating to the financial statements, which appears on page 63 of the 2001 Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP
West Palm Beach, Florida
March 29, 2002

RISK FACTORS (Dollars in thousands)

Each of the factors set forth below could, directly or indirectly, affect the results of operations and financial condition of Ocwen Financial Corporation ("OCN"). Capitalized terms that are not defined herein shall have the meanings ascribed to them in our Annual Report on Form 10-K to which this Exhibit relates.

Changing Nature of Risks; No Assurances as to Consistency of Earnings

Changing Nature of Risks. In the past, our corporate strategy emphasized the identification, development and management of specialized businesses that we believed were not accurately evaluated and priced by the marketplace due to market, economic and competitive conditions. This strategy can result in the entry into or development of businesses and investment in assets which produce substantial initial returns, which may be followed by an exit from any of those businesses or the sale of those assets if, for example, results decrease because markets become more efficient in the evaluation and pricing of such businesses and assets. For example, historically, our efforts have focused on lending, the acquisition and resolution of discounted loans, and investment in various types of mortgage-related securities. However, on October 26, 1998, we announced that we would refocus our resources on our core competencies, namely the acquisition and management of servicing-intensive assets and the development of exportable loan servicing technology for the mortgage and real estate industries. This strategy involves the potential to enter into and exit from different businesses; therefore, past financial performance may not be considered a reliable indicator of future performance and historical trends may not be reliable indicators of anticipated results or trends in future periods. In addition, there can be no assurance that we will be able to accomplish our strategic objectives as a result of changes in the nature of our operations over time or that such changes will not have a material adverse effect from time to time or generally on our business, financial condition or results of operations.

Inconsistency of Results and Non-Recurring Items. In addition to inconsistency in results caused by our entry into or exit from businesses, the consistency of our operating results has and may continue to be significantly affected by inter-period variations in our current operations, including:

- The amount of servicing rights acquired;
- The amount of resolutions of discounted loans, particularly large multi-family residential and commercial real estate loans;
- The amount of multi-family residential and commercial real estate loans which mature or are prepaid, particularly loans with terms pursuant to which we participate in the profits of the underlying real estate; and
- Sales by us of loans and/or securities acquired from our securitization of loans.

In addition, our operating results have been significantly affected by certain non-recurring items. For example, we have earned significant non-interest income from gains on sales of interest-earning assets and real estate owned. Gains on sales of interest-earning assets and real estate owned generally are dependent on various factors that are not within our control, including market and economic conditions and accounting regulations. In addition, in the third quarter of 1999, we decided to discontinue the practice of structuring securitizations as sales transactions, thus precluding recognition of gain-on-sale accounting. There can be no assurance that the level of gains on sales of interest-earning assets and real estate owned reported by us in prior periods will be repeated in future periods or that there will not be substantial inter-period variations in the results from such activities or as a result of other non-recurring items.

Risks Related to Non-Traditional Operating Activities

As discussed below, we are engaged in a variety of businesses that generally involve more uncertainties and risks than the single-family residential lending activities historically emphasized by savings institutions. In addition, many of our business 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, we may not be as familiar with market conditions and other relevant factors as we would be in the case of activities that are conducted in the market areas in which our executive offices and branch office are located.

Discounted Loan and Servicing Rights Acquisition and Loan Resolution Activities. Our activities have included the acquisition (in 2000 and prior years), sale 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 that were purchased at a discount. Non-performing and subperforming mortgage loans may be in default or may have a greater than normal risk of future defaults and delinquencies, as compared to newly-originated, high-quality loans of comparable type, size and geographic concentration. Returns on an investment of this type depend on the borrower's ability to make required payments or, in the event of default, the ability of the loan's servicer to foreclose and liquidate the mortgage loan. There can be no assurance that the servicer can liquidate a defaulted mortgage loan successfully or in a timely fashion.

We have acquired discounted loans from governmental agencies, which in the early years of the program consisted primarily of the Federal Deposit Insurance Corporation (the "FDIC") and the Resolution Trust Corporation, a federal agency that was formed to resolve failed savings institutions and has since ceased operations, and in recent years has consisted primarily of the U.S. Department of Housing and Urban Development. In addition to governmental agencies, we have acquired discounted loans from various private sector sellers, such as banks, savings institutions, mortgage companies and insurance companies. We acquire servicing rights principally from private sellers. Although we believe that a permanent market for the acquisition of servicing rights to non-performing and underperforming mortgage loans has emerged in recent years, there can be no assurance that we will be able to acquire the desired amount and type of servicing rights 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 us will enable us to resolve discounted loans in the future as profitably as in prior periods. Adverse changes in national economic conditions or in the economic conditions in regions in which we have acquired pools of loans and servicing rights could impair our ability successfully to resolve loans and could have an adverse effect on the value of those loan pools and servicing rights. The yield on our discounted portfolio also is subject to significant inter-period variations as a result of the timing of resolutions of discounted loans, particularly multi-family residential and commercial real estate loans and non-performing single-family residential loans, interest on which is recognized on a cash basis, and the mix of the overall portfolio between performing and non-performing loans. In addition, the volume of servicing rights acquired by us may vary over time, thereby affecting results of operations in future periods.

Multi-Family Residential, Commercial Real Estate and Construction Lending Activities. Prior to our decision to cease origination of such loans in 1999, our lending activities included nationwide loans secured by existing commercial real estate, particularly hotels and office buildings, and existing multi-family residential real estate. In addition, from time to time we have originated loans for the construction of multi-family residential real estate and land acquisition and development loans. Multi-family residential real estate, commercial real estate and construction lending generally are considered to involve a higher degree of risk than single-family residential lending due to a variety of factors, including generally larger loan balances, the dependency on successful completion or operation of the project for repayment, the difficulties in estimating construction costs and loan terms which often require little or no amortization of the loan over its term (typically five years) and, instead, provide for a balloon payment at stated maturity. Furthermore, mezzanine loans, which are subordinate to senior loans, and construction loans generally have higher loan-to-value ratios than conventional loans. Although our borrowers generally have an equity investment of 10% to 15% of total project costs, such equity may not be sufficient to protect our investment in these higher-yielding loans. There can be no assurance that any multi-family residential, commercial real estate and construction lending activities engaged in by us previously will not be adversely affected by these and the other risks related to such activities.

Subprime Family Residential Lending Activities. We closed our domestic subprime origination business in August 1999 and exited the UK subprime origination business by selling our investment in our Ocwen UK subsidiary in September 1999 and our investment in Kensington Group plc in November 2000. Prior to these dates, our lending activities also included the origination or purchase on a nationwide basis of single family residential loans made to borrowers who have significant equity in the properties that secure the loans but who, because of prior credit problems, the absence of a credit history or other factors, were unable or unwilling to qualify as borrowers under federal agency guidelines. These loans were offered pursuant to various programs, including programs that provide for reduced or no documentation for verifying a borrower's income and employment. Subprime loans present a higher level of risk of delinquency or default than loans made to more creditworthy borrowers, and may not be as saleable as loans that conform to the guidelines established by various federal agencies. While we believe that the business practices that we employ enable us to reduce higher risks inherent in these loans, no assurance can be given that such practices will afford adequate protection against higher delinquencies, foreclosures or losses than anticipated, and as a result, our financial condition or results of operation could be adversely affected.

Environmental Risks of Loan Acquisition and Lending Activities. We evaluated the potential for significant environmental problems prior to acquiring or originating a loan because there is a risk for any mortgage loan, particularly a multifamily residential and commercial real estate loan, that hazardous substances or other environmentally restricted substances could be discovered on the related real estate. Through foreclosure, we could become the owner of the real estate that secured our loan and might be required to remove such substances from the affected properties or to engage in abatement procedures at our 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 we would have adequate remedies against the prior owners or other responsible parties or that we 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, we generally will not foreclose on the related loan; however, the value of such property as collateral will generally be substantially reduced, and as a result, we may suffer a loss upon collection of the loan.

Investments in Low-Income Housing Tax Credit Interests. We invest in affordable housing (generally limited partnerships) in order to obtain federal income tax credits that are allocated pursuant to Section 42 of the Internal Revenue Code of 1986, as amended (the "Code"). There are many uncertainties and risks associated with an investment in low-income housing tax credit interests, including the risks involved in the construction, lease-up and operation of multi-family residential real estate, the investor's ability to earn sufficient income to utilize the tax credits resulting from such investments in accordance with the requirements of the Code and the possibility of required recapture of previously-earned tax credits. In addition, there are numerous tax risks associated with tax credits resulting from potential changes to the Code. Potential changes in the Code, which have been discussed from time to time, could reduce the benefits associated with our 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. We are 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 us.

Investments in Mortgage-Related Securities. From time to time we invest in a variety of mortgage-related securities, such as senior, subordinate and residual interests in collateralized mortgage obligations ("CMOs"), including CMOs which have qualified as Real Estate Mortgage Investment Conduits. Some mortgage-related securities exhibit considerably more price volatility than mortgages or ordinary mortgage pass-through securities, due in part to the uncertain cash flows that result from changes in the prepayment rates of the underlying mortgages. Other mortgage-related securities, such as subordinate interests, also involve substantially more credit risk than the senior classes of the mortgage-related securities to which such interests relate and generally are not as liquid as such senior classes. We have generally acquired subordinate and residual interests primarily in connection with the securitization of our loans, particularly single-family residential loans to non-conforming borrowers and discounted loans, and under circumstances in which we continue to service the loans that back the related securities. We have sought to offset the risk of changing interest rates on certain of our mortgage-related securities by selling U.S. Treasury futures contracts and through other hedging techniques, and believe that the resulting interest-rate sensitivity profile compliments our overall exposure to changes in interest rates. See "Economic Conditions" below. Although generally intended to reduce the effects of changing interest rates on us, investments in certain mortgage-related securities and hedging transactions could cause us to recognize losses depending on the terms of the instrument and the interest rate environment.

Ability to Manage Growth. We have undergone rapid and significant growth and are continuing to pursue a policy of rapid growth, including growth in foreign countries. Our rapid growth has imposed a significant strain on our management resources and there can be no assurance that we will be able to attract and retain the necessary personnel to manage our operations effectively, in which event our business, operating results and financial condition could be materially and adversely affected.

Risk of Future Adjustments to Allowances for Losses

We believe that we have established adequate allowances for losses for each of our loan portfolio, discounted loan portfolio and match funded loans in accordance with generally accepted accounting principles. Future additions to these allowances, in the form of provisions for losses on loans, discounted loans and match funded loans, may be necessary, however, due to changes in economic conditions and the performance of our loan and discounted loan portfolios. In addition, the OTS, as part of its examination process, periodically reviews our allowances for losses and the carrying value of our assets. As a result of OTS reviews, we, in the past, have increased our allowances for losses on loans and discounted loans and written down the carrying value of certain loans. There can be no assurance that we will not determine, at the request of the OTS or otherwise, to further increase our allowances for losses on loans and discounted loans or adjust the carrying value of our real estate owned or other assets. Increases in our provisions for losses on loans would adversely affect our results of operations.

Risks Related to Real Estate Owned

General. Our real estate owned consists almost entirely of single-family residential real estate and multi-family residential and commercial real estate acquired by foreclosure or deed-in-lieu thereof on loans in our discounted loan portfolio. Generally, real estate owned properties are non-earning assets, although multi-family residential and commercial real estate owned may provide some operating income to us depending on the circumstances. Such operating income may be affected by problems experienced by lessees, which may weaken their financial condition and result in failure to make rental payments when due. At any time, a lessee of our properties may seek the protection of bankruptcy laws, which could result in rejection and termination of the lessee's lease and thereby cause a reduction in cash flow available for distribution to us. Moreover, the value of real estate can be significantly affected by adverse changes in national or local economic conditions, competition from other properties offering the same or similar services, changes in interest rates and in the availability, cost and terms of mortgage funds, acts of nature, including earthquakes, hurricanes and other natural disasters, and other factors which are beyond our control. These factors may require the establishment of provisions for losses to ensure that real estate owned properties are carried at the lower of cost or fair value, less estimated costs to dispose of the properties, which may adversely affect operations. Real estate owned may also require increased allocation of resources and expense to the management and work out of the asset, payment of property taxes and costs associated with compliance with environmental laws and the Americans with Disabilities Act of 1990, which can also adversely affect operations. There can be no assurance that the amount of our real estate owned will not increase in the future as a result of our discounted loan resolution activities and our single-family residential, multi-family residential, commercial real estate and construction loan portfolio.

Environmental Risks. Operating costs and the value of real property may be affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of future legislation. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Therefore, an environmental liability could have a material adverse effect on the underlying value of a real property, and the revenue therefrom. Although we believe that our pre-acquisition due diligence identified all material environmental concerns which relate to our current investments in real estate and accurately assessed the costs and liabilities to be incurred by us in this regard, there can be no assurance that such investments will not raise material unanticipated environmental concerns or costs in the future.

Risks Associated with Acquisitions and Divestitures

Acquiring businesses and business assets has been and may continue to be an important focus of our strategic efforts. Any acquisitions could vary in size and may include those that are large relative to OCN. There can be no assurance that suitable acquisition candidates can be identified, that financing for such acquisitions would be available on satisfactory terms, that we would be able to accomplish our strategic objectives as a result of any such acquisitions, that any business or business assets acquired by us would be integrated successfully or that integration of acquired businesses would not divert management resources or otherwise have a material adverse effect on our business, financial condition or results of operations. We are continually evaluating possible acquisitions and engage in discussions with acquisition candidates from time to time.

In addition, in the event that we choose to divest any business or sell any asset in the future, there can be no assurance that a suitable purchaser could be identified, that we would be able to accomplish our strategic objectives as a result of any such sale, that any proposed asset or business sold by us would be completed or that the separation of any such asset or business from us would not diminish management resources or otherwise have a material adverse effect on our business, financial condition or results of operations.

Risks Associated with Technology

Our wholly-owned subsidiary, Ocwen Technology Xchange, Inc. ("OTX"), licenses our mortgage loan servicing resolution and work flow technology to third parties in the mortgage and real estate industries. The products offered by OTX have resulted from the enhancement of software products acquired through our purchases of Amos, Inc., a developer of residential mortgage loan servicing software, DTS Communications, Inc., a real estate technology company, and the assets of Synergy Software, LLC, a developer of commercial and multi-family mortgage servicing software, with our own proprietary technology.

Revenue Recognition. A portion of our revenue attributable to OTX operations includes license fees and implementation fees related to the installation of our technology solutions. In certain instances, customers receive certain elements of OTX's products or services over a period of time and in some instances, fees received may be refundable based on the provisions of the underlying agreements. Consequently, certain revenue is deferred and recognized over future periods.

Rapid Technological Change and Competition. Rapid change, uncertainty due to new and emerging technologies, and fierce competition characterize the software industry. OTX's ability to grow is dependent upon our ability to develop and introduce new products and enhance existing products to satisfy consumer demand for new technologies. Because the pace of change continues to accelerate, new opportunities for competitors are created and OTX's business planning is subject to substantial uncertainty. Competitors, working with new technology, may arrive at a technology that creates a new market altogether and renders our product offerings obsolete. If we do not successfully identify new product opportunities and develop and bring new products to market in a timely and efficient manner, our business growth will suffer and demand for our products will decrease. Competing platforms and products may gain popularity with customers, vendors and loan originators, reducing or eliminating the potential for OTX's future revenue.

Future Initiatives. We plan to continue significant investments in software research and development including the ongoing development of increased functionality for OTX's products, including REALTransSM, REALServicingTM and REALSynergyTM, where we have the opportunity to capture significant market share through improved efficiencies offered by these products. We anticipate that these investments in research and development will increase over historical spending levels without corresponding growth in revenue in the near future. Significant revenue from these product opportunities may not be achieved for a number of years, if at all.

Software Development. The software industry is inherently complex. New products and product enhancements can require long development and testing periods. While we believe we have developed products attractive to the mortgage and real estate industries, the computer software industry is subject to rapid technological change, changing customer requirements, frequent new product introductions and evolving industry standards that may render existing products and services obsolete. There can be no assurance that OTX will not experience future difficulties that could delay or prevent the successful development, introduction or marketing of our products, or that our products and product enhancements will meet the requirements of the marketplace and achieve market acceptance. If OTX is unable to develop and introduce products of acceptable quality in a timely manner in response to changing market conditions or customer requirements, our business, operating results and financial condition could be adversely affected.

Prices. The competitive factors described above may require OTX to lower product prices to meet competition, reducing our net income.

International Operations. We are continuing to conduct more of our business outside the United States. The costs of selling our products and providing our services in foreign countries may be higher than our prices in the United States because of the costs incurred in localizing both products and financial services for non-U.S. markets. While we seek to set our prices for our products and services higher to compensate for the additional expense, pressure to globalize our pricing structures might require that we reduce the sales price of our financial services and software in other countries, even though the costs continue to be higher than in the United States. Our business and results of operations outside of the United States could also be impacted by: difficulties in staffing and managing foreign operations; unexpected changes in regulatory requirements for financial services and software; negative changes in software "piracy" trade protection laws, policies and measures and other regulatory requirements affecting trade and investment; social, political, labor or economic conditions in a specific country or region; and potential adverse foreign tax consequences, among other factors.

Risks Associated with Mortgage Loan Servicing

Extensive Use of Financial Leverage. We are highly leveraged and will continue to be highly leveraged. Our ability to make payments of principal or interest on or to refinance our indebtedness depends on our future operating performance and our ability to effect additional debt and/or equity financing, which is subject to economic, financial, competitive and other factors beyond our control, including restrictions on our ability to obtain additional debt financing contained in the indentures relating to our 11.875% Notes and 10.875% Junior Subordinated Debentures.

We intend to continue financing the servicing advances that we are required to make in connection with the acquisition of servicing rights for pools of loans and the servicing of the loans throughout the life of the mortgage loan. Generally, we expect to be able to finance up to ninety percent of these advance amounts. While the leveraged nature of our assets offers the opportunity for increased rates of return on our invested capital, it involves a greater degree of risk.

This degree of leverage also makes us more vulnerable to a downturn in real estate values or the economy generally. Although we generally expect to repay any indebtedness incurred in connection with a servicing acquisition from the related servicing fees, a downturn in the economy or real estate market could reduce those proceeds. An increase in market interest rates or a decline in the value of the collateral securing the pool of loans for which we have acquired the servicing rights could adversely effect servicing fees and our ability to repay our borrowings and could have a material adverse effect on our results of operations and financial condition.

Need for Additional Financing. Our expansion strategy will result in the need for additional debt and/or equity financing in the future, and there can be no assurance that we will be able to obtain such financing on acceptable terms. In addition, the indentures relating to our 11.875% Notes and 10.875% Junior Subordinated Debentures restrict our ability to obtain additional debt financing. Our degree of leverage may make it more difficult for us to obtain additional financing for future working capital, capital expenditures, servicing related acquisitions, general corporate purposes or other purposes and may cause us to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on indebtedness, thereby reducing the funds available for operations and future business opportunities. To the extent we are unable to extend or replace existing facilities or generate sufficient cash flow from the servicing rights, we may have to curtail our acquisition of servicing rights, which could have a material adverse effect on our financial position and results of operations.

Risks Related to Acquired Servicing Rights on Pools of Loans. In determining the purchase price for servicing rights, management makes certain assumptions regarding, among other things, the rates of prepayment and repayment within the pools, the credit categories of the borrowers within the pools, the collateral values and loan-to-value ratios of the pools, the origination practices of the loan originators, the real estate market and our ability successfully to service and resolve loans and to dispose of any foreclosed real estate. To the extent that our underlying assumptions prove to be inaccurate or the basis for those assumptions change (for example, an unanticipated decline in the real estate market), or there is some other diminution in the value of the assets, the price paid by us for servicing rights may prove to have been excessive, resulting in a lower yield or a loss to us. Therefore, our success is highly dependent on our pricing of servicing rights as well as general economic conditions in the geographic areas in which the foreclosed real estate or properties underlying the loans that we service are located. Adverse changes in national economic conditions or in the economic conditions in regions in which we have acquired pools of loans could impair our ability to successfully resolve loans and have an adverse effect on the value of those pools of loans. In addition, because non-performing loans do not make regular cash payments and in various servicing relationships, we are repaid for advances out of proceeds from the loans, the return to us may be significantly influenced by the time it takes to resolve the loan, which varies based on, among other things, state consumer protection and foreclosure laws, both of which are subject to change. Both our initial and ongoing valuations and the rate of amortization of mortgage servicing rights are significantly affected by interest rates, prepayment speeds and the payment performance of the underlying loans. In general, during periods of declining interest rates, the value of mortgage servicing assets declines due to increasing prepayments attributable to increased mortgage refinance activity. We amortize mortgage servicing rights over the period of estimated net servicing income based on our projections of the amount and timing of future cash flows. The amount and timing of servicing asset amortization is adjusted periodically based on actual results and updated projections.

Risks Related to International Servicing Operations. We have invested in joint ventures with servicing operations currently in Italy and anticipated in Japan, Korea, Europe and Taiwan. The ventures plan to use our servicing system, which must be adapted for servicing loans in Europe and the Far East. Our international servicing operations are subject to most of the same risks associated with our U.S. operations as well as additional risks as fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, heightened risks of political and economic instability, difficulties in managing international operations, potentially adverse tax consequences, enhanced accounting and control expenses and the burden of complying with a wide variety of foreign laws. In addition, we have only limited experience in servicing loans in foreign countries. Accordingly, there can be no assurance that one or more of these factors will not have a materially adverse effect on our operations.

Risk of Increased Capital Requirements. Federally insured savings associations are required to maintain minimum levels of regulatory capital. These standards generally are as stringent as the comparable capital requirements imposed on national banks. The OTS also is authorized to impose capital requirements in excess of those standards on individual associations on a case-by-case basis. In making such determination, the OTS can take into account a number of factors, including the bank's loan portfolio quality, recent operating losses or anticipated losses, the condition of our holding company and whether the bank is receiving special supervisory attention, among other matters. If the OTS were to impose higher capital requirements than it has currently established for the Bank or additional capital were required as a result of an adverse determination by the OTS or otherwise, we might inject additional capital into the Bank, whether or not such usage of capital is optimal for OCN. Such additional capital contributions may have the effect of reducing or eliminating our overall net income or requiring us to obtain additional debt or equity capital. In the event that we were unable or refused to inject capital into the Bank as required by the OTS, significant adverse consequences could result. See "Regulation and Regulatory Capital," below.

Risks Related to Securitization. Under certain circumstances, we may be required to advance funds to securitization trusts, indemnify the trustee and the underwriters of a securitization and repurchase certain loans that were securitized. In connection with a securitization, we may be required to agree that, in the event of a breach of any representation or warranty made by us that materially and adversely affects the value of an underlying mortgage loan, we will repurchase that loan at a price equal to the then outstanding principal balance of the loan and any accrued and unpaid interest thereon.

International Operations

We conduct business in the United States, Jamaica and, through a joint venture, Italy, are exploring opportunities in Japan, Korea, Europe and Taiwan and may explore opportunities outside of these markets. We are establishing two software development and servicing operations centers in India. Our foreign operations are subject to most of the same risks associated with our U.S. operations, as well as additional risks, such as unexpected changes in local regulatory requirements, difficulties in managing international operations, potentially adverse tax consequences, enhanced accounting and control expenses and the burden of complying with foreign laws. Changes in foreign currency exchange rates may also affect the value of our foreign assets and the gains realized from the sale of such assets. Although we implement hedging strategies to limit the effects of currency exchange rate fluctuations on our results of operations, currency hedging strategies, like those for interest rates, may not perform their intended purpose. See "Economic Conditions". There can be no assurance that such factors will not have a material adverse effect on our business, results of operations or financial condition. In addition, we have only limited international experience outside of the U.S., which could limit our ability to capitalize on investment opportunities that may arise elsewhere.

Regulation and Regulatory Capital Requirements

OCN, 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 OCN 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 our business. The applicable regulatory authorities may, as a result of such regulation and examination, impose regulatory sanctions upon OCN or the Bank, as applicable, as well as various requirements or restrictions which could adversely affect our business activities. A portion of the Bank's operations involve businesses that are not traditionally conducted by savings institutions and, as a result, there can be no assurance that future actions by applicable regulatory authorities, or future changes in applicable statutes or regulations, will not limit or otherwise adversely affect the Bank's ability to engage in such activities.

Following an examination of the Bank in late 1996 and early 1997 by the Office of Thrift Supervision (the "OTS"), the Bank committed to the OTS to maintain, commencing on June 30, 1997, regulatory capital ratios that significantly exceed the requirements that are generally applicable to federally-chartered savings institutions such as the Bank. Specifically, the Bank has committed to the OTS to maintain a core capital (leverage) ratio and a total risk-based capital ratio of at least 9% and 13%, respectively (the requirements of general applicability are 3% and 8%, respectively). At December 31, 2001, the Bank's core capital, Tier 1 risk-based capital and total risk-based capital ratios amounted to 13.64%, 18.41% and 23.33%, respectively. Based on discussions with the OTS, the Bank believes that this commitment does not affect its status as a "well-capitalized" institution, assuming the Bank's continued compliance with the regulatory capital requirements that it committed to maintain. Under applicable laws and regulations, an institution is considered to be "well-capitalized" if it maintains a total risk-based capital ratio of 10.0% or more, a Tier 1 risk-based capital ratio of 6.0% or more and a core capital (leverage) ratio of 5.0% or more and is not subject to a written agreement, order or directive issued by an appropriate agency to meet and maintain a specific capital level for any capital measure.

There can be no assurance that in the future the OTS either will agree to a decrease in the 9% core capital (leverage) ratio and the 13% total risk-based capital ratio committed to be maintained by the Bank or will not seek an increase in such requirements. Unless and until these regulatory capital requirements are decreased, the Bank's ability to leverage its capital through future growth in assets (including its ability to continue growing at historical rates) will be adversely affected, as will OCN's ability to receive dividends from the Bank. Although OCN and its non-banking subsidiaries will not be restricted in their growth by these capital requirements, because they do not have access to the Bank's funding sources, their profitability may be different from the Bank's for particular types of businesses. In addition, there can be no assurance that the Bank will continue to meet the regulatory capital requirements that it has committed to maintain or that the OTS will not formally impose such requirements pursuant to a written agreement, order or directive, which would cause the Bank to cease to be a "well-capitalized" institution under applicable laws and regulations. In the event that the Bank ceased to be a "well-capitalized" institution, it could become subject to other regulatory restrictions on its operations.

Economic Conditions

General. Our success is dependent to a certain extent upon the general economic conditions in the geographic areas in which we conduct substantial business activities. Adverse changes in national economic conditions or in the economic conditions of regions in which we conduct substantial business likely would impair our ability to collect on outstanding loans or dispose of real estate owned and would otherwise have an adverse effect on our business, including the ability of customers to repay loans and the value of both the collateral pledged to us to secure our loans and our real estate owned. Moreover, earthquakes, hurricanes and other natural disasters could have similar effects. Although such disasters have not significantly adversely affected us to date, the availability of insurance for such disasters in Florida, in which we conduct substantial business activities, is limited. Moreover, changes in building codes and ordinances, environmental considerations and other factors also might make it infeasible to use insurance proceeds to replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds received by a borrower or by us might not be adequate to restore our economic position with respect to the affected collateral or real estate. At December 31, 2001, we had loans aggregating $6,590 (including match funded loans and loans available for sale) secured by properties located in Florida and $50,694 of our real estate owned was located in Florida, which collectively represented 3.3% of our total assets at such date.

Effects of Changes in Interest Rates. Net interest income (expense) is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities. Changes in the general level of interest rates can affect our net interest income (expense) by affecting the spread between our return on interest-earning assets and our cost of interest-bearing liabilities, as well as, among other things, the value of our interest-earning assets and our ability to realize gains from the sale of such assets; the average life of our interest-earning assets; the value of our mortgage servicing rights; and our 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 our control. Although we believe that the maturities of our assets are well balanced in relation to our liabilities (which involves various estimates and assumptions, including as to how changes in the general level of interest rates will impact our assets and liabilities), there can be no assurance that our profitability would not be adversely affected during any period of changing interest rates.

Potential Adverse Effects of Hedging Strategies. We may utilize a variety of financial instruments, including interest rate swaps, caps, floors and other interest rate exchange contracts and foreign currency futures contracts, in order to limit the effects of interest rates or changes in foreign currency exchange rates on our operations. Among the risks inherent with respect to the purchase and/or sale of such derivative instruments are:

- Interest rate risk, which consists of the risks relating to fluctuating interest rates;
- Basis risk, which consists of the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge costs;
- Credit or default risk, which consists of the risk of insolvency or other inability of the counterparty to a particular transaction to perform our obligations thereunder;
- Prepayment risk, which consists of reinvestment risk to the extent we are not able to reinvest repayments, if any, at a yield which is comparable to the yield being generated on the particular security;
- Liquidity risk, which consists of the risk that we may not be able to sell a particular security at a particular price;
- Legal enforceability risk, which consists of the risks related to our ability to enforce the terms of a particular instrument or to obtain or collect upon a legal judgment in the United States in the event that the counterparty to the transaction is a foreign entity or the underlying collateral is located in a foreign jurisdiction; and
- Volatility risk, which consists of the risk that actual volatility (i.e., the degree of uncertainty relating to the price of the underlying asset) differs from the historical volatility or "implied" volatility of the instrument.

Risks Related to Reliance on Brokered and Other Wholesale Deposits

We historically have utilized as a source of funds certificates of deposit obtained through national investment banking firms which obtain funds from their customers for deposit with us ("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 us of institutional investors and high net worth individuals. We believe that the effective cost of brokered and other wholesale deposits, as well as other non-branch dependent sources of funds, such as securities sold under agreements to repurchase ("reverse repurchase agreements") and advances from the Federal Home Loan Bank ("FHLB") of New York, generally is more attractive to us than the effective cost of deposits obtained through branch offices after the general and administrative costs associated with operating a branch office network are taken into account. However, such funding sources, when compared to retail deposits attracted through a branch network, are generally more sensitive to changes in interest rates and volatility in the capital markets and their availability and terms are more likely to be subject to competitive pressures. In addition, such funding sources may be more sensitive to significant changes in our financial condition. There are also regulatory limitations on an insured institution's ability to solicit and obtain brokered deposits in certain circumstances. See "Regulation and Regulatory Capital Requirements" above. As a result of our past reliance on brokered and other wholesale deposits, significant changes in prevailing interest rates, in the availability of alternative investments for individual and institutional investors or in our financial condition, among other factors, could have a much more significant affect on our liquidity and results of operations than might be the case with an institution that attracted a greater portion of its funds from retail or core deposits obtained through a branch network. During 2001, we did not issue any new brokered certificates of deposit and presently do not intend to utilize such deposits as a source of new funds in the foreseeable future.

Risks Associated with Current Sources of Liquidity and Additional Financing for Growth

Current Sources of Liquidity. Our primary sources of funds for liquidity consist of deposits, FHLB advances, reverse repurchase agreements, lines of credit, match funded debt, servicing fees and maturities and principal payments on loans and securities and proceeds from sales thereof. We believe that our 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, we continue to evaluate other sources of liquidity, such as lines of credit from unaffiliated parties, which will enhance our ability to increase our liquidity position. Our inability to maintain adequate sources of liquidity, including as a result of the failure to extend or replace existing lines of credit or as a result of the factors described under "Risks Related to Reliance on Brokered and Other Wholesale Deposits" above or "Risks of Securitization" below, could have a material adverse effect on our business, financial condition or results of operations.

Additional Financing for Growth. Our ability to enter into and exit from certain business lines as opportunities emerge depends to a significant degree on our ability to obtain additional indebtedness, obtain additional equity capital or have access to other sources of capital (e.g., through partnering, joint venturing or other economic or contractual relationships). We have no commitments for borrowings in addition to those under our current debt securities, match funded debt and lines of credit, no commitments for future sales of equity capital and no commitments to provide access to other sources of capital. There can be no assurance that we will be successful in consummating future financing transactions, if any, on terms satisfactory to us, if at all. Factors which could affect our access to the capital markets or other economic or contractual relationships, or the conditions under which we could obtain additional financing, involve the perception in the capital markets and the financial services industry of our business, results of operations, leverage, financial condition and business prospects. Each of these factors is to a large extent subject to economic, financial and competitive factors beyond our control. In addition, covenants under our current debt securities and lines of credit do, and future ones may, significantly restrict our ability to incur additional indebtedness, to issue Preferred Stock and to enter into certain other contractual relationships.

Risks Associated with Holding Company Structure

As a holding company, our ability to pay dividends, to pay indebtedness and to conduct our financial operating activities directly or in non-banking subsidiaries will depend on any cash reserves and other liquid assets held by us, any proceeds from securities offerings or other borrowings, any dividends from our non-banking subsidiaries and the receipt of dividends or other distributions from the Bank. The ability of the Bank to pay dividends or make other distributions to us generally is dependent on the Bank's compliance with applicable regulatory capital requirements and regulatory restrictions. The Bank is also subject to contractual restrictions on its ability to pay dividends under its subordinated debt indenture.

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 that it has committed to the OTS to maintain, commencing on June 30, 1997. As a result of a verbal agreement between the Bank and the OTS to dividend subordinate and residual mortgage-related securities resulting from securitization activities previously conducted by the Bank, the Bank has been limited in its ability to pay cash dividends to OCN.

In addition, the right of OCN to participate in any distribution of assets of any subsidiary, including the Bank, upon such subsidiary's liquidation or reorganization or otherwise, will be subject to the prior claims of creditors of that subsidiary, except to the extent that any claims of OCN as a creditor of such subsidiary may be recognized as such.

Risks of Securitization

Prior to the third quarter of 1999, we had historically generated a significant amount of revenues, earnings and cash flows from our pooling and selling through securitizations of mortgages and other loans originated or purchased by us. Adverse changes in the secondary market for such loans could impair our ability to sell mortgages and other loans on a favorable or timely basis. Accordingly, such impairments could have an adverse effect upon our business and results of operations. Market and other considerations, including rating agency requirements, could also affect the timing of such transactions. Any delay in the sale of loans beyond the reporting period in which such sale is anticipated to take place may adversely affect our reported earnings for such reporting period. In addition, we retain some degree of credit risk on substantially all loans sold. During the period of time that loans are held pending sale, we are at risk for loan delinquencies and defaults and the risk that the rapid increase in interest rates would result in a decline in the value of loans to potential purchasers. For loans sold through a securitization, our direct risk with respect to loan delinquency or default on such loan is limited to those circumstances in which we are required to repurchase such loans due to a breach of a representation or warranty in connection with the securitization.

Competition

The businesses in which we are engaged generally are highly competitive. The acquisitions of servicing rights to pools of loans are particularly competitive, as such acquisitions are often based on competitive bidding. Although many of our competitors have access to greater capital and have other advantages, we believe that we have a competitive advantage relative to many of our competitors as a result of our experience in managing, servicing and resolving discount loans, our investment in computer systems, technology and other resources that are necessary to conduct this business, our reputation and the strategic relationships and contacts that we have developed in connection with these activities. We also encounter significant competition in connection with our investment activities, our deposit-gathering activities, our servicing activities and our information technology activities. Many of our competitors are significantly larger than us and have access to greater capital and other resources. In addition, many of our competitors are not subject to the same extensive federal regulations that govern federally-insured institutions, such as the Bank, and their holding companies. As a result, many of our competitors have advantages over us.

We also face competition in purchasing the servicing rights to pools of loans from several other companies that specialize in this business, some of which have greater resources than us.

With respect to information technology, OTX's products compete in a limited market. While we believe REALServicing, REALTrans and REALSynergy each present to the market greater functionality and a better value than the products against which they compete, there can be no assurance that we will be successful in preserving any competitive advantage of our products on value or functionality, in introducing the products to the market on a commercial basis or translating the product's business, marketing and pricing models into revenue sufficient to produce net income.

Importance of the Chief Executive Officer

William C. Erbey, our Chairman and Chief Executive Officer, has had, and will continue to have, a significant role in the development and management of our business. The loss of his services could have an adverse effect on us. OCN and Mr. Erbey are not parties to an employment agreement, and we currently do not maintain key man life insurance relating to Mr. Erbey or any of our other officers.

Control of Current Shareholders

As of March 15, 2002, our directors and executive officers and their affiliates in the aggregate beneficially owned or controlled 44.56% of the outstanding Common Stock of OCN, including 27.49% owned or controlled by William C. Erbey, Chairman and Chief Executive Officer of OCN, and 13.33% owned or controlled by Barry N. Wish, currently a director and formerly the Chairman of OCN. As a result, these shareholders, acting together, would effectively be able to influence decisively, if not control, virtually all matters requiring approval by the shareholders of OCN, including amendment of our Articles of Incorporation, the approval of mergers or similar transactions and the election of all directors.

Dependence on Proprietary Information

Our success is in part dependent upon our proprietary information and technology. We rely on a combination of copyright, trade secret and contract protection to establish and protect our proprietary rights in our products and technology. We generally enter into confidentiality agreements with our management and technical staff and limit access to and distribution of our proprietary information. There can be no assurance that the steps taken by us in this regard will be adequate to deter misappropriation of our proprietary rights or information or independent third party development of substantially similar products and technology. Although we believe that our products and technology do not infringe any proprietary rights of others, the growing use of copyrights and patents to protect proprietary rights has increased the risk that third parties will increasingly assert claims of infringement in the future.