

OCWEN FINANCIAL CORP
Form 10-Q
August 04, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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 Number: 1-13219

Ocwen Financial Corporation
(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction
of incorporation or organization)

65-0039856
(I.R.S. Employer
Identification No.)

2002 Summit Boulevard, 6th Floor, Atlanta, Georgia 30319
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

Number of shares of Common Stock, \$0.01 par value, outstanding as of July 29, 2011: 100,948,647 shares.

OCWEN FINANCIAL CORPORATION

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FORWARD-LOOKING STATEMENTS

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

These forward-looking statements include declarations regarding our management's beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "intend," "consider," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such term or comparable terminology. Such statements are not guarantees of future performance as they are subject to certain assumptions, inherent risks and uncertainties in predicting future results. Important factors that could cause actual results to differ materially include, but are not limited to, the following:

our sources of liquidity; our ability to fund and recover advances, repay borrowings, and comply with debt covenants; and the adequacy of financial resources;

servicing portfolio characteristics, including prepayment speeds, float balances, delinquency and advances rates;

our ability to grow or otherwise adapt our business, including the availability of new servicing opportunities and joint ventures;

our ability to reduce our cost structure;

our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;

our reserves, valuations, provisions and anticipated realization on assets;

our ability to effectively manage our exposure to interest rate changes and foreign exchange fluctuations;

our credit and servicer ratings and other actions from various rating agencies;

uncertainty related to general economic and market conditions, delinquency rates, home prices and real-estate owned disposition timelines;

uncertainty related to the actions of loan owners, including mortgage-backed securities investors, regarding loan putbacks or legal actions;

uncertainty related to the processes for judicial and non-judicial foreclosure proceedings, including potential additional costs or delays or moratoria in the future or claims pertaining to past practices;

uncertainty related to litigation or dispute resolution and inquiries from government agencies into past servicing and foreclosure practices; and

uncertainty related to legislation, regulations, regulatory agency actions, government programs and policies, industry initiatives and evolving best servicing practices.

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Further information on the risks specific to our business is detailed within this report and our other reports and filings with the Securities and Exchange Commission (SEC) including our Annual Report on Form 10-K for the year ended December 31, 2010, our quarterly reports on Form 10-Q and our current reports on Form 8-K. Forward-looking statements speak only as of the date they were made and should not be relied upon. Ocwen Financial Corporation undertakes no obligation to update or revise forward-looking statements.

PART I – FINANCIAL INFORMATION
ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

	June 30, 2011	December 31, 2010
Assets		
Cash	\$ 104,167	\$ 127,796
Restricted cash – for securitization investors	1,507	727
Loans held for resale, at lower of cost or fair value	23,193	25,803
Advances	167,261	184,833
Match funded advances	1,421,636	1,924,052
Loans, net – restricted for securitization investors	62,344	67,340
Mortgage servicing rights	175,591	193,985
Receivables, net	53,066	69,518
Deferred tax assets, net	139,086	138,716
Goodwill	12,810	12,810
Premises and equipment, net	4,578	5,475
Investments in unconsolidated entities	12,611	12,072
Other assets	110,899	158,282
Total assets	\$ 2,288,749	\$ 2,921,409
Liabilities and Equity		
Liabilities		
Match funded liabilities	\$ 1,041,998	\$ 1,482,529
Secured borrowings – owed to securitization investors	58,696	62,705
Lines of credit and other secured borrowings	41,458	246,073
Servicer liabilities	2,065	2,492
Debt securities	82,554	82,554
Other liabilities	106,152	140,239
Total liabilities	1,332,923	2,016,592
Commitments and Contingencies (Note 22)		
Equity		
Ocwen Financial Corporation stockholders' equity		
Common stock, \$.01 par value; 200,000,000 shares authorized; 100,948,647 and 100,726,947 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	1,009	1,007
Additional paid-in capital	469,541	467,500
Retained earnings	493,908	445,456
Accumulated other comprehensive loss, net of income taxes	(8,883)	(9,392)
Total Ocwen Financial Corporation stockholders' equity	955,575	904,571
Non-controlling interest in subsidiaries	251	246
Total equity	955,826	904,817
Total liabilities and equity	\$ 2,288,749	\$ 2,921,409

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 periods ended June 30,	Three months		Six months	
	2011	2010	2011	2010
Revenue				
Servicing and subservicing fees	\$ 95,837	\$ 65,936	\$ 198,342	\$ 132,416
Process management fees	9,140	8,315	16,936	16,221
Other revenues	860	1,702	1,565	2,902
Total revenue	105,837	75,953	216,843	151,539
Operating expenses				
Compensation and benefits	15,253	13,089	30,040	25,866
Amortization of mortgage servicing rights	9,926	7,854	18,849	14,229
Servicing and origination	1,301	2,458	3,223	3,049
Technology and communications	6,373	6,191	13,245	11,855
Professional services	3,270	9,134	5,654	12,389
Occupancy and equipment	4,153	3,870	8,283	8,316
Other operating expenses	1,978	2,062	4,159	4,131
Total operating expenses	42,254	44,658	83,453	79,835
Income from operations	63,583	31,295	133,390	71,704
Other income (expense)				
Interest income	2,289	1,900	4,458	5,545
Interest expense	(21,813)	(13,359)	(59,356)	(25,830)
Loss on trading securities	—	(1,710)	—	(945)
Loss on loans held for resale, net	(1,616)	(1,049)	(2,520)	(2,087)
Equity in (loss) earnings of unconsolidated entities	(680)	343	(550)	1,078
Other, net	(727)	(4,158)	103	(4,758)
Other expense, net	(22,547)	(18,033)	(57,865)	(26,997)
Income before income taxes	41,036	13,262	75,525	44,707
Income tax expense (benefit)	14,653	(2,777)	27,078	7,797
Net income	26,383	16,039	48,447	36,910
Net loss (income) attributable to non-controlling interest in subsidiaries	(5)	(1)	5	(12)
Net income attributable to Ocwen Financial Corporation	\$ 26,378	\$ 16,038	\$ 48,452	\$ 36,898

Earnings per share
attributable to Ocwen
Financial Corporation

Basic	\$ 0.26	\$ 0.16	\$ 0.48	\$ 0.37
Diluted	\$ 0.25	\$ 0.15	\$ 0.45	\$ 0.35

Weighted average common
shares outstanding

Basic	100,943,402	100,168,953	100,853,424	100,072,950
Diluted	108,110,588	107,728,092	107,944,681	107,526,786

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

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

For the periods ended June 30,	Three months		Six months	
	2011	2010	2011	2010
Net income	\$ 26,383	\$ 16,039	\$ 48,447	\$ 36,910
Other comprehensive income (loss), net of income taxes:				
Unrealized foreign currency translation income (loss) arising during the period (1)	6	(14)	26	(84)
Change in deferred loss on cash flow hedges arising during the period (2)	(2,177)	(7,403)	(232)	(7,403)
Reclassification adjustment for losses on cash flow hedges included in net income (3)	567	20	722	20
Net change in deferred loss on cash flow hedges	(1,610)	(7,383)	490	(7,383)
Other (4)	2	—	3	—
Total other comprehensive income (loss), net of income taxes	(1,602)	(7,397)	519	(7,467)
Comprehensive income	24,781	8,642	48,966	29,443
Comprehensive loss attributable to non-controlling interests	(5)	4	(5)	12
Comprehensive income attributable to Ocwen Financial Corporation	\$ 24,776	\$ 8,646	\$ 48,961	\$ 29,455

- (1) Net of income tax (expense) benefit of \$4 and \$5 for the three months ended June 30, 2011 and 2010, respectively, and \$(9) and \$35 for the six months ended June 30, 2011 and 2010, respectively.
- (2) Net of income tax benefit of \$1,231 and \$4,348 for the three months ended June 30, 2011 and 2010, respectively, and \$158 and \$4,348 for the six months ended June 30, 2011 and 2010, respectively.
- (3) Net of income tax expense of \$321 and \$12 for the three months ended June 30, 2011 and 2010, respectively, and \$409 and \$12 for the six months ended June 30, 2011 and 2010, respectively.
- (4) Net of income tax expense of \$1 for the six months ended June 30, 2011.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(Dollars in thousands)

	OCN Shareholders				Accumulated Other Non-controlling Comprehensive Interest		Total
	Common Stock		Additional Paid-in	Retained	Loss, Net of	Interest in	
	Shares	Amount	Capital	Earnings	Taxes	Subsidiaries	
Balance at December 31, 2010	100,726,947	\$ 1,007	\$ 467,500	\$ 445,456	\$ (9,392)	\$ 246	\$ 904,817
Net income (loss)	—	—	—	48,452	—	(5)	48,447
Exercise of common stock options	210,336	2	577	—	—	—	579
Equity-based compensation	11,364	—	1,464	—	—	—	1,464
Other comprehensive income, net of income taxes	—	—	—	—	509	10	519
Balance at June 30, 2011	100,948,647	\$ 1,009	\$ 469,541	\$ 493,908	\$ (8,883)	\$ 251	\$ 955,826

	OCN Shareholders				Accumulated Other Non-controlling Comprehensive Interest		Total
	Common Stock		Additional Paid-in	Retained	Loss, Net of	Interest in	
	Shares	Amount	Capital	Earnings	Taxes	Subsidiaries	
Balance at December 31, 2009	99,956,833	\$ 1,000	\$ 459,542	\$ 405,198	\$ (129)	\$ 252	\$ 865,863
Adoption of ASC 810 (FASB Statement No. 167), net of tax	—	—	—	2,274	—	—	2,274
Net income	—	—	—	36,898	—	12	36,910
Exercise of common stock	217,775	2	1,023	—	—	—	1,025

options							
Issuance of common stock awards to employees	9,865	—	—	—	—	—	—
Equity-based compensation	7,654	—	1,325	—	—	—	1,325
Other							
comprehensive loss, net of income taxes	—	—	—	—	(7,443)	(24)	(7,467)
Balance at June 30, 2010	100,192,127	\$ 1,002	\$ 461,890	\$ 444,370	\$ (7,572)	\$ 240	\$ 899,930

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 six months ended June 30,	
	2011	2010
Cash flows from operating activities		
Net income	\$ 48,447	\$ 36,910
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of mortgage servicing rights	18,849	14,229
Amortization of debt discount	7,343	2,104
Amortization of debt issuance costs – senior secured term loan	8,604	—
Depreciation	887	741
Write-off of investment in commercial real estate property	—	3,000
Reversal of valuation allowance on mortgage servicing assets	(701)	(101)
Loss on trading securities	—	945
Loss on loans held for resale, net	2,520	2,087
Equity in loss (earnings) of unconsolidated entities	550	(1,078)
Gain on extinguishment of debt	(1,246)	(152)
(Increase) decrease in deferred tax assets, net	(631)	12,838
Net cash provided by trading activities	—	168,453
Net cash provided by loans held for resale activities	519	849
Changes in assets and liabilities:		
Decrease in advances and match funded advances	518,493	153,997
Decrease in receivables and other assets, net	53,675	11,983
Decrease in servicer liabilities	(427)	(36,702)
Decrease in other liabilities	(32,334)	(13,282)
Other, net	5,836	3,974
Net cash provided by operating activities	630,384	360,795
Cash flows from investing activities		
Purchase of mortgage servicing rights	—	(23,425)
Acquisition of advances and other assets in connection with the purchase of mortgage servicing rights	—	(528,882)
Distributions of capital from unconsolidated entities – Ocwen Structured Investments, LLC, Ocwen Nonperforming Loans, LLC and Ocwen REO, LLC	1,639	2,146
Investment in unconsolidated entity – Correspondent One S.A.	(3,025)	—
Additions to premises and equipment	(571)	(2,202)
Proceeds from sales of real estate	648	2,046
(Increase) decrease in restricted cash – for securitization investors	(780)	743
Principal payments received on loans – restricted for securitization investors	3,512	2,223
Net cash provided (used) by investing activities	1,423	(547,351)
Cash flows from financing activities		
(Repayment of) proceeds from match funded liabilities	(440,531)	369,481

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Repayment of secured borrowings – owed to securitization investors	(4,009)	(4,852)
Proceeds from lines of credit and other secured borrowings	—	96,657
Repayment of lines of credit and other secured borrowings	(210,712)	(53,904)
Repayment of investment line	—	(156,968)
Repurchase of debt securities	—	(11,659)
Exercise of common stock options	836	935
Other	(1,020)	(667)
Net cash (used) provided by financing activities	(655,436)	239,023
Net (decrease) increase in cash	(23,629)	52,467
Cash at beginning of period	127,796	90,919
Cash at end of period	\$ 104,167	\$ 143,386

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