OCWEN FINANCIAL CORP
Form 10-Q
November 06, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

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

Commission File No. 1-13219

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes o No x
Number of shares of common stock outstanding as of October 31, 2018: 133,912,425 shares

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OCWEN FINANCIAL CORPORATION
FORM 10-Q
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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 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," "expec "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such terms or other comparable terminolo

Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Our business has been undergoing substantial change, which has magnified such uncertainties. Readers should bear these factors in mind when considering forward-looking statements and should not place undue reliance on such statements.

Forward-looking statements involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those suggested by such statements. In the past, actual results have differed from those suggested by forward-looking statements and this may happen again. Important factors that could cause actual results to differ include, but are not limited to, the risks discussed or referenced under Item 1A, Risk Factors and the following:

- uncertainty related to claims, litigation, cease and desist orders and investigations brought by government agencies and private parties regarding our servicing, foreclosure, modification, origination and other practices, including uncertainty related to past, present or future investigations, litigation, cease and desist orders and settlements with state regulators, the Consumer Financial Protection Bureau (CFPB), state attorneys general, the Securities and Exchange Commission (SEC), the Department of Justice or the Department of Housing and Urban Development (HUD) and actions brought under the False Claims Act by private parties on behalf of the United States of America regarding incentive and other payments made by governmental entities;
- adverse effects on our business because of regulatory investigations, litigation, cease and desist orders or settlements;
- reactions to the announcement of such investigations, litigation, cease and desist orders or settlements by key counterparties or others, including lenders, the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the GSEs) and the Government National Mortgage Association (Ginnie Mae);
- our ability to reach settlements with regulatory agencies and state attorneys general on reasonable terms and to comply with the terms of our settlements;
- increased regulatory scrutiny, and media attention;
- any adverse developments in existing legal proceedings or the initiation of new legal proceedings;
- our ability to effectively manage our regulatory and contractual compliance obligations;
- our ability to comply with our servicing agreements, including our ability to comply with our agreements with, and the requirements of, Fannie Mae, Freddie Mac and Ginnie Mae and maintain our seller/servicer and other statuses with them;
- the adequacy of our financial resources, including our sources of liquidity and ability to sell, fund and recover advances, repay borrowings and comply with our debt agreements, including the financial and other covenants contained in them;
- our ability to invest excess liquidity at adequate risk-adjusted returns;
- limits on our ability to repurchase our own stock as a result of regulatory settlements and other conditions;
- our servicer and credit ratings as well as other actions from various rating agencies, including the impact of prior or future downgrades of our servicer and credit ratings;
- failure of our information technology and other security measures or breach of our privacy protections, including any failure to protect customers' data;
- volatility in our stock price;
- the characteristics of our servicing portfolio, including prepayment speeds along with delinquency and advance rates;
- our ability to contain and reduce our operating costs;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;

- uncertainty related to legislation, regulations, regulatory agency actions, regulatory examinations, government programs and policies, industry initiatives and evolving best servicing practices;
- the dependence of our business on New Residential Investment Corp. (NRZ), our largest client and the source for a substantial portion of our advance funding for non-agency mortgage servicing rights;
- our ability to timely transfer mortgage servicing rights under our agreements with NRZ and our ability to maintain our long-term relationship with NRZ;
- our ability to successfully integrate PHH Corporation (PHH) and its business, and to realize the strategic objectives and other benefits of the acquisition at the time anticipated or at all, including our ability to integrate, maintain and enhance PHH’s servicing, subservicing and other business relationships, including its relationship with NRZ;

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

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the SEC including our Annual Report on Form 10-K for the year ended December 31, 2017 and our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K since such date. Forward-looking statements speak only as of the date they were made and we disclaim any obligation to update or revise forward-looking statements whether because of new information, future events or otherwise.

PART I – FINANCIAL INFORMATION
ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	September 30, 2018	December 31, 2017
Assets		
Cash	$254,843	$259,655
Mortgage servicing rights ($999,282 and $671,962 carried at fair value)	999,282	1,008,844
Advances, net	166,024	211,793
Match funded assets (related to variable interest entities (VIEs))	935,080	1,177,357
Loans held for sale ($145,417 and $214,262 carried at fair value)	217,436	238,358
Loans held for investment, at fair value (amounts related to VIEs of $28,373 and $0)	5,307,560	4,715,831
Receivables, net	155,937	199,529
Premises and equipment, net	25,873	37,006
Other assets ($7,826 and $8,900 carried at fair value)(amounts related to VIEs of $19,954 and $27,359)	399,002	554,791
Total assets	$8,461,037	$8,403,164
Liabilities and Equity		
Liabilities		
HMBS-related borrowings, at fair value	$5,184,227	$4,601,556
Match funded liabilities (related to VIEs)	714,246	998,618
Other financing liabilities ($646,842 and $508,291 carried at fair value)(amounts related to VIEs of $26,643 and $0)	719,319	593,518
Other secured borrowings, net	345,425	545,850
Senior notes, net	347,749	347,338
Other liabilities ($2,567 and $635 carried at fair value)	589,327	769,410
Total liabilities	7,900,293	7,856,290
Commitments and Contingencies (Notes 19 and 20)		
Equity		
Ocwen Financial Corporation (Ocwen) stockholders’ equity		
Common stock, $.01 par value; 200,000,000 shares authorized; 133,912,425 and 131,484,058 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1,339	1,315
Additional paid-in capital	553,443	547,057
Retained earnings (accumulated deficit)	5,909	(2,083)
Accumulated other comprehensive loss, net of income taxes	(1,135)	(1,249)
Total Ocwen stockholders’ equity	559,556	545,040
Non-controlling interest in subsidiaries	1,188	1,834
Total equity	560,744	546,874
Total liabilities and equity	$8,461,037	$8,403,164

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue				
Servicing and subservicing fees	$213,730	$ 233,220	$658,095	$ 761,523
Gain on loans held for sale, net	16,942	25,777	61,135	76,976
Other	7,606	25,645	32,886	79,307
Total revenue	238,278	284,642	752,116	917,806
Expenses				
Compensation and benefits	63,307	90,538	211,220	272,750
Professional services	40,662	38,417	110,821	145,651
MSR valuation adjustments, net	41,448	33,426	91,695	115,446
Servicing and origination	31,758	52,246	91,452	128,061
Technology and communications	20,597	27,929	67,306	79,530
Occupancy and equipment	11,896	15,340	37,369	49,569
Other	7,858	15,583	19,814	39,335
Total expenses	217,526	273,479	629,677	830,342
Other income (expense)				
Interest income	3,963	4,099	10,018	12,101
Interest expense	(61,288)	(47,281)	(189,601)	(212,471)
Gain (loss) on sale of mortgage servicing rights, net	(733)	6,543	303	7,863
Other, net	(2,967)	(1,077)	(6,872)	6,384
Total other expense, net	(61,025)	(37,716)	(186,152)	(186,123)
Loss before income taxes	(40,273)	(26,553)	(63,713)	(98,659)
Income tax expense (benefit)	845	(20,418)	4,541	(15,465)
Net loss	(41,118)	(6,135)	(68,254)	(83,194)
Net income attributable to non-controlling interests	(29)	(117)	(176)	(289)
Net loss attributable to Ocwen stockholders	$(41,147)	$ (6,252)	$(68,430)	$ (83,483)
Loss per share attributable to Ocwen stockholders				
Basic	$(0.31)	$ (0.05)	$(0.51)	$ (0.66)
Diluted	$(0.31)	$ (0.05)	$(0.51)	$ (0.66)
Weighted average common shares outstanding				
Basic	133,912,425	128,744,152	133,632,905	125,797,777
Diluted	133,912,425	128,744,152	133,632,905	125,797,777

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$(41,118)	$(6,135)	$(68,254)	$(83,194)
Other comprehensive income, net of income taxes:				
Reclassification adjustment for losses on cash flow hedges included in net income (1)	36	45	114	157
Total other comprehensive income, net of income taxes	36	45	114	157
Comprehensive loss	(41,082)	(6,090)	(68,140)	(83,037)
Comprehensive income attributable to non-controlling interests	(29)	(117)	(176)	(289)
Comprehensive loss attributable to Ocwen stockholders	$(41,111)	$(6,207)	$(68,316)	$(83,326)

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

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Dollars in thousands)

	Ocwen Stockholders Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Non-controlling Interest in Subsidiaries	Total
Balance at December 31, 2017	131,484,058	$ 1,315	$ 547,057	$ (2,083)	$ (1,249)	$ 1,834	$ 546,874
Net income (loss)	—	—	—	(68,430)	—	176	(68,254)
Issuance of common stock	1,875,000	19	5,700	—	—	—	5,719
Cumulative effect of fair value election - Mortgage servicing rights	—	—	—	82,043	—	—	82,043
Cumulative effect of adoption of FASB Accounting Standards Update No. 2016-16	—	—	—	(5,621)	—	—	(5,621)
Capital distribution to non-controlling interest	—	—	—	—	—	(822)	(822)
Equity-based compensation and other	553,367	5	686	—	—	—	691
Other comprehensive income, net of income taxes	—	—	—	—	114	—	114
Balance at September 30, 2018	133,912,425	$ 1,339	$ 553,443	$ 5,909	$ (1,135)	$ 1,188	$ 560,744
Balance at December 31, 2016	123,988,160	$ 1,240	$ 527,001	$ 126,167	$ (1,450)	$ 2,325	$ 655,283
Net income (loss)	—	—	—	(83,483)	—	289	(83,194)
Cumulative effect of adoption of FASB Accounting Standards Update No. 2016-09	—	—	284	(284)	—	—	—
Issuance of common stock	6,075,510	61	13,852	—	—	—	13,913
Equity-based compensation and other	795,388	8	3,255	—	—	—	3,263
Other comprehensive income, net of income taxes	—	—	—	—	157	—	157
Balance at September 30, 2017	130,859,058	$ 1,309	$ 544,392	$ 42,400	$ (1,293)	$ 2,614	$ 589,422

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

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

	For the Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net loss	$(68,254)	$(83,194)
Adjustments to reconcile net loss to net cash provided by operating activities:		
MSR valuation adjustments, net	91,695	115,446
Gain on sale of mortgage servicing rights, net	(303)	(7,863)
Provision for bad debts	40,269	57,274
Depreciation	18,199	20,430
Loss on write-off of fixed assets	—	6,834
Amortization of debt issuance costs	2,261	1,979
Equity-based compensation expense	1,244	4,489
Gain on valuation of financing liability	(11,323)	(27,024)
Net gain on valuation of mortgage loans held for investment and HMBS-related borrowings	(8,057)	(18,637)
Gain on loans held for sale, net	(24,265)	(39,542)
Origination and purchase of loans held for sale	(1,234,830)	(3,074,725)
Proceeds from sale and collections of loans held for sale	1,154,526	3,067,522
Changes in assets and liabilities:		
Decrease in advances and match funded assets	243,831	285,066
Decrease in receivables and other assets, net	126,829	160,169
Decrease in other liabilities	(46,767)	(66,321)
Other, net	6,478	3,466
Net cash provided by operating activities	291,533	405,369
Cash flows from investing activities		
Origination of loans held for investment	(711,035)	(961,642)
Principal payments received on loans held for investment	296,800	311,560
Purchase of mortgage servicing rights	(2,729)	(1,658)
Proceeds from sale of mortgage servicing rights	6,138	2,263
Proceeds from sale of advances	7,882	6,119
Issuance of automotive dealer financing notes	(19,642)	(129,471)
Collections of automotive dealer financing notes	52,598	119,389
Additions to premises and equipment	(7,326)	(7,365)
Other, net	5,446	1,480
Net cash used in investing activities	(371,868)	(659,325)
Cash flows from financing activities		
Repayment of match funded liabilities, net	(284,372)	(252,981)
Proceeds from mortgage loan warehouse facilities and other secured borrowings	2,211,606	5,810,591
Repayments of mortgage loan warehouse facilities and other secured borrowings	(2,585,286)	(6,016,169)
Proceeds from sale of mortgage servicing rights accounted for as a financing	279,586	54,601
Proceeds from sale of reverse mortgages (HECM loans) accounted for as a financing (HMBS-related borrowings)	728,745	981,730
Repayment of HMBS-related borrowings	(290,338)	(287,908)
Issuance of common stock	—	13,913

Capital distribution to non-controlling interest	(822)	—
Other, net	(991)	(2,321)
Net cash provided by financing activities	58,128	301,456
Net increase (decrease) in cash and restricted cash	(22,207)	47,500
Cash and restricted cash at beginning of year	302,560	302,398
Cash and restricted cash at end of period	$280,353	$349,898
Supplemental non-cash investing and financing activities		
Initial consolidation of mortgage-backed securitization trusts (VIEs):		
Loans held for investment	$28,373	$—
Other financing liabilities	26,643	—
Issuance of common stock in connection with litigation settlement	$5,719	$—

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

	September 30, 2018	September 30, 2017
Cash	$254,843	$299,888
Restricted cash and equivalents included in Other assets:		
Debt service accounts	22,454	38,753
Other restricted cash	3,056	11,257
Total cash and restricted cash reported in the statements of cash flows	$280,353	$349,898

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(Dollars in thousands, except per share data and unless otherwise indicated)

Note 1 – Organization, Business Environment and Basis of Presentation
Organization
Ocwen Financial Corporation (NYSE: OCN) (Ocwen, we, us and our) is a financial services holding company which, through its subsidiaries, originates and services loans. We are headquartered in West Palm Beach, Florida with offices located throughout the United States (U.S.) and in the United States Virgin Islands (USVI) and with operations located in India and the Philippines. Ocwen is a Florida corporation organized in February 1988.
Ocwen owns all of the common stock of its primary operating subsidiary, Ocwen Mortgage Servicing, Inc. (OMS), and directly or indirectly owns all of the outstanding stock of its other primary operating subsidiaries: Ocwen Loan Servicing, LLC (OLS), Ocwen Financial Solutions Private Limited (OFSPL), Homeward Residential, Inc. (Homeward) and Liberty Home Equity Solutions, Inc. (Liberty).
We perform servicing activities on behalf of other servicers (subservicing), the largest being New Residential Investment Corp. (NRZ), and investors (primary and master servicing), including the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the GSEs), the Government National Mortgage Association (Ginnie Mae) and private-label securitizations (non-Agency). As a subservicer or primary servicer, we may be required to make advances for certain property tax and insurance premium payments, default and property maintenance payments and principal and interest payments on behalf of delinquent borrowers to mortgage loan investors before recovering them from borrowers. Most, but not all, of our subservicing agreements provide for us to be reimbursed for any such advances by the owner of the servicing rights. Advances made by us as primary servicer are recovered from the borrower or the mortgage loan investor. As master servicer, we collect mortgage payments from primary servicers and distribute the funds to investors in the mortgage-backed securities. To the extent the primary servicer does not advance the scheduled principal and interest, as master servicer we are responsible for advancing the shortfall, subject to certain limitations.
We originate, sell and securitize conventional (conforming to the underwriting standards of Fannie Mae or Freddie Mac; collectively referred to as Agency loans) and government-insured (Federal Housing Administration (FHA) or Department of Veterans Affairs (VA)) forward mortgages. The GSEs or Ginnie Mae guarantee these mortgage securitizations. We originate Home Equity Conversion Mortgages (HECM, or reverse mortgages) that are insured by the FHA and are an approved issuer of Home Equity Conversion Mortgage-Backed Securities (HMBS) that are guaranteed by Ginnie Mae.
We had a total of approximately 6,400 employees at September 30, 2018 of which approximately 4,300 were located in India and approximately 500 were based in the Philippines. Our operations in India and the Philippines primarily provide internal support services, principally to our loan servicing business and our corporate functions. Of our foreign-based employees, more than 80% were engaged in supporting our loan servicing operations as of September 30, 2018.
Business Environment
We are facing certain challenges and uncertainties that could have significant adverse effects on our business, financial condition, liquidity and results of operations. The ability of management to appropriately address these challenges and uncertainties in a timely manner is critical to our ability to operate our business successfully.
Losses in prior years have significantly eroded stockholders' equity and weakened our financial condition. In order to drive stronger financial performance, we are focusing our operations on mortgage servicing, on forward lending, primarily servicing portfolio recapture, and on our reverse mortgage business. We have significantly strengthened our cash position during 2018 through the receipt of a lump-sum fee payment of $279.6 million from NRZ in January 2018 in connection with our rights to mortgage servicing rights agreements. See Note 8 — Rights to MSRs for further information.

On October 4, 2018, we acquired PHH Corporation (PHH). We believe this acquisition will enable the following key strategic and financial benefits:

- Accelerate our transition to the Black Knight Financial Services, Inc. (Black Knight) LoanSphere MSP® servicing platform (Black Knight MSP);
- Reduce fixed costs, on a combined basis, through reductions in corporate overhead and other costs;
- Improve economies of scale; and,
- Provide a foundation to enable the combined servicing platform to resume new business and growth activities to offset portfolio runoff.

The approval of the New York Department of Financial Services (NY DFS) for the acquisition imposed certain post-closing requirements on Ocwen, including certain reporting obligations and certain record retention and other requirements relating to the planned transfer of New York loans onto the Black Knight MSP servicing platform as well as certain requirements with respect to the management of PHH Mortgage Corporation, a licensed subsidiary of PHH. In addition, the NY DFS modified its restriction on Ocwen's ability to acquire MSRs to allow certain acquisitions of MSRs that are boarded onto the Black Knight MSP servicing platform subject to annual portfolio growth limitations until such time as the NY DFS determines that all loans have been successfully migrated to the Black Knight MSP servicing platform and that Ocwen has developed a satisfactory infrastructure to board sizeable portfolios of MSRs. See Note 18 – Regulatory Requirements and Note 21 – Subsequent Events for additional information regarding the acquisition of PHH.

Now that we have consummated our acquisition of PHH, if we can execute on five key initiatives, we believe we will drive stronger financial performance. First, we must successfully execute on the integration of PHH's business with ours, including a smooth transition onto the Black Knight MSP servicing platform. Second, we must re-engineer our cost structure to go beyond eliminating redundant costs through the integration process. Third, we must fulfill our regulatory commitments and resolve our remaining legal and regulatory matters on satisfactory terms. Fourth, we must replenish our servicing portfolio through expanding our lending business and permissible MSR acquisitions that are prudent and well-executed with appropriate financial return targets. Finally, we must ensure that we continue to manage our balance sheet to provide a solid platform for executing on our growth and other initiatives.

Our business, operating results and financial condition have been significantly impacted in recent periods by regulatory actions against us and by significant litigation matters. Should the number or scope of regulatory or legal actions against us increase or expand or should we be unable to reach reasonable resolutions in existing regulatory and legal matters, our business, reputation, financial condition, liquidity and results of operations could be materially and adversely affected, even if we are successful in our ongoing efforts to drive stronger financial performance. See Note 18 – Regulatory Requirements and Note 20 – Contingencies for further information.

Regarding the current maturities of our borrowings, as of September 30, 2018 we have approximately $520.4 million of debt outstanding under facilities coming due in the next 12 months. Portions of our match funded facilities and all of our mortgage loan warehouse facilities have 364-day terms consistent with market practice. We have historically renewed these facilities on or before their expiration in the ordinary course of financing our business. We expect to renew, replace or extend all such borrowings to the extent necessary to finance our business on or prior to their respective maturities consistent with our historical experience.

Our debt agreements contain various qualitative and quantitative events of default provisions that include, among other things, noncompliance with covenants, breach of representations, or the occurrence of a material adverse change. If a lender were to allege an event of default and we are unable to avoid, remedy or secure a waiver of such alleged default, we could be subject to adverse actions by our lenders that could have a material adverse impact on us. In addition, OLS, Homeward and Liberty are parties to seller/servicer agreements and/or subject to guidelines and regulations (collectively, seller/servicer obligations) with one or more of the GSEs, the Department of Housing and Urban Development (HUD), FHA, VA and Ginnie Mae. To the extent these requirements are not met or waived, the applicable agency may, at its option, utilize a variety of remedies including requirements to provide certain information or take actions at the direction of the applicable agency, requirements to deposit funds as security for our obligations, sanctions, suspension or even termination of approved seller/servicer status, which would prohibit future originations or securitizations of forward or reverse mortgage loans or servicing for the applicable agency. Any of these actions could have a material adverse impact on us. See Note 11 – Borrowings, Note 18 – Regulatory Requirements and Note 20 – Contingencies for further information.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions of the Securities and Exchange Commission (SEC) to Form 10-Q and SEC Regulation S-X, Article 10, Rule 10-01 for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only

of normal recurring adjustments, necessary for a fair presentation. The results of operations and other data for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2018. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the

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

Reclassifications

Within the expenses section of the unaudited statement of operations for the three and nine months ended September 30, 2017, we reclassified impairment charges and fair value gains and losses on mortgage servicing rights (MSRs), both previously included in the Servicing and origination line item, and Amortization of MSRs to a new line item titled MSR valuation adjustments, net.

As a result of our adoption on January 1, 2018 of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash, debt service accounts and other restricted cash which are included in Other assets on the consolidated balance sheets have been classified as Cash and restricted cash in our consolidated statements of cash flows. Our revision of the unaudited consolidated statement of cash flows for the nine months ended September 30, 2017 to conform to the new standard resulted in an increase in net cash provided by operating activities of $4.2 million (Decrease in receivables and other assets, net line item is higher as revised).

Certain amounts in the unaudited consolidated statement of cash flows for the nine months ended September 30, 2017 have been reclassified to conform to the current year presentation as follows:

- Within the operating activities section, we reclassified Amortization of MSRs, Loss on valuation of MSRs, at fair value, and Impairment of MSRs to a new line item (MSR valuation adjustments, net). In addition, we reclassified Realized and unrealized gains on derivative financial instruments to Other, net.
- Within the financing activities section, we reclassified Payment of debt issuance costs to Other, net.

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

Recently Adopted Accounting Standards

Revenue from Contracts with Customers (Accounting Standards Update (ASU) 2014-09)

This ASU clarifies the principles for recognizing revenue and creates a common revenue standard. Under this ASU, an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity will recognize revenue through a five-step process. The guidance in this standard does not apply to financial instruments and other contractual rights or obligations within the scope of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 860, Transfers and Servicing, among other ASC topics. As a result, our adoption of this standard on a modified retrospective basis on January 1, 2018 did not have a material impact on our consolidated financial statements.

Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)

This ASU provides users with more useful information regarding the recognition, measurement, presentation, and disclosure of financial instruments and also improves the accounting model to better meet the requirements of today’s complex economic environment. Most changes in this ASU require the same information, but some changes revise the geography of that information on the financial statements. Our adoption of this standard on January 1, 2018 did not have a material impact on our consolidated financial statements.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15)

This ASU clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows under FASB ASC Topic 230, Statement of Cash Flows (ASC 230). Our adoption of this standard on January 1, 2018 did not have a material impact on our consolidated financial statements.

Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory (ASU 2016-16)

This ASU requires an entity to recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. Previously, recognition of current and deferred income taxes for an intra-entity transfer was prohibited until the asset had been sold to an outside party. We adopted this standard on a modified retrospective basis on January 1, 2018 by recording a cumulative-effect reduction of $5.6 million to retained earnings.

Statement of Cash Flows: Restricted Cash (ASU 2016-18)
This ASU clarifies how changes in restricted cash are classified and presented in the statement of cash flows under ASC 230. This standard requires that a statement of cash flows explain the change during the period in the total of cash, cash

equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Our adoption of this standard on January 1, 2018 did not have a material impact on our consolidated financial statements. The amendments in this update have been applied using a retrospective transition method to each period presented. We have revised the unaudited consolidated statement of cash flows for the nine months ended September 30, 2017 to conform to the new standard.

Business Combinations: Clarifying the Definition of a Business (ASU 2017-01)

This ASU clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. Our adoption of this standard on January 1, 2018 did not have a material impact on our consolidated financial statements.

Compensation: Stock Compensation (ASU 2017-09)

This ASU reduces both diversity in practice as well as cost and complexity when applying the modification accounting guidance in FASB ASC Topic 718, Compensation -- Stock Compensation, to a change to the terms or conditions of a share-based payment award. Our adoption of this standard on January 1, 2018 did not have a material impact on our consolidated financial statements.

Financial Instruments: Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10) (ASU 2018-03)

This ASU provides clarification of areas in ASU 2016-01 by improving the measurement and reporting of certain financial assets and liabilities. Our adoption of this standard on July 1, 2018 did not have a material impact on our consolidated financial statements.

Income Taxes: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (ASU 2018-05)

This ASU adds various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Jobs Act (Tax Act) in the period of enactment. We adopted the now codified guidance in SAB 118 as of December 31, 2017 and continue to rely on the guidance in these interim financial statements.

Accounting Standards Issued but Not Yet Adopted

Leases (ASU 2016-02)

This ASU will require a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months, regardless of whether the lease is classified as a finance or operating lease. Additional disclosures of the amount, timing and uncertainty of cash flows arising from leases will be required. In July 2018, the FASB amended this guidance by issuing ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases (Topic 842): Targeted Improvements which provides clarification and further guidance on areas identified as potential implementation issues, as well as providing for an additional optional transition method to allow initial application of the new leasing guidance at the adoption date and recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

These standards will be effective for us on January 1, 2019, with early application permitted. At adoption, we expect to apply the new transition method provided for in ASU 2018-11. While we are continuing to evaluate the effects that this guidance will have on our financial statements, we have determined it will result in the recognition of certain operating leases as right-of-use assets and lease liabilities in the consolidated balance sheet, but we do not anticipate that the impact will be material.

Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13)

This ASU will require timelier recording of credit losses on loans and other financial instruments. This standard aligns the accounting with the economics of lending by requiring banks and other lending institutions to immediately record the full amount of credit losses that are expected in their loan portfolios. The new guidance requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This standard requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. Additionally, the new guidance amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. This standard will be

effective for us on January 1, 2020, with early application permitted. We are currently evaluating the effect of adopting this standard.

Receivables: Nonrefundable Fees and Other Costs (ASU 2017-08)

This ASU amends the amortization period for certain purchased callable debt securities held at a premium. This standard shortens the amortization period for the premium to the earliest call date, rather than generally amortizing the premium as an

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adjustment of yield over the contractual life of the instrument. This standard will be effective for us on January 1, 2019. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02)

This ASU provides entities with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. This standard will be effective for us on January 1, 2019. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Codification Improvements (ASU 2018-09)

This ASU amends multiple codification Topics. The transition and effective date guidance is based on the facts and circumstances of each amendment. While some of the amendments in this ASU do not require transition guidance and were effective upon issuance of this ASU, many of the amendments in this ASU have transition guidance with an effective date of January 1, 2019. We do not anticipate that our adoption of this standard will have a material impact on our consolidated financial statements.

Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13)

This ASU modifies the disclosure requirements on fair value measurements in FASB ASC Topic 820, Fair Value Measurement. The main provisions in this update include removal of the following disclosure requirements from this ASC: 1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, 2) the policy for timing of transfers between levels and 3) the valuation processes for Level 3 fair value measurements. This standard adds disclosure requirements to report the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and for certain unobservable inputs an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements.

This standard will be effective for us on January 1, 2020, with early application permitted on any removed or modified disclosures and to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption, and to allow a delayed adoption of the additional disclosures until the effective date. We are currently evaluating the effect of adopting this standard.

Intangibles - Goodwill and Other - Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15)

This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this ASU. The amendments in this ASU require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments in this ASU require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in this ASU also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of operations as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element.

This standard will be effective for us on January 1, 2020, with early adoption permitted, including adoption in any interim period. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently evaluating the effect of adopting this standard.

SEC Simplifies and Updates Disclosure Requirements (US 2018-21)

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, to eliminate, modify, or integrate into other SEC requirements certain disclosure rules. The amendments eliminate the following:

- Redundant and duplicative requirements, which require substantially similar disclosures as GAAP, IFRS, or other SEC disclosure requirements;

- Overlapping requirements, which are related to, but not the same as GAAP, IFRS, or other SEC disclosure requirements - including the elimination of the ratio of earnings to fixed charges;
- Outdated requirements, which have become obsolete as a result of the passage of time or changes in the regulatory, business, or technological environment; and
- Superseded requirements, which are inconsistent with recent legislation, more recently updated SEC disclosure requirements, or more recently updated GAAP.

In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule will become effective on November 5, 2018. We are currently evaluating the impact on our consolidated financial statements.

Note 2 – Securitizations and Variable Interest Entities

We securitize, sell and service forward and reverse residential mortgage loans and regularly transfer financial assets in connection with asset-backed financing arrangements. We have aggregated these securitizations and asset-backed financing arrangements into three groups: (1) securitizations of residential mortgage loans, (2) financings of advances and (3) financings of automotive dealer financing notes.

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

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

Securitizations of Residential Mortgage Loans

We securitize forward and reverse residential mortgage loans involving the GSEs and loans insured by the FHA or VA through Ginnie Mae. To the extent we retain the right to service these loans, we receive servicing fees based upon the securitized loan balances and certain ancillary fees, all of which are reported in Servicing and subservicing fees in the unaudited consolidated statements of operations.

Transfers of Forward Loans

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Proceeds received from securitizations	$282,507	$687,502	$998,204	$2,711,651
Servicing fees collected	9,808	10,300	30,233	30,250
Purchases of previously transferred assets, net of claims reimbursed	(1,507)	(1,234)	(4,336)	(3,958)
	$290,808	$696,568	$1,024,101	$2,737,943

In connection with these transfers, we retained MSRs of $1.4 million and $5.9 million, and $3.6 million and $18.6 million, during the three and nine months ended September 30, 2018 and 2017, respectively, which are reported in Gain on loans held for sale, net in the unaudited consolidated statements of operations. See Note 4 – Loans Held for Sale for additional information regarding gains or losses on the transfer of loans held for sale.

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

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

	September 30, 2018	December 31, 2017
Carrying value of assets		
MSRs, at fair value	$ 111,586	$ 227
MSRs, at amortized cost	—	97,832
Advances and match funded advances	61,500	57,636
UPB of loans transferred	11,118,533	12,077,635
Maximum exposure to loss	$ 11,291,619	$ 12,233,330

At September 30, 2018 and December 31, 2017, 7.4% and 8.9%, respectively, of the transferred residential loans that we service were 60 days or more past due.

Transfers of Reverse Mortgages

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

At September 30, 2018 and December 31, 2017, Loans held for investment included $78.1 million and $83.8 million, respectively, of originated loans which had not yet been pledged as collateral. See Note 3 – Fair Value and Note 11 – Borrowings for additional information on HMBS-related borrowings and Loans held for investment.

Financings of Advances

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

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

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

Mortgage-Backed Securitizations

We have concluded we are the primary beneficiary of certain residential mortgage-backed securitizations as a result of beneficial interests consisting of residual securities, which expose us to the expected losses and residual returns of the

trust, and our role as master servicer, where we have the ability to direct the activities that most significantly impact the performance of the trust.

The table below presents the carrying value and classification of the assets and liabilities of two consolidated mortgage-backed securitization trusts included in our unaudited consolidated balance sheet at September 30, 2018 as a result of residual securities issued by the trust that we acquired during the third quarter of 2018.

Loans held for investment, at fair value - Restricted for securitization investors	$28,373
Financing liability - Owed to securitization investors, at fair value	26,643

Upon consolidation of the securitization trusts, we elected to apply the measurement alternative to ASC Topic 820, Fair Value Measurement for collateralized financing entities. The measurement alternative requires a reporting entity to use the more observable of the fair value of the financial assets or the financial liabilities to measure both the financial assets and the financial liabilities of the entity. We determined that the fair value of the loans held by the trusts is more observable than the fair value of the debt certificates issued by the trusts. Through the application of the measurement alternative, the fair value of the financial liabilities of the trusts are measured as the difference between the fair value of the financial assets and the fair value of our investment in the residual securities of the trusts.
Holders of the debt issued by these entities have recourse only to the assets of the SPE for satisfaction of the debt and have no recourse against the assets of Ocwen. Similarly, the general creditors of Ocwen have no claim on the assets of the trusts. Our exposure to loss as a result of our continuing involvement is limited to the carrying values of our investments in the residual securities of the trusts, our MSRs and related advances. At September 30, 2018, MSRs of $0.2 million and our $1.7 million investment in the residual securities of the trusts were eliminated in consolidation. Advances outstanding at September 30, 2018 were $1.2 million.

Financings of Automotive Dealer Financing Notes

Match funded automotive dealer financing notes resulted from our transfers of short-term, inventory-secured loans to car dealers to an SPE in exchange for cash. We consolidated this SPE because we determined that Ocwen is the primary beneficiary of the SPE. In January 2018, we decided to exit the independent used car dealer floor plan lending business conducted through Automotive Capital Services, Inc. (ACS). We made transfers to the SPE in accordance with the terms of the automotive capital asset receivables financing facility agreement, which we terminated in January 2018 in connection with our decision to exit the business. We classified the transferred loans on our consolidated balance sheets as a component of Match funded assets and the related liabilities as Match funded liabilities. Holders of the debt issued by the SPE had recourse only to the assets of the SPE for satisfaction of the debt.

Note 3 – Fair Value

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

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

We classify assets in their entirety based on the lowest level of input that is significant to the fair value measurement.
The carrying amounts and the estimated fair values of our financial instruments and certain of our nonfinancial assets measured at fair value on a recurring or non-recurring basis or disclosed, but not carried, at fair value are as follows:

		September 30, 2018		December 31, 2017	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets					
Loans held for sale					
Loans held for sale, at fair value (a)	2	$145,417	$145,417	$214,262	$214,262
Loans held for sale, at lower of cost or fair value (b)	3	72,019	72,019	24,096	24,096
Total Loans held for sale		217,436	217,436	238,358	238,358

	Level	September 30, 2018 Carrying Value	Fair Value	December 31, 2017 Carrying Value	Fair Value
Loans held for investment, at fair value					
Loans held for investment - Reverse mortgages (a)	3	5,279,187	5,279,187	4,715,831	4,715,831
Loans held for investment - Restricted for securitization investors (a)	3	28,373	28,373	—	—
Total loans held for investment		5,307,560	5,307,560	4,715,831	4,715,831
Advances (including match funded) (c)	3	1,101,104	1,101,104	1,356,393	1,356,393
Automotive dealer financing notes (including match funded) (c)	3	—	—	32,757	32,590
Receivables, net (c)	3	155,937	155,937	199,529	199,529
Mortgage-backed securities, at fair value (a)	3	1,670	1,670	1,592	1,592
U.S. Treasury notes (a)	1	1,059	1,059	1,567	1,567
Financial liabilities:					
Match funded liabilities (c)	3	$714,246	$710,303	$998,618	$992,698
Financing liabilities:					
HMBS-related borrowings, at fair value (a)	3	5,184,227	5,184,227	4,601,556	4,601,556
Financing liability - MSRs pledged, at fair value (a)	3	620,199	620,199	508,291	508,291
Financing liability - Owed to securitization investors, at fair value (a)	3	26,643	26,643	—	—
Other (c)	3	72,477	57,984	85,227	65,202
Total Financing liabilities		$5,903,546	$5,889,053	$5,195,074	$5,175,049
Other secured borrowings:					
Senior secured term loan (c) (d)	2	230,295	236,866	290,068	299,741
Other (c)	3	115,130	115,130	255,782	255,782
Total Other secured borrowings		345,425	351,996	545,850	555,523
Senior notes:					
Senior unsecured notes (c) (d)	2	3,122	3,090	3,122	2,872
Senior secured notes (c) (d)	2	344,627	352,071	344,216	355,550
Total Senior notes		347,749	355,161	347,338	358,422
Derivative financial instrument assets (liabilities), at fair value (a)					
Interest rate lock commitments	2	2,816	2,816	3,283	3,283
Forward mortgage-backed securities	1	(1,873)	(1,873)	(545)	(545)
Interest rate caps	3	1,211	1,211	2,056	2,056
Mortgage servicing rights					
Mortgage servicing rights, at fair value (a)	3	$999,282	$999,282	$671,962	$671,962
Mortgage servicing rights, at amortized cost (c) (e)	3	—	—	336,882	418,745
Total Mortgage servicing rights		$999,282	$999,282	$1,008,844	$1,090,707

(a) Measured at fair value on a recurring basis.
(b) Measured at fair value on a non-recurring basis.
(c) Disclosed, but not carried, at fair value.
(d)

The carrying values are net of unamortized debt issuance costs and discount. See Note 11 – Borrowings for additional information.

(e) Effective January 1, 2018, we elected fair value accounting for our MSRs previously accounted for using the amortization method, which included Agency MSRs and government-insured MSRs. The balance at December 31, 2017 includes the impaired government-

insured stratum of amortization method MSRs, which was measured at fair value on a non-recurring basis and reported net of the valuation allowance. At December 31, 2017, the carrying value of this stratum was $158.0 million before applying the valuation allowance of $24.8 million.

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

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Loans Held for Inv. - Restricted for Securitization Investors	Financing Liability - Owed to Securit - ization Investors	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs
Three months ended September 30, 2018								
Beginning balance	$5,143,758	$(5,040,983)	$—	$—	$ 1,732	$(672,619)	$ 1,657	$1,043,995
Purchases, issuances, sales and settlements								
Purchases	—	—	—	—	—	—	—	2,924
Issuances	223,563	(229,169)	—	—	—	—	—	1,930
Consolidation of mortgage-backed securitization trusts	—	—	28,373	(26,643)	—	—	—	—
Sales	—	—	—	—	—	—	—	(8,119)
Settlements	(110,584)	108,790	—	—	—	49,620	—	—
Transfers (to) from:								
Loans held for sale, at fair value	(253)	—	—	—	—	—	—	—
Other assets	(170)	—	—	—	—	—	—	—
Receivables, net	(20)	—	—	—	—	—	—	—
	112,536	(120,379)	28,373	(26,643)	—	49,620	—	(3,265)
Total realized and unrealized gains (losses) included in earnings								
Change in fair value	22,893	(22,865)	—	—	(62)	2,681	(446)	(41,448)
Calls and other	—	—	—	—	—	119	—	—
	22,893	(22,865)	—	—	(62)	2,800	(446)	(41,448)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—	—
Ending balance	$5,279,187	$(5,184,227)	$ 28,373	$(26,643)	$ 1,670	$(620,199)	$ 1,211	$999,282

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-Backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs
Three months ended September 30, 2017						
Beginning balance	$4,223,776	$(4,061,626)	$ 8,986	$(441,007)	$ 1,937	$625,650
Purchases, issuances, sales and settlements						
Purchases	—	—	—	—	655	—
Issuances	263,169	(317,277)	—	(54,601)	—	(715)
Sales	—	—	—	—	—	(311)
Settlements	(118,991)	111,677	—	19,770	(403)	—
Transfers (to) from:						
Other assets	88	—	—	—	—	—
	144,266	(205,600)	—	(34,831)	252	(1,026)
Total realized and unrealized gains (losses) included in earnings						
Change in fair value	91,718	(91,051)	341	27,024	(350)	(26,477)
Calls and other	—	—	—	971	—	—
	91,718	(91,051)	341	27,995	(350)	(26,477)
Transfers in and / or out of Level 3	—	—	—	—	—	—
Ending balance	$4,459,760	$(4,358,277)	$ 9,327	$(447,843)	$ 1,839	$598,147

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Loans Held for Inv. - Restricted for Securitization Investors	Financing Liability - Owed to Securitization Investors	Mortgage-backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs
Nine months ended September 30, 2018								
Beginning balance	$4,715,831	$(4,601,556)	$—	$—	$ 1,592	$(508,291)	$2,056	$671,962
Purchases, issuances, sales and settlements								
Purchases	—	—	—	—	—	—	95	8,809
Issuances	711,035	(728,745)	—	—	—	(279,586)	—	(445)
Consolidation of mortgage-backed securitization trusts	—	—	28,373	(26,643)	—	—	—	—
Sales	—	—	—	—	—	—	—	(8,274)
Settlements	(296,800)	290,338	—	—	—	154,129	(371)	—
Transfers (to) from:								
MSRs carried at amortized cost, net of valuation allowance	—	—	—	—	—	—	—	418,925
Loans held for sale, at fair value	(694)	—	—	—	—	—	—	—
Other assets	(307)	—	—	—	—	—	—	—
Receivables, net	(92)	—	—	—	—	—	—	—
	413,142	(438,407)	28,373	(26,643)	—	(125,457)	(276)	419,015
Total realized and unrealized gains (losses) included in earnings								
Included in earnings:								
Change in fair value	150,214	(144,264)	—	—	78	11,323	(569)	(91,695)
Calls and other	—	—	—	—	—	2,226	—	—
	150,214	(144,264)	—	—	78	13,549	(569)	(91,695)
Transfers in and / or out of Level 3	—	—	—	—	—	—	—	—
Ending Balance	$5,279,187	$(5,184,227)	$28,373	$(26,643)	$ 1,670	$(620,199)	$1,211	$999,282

	Loans Held for Investment - Reverse Mortgages	HMBS-Related Borrowings	Mortgage-backed Securities	Financing Liability - MSRs Pledged	Derivatives	MSRs
Nine months ended September 30, 2017						
Beginning balance	$3,565,716	$(3,433,781)	$ 8,342	$(477,707)	$ 1,836	$679,256
Purchases, issuances, sales and settlements						
Purchases	—	—	—	—	655	—
Issuances	961,642	(981,730)	—	(54,601)	—	(2,131)
Sales	—	—	—	—	—	(541)
Settlements	(311,560)	287,908	—	52,963	(445)	—
Transfers (to) from:						
Other assets	(1,335)	—	—	—	—	—
	648,747	(693,822)	—	(1,638)	210	(2,672)
Total realized and unrealized gains (losses) included in earnings						
Change in fair value	245,297	(230,674)	985	27,024	(207)	(78,437)
Calls and other	—	—	—	4,478	—	—
	245,297	(230,674)	985	31,502	(207)	(78,437)
Transfers in and / or out of Level 3	—	—	—	—	—	—
Ending balance	$4,459,760	$(4,358,277)	$ 9,327	$(447,843)	$ 1,839	$598,147

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

Loans Held for Sale

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

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

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

Loans Held for Investment

Loans Held for Investment - Reverse Mortgages

We measure these loans at fair value based on the expected future cash flows discounted over the expected life of the loans at a rate commensurate with the risk of the estimated cash flows. Significant assumptions include expected prepayment and delinquency rates and cumulative loss curves. The discount rate assumption for these assets is primarily based on an assessment

of current market yields on newly originated reverse mortgage loans, expected duration of the asset and current market interest rates.

Significant valuation assumptions	September 30, 2018	December 31, 2017
Life in years		
Range	2.8 to 7.6	4.4 to 8.1
Weighted average	5.8	6.4
Conditional repayment rate		
Range	6.3% to 41.3%	5.4% to 51.9%
Weighted average	14.7 %	13.1 %
Discount rate	3.7 %	3.2 %

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

Loans Held for Investment – Restricted for securitization investors

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

Mortgage Servicing Rights

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

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

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

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

Fair Value MSRs

MSRs carried at fair value are classified within Level 3 of the valuation hierarchy. The fair value is equal to the mid-point of the range of prices provided by third-party valuation experts, without adjustment, except in the event we have a potential or completed sale, including transactions where we have executed letters of intent, in which case the fair value of the MSRs is disclosed at the estimated sale price. Fair value reflects actual Ocwen sale prices for orderly

transactions where available in lieu of independent third-party valuations. Our valuation process includes discussions of bid pricing with the third-party valuation experts and presumably are contemplated along with other market-based transactions in their model validation.

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

Significant valuation assumptions	September 30, 2018		December 31, 2017	
	Agency (1)	Non-Agency	Agency	Non-Agency
Weighted average prepayment speed	8.1 %	15.7 %	8.1 %	16.6 %
Weighted average delinquency rate	9.9 %	27.6 %	1.0 %	28.5 %
Advance financing cost	5-year swap	5-yr swap plus 2.75%	5-year swap	5-yr swap plus 2.75%
Interest rate for computing float earnings	5-year swap	5-yr swap minus 0.50%	5-year swap	5-yr swap minus 0.50%
Weighted average discount rate	9.0 %	12.7 %	9.0 %	13.0 %
Weighted average cost to service (in dollars)	$105	$ 301	$64	$ 305

(1) Valuation assumptions for Agency MSRs at September 30, 2018 include assumptions for MSRs we carried at amortized cost at December 31, 2017. Effective January 1, 2018, we elected fair value accounting for our remaining MSRs that we had previously carried at amortized cost.

Amortized Cost MSRs

Prior to our fair value election on January 1, 2018 for our remaining portfolio of MSRs carried at amortized cost, we estimated the fair value using a process that involved either actual sale prices obtained or the use of independent third-party valuation experts, supported by commercially available discounted cash flow models and analysis of current market data. To provide greater price transparency to investors, we disclosed actual Ocwen sale prices for orderly transactions where available in lieu of third-party valuations.

Significant valuation assumptions	December 31, 2017
Weighted average prepayment speed	8.8 %
Weighted average delinquency rate	10.9 %
Advance financing cost	5-year swap
Interest rate for computing float earnings	5-year swap
Weighted average discount rate	9.2 %
Weighted average cost to service (in dollars)	$ 108

We performed an impairment analysis based on the difference between the carrying amount and fair value after grouping the underlying loans into the applicable strata, which we defined as conventional and government-insured.

Advances

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

Receivables

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

Mortgage-Backed Securities (MBS)

Our subordinate and residual securities are not actively traded, and therefore, we estimate the fair value of these securities using a process based upon the use of an independent third-party valuation expert. Where possible, we consider observable trading activity in the valuation of our securities. Key inputs include expected prepayment rates, delinquency and cumulative loss curves and discount rates commensurate with the risks. Where possible, we use observable inputs in the valuation of our securities. However, the subordinate and residual securities in which we have invested trade infrequently and therefore have few or no observable inputs and little price transparency. Additionally, during periods of market dislocation, the observability of inputs is further reduced.

U.S. Treasury Notes

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

Match Funded Liabilities

For match funded liabilities that bear interest at a rate that is adjusted regularly based on a market index, the carrying value approximates fair value. For match funded liabilities that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. We estimate principal repayments of match funded liabilities during the amortization period based on our historical advance collection rates and taking into consideration any plans to refinance the notes.

Financing Liabilities

HMBS-Related Borrowings

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

Significant valuation assumptions	September 30, 2018	December 31, 2017
Life in years		
Range	2.8 to 7.6	4.4 to 8.1
Weighted average	5.8	6.4
Conditional repayment rate		
Range	6.3% to 41.3%	5.4% to 51.9%
Weighted average	14.7 %	13.1 %
Discount rate	3.7 %	3.1 %

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

MSRs Pledged (Rights to MSRs)

We have elected to measure these borrowings at fair value. We recognize the proceeds received in connection with Rights to MSRs transactions as a secured borrowing that we account for at fair value. Fair value for the portion of the borrowing attributable to the MSRs underlying the Rights to MSRs is determined using the mid-point of the range of prices provided by third-party valuation experts. Fair value for the portion of the borrowing attributable to any lump sum payments received in connection with the transfer of MSRs underlying such Rights to MSRs to the extent such transfer is accounted for as a financing is determined by discounting the relevant future cash flows that were altered through such transfer using assumptions consistent with the mid-point of the range of prices provided by third-party valuation experts for the related MSR. Because we have elected fair value for our portfolio of non-Agency MSRs, fair value changes in the Financing Liability - MSRs Pledged are partially offset by changes in the fair value of the related MSRs. See Note 8 — Rights to MSRs for additional information.

Significant valuation assumptions	September 30, 2018	December 31, 2017
Weighted average prepayment speed	16.1 %	17.0 %
Weighted average delinquency rate	28.1 %	28.9 %
Advance financing cost	5-yr swap plus 2.75%	5-year swap plus 2.75%
Interest rate for computing float earnings		

	5-yr swap minus 0.50%	5-year swap minus 0.50%
Weighted average discount rate	13.7 %	13.7 %
Weighted average cost to service (in dollars)	$ 307	$ 311

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

Secured Notes

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

Financing Liability – Owed to Securitization Investors

Consists of securitization debt certificates due to third parties that represent beneficial ownership interests in mortgage-backed securitization trusts that we include in our consolidated financial statements. We determine fair value using the measurement alternative to ASC Topic 820, Fair Value Measurement as disclosed in Note 2 – Securitizations and Variable Interest Entities. In accordance with the measurement alternative, the fair value of the consolidated securitization debt certificates is measured as the fair value of the loans held by the trust less the fair value of the beneficial interests held by us in the form of residual securities.

Other Secured Borrowings

The carrying value of secured borrowings that bear interest at a rate that is adjusted regularly based on a market index approximates fair value. For other secured borrowings that bear interest at a fixed rate, we determine fair value by discounting the future principal and interest repayments at a market rate commensurate with the risk of the estimated cash flows. For the Senior Secured Term Loan (SSTL), we based the fair value on quoted prices in a market with limited trading activity.

Senior Notes

We base the fair value on quoted prices in a market with limited trading activity.

Derivative Financial Instruments

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

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

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

Note 4 – Loans Held for Sale

Loans Held for Sale - Fair Value	Nine Months Ended September 30,	
	2018	2017
Beginning balance	$214,262	$284,632
Originations and purchases	671,503	2,204,028
Proceeds from sales	(728,531)	(2,310,294)
Principal collections	(14,201)	(3,684)
Transfers from (to):		
Loans held for investment, at fair value	694	—
Loans held for sale - Lower of cost or fair value	(11,564)	—
Receivables, net	(1,165)	—
Real estate owned (Other assets)	(2,240)	—
Gain on sale of loans	25,525	22,131
Increase (decrease) in fair value of loans	(12,791)	1,836
Other	3,925	1,789
Ending balance (1)	$145,417	$200,438

(1) At September 30, 2018 and 2017, the balances include $(6.5) million and $6.7 million, respectively, of fair value adjustments.

At September 30, 2018, loans held for sale, at fair value with a UPB of $76.3 million were pledged as collateral to warehouse lines of credit in our Lending segment.

Loans Held for Sale - Lower of Cost or Fair Value	Nine Months Ended September 30,	
	2018	2017
Beginning balance	$24,096	$29,374
Purchases	563,327	870,697
Proceeds from sales	(400,693)	(746,999)
Principal collections	(11,101)	(6,545)
Transfers from (to):		
Receivables, net	(118,762)	(137,807)
Real estate owned (Other assets)	(1,681)	(711)
Loans held for sale - Fair value	11,564	—
Gain on sale of loans	2,180	8,332
(Increase) decrease in valuation allowance	(3,144)	1,566
Other	6,233	5,317
Ending balance (1)	$72,019	$23,224

(1) At September 30, 2018 and 2017, the balances include $53.0 million and $17.6 million, respectively, of loans that we repurchased from Ginnie Mae guaranteed securitizations pursuant to Ginnie Mae servicing guidelines. We may repurchase loans that have been modified, to facilitate loss reduction strategies, or as otherwise obligated as a Ginnie Mae servicer. Repurchased loans may be modified or otherwise remediated through loss mitigation activities, may be sold to a third party, or are reclassified to receivables.

Valuation Allowance - Loans Held for Sale at Lower of Cost or Fair Value	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$7,535	$6,491	$7,318	$10,064
Provision	2,755	906	3,036	1,761
Transfer from Liability for indemnification obligations (Other liabilities)	554	1,529	1,551	2,416
Sales of loans	(382)	(426)	(1,464)	(6,071)
Other	—	(2)	21	328
Ending balance	$10,462	$8,498	$10,462	$8,498

Gain on Loans Held for Sale, Net	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gain on sales of loans, net				
MSRs retained on transfers of forward loans	$1,427	$3,572	$5,880	$18,604
Fair value gains related to transfers of reverse mortgage loans, net	9,421	15,747	36,870	37,434
Gain on sale of repurchased Ginnie Mae loans	1,222	4,577	2,179	8,332
Other, net	4,459	6,730	24,028	19,635
	16,529	30,626	68,957	84,005
Change in fair value of IRLCs	26	(178)	137	(1,605)
Change in fair value of loans held for sale	365	(2,078)	(9,781)	3,735
Gain (loss) on economic hedge instruments	84	(2,420)	2,082	(8,604)
Other	(62)	(173)	(260)	(555)
	$16,942	$25,777	$61,135	$76,976

Note 5 – Advances

	September 30, 2018	December 31, 2017
Principal and interest	$ 16,385	$ 20,207
Taxes and insurance	105,633	144,454
Foreclosures, bankruptcy and other	59,759	63,597
	181,777	228,258
Allowance for losses	(15,753)	(16,465)
	$ 166,024	$ 211,793

Advances at September 30, 2018 and December 31, 2017 include $8.2 million and $18.1 million, respectively, of advances relating to sales of loans that did not qualify for sale accounting.

The following table summarizes the activity in net advances:

	Nine Months Ended September 30,	
	2018	2017
Beginning balance	$211,793	$257,882
Sales of advances	(4,777)	(399)
Collections of advances, charge-offs and other, net	(41,704)	(63,320)
Decrease in allowance for losses	712	3,790
Ending balance	$166,024	$197,953

Allowance for Losses	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$16,485	$20,328	$16,465	$37,952
Provision	2,696	13,756	6,197	17,054
Net (charge-offs) recoveries and other	(3,428)	78	(6,909)	(20,844)
Ending balance	$15,753	$34,162	$15,753	$34,162

Note 6 – Match Funded Assets

	September 30, 2018	December 31, 2017
Advances		
Principal and interest	$ 424,520	$523,248
Taxes and insurance	352,376	439,857
Foreclosures, bankruptcy, real estate and other	158,184	181,495
	935,080	1,144,600
Automotive dealer financing notes (1)	—	35,392
Allowance for losses	—	(2,635)
	—	32,757
	$ 935,080	$1,177,357

(1) In January 2018, we terminated our automotive dealer loan financing facility. Automotive dealer financing notes not pledged to our automotive dealer loan financing facility are reported as Other assets.

The following table summarizes the activity in match funded assets:

	Nine Months Ended September 30,			
	2018		2017	
	Advances	Automotive Dealer Financing Notes	Advances	Automotive Dealer Financing Notes
Beginning balance	$1,144,600	$ 32,757	$1,451,964	$ —
Transfer (to) from Other assets	—	(36,896)	—	25,180
Sales	—	—	(691)	—
New advances (collections), net	(209,520)	1,504	(243,410)	10,856
Decrease in allowance for losses (1)	—	2,635	—	—
Ending balance	$935,080	$ —	$1,207,863	$ 36,036

(1) The remaining allowance was charged off in connection with the exit from the ACS business.

Note 7 – Mortgage Servicing

Mortgage Servicing Rights – Amortization Method	Nine Months Ended September 30,	
	2018	2017
Beginning balance	$336,882	$363,722
Fair value election - transfer of MSRs carried at fair value (1)	(361,670)	—
Additions recognized in connection with asset acquisitions	—	1,658
Additions recognized on the sale of mortgage loans	—	18,604
Sales and other transfers	—	(814)
	(24,788)	383,170
Amortization (1)	—	(38,560)
Decrease in impairment valuation allowance (1) (2)	24,788	1,551
Ending balance	$—	$346,161
Estimated fair value at end of period	$—	$424,208

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

(2) Impairment of MSRs is recognized in MSR valuation adjustments, net in the unaudited consolidated statements of operations for the nine months ended September 30, 2017. Impairment valuation allowance balance of $24.8 million was reclassified to reduce the carrying value of the related MSRs on January 1, 2018 in connection with our fair value election. See Note 3 – Fair Value for additional information regarding impairment and the valuation allowance.

Mortgage Servicing Rights – Fair Value Measurement Method	Nine Months Ended September 30,					
	2018			2017		
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Beginning balance	$11,960	$ 660,002	$671,962	$13,357	$ 665,899	$679,256
Fair value election - transfer of MSRs carried at amortized cost, net of valuation allowance	336,882	—	336,882	—	—	—
Cumulative effect of fair value election	82,043	—	82,043	—	—	—
Sales and other transfers	(5,950)	(175)	(6,125)	—	(2,672)	(2,672)
Additions	8,809	—	8,809	—	—	—
Servicing transfers and adjustments	—	(2,594)	(2,594)	—	—	—
Changes in fair value (1):						
Changes in valuation inputs or other assumptions	19,217	(424)	18,793	(131)	2,303	2,172
Realization of expected future cash flows and other changes	(43,545)	(66,943)	(110,488)	(1,385)	(79,224)	(80,609)
Ending balance	$409,416	$ 589,866	$999,282	$11,841	$ 586,306	$598,147

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

Because the mortgages underlying these MSRs permit the borrowers to prepay the loans, the value of the MSRs generally tends to diminish in periods of declining interest rates, an improving housing market or expanded product availability (as

prepayments increase) and increase in periods of rising interest rates, a deteriorating housing market or reduced product availability (as prepayments decrease). The following table summarizes the estimated change in the value of the MSRs that we carry at fair value as of September 30, 2018 given hypothetical shifts in lifetime prepayments and yield assumptions:

	Adverse change in fair value	
	10%	20%
Weighted average prepayment speeds	$(92,659)	$(178,462)
Discount rate (option-adjusted spread)	(28,326)	(54,351)

The sensitivity analysis measures the potential impact on fair values based on hypothetical changes, which in the case of our portfolio at September 30, 2018 are increased prepayment speeds and a decrease in the yield assumption.

Portfolio of Assets Serviced

The following table presents the composition of our residential primary servicing and subservicing portfolios as measured by UPB, including foreclosed real estate and small-balance commercial loans. The servicing portfolio represents loans for which we own the servicing rights while subservicing represents all other loans. The UPB of assets serviced for others are not included on our unaudited consolidated balance sheets.

UPB at September 30, 2018	
Servicing	$68,076,254
Subservicing	1,387,641
NRZ (1)	91,532,579
	$160,996,474
UPB at December 31, 2017	
Servicing	$75,469,327
Subservicing	2,063,669
NRZ (1)	101,819,557
	$179,352,553
UPB at September 30, 2017	
Servicing	$78,254,463
Subservicing (2)	3,656,197
NRZ (1)	105,557,658
	$187,468,318

(1) UPB of loans serviced for which the Rights to MSRs have been sold to NRZ, including those subserviced for which third-party consents have been received and the MSRs have been transferred to NRZ.

(2) Excludes $9.8 million of large-balance commercial foreclosed real estate. During 2017, we sold or transferred servicing on the remaining managed assets.

During the nine months ended September 30, 2018 and 2017, we sold MSRs with a UPB of $580.0 million and $210.2 million, respectively.

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

At September 30, 2018, S&P Global Ratings' (S&P) servicer ratings outlook for Ocwen is stable. Fitch Ratings, Inc.'s (Fitch) servicer ratings outlook is Stable and Moody's Investors Service, Inc.'s (Moody's) servicer ratings are on Watch for Downgrade. Downgrades in servicer ratings could adversely affect our ability to sell or finance servicing advances and could impair our ability to consummate future servicing transactions or adversely affect our dealings with lenders, other contractual counterparties, and regulators, including our ability to maintain our status as an approved servicer by Fannie Mae and Freddie Mac. The servicer rating requirements of Fannie Mae do not necessarily require or imply

immediate action, as Fannie Mae has discretion with respect to whether we are in compliance with their requirements and what actions it deems appropriate under the circumstances in the event that we fall below their desired servicer ratings.

Certain of our servicing agreements require that we maintain specified servicer ratings from rating agencies such as Moody's and S&P. At September 30, 2018, non-Agency servicing agreements with a UPB of $27.0 billion have minimum servicer ratings criteria. As a result of our current servicer ratings, termination rights have been triggered in non-Agency servicing agreements with a UPB of $8.4 billion, or approximately 9% of our total non-Agency servicing portfolio. To date, terminations as servicer as a result of a breach of any of these provisions have been minimal.

Servicing Revenue	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Loan servicing and subservicing fees				
Servicing	$52,610	$63,071	$167,389	$197,712
Subservicing	658	1,760	2,443	5,877
NRZ	120,593	129,228	374,322	420,151
	173,861	194,059	544,154	623,740
Late charges	14,839	14,958	44,743	47,352
Custodial accounts (float earnings)	10,241	7,489	25,965	18,322
Loan collection fees	4,916	5,663	14,700	17,918
Home Affordable Modification Program (HAMP) fees (1)	3,365	6,202	11,622	37,692
Other	6,508	4,849	16,911	16,499
	$213,730	$233,220	$658,095	$761,523

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

Float balances (balances in custodial accounts, which represent collections of principal and interest that we receive from borrowers) are held in escrow by an unaffiliated bank and are excluded from our unaudited consolidated balance sheets. Float balances amounted to $1.7 billion and $2.0 billion at September 30, 2018 and September 30, 2017, respectively.

Note 8 — Rights to MSRs

In 2012 and 2013, we sold Rights to MSRs with respect to certain non-Agency MSRs and the related servicing advances to Home Loan Servicing Solutions, Ltd. (HLSS), an indirect wholly-owned subsidiary of NRZ. While certain underlying economics of the MSRs were transferred, legal title was retained by Ocwen, causing the Rights to MSRs transactions to be accounted for as secured financings. We continue to recognize the MSRs and related financing liability on our unaudited consolidated balance sheet as well as the full amount of servicing revenue and changes in the fair value of the MSRs and related financing liability in our unaudited consolidated statements of operations.

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

On July 23, 2017 and January 18, 2018, we entered into a series of agreements with NRZ that collectively modify, supplement and supersede the arrangements among the parties as set forth in the Original Rights to MSRs Agreements. The July 23, 2017 agreements, as amended, include a Master Agreement, Transfer Agreement and Subservicing Agreement (collectively, the 2017 Agreements) pursuant to which the parties agreed, among other things, to undertake certain actions to facilitate the transfer from Ocwen to NRZ of Ocwen's legal title to the remaining MSRs, with a UPB of $109.6 billion as of June 30, 2017, that were subject to the Original Rights to MSRs Agreements and under which Ocwen will subservice mortgage loans underlying the MSRs for an initial term of five

years (the Initial Term). While we continue the process of obtaining the third-party consents necessary to transfer the MSRs to NRZ, on January 18, 2018, the parties entered into new agreements (including a Servicing Addendum) regarding the Rights to MSRs related to MSRs that remained subject to the Original Rights to MSRs Agreements as of January 1, 2018 and amended the Transfer Agreement (collectively, New RMSR Agreements) to accelerate the implementation of certain parts of our arrangements in order to achieve the intent of the 2017 Agreements

sooner. Ocwen will continue to service the related mortgage loans until the necessary third-party consents are obtained in order to transfer the applicable MSRs in accordance with the New RMSR Agreements. Upon receiving the required consents and transferring the MSRs, Ocwen will subservice the mortgage loans underlying the MSRs pursuant to the 2017 Agreements.

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

The 2017 Agreements and New RMSR Agreements (as amended) provide for the conversion of the economics of the Original Rights to MSRs Agreements into a more traditional subservicing arrangement and involve upfront payments to Ocwen. Prior to the execution of the New RMSR Agreements, we received these payments upon obtaining the required third-party consents and the transfer of the MSRs. Upon execution of the New RMSR Agreements, we received the balance of these upfront payments. These upfront payments generally represent the net present value of the difference between the future revenue stream Ocwen would have received under the Original Rights to MSRs Agreements and the future revenue stream Ocwen expects to receive under the 2017 Agreements and the New RMSR Agreements. On September 1, 2017, pursuant to the 2017 Agreements, Ocwen successfully transferred MSRs with UPB of $15.9 billion to NRZ and received a lump-sum payment of $54.6 million. On January 18, 2018, Ocwen received a lump-sum payment of $279.6 million in accordance with the terms of the New RMSR Agreements.

Due to the length of the Initial Term of the Subservicing Agreement, the transactions in which MSRs are transferred as described above do not qualify as a sale and are accounted for as secured financings. A new liability is recognized in an amount equal to the fair value of any lump sum payments received in connection with the 2017 Agreements and New RMSR Agreements. Due diligence and consent-related costs are recorded in Professional services expense as incurred. Changes in the fair value of the financing liability are recognized in Interest expense.

In the event the required third-party consents are not obtained with respect to any dates specified in, and in accordance with the process set forth in, the New RMSR Agreements, such MSRs will either: (i) remain subject to the New RMSR Agreements at the option of NRZ, (ii) be acquired by Ocwen at a price determined in accordance with the terms of the New RMSR Agreements, or (iii) be sold to a third party in accordance with the terms of the New RMSR Agreements.

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

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

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

Interest expense related to financing liabilities recorded in connection with the NRZ transactions is indicated in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Servicing fees collected on behalf of NRZ	$120,593	$129,228	$374,322	$420,151
Less: Subservicing fee retained by Ocwen	33,335	68,536	101,997	226,483
Net servicing fees remitted to NRZ	87,258	60,692	272,325	193,668
Less: Reduction (increase) in financing liability				
Changes in fair value				
Original Rights to MSRs Agreements	4,844	(9,854)	(3,938)	(9,854)
2017 Agreements and New RMSR Agreements	(2,163)	36,878	15,261	36,878
Runoff, settlement and other				
Original Rights to MSRs Agreements	14,095	19,003	45,455	52,196
2017 Agreements and New RMSR Agreements	33,765	767	104,291	767
	$36,717	$13,898	$111,256	$113,681

In April 2015, Ocwen sold all economic beneficial rights to the “clean-up call rights” to which we were entitled pursuant to servicing agreements that underlie the Rights to MSRs to NRZ for a payment upon exercise of 0.50% of the UPB of all performing mortgage loans (mortgage loans that are current or 30 days or less delinquent) associated with such clean-up call. As a result of the 2017 Agreements and the New RMSR Agreements, Ocwen is no longer entitled to the 0.50% purchase price but will continue to be reimbursed for costs incurred with respect to such efforts and receives administrative fees. We received $0.8 million and $5.5 million during the three and nine months ended September 30, 2017, respectively, from NRZ in connection with such clean-up calls. The clean-up calls are recognized in Other, net in the unaudited consolidated statements of operations.

Note 9 – Receivables

	September 30, 2018	December 31, 2017
Servicing-related receivables:		
Government-insured loan claims, net	$100,786	$114,971
Reimbursable expenses	30,493	31,709
Due from custodial accounts	27,990	36,122
Due from NRZ	6,137	14,924
Other	9,048	11,959
	174,454	209,685
Income taxes receivable	35,153	36,831
Other receivables	11,153	19,600
	220,760	266,116
Allowance for losses	(64,823)	(66,587)
	$155,937	$199,529

At September 30, 2018 and December 31, 2017, the allowance for losses related to receivables of our Servicing business was $64.4 million and $66.3 million, respectively, and was primarily comprised of an allowance for losses related to defaulted FHA or VA insured loans repurchased from Ginnie Mae guaranteed securitizations (government-insured loan claims).

Allowance for Losses - Government-Insured Loan Claims	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$53,155	$46,577	$53,340	$53,258
Provision	10,180	9,162	29,214	31,848
Net charge-offs and other	(10,297)	(7,069)	(29,516)	(36,436)
Ending balance	$53,038	$48,670	$53,038	$48,670

Note 10 – Other Assets

	September 30, 2018	December 31, 2017
Contingent loan repurchase asset	$ 307,684	$ 431,492
Prepaid expenses	23,023	22,559
Debt service accounts (restricted cash)	22,454	33,726
Prepaid representation, warranty and indemnification claims - Agency MSR sale	15,173	20,173
Prepaid lender fees, net	6,290	9,496
Real estate	5,216	3,070
Derivatives, at fair value	4,721	5,429
Other restricted cash	3,056	9,179
Mortgage backed securities, at fair value	1,670	1,592
Interest-earning time deposits	1,629	4,739
Prepaid income taxes	—	5,621
Other	8,086	7,715
	$ 399,002	$ 554,791

Automotive dealer financing notes not pledged to our former automotive dealer loan financing facility are reported as Other assets. We ceased new lending and terminated this facility in January 2018. There were no remaining notes outstanding at September 30, 2018. At December 31, 2017, the balance of the notes was $0, net of an allowance of $7.7 million. Changes in the allowance are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$—	$9,586	$7,664	$4,371
Provision	—	(1,019)	(265)	4,196
Net charge-offs and other	—	—	(7,399)	—
Ending balance	$—	$8,567	$—	$8,567

Note 11 – Borrowings

Match Funded Liabilities

Borrowing Type	Maturity (1)	Amortization Date (1)	Available Borrowing Capacity (2)	September 30, 2018 Weighted Average Interest Rate (3)	September 30, 2018 Balance	December 31, 2017 Weighted Average Interest Rate (3)	December 31, 2017 Balance
Advance Financing Facilities:							
Advance Receivables Backed Notes - Series 2014-VF4 (4)	Aug. 2048	Aug. 2018	$—	— %	$—	4.29%	$67,095
Advance Receivables Backed Notes - Series 2015-VF5 (4)	Dec. 2049	Dec. 2019	46,178	3.76	178,822	4.29	67,095
Advance Receivables Backed Notes - Series 2016-T1 (5)	Aug. 2048	Aug. 2018	—	—	—	2.77	265,000
Advance Receivables Backed Notes - Series 2016-T2 (5)	Aug. 2049	Aug. 2019	—	2.99	235,000	2.99	235,000
Advance Receivables Backed Notes - Series 2017-T1 (5)	Sep. 2048	Sep. 2018	—	—	—	2.64	250,000
Advance Receivables Backed Notes, Series 2018-T1 (5)	Aug. 2049	Aug. 2019	—	3.50	150,000	—	—
Advance Receivables Backed Notes, Series 2018-T2 (5)	Aug. 2050	Aug. 2020	—	3.81	150,000	—	—
Total Ocwen Master Advance Receivables Trust (OMART)			46,178	3.46	713,822	3.02	884,190
Ocwen Servicer Advance Receivables Trust III (OSART III) - Advance Receivables Backed Notes, Series 2014-VF1 (6)	Dec. 2048	Dec. 2018	54,626	5.49	374	4.63	33,768
Ocwen Freddie Advance Funding (OFAF) - Advance Receivables Backed Notes, Series 2015-VF1 (7)	Jun. 2049	Jun. 2019	64,950	4.83	50	4.52	56,078
Total Servicing Advance Financing Facilities			165,754	3.46%	714,246	3.16%	974,036
Automotive Capital Asset Receivables Trust (ACART) - Loan Series 2017-1 (8)	Feb. 2021	Feb. 2019	—	— %	—	6.77%	24,582
			$ 165,754	3.46%	$714,246	3.25%	$998,618

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

(2) Borrowing capacity is available to us provided that we have eligible collateral to pledge. Collateral may only be pledged to one facility. At September 30, 2018, $52.8 million of the available borrowing capacity of our advance financing notes could be used based on the amount of eligible collateral that had been pledged.

(3) 1ML was 2.26% and 1.56% at September 30, 2018 and December 31, 2017, respectively.

(4)

Effective January 1, 2018, the borrowing capacity of the Series 2014-VF4 and the Series 2015-VF5 variable rate notes were each reduced from $105.0 million to $70.0 million. The interest rate was based on 1ML, with a ceiling of 125 basis points (bps), plus a margin of 235 to 635 bps. On July 13, 2018, we increased the borrowing capacity of the Series 2015-VF5 variable notes to $225.0 million and extended the amortization date to December 15, 2019, with interest computed based on the lender's cost of funds plus a margin of 105 to 250 bps. The increased capacity was used on July 16, 2018 to redeem the Series 2016-T1 term notes with an outstanding balance of $265.0 million and an amortization date of August 15, 2018. We also voluntarily terminated the Series 2014-VF4 variable notes on July 16, 2018.

(5) Under the terms of the agreement, we must continue to borrow the full amount of the Series 2016-T2, 2018-T1 and 2018-T2 fixed-rate term notes until the amortization date. If there is insufficient eligible collateral to support the level of borrowing, the excess cash proceeds in an amount necessary to make up the deficit are not distributed to Ocwen but are held by the trustee, and interest expense continues to be based on the full amount of the outstanding notes. The Series 2016-T2, 2018-T1 and 2018-T2 term notes have a total combined borrowing capacity of $535.0 million. Rates on the individual classes of notes range from 2.72% to 4.53%. The Series 2016-T1 and Series 2017-T1 term notes were redeemed on July 16, 2018 and August 14, 2018, respectively. On August 15, 2018, we

issued two $150.0 million fixed-rate term notes (Series 2018 T-1 and Series 2018-T2) with amortization dates of August 15, 2019 and August 2020, respectively.

(6) The maximum borrowing capacity under this facility is $55.0 million. There is a ceiling of 300 bps for the 3ML in determining the interest rate for these variable rate notes. Rates on the individual notes are based on the lender's cost of funds plus a margin of 235 to 475 bps.

(7) On June 7, 2018, borrowing capacity was reduced from $110.0 million to $65.0 million with interest computed based on the lender's cost of funds plus a margin of 180 to 450 bps. There is a ceiling of 300 bps for 3ML in determining the interest rate for these variable rate notes.

(8) On January 23, 2018, we voluntarily terminated the Loan Series 2017-1 Notes.

Pursuant to the 2017 Agreements and New RMSR Agreements, NRZ is obligated to fund new servicing advances with respect to the MSRs underlying the Rights to MSRs. We are dependent upon NRZ for funding the servicing advance obligations for Rights to MSRs where we are the servicer. NRZ currently uses advance financing facilities in order to fund a substantial portion of the servicing advances that they are contractually obligated to purchase pursuant to our agreements with them. As of September 30, 2018, we were the servicer of Rights to MSRs sold to NRZ pertaining to $91.5 billion in UPB and the associated outstanding servicing advances as of such date were approximately $2.3 billion. Should NRZ's advance financing facilities fail to perform as envisaged or should NRZ otherwise be unable to meet its advance funding obligations, our liquidity, financial condition and business could be materially and adversely affected. As the servicer, we are contractually required under our servicing agreements to make the relevant servicing advances even if NRZ does not perform its contractual obligations to fund those advances. See Note 8 — Rights to MSRs for additional information.

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

Financing Liabilities

Borrowing Type	Collateral	Interest Rate	Maturity	Outstanding Balance September 30, 2018	December 31, 2017
HMBS-Related Borrowings, at fair value (1)	Loans held for investment	1ML + 260 bps	(1)	$ 5,184,227	$ 4,601,556
Other Financing Liabilities					
MSRs pledged, at fair value:					
Original Rights to MSRs Agreements	MSRs	(2)	(2)	450,845	499,042
2017 Agreements and New RMSR Agreements	MSRs	(3)	(3)	169,354	9,249
				620,199	508,291
Secured Notes, Ocwen Asset Servicing Income Series, Series 2014-1 (4)	MSRs	(4)	Feb. 2028	67,194	72,575
Financing liability - Owed to securitization investors, at fair value:					
IndyMac Mortgage Loan Trust (INDX 2004-AR11) (5)	Loans held for investment	(5)	(5)	13,250	—
Residential Asset Securitization Trust 2003-A11 (RAST 2003-A11) (5)	Loans held for investment	(5)	(5)	13,393	—
				26,643	—
Advances pledged (6)	Advances on loans	(6)	(6)	5,283	12,652
				719,319	593,518
				$ 5,903,546	$ 5,195,074

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

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

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

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

(5) Consists of securitization debt certificates due to third parties that represent beneficial interests in trusts that we include in our unaudited consolidated financial statements, as more fully described in Note 2 – Securitizations and Variable Interest Entities. The holders of these certificates have no recourse against the assets of Ocwen. The certificates in the INDX 2004-AR11 Trust pay interest based on variable rates which are generally based on weighted average net mortgage rates and which range between 3.29% and 3.62% at September 30, 2018. The certificates in the RAST 2003-A11 Trust pay interest based on fixed rates ranging between 4.25% and 5.75% and a variable rate based on 1ML plus 0.45%. The maturity of the certificates occurs upon maturity of the loans held by the trust. The remaining loans in the INDX 2004-AR11 Trust and RAST 2003-A11 Trust have maturity dates extending through November 2034 and October 2033, respectively.

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

Other Secured Borrowings					Outstanding Balance	
Borrowing Type	Collateral	Interest Rate	Termination / Maturity	Available Borrowing Capacity (1)	September 30, 2018	December 31, 2017
SSTL (2)	(2)	1-Month Euro-dollar rate + 500 bps with a Eurodollar floor of 100 bps (2)	Dec. 2020	$ —	$ 235,687	$ 298,251
Mortgage loan warehouse facilities						
Repurchase agreement (3)	Loans held for sale (LHFS)	1ML + 200 - 345 bps	Sep. 2019	100,000	—	8,221
Participation agreements (4)	LHFS	N/A	(4)	—	64,798	161,433
Mortgage warehouse agreement (5)	LHFS (reverse mortgages)	1ML + 275 bps; 1ML floor of 350 bps	Aug. 2019	—	9,899	32,042
Master repurchase agreement (6)	LHFS (forward and reverse mortgages)	1ML + 225 bps forward; 1ML + 275 bps reverse	Dec. 2018	109,567	40,433	54,086
Master repurchase	LHFS (reverse mortgages)	Prime + 0.0% (4.0% floor)	Dec. 2018	—	—	—

agreement (7)			
	209,567	115,130	255,782
	$ 209,567	350,817	554,033
Unamortized debt issuance costs - SSTL		(3,573)	(5,423)
Discount - SSTL		(1,819)	(2,760)
		$ 345,425	$ 545,850
Weighted average interest rate		5.79 %	5.22 %

(1) Available borrowing capacity for our mortgage loan warehouse facilities does not consider the amount of the facility that the lender has extended on an uncommitted basis. Of the borrowing capacity extended on a committed basis, $100.0 million could be used at September 30, 2018 based on the amount of eligible collateral that could be pledged.

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(2) Under the terms of the Amended and Restated Senior Secured Term Loan Facility Agreement with an original borrowing capacity of $335.0 million, we may request increases to the loan amount of up to $100.0 million, with additional increases subject to certain limitations. We are required to make quarterly principal payments of $4.2 million on the SSTL, the first of which was paid on March 31, 2017.

The borrowings under the SSTL are secured by a first priority security interest in substantially all of the assets of Ocwen, OLS and the other guarantors thereunder, excluding among other things, 35% of the capital stock of foreign subsidiaries, securitization assets and equity interests of securitization entities, assets securing permitted funding indebtedness and non-recourse indebtedness, REO assets, servicing agreements where an acknowledgment from the GSE has not been obtained, as well as other customary carve-outs.

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

(3) We primarily use this facility to fund the repurchase of certain loans from Ginnie Mae guaranteed securitizations in connection with loan modifications and loan resolution activity as part of our contractual obligations as the servicer of the loans. On September 28, 2018, we renewed this facility through September 27, 2019. In connection with the renewal, we increased the maximum borrowing amount from $137.5 million to $175.0 million, of which $100.0 million is available on a committed basis and the remainder is available at the discretion of the lender.

(4) Under these participation agreements, the lender provides financing for a combined total of $250.0 million at the discretion of the lender. The participation agreements allow the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing. The lender earns the stated interest rate of the underlying mortgage loans while the loans are financed under the participation agreement. On May 31, 2018, we renewed these facilities through April 30, 2019 ($175.0 million) and May 31, 2019 ($75.0 million).

(5) Under this participation agreement, the lender provides financing for $100.0 million at the discretion of the lender. The participation agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing. On August 15, 2018, we renewed these facilities through August 15, 2019.

(6) Under this agreement, the lender provides financing on a committed basis for up to $150.0 million. The agreement allows the lender to acquire a 100% beneficial interest in the underlying mortgage loans. The transaction does not qualify for sale accounting treatment and is accounted for as a secured borrowing.

(7) Under this agreement, the lender provides financing for up to $50.0 million at the discretion of the lender.

Senior Notes	Interest Rate	Maturity	Outstanding Balance September 30, 2018	December 31, 2017
Senior unsecured notes (1)	6.625%	May 2019	$3,122	$ 3,122
Senior secured notes (2)	8.375%	Nov. 2022	346,878	346,878
			350,000	350,000
Unamortized debt issuance costs			(2,251)	(2,662)
			$347,749	$ 347,338

(1) Ocwen may redeem all or a part of the remaining Senior Unsecured Notes, upon not less than 30 nor more than 60 days' notice, at a redemption price (expressed as a percentage of principal amount) of 100.000% beginning May 15, 2018 plus accrued and unpaid interest and additional interest, if any.

(2) The Senior Secured Notes are guaranteed by Ocwen, OMS, Homeward Residential Holdings, Inc., Homeward and ACS (the Guarantors). The Senior Secured Notes are secured by second priority liens on the assets and properties of OLS and the Guarantors that secure the first priority obligations under the SSTL, excluding certain MSRs.

At any time, OLS may redeem all or a part of the Senior Secured Notes, upon not less than 30 nor more than 60 days' notice at a specified redemption price, plus accrued and unpaid interest to the date of redemption. Prior to November 15, 2018, the Senior Secured Notes may be redeemed at a redemption price equal to 100.0% of the principal amount of the Senior Secured Notes redeemed, plus the applicable make whole premium (as defined in the Indenture). On or after November 15, 2018, OLS may redeem all or a part of the Senior Secured Notes at the redemption prices (expressed as percentages of principal amount) specified in the Indenture. The redemption prices during the twelve-month periods beginning on November 15th of each year are as follows:

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

At any time, on or prior to November 15, 2018, OLS may, at its option, use the net cash proceeds of one or more equity offerings (as defined in the Indenture) to redeem up to 35.0% of the principal amount of all Senior Secured Notes issued at a redemption price equal to 108.375% of the principal amount of the Senior Secured Notes redeemed plus accrued and unpaid interest to the date of redemption, provided that: (i) at least 65.0% of the principal amount of all Senior Secured Notes issued under the Indenture (including any additional Senior Secured Notes) remains outstanding immediately after any such redemption; and (ii) OLS makes such redemption not more than 120 days after the consummation of any such equity offering.

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

Credit Ratings

Credit ratings are intended to be an indicator of the creditworthiness of a particular company, security or obligation. As of September 30, 2018, the S&P long-term corporate rating was "B-". On September 14, 2018, Moody's affirmed the long-term corporate rating of "Caa1" and revised the outlook to stable from negative. On July 25, 2018, Fitch affirmed the long-term issuer default rating of "B-" and withdrew all corporate ratings. It is possible that additional actions by credit rating agencies could have a material adverse impact on our liquidity and funding position, including materially changing the terms on which we may be able to borrow money.

Covenants

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

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

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

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

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

As of September 30, 2018, the most restrictive consolidated tangible net worth requirements contained in our debt agreements were for a minimum of $1.1 billion in consolidated tangible net worth, as defined, at OLS under our match funded debt and certain of our other debt agreements.
As a result of the covenants to which we are subject, we may be limited in the manner in which we conduct our business and may be limited in our ability to engage in favorable business activities or raise additional capital to finance future operations or satisfy future liquidity needs. In addition, breaches or events that may result in a default under our debt agreements include, among other things, nonpayment of principal or interest, noncompliance with our covenants, breach of representations, the occurrence of a material adverse change, insolvency, bankruptcy, certain material judgments and changes of control.
Covenants and default provisions of this type are commonly found in debt agreements such as ours. Certain of these covenants and default provisions are open to subjective interpretation and, if our interpretation was contested by a lender, a court may ultimately be required to determine compliance or lack thereof. In addition, our debt agreements generally include cross default provisions such that a default under one agreement could trigger defaults under other agreements. If we fail to comply with our debt agreements and are unable to avoid, remedy or secure a waiver of any resulting default, we may be subject to adverse action by our lenders, including termination of further funding, acceleration of outstanding obligations, enforcement of liens against the assets securing or otherwise supporting our obligations and other legal remedies. Our lenders can waive their contractual rights in the event of a default.
We believe that we are in compliance with all of the qualitative and quantitative covenants in our debt agreements as of the date of these financial statements.
Note 12 – Other Liabilities

	September 30, 2018	December 31, 2017
Contingent loan repurchase liability	$ 307,684	$ 431,492
Other accrued expenses	60,238	75,088
Accrued legal fees and settlements	53,380	51,057
Due to NRZ	46,550	98,493
Servicing-related obligations	30,958	35,239
Checks held for escheat	20,686	19,306
Liability for indemnification obligations	20,543	23,117
Accrued interest payable	15,069	5,172
Liability for mortgage insurance contingency	6,820	6,820
Deferred revenue	4,836	3,463
Liability for uncertain tax positions	3,306	3,252
Derivatives, at fair value	2,567	635
Amounts due in connection with MSR sales	403	8,291
Other	16,287	7,985
	$ 589,327	$ 769,410

We establish a liability for legal settlements, including fines and penalties, judgments on appeal and filed and/or threatened claims for which we believe it is probable that a loss has been or will be incurred and the amount can be reasonably estimated. See Note 20 – Contingencies for additional information.

Accrued Legal Fees and Settlements	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Beginning balance	$54,295	$117,020	$51,057	$93,797
Accrual for probable losses (1)	995	2,500	10,777	80,815
Payments (2)	(460)	(55,188)	(8,103)	(120,441)
Issuance of common stock in settlement of litigation (3)	—	—	(5,719)	—
Net increase (decrease) in accrued legal fees	(1,450)	(4,389)	3,282	3,229
Other	—	—	2,086	2,543
Ending balance	$53,380	$59,943	$53,380	$59,943

(1) Consists of amounts accrued for probable losses in connection with legal and regulatory settlements and judgments. Such amounts are reported in Professional services expense in the unaudited consolidated statements of operations.

(2) Includes cash payments made in connection with resolved legal and regulatory matters.

(3) In January 2018, Ocwen issued 1,875,000 shares of common stock in connection with a previously approved securities litigation settlement.

Note 13 – Derivative Financial Instruments and Hedging Activities

The following table summarizes derivative activity, including the derivatives used in each of our identified hedging programs. The notional amount of our contracts does not represent our exposure to credit loss. None of the derivatives was designated as a hedge for accounting purposes at September 30, 2018:

	Interest Rate Risk		
	IRLCs and Loans Held for Sale		Borrowings
	IRLCs	Forward MBS Trades	Interest Rate Caps
Notional balance at December 31, 2017	$96,339	$240,823	$375,000
Additions	927,700	386,311	154,583
Amortization	—	—	(208,750)
Maturities	(746,615)	(407,759)	—
Terminations	(164,978)	—	—
Notional balance at September 30, 2018	$112,446	$219,375	$320,833
Maturity	Oct. 2018 - Nov. 2018	Dec. 2018	May 2019 - May 2020
Fair value of derivative assets (liabilities) (1) at:			
September 30, 2018	$2,816	$(1,873)	$1,211
December 31, 2017	3,283	(545)	2,056
Gains (losses) on derivatives during the nine months ended:	Gain on Loans Held for Sale, Net		Other, Net
September 30, 2018	$137	$2,082	$(308)
September 30, 2017	(1,605)	(8,604)	(207)

(1)

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

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

Foreign Currency Exchange Rate Risk

Our operations in India and the Philippines expose us to foreign currency exchange rate risk to the extent that our foreign exchange positions remain unhedged. We have not entered into any forward exchange contracts during the reported periods to hedge against the effect of changes in the value of the India Rupee or Philippine Peso. Foreign currency remeasurement exchange gains (losses) were $(2.0) million and $(4.7) million, and $(0.7) million and $0.7 million, during the three and nine months ended September 30, 2018 and 2017, respectively, and are reported in Other, net in the unaudited consolidated statements of operations. The losses in 2018 are primarily attributed to depreciation of the India Rupee against the U.S. Dollar.

Interest Rate Risk

Interest Rate Lock Commitments

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

Loans Held for Sale, at Fair Value

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

Match Funded Liabilities

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

Accumulated Other Comprehensive Loss (AOCL)

Included in AOCL at September 30, 2018 and 2017, were $1.1 million and $1.3 million of deferred unrealized losses, before taxes of $0.1 million and $0.1 million, respectively, on interest rate swaps that we had designated as cash flow hedges.

Note 14 – Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Financing liabilities				
NRZ	$36,717	$13,898	$111,256	$113,681
Other financing liabilities	1,305	1,419	3,849	4,898
	38,022	15,317	115,105	118,579
Match funded liabilities	7,229	11,981	24,491	37,499
Other secured borrowings	6,958	10,990	23,190	30,174
Senior notes	7,452	7,452	22,355	22,355
Other	1,627	1,541	4,460	3,864
	$61,288	$47,281	$189,601	$212,471

Note 15 - Income Taxes

Our effective tax rate for the nine months ended September 30, 2018 and 2017 was (7.1)% and 15.7%, respectively. For the nine months ended September 30, 2018 and 2017, we recorded income tax expense (benefit) of $4.5 million and $(15.5) million on loss before income taxes of $63.7 million and $98.7 million, respectively. The change in the effective tax rate for the nine months ended September 30, 2018, compared with the same period in 2017, was primarily due to the $22.7 million

income tax benefit recognized in the third quarter of 2017 related to the reversal of an uncertain tax position liability upon expiration of the statute of limitations. The most significant potential benefit of the Tax Act, the reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018, did not have an impact on our effective tax rate as we are currently generating losses in the U.S. for which a tax benefit has not been recorded as we have recognized a full valuation allowance on our U.S. deferred tax assets. We recognized incremental income tax expense of $2.8 million for the Base Erosion and Anti-Abuse Tax (BEAT) provision of the Tax Act in the nine months ended September 30, 2018. This increase in income tax expense related to implementing provisions of the Tax Act that were effective January 1, 2018 was offset by a reduction in income tax expense as a result of our adoption of ASU 2016-16 on January 1, 2018, as the deferred tax effects of intra-entity transfers of assets recognized as prepaid income taxes are no longer amortized to income tax expense over the life of the asset. Income tax expense related to uncertain tax positions increased in the nine months ended September 30, 2018 as compared to the same period of 2017, due to the $22.7 million reversal recognized in the third quarter of 2017 as disclosed above.

The reduction in the statutory U.S. federal rate is expected to positively impact our future U.S. after-tax earnings. However, the ultimate impact is subject to the effect of other complex provisions in the Tax Act (including BEAT, Global Intangible Low-Taxed Income (GILTI) and revised interest deductibility limitations) which we are currently reviewing. It is possible that any impact of these provisions could significantly reduce the benefit of the reduction in the statutory U.S. federal rate. Due to the uncertain practical and technical application of many of these provisions in the Tax Act, at this time, we are unable to make a final determination of the precise impact on our future earnings, and our accounting for the Tax Act remains incomplete. Ocwen will continue to gather additional information and evaluate the impact within the measurement period allowed, which will be completed no later than the fourth quarter of calendar year 2018.

At December 31, 2017 we were able to reasonably estimate certain effects and, therefore, recorded provisional adjustments associated with the deemed repatriation transition tax and the reduction in the statutory U.S. federal tax rate. We have not recorded any additional measurement-period adjustments related to the transition tax or the reduction in the U.S. federal tax rate during the nine months ended September 30, 2018. We are continuing to gather additional information and expect to complete our accounting for the transition tax within the prescribed measurement period.

At September 30, 2018 we were not yet able to reasonably estimate the effects of certain elements of the Tax Act, such as BEAT, GILTI and revised interest deductibility limitations. Therefore, no provisional adjustments were recorded.

Because of the complexity of the new GILTI tax rules, we are continuing to evaluate this provision of the Tax Act and the application of ASC 740. Under U.S. GAAP, we are permitted to make an accounting policy election of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into a company’s measurement of its deferred taxes (the “deferred method”). Our selection of an accounting policy related to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on a number of different aspects of our estimated future results of global operations, and as a result, we are not yet able to reasonably estimate the long-term effects of this provision of the Tax Act. Therefore, we have not recorded any deferred tax effects related to GILTI in our financial statements and have not made a policy election regarding whether to record deferred taxes on GILTI or to apply the period cost method as of September 30, 2018. We have, however, included an estimate of the 2018 current GILTI impact in the calculation of our annualized effective tax rate for 2018. In addition, we have included an estimate of the 2018 current BEAT impact in the calculation of our annualized effective tax rate for 2018. We expect to complete our accounting within the prescribed measurement period.

Note 16 – Basic and Diluted Earnings (Loss) per Share

Basic earnings or loss per share excludes common stock equivalents and is calculated by dividing net income or loss attributable to Ocwen common stockholders by the weighted average number of common shares outstanding during the period. We calculate diluted earnings or loss per share by dividing net income or loss attributable to Ocwen by the weighted average number of common shares outstanding including the potential dilutive common shares related to outstanding stock options and restricted stock awards. For the three and nine months ended September 30, 2018 and 2017, we have excluded the effect of all stock options and common stock awards from the computation of diluted loss per share because of the anti-dilutive effect of our reported net loss.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic loss per share				
Net loss attributable to Ocwen stockholders	$(41,147)	$(6,252)		