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
TABLE OF CONTENTS

		PAGE
PART I - FINANCIAL INFORMATION		
Item 1.	Unaudited Consolidated Financial Statements	3
	Consolidated Balance Sheets at September 30, 2018 and December 31, 2017	4
	Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017	5
	Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended September 30, 2018 and 2017	6
	Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2018 and 2017	7
	Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017	8
	Notes to Unaudited Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	58
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	86
Item 4.	Controls and Procedures	88
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	90
Item 1A.	Risk Factors	90
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	90
Item 6.	Exhibits	91
Signatures		93

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;

- 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

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.

14

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	

24

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

34

Note 11 – Borrowings

Match Funded Liabilities				September 30, 2018	December 31, 2017
Borrowing Type	Maturity (1)	Amorti- zation Date (1)	Available Borrowing Capacity (2)		