OCWEN FINANCIAL CORP
Form 10-K
February 29, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2011

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 our charter)

Florida (State or other jurisdiction of incorporation or organization)	65-0039856 (I.R.S. Employer Identification No.)
2002 Summit Boulevard 6th Floor Atlanta, Georgia (Address of principal executive office)	30319 (Zip Code)

(561) 682-8000

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to post such files).

Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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

Aggregate market value of the common stock of the registrant held by nonaffiliates as of June 30, 2011: $986,058,629

Number of shares of common stock outstanding as of February 23, 2012: 130,040,763 shares

DOCUMENTS INCORPORATED BY REFERENCE: Portions of our definitive Proxy Statement with respect to our Annual Meeting of Shareholders to be held on May 9, 2012, are incorporated by reference into Part III, Items 10 - 14.

OCWEN FINANCIAL CORPORATION

2011 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

Forward-Looking Statements

This Annual 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 "intend," "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such terms or other comparable terminology. Such statements are not guarantees of future performance and involve a number of assumptions, risks and uncertainties that could cause actual results to materially differ from expected results. Important factors that could cause actual results to differ include, but are not limited to, the risks discussed in "Risk Factors" and the following:

- our sources of liquidity; our ability to fund and recover advances, repay borrowings and comply with debt covenants; and the adequacy of financial resources;
- servicing portfolio characteristics, including prepayment speeds, float balances and delinquency and advance rates;
- our ability to grow or otherwise adapt our business, including the availability of new servicing opportunities and joint ventures;
- our ability to integrate the systems, procedures and personnel of acquired companies;
- our ability to reduce our cost structure;
- our ability to modify successfully delinquent loans, manage foreclosures and sell foreclosed properties;
- our reserves, valuations, provisions and anticipated realization on assets;
- our ability to manage effectively our exposure to interest rate changes and foreign exchange fluctuations;
- our credit and servicer ratings and other actions from various rating agencies;
- uncertainty related to general economic and market conditions, delinquency rates, home prices and disposition timelines on foreclosed properties;
- uncertainty related to the actions of loan owners, including mortgage-backed securities investors and government sponsored entities (GSEs), regarding loan putbacks, penalties or legal actions;
- uncertainty related to the processes for judicial and non-judicial foreclosure proceedings, including potential additional costs or delays or moratoria in the future or claims pertaining to past practices;
- uncertainty related to litigation or dispute resolution and inquiries from government agencies into past servicing and foreclosure practices;
- uncertainty related to legislation, regulations, regulatory agency actions, government programs and policies, industry initiatives and evolving best servicing practices; and
- uncertainty related to acquisitions.

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

For more information on the uncertainty of forward-looking statements, see “Risk Factors” in this Annual Report.

PART I

ITEM 1. BUSINESS

GENERAL

Ocwen Financial Corporation, through its subsidiaries, is a leading provider of residential and commercial mortgage loan servicing, special servicing and asset management services. When we use the terms “Ocwen,” “OCN,” “we,” “us” and “our,” we are referring to Ocwen Financial Corporation and its consolidated subsidiaries. Ocwen is headquartered in Atlanta, Georgia and has offices in West Palm Beach and Orlando, Florida, Houston, Texas, McDonough, Georgia, and Washington, DC and support operations in India and Uruguay. Ocwen Financial Corporation is a Florida corporation organized in February 1988. Ocwen Loan Servicing, LLC (OLS), a wholly owned subsidiary of Ocwen, is licensed to service mortgage loans in all 50 states, the District of Columbia and two U.S. territories. As of December 31, 2011, we serviced 671,623 residential loans with an aggregate unpaid principal balance (UPB) of $102.2 billion. Ocwen and its predecessors have been servicing residential mortgage loans since 1988 and subprime mortgage loans since 1994. As of December 31, 2011, we also serviced 91 commercial assets totaling $290.9 million.

On November 9, 2011, Ocwen completed the public offering of 28,750,000 shares of common stock at a per share price of $13.00, including 3,750,000 shares of common stock purchased by the underwriters pursuant to the full exercise of the over-allotment option granted under the underwriting agreement. We received net proceeds of $354.4 million after deducting underwriting fees and other incremental costs directly related to the offering. In 2011, we used the net proceeds to temporarily reduce our borrowings under advance funding facilities rather than invest the proceeds at current short-term investment rates that our below our effective cost of borrowing. In 2012, we increased our advance borrowings in order to make these proceeds available to fund servicing acquisitions.

On September 1, 2011, Ocwen completed its acquisition (the Litton Acquisition) of (i) all the outstanding partnership interests of Litton Loan Servicing LP (Litton), a subsidiary of The Goldman Sachs Group, Inc. (Goldman Sachs) and a provider of servicing and subservicing of primarily non-prime residential mortgage loans and (ii) certain interest-only servicing securities previously owned by Goldman Sachs & Co., also a subsidiary of Goldman Sachs (collectively referred to as Litton Loan Servicing Business). See Note 1 and Note 2 to the Consolidated Financial Statements for additional information regarding the Litton Acquisition. The initial base purchase price for the Litton Acquisition was $247.2 million, which was paid in cash by Ocwen at closing. In addition, Ocwen repaid at closing Litton’s $2.4 billion outstanding debt on an existing servicing advance financing facility that was provided by an affiliate of the Goldman Sachs. The actual base purchase price was increased by $0.2 million as a result of post-closing adjustments specified in the Agreement for changes in Litton’s estimated closing date net worth, servicing portfolio UPB and advance balances, among others. We do not anticipate any significant adjustments to the purchase price subsequent to December 31, 2011. During the fourth quarter of 2011, we ceased operation of the Litton Loan Servicing Business platform.

On September 1, 2010, Ocwen, through OLS, completed the acquisition of the U.S. non-prime mortgage servicing business of Barclays Bank PLC known as “HomEq Servicing” including, but not limited to, the mortgage servicing rights (MSRs) and associated servicer advances of the business as well as the servicing platforms based in Sacramento, California and Raleigh, North Carolina (the HomEq Acquisition). The sellers were Barclays Bank PLC (Barclays), and Barclays Capital Real Estate Inc. (BCRE). The HomEq Acquisition was completed in accordance with the provisions of the Asset Purchase Agreement dated May 28, 2010 among Barclays, BCRE, OLS and Ocwen. This transaction did not result in the transfer of ownership of any legal entities. OLS paid an initial aggregate purchase price of $1.2 billion in cash upon closing of the HomEq Acquisition, which was reduced by $29.6 million pursuant to an initial true-up of advances on September 30, 2010. As part of our reorganization and streamlining of the operations of HomEq Servicing following the acquisition, we transferred the duties of the HomEq employees to existing and newly-hired employees in the U.S. and India and shut down the leased facilities that we acquired.

The purchase prices of these acquisitions were funded through a combination of cash on hand and the proceeds from borrowings under new and existing advance financing facilities and from senior secured term loan facilities.

We acquired Litton and HomEq Servicing in order to grow our Servicing segment. The Litton Acquisition increased our servicing portfolio by 245,000 residential mortgage loans with an aggregate UPB of approximately $38.6 billion. With the close of the HomEq Acquisition, we boarded onto our servicing platform approximately 134,000 residential mortgage loans with an aggregate UPB of approximately $22.4 billion.

We accounted for these transactions using the acquisition method of accounting which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date.

OCN also holds a 49% equity interest in Correspondent One S.A. (Correspondent One), an entity formed with Altisource Portfolio Solutions S.A. (Altisource) in March 2011, a 27% interest in Ocwen Structured Investments, LLC (OSI) and an approximate 25% interest in Ocwen Nonperforming Loans, LLC (ONL) and Ocwen REO, LLC (OREO).

On December 3, 2009, we finalized and consummated the transaction to dispose of our investment in Bankhaus Oswald Kruber GmbH & Co. KG (BOK), our wholly owned German banking subsidiary that we acquired in 2004. We report the operating results of BOK as discontinued operations in our consolidated financial statements.

On August 18, 2009, Ocwen completed the public offering of 32,200,000 shares of common stock at a per share price of $9.00 and received net proceeds of $275 million. Earlier in that year Ocwen sold 5,471,500 shares of its common stock for a price of $11.00 per share and realized $60.2 million in net proceeds in a private placement transaction that closed on April 3, 2009. We used a portion of the proceeds received from the private placement transaction to acquire 1,000,000 shares from William C. Erbey, Chairman of the Board and then Chief Executive Officer at a price of $11.00 per share.

On August 10, 2009, Ocwen completed the distribution of its Ocwen Solutions (OS) line of business (the Separation) via the spin-off of a separate publicly traded company, Altisource. Altisource common stock is listed on the NASDAQ market under the ticker symbol “ASPS.” As a separate, publicly traded company, Altisource files an annual report on Form 10-K with the SEC. All of the shares of Altisource common stock were distributed to OCN’s shareholders of record as of August 4, 2009. OS consisted of the former unsecured collections business, residential fee-based loan processing businesses and technology platforms as well as the international commercial loan servicing business conducted through Global Servicing Solutions, LLC (GSS) and the equity investment in BMS Holdings, Inc. (subsequently changed to BHI Liquidation, Inc.). With the exception of interests in GSS and BMS Holdings, Inc., which have no remaining book value, Ocwen distributed the assets, liabilities and operations of OS in the Separation. The Separation has allowed Ocwen to focus on its core servicing business and to respond better to initiatives and market challenges.

CORPORATE STRATEGY AND OUTLOOK

Overview

Ocwen is a leader in the servicing industry in increasing cash flows and improving loan values for mortgage loan investors and in keeping Americans in their homes through foreclosure prevention. Our leadership in the industry is evidenced by our high cure rate for delinquent loans and the above average rate of continuing performance by borrowers whose loans we modify. Ocwen has completed over 200,000 loan modifications since January 2008.

Our competitive strengths are:

- *Lowest Cost Structure*. We believe that OLS has the lowest operating cost to service non-performing loans in the industry due largely to our use of robust technology and quality global labor resources. Based on average industry cost information provided by a third party valuation consultant on May 31, 2011, OLS's net cost to service a non-performing loan was 70% lower than the average net cost of similarly-situated servicers.

- *Scalable Servicing Platform*. We believe that OLS has the most scalable platform in the industry primarily as a result of our superior technology. Recent examples of our ability to scale up our platform in connection with acquisitions and other growth opportunities are described below in "Strategic Priorities".

- *Superior Loss Mitigation and Cash Management.* We believe that OLS provides the highest quality servicing of high-risk loans based on internal benchmarking versus the industry and numerous third-party studies:

- Moody's Investor Services (October 2011) – Ocwen cured more loans than other subprime servicers and generated more cash-flow comparing the percentage of loans in static pools that started more than 90-days past due or in foreclosure and a year later became current, paid-off in full or were 60-days or less past due. Loans in bankruptcy at the beginning or end of the period were excluded from the Moody's analysis. The same study also showed that Ocwen moved subprime loans through foreclosure faster than other subprime servicers.
- U.S. Department of the Treasury (May 2011) – Ocwen is above industry average in converting trial modifications to permanent modifications under the federal Home Affordable Modification Program (HAMP).
- In 2010 and 2011, over 64% of industry-wide delinquent loan resolutions were through modifications. Overall, Ocwen has maintained pre-foreclosure resolution rates well-above 75%, despite having a largely subprime servicing portfolio.
- J.P. Morgan (June 2010) – Ocwen was ranked first in Quality Rank, which considers the re-default rate for loans modified.

- Deutsche Bank (May 2010) – Ocwen was ranked first in “Recovery Score,” which evaluates loss severity.
- Freddie Mac (August 2009) – Ocwen entered into an “Interim Servicing Agreement” to service 24,000 nonperforming loans.
- Moody’s Investor Services (August 2009) – Ocwen cures more delinquent loans than Moody’s “Strong Rated Servicers.”
- Freddie Mac (February 2009) – Ocwen was selected as a “Specialty Servicer” for Freddie Mac’s “New Workout Plan for High Risk Loans.”
- Bank of America/Merrill Lynch (July 2009) – Ocwen leads the industry in making 90+ day delinquent subprime loans current. Ocwen’s results were more than double the midpoint for all servicers reported.
- Credit Suisse (2008) – Ocwen had the highest payment rate of all servicers on 90+ delinquent loans for 2006 vintage subprime loans. Ocwen’s payment rate was more than double the midpoint of all servicers reported.

- *Substantial Cash Flow.* Our servicing business has generated substantial cash flow. Healthy margins are augmented by the add-back of non-cash amortization expense and by reducing delinquencies and the associated advances which allows Ocwen to recover the haircut on advance financing and reduce asset intensity.

We believe that we achieve these results largely because of our superior technology and processes. Our servicing platform runs on an information technology system developed over a period of more than 20 years at a cost of more than $150 million. We license this technology under long-term agreements with Altisource, the company that we created by the spin-off of our OS line of business. We believe that this system is highly robust, retaining more data than the systems used by most other mortgage servicers. The system integrates non-linear loss mitigation models that optimize client cash flow by maximizing loan modifications and other borrower resolutions while minimizing both re-defaults on modifications and foreclosures. The technology also integrates into the borrower communication process artificial intelligence, driven by behavioral and psychological principles, that enhances our ability to provide dynamic solutions to borrowers. By using these capabilities to tailor “what we say” and “how we say it” to each individual borrower, we create a “market of one” that is focused on the unique needs of each borrower. As a result, we are able to increase borrower acceptance rates of loan modifications and other resolution alternatives while increasing compliance at the same time. These tools are continuously improved via feedback loops from controlled testing and monitoring of alternative solutions. Currently, Altisource employs over 300 software developers, modelers and psychology professionals who focus on process improvement, borrower behavior, automation of manual processes and improvement of resolution models.

Strategic Priorities

The long-term success of any mortgage servicer is driven primarily by four critical factors:

1. Access to new servicing business;
2. Cost of servicing;
3. Ability to manage delinquencies and advances; and
4. Cost and amount of capital.

Ocwen is an established industry leader in cost of servicing and ability to manage delinquencies and advances. While we continue to pursue improvements in these areas, our plan for 2011 was more heavily focused on access to new servicing business and reducing our cost of capital relative to our peers, both banks and non-banks.

For accessing new servicing business, we have a four-pronged strategy:

1. Acquisition of existing servicing platforms;
2. Subservicing and special servicing opportunities (both residential and commercial);
3. Flow servicing; and
4. New servicing segments.

As a result of the Litton Acquisition, which closed on September 1, 2011, Ocwen's servicing UPB grew by approximately $38.6 billion making it the 12th largest mortgage loan servicer in the U. S. In addition, we expect to complete the acquisition of SCI Services, Inc. (SCI) and its affiliates (the Saxon Acquisition) in March 2012. The MSRs acquired as part of this transaction reflect a servicing portfolio of approximately $26.8 billion in UPB as of June 30, 2011, of which we subserviced $10.8 billion. We are also under contract to purchase certain MSRs from JPMorgan Chase, N.A. MSRs for approximately 82,000 non-prime loans with a UPB of approximately $15 billion (the JPMCB MSR Acquisition) as of September 30, 2011. This transaction is expected to close in early April 2012, subject to satisfaction of the closing conditions, although we cannot assure you that the closing will occur on that date.

We expect that other non-prime servicing platforms and servicing portfolios will come to market in the next several months, and to the extent that we find these opportunities to be attractive, we believe that we can compete effectively for these opportunities, although we will not necessarily be the winning bidder in all cases. With our highly automated platform, we believe that we can quickly scale our servicing capabilities to handle acquired loan portfolios with only modest additions to infrastructure. We generally underwrite our bids to purchase MSRs at a 25% to 30% rate of return on invested capital, which we define to include corporate debt and equity.

We expect to continue to pursue subservicing and special servicing transactions. The recently announced Federal-State servicing agreement with the five largest mortgage servicers (as further discussed in "Risk Factors – Risks Relating to Government Regulation") may result in business opportunities for Ocwen as large servicers seek to meet their principal reduction modification commitments.

On flow servicing, we worked with Altisource and its Lenders One business (which generated approximately 8% of new loans originated in the United States in 2011) to create a new entity, Correspondent One, to securitize newly originated loans. Ocwen and Altisource each hold a 49% equity interest in this new entity. We believe that this venture can improve the economics for the members of Lenders One and allow Ocwen to compete for servicing rights for newly originated Federal Housing Administration (FHA) loans.

We also plan on evaluating and developing capabilities to service new segments of the servicing industry such as reverse mortgages and home equity lines of credit. In addition, we now deploy a full on-shore servicing alternative for entities that have that requirement.

Results of our growth initiatives include:

- On November 4, 2011, we entered into a servicing rights purchase agreement to acquire certain MSRs from JPMorgan Chase Bank, N.A. The JPMCB MSR Acquisition relates to MSRs for approximately 82,000 non-prime loans with a UPB of approximately $15 billion as of September 30, 2011. The purchase price inclusive of servicing advance receivables is expected to be $950 million to be paid in cash at closing. Ocwen is financing $625 million of the purchase price through an existing servicing advance facility.
- On November 2, 2011, we amended our Interim Servicing Agreement with Freddie Mac to provide that for two years following the effective date, Freddie Mac, with certain conditions, may transfer the servicing of loans to us with a minimum of 60 days notice. If the number of delinquent loans exceeds 75,000, Freddie Mac must provide at least 90 days notice. We are required to accept the transfer of up to 300,000 loans as long as the number of delinquent loans does not exceed 75,000. The amendment calls for the semiannual payment by Freddie Mac of a fee of $50,000 to OLS in exchange for its commitment to accept the interim servicing for portfolios from Freddie Mac.
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On October 19, 2011, we entered into a Purchase Agreement to acquire (i) the issued and outstanding stock of SCI from a subsidiary of Morgan Stanley and (ii) certain MSRs from Morgan Stanley and its affiliates. The Saxon Acquisition will result in the acquisition of a servicing portfolio of approximately $26.8 billion in UPB of primarily non-prime residential mortgage loans as of June 30, 2011 – of which Ocwen subserviced approximately $10.8 billion – and also includes the acquisition of approximately $12.9 billion of UPB that Saxon or its subsidiaries subservice for Morgan Stanley and others. The base purchase price for the Saxon Transaction is $59.3 million. In addition, Ocwen will pay approximately $292.2 million for the portion of the approximately $1.4 billion of Saxon servicing advance receivables that will not be financed by third parties.

- On September 1, 2011, we acquired Litton Loan Servicing LP, a provider of servicing and subservicing of primarily non-prime residential mortgage loans, from The Goldman Sachs Group, Inc. The purchase resulted in the acquisition of a servicing portfolio of approximately $38.6 billion in UPB.
- On April 15, 2011, we entered into an agreement to subservice approximately 13,000 non-agency mortgage loans with a UPB of approximately $2.9 billion. The boarding dates were May 2, 2011 and May 16, 2011. This agreement provides for reimbursement of servicing advances.
- On May 28, 2010, we entered into an Asset Purchase Agreement pursuant to which OLS agreed to acquire the U.S. non-prime mortgage servicing business of Barclays Bank PLC known as “HomEq Servicing.” The HomEq Acquisition closed on September 1, 2010, and we boarded approximately 134,000 residential loans with an aggregate UPB of approximately $22.4 billion onto Ocwen’s platform.
- On March 29, 2010, we entered into a Servicing Rights Purchase and Sale Agreement under which we agreed to purchase from Saxon Mortgage Services, Inc. the rights to service approximately 38,000 mortgage loans with an aggregate UPB of approximately $6.9 billion (the Saxon MSR Acquisition). This acquisition was completed on May 3, 2010.

6

In 2012, we expect to continue to roll out new initiatives designed to reduce our cost of servicing, to improve our ability to manage delinquencies and advances and to meet evolving servicing practices and regulatory requirements. These initiatives are expected to lead to improved borrower customer service levels, increased loan modifications and reduced re-defaults on loan modifications. In most states, we have already rolled out our “Shared Appreciation Modification” which incorporates principal reductions and lower payments for borrowers while still providing some ability for investors to recoup losses if property values increase over time. We also rolled out our “Appointment Model” approach for communicating with our delinquent borrowers which allows borrowers to schedule a time to review their files with a resolution specialist. By allowing both the borrower and the resolution specialist to prepare for discussions in advance, we believe that the Appointment Model approach is the best way to improve service and provide borrowers with the choice of a single point of contact.

We are also pursuing another strategic opportunity that over time could significantly reduce the amount of capital that we require through our anticipated relationship with a newly formed entity called Home Loan Servicing Solutions, Ltd. (HLSS). Initially formed by Ocwen’s Chairman, William C. Erbey, HLSS intends to acquire and hold MSRs and related servicing advances in a more efficient manner than is currently feasible for entities like Ocwen.

HLSS and Ocwen have intended to enter into an agreement pursuant to which HLSS would purchase a substantial portion of the MSRs and related servicing advances (the HLSS Transaction) that Ocwen acquired in connection with the HomEq Acquisition. HLSS would also assume the related match funded liabilities under the HomEq Servicing advance facility.

As part of the HLSS Transaction Ocwen has planned initially to sell to HLSS the right to receive the servicing fees, excluding ancillary income, relating to the MSRs (Rights to MSRs). Ocwen would retain legal ownership of the MSRs and would continue to service the related mortgage loans for a reduced fee because HLSS will assume the obligation to make and finance servicing advances related to the MSRs. Ocwen would be obligated to transfer legal ownership of the MSRs to HLSS if and when the required third party consents were obtained, and at such time, Ocwen would commence subservicing the MSRs for a fee pursuant to a subservicing agreement with HLSS. HLSS has intended to finance the HLSS Transaction through proceeds from an initial public offering of its ordinary shares.

All transactions and agreements between Ocwen and HLSS would be subject to review under Ocwen’s related party transaction policy, including a review by the Board and independent directors.

In the future, HLSS may acquire additional MSRs or rights similar to the Rights to MSRs from Ocwen and enter into related subservicing arrangements with Ocwen. HLSS may also acquire MSRs from third parties. If HLSS chooses to engage Ocwen as a subservicer on these acquisitions, the effect could be to increase the benefit of this strategy to Ocwen by boosting the size of its subservicing portfolio with little or no capital requirement on the part of Ocwen. If HLSS is successful in acquiring all or most of Ocwen’s portfolio of MSRs, Ocwen could evolve over time into a “capital-light” fee-for-service business. Ocwen cannot provide assurance that it will consummate the sale of MSRs or

Rights to MSRs to HLSS, or that HLSS will continue to engage Ocwen as subservicer. Any Rights to MSRs to be acquired in the HLSS Transaction and in any subsequent acquisitions will be subject to customary closing conditions.

Through December 31, 2011, there had been no transactions between Ocwen and HLSS, and there had been no formal agreements executed between Ocwen and HLSS as negotiations on the economic terms of the agreements had not yet been finalized. However, Ocwen had paid fees of $1.5 million on behalf of HLSS for organizational costs and costs associated with HLSS' planned initial public offering. Ocwen may make additional payments on behalf of HLSS until the initial public offering is completed at which time Ocwen expects to be reimbursed by HLSS.

On February 10, 2012, OLS entered into an agreement for the initial sale of Rights to MSRs to HLSS Holdings, LLC (HLSS Holdings), a wholly owned subsidiary of HLSS, related to serviced loans with a UPB of approximately $16 billion and the assumption by HLSS Holdings of the related match funded liabilities. OLS also entered into a subservicing agreement with HLSS Holdings on February 10, 2012 under which it will subservice the MSRs after legal ownership of the MSRs has been transferred to HLSS Holdings.

The HLSS Transaction will not close until HLSS completes an initial public offering of its ordinary shares and other closing conditions are satisfied.

The anticipated effects on Ocwen of the HLSS Transaction are as follows:

- Upon the sale of assets to HLSS Holdings, management believes that Ocwen's liquidity and cash flows will improve as the sale will result in cash proceeds to Ocwen of approximately $181 million, 25% of which will be used to reduce the balance on Ocwen's senior secured term loan that it entered into on September 1, 2011 as required under the terms of the related loan agreement. The remainder will be used for general corporate purposes.
- There will be a decrease in Ocwen's match funded liabilities, as HLSS Holdings will assume a servicing advance financing facility from Ocwen. However, Ocwen has hedged against the effects of changes in interest rates on interest payments made under this facility. Upon assumption of the related debt by HLSS Holdings, Ocwen will be required to recognize in earnings the hedge losses that have accumulated in other comprehensive income. At December 31, 2011, these deferred unrealized losses totaled $5,747.

7

- As described above, Ocwen will initially sell Rights to MSRs to HLSS Holdings. While the sale of the Rights to MSRs to HLSS Holdings will achieve an economic result for Ocwen substantially identical to a sale of the MSRs, the transaction is expected to be accounted for as a financing until the required third party consents are obtained and legal ownership of the MSRs transfers to HLSS Holdings.
- Net income is expected to decline somewhat before considering any income that could be generated from reinvesting the net proceeds from the sale. Interest expense on the advance facility transferring to HLSS Holdings will be assumed by HLSS Holdings but the interest expense to be recognized on the portion of the sales proceeds accounted for as a financing of the MSRs will be greater.
- Ocwen will have lower capital requirements since HLSS Holdings will be acquiring the servicer advances related to the MSRs and assuming the responsibility for making servicer advances in the future.
- Ocwen expects that the reduction in the equity required to run its servicing business will be relatively greater than the reduction in net income, thus improving the return on equity of its servicing business.

OPERATING SEGMENTS

Effective January 1, 2011, with the growth in our Servicing segment and continuing reductions in the Loans and Residuals and the Asset Management Vehicles (AMV) segments, we changed our internal management reporting to focus on the Servicing segment and to include the results for Loans and Residuals and AMVs in Corporate Items and Other. We are allowing the assets of the existing asset management vehicles to run off. The Servicing segment, which comprised nearly 100% of total revenues in 2010 and 2011, represents our sole reported business segment following the change in our reporting structure. Segment results for prior years have been restated to conform to the current segment structure.

Prior to August 10, 2009, our operations included the OS line of business. OS consisted primarily of the residential fee-based loan processing businesses, unsecured collections business and technology platforms which were conducted through the former Mortgage Services, Financial Services and Technology Products segments.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Segment Results and Financial Condition” and Note 27 to the Consolidated Financial Statements for additional financial information regarding each of our segments.

Segment Results and Assets as of and for the years ended December 31 (dollars in thousands):

	2011			2010			2009		
Segment	$	%		$	%		$	%	
External Revenue									
Servicing	$ 493,701	99.6	%	$ 358,441	99.5	%	$ 271,561	71.3	%

Mortgage Services	—	—	—	—	54,052	14.2
Financial Services	—	—	—	—	40,293	10.6
Technology Products	—	—	—	—	12,375	3.2
Corporate Items and Other	2,229	0.4	1,940	0.5	2,447	0.7
Consolidated	$ 495,930	100.0 %	$ 360,381	100.0 %	$ 380,728	100.0 %
Income (Loss) from Continuing Operations before Income Taxes						
Servicing	$ 135,880	110.5 %	$ 78,195	199.7 %	$ 87,681	94.0 %
Mortgage Services	—	—	—	—	17,815	19.1
Financial Services	—	—	—	—	(5,969)	(6.4)
Technology Products	—	—	—	—	9,590	10.3
Corporate Items and Other	(12,885)	(10.5)	(39,041)	(99.7)	(15,856)	(17.0)
Consolidated	$ 122,995	100.0 %	$ 39,154	100.0 %	$ 93,261	100.0 %
Total Assets						
Servicing	$ 4,310,354	91.0 %	$ 2,495,966	85.4 %	$ 1,191,212	67.3 %
Corporate Items and Other	426,803	9.0	425,443	14.6	578,138	32.7
Consolidated	$ 4,737,157	100.0 %	$ 2,921,409	100.0 %	$ 1,769,350	100.0 %

8

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Segments” and Note 27 to the Consolidated Financial Statements for additional financial information regarding each of our segments.

Servicing

We earn fees for providing services to owners of mortgage loans and foreclosed real estate. In most cases, we provide these services either because we purchased the MSRs from the owner of the mortgage or because we entered into a subservicing or special servicing agreement with the entity that owns the MSRs.

We are one of the largest third-party servicers of subprime residential mortgage loans in the U.S. As of December 31, 2011, we serviced 671,623 loans and real estate properties with an aggregate UPB of $102.2 billion under 1,287 servicing agreements for over 50 clients. These clients include institutions such as Freddie Mac, Morgan Stanley, Deutsche Bank, Credit Suisse and Goldman Sachs. The mortgaged properties securing the loans that we service are geographically dispersed throughout all 50 states, the District of Columbia and two U.S. territories. The five largest concentrations of properties are located in California, Florida, New York, Texas and Illinois which, taken together, comprise 41% of the loans serviced at December 31, 2011. California has the largest concentration with 74,944 loans or 11% of the total. Subprime mortgage loan servicing involves special loss mitigation challenges that are not present to the same extent in prime loan servicing. Over a period of twenty years, we have developed proprietary best practices for reducing loan losses, and we continue to refine and enhance these practices to meet the challenges posed by the current market. Our proactive measures encourage borrowers who become delinquent to begin paying again on their loans and avoid foreclosure. In the current environment, loan modifications often provide a better outcome for loan investors than do foreclosures or forbearance plans. Servicers generally earn more profit as their portfolios become more current. We pride ourselves on keeping more borrowers in their homes than other servicers and avoiding foreclosure. This is a “win-win” situation for both the investors and the borrowers that we serve.

Our largest source of revenue is servicing fees. Purchased MSRs generally entitle us to an annual fee of up to 50 basis points of the average UPB of the loans serviced. Under subservicing arrangements, where we do not pay for the MSR, we are generally entitled to an annual fee of between 6 and 38 basis points of the average UPB. Although servicing fees generally accrue to the servicer when a loan is delinquent, servicing fees are usually only collected when a borrower makes a payment or when a delinquent loan is resolved through modification, payoff (discounted or in full) or through the sale of the underlying mortgaged property following foreclosure (Real Estate Owned, or REO). Because we only record servicing fee revenue when it is collected, our revenue is a function of UPB, the number of payments that we receive and delinquent loans that resolve either through borrower payments, modifications (HAMP and non-HAMP) or sales of REO.

Servicing fees, which comprise 74% of total Servicing and subservicing fees in 2011, are supplemented by ancillary income, including:

- fees from the federal government for HAMP (from completing new HAMP modifications and from the continued success of prior HAMP modifications on the anniversary date of the HAMP trial modification);
- interest earned on loan payments that we have collected but have not yet remitted to the owner of the mortgage (float earnings);
- referral commissions from brokers for REO properties sold through our network of brokers;
- Speedpay® fees from borrowers who pay by telephone or through the Internet; and
- late fees from borrowers who were delinquent in remitting their monthly mortgage payments but have subsequently become current.

See Note 20 to the Consolidated Financial Statements for additional information on the composition of our Servicing and subservicing fees.

Loan Resolution (Modification and REO Sales). The importance of loan resolution to our financial performance is heightened by our revenue recognition policies. We do not recognize delinquent servicing fees or late fees as revenue until we collect cash on the related loan. The following loan modification scenarios illustrate the typical timing of our revenue recognition. The amounts used are presented in dollars and are for illustrative purposes only:

1. When a loan becomes current via our non-HAMP modification process, we earn $500 of deferred servicing fees and $300 of late fees. (Note: If any debt is forgiven as part of a non-HAMP modification, no late fees are collected or earned.)
2. When a loan becomes current via our HAMP modification process, we earn $500 on deferred servicing fees, and we earn initial HAMP fees of $1,000, or $1,500 if the loan was in imminent risk of default. However, we forfeit $300 of late fees. If the loan is in imminent risk of default but not delinquent, we recognize no deferred servicing fees.
3. When a loan is modified under HAMP and remains less than 90 days delinquent, we earn, at the first, second and third anniversary of the start of the trial modification, up to a $1,000 HAMP success fee. In 2011, HAMP success fees exceeded initial HAMP fees.

Loan resolution activities address the pipeline of delinquent loans and generally lead to modification of the loan terms, a discounted payoff of the loan or foreclosure and sale of the resulting REO. The following process describes our resolution pipeline:

1. The loan and borrower are evaluated for HAMP eligibility. If HAMP criteria are met, HAMP documentation and trial offer phases proceed. The three most common reasons for failure to qualify for HAMP are:

   - existing loan terms that are already below a 31% debt to income (DTI) ratio;
   - inadequate documentation; or
   - inadequate or inconsistent income.

2. If the criteria to qualify for HAMP are not met, the loan and borrower are evaluated utilizing non-HAMP criteria that are more flexible and focus both on the borrower's ability to pay and on maximizing net present value for investors. If the criteria are met, non-HAMP documentation and trial modification and/or modification phases proceed.
3. If the loan and borrower qualify for neither a HAMP nor a non-HAMP modification, liquidation of the loan then proceeds via either a discounted payoff (or "short sale"), deed-in-lieu-of-foreclosure or foreclosure and REO sale.

The majority of loans that we modify are delinquent, although we do modify some performing loans proactively under the American Securitization Forum guidelines. The most common term modified is the interest rate. Some modifications also involve the forgiveness or forbearance (i.e., rescheduling) of delinquent principal and interest. To select the best resolution option for a delinquent loan, we perform a structured analysis of all options using information provided by the borrower as well as external data. We use recent broker price opinions to value the property. We then use a proprietary model to determine the option with the highest net present value for the loan investor including an assessment of re-default risk. Loan modifications are designed to achieve, and generally result in, the highest net present value, but not in all cases.

Inquiries into servicer foreclosure practices by state or federal government bodies, regulators or courts are continuing and bring the possibility of action that could have an adverse effect on the average foreclosure timeline delaying recovery of deferred servicing fees and advances. Through 2010, the average number of days to complete a foreclosure action extended by 53 days in judicial foreclosure states and 43 days in traditional non-judicial foreclosure states as compared to 2009. In 2011, foreclosure timelines increased by an additional 133 days in judicial foreclosure states and 32 days in traditional non-judicial foreclosure states as compared to 2010 averages. The 90+ non-performing delinquency rate on the Ocwen portfolio as a percentage of UPB has increased from 27.3% at December 31, 2010 to 27.9% at December 31, 2011 as a result of higher delinquencies in the Litton portfolio at boarding. Excluding the Litton portfolio, the 90+ non-performing delinquency rate as a percentage of UPB would have declined to 23.4% at December 31, 2011. This improvement occurred as fewer loans entered delinquency and because of improved loss mitigation. It is not possible to predict the full financial impact of changes in foreclosure practices, but if the extension of timelines causes delinquency rates to rise, this could lead to a delay in revenue recognition and collections, an increase in operating expenses and an increase in the advance ratio. An increase in the advance ratio would lead to increased borrowings, reduced cash and higher interest expense.

Advance Obligation. As a servicer or subservicer, we have a variety of contractual obligations including the obligation to service the mortgages according to certain standards and to advance funds to securitization trusts in the event that borrowers are delinquent on their monthly mortgage payments. When a borrower becomes delinquent, we “advance” cash to the Real Estate Mortgage Investment Conduit (REMIC) Trustees on the scheduled remittance date thus creating a receivable from the REMIC Trust that is secured by the future cash flows from the REMIC Trust. We advance principal and interest (P&I Advances), taxes and insurance (T&I Advances) and legal fees, property valuation fees, property inspection fees, maintenance costs and preservation costs on properties that have already been foreclosed (Corporate Advances). If we determine that our P&I Advances cannot be recovered from the projected proceeds, we generally have the right to cease making P&I advances, declare advances in excess of net proceeds to be non-recoverable and, in most cases, immediately recover any excess advances from the general collections accounts of the respective REMIC Trust. With T&I Advances and Corporate Advances, we continue to advance if net proceeds exceed projected future advances without regard to advances already made. Most of our advances have the highest reimbursement priority (i.e., “top of the waterfall”) so that we are entitled to repayment from respective loan or REO liquidation proceeds before any interest or principal is paid on the bonds. In the majority of cases, advances in excess of respective loan or REO liquidation proceeds may be recovered from pool-level proceeds. The costs incurred in meeting these obligations consist principally of, but are not limited to, the interest expense incurred in financing the servicing advances. Most, but not all, subservicing contracts provide for more rapid reimbursement of any advances from the owner of the servicing rights.

Significant Variables. The key variables that significantly affect operating results in the Servicing segment are aggregate UPB, delinquencies and prepayment speed.

Aggregate Unpaid Principal Balance. Aggregate UPB is a key revenue driver. As noted earlier, servicing fees are expressed as a percentage of UPB, and growth in the portfolio generally means growth in servicing fees. Additionally, a larger servicing portfolio generates increased ancillary fees and leads to larger custodial balances generating greater float income. In general, a larger servicing portfolio also increases expenses but at a less rapid pace than the growth in UPB. To the extent that we grow UPB through the purchase of MSRs, our amortization of MSRs will typically increase with the growth in the carrying value of our MSRs. We will also incur additional interest expense to finance servicing advances, and the portfolios we acquire have had a higher ratio of advances to UPB than our existing portfolio.

Delinquencies. Delinquencies have a significant impact on our results of operations and cash flows. Delinquencies impact the timing of revenue recognition because we recognize servicing fees as earned which is generally upon collection. Delinquencies also impact float balances and float earnings. Non-performing loans are more expensive to service than performing loans because, as discussed below, the cost of servicing is higher and, although collectibility is generally not a concern, advances to the investors increase which results in higher financing costs. Performing loans include those loans that are current and those loans for which borrowers are making scheduled payments under loan modifications, forbearance plans or bankruptcy plans. Loans in modification trial plans are considered forbearance plans until the trial is successfully completed or until the borrower misses a trial plan payment. We consider all other loans to be non-performing.

When borrowers are delinquent, the amount of funds that we are required to advance to the investors on behalf of the borrowers increases. We incur significant costs to finance those advances. We utilize both securitization (i.e., match funded liabilities) and revolving credit facilities to finance our advances. As a result, increased delinquencies result in increased interest expense.

The cost of servicing non-performing loans is higher than the cost of servicing performing loans primarily because the loss mitigation techniques that we employ to keep borrowers in their homes and to foreclose are more costly than the techniques used in handling a performing loan. Procedures involve increased contact with the borrower for collection and the development of forbearance plans or loan modifications by highly skilled consultants who command higher compensation. This increase in operating expenses is somewhat offset by increased late fees for loans that become delinquent but do not enter the foreclosure process. In comparison, when loans are performing we have fewer interactions with the borrowers, and lower-cost customer service personnel conduct most of those interactions unless the loan is deemed to be at risk of defaulting.

Prepayment Speed. The rate at which the UPB for a pool or pools of loans declines has a significant impact on our business. Items reducing UPB include normal principal payments, refinancing, loan modifications involving forgiveness of principal, voluntary property sales and involuntary property sales such as foreclosures. Prepayment speed impacts future servicing fees, amortization and valuation of MSRs, float income on float balances, interest expense on advances and compensating interest expense. If we expect prepayment speed to increase, amortization expense will increase because MSRs are amortized in proportion to total expected servicing income over the life of a portfolio. The converse is true when expectations for prepayment speed decrease.

Third-Party Servicer Ratings. The U.S. Department of Housing and Urban Development, Freddie Mac, Fannie Mae and Ginnie Mae have approved OLS as a loan servicer. We are also subject to mortgage servicer ratings issued and revised from time to time by credit rating agencies including Moody’s Investors Services, Inc. (Moody’s), Standard & Poor’s Rating Services (Standard & Poor’s) and Fitch Ratings (Fitch). Moody’s servicer ratings of OLS are “SQ2–” as a Residential Subprime Servicer and “SQ2” as a Residential Special Servicer. “SQ2” represents Moody’s second highest rating category. Until recently, Standard & Poor’s had rated OLS “Strong” as a Residential Special Servicer, Standard & Poor’s highest ratings category. However, on October 19, 2011, Standard & Poor’s downgraded OLS’ Residential Subprime Servicer rating from “Strong” to “Above Average,” reflecting Standard & Poor’s stated concerns at that time about our ability to integrate the HomEq and Litton platforms. On December 20, 2011, Fitch downgraded its rating of OLS for Residential Subprime Servicing to “RPS3” and its rating for Residential Special Servicing to “RSS3.” Previously, Fitch had rated OLS “RPS2” and “RSS2”, its second highest categories. Fitch stated its rating actions were based on concerns over our off-shore staffing approach and overall growth strategy, which Fitch characterized as “aggressive,” as well as the heightened regulatory scrutiny for the industry in general. Servicers rated in Fitch’s ‘3’ category demonstrate proficiency in overall servicing ability. Neither Standard & Poor’s nor Fitch’s servicer rating downgrades suggested that OLS was unacceptable or unable to continue to serve as a servicer on any transaction, nor did they raise any actual performance issues concerning OLS’ servicing of loans. In February 2012, Ocwen received notices of default or possible default from Trustees for 69 servicing contracts based on the Fitch downgrade. Of these servicing contracts, which represent approximately 5.4% of the total servicing contracts in our portfolio, 56 had been transferred to Ocwen as part of the HomEq acquisition. We believe there may be nine additional servicing contracts as to which we could possibly receive similar notices of default or possible default based on the Fitch downgrade. None of the notices of default or possible default that we have received indicated any threatened termination of OLS as the servicer under the related servicing contracts. See “Risk Factors – Risks Relating to Our Business and Industry” for a discussion of the adverse effects that a downgrade in our servicer ratings could have on our business, financing activities, financial condition or results of operations.

Corporate Items and Other

In Corporate Items and Other, we report items of revenue and expense that are not directly related to a business, business activities that are individually insignificant, interest income on short-term investments of cash and certain corporate expenses. Our corporate debt, which is comprised of the 3.25% Contingent Convertible Senior Unsecured Notes due in 2024 (Convertible Notes) and the 10.875% Capital Securities due in 2027 (Capital Securities), and our cash are also included in Corporate Items and Other.

Effective with the segment realignment discussed above, Corporate Items and Other includes the former Loans and Residuals segment and the former AMV segment. The former Loans and Residuals segment included our investments in subprime residential loans held for resale and subprime residual mortgage backed trading securities related to our former subprime loan origination operation and whole loan purchase and securitization activities. The Loans and Residuals segment also included the four loan securitization trusts that we began including in our consolidated financial statements effective January 1, 2010. The former AMV segment was comprised of our 27% equity investment in OSI and approximately a 25% equity investment in ONL and OREO. These unconsolidated entities are engaged in the management of residential assets.

Our equity investment in Correspondent One that we acquired in 2011 is also included in Corporate Items and Other. Other business activities included in Corporate Items and Other that are not considered to be of continuing significance include our affordable housing investment activities and GSS which we began including in Corporate Items and Other on August 10, 2009 following the Separation. We report the results of operations of BOK as discontinued operations in the consolidated financial statements.

SOURCES OF FUNDS

We meet our near-term liquidity requirements through:

- collections of servicing fees and ancillary revenues;
- proceeds from financings, such as match funded liabilities, lines of credit and other secured borrowings; and
- collections of prior servicer advances in excess of new advances.

In addition to these near-term sources, potential additional long-term sources of liquidity include proceeds from the issuance of debt securities and equity capital.

Our primary uses of funds are:

- payments for advances in excess of collections on existing servicing portfolios;
- payment of interest and operating costs;
- purchases of MSRS and related advances; and
- repayments of borrowings.

We closely monitor our liquidity position and ongoing funding requirements, and we invest available funds primarily in money market demand deposits.

Our ability to sustain and grow our Servicing business depends in part on our ability to maintain and expand sources of financing to fund servicing advances and to purchase new MSRs. We finance most of our advances using variable and fixed rate match funded securitization facilities. From time to time, we also finance other assets with debt.

Delinquency rates determine the amount of funds that we, as servicer, must advance to meet contractual requirements. Meeting the need to advance these funds requires readily available borrowing capacity. However, as noted earlier, we are generally obligated to advance funds only to the extent that we believe that the advances are recoverable from loan proceeds.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for additional financial information regarding our sources of funds.

COMPETITION

As disclosed in the "Corporate Strategy and Outlook" section, our competitive advantages include low operating costs relative to the subprime mortgage servicing industry, a highly scalable servicing platform which allows us to efficiently board acquired portfolios with only modest additions to infrastructure and superior subprime servicing and loss mitigation practices effective at reducing delinquencies and advances. We believe that we achieve our competitive position through the use of a technology-enabled servicing platform and a global workforce. Our competitors include a number of large financial institutions (or their subsidiaries). These financial institutions generally have significantly greater resources and access to capital than we do which gives them the benefit of a lower cost of funds. The top four banks service approximately 54% of total loans; however, they focus on prime loans, while Ocwen specializes in servicing non-prime loans.

SUBSIDIARIES

A list of our significant subsidiaries is set forth in Exhibit 21.0.

EMPLOYEES

As of December 31, 2011, we had 5,063 employees, of which 843 were employed in our U.S. facilities, 4,141 in our India operations centers and 79 in Uruguay. We have had operations in India for more than ten years. Our Uruguay operation center, located in Montevideo, has been in existence since 2008.

In the U.S., the largest portion our employees were in our West Palm Beach, Florida facility, which had 301 employees as of December 31, 2011. We also had 244 employees in McDonough, Georgia, 177 employees in Houston, Texas and 121 employees at various other locations in the U.S.

Of our employees in India as of December 31, 2011, 2,597 were in our Bangalore facilities and 1,544 were in our Mumbai facilities. Our India-based workforce is deployed as follows:

· 93% are in Servicing,
·

6% are in support functions, including Human Resources, Corporate Services, Accounting, Legal and Risk Management and
- 1% are in other business segments.

REGULATION

Our business is subject to extensive regulation by federal, state and local governmental authorities including the Federal Trade Commission (FTC), the Consumer Finance Protection Bureau (CFPB), the SEC and various state agencies that license, audit and conduct examinations of our mortgage servicing and collection activities in a number of states. From time to time, we also receive requests from federal, state and local agencies for records, documents and information relating to our policies, procedures and practices regarding our loan servicing and debt collection business activities. We incur significant ongoing costs to comply with new and existing laws and governmental regulation of our business.

We must comply with a number of federal, state and local consumer protection laws including, among others, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, the Real Estate Settlement Procedures Act (RESPA), the Truth in Lending Act (TILA), the Fair Credit Reporting Act, the Servicemembers Civil Relief Act, the Homeowners Protection Act, the Federal Trade Commission Act and, more recently, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), and state foreclosure laws. These statutes apply to debt collection, use of credit reports, safeguarding of non–public personally identifiable information about our customers, foreclosure and claims handling, investment of and interest payments on escrow balances and escrow payment features, and mandate certain disclosures and notices to borrowers. These requirements can and do change as statutes and regulations are enacted, promulgated or amended.

Our failure to comply with applicable federal, state and local consumer protection laws can lead to:

- civil and criminal liability;
- loss of our licenses and approvals to engage in the servicing of residential mortgage loans;
- damage to our reputation in the industry;
- inability to raise capital;
- administrative fines and penalties and litigation, including class action lawsuits; and
- governmental investigations and enforcement actions.

The recent trend among federal, state and local lawmakers and regulators has been toward increasing laws, regulations and investigative proceedings with regard to the residential real estate lenders and servicers. Over the past few years, state and federal lawmakers and regulators have adopted a variety of new or expanded laws and regulations, including the Dodd-Frank Act discussed below. The changes in these regulatory and legal requirements, including changes in their enforcement, could materially and adversely affect our business and our financial condition, liquidity and results of operations.

13

On July 21, 2010, the Dodd-Frank Act was signed into law by President Obama. The Dodd-Frank Act constitutes a sweeping reform of the regulation and supervision of financial institutions, as well as the regulation of derivatives, capital market activities and consumer financial services. Many provisions of the Dodd-Frank Act are required to be implemented through rulemaking by the appropriate federal regulatory agency and will take effect over several years. The ultimate impact of the Dodd-Frank Act and its effects on our business will therefore not be fully known for an extended period of time.

The Dodd-Frank Act is extensive and significant legislation that, among other things:

- creates an inter-agency body that is responsible for monitoring the activities of the financial system and recommending a framework for substantially increased regulation of large interconnected financial services firms;
- creates a liquidation framework for the resolution of certain bank holding companies and other large and interconnected nonbank financial companies;
- strengthens the regulatory oversight of securities and capital markets activities by the SEC; and
- creates the CFPB, a new federal entity responsible for regulating consumer financial services.

The CFPB will directly impact the regulation of residential mortgage servicing in a number of ways. First, the CFPB will have rulemaking authority with respect to many of the federal consumer protection laws applicable to mortgage servicers, including TILA and RESPA. Second, the CFPB will have supervision, examination and enforcement authority over consumer financial products and services offered by certain non-depository institutions and large insured depository institutions. The CFPB’s jurisdiction will include those persons originating, brokering or servicing residential mortgage loans and those persons performing loan modification or foreclosure relief services in connection with such loans. We expect that OLS will be subject to supervision, examination and enforcement by the CFPB.

Title XIV of the Dodd-Frank Act contains the Mortgage Reform and Anti-Predatory Lending Act (Mortgage Act). The Mortgage Act imposes a number of additional requirements on servicers of residential mortgage loans, such as OLS, by amending certain existing provisions and adding new sections to TILA and RESPA. The penalties for noncompliance with TILA and RESPA are also significantly increased by the Mortgage Act and could lead to an increase in lawsuits against mortgage servicers. Like other parts of the Dodd-Frank Act, the Mortgage Act generally requires that implementing regulations be issued before many of its provisions are effective. Therefore, many of these provisions in the Mortgage Act will not be effective until 2013 or early 2014.

When fully implemented, the Mortgage Act will prevent servicers of residential mortgage loans from taking certain actions, including the following:

- force-placing insurance, unless there is a reasonable belief that the borrower has failed to comply with a contract’s requirement to maintain insurance;

- charging a fee for responding to a valid qualified written request;
- failing to take timely action to respond to the borrower's request to correct errors related to payment, payoff amounts, or avoiding foreclosure;
- failing to respond within ten (10) business days of a request from the borrower to provide contact information about the owner or assignee of loan; and
- failing to return an escrow balance or provide a credit within twenty (20) business days of a residential mortgage loan being paid off by the borrower.

In addition to these restrictions, the Mortgage Act imposes certain new requirements and/or shortens the existing response time for servicers of residential mortgage loans. These new requirements include the following:

- acknowledging receipt of a qualified written request under RESPA within five (5) business days and providing a final response within thirty (30) business days;
- promptly crediting mortgage payments received from the borrower on the date of receipt except where payment does not conform to previously established requirements; and
- sending an accurate payoff statement within a reasonable period of time but in no case more than seven (7) business days after receipt of a written request from the borrower.

We expect to continue incurring significant ongoing operational and system costs in order to prepare for compliance with these new laws and regulations. Furthermore, there may be additional federal or states laws enacted that place additional obligations on servicers of residential mortgage loans.

Effective June 30, 2005, we voluntarily terminated our status as a federal savings bank. We continued the Bank’s non-depository businesses including its residential mortgage servicing business under OLS. We entered into various agreements to obtain the approval of the Office of Thrift Supervision (OTS). We directly or indirectly received assignment of all of the assets, liabilities and business (the Assignment). We entered into an agreement (the Guaranty) in favor of the OTS and any holders of claims with respect to the liabilities we assumed in connection with the Assignment. The Guaranty contained affirmative covenants relating to the maintenance of a cash collateral account, reporting requirements, transactions with affiliates, preservation of the existence of our subsidiaries and maintenance of minimum unencumbered assets. The Guaranty also contained negative covenants that restrict our ability to: incur indebtedness; enter into merger transactions or a sale of substantially all of our assets; sell, lease, transfer or otherwise dispose of our assets; or pay dividends or acquire our capital stock. The Guaranty provided that it would remain in effect until the later of (a) the sixth anniversary of the date on which our federal bank charter was cancelled or (b) the date on which we have paid in full (i) any obligations that arise out of certain assumed liabilities with respect to which a claim has been asserted on or prior to the sixth anniversary of the date on which our federal bank charter was cancelled and (ii) all other amounts payable by us under the Guaranty. The Guaranty expired by its terms on February 29, 2012. For additional information regarding the Guaranty, see Note 29 to the Consolidated Financial Statements.

There are a number of foreign regulations that are applicable to our operations in India including acts that govern licensing, employment, safety, taxes, insurance and the basic law which governs the creation, continuation and the winding up of companies as well as the relationships between the shareholders, the company, the public and the government. The Central Act is applicable to all of India while various state acts may be applicable to certain locations in India. Non-compliance with the laws and regulations of India could result in fines, penalties or sanctions to our operations. In addition, non-compliance could lead to loss of reputation and other penalties and prosecution.

AVAILABLE INFORMATION

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are made available free of charge through our website (www.ocwen.com) as soon as such material is electronically filed with or furnished to the SEC. The public may read or copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers, including OCN, that file electronically with the SEC. The address of that site is www.sec.gov. We have also posted on our website, and have available in print upon request, the charters for our Audit Committee, Compensation Committee and Governance Committee, our Governance Guidelines and our Code of Ethics and Code of Ethics for Senior Financial Officers. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to or waiver of the Code of Ethics for Senior Financial Officers, as well as any amendment to the Code of Ethics or waiver thereto applicable to any executive officer or director. The information provided on our website is not part of this report and is therefore not incorporated herein by reference.

ITEM 1A. RISK FACTORS

An investment in our common stock involves significant risks that are inherent to our business. We describe below the principal risks and uncertainties that management believes affect or could affect us. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. You should carefully read and consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report before you decide to invest in our common stock. If any of the following risks actually occur, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could significantly decline, and you could lose all or part of your investment.

Risks Relating to Our Business and Industry

Continued economic slowdown and/or continued deterioration of the housing market could increase delinquencies, defaults, foreclosures and advances.

An increase in delinquencies and foreclosure rates could increase both interest expense on advances and operating expenses and could cause a reduction in income from, and the value of, our servicing portfolio as well as loans and our investment in AMVs.

15

During any period in which the borrower is not making payments, we are required under most of our servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for investors, pay property taxes and insurance premiums and process foreclosures. We also advance funds to maintain, repair and market real estate properties on behalf of investors. Most of our advances have the highest standing and are "top of the waterfall" so that we are entitled to repayment from respective loan or REO liquidations proceeds before any interest or principal is paid on the bonds, and in the majority of cases, advances in excess of respective loan or REO liquidation proceeds may be recovered from pool level proceeds.

- ***Revenue.*** An increase in delinquencies may delay the timing of revenue recognition because we recognize servicing fees as earned which is generally upon collection. An increase in delinquencies also leads to lower float balances and float earnings.
- ***Expenses.*** Higher delinquencies increases our cost to service loans, as loans in default require more intensive effort to bring them current or manage the foreclosure process. An increase in advances outstanding relative to the change in the size of the servicing portfolio can result in substantial strain on our financial resources. This occurs because excess growth of advances increases financing costs with no offsetting increase in revenue, thus reducing profitability. If we are unable to fund additional advances, we could breach the requirements of our servicing contracts. Such developments could result in our losing our servicing rights, which would have a substantial negative impact on our financial condition and results of operations and could trigger cross-defaults under our various credit agreements.
- ***Valuation of MSRs.*** Apart from the risk of losing our servicing rights, defaults are involuntary prepayments resulting in a reduction in UPB. This may result in higher amortization and impairment in the value of our MSRs.

We may be unable to obtain sufficient capital to meet the financing requirements of our business, which may prevent us from having sufficient funds to conduct our operations or meet our obligations on our advance facilities.

Our financing strategy includes the use of significant leverage. Accordingly, our ability to finance our operations and repay maturing obligations rests in large part on our ability to borrow money. Our ability to borrow money is affected by a variety of factors including:

- limitations imposed on us by existing lending and similar agreements that contain restrictive covenants that may limit our ability to raise additional debt;
- liquidity in the credit markets;
- the strength of the lenders from whom we borrow; and
- limitations on borrowing on advance facilities which is limited by the amount of eligible collateral pledged and may be less than the borrowing capacity of the facility.

An event of default, a negative ratings action by a rating agency, the perception of financial weakness, an adverse action by a regulatory authority, a lengthening of foreclosure timelines or a general deterioration in the economy that constricts the availability of credit may increase our cost of funds and make it difficult for us to renew existing credit facilities or obtain new lines of credit.

Our advance facilities are revolving facilities, and in a typical monthly cycle, we repay up to one-third of the borrowings under these facilities from collections. During the remittance cycle, which starts in the middle of each month, we depend on our lenders to provide the cash necessary to make remittances to the Servicing investors where such new advances represent eligible collateral under our advance facilities. If one or more of these lenders were to fail, we may not have sufficient funds to meet our obligations.

A significant increase in prepayment speeds or could adversely affect our financial results.

Prepayment speed is a significant driver of our business. Prepayment speed is the measurement of how quickly borrowers pay down the UPB of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. Prepayment speeds have a significant impact on our servicing fee revenues, our expenses and on the valuation of our MSRs as follows:

· ***Revenue.*** If prepayment speeds increase, our servicing fees will decline more rapidly than anticipated because of the greater than expected decrease in the UPB on which those fees are based. The reduction in servicing fees would be somewhat offset by increased float earnings because the faster repayment of loans will result in higher balances in the custodial accounts that generate the float earnings. Conversely, decreases in prepayment speeds drive increased servicing fees and lead to lower float balances and float earnings.

- ***Expenses.*** Amortization of MSRs is one of our largest operating expenses. Since we amortize servicing rights in proportion to total expected income over the life of a portfolio, an increase in prepayment speeds leads to increased amortization expense as we revise downward our estimate of total expected income. Faster prepayment speeds will also result in higher compensating interest expense. Decreases in prepayment speeds lead to decreased amortization expense as the period over which we amortize MSRs is extended. Slower prepayment speeds also lead to lower compensating interest expense.
- ***Valuation of MSRs.*** We base the price we pay for MSRs and the rate of amortization of those rights on, among other things, our projection of the cash flows from the related pool of mortgage loans. Our expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speeds were significantly greater than expected, the carrying value of our MSRs could exceed their estimated fair value. When the carrying value of MSRs exceeds their fair value, we are required to record an impairment charge which has a negative impact on our financial results.

We may be unable to gain access to newly originated loans, which may have an adverse impact on our ability to maintain or expand our servicing portfolio.

The lack of subprime originations since the middle of 2007 and uncertain prospects for acquiring other new loans to service may have an adverse impact on our ability to maintain or expand our servicing portfolio.

We use estimates in determining the fair value of certain assets, such as MSRs. If our estimates prove to be incorrect, we may be required to write down the value of these assets which could adversely affect our earnings.

We estimate the fair value of our MSRs by calculating the present value of expected future cash flows utilizing assumptions that we believe are used by market participants. The methodology used to estimate these values is complex and uses asset-specific collateral data and market inputs for interest and discount rates and liquidity dates.

Valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships that drive the results of our valuation methodologies. If prepayment speeds increase more than estimated, delinquency and default levels are higher than anticipated or financial market illiquidity continues beyond our estimate, we may be required to write down the value of certain assets which could adversely affect our earnings.

A downgrade in our servicer ratings could have an adverse effect on our business, financing activities, financial condition or results of operations.

Standard & Poor’s, Moody’s and Fitch rate us as a mortgage servicer. Favorable ratings from these agencies are important to the conduct of our loan servicing business. As disclosed in “Operating Segments-Servicing-Third-Party Servicer Ratings”, Standard & Poor’s and Fitch downgraded their residential subprime servicing ratings of OLS in 2011. Downgrades in servicer ratings could adversely affect our ability to finance servicing advances and maintain our status as an approved servicer by Fannie Mae and Freddie Mac. Downgrades in our servicer ratings could also lead to the early termination of existing advance facilities and affect the terms and availability of match funded advance facilities that we may seek in the future. In addition, some of our PSAs require that the servicer maintain specified servicer ratings. Our failure to maintain favorable or specified ratings may cause our termination as servicer and further impair our ability to consummate future servicing transactions, which could have an adverse effect on our business, financing activities, financial condition and results of operations.

Loan putbacks could adversely affect our business.

Ocwen has been a party to loan sales and securitizations dating back to the 1990s. The majority of securities issued in these transactions has been retired and is not subject to putback risk. There is one remaining securitization with an original UPB of approximately $200 million where Ocwen provided representations and warranties and the loans were originated in the last decade. Ocwen performed due diligence on each of the loans included in this securitization. The outstanding UPB of this securitization was $47.7 million at December 31, 2011, and the outstanding balance of the notes was $48.5 million. Ocwen is not aware of any inquiries or claims regarding loan putbacks for any transaction where we made representations and warranties. We do not expect loan putbacks to result in any material change to our financial position, operating results or liquidity.

Our earnings may be inconsistent.

Our past financial performance should not be considered a reliable indicator of future performance, and historical trends may not be reliable indicators of anticipated financial performance or trends in future periods.

The consistency of our operating results may be significantly affected by inter-period variations in our current operations including the amount of servicing rights acquired and the changes in realizable value of those assets due to, among other factors, increases or decreases in prepayment speeds, delinquencies or defaults.

Certain non-recurring gains and losses that have significantly affected our operating results may result in substantial inter-period variations in financial performance.

Our hedging strategies may not be successful in mitigating our exposure to interest rate risk.

At present, we have entered into interest rate swaps and caps to fix our exposure to variable interest rates under our match funded advance funding facilities. If we are successful in acquiring additional servicing or sub-servicing rights, there is no assurance that we will be able to obtain the fixed rate financing that would be necessary to protect us from the effect of rising interest rates. Therefore, we may consider utilizing various derivative financial instruments to protect against the effects of rising rates. Nevertheless, no hedging strategy can completely protect us. The derivative financial instruments that we select may not have the effect of reducing our interest rate risks. Poorly designed strategies, improperly executed and documented transactions or inaccurate assumptions could actually increase our risks and losses. In addition, hedging strategies involve transaction and other costs. We cannot be assured that our hedging strategies and the derivatives that we use will adequately offset the risks of interest rate volatility or that our hedging transactions will not result in or magnify losses.

We have significant operations in India that could be adversely affected by changes in the political or economic stability of India or by government policies in India or the U.S.

More than 80% of our employees are located in India. A significant change in India’s economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally and our business in particular. The political or regulatory climate in the U.S. or elsewhere also could change so that it would not be lawful or practical for us to use international operations centers. For example, changes in privacy regulations could require us to curtail our use of lower-cost operations in India to service our businesses. If we were to cease our operations in India and transfer these operations to another geographic area, we could incur increased overhead costs that could materially and adversely affect our results of operations.

We may need to increase the levels of our employee compensation more rapidly than in the past to retain talent. Unless we are able to continue to enhance the efficiency and productivity of our employees, wage increases in the long term may reduce our profitability.

Technology failures could damage our business operations or reputation and increase our costs.

The financial services industry as a whole is characterized by rapidly changing technologies, and system disruptions and failures may interrupt or delay our ability to provide services to our customers. The secure transmission of confidential information over the Internet and other electronic distribution and communication systems is essential to our maintaining consumer confidence in certain of our services. Security breaches, computer viruses, acts of vandalism and developments in computer capabilities could result in a compromise or breach of the technology that we use to protect our customers' personal information and transaction data. Consumers generally are concerned with security breaches and privacy on the Internet, and Congress or individual states could enact new laws regulating the electronic commerce market that could adversely affect us. In addition, given the volume of transactions that we process and monitor, certain errors may be repeated or compounded before they are discovered and rectified. If one or more of such events occurs, this could potentially jeopardize data integrity or confidentiality of information processed and stored in, or transmitted through, our computer systems and networks, which could result in significant losses, reputational damage and legal liabilities to us.

Our business is substantially dependent on our ability to process and monitor a large number of transactions, many of which are complex, across numerous and diverse real estate markets. These transactions often must adhere to the terms of the complex legal agreements, as well as legal and regulatory standards. We are responsible for developing and maintaining operational systems and infrastructure, which is challenging. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond their control, such as a spike in transaction volume or unforeseen catastrophic events, potentially resulting in data loss and adversely affecting our ability to process these transactions.

The loss of the services of our senior managers could have an adverse effect on us.

The experience of our senior managers is a valuable asset to us. Our executive chairman, William C. Erbey, has been with us since our founding in 1987, and our president and chief executive officer, Ronald M. Faris, joined us in 1991. Other senior managers have been with us for 10 years or more. We do not have employment agreements with, or maintain key man life insurance relating to, Mr. Erbey, Mr. Faris or any of our other executive officers. The loss of the services of our senior managers could have an adverse effect on us.

Our directors and executive officers collectively own a large percentage of our common shares and could influence or control matters requiring shareholder approval.

Our directors and executive officers and their affiliates collectively own or control approximately 18% of our outstanding common shares. This includes approximately 14% owned or controlled by our executive chairman, William C. Erbey, and approximately 4% owned or controlled by our director and former chairman, Barry N. Wish. As a result, these shareholders could influence or control virtually all matters requiring shareholder approval, including the amendment of our articles of incorporation, the approval of mergers or similar transactions and the election of all directors.

We are exposed to market risk, including, among other things, liquidity risk, prepayment risk and foreign currency exchange risk.

We are exposed to liquidity risk primarily because of the highly variable daily cash requirements to support our servicing business including the requirement to make advances pursuant to servicing contracts and the process of remitting borrower payments to the custodial accounts. In general, we finance our operations through operating cash flows and various other sources of funding including match funded agreements, secured lines of credit and repurchase agreements. We believe that we have adequate financing for the next twelve months.

We are exposed to interest rate risk to the degree that our interest-bearing liabilities mature or reprice at different speeds, or different bases, than our interest earning assets or when financed assets are not interest-bearing. Our servicing business is characterized by non-interest earning assets financed by interest bearing liabilities. Among the more significant non-interest earning assets are servicing advances and MSRs. At December 31, 2011, we had total advances and match funded advances of $3.7 billion. We are also exposed to interest rate risk because 34% of our outstanding debt at December 31, 2011 is variable rate. Rising interest rates may increase our interest expense. Nevertheless, earnings on float balances (assets) partially offset this variability. We have also entered into interest rate swaps and an interest rate cap to hedge our exposure to rising interest rates.

We are exposed to foreign currency exchange rate risk in connection with our investment in non-U.S. dollar functional currency operations to the extent that our foreign exchange positions remain unhedged. Our operations in Uruguay and India expose us to foreign currency exchange rate risk, but we consider this risk to be insignificant. During 2011, we entered into foreign exchange forward contracts to hedge against the effect of changes in the value of the India Rupee on amounts payable to our subsidiary in India. In January 2012, we terminated these contracts prior to their scheduled maturity.

Risks Relating to Government Regulation

Regulatory scrutiny regarding foreclosure processes could lengthen timelines or increase prepayment speeds which would negatively impact our liquidity and profitability.

As discussed in the "Operating Segments - Servicing" section, state banking regulators and state attorneys general have publicly announced that they have initiated inquiries into banks and servicers regarding compliance with legal procedures in connection with mortgage foreclosures, including the preparation, execution, notarization and submission of documents, principally affidavits, filed in connection with foreclosures. The process to foreclose on properties securing residential mortgage loans is governed by state law and varies by state. For the most part, these inquiries have arisen from the 25 so-called "judicial states," namely, those jurisdictions that require lenders or their servicers to go through a judicial proceeding to obtain a foreclosure order. In these judicial states, lenders or their servicers are generally required to provide to the court the mortgage loan documents and a sworn and notarized affidavit of an officer of the lender or its servicer with respect to the facts regarding the delinquency of the mortgage loan and the foreclosure. These affidavits are generally required to be based on the personal knowledge of the officer that executes the affidavit after a review of the mortgage loan documents. Regulators from "quasi-judicial states" and "non-judicial states," however, have made similar inquiries as well. In these states, lenders or their servicers may foreclose on a defaulted mortgage loan by delivering to the borrower a notice of the foreclosure sale without the requirement of going through a judicial proceeding, unless the borrower contests the foreclosure or files for bankruptcy. If the borrower contests the foreclosure or files for bankruptcy in a non-judicial state, court proceedings, including affidavits similar to those provided in the judicial states will generally be required.

In connection with the recent governmental scrutiny of foreclosure processes and practices in the industry, the attorneys general of certain states and certain members of the U.S. Congress and state legislatures have called for a temporary moratorium on mortgage foreclosures, although no state has implemented a general foreclosure moratorium on mortgage loan servicers to date. In addition, some individual municipalities have begun to enact laws that may increase the time that it currently takes to complete a foreclosure or prevent foreclosures in such jurisdictions. Such moratoria or other action by federal, state or municipal government bodies, regulators or courts could increase the length of time needed to complete the foreclosure process.

When a mortgage loan is in foreclosure, we are generally required to continue to advance delinquent principal and interest to the securitization trust and also to make advances for delinquent taxes and insurance and foreclosure costs and the upkeep of vacant property in foreclosure to the extent that we determine that such amounts are recoverable. These servicing advances are generally recovered when the delinquency is resolved. Foreclosure moratoria or other actions that lengthen the foreclosure process will increase the amount of servicing advances that we are required to make, lengthen the time it takes for us to be reimbursed for such advances and increase the costs incurred during the foreclosure process. In addition, advance financing facilities generally contain provisions that limit the eligibility of servicing advances to be financed based on the length of time that the servicing advances are outstanding. One of our match funded advance facilities has provisions that limit new borrowings if average foreclosure timelines extend beyond a certain time period. As a result, an increase in foreclosure timelines could further increase the amount of servicing advances that we need to fund with our own capital. Such increases in foreclosure timelines could increase our interest expense, delay the collection of servicing fee revenue until the foreclosure has been resolved and, therefore, reduce the cash that we have available to pay our operating expenses.

Governmental bodies may also impose regulatory fines or penalties as a result of our foreclosure processes or impose additional requirements or restrictions on such activities which could increase our operating expenses. For instance, in April 2011 the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB) and the Federal Deposit Insurance Corporation (FDIC) entered into consent orders with the fourteen largest mortgage servicers to address alleged deficient practices in residential mortgage loan servicing and foreclosure processing. Under the consent orders, these mortgage servicers are required to submit written remediation plans addressing enterprise-wide risk management, internal audit and compliance programs for their residential mortgage loan servicing, loss mitigation and foreclosure activities. Remedial measures required under these consent orders and written plans may include, among other measures, revisions to servicing operations and remediation of all financial injury to borrowers caused by any errors, misrepresentations or other deficiencies identified in the parties' recent foreclosures. Ocwen is not subject to OCC, FRB or FDIC regulation, and therefore it has not been subject to any consent decree initiated by these federal regulatory agencies. Nevertheless, Ocwen could become subject to similar consent decrees, enforcement actions or investigations as a result of other federal or state regulatory or legislative action.

In general, these regulatory developments with respect to foreclosure practices could result in increases in the amount of servicing advances and the length of time to recover servicing advances, fines or increases in operating expenses, and decreases in the advance rate and availability of financing for servicing advances. This could in turn lead to increased borrowings, reduced cash and higher interest expense which could negatively impact our liquidity and profitability.

President Obama recently announced a proposed plan to assist homeowners meeting certain eligibility criteria to refinance non-conforming mortgage loans through the FHA. Under the proposal, borrowers need to be current on their mortgage loan payments for the immediately preceding six months and have a minimum credit score of 580 to be eligible. The complete details of this proposal have not been released. Before becoming effective, this proposal would require congressional approval, and material elements of it could change before or during the legislative process. If enacted, such a plan could result in an increase in prepayment speeds and negatively affect our earnings and operating results.

On February 9, 2012, the Department of Housing and Urban Development (HUD) and attorneys general representing 49 states and the District of Columbia announced a $25 billion settlement (the Joint Federal-State Servicing Settlement) with the five largest mortgage servicers—Bank of America Corporation, JP Morgan Chase & Co., Wells Fargo & Company, Citigroup Inc. and Ally Financial Inc. (formerly GMAC)—regarding servicing and foreclosure issues. In addition to assessing monetary penalties which are required to be used to provide financial relief to borrowers (including refinancing and principal write-downs), the Joint Federal-State Servicing Settlement requires these servicers to implement changes in how they service mortgage loans, handle foreclosures and provide information to bankruptcy courts. The complete details of these servicing changes have not been released. The federal-state regulators may seek to expand the participation in the Joint Federal-State Servicing Settlement or similar settlements to other servicers and could seek to include OLS. Though the details of the servicing practices associated with the Joint Federal-State Servicing Settlement are incomplete, their implementation could result in increased costs for servicing mortgage loans generally. In addition, the implementation of a refinancing or principal write-down program like that contemplated by the Joint Federal-State Servicing Settlement could result in an increase in prepayment speeds and negatively affect our operating results.

Governmental and legal proceedings and related costs could adversely affect our financial results.

An adverse result in a governmental investigation or private lawsuits, including purported class action lawsuits, could affect our financial condition and results of operations. We and certain of our affiliates have been named as defendants in a number of lawsuits, including purported class actions, challenging our residential loan servicing practices. Also, OLS received a Civil Investigative Demand (CID) from the FTC on November 24, 2010, requesting documents and information concerning various loan servicing activities. A number of our competitors and others in the industry have paid significant sums to resolve investigations initiated by the FTC and/or settle lawsuits brought against them that raised claims similar to those raised in the lawsuits brought against us and our affiliates. In July 2010, OLS received two subpoenas from the Federal Housing Finance Agency (FHFA) as conservator for Freddie Mac and Fannie Mae in connection with ten private label mortgage securitization transactions where Freddie Mac and Fannie Mae have invested. The transactions include mortgage loans serviced but not originated by OLS or its affiliates. There is no allegation of wrongdoing in the subpoenas against OLS, and we are cooperating with the FHFA's requests. On November 7, 2011, OLS received a CID from the Attorney General's Office of the Commonwealth of Massachusetts requesting documents and information regarding certain foreclosures executed in Massachusetts. There is no allegation of wrongdoing against OLS in the Massachusetts Attorney General CID, and we are cooperating with the Massachusetts Attorney General's request. On January 18, 2012, OLS received a subpoena from the New York Department of Financial Services requesting documents regarding OLS' policies, procedures and practices regarding lender placed or "force placed" insurance which is required to be provided for borrowers who allow their hazard insurance policies to lapse. There is no allegation of wrongdoing against OLS in the subpoena, and we are cooperating with the New York Department of Financial Service's request. As discussed above, HUD and state attorneys general recently concluded an agreement with five large bank mortgage servicers resulting in approximately $25 billion in monetary sanctions or relief to borrowers. These actions concern allegations of improper actions related to foreclosure processes and other servicing practices. Litigation and government proceedings may require that we pay significant legal fees, settlement costs, damages, penalties or other charges, or undertake remedial actions pursuant to administrative orders or court-issued injunctions, any of which could adversely affect our financial results. For more information about our legal proceedings, see Item 3, "Legal Proceedings."

The expanding body of federal, state and local regulation and/or the licensing of mortgage servicers, collection agencies or other aspects of our business may increase the cost of compliance and the risks of noncompliance.

As noted in the "Regulation" section, the servicing of residential mortgage loans is subject to extensive federal, state and local laws, regulations and administrative decisions. The volume of new or modified laws and regulations has increased in recent years and is likely to continue to increase. If our regulators impose new or more restrictive requirements, we may incur additional significant costs to comply with such requirements which may further adversely affect our results of operations or financial condition. In addition, our failure to comply with these laws and regulations could lead to civil and criminal liability; loss of licensure; damage to our reputation in the industry; fines and penalties and litigation, including class action lawsuits; or administrative enforcement actions. Any of these outcomes may adversely affect our results of operations or financial condition.

FHFA and GSE initiatives and other actions may affect mortgage servicing generally and future servicing fees in particular.

In 2011, Freddie Mac and Fannie Mae each issued their Servicing Alignment Initiative as directed by the Federal Housing Finance Agency (FHFA). The Servicing Alignment Initiative established new requirements primarily related to loss mitigation processes, including servicer incentives and compensatory fees that could be charged to servicers based on performance against benchmarks for various metrics. Through our servicing relationship with Freddie Mac and Fannie Mae, in part as a result of our acquisition of Litton, we have potential exposure to such compensatory fees. It is possible that the compensatory fees could substantially increase the costs and risks associated with servicing Freddie Mac or Fannie Mae non-performing loans. Moreover, due to the significant role Fannie Mae and Freddie Mac play in the secondary mortgage market, it is possible that compensatory fee requirements and similar initiatives that they implement could become prevalent in the mortgage servicing industry generally. Other industry stakeholders or regulators may also implement or require changes in response to the perception that current mortgage servicing practices and compensation do not serve broader housing policy objectives well. To the extent that FHFA and/or the GSEs implement reforms that materially affect the market for conforming loans, there may also be indirect effects on the subprime and Alt-A markets, which could include material adverse effects on the creation of new mortgage servicing rights, the economics or performance of any mortgage servicing rights that we acquire, servicing fees that we can charge and costs that we incur to comply with new servicing requirements.

Changes to government loan modification and refinance programs may adversely affect future incremental revenues.

Under government programs such as HAMP, a participating servicer may be entitled to receive financial incentives in connection with modification plans it enters into with eligible borrowers and subsequent "pay for success" fees to the extent that a borrower remains current in any agreed upon loan modification. Changes in current legislative actions regarding such loan modification and refinance programs, future U.S. federal, state and/or local legislative or regulatory actions that result in the modification of outstanding mortgage loans, and changes in the requirements necessary to qualify for refinancing mortgage loans may impact the future extent to which we participate in and receive financial benefits from such programs and may have a material effect on our business. To the extent that we continue to participate in the HAMP, there is no guarantee as to the continued expectation of future incremental revenues from this source.

The enactment of the Dodd-Frank Act, the SAFE Act, or other legislative and regulatory developments may adversely affect our business.

As disclosed in the "Regulation" section, the Dodd-Frank Act was signed into law on July 21, 2010. Certain provisions of the Dodd-Frank Act may impact our business. For example, we may be required to clear and exchange trade some or all of the swap transactions that we enter into which could result in higher cost, less transaction flexibility and price disclosure. Because many provisions of the Dodd-Frank Act require rulemaking action by governmental agencies to implement, we cannot predict the impact of the Dodd-Frank Act on Ocwen and its business.

21

The Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (the S.A.F.E. Act) requires the individual licensing and registration of those engaged in the business of loan origination. The S.A.F.E. Act is designed to improve accountability on the part of loan originators, combat fraud and enhance consumer protections by encouraging states to establish a national licensing system and minimum qualification requirements for applicants. HUD is the federal agency charged with establishing and enforcing a licensing and registration system that meets the minimum requirements of the S.A.F.E. Act. On December 15, 2009, HUD proposed a rule that would extend the licensing requirements for loan originators to servicing personnel who are performing modifications. The servicing industry has responded to this proposed rule by requesting HUD reconsider its position as the licensing costs and impact to the modification process will increase the cost of servicing, including our costs of servicing any affected mortgage loans. It is not known at this time whether HUD will modify its proposed licensing requirements for servicing personnel.

Additionally, the U.S. Congress, regulators and/or various state and local governing bodies may enact other legislation or take regulatory action designed to address mortgage servicing practices, housing finance policy or the current economic crisis that could have an adverse effect on Ocwen and its business.

Risks Relating to Acquisitions

Pursuit of acquisitions, such as the Litton Acquisition, the Saxon Acquisition or various MSR acquisitions, exposes us to financial, execution and operational risks that could adversely affect us.

We periodically explore acquisition opportunities, such as the Litton Acquisition, the Saxon Acquisition or various MSR acquisitions. In connection with such acquisition opportunities, we may be exposed to unknown or contingent liabilities of the businesses, assets and liabilities we acquire, and if these issues or liabilities exceed our estimates, our results of operations and financial condition may be materially negatively affected. For example, as a part of the Litton Acquisition, Goldman Sachs and Ocwen have agreed to indemnification provisions for the benefit of the other party. While Goldman Sachs has agreed to retain certain potential liabilities for fines and penalties that could be imposed by certain government authorities relating to Litton's pre-closing foreclosure and servicing practices, Goldman Sachs and Ocwen have agreed to share certain losses arising out of potential third-party claims in connection with Litton's pre-closing performance under its servicing agreements. Goldman Sachs has agreed to be liable for (i) 80% of any such losses until the amount paid by Goldman Sachs is equal to 80% of the Goldman Shared Loss Cap and (ii) thereafter, 20% of any such losses until the amount paid by Goldman Sachs is equal to the Goldman Shared Loss Cap. Ocwen has agreed to be liable for (i) 20% of any such losses until the amount paid by Ocwen is equal to 20% of the Goldman Shared Loss Cap, (ii) thereafter, 80% of any such losses until the amount paid by Ocwen is equal to the Goldman Shared Loss Cap and (iii) thereafter, 100% of any such losses in excess of the Goldman Shared Loss Cap. The "Goldman Shared Loss Cap" is currently approximately $123.7 million, or 50%, of the adjusted purchase price of the Litton Acquisition, which may be further adjusted after final reconciliations of the purchase price are made. We cannot assure you that Goldman Sachs will be able to fulfill its indemnification obligations or that the losses incurred by Ocwen will not exceed our original projections.

Similarly, as a part of the Saxon Acquisition that we announced on October 19, 2011, the sellers and Ocwen have agreed to indemnification provisions for the benefit of the other party. While the sellers have agreed to retain certain contingent liabilities for losses, fines and penalties that could result from claims by government authorities and certain third parties relating to SCI's pre-closing foreclosure, servicing and loan origination practices, the sellers and Ocwen have agreed to share certain losses arising out of potential third-party claims in connection with SCI's pre-closing performance under its servicing agreements. The sellers have agreed to be liable for (i) 75% of any such losses until the amount paid by the sellers is equal to 60% of the Saxon Shared Loss Cap of $83 million and (ii) thereafter, 25% of any such losses until the amount paid by the sellers is equal to the Saxon Shared Loss Cap. Ocwen has agreed to be liable for (i) first, 25% of any such losses until the amount paid by the sellers is equal to 60% of the Saxon Shared Loss Cap, (ii) second, 75% of any such losses until the amount paid by the sellers is equal to the Saxon Shared Loss Cap and (iii) thereafter, 100% of any such losses in excess of the Saxon Shared Loss Cap. We cannot assure you that the sellers will be able to fulfill their indemnification obligations or that the losses incurred by Ocwen will not exceed our original projections.

We may be required to pay for certain above-described losses in connection with the Litton Acquisition, the Saxon Acquisition or any MSR acquisitions. While we reserve amounts to pay for any of the above-described losses incurred in connection with such acquisitions, those reserves may not be adequate over time to protect against potential future losses, and if any such losses exceed the amount in the reserves, we would recognize losses covering such excess amount, which would adversely affect our net income and stockholders' equity and, depending on the extent of such excess losses, could adversely affect our business. It is possible that certain financial covenants in our credit facilities would be breached by such excess losses.

In addition, the performance of the assets we acquire through transactions such as the Litton Acquisition, the Saxon Acquisition or any MSR acquisitions may not match the historical performance of our other assets. We cannot guarantee that the assets we acquire will perform at levels meeting our expectations. We may find that we overpaid for the acquired assets or that the economic conditions underlying our acquisition decision have changed. It may also take several quarters for us to fully integrate the newly acquired assets into our business, during which period our results of operations and financial condition may be negatively affected. Further, certain one-time expenses associated with such acquisitions may have a negative impact on our results of operations and financial condition. We cannot assure you that future acquisitions will not adversely affect our results of operations and financial condition.

The acquisition of entities such as Litton and SCI also requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time consuming and can be disruptive to the borrowers of the loans serviced by the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its borrowers, we may not realize the anticipated economic benefits of particular acquisitions within our expected timeframe, and we may lose subservicing business or employees of the acquired business. We may also experience a greater than anticipated loss of business even if the integration process is successful.

Further, prices at which acquisitions can be made fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices we considered acceptable, and we expect that we will experience this condition in the future. In addition, in order to finance an acquisition we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or raise additional capital, which could dilute the interests of our existing shareholders. Also, it is possible that we will expend considerable resources in the pursuit of an acquisition that, ultimately, either does not close or is terminated.

Risks Relating to Ownership of Our Common Stock

Our common stock price may experience substantial volatility which may affect your ability to sell our common stock at an advantageous price.

The market price of our shares of common stock has been and may continue to be volatile. For example, the closing market price of our common stock on the New York Stock Exchange fluctuated during 2011 between $9.50 per share and $14.73 per share and may continue to fluctuate. Therefore, the volatility may affect your ability to sell our common stock at an advantageous price. Market price fluctuations in our common stock may be due to acquisitions, dispositions or other material public announcements along with a variety of additional factors including, without limitation, those set forth under “Risk Factors” and “Forward-Looking Statements.” In addition, the stock markets in general, including the New York Stock Exchange, recently have experienced extreme price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of our common stock.

Because of certain provisions of our organizational documents, takeovers may be more difficult possibly preventing you from obtaining an optimal share price.

Our amended and restated articles of incorporation provide that the total number of shares of all classes of capital stock that we have authority to issue is 220 million, of which 200 million are common shares and 20 million are preferred shares. Our Board of Directors has the authority, without a vote of the shareholders, to establish the preferences and rights of any preferred or other class or series of shares to be issued and to issue such shares. The issuance of preferred shares could delay or prevent a change in control. Since our Board of Directors has the power to establish the preferences and rights of the preferred shares without a shareholder vote, our Board of Directors may give the holders of preferred shares preferences, powers and rights, including voting rights, senior to the rights of holders of our common shares.

Shares of our common stock are relatively illiquid.

As of December 31, 2011, we had 129,899,288 shares of common stock outstanding. As of that date, 18% of our common stock was held by our officers and directors and their affiliates. As of that same date, another 19% of our common stock was held by two investors. As a result of our relatively small public float, our common stock may be less liquid than the common stock of companies with broader public ownership. The trading of a relatively small volume of our common stock may have a greater impact on the trading price of our common stock than would be the case if our public float were larger.

Risks Relating to the Separation of Altisource

We could have conflicts with Altisource, and our Chairman of the Board, and other officers and directors, could have conflicts of interest due to their relationships with Ocwen and Altisource which may be resolved in a manner adverse to us.

Conflicts may arise between Ocwen and Altisource as a result of our ongoing agreements and the nature of our respective businesses. Among other things, we became a party to a variety of agreements with Altisource in connection with the Separation, and we may enter into further agreements with Altisource after the Separation. Certain of our executive officers and directors may be subject to conflicts of interest with respect to such agreements and other matters due to their relationships with Altisource.

William C. Erbey, Ocwen's executive Chairman of the Board, became Altisource's non-executive Chairman of the Board as a result of the Separation. As a result, he has obligations to us as well as to Altisource and may potentially have conflicts of interest with respect to matters potentially or actually involving or affecting Ocwen and Altisource.

Mr. Erbey owns substantial amounts of Altisource common stock and stock options because of his relationships with Altisource. This ownership could create or appear to create potential conflicts of interest when our Chairman of the Board is faced with decisions that involve Ocwen, Altisource or any of their respective subsidiaries.

Matters that could give rise to conflicts between Ocwen and Altisource include, among other things:

- any competitive actions by Altisource;
- the quality and pricing of services that Altisource has agreed to provide to us or that we have agreed to provide to Altisource and
- our ongoing and future relationships with Altisource, including related party agreements and other arrangements with respect to the administration of tax matters, employee benefits, indemnification and other matters.

We will also seek to manage these potential conflicts through dispute resolution and other provisions of our agreements with Altisource and through oversight by independent members of our Board of Directors. There can be no assurance that such measures will be effective, that we will be able to resolve all conflicts with Altisource or that the resolution of any such conflicts will be no less favorable to us than if we were dealing with a third party.

The tax liability to Ocwen as a result of the Separation could be substantial.

Prior to the Separation, any assets transferred to Altisource or non-U.S. subsidiaries were taxable pursuant to Section 367(a) of the Code, or other applicable provisions of the Internal Revenue Code (the Code) and Treasury regulations. Taxable gains not recognized in the restructuring were generally recognized pursuant to the Separation itself under Section 367(b). The taxable gain recognized by Ocwen attributable to the transfer of assets to Altisource equaled the excess of the fair market value of each asset transferred over Ocwen's basis in such asset. Ocwen's basis in some assets transferred to Altisource may have been low or zero which could result in a substantial tax liability to Ocwen. In addition, the amount of taxable gain was based on a determination of the fair market value of Ocwen's transferred assets. The determination of fair market values of non-publicly traded assets is subjective and could be subject to closing date adjustments or future challenge by the Internal Revenue Service (the IRS) which could result in an increased U.S. federal income tax liability to Ocwen.

Tax regulations under Section 7874 of the Code, if held applicable to the Separation, could materially increase tax costs to Ocwen.

IRS tax regulations under Section 7874 can apply to transactions where a U.S. corporation contributes assets, including subsidiary equity interests, to a foreign corporation and distributes shares of such corporation, as in the Separation and related transactions. We do not believe that Section 7874 of the Code applies to the Separation. Ocwen's board of directors required that Ocwen and Altisource receive an independent valuation prior to completing the Separation; however, if the IRS were to successfully challenge the independent valuation, then Ocwen may not be permitted to offset the taxable gain recognized on the transfer of assets to Altisource with net operating losses, tax credits or other tax attributes. This could materially increase the tax costs to Ocwen of the Separation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

The following table sets forth information relating to our primary facilities at December 31, 2011:

Location	Owned/Leased	Square Footage
Principal executive office:		
Atlanta, Georgia (1)	Leased	2,094
Document storage and imaging facility:		
Riviera Beach, Florida	Leased	30,000
Business operations and technology support offices:		
West Palm Beach, Florida	Leased	41,860
North Highlands, California (2)	Leased	129,030
Raleigh, North Carolina (2)	Leased	46,528
Houston, Texas (3)	Leased	198,946
McDonough, Georgia (3)	Leased	62,000
Bangalore, India	Leased	86,413
Mumbai, India	Leased	47,765
Montevideo, Uruguay	Leased	16,668

(1) In December 2010, we entered into an agreement to sublease this space from Altisource through October 2014.

(2) We assumed these leases in connection with our acquisition of HomEq Servicing. We shut down the former HomEq operations in 2010 and ceased using these facilities. In 2010, we exercised our option to terminate these leases effective in 2013.

(3) We assumed these leases in connection with our acquisition of Litton Loan Servicing. The lease of the Houston, Texas facility expires in August 2012 and will likely not be renewed.

In addition to the facilities listed in the table above, we also lease small offices in Orlando, Florida and Washington, D.C.

ITEM 3. LEGAL PROCEEDINGS

A description of material pending or recently settled legal proceedings to which OCN or its subsidiaries are a party follows:

Since April 2004, we have been included as a defendant in litigation in federal court in Chicago which consolidated certain class actions and individual actions brought by borrowers in various federal and state courts challenging the defendants' mortgage servicing practices, including charging improper or unnecessary fees, misapplying borrower payments and similar allegations (the MDL Proceeding). We believe the allegations in the MDL Proceeding are without merit and have defended against them vigorously. In the interests of obtaining finality and cost certainty with regard to this complex and protracted litigated matter, however, defendants, including Ocwen, entered into a definitive written agreement with plaintiffs' counsel with respect to a class settlement. Ocwen's portion of the proposed settlement payment is $5.2 million plus certain other non-cash consideration and administrative costs. On July 1, 2011, the Court granted final approval to this class settlement. Defendants, including Ocwen, have paid their respective portions of the settlement into escrow and notice of the settlement has been provided to potential class members. On July 6, 2011, the Court entered final judgment and no appeals were filed. While there are some claims that are subject to opt-outs by individual plaintiffs, these are not viewed as material at this time.

In September 2006, the Bankruptcy Trustee in Chapter 7 proceedings involving American Business Financial Services, Inc. (ABFS) brought an action against multiple defendants, including Ocwen, in Bankruptcy Court. The action arises out of Debtor-in-Possession financing to ABFS by defendant Greenwich Capital Financial Products, Inc. and the subsequent purchases by Ocwen of MSRs and certain residual interests in mortgage-backed securities previously held by ABFS. The Trustee filed an amended complaint in March 2007 alleging various claims against Ocwen including turnover, fraudulent transfers, accounting, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, breach of contract, fraud, civil conspiracy and conversion. The Trustee seeks compensatory damages in excess of $100 million and punitive damages jointly and severally against all defendants. In April 2008, Ocwen filed an answer denying all charges and a counterclaim for breach of contract, fraud, negligent misrepresentation and indemnification in connection with the MSR purchase transaction. Fact discovery is complete and both Ocwen and the Trustee have filed motions for partial summary judgment. We believe that the Trustee's allegations against Ocwen are without merit and intend to continue to vigorously defend against this matter. We are unable to provide any estimate of possible loss or range of possible loss at this time.

We are subject to various other pending legal proceedings, including those subject to loss sharing provisions of the Litton Acquisition and Saxon Acquisition more fully described in Note 2 and Note 30 to the Consolidated Financial Statements. In our opinion, the resolution of those proceedings will not have a material effect on our financial condition, results of operations or cash flows.

Ocwen is subject to various other pending legal proceedings, including those related to the loss sharing provisions of the Litton Acquisition. In our opinion, the resolution of those proceedings will not have a material effect on our financial condition, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of the Company's Common Stock

The common stock of Ocwen Financial Corporation is traded under the symbol "OCN" on the New York Stock Exchange (NYSE). The following table sets forth the high and low closing sales prices for our common stock:

	High	Low
2011		
First quarter	$ 11.04	$ 9.50
Second quarter	12.76	10.62
Third quarter	13.80	11.24
Fourth quarter	14.73	12.06
2010		
First quarter	$ 11.36	$ 9.07
Second quarter	12.45	10.09
Third quarter	10.74	8.77

Fourth quarter	10.20	8.48

The closing sales price of our common stock on February 23, 2012 was $15.68.

We have never declared or paid cash dividends on our common stock. We currently do not intend to pay cash dividends in the foreseeable future but intend to reinvest earnings in our business. The timing and amount of any future dividends will be determined by our Board of Directors and will depend, among other factors, upon our earnings, financial condition, cash requirements, the capital requirements of subsidiaries and investment opportunities at the time any such payment is considered. In addition, the Guaranty agreement with the OTS and the indentures and covenants relating to certain of our borrowings contain limitations on our payment of dividends. Our Board of Directors has no obligation to declare dividends under Florida law or our amended and restated articles of incorporation. See Note 29 to the Consolidated Financial Statements for additional information regarding limitations on the payment of dividends on our common stock.

The following graph compares the cumulative total return on the common stock of Ocwen Financial Corporation since December 31, 2006, with the cumulative total return on the stocks included in Standard & Poor's 500 Market Index and Standard & Poor's Diversified Financials Market Index.

(1) Excludes the significant value distributed in 2009 to Ocwen investors in the form of Altisource common equity.

Purchases of Equity Securities by the Issuer and Affiliates

We did not purchase any shares of our own common stock during 2011.

Our ability to repurchase shares of our common stock is restricted under the terms of the Guaranty that we entered into with the OTS in connection with debanking. See Note 29 to the Consolidated Financial Statements for additional information regarding the terms of the Guaranty. The $575 million senior secured term loan agreement that we entered on September 1, 2011 also limits our ability to repurchase shares of our common stock. See Note 16 to the Consolidated Financial Statements for additional information regarding the terms of this loan.

Number of Holders of Common Stock

At February 23, 2012, 130,040,763 shares of our common stock were outstanding and held by approximately 101 holders of record. Such number of stockholders does not reflect the number of individuals or institutional investors holding our stock in nominee name through banks, brokerage firms and others.

Securities Authorized for Issuance under Equity Compensation Plans

The information contained in our 2012 Proxy Statement under the caption "Equity Compensation Plan Information" is incorporated herein by reference.

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ITEM 6. SELECTED FINANCIAL DATA (Dollars in thousands, except per share data and unless otherwise indicated)

The following tables present selected consolidated financial information of Ocwen and its subsidiaries at the dates and for the years indicated. Our historical balance sheet and operations data at and for the five years ended December 31, 2011 have been derived from our audited financial statements.

We have reclassified certain amounts included in the selected financial data for prior years to conform to the 2011 presentation.

The selected consolidated financial information should be read in conjunction with the information we have provided in Management's Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements.

	December 31,				
	2011 (1)	2010 (2)	2009 (3)	2008	2007
Selected Balance Sheet Data					
Cash	$ 144,234	$ 127,796	$ 90,919	$ 201,025	$ 114,243
Restricted cash – for securitization investors (4)	675	727	—	—	—
Trading securities, at fair value:					