

OCWEN FINANCIAL CORP  
Form 10-Q  
August 06, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
**For the quarterly period ended June 30, 2013**

or

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

Commission File Number: 1-13219

**Ocwen Financial Corporation**

(Exact name of registrant as specified in its charter)

Florida 65-0039856  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification No.)  
**2002 Summit Boulevard, 6<sup>th</sup> Floor, Atlanta, Georgia 30319**

(Address of principal executive offices) (Zip Code)

**(561) 682-8000**

(Registrant's telephone number, including area code)

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

Edgar Filing: OCWEN FINANCIAL CORP - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of Common Stock, \$0.01 par value, outstanding as of August 1, 2013: 135,754,992 shares.

**OCWEN FINANCIAL CORPORATION**

FORM 10-Q

**INDEX**

<b><u>PART I – FINANCIAL INFORMATION</u></b>	<b>PAGE</b>
<u>Item 1. Financial Statements (unaudited)</u>	3
<u>Consolidated Balance Sheets (unaudited) at June 30, 2013 and December 31, 2012</u>	3
<u>Consolidated Statements of Operations (unaudited) for the Three and Six Months Ended June 30, 2013 and 2012</u>	4
<u>Consolidated Statements of Comprehensive Income (unaudited) for the Three and Six Months Ended June 30, 2013 and 2012</u>	5
<u>Consolidated Statements of Changes in Stockholders' Equity (unaudited) for the Six Months Ended June 30, 2013 and 2012</u>	6
<u>Consolidated Statements of Cash Flows (unaudited) for the Six Months Ended June 30, 2013 and 2012</u>	7
<u>Notes to unaudited Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	44
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	65
<u>Item 4. Controls and Procedures</u>	68
<b><u>PART II – OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	68
<u>Item 1A. Risk Factors</u>	68
<u>Item 6. Exhibits</u>	68
<u>Signatures</u>	70

## Forward-Looking Statements

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

These statements include declarations regarding our management's beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could", "intend," "consider," "expect," "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 differ materially 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:

- the adequacy of our financial resources, including our sources of liquidity and ability to fund and recover advances, repay borrowings and comply with debt covenants;
- the characteristics of our servicing portfolio, including prepayment speeds along with delinquency and advance rates;
- our ability to grow and adapt our business, including the availability of new loan servicing and other accretive business opportunities;
- our ability to contain and reduce our operating costs;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;
- our reserves, valuations, provisions and anticipated realization on assets;
- our ability to effectively manage our exposure to interest rate changes and foreign exchange fluctuations;
- our credit and servicer ratings and other actions from various rating agencies;
- uncertainty related to general economic and market conditions, delinquency rates, home prices and 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 put-backs, penalties and 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 claims, litigation and investigations brought by private parties and government agencies regarding our servicing, foreclosure, modification and other practices;
- uncertainty related to legislation, regulations, regulatory agency actions, government programs and policies, industry initiatives and evolving best servicing practices;
- uncertainty related to acquisitions, including our ability to integrate the systems, procedures and personnel of acquired companies;
- our ability to maintain our technology systems and our ability to adapt such systems for future operating environments;
- failure of our internal security measures or breach of our privacy protections;
- uncertainty related to the political or economic stability of foreign countries in which we have operations;
- conflicts of interest with our officers and directors; and
- the loss of the services of our senior managers.

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the Securities and Exchange Commission (SEC) including our Annual Report on Form 10-K for the year ended December 31, 2012, our quarterly reports on Form 10-Q and our current reports on Form 8-K. Forward-looking statements speak only as of the date they were made and except for our ongoing obligations under the U.S. federal securities laws, we undertake no obligation to update or revise forward-looking statements whether as a result of new information, future events or otherwise.

**PART I – FINANCIAL INFORMATION**  
**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

**(unaudited)**

**(Dollars in thousands, except share data)**

	June 30, 2013	December 31, 2012
Assets		
Cash	\$439,747	\$220,130
Loans held for sale, at fair value	361,144	426,480
Advances	445,471	184,463
Match funded advances	2,960,324	3,049,244
Mortgage servicing rights, at amortized cost	1,688,038	678,937
Mortgage servicing rights, at fair value	97,163	85,213
Receivables, net	225,011	167,459
Deferred tax assets, net	96,353	92,136
Goodwill	390,640	381,560
Premises and equipment, net	62,917	37,536
Debt service accounts	84,248	88,748
Other assets	231,224	273,578
Total assets	\$7,082,280	\$5,685,484
Liabilities, Mezzanine Equity and Stockholders' Equity		
Liabilities		
Match funded liabilities	\$2,391,832	\$2,532,745
Other borrowings	2,172,078	1,096,679
Other liabilities	636,628	291,266
Total liabilities	5,200,538	3,920,690
Commitments and Contingencies (Note 24)		
Mezzanine Equity		
Series A Perpetual Convertible Preferred stock, \$.01 par value; 200,000 shares authorized; 162,000 shares issued and outstanding at June 30, 2013 and December 31, 2012; redemption value \$162,000 plus accrued and unpaid dividends	155,544	153,372
Stockholders' Equity		
Common stock, \$.01 par value; 200,000,000 shares authorized; 135,754,992 and 135,637,932 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	1,358	1,356
Additional paid-in capital	915,397	911,942
Retained earnings	821,257	704,565
Accumulated other comprehensive loss, net of income taxes	(11,814 )	(6,441 )
Total stockholders' equity	1,726,198	1,611,422

Total liabilities, mezzanine equity and stockholders' equity	\$7,082,280	\$5,685,484
--	-------------	-------------

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

**OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited)

(Dollars in thousands, except per share data)

For the Periods Ended June 30,	Three Months		Six Months	
Revenue	2013	2012	2013	2012
Servicing and subservicing fees	\$482,632	\$200,335	\$850,125	\$355,424
Gain on loans held for sale, net	21,631	—	28,380	—
Other revenues	25,702	11,046	56,303	20,489
Total revenue	529,965	211,381	934,808	375,913
Operating expenses				
Compensation and benefits	117,999	30,004	212,625	60,787
Amortization of servicing rights	70,369	19,097	118,252	33,411
Servicing and origination	11,747	5,877	34,423	9,150
Technology and communications	33,877	11,042	63,889	20,391
Professional services	66,652	5,943	80,138	14,502
Occupancy and equipment	25,596	10,280	43,845	25,585
Other operating expenses	48,556	3,661	65,258	8,191
Total operating expenses	374,796	85,904	618,430	172,017
Income from operations	155,169	125,477	316,378	203,896
Other income (expense)				
Interest income	9,114	2,038	16,223	4,350
Interest expense	(99,868)	(58,319)	(193,284)	(105,243)
Gain (loss) on debt redemption	3,192	—	(13,838)	—
Other, net	19,903	968	13,366	(2,720)
Other expense, net	(67,659)	(55,313)	(177,533)	(103,613)
Income before income taxes	87,510	70,164	138,845	100,283
Income tax expense	10,789	25,331	16,977	36,101
Net income	76,721	44,833	121,868	64,182
Preferred stock dividends	(1,519)	—	(3,004)	—
Deemed dividend related to beneficial conversion feature of preferred stock	(1,086)	—	(2,172)	—
Net income attributable to Ocwen common stockholders	\$74,116	\$44,833	\$116,692	\$64,182
Earnings per share attributable to Ocwen common stockholders				
Basic	\$0.55	\$0.33	\$0.86	\$0.48
Diluted	\$0.53	\$0.32	\$0.84	\$0.47
Weighted average common shares outstanding				
Basic	135,690,264	134,856,101	135,664,242	132,752,848

Diluted	144,721,047	138,155,373	139,591,958	138,100,822
---------	-------------	-------------	-------------	-------------

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

4



**OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(unaudited)**

**(Dollars in thousands unless otherwise indicated)**

For the Periods Ended June 30,	Three Months		Six Months	
	2013	2012	2013	2012
Net income	\$76,721	\$44,833	\$121,868	\$64,182
Other comprehensive income (loss), net of income taxes:				
Unrealized foreign currency translation income (loss) arising during the period	640	(1 )	677	—
Change in deferred loss on cash flow hedges arising during the period (1)	(3,351 )	(2,538 )	(7,473 )	(3,734 )
Reclassification adjustment for losses on cash flow hedges included in net income (2)	1,016	535	1,420	4,803
Net change in deferred loss on cash flow hedges	(2,335 )	(2,003 )	(6,053 )	1,069
Other	1	2	3	3
Total other comprehensive income, net of income taxes	(1,694 )	(2,002 )	(5,373 )	1,072
Comprehensive income	\$75,027	\$42,831	\$116,495	\$65,254

(1) Net of income tax benefit of \$2.1 million and \$1.5 million for the three months ended June 30, 2013 and 2012, respectively, and \$4.9million and \$2.2 million for the six months ended June 30, 2013 and 2012, respectively.

(2) Net of income tax expense of \$0.6 million and \$0.3 million for the three months ended June 30, 2013 and 2012, respectively, and \$0.9 million and \$2.7 million for the six months ended June 30, 2013 and 2012, respectively.

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

**OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(unaudited)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012**  
**(Dollars in thousands)**

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
Balance at December 31, 2012	135,637,932	\$ 1,356	\$ 911,942	\$ 704,565	\$ (6,441)	) \$ 1,611,422
Net income	—	—	—	121,868	—	121,868
Preferred stock dividends (\$18.54 per share)	—	—	—	(3,004)	—	(3,004)
Deemed dividend related to beneficial conversion feature of preferred stock	—	—	—	(2,172)	—	(2,172)
Exercise of common stock options	105,029	2	569	—	—	571
Equity-based compensation	12,031	—	2,886	—	—	2,886
Other comprehensive loss, net of income taxes	—	—	—	—	(5,373)	(5,373)
Balance at June 30, 2013	135,754,992	\$ 1,358	\$ 915,397	\$ 821,257	\$ (11,814)	) \$ 1,726,198
Balance at December 31, 2011	129,899,288	\$ 1,299	\$ 826,121	\$ 523,787	\$ (7,896)	) \$ 1,343,311
Net income	—	—	—	64,182	—	64,182
Conversion of 3.25% Convertible Notes	4,635,159	46	56,364	—	—	56,410
Exercise of common stock options	342,371	4	1,220	—	—	1,224
Equity-based compensation	8,877	—	3,374	—	—	3,374
Other comprehensive income, net of income taxes	—	—	—	—	1,072	1,072
Balance at June 30, 2012	134,885,695	\$ 1,349	\$ 887,079	\$ 587,969	\$ (6,824)	) \$ 1,469,573

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

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

For the Six Months Ended June 30,	2013	2012
Cash flows from operating activities		
Net income	\$ 121,868	\$ 64,182
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of mortgage servicing rights	118,252	33,411
Amortization of debt discount	752	1,480
Amortization of debt issuance costs – senior secured term loans	2,086	1,843
Depreciation	10,455	1,937
Gain on sales of loans	(25,267 )	—
Realized and unrealized (gains) losses on derivative financial instruments, net	(22,286 )	2,255
Loss on extinguishment of debt	13,838	—
Origination and purchase of loans held for sale	(5,019,833)	—
Proceeds from sale and collection of loans held for sale	5,095,388	949
Changes in assets and liabilities:		
Decrease in advances and match funded advances	429,151	774,643
Decrease in receivables and other assets, net	112,113	23,812
Increase in servicer liabilities	3,259	7,250
Increase (decrease) in other liabilities	42,754	(19,068 )
Other, net	(5,503 )	7,928
Net cash provided by operating activities	877,027	900,622
Cash flows from investing activities		
Cash paid to acquire ResCap Servicing Operations (a component of Residential Capital, LLC)	(2,097,821)	—
Cash paid to acquire Liberty Home Equity Solutions, Inc.	(26,568 )	—
Purchase of mortgage servicing rights, net	(543,621 )	(169,411 )
Acquisition of advances in connection with the purchase of mortgage servicing rights	(73,523 )	(1,833,485)
Origination of loans held for investment	(63,029 )	—
Principal payments received on loans held for investment	871	—
Proceeds from sale of advance financing subsidiary and special purpose entity	—	76,334
Proceeds from sale of match funded advances	1,079,777	92,593
Proceeds from sale of diversified fee businesses to Altisource Portfolio Solution, S.A.	215,700	—
Net cash acquired in step acquisition of Correspondent One S.A.	22,108	—
Distributions of capital from unconsolidated entities	1,300	2,839
Additions to premises and equipment	(19,413 )	(16,720 )
Other	478	2,348
Net cash used in investing activities	(1,503,741)	(1,845,502)
Cash flows from financing activities		
Net proceeds from (repayment of) match funded liabilities	(140,913 )	904,348
Net proceeds from other borrowings	6,342,432	29,784
Repayment of other borrowings	(5,555,805)	(74,270 )
Payment of debt issuance costs – senior secured term loan	(24,931 )	—
Proceeds from sale of mortgage servicing rights accounted for as a financing	162,434	73,691
Proceeds from sale of loans accounted for as a financing	65,938	—

Edgar Filing: OCWEN FINANCIAL CORP - Form 10-Q

Redemption of 10.875% Capital Securities	—	(25	)
Exercise of common stock options	567	1,200	
Payment of preferred stock dividends	(3,088	)	—
Other	(303	)	(5,974
Net cash provided by financing activities	846,331	928,754	
Net increase (decrease) in cash	219,617	(16,126	)
Cash at beginning of period	220,130	144,234	
Cash at end of period	\$439,747	\$128,108	

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

**OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)**  
(Dollars in thousands)

<b>For the Six Months Ended June 30,</b>	<b>2013</b>	<b>2012</b>
Supplemental non-cash investing and financing activities		
Conversion of 3.25% Convertible Notes to common stock	\$—	\$56,410
Supplemental business acquisition information – ResCap Servicing Operations		
Fair value of assets acquired		
Advances	\$(1,618,856)	\$—
Mortgage servicing rights	(393,891 )	—
Premises and equipment	(16,423 )	—
Goodwill	(210,038 )	—
Receivables and other assets	(2,989 )	—
	(2,242,197)	—
Fair value of liabilities assumed		
Accrued expenses and other liabilities	74,680	—
Total consideration	(2,167,517)	—