

OCWEN FINANCIAL CORP
Form 10-K
March 03, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 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 No. 1-13219

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

Florida 65-0039856
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2002 Summit Boulevard, 6th Floor 30319
Atlanta, Georgia (Address of principal executive office) (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 No

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 No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 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.

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

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

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

Aggregate market value of the common stock of the registrant held by nonaffiliates as of June 28, 2013:

\$4,655,665,365

Number of shares of common stock outstanding as of February 24, 2014: 135,176,271 shares

DOCUMENTS INCORPORATED BY REFERENCE: Portions of our definitive Proxy Statement with respect to our Annual Meeting of Shareholders to be held on May 14, 2014, are incorporated by reference into Part II, Item 5 and Part III, Items 10 - 14.

OCWEN FINANCIAL CORPORATION
 2013 FORM 10-K ANNUAL REPORT
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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," "expect," "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:

- uncertainty related to legislation, regulations, regulatory agency actions, government programs and policies, industry initiatives and evolving best servicing practices;
- uncertainty related to claims, litigation and investigations brought by government agencies and private parties regarding our servicing, foreclosure, modification and other practices;
- 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;
- uncertainty related to acquisitions, including our ability to close acquisitions and to integrate the systems, procedures and personnel of acquired assets and businesses;
- our ability to contain and reduce our operating costs;
- our ability to successfully modify delinquent loans, manage foreclosures and sell foreclosed properties;
- our ability to effectively manage our regulatory and contractual compliance obligations;
- 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 loss of the services of our senior managers;
- 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;
- 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;
- 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;
- and
- uncertainty related to the political or economic stability of foreign countries in which we have operations.

Further information on the risks specific to our business is detailed within this report and our other reports and filings with the 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 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.

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

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PART I

ITEM 1. BUSINESS

GENERAL

Ocwen Financial Corporation is a financial services holding company which, through its subsidiaries, is one of the largest mortgage companies in the United States. 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 with offices throughout the United States (U.S.) and in the United States Virgin Islands (USVI) with support operations in India, the Philippines and Uruguay. Ocwen Financial Corporation is a Florida corporation organized in February 1988. Ocwen is the fourth largest servicer of mortgage loans in the United States and with its predecessors has been servicing residential mortgage loans since 1988. We have been originating forward mortgage loans since 2012 and reverse mortgage loans since mid-2013. We are subject to licensing requirements in the jurisdictions in which we originate and service mortgage loans.

OVERVIEW

Ocwen is a leader in the servicing industry in foreclosure prevention and loss mitigation that helps families stay in their homes and improves financial outcomes for investors. Our success is driven by state-of-the-art default management processes. Our leadership in the industry is evidenced by our high cure rate for delinquent loans and above average rate of continuing performance by borrowers whose loans we have modified. Ocwen has completed over 450,000 loan modifications since January 2008. We believe we have strong, sustainable competitive advantages within the servicing business, both in terms of cost and performance. Based on a comparison of Mortgage Industry Advisory Corporation (MIAC) data to our marginal cost per non-performing loan, we believe our cost to service non-performing, non-Agency loans is substantially lower than the industry average. Our systems and platform provide the flexibility and scalability to support our growth. Our success in lowering delinquencies reduces our operating costs, as delinquent loans are more costly to service than non-delinquent loans, and improves our cash flow by lowering servicing advances and related financing costs.

We believe that we have competitive advantages and achieve our results through the use of proprietary technology and processes. Our servicing platform runs on an information technology system that we license under long-term agreements with Altisource Portfolio Solutions S.A. (Altisource). We believe this system is highly robust and capable of managing more data than the systems used by most other mortgage servicers. The system utilizes non-linear loss mitigation models that we believe optimize delinquent borrower resolutions. Altisource leverages software developers, modelers and psychology professionals who focus on borrower behavior and improvement of resolution models to continuously improve system performance and outcomes.

We strive to utilize new technology that incorporates consumer psychology to reduce our cost of servicing, improve customer service and enhance our ability to manage delinquencies. Moreover, we believe that our processes and technology improve our ability to cost-effectively address evolving servicing practices and regulatory requirements. For example, Ocwen addressed the requirements for single-point-of-contact through a unique appointment model approach that would have been difficult to develop without the technology and processes incorporated within our platform.

In addition to continuing investments in our servicing business, we have also invested in adjacent markets, including forward and reverse mortgage lending. Ocwen provides forward and reverse mortgages directly, through call-center-based operations, and indirectly, through brokers, correspondents and relationships with lending partners. Mortgage lending is a natural extension of our servicing business, as a substantial portion of our lending business comes from refinancing loans from our servicing portfolio. Liberty Home Equity Solutions, Inc. (Liberty) is the leading reverse mortgage originator based on industry data for November 2013. Based on Consumer Financial Protection Bureau (CFPB) data, we estimate the total potential size of the reverse mortgage market at \$1.9 trillion, of which only about 3% has been penetrated to date. We believe the reverse mortgage business is a substantially under-developed market relative to its potential, and that it provides a potential source of long-term growth for Ocwen. Ocwen will continue to evaluate new adjacent market opportunities that are consistent with our growth strategies and to which we believe our competitive advantages in process management and financial services are

transferable.

Finally, Ocwen has implemented an “asset-light” strategy that we believe will improve returns to our shareholders. The most important example of this strategy has been the sale of rights to receive servicing fees, excluding ancillary income, with respect to certain mortgage servicing rights (Rights to MSR), together with the related servicing advances, to a third party, Home Loan Servicing Solutions, Ltd. (HLSS), while retaining the rights to subservice the portfolio. Similarly, we developed a means to mitigate the prepayment risks associated with conventional and government insured mortgage servicing rights (MSRs) by financing a portion of the servicing fees. On February 26, 2014, we issued \$123.6 million of Ocwen Asset Servicing Income Series (OASIS), Series 2014-1 Notes (Notes) secured by Ocwen-owned MSRs relating to mortgages with an unpaid principal balance (UPB) of approximately \$11.8 billion (such mortgages, the reference pool). Noteholders are entitled to

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receive a monthly payment amount equal to the sum of: a) the designated servicing fee amount (21 basis points of the UPB of the reference pool); b) any termination payment amounts; c) any excess refinance amounts; and d) the note redemption amounts, each as defined in the indenture supplement for the Notes. The Notes have a final stated maturity of February 2028. This transaction is recorded as a financing and mitigates our match-funding risk as a result of prepayments as the noteholders' payments vary over the life of the Notes based on the duration of the underlying MSRs.

CORPORATE STRATEGY

Long-term success for Ocwen is driven by several factors, including:

- access to new business opportunities;
- low operating costs;
- strong customer service and quality processes;
- superior default management and loss mitigation;
- a scalable and compliant servicing platform; and
- diverse, cost-effective sources of capital.

Access to New Business

Servicing portfolio and platform acquisitions

Our residential servicing portfolio has grown from 351,595 residential loans with an aggregate UPB of \$50.0 billion at December 31, 2009, to 2,861,918 residential loans with an aggregate UPB of \$464.7 billion at December 31, 2013.

Through acquisitions, we have substantially increased the share of our servicing portfolio that is made up of conventional (loans conforming to the underwriting standards of the government sponsored entities, the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the GSEs and Agency), government insured (loans insured by the Federal Housing Authority (FHA) of the Department of Housing and Urban Development (HUD) or Department of Veterans Affairs (VA) (collectively, government insured)) and prime non-Agency loans (loans generally conforming to the underwriting standards of the GSEs whose UPB exceeds the GSE loan limits, commonly referred to as jumbo loans). At December 31, 2013, these loans comprise 56.8% of the UPB of our servicing portfolio, up from 24.4% at December 31, 2012.

Significant servicing asset and platform acquisitions during the five-years ended December 31, 2013 are as follows:

Counterparty	Acquisition Type	Date	Loan Count	MSR UPB (in billions)
Saxon (1)	Asset	May 2010	38,000	\$6.9
HomeEq (2)	Platform	September 2010	134,000	22.4
Litton (3)	Platform	September 2011	245,000	38.6
Saxon (1)	Asset	April 2012	132,000	22.2
JPMorgan (4)	Asset	April 2012	41,200	8.1
Bank of America (5)	Asset	June 2012	51,000	10.1
Homeward (6)	Platform	December 2012	421,000	77.0
ResCap (7)	Platform	February 2013	1,740,000	183.1
Ally (8)	Asset	April - August 2013	466,900	87.5
OneWest (9)	Asset	August 2013 - March 2014	299,000	69.0
Greenpoint (10)	Asset	December 2013	31,400	6.3

(1) Consists of conventional and non-Agency (includes forward mortgage loans originated as Alt-A and subprime) MSRs acquired from Saxon Mortgage Services, Inc. (Saxon).

(2) Represents the U.S. non-Agency mortgage servicing business (HomeEq) acquired from Barclays Bank PLC.

(3) Represents the acquisition of the outstanding partnership interests of Litton Loan Servicing LP (Litton), a servicer and subservicer of primarily non-Agency mortgage loans, from The Goldman Sachs Group, Inc.

(4) Consists of non-Agency MSRs acquired from JP Morgan Chase Bank, N.A. (JPMorgan).

(5) Consists of conventional MSRs acquired from Bank of America, N.A. (Bank of America).

(6)

On December 27, 2012, completed the merger of O&H Acquisition Corp. (O&H), a wholly-owned subsidiary of Ocwen, and Homeward Residential Holdings, Inc. (Homeward), a servicer and subservicer of conventional, government insured and non-Agency mortgage loans and conventional and government insured loan originator, substantially all of the stock of which was owned by certain private equity funds that were managed by WL Ross & Co. LLC.

(7)