OCWEN FINANCIAL CORP
Form 10-Q/A
August 18, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No. 1)
(Mark one)

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014

OR

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

Commission File No. 1-13219
OCWEN FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes T 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 submit and post such files). Yes T No o
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	T		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 T
Number of shares of common stock outstanding as of April 30, 2014: 134,879,998 shares

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Explanatory Note

Ocwen Financial Corporation (the “Company”, “Ocwen”, “we”, “us”, “our”) is filing this Amendment No. 1 (Amendment) to i Quarterly Report on Form 10-Q for the three months ended March 31, 2014 (Original Form 10-Q) filed with the Securities and Exchange Commission (SEC) on May 2, 2014 (Original Filing Date) to restate the Company’s previously issued unaudited consolidated financial statements and related financial information for the three months ended March 31, 2014 and 2013 included in its Original Form 10-Q. This Amendment is to correct an error in the application of the interest method in accounting for a financing liability. For the three months ended March 31, 2014, $17.3 million of cash payments were applied to reduce the outstanding balance of the financing liability instead of being recognized as interest expense. For the three months ended March 31, 2013, $4.0 million of cash payments were recognized as interest expense instead of being applied to reduce the outstanding balance of the financing liability.

Background on Restatement

The Company has sold rights to receive servicing fees, excluding ancillary income, with respect to certain of its mortgage servicing rights (Rights to MSRs) to Home Loan Servicing Solutions, Ltd. (HLSS). Because we retain legal title to the MSRs, the sales of Rights to MSRs are accounted for as financings. The liability, which represents the estimated future payments to HLSS relating to the Rights to MSRs, is included in Financing liabilities on our consolidated balance sheet. Until such time as we obtain certain third party consents for the transfer of legal title to the MSRs, we continue to recognize the full amount of servicing revenue and amortization of the MSRs. We initially establish the value of the liability based on the price at which the Rights to MSRs are sold to HLSS. Thereafter, the carrying value of the liability is adjusted to reflect changes in the net present value of the estimated future cash flows of the underlying MSRs, a Level 3 valuation. The future cash flows represent the estimated future payments to HLSS of principal and interest on the financing liability. Because the financing liability does not have any contractual maturity date, the liability is amortized over the estimated life of the underlying MSRs using the interest method. For purposes of applying the interest method, the balance of the liability is reduced each quarter based on the change in the present value of the estimated future cash flows, with any remaining cash payment recognized as interest expense.

The Company utilizes a third-party valuation expert to provide the estimated fair value of the MSRs underlying the financing liability. In 2012, with the completion of the first Rights to MSRs sale to HLSS, the Company adopted an accounting convention whereby we applied a narrow (5%) range to the valuations received from the third-party valuation expert in determining the carrying value of our financing liability. Under this accounting convention, no adjustment was made to the amortization of the financing liability as long as the valuation from the third-party valuation expert was within 5% of our carrying value. This accounting convention and the use of a range, rather than the third-party valuation expert point estimate of fair value, resulted in the error in the Company’s financial statements.

We also identified a data error in connection with the valuation of less than 1/2 of 1% of the unpaid principal balance (UPB) of the Rights to MSRs underyling the financing liability. This error overstated the estimated fair value of the Rights to MSRs underlying our financing liability by $9.3 million and $5.9 million at March 31, 2014 and December 31, 2013, respectively. The impact of this error at March 31, 2014 is included in the $17.3 million adjustment described above.

On August 12, 2014, our Board of Directors and the Audit Committee of the Board of Directors (Audit Committee), after consultation with Deloitte & Touche LLP, the Company’s independent registered public accounting firm, determined that the Company’s consolidated financial statements for the fiscal year ended December 31, 2013 and the quarter ended March 31, 2014 could no longer be relied upon as being compliant with GAAP. Consequently, we have revised our financial results for the periods presented in this Amendment.

The adjustments to correct the error in applying the interest method to certain financing liabilities resulted in a decrease in net income of $15.3 million and a decrease in basic and diluted earnings per share of $0.11 for the three months ended March 31, 2014. For the three months ended March 31, 2013, the adjustments to correct the error resulted in an increase in net income of $3.8 million and an increase in basic and diluted earnings per share of $0.03 and $0.02, respectively.

Because these revisions represent corrections to our prior period financial results, the revisions are considered to be a “restatement” under GAAP. Accordingly, the revised financial information included in this Quarterly Report on Form 10-Q/A has been identified as “As Restated.”

In connection with the restatement, management has re-evaluated the effectiveness of he Company’s disclosure controls and procedures and internal control over financial reporting as of March 31, 2014 based on the framework in “Internal Control-Integrated Framework (1992 framework)” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has concluded that the Company’s disclosure controls and procedures and internal controls over financial reporting were not effective as of March 31, 2014 solely due to a material weakness in internal control over financial reporting related to the accounting convention when applying the interest method in our accounting for financing liabilities related to Rights to MSRs sold to HLSS. Specifically, our controls were not properly designed to calculate the appropriate allocation of cash payments between principal and interest in connection with the financing liability. For a discussion of management's consideration of our disclosure controls and procedures, internal controls over financial reporting, and the material weaknesses identified, see Part I, Item 4, "Controls and Procedures" of this Amendment.

Effects of Restatement

Revisions to the Original Form 10-Q have been made to the Company's unaudited Consolidated Financial Statements and related disclosures in Part I, Item 1 - Unaudited Consolidated Financial Statements for the periods presented. In addition, corresponding changes have been made to the following other items to reflect the restatement:

(A) Amendments to Part I, Item 1 - Unaudited Consolidated Financial Statements, to restate our consolidated balance sheets as of March 31, 2014 and December 31, 2013, and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the three months ended March 31, 2014 and 2013. Specifically, the amendments restate (a) our results of operations for the three months ended March 31, 2014 to reflect an increase in interest expense related to a change in the value of Financing liabilities which had the effect of understating our consolidated Other expense, net and overstating Income before tax by \$17.3 million; (b) our balance sheet as of March 31, 2014 to reflect an increase in Total liabilities and Financing liabilities of \$17.3 million; (c) our results of operations for the three months ended March 31, 2013 to reflect a decrease in interest expense related to a change in the value of Financing liabilities which had the effect of overstating our consolidated Other expense, net and understating Income before tax by \$4.0 million; (d) balance sheet as of December 31, 2013 to reflect a decrease in Total liabilities and Financing liabilities of \$17.3 million; and (e) the impact on our income tax accounts for the effects of above items within our results of operations and balance sheet as of December 31, 2013.

(B) Amendments to Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations, to reflect the restatement of our financial results, described in (A) above.

(C) Amendments to Part II, Item 4 - Controls and Procedures, to (i) describe changes in our disclosure controls and procedures and our internal controls over financial reporting to address a material weakness and (ii) modify management's opinion of the effectiveness of our internal controls over financial reporting as of March 31, 2014.

(D) Part II, Item 6 - Exhibits, Financial Statement Schedules, exhibits 31.1 and 31.2.

We believe that presenting the restated information regarding the restated period in this Form 10-Q/A allows investors to review all pertinent data in a single presentation. Accordingly, investors should rely only on the financial information and other disclosures regarding the restated period in this Form 10-Q/A or in future filings with the SEC, as applicable, and not on any previously issued or filed reports, earnings releases or similar communications relating to these periods.

Except as described in this Explanatory Note, the consolidated financial statements and financial statement footnote disclosures in the Original Form 10-Q are unchanged. In particular, except for the events described above, this Amendment has not been updated to reflect any events that have occurred after the Original Form 10-Q was filed or to modify or update disclosures affected by other subsequent events, except where required by generally accepted accounting standards in the United States (GAAP). Accordingly, forward-looking statements included in this Amendment represent management's views as of the Original Filing Date and should not be assumed to be accurate as of any date thereafter. This Amendment should be read in conjunction with the Company's other filings with the SEC, together with any amendments to those filings.

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FORWARD-LOOKING STATEMENTS

This Amendment contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact included in this report, including, without limitation, statements regarding our financial position, business strategy and other plans and objectives for our future operations, are forward-looking statements. These statements include declarations regarding our management's beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could", "intend," "consider," "expec "plan," "anticipate," "believe," "estimate," "predict" or "continue" or the negative of such terms or other comparable terminolo 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" in Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2013 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 Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2013 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.

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

	March 31, 2014 (As Restated)	December 31, 2013 (As Restated)
Assets		
Cash	$242,386	$178,512
Mortgage servicing rights ($110,826 and $116,029 carried at fair value)	2,040,355	2,069,381
Advances	937,926	890,832
Match funded advances	2,655,854	2,552,383
Loans held for sale ($338,228 and $503,753 carried at fair value)	383,703	566,660
Loans held for investment - reverse mortgages, at fair value	923,464	618,018
Goodwill	420,201	420,201
Receivables, net	182,724	152,516
Deferred tax assets, net	119,080	115,571
Premises and equipment, net	51,553	53,786
Other assets	229,105	309,143
Total assets	$8,186,351	$7,927,003
Liabilities, Mezzanine Equity and Equity		
Liabilities		
Match funded liabilities	$2,361,662	$2,364,814
Financing liabilities ($870,462 and $615,576 carried at fair value)	1,693,147	1,266,973
Other secured borrowings	1,633,999	1,777,669
Other liabilities	560,615	644,595
Total liabilities	6,249,423	6,054,051
Commitments and Contingencies (Note 21)		
Mezzanine Equity		
Series A Perpetual Convertible Preferred stock, $.01 par value; 200,000 shares authorized; 62,000 shares issued and outstanding at March 31, 2014 and December 31, 2013; redemption value $62,000 plus accrued and unpaid dividends	60,776	60,361
Equity		
Ocwen Financial Corporation (Ocwen) stockholders’ equity		
Common stock, $.01 par value; 200,000,000 shares authorized; 135,365,174 and 135,176,271 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	1,354	1,352
Additional paid-in capital	819,362	818,427
Retained earnings	1,062,467	1,002,963
Accumulated other comprehensive loss, net of income taxes	(9,542)	(10,151)
Total Ocwen stockholders’ equity	1,873,641	1,812,591
Non-controlling interest in subsidiaries	2,511	—
Total equity	1,876,152	